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What geographical scope works best for rapidly internationalizing SMEs?

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Abstract
Purpose – This paper aims to explore the benefits of a regional internationalization strategy and investigate how a rapidly internationalizing SME's development of market knowledge relates to this strategy.
Design/methodology/approach – After a brief overview of the literature on international SMEs, the internalization approach and the IP-approach, a case study is introduced and analyzed.
Findings – The case findings illustrate that market knowledge steers the investigated firm to follow a regional approach of operations. The regional strategy lessens perceived risks, saves costs and generates sufficient knowledge about one market at a time.
Practical implications – It is important for managers in rapidly internationalizing SMEs and for policymakers to recognize the benefits of supporting regional orientation initiatives for enhancing these firms' internationalization.
Originality/value – This paper presents a longitudinal case study that contributes to further the understanding and insights into the operations of born regionals. By probing deeper into the ideas provided by the internalization approach, the IP-approach and research about international SMEs, the study contributes with a unified framework for understanding the benefits for rapidly internationalizing SMEs to operate on a regional scope.

Keywords Internalization theory, Small and medium-sized enterprises, Geographical scope of operations, Internationalization process theory

Paper type Research paper

Introduction

The past three decades have seen the appearance of small and medium-sized enterprises (SMEs) from a wide range of countries that are quick to start their internationalization. These rapidly internationalizing SME (i.e. firms with under 250 employees) have been denoted born globals or international new ventures (INVs) in the literature and are frequently portrayed as successful, innovative firms that aim for a global scope of operations already from inception (Knight and Cavusgil, 2004; Oviatt and McDougall, 1994). The learning and performance benefits of adopting a born global strategy are often highlighted in these studies (Chetty and Campbell-Hunt, 2003; Knight and Cavusgil, 2004; Rovira Nordman and Melén, 2008). In contrast to advocating a born global strategy, recent empirical studies imply that some SMEs' internationalization efforts are confined to their home-regions (Baum *et al.*, 2015; Sui and Baum, 2014). Some scholars even argue that many of the born global firms seem to be born regional firms (Lopez *et al.*, 2009). In these studies, a born regional strategy is associated with some key benefits for rapidly internationalizing SME, such as learning advantages and less resource demanding operations.

Because of the difference in opinion concerning the benefits for SMEs to pursue regional or global internationalization strategies, more research about this issue has been called for (Reuber *et al.*, 2017; Sui and Baum, 2014). Whereas a vast amount of empirical studies about SMEs following a born global strategy have emerged during the past three decades, empirical studies about SMEs following a born regional strategy have more recently started to appear. Several of the studies analyzing born regional firms have, moreover, been based on an emerging market context (Lopez *et al.*, 2009), or been based on quantitative data-sets (Baum *et al.*, 2015; Sui and Baum, 2014). To fully understand the benefits for SMEs to adopt a regional internationalization strategy, more

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longitudinal studies have been called for (Baum *et al.*, 2015; Melén Hånell *et al.*, 2017). The longitudinal case study that is analyzed in this paper is based on a rapidly internationalizing SME from a mature market. The purpose of this study is to explore the benefits of a regional internationalization strategy and investigate how a rapidly internationalizing SME's development of market knowledge relates to this strategy.

For this study, we build an analytical framework based on research about international SMEs and two classical international business theories: the internalization approach (Rugman, 2005; Rugman and Verbeke, 2004) and the behavioral internationalization process approach (the IP-approach) (Johanson and Vahlne, 1977, 2009). These two classical theoretical approaches have had a major influence on the ongoing discussion within the international business field about the global or regional strategies of firms. The analytical framework is used for analyzing the explorative and longitudinal case study.

This study contributes to international marketing research in two ways: from an empirical perspective, the longitudinal case contributes to further the understanding and insights into the operations of born regionals and by probing deeper into the ideas provided by the internalization approach, the IP-approach and research about international SMEs, the study can also make a theoretical contribution to the international marketing field. The study provides a unified framework for understanding the benefits for rapidly internationalizing SMEs to operate on a regional scope.

Literature review

Born globals or born regionals?

Born globals are commonly defined as those firms that initiate operations in several foreign markets within three years of founding and generate at least 25 per cent of total sales from abroad (Knight *et al.*, 2004). The past decades have seen an extensive number of empirical studies about such born globals or INVs (Chetty and Campbell-Hunt, 2003; Knight and Cavusgil, 2004; Rovira Nordman and Melén, 2008). Recent studies have, however, implied that some rapidly internationalizing SMEs mainly focus their operations on countries in the same geographical region as themselves (Baum *et al.*, 2015; Lopez *et al.*, 2009). The term "born regionals" have been used to describe this group of firms (Lopez *et al.*, 2009), and its regionalized internationalization patterns (Melén Hånell *et al.*, 2017). Even though both born globals and born regionals internationalize soon after their establishment, born regionals direct their internationalization toward other countries in their home region, whereas born globals internationalize on a more global scope (Lopez *et al.*, 2009).

One key assumption in many studies about born globals and born regionals is that these are small or medium-sized firms which are resource-constrained. In comparison to large MNCs, most SMEs do not command large resources or revenues (Knight and Liesch, 2016; Lindstrand and Melén Hånell, 2017). SMEs must therefore find other means to access the resources they need to manage their international expansion. One common observation is that born globals and born regionals generally are founded by network-oriented individuals which, in their previous careers, have developed international business experience and have access to a worldwide network of contacts (Baum *et al.*, 2015; Rovira Nordman and Melén, 2008). International business experience and network access are key resources for resource constrained firms (Lindstrand *et al.*, 2011), which facilitate their initial learning about new business opportunities on a broad international scope (Melén Hånell *et al.*, 2014).

Studies of born globals show that these firms often market innovative and differentiated products, because of their unique knowledge-based resources. The differentiated market offerings that these firms can provide, enable them to identify business opportunities in niche markets on a broad international scope (Knight and Cavusgil, 2004; Rovira Nordman and Melén, 2008). Extant research, therefore, suggests that a firm's existing knowledge-based resources together with the founding team's prior international experiences enhance its learning in the initial business operations in foreign markets.

Another mean for international SMEs to access necessary resources, is for it to interact and collaborate with foreign business partners (Lindstrand *et al.*, 2011; Lindstrand and Melén Hånell, 2017; Sharma and Blomstermo, 2003). Through such collaborations, SMEs can acquire critical market knowledge which help them to discover new business opportunities and expand in foreign markets (Rovira Nordman and Melén, 2008). Active engagement in foreign business relationships is, therefore, an effective method for the smaller firm to mitigate problems with liability of foreignness (Baum *et al.*, 2015; Melén Hånell *et al.*, 2017).

Studies about born globals often claim that these firms have developed an increased ability for building global networks with distributors, agents and suppliers in the various markets in which they enter (Loane and Bell, 2006; Sharma and Blomstermo, 2003). Other studies show that those born globals that take on a global strategy, typically establish indirect business relationships (e.g. by establishing low-cost relationships with distributors) when they enter several foreign markets at a similar point in time (Chetty and Campbell-Hunt, 2003; Sharma and Blomstermo, 2003). Because the firms then are indirectly represented in global markets, they cannot frequently interact with end-customers in specific market settings (Rovira Nordman and Melén, 2008). In some contrast, Chetty and Campbell-Hunt (2003) find that those firms that expand on a regional scope tend to favor direct relationships with end-users in specific markets. By developing close relationships with their customers, these firms can adapt products and services to the customers' needs. Other studies confirm that SMEs following a regional strategy find it easier to use regionally available networks and business relationships to obtain the resources and knowledge that they need (Kampouri *et al.*, 2017). The benefit of easily accessible resources can also explain why a regional strategy increases the chance that small firms will generate revenue from their innovative and differentiated offerings (Baum *et al.*, 2015). For international SMEs, innovative product offerings are often required to be adapted to specific customer needs (Melén Hånell *et al.*, 2017). Such adaptations can require a lot of resources from an SME, including knowledge resources about market preferences. Hence, aiming for a global scope of operations can possibly constrain innovative SMEs that wish to develop innovative offerings for their various international customers on a continuous basis. One clear advantage with a regional strategy is that SMEs can focus their resources on adapting their business to home region markets, which arguably can spur their long-term growth.

The internalization approach: the benefits of a regional strategy

The internalization approach has its foundation in microeconomics, and it emerged to explain the foreign expansion of MNCs (Buckley and Casson, 1976; Madhok, 1997). Followers of the approach suggested that firms can use their firm-specific advantages (FSAs), i.e. those unique knowledge resource-bundles which are difficult to imitate and thus can provide value to customers, to compensate for the disadvantages of being a foreigner in a market (Buckley and Casson, 1976). Firms must also make the most of their location-specific advantages (LSAs), seen as those favorable factors pertaining to a foreign market (such as government policies, laws, partnerships etc.).

The internalization approach foresees difficulties with internationalization because of bounded rationality (e.g. when a firm's actions are constrained by its limited ability to process information about new markets) and opportunistic behavior (e.g. when a business counterpart takes advantage of a foreign firm's inexperience of for instance low prices in a market). Because such market imperfections raise transaction costs across national borders, internalization of markets occur (Rugman and Verbeke, 2004). Consequently, there are distance related challenges to the successful exploitation of FSAs (Rugman and Verbeke, 2005). A firm entering a foreign market has the disadvantage of being foreign (Hymer, 1976), stemming from a lack of knowledge about the conditions in the host country. Therefore, internationalization entails managerial challenges that are costly and risky to overcome, posing a liability of foreignness (Zaheer, 1995).

To avoid costs such as communication costs, control costs, and coordination costs (Hymer, 1976) in various markets, firms focus their international investments on specific regional markets rather than taking on globally oriented expansion strategies. Rugman and Verbeke (2004) assert that there are numerous empirical observations indicating that the exploitation potentials of many FSAs are often restricted to the MNC's home regions (e.g. the European Union for a European firm). MNCs tend to experience difficulties in increasing productivity and reducing costs of adaptation across regions (Rugman and Verbeke, 2005).

The behavioral internationalization process approach: a gradual expansion towards distant markets

The IP-approach (Johanson and Vahlne, 1977) also builds on the idea of bounded rationality. Because managers cannot have more than limited knowledge about new markets, a firm's actions revolve around the search for and development of market knowledge to avoid uncertainty. Based on this idea, Johanson and Vahlne (1977) argue that a firm's own experience of interacting in foreign markets (i.e. experiential knowledge) is a limited resource that is critical for the internationalization process. Because experiential knowledge must be acquired via personal experience, e.g. by participating in daily activities with business counterparts in a specific market, this market knowledge is difficult to acquire.

The IP-approach also rests on the idea that firm internationalization is influenced by psychic distance factors (e.g. language or cultural differences), which are factors preventing or disturbing the flows of information between firms and markets (Johanson and Wiedersheim-Paul, 1975). The IP-approach stipulates that risk associated with internationalization decreases when firms establish themselves in countries that have a low psychic distance to their home market. Firms are, therefore, prone to increase their investments in foreign markets incrementally as they accumulate increasingly more market knowledge about new market actors (Johanson and Vahlne, 1977, 2009). The reason for this is that it is in business relationships that firms learn about each other and build mutual trust and commitment (Johanson and Vahlne, 2009). To expand abroad incrementally is also a way to manage risks and avoid potentially substantial losses (Vahlne and Johanson, 2017).

Within the IP-approach, firms are thus conceived to start as home-regionally oriented and then, as their experiential knowledge increases, they gradually expand their businesses into more distant foreign locations. A strong mutual commitment between partners in a specific market setting also allows the participating firms to effectively share and leverage their respective bodies of knowledge which, ultimately, can lead to the creation of new business within a market (Blomstermo *et al.*, 2004).

An analytical framework: Understanding the benefits of a regional strategy

Table I summarizes the theoretical arguments derived from the internalization approach, the IP-approach and research about internationalizing SMEs, for how a regional internationalization strategy is beneficial. The benefits of a regional strategy relate to economic incentives, incentives to manage opportunism and knowledge generating incentives. Together, these benefits have implications for understanding the inherent perks of a regional strategy for rapidly internationalizing SMEs.

The economic incentives; the internalization approach suggests that firms should make investment in high-involvement/high levels of local market control-functions rather than following the riskier global strategy which creates higher costs for learning, coordination, and control (Rugman and Verbeke, 2004, 2005). The importance of control is also highlighted in the IP-approach, even though this approach suggests that only incremental investments are made to manage difficulties pertaining to psychic distance. This allows a firm to grow in a more controlled manner. Vahlne and Johanson (2017) suggest that a way to manage risk and avoid potentially substantial losses is to expand abroad incrementally rather than making large leaps. Empirical research on rapidly internationalizing SMEs suggests that a regional strategy makes it easier for these firms to engage in direct relationships with end-users in specific markets (Chetty and Campbell-Hunt, 2003). In comparison to following a global strategy, a regional strategy enables a smaller firm to focus its scarce resources on adapting its business to specific customers in home region markets (Baum *et al.*, 2015; Melén Hånell *et al.*, 2017).

Local market orientation as a way to *manage opportunism* is highlighted in empirical research on rapidly internationalizing SME and is also implied in both the internalization approach and the IP-approach. Both these approaches consider the challenges (such as managing opportunistic behaviors of foreign market actors) to be related to bounded rationality, but they have different ideas for how these challenges could be managed. The internalization approach highlights the need for managers to be aware of the risk of opportunism in order for it to be avoided (Madhok, 1997). Investments in local market control functions are a way to avoid the opportunistic behavior of foreign business counterparts. Instead of viewing opportunism as a constitutive characteristic of foreign market

Table I Summary of the three approaches' arguments for why a regional scope of operations is beneficial

Theoretical aspects	Internalization approach	IP-approach	Rapidly internationalizing and regionally oriented SMEs
Economic incentives	High-involvement/high levels of local market control-functions minimize costs in foreign market operations	Gain control of one, nearby, market and move to the next to avoid economic risks	A regional strategy enables direct access to business relationships. Resources can be spent on making adaptations to specific customers
The management of opportunism	Managers need to be aware of the risk of opportunism for it to be avoided. Investments in local market control functions is a way to avoid the opportunistic behavior of foreign business counterparts	Opportunism is managed by developing mutual trust in a business relationship. Shorter psychic distance to local business partners is likely to facilitate cooperation and trust-building	Opportunism is managed by working with previously developed local network connections
Knowledge resources of importance	Because of bounded rationality, it is easier to process information about local and more familiar markets. FSAs, i.e. unique know-how, and LSAs are critical and seen as reasons to internationalize in the first place	Locally acquired market knowledge (experiential learning) is critical and drives firms' continued internationalization	Previously developed knowledge of local markets enables a rapid internationalization

actors, the IP-approach highlights the importance of developing mutual trust in the relationships to foreign business partners. A short psychic distance is likely to facilitate cooperation and trust building in business relationships and, thereby, limit the risks of opportunism. Research on rapidly internationalizing SMEs suggests that these firms use their employees' networks of contacts, which they have established in their previous careers to internationalize (Baum *et al.*, 2015; Rovira Nordman and Melén, 2008). By using persons that they trust as gateways into regional markets, the firms can avoid the risks of opportunism.

Finally, *the importance of knowledge* is implied in both the internalization approach and the IP-approach. The internalization approach emphasizes the risk of bounded rationality which makes it easier for firms to process information about local or regional markets than more unfamiliar markets. To internationalize in the first place, firms can use their FSAs (such as specific knowledge resources) to enter regional markets. Instead of focusing on the importance of static FSAs, the IP-approach emphasizes the development of local market knowledge to successfully enter markets (Vahlne and Johanson, 2017). Experiential learning is, furthermore, regarded as the key to continued international growth. In line with the reasoning that knowledge and relationships are important, empirical studies of rapidly internationalizing SMEs have emphasized that these firms often are founded by entrepreneurs with prior international experience and international network connections in local markets which provide them with unique market resources that can drive a rapid regional internationalization strategy (Baum *et al.*, 2015; Lopez *et al.*, 2009). Such experiences and networks have, by some scholars, been interpreted to function as the FSAs of these small firms (Verbeke *et al.*, 2014).

Research design

In this study, we analyze an explorative case study of a rapidly internationalizing SME in the Swedish life science industry. Exploratory case studies are particularly suitable for developing existing theories (Eisenhardt, 1989). A single case study also has an advantage over multiple case studies because it allows rich descriptions of a phenomenon. An explorative case study is, therefore, highly suitable to address the purpose of this study.

Case selection and data collection

The case firm (that in this study is called PlantCo) is a small enterprise (with under 50 employees) and is also considered to be a so called born global or INV. This because PlantCo started exporting within the first three years of its operation (Knight *et al.*, 2004) and has at least 25 per cent of sales income derived from exporting (Oviatt and McDougall, 1994). PlantCo belongs to a group of 14 internationalizing firms in the life science industry that the investigators have followed since 2003. All these 14 firms belong to the life science cluster in the Swedish city of Uppsala (consisting of about 200 life science firms). When the study was initiated, the researchers used a business index listing all life science firms in Uppsala. Among the firms listed in this index, the investigators wanted to find firms with 1) a founder that was still active in the firm (that could tell the story about the firm's initial development) and 2) an international market presence. All 14 firms fitted into these criterions and were therefore chosen as suitable cases. In 2003 (when the study was initiated), the investigators contacted the founder of PlantCo and asked him to participate in this study. The founder agreed to participate. The investigators, thereafter, followed the firm by collecting secondary data and by conducting semi-structured interviews with the founder in (2003) and the CEO in (2011). The interviews with the founder and CEO of PlantCo had duration of about one and a half hours each. To strengthen the external validity, the investigators followed experiment-like replication logic when collecting the data from the interviewees (Yin, 2003). Even though the interviews were semi-structured and based on a guide, the respondents were asked to elaborate on their answers. The investigators also sent the transcriptions of the interviews back to interviewees, to ensure their validity.

Because the investigators wanted to perform an in-depth analysis of a representative case in this study, the PlantCo case study was conducted. By comparing data sources concerning PlantCo's size, internationalization ambition and financial information with the other 13 firms in the original sample, the investigators found that the case firm is average and not extreme in comparison to the other firms. The argument can, therefore, be made that PlantCo, is a representative or a typical case of a rapidly internationalizing life science SME. According to Yin (2003), it is suitable to use a representative or typical case, chosen from a larger group of firms, when the objective is to capture the circumstances of an everyday or commonplace situation. The lessons learned from these single cases can, in this manner, be used to say something about the experiences of the average organization in the same field.

A major strength of case study data collection is the possibility to use different sources of evidence (Yin, 2003). This study relies on primary data (in the shape of semi-structured interviews) complemented with different sorts of archival data. In the data collection and analysis processes of this case study, the investigators follow the procedures described in earlier archival-data based internationalization studies (Ekman *et al.*, 2014). The archival data sources include information about annual reports, news articles and press releases (Table II).

To collect relevant archival data, a systematic review of documents available through firms' websites and the database Retriever Business was conducted. In the latter, the investigators searched for all news-items mentioning the name of the case firm (Table II). The resulting news items were manually reviewed and downloaded based on relevance to the study. Items of relevance included citations of employees or other descriptions of specific relevant events.

Case analysis

In his study, *chronology analysis*, a form of time series analysis, is used. Case studies are suitable for this kind of analysis because they allow the tracing of events over time and help researchers explore the causal effects of these events (Yin, 2003). The chronology analysis was started by coding all data (both archival and interview data) systematically in tables after event, date and data source. By comparing statements from the interviews with archival data, the investigators could establish evidence chains (controlling that the archival evidence corroborated with the stories provided by the interviewees). After the tables had been written, the description of the firm's expansion abroad could be arranged in a chronological manner. When all data had been collected and arranged, an in-depth, individual case story was written from this material. In this, the investigators included relevant instances from the rich data-material concerning the case-firm's internationalization strategy.

Table II Summary of archival and interview data in the PlantCo-case

Archival Data		Primary Data	
News items		Annual reports	Interviewees
Swedish	International		
202	169	17	Founder CEO

Analysts of organizational development have suggested that an organization progresses sequentially through several major stages (or time periods) during their life cycle (Li, 2008). There is, however, no consensus about how different stages or time periods shall be distinguished from each other (Li, 2008). During its development, the challenges of the firm may change, resulting in changes in its internationalization ambitions and strategies. The chronology analysis of PlantCo reveals several shifts in internationalization ambitions and actions during three time-periods in the firm's development. The first time-period *(1996-2003)* is characterized by the influence of the founder's international ambition for PlantCo. In 2004, PlantCo's first product becomes EU-approved. Thus, the second time-period *(2004-2011)* is influenced by managing regulatory issues in the EU markets. The last time-period *(2012-2016)* is influenced by PlantCo's increasing internationalization and a consolidation that can aid PlantCo in entering other parts of the world.

The PlantCo-case

In 1996, PlantCo started. The firm's business model is to develop and sell products based on the protection of plants from pests and diseases. The products that PlantCo sells will function as an alternative to chemical pesticides. Even though the firm is built around research that has been conducted at a Swedish university since the 1960s, PlantCo has from the start been owned by a large agricultural industry group, a conglomerate of Swedish farmers.

The expectations for the international sales of the products (seed that is dressed in substance that protects it from diseases) are initially high. The European market potential for the product area is estimated to be about SEK 1.5bn, and the market potential in North America is even higher than that. By 1997, positive product tests have been performed in nine countries all over the world. In an interview, the founder says:

> In 1997 we test-sold the product and it took half the Swedish market for rye. The chemical pesticide providers which first had laughed at us became afraid and reduced their prices in Sweden with 25%

In 1998, the firm starts selling prepared seed to Norway and Finland, where the products became approved. PlantCo manages the sales to Norway from the head office, but in Finland, a distributor is used. It is, however, hard for the firm to take further steps abroad. A first obstacle has to do with the durability of the dressed seed. The seed is only stable for approximately one month and have to be used within that time frame. Therefore, production units must to be placed close to the markets where the seed will be sold. The current production unit is managed by a business-partner firm in Germany for easy access to most European markets. A second grand obstacle is the time it takes to get the products approved by the European union-officials. In 2003, the founder says:

> [PlantCo] has been forced to draw a heavy load trying to influence the European Chemicals Agency to release organically degradable pesticides freely on the market. A large portion of my time is spent participating in various discussions with EU officials in Brussels

Because it is so hard to get EU approval, PlantCo contemplates entering into other markets in 2003. The markets under consideration are some Eastern European markets (outside of the EU), Iran and China. The founder (who is a researcher) has personal connections with many foreign researchers that are interested in reducing the use of chemical pesticides in their home countries. The researchers tip firms in their home markets to contact PlantCo. PlantCo's founder is, however, warned from network contacts about exporting to insecure markets because of the risk that their products will be copied by competitors. It is not easy to imitate PlantCo's products, but it is easy to duplicate them if you have access to a sample.

In 2004, one of the firm's products finally becomes EU-approved. Still, regulatory affairs take up much time because the products need approval in every EU-country. In 2009, a new CEO is recruited. The CEO comments that regulatory affairs have been the largest obstacle to expand the firm's international business. He says:

> "The truth is that in Denmark we were not ready until a few months ago, in Spain half a year ago, so it has been an extremely long process"

In 2011, eight employees remain in PlantCo and about 30 per cent of the products are sold to markets in Western Europe. Sales to the Nordic countries and Balticum are managed from the head office and distributors cover other European markets further away. The internationalization to more distant markets has not taken place. When asked about the reason for this, the CEO says:

> Perhaps fear has played a part in this decision. If we would produce the seed far away from here, it would be beyond our control. Then the product could come back in another form [...] There are risks and costs associated with entering another continent. Why should Swedish farmers take this risk for US farmers? There is where the idea falls apart. That was perhaps more of [the founders] vision, but not that anchored among the owners

In 2016, PlantCo increases its international commitment by entering into a strategic partnership with an important business relationship, a Dutch multinational corporation (MNC) in the biological plant protection business area. The MNC has access to production facilities, sales subsidiaries and distributors covering more than 60 countries all over the world. The purpose for the partnership is that PlantCo shall market and sell its own and a selection of the MNCs' products in the Eastern Sea-region. The MNC, on the other hand, shall market and sell PlantCo's products in markets outside of Northern Europe. PlantCo perceives this strategic partnership to be specifically important because it makes it possible for PlantCo to offer new products to their most important customers. PlantCo also perceives it to be beneficial that the MNC takes the responsibility to sell PlantCo's products to farmers in other parts of the world.

Between the start and 2016, PlantCo has had reoccurring problems with profitability, and has been supported with capital from its owners. Because of cost-reductions, the number of employees has been reduced since the start. As shown in Table III, the turnover has, however, increased substantially since the initial years of operations. International sales have increased in European markets. Table IV summarizes the case findings.

Discussion

This article has probed into the theoretical arguments of the internalization approach, the IP-approach and literature about international SME to enhance our understanding about the inherent benefits for rapidly internationalizing SMEs to follow a regional strategy. The analytical framework presented in Table I is used to analyze the PlantCo case.

Economic incentives for a regional strategy

The internalization approach sees the regional focus as a way to save costs. Vahlne and Johanson (2017) acknowledge that expanding incrementally rather than making large leaps, is a way to manage risk and avoid potentially substantial losses. An incremental expansion allows a firm to develop market knowledge from interacting within business relationships on a specific market, which is vital for managing difficulties pertaining to psychic distance, and thus managing risk. Looking at the literature about internationalizing SMEs, studies emphasize that smaller firms are less likely than larger firms to build an internalized organization, and instead become more dependent on building relationships with local market actors to get access to critical market knowledge (Knight and Liesch, 2016; Lindstrand and Melén Hånell, 2017). The PlantCo-case illustrates how the theoretical arguments related to economic incentives are connected to the firm's internationalization strategy. In the beginning of PlantCo's internationalization, it is the founder's experience and network connections which guide the firm's international strategy. The founder uses his contacts with foreign market researchers to test the product on several markets. The tests are successful, and the international market potential is believed to be significant. When international production and sales are initiated problems however emerge, which hampers a geographically distant international orientation. One reason for this is that PlantCo must spend a lot of time and other resources to get the products approved in various European markets. In accordance with a key argument in internalization theory (Buckley and Casson, 1976; Rugman and Verbeke, 2004), the PlantCo case illustrates and highlights the high costs related to enter and manage markets in multiple countries on a global scope. Such findings are supported by researchers interested in rapidly internationalizing SME (Baum *et al.*, 2015; Chetty and

Table III The development of PlantCo

The PlantCo case			
Comparison Years*	2003	2011	2016
Number of employees	14	8	6**
Turnover in KSEK	6,454	19,838	25,173
Net loss in KSEK	−7,926	−16	−521
International sales (regions of the world)	Europe	Europe	Europe
Export share in KSEK	2000-4999	2000-4999	2000-4999

Notes: *The comparison years are (7 and 16 and 20 years after foundation); **number of employees are from 2015/2016

Table IV Summary of the case findings

Time period	Examples of international engagements
1996-2003	The company experiences a rapid initial internationalization and starts exporting to Norway and Finland within three years from the start. PlantCo uses direct export and manages the sales to Norway from the head office, but in Finland a distributor is used. Production is located to Germany. During this time-period, PlantCo plans to enter other continents such as North America, Asia and China where the need for alternatives to chemical pesticides is great
2004-2011	The company's first product becomes EU-approved and approved in specific countries such as Lithuania, Austria, Switzerland, Germany, Netherlands and France. The Swedish headquarter manages export to the Nordic countries and Balticum. PlantCo uses distributors to cover other European markets. The risk that the products will be duplicated in an unauthorized manner hampers the CEO's willingness to sell the products outside of Europe
2012-2016	The access to markets outside of Northern Europe is increased. The strategic partnership with a Dutch MNC gives PlantCo access to sales subsidiaries and distributors in more than 60 countries all over the world

Campbell-Hunt, 2003), emphasizing that a regional scope of operations enables SMEs to focus on certain markets and business relationships which simplify the development of market knowledge. The case of PlantCo also highlights that the firm initially underestimates the costs and difficulties that a global orientation would entail. During the first years of PlantCo's internationalization, the firm develops market knowledge about the approval processes of various European markets and adapts to a slower and more regional internationalization strategy than was first anticipated.

The management of opportunism

The case of PlantCo highlights the risks of opportunism that a small internationalizing firm may face when contemplating a global market reach. When PlantCo experiences difficulties in receiving EU-approval of its first product, the firm plans to enter markets where product-approval is easier to achieve. These plans are not followed through because PlantCo does not want to take the risk to enter insecure markets where their products can be duplicated. To avoid this risk, the decision is made to focus on nearby, more heavily regulated European markets, where the control of their products is perceived to be better. The internalization approach suggests that, under the assumption of opportunism, a firm could find it more efficient to internalize a transaction and exploit know-how through a subsidiary (Madhok, 1997). Because of constrained resources, SMEs are less likely than larger firms to build internalized organizations. Instead, these firms become more dependent on building relationships with and generate knowledge from local market actors. Following the IP-approach, a short psychic distance is likely to facilitate cooperation and trust building in business relationships and, thereby, limit the risks of opportunism. Looking at research about international SMEs, the benefits of regional operations for enabling trusting relationships have been highlighted (Chetty and Campbell-Hunt, 2003; Melén Hånell *et al.*, 2017). The PlantCo case illustrates how the generation of market knowledge about the risks of opportunism influences the firm to focus on a regional scope rather than a global scope of operations.

Knowledge resources of importance

Proponents of the internalization approach and the IP-approach highlight that uncertainties about doing business in foreign markets still are a problem for both small and large firms. Rugman and Verbeke (2005) highlight the risk of losing focus of the necessity of market selectivity in internationalization by wrongfully assuming the world is one fully integrated marketplace. Johanson and Vahlne (2009) identify the creation of trust in business relationships as a factor that reduces uncertainties and enable firms to enter new foreign markets.

The PlantCo case highlights some inherent learning benefits for SMEs to focus on a regional scope of operations. The case shows how a regional scope enhances the possibilities to allocate and invest resources in business relationships in European markets, and this enables the firm to develop knowledge about these markets. PlantCo specifically develops relationships with customers in the Nordic countries and Balticum where sales are managed from the head office. By building relationships with these Northern European customers, PlantCo can enter into a strategic partnership with the Dutch MNC. The MNC values the market knowledge and business relationships that PlantCo has acquired with customers in specific Northern European markets. In return, PlantCo gets access to the MNCs local production facilities, sales subsidiaries and distributors. By cooperating with the MNC, PlantCo perceives the risks associated with internationalizing on a more global scope to be lessened.

Concluding remarks

Building on the idea that internationalization is difficult, the internalization approach, the IP-approach and research about rapidly internationalizing SME share the common view that local knowledge resources are critical to succeed with internationalization. Another implied argument is that firms can use a regional or incremental approach to internationalization to avoid risks and save costs. These ideas contrast the traditional born global-view, stipulating that a rapid and broad internationalization is possible without much firm-specific knowledge about local markets. Instead, the preexisting international experience and international network connections of the staff provide born globals with the unique knowledge resources that they need for their internationalization (Oviatt and McDougall, 1994; Rovira Nordman and Melén, 2008).

The analysis of PlantCo shows that in contrast to what the traditional born global-view stipulates, this born global firm cannot internationalize on a broad scope from the start. The case illustrates that knowledge generated in one context can be difficult to apply to another context. Even though PlantCo initially planned for a global internationalization strategy, the firm's contact with foreign business partners and institutions (e.g. learning about the risks of entering unsecure markets) revised and slowed down PlantCo's internationalization strategy.

After learning about the difficulties, costs and risks involved in following a global strategy, PlantCo revises its previous plan to sell products on a global scope. Consequently, it is more just to call PlantCo a born regional than a born global. The analysis of the PlantCo-case, increases the understanding about how rapidly internationalizing SMEs can benefit from following a regional strategy. By increasing this understanding, this article responds to previous calls for more research about this subject (Reuber *et al.*, 2017; Sui and Baum, 2014). The study, moreover, contributes to build on research which discusses the born regional phenomenon (Baum *et al.*, 2015; Lopez *et al.*, 2009). Because the PlantCo-case is a longitudinal case study from a mature market context, the results can broaden the understanding about born regionals and, thereby, contribute to international marketing research. One particularly interesting result from this longitudinal study is that PlantCo went from being defined as a "typical born global" in the early stages of its development (evidenced by the founder's global mindset and PlantCo's foreign market and foreign sales activities) to becoming renamed "born regional" in hindsight. Such a development in the internationalization strategy is difficult to detect when analyzing quantitative data sets. In comparison to born globals in many other regions of the world, the matureness of the Swedish market provides born globals with access to many advisory and support services (e.g. government supported innovation hubs) aimed at helping these firms to go international on a broad scale soon after their foundation. Despite this, the results in this study show that also born globals from mature markets experience difficulties with for example regulations that hinders them to internationalize on a broad and global scale.

By probing deeper into the ideas provided by the internalization approach, the IP-approach and research about internationalizing SME, this article contributes with a unified framework for understanding the benefits for rapidly internationalizing SME to operate on a regional scope. The paper illustrates that a regional approach can help an SME to avoid perceived risks, save costs and generate sufficient knowledge about one market before it enters the next. Research about rapidly internationalizing SMEs shows that these firms have the capacity to invest in locally oriented (e.g. Chetty and Campbell-Hunt 2003), as well as globally oriented market operations (Oviatt and McDougall, 1994). Building on frameworks from previous internationalization theories, the implication is that a global orientation requires more resources from a firm. As the case study of PlantCo shows, it can therefore be more rational for rapidly internationalizing SMEs to pursue operations on a regional scope (i.e. establishing initial footholds in familiar market settings), than following the seemingly riskier global strategy which creates higher costs for learning, adaptation, and control.

The implications of this study highlight the importance for SME-managers and policy makers to recognize the benefits of supporting regional orientation initiatives for enhancing SME internationalization. During the past two decades, public policy makers from various parts of the world have directed much effort into supporting the development of rapidly internationalizing SMEs which seek to achieve market operations on a global scope (Eurofound, 2012; OECD, 2013). At the same time, statistics highlight that the long-term survival-rate of new firms is low in both Europe and other parts of the world (Eurostat, 2016; Nazar, 2013). It is, therefore, understandable that policy makers traditionally have paid much attention towards born global firms, which aim at high-growth emerging markets from inception. However, this article points out the difficulties for some born globals to follow a global orientation from the start. Like PlantCo, other born globals (in other parts of the world), often perceive increased risk levels when they venture into unfamiliar global markets (Knight and Cavusgil, 2004). It is also common that born globals are hindered in their international advancement by unfamiliar business practices and regulatory import controls (Uner *et al.*, 2013). Building on the results from this study, an implication is that new policy initiatives could benefit from being directed towards supporting regionally oriented SMEs that already have shown that they have a business concept that holds for international markets.

The case of PlantCo is a representative case study of a life science firm active in a mature market context. The result could, therefore, be applicable to other mature markets than Sweden (e.g. to North-America) where other born globals struggle to internationalize on a global scale. Even so, the narrow scope of this study, which focused on only one case firm in one industry, does not permit broad generalizations to be made based on the findings. Another limitation with this study is that it only tells the story of a born global that had difficulties fulfilling its global ambitions. In contrast, other studies have highlighted the need for similar firms (active within in life science and other high-tech industries) to pursue a global orientation from the start (Sharma and Blomstermo, 2003). The heterogeneous nature of rapidly internationalizing SMEs, thus, needs to be further researched. More multiple case studies and quantitative studies, from which generalizations can be derived, would prove useful for investigating this group of firms further.

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