

Making it in China

Internationalization of West European
Transnational Entrepreneurs in China

Master Thesis

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5/25/2010

ABSTRACT

Rapid globalization has created a new type of international entrepreneurs, those who seek new opportunities by starting their business and life in a developing country. These transnational entrepreneurs (TEs) make use of a special set of resources obtained from their home-base country and country of origin. So far, the knowledge on the TEs is fragmented and lacks an integrative framework explaining their internationalization process. This research is intended to support a future framework by exploring how the firm's special set of resources influences the firm's internationalization process.

Starting with a summary of the current literature on TE phenomenon and the resource-based view on internationalization, a resource/knowledge-based view framework is proposed that allows to explore the influences on the internationalization process. The research then uses a manufacturer in China as research case study, and evaluates the framework. Collected data is based on field interviews with the owners and employees of the firms as well as potential customers in a new target market.

The research shows that the suggested framework is quite adequate to explain how the resources influence the internationalization process. It shows that all the resources seem to have a certain amount of influence on each phase of the internationalization process. Especially, the knowledge resources help the firm to differentiate itself from other competitors and supports the building of trust in a new business relationship.

Keywords: Transnational Entrepreneurs, Internationalization Process, Resource based and Knowledge based View, Developing Countries, Single Case Study approach.

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PREFACE

In order to graduate for my study Industrial Engineering and Management Science at the university of the University of Twente I have written this thesis. This thesis is required by the university to examine my obtained theoretical knowledge used in a practical situation. In China, I was approached by the owners of Scaffolding Group Ltd. to help them investigate new market opportunities in the Netherlands.

Over the years I have lived in several countries and experienced different cultures. This got me interested and acquainted with international entrepreneurship and cultural business. I saw this assignment as an opportunity to further investigate the cultural elements when establishing a new business relationship. Although the assignment proved to be challenge, because I had the work and live in China, it was very useful to experience and learn how these entrepreneurs established and formed their own companies in a foreign environment, helping me to do the same in the future.

Firstly, I would like to thank my family for their support and patience during this challenging period of time. I also like to thank all employees of Scaffolding Group Ltd. for their cooperation and support, it was a great experience. In addition, I like to thank Mr. Ruel and Mr. Stienstra for their patience, supervision and support on completing this thesis.

Thank you all,

Enschede, 29 August 2011



Robert Paul Vergeer

1 INTRODUCTION

This chapter aims to clarify the reasons, objectives and the setup of this research. Firstly, the background of this research is presented, by describing the reason and need for this research. Following upon the background, the second section will discuss and formulate the problem handled in this research and formulate the research questions. The third sections of this chapter presents a short description of the research approach. Finally, the last section gives the outline and arrangement of this research paper.

1.1 BACKGROUND

The rapid increase in globalization caused major changes in the world. Prior closed economies have opened up their borders and privatized firms to increase international competition. Especially, China, India, Brazil and Russia see impressive economic growth figures and they are internationalizing at an ever increasing rate. The political and economical changes in these country have major impact on the future world economy.

These changes has created new business opportunities and not only the domestic entrepreneurs acted upon them. Western entrepreneurs settle and start new companies in these developing countries in order to also benefit from the arising opportunities. This special kind of entrepreneurs are known as transnational entrepreneurs (TEs). They set up their companies in a foreign country and engage into transnational business activities (e.g. consultancy, trading, or import/export) with their country of origin, they are uniquely positioned to internationalize directly and, in many cases, acts as an intermediary for local firms (Terjesen & Elam, 2009). These entrepreneurs can be defined as: “social actors who enact networks, ideas, information, and practices for purpose of seeking business opportunities or maintaining businesses within dual social fields, which in turn force them engage in varied strategies of action to promote their entrepreneurial activities.” (Drori et al., 2009, p. 1001)

Although TEs are rapidly emerging around the world and forming an important aspect of international business expansion (Connelly, 2010), the academic research on the topic is very limited, fragmented and still lacks rigorous development and testing of theories (Drori et al., 2006). Up to now, the present literature on TE has mainly focused on identifying and defining the concept. Most studies largely focus on groups of immigrants from developing countries, who seek new business opportunities in the developed world. However, due to globalization and the fast moving economies western entrepreneurs more often see new opportunities in the developing countries. These western entrepreneurs encounter different challenges and have other resources to their disposal and therefore distinguish them from the other TEs. In order to better understand this type of TE a more focused studies is required.

Furthermore, the current literature so far only analyzes and describes the TE's situation during conception. Although, the firm undergoes instant internationalization at inception it will later try to further internationalize by expanding to new markets and thereby reinitiating the internationalization process. Fin Wiedersheim-Paul et al. (1978) argue that a firm's competitive advantage directly influence the decision towards further global expansion. When a firm is aware of its unique resources, it is more likely to search for new markets to exploit their competitive advantage. Holding advantages

over competitors in terms of unique resources, capabilities and distinctive skills allows firms to expand to new markets and boost their profits. This research will investigate the competitive advantages and internationalization of western TE-firms, starting at the point where the firm wants to expand to new markets outside the country of origin and hereby losing their initial transnational advantages.

Especially, China presents great opportunities and great challenges to these entrepreneurs. The country has something for everybody, but is not always an easy place to set up a business due to challenges such as constantly changing government and trade policies, cultural differences, and primitive knowledge of efficiency and quality. Small foreign companies that sole depended on international business activities are also subject to the liabilities of newness, smallness, (Zahra, 2005) and foreignness (Zaheer, 1995; Sapienza, Autio, George, & Zahra, 2006). This complex problem crosses many research areas of international business such as entrepreneurship, internationalization, networking, and cross-culture relations. There is a need for a theoretical model that can explain the basis of the TE-firm's competitive advantage and how these advantages are generated. This model is necessary to understand how the firm is currently competing and what the opportunities and challenges will be when the entrepreneur wants to further internationalize. By understanding these determinates the TE will be able to make better informed decisions and structure their internationalization process.

1.2 PROBLEM DEFINITION

From the previous section it can be seen that there is a need to investigate the basis of TE-firm's key resources to better understand their initial and further internationalization process. As said, little is known about this problem and researchers are still looking for a framework to describe the factors influencing the internationalization process of these companies. The abovementioned observations result into the following problem definition:

How do the firm's resources influence the internationalization of Western Transnational Entrepreneurial Firm located in a developing country?

The aim of this research is to increase the knowledge in the fields of international business (IB) and international entrepreneurship (IE) by investigating, describing and analyzing what opportunities and challenges these firms face in their unique situation. Specifically, the research is aimed to identify the basis of the TE-firm's key resources that enables it to initiate and continue its internationalization. The research focus, therefore, is not on the patterns and entry modes of the internalization process. Rather, the question becomes, which resources and capabilities enable the TE-firm's internationalization process. To achieve this aim, a broad literature review on the development is presented and a western TE-firm based in a developing country is used as a case study to allow a deeper insight into how these firms use their unique set of resources to create a competitive advantage for further internationalization.

In order to find the answer to this problem, a split-up of three research questions is formulated. The initial steps are needed to get acquainted with the subjects TE and internationalization by an extensive review of the developments in the literature.

First of all, for this research it is necessary to clearly define the phenomenon TE and discuss the current literature on this subject. The first research question can therefore be formulated as follows:

RQ1: What are transnational entrepreneurs?

After answering the first research question it is important to understand the different internationalization theories. By searching the literature and answering the second research question (RQ2) the theoretical foundation for the research is provided. For this part it is important to understand how firm's internationalize and how they benefit from controlling certain resources. The second research questions is stated as follows:

RQ2: How do firm's use their unique resources to internationalize?

The next research question combines the two previous questions by linking the TE-firm's resources to internationalization. In order to find out how the resources influence internationalization it is important to first identify the resources. Therefore, the third research questions will be as follows:

RQ3: Which resources influence the internationalization of the Western Transnational Entrepreneurial Firms?

After all the resources are identified it is essential to check and evaluate which resources provide a competitive advantage and benefit the TE-firm during further internationalization. By using literature studies and a case study the three research questions can be answered and after discussing and evaluating the results the central research problem of this research can be solved.

1.3 RESEARCH APPROACH

Before formulating the central research problem of this paper, the author had already experience on working at different Western TE-firms based in China. The acquired experience was used to define the research problem and develop a research framework. Since the researcher uses a combination of existing theories on a case study, the research approach can be regarded to be deductive. Furthermore the research can be regarded as an exploratory research, since the goal of the study is to obtain knowledge about the internationalization process of Western TE-firms based in developing countries and explain their unique situation and the influencing factors.

The research questions will be answered by collecting primary and secondary data with a qualitative research method. Firstly, an in-depth literature review will present a close look at the TE phenomenon and the previous developments on internationalization theories. Secondly, a single case study with a customer survey are presented to describe a TE-firm's unique position and the corresponding generated customer values. The collected qualitative date will give an insight into which key resources are important for the internationalization of the TE-firm. The research mythology for this paper is further discussed in chapter 3: Methodology.

1.4 THESIS STRUCTURE

In this section the arrangement of chapters of this research paper is presented. The paper is divided into five chapters, starting with a description of the research plan (chapter 1). Having set out the theoretical and empirical need for this research, the literature review (chapter 2) further defines the topic of this research and a theoretical model is presented for the analysis of the research problem. In the next chapter, the research methodology is described and a description of the TE-firm in the case study is presented (chapter 3). Hereafter, the obtained empirical data is presented and the findings are analyzed by linking the resource influences to the firm's internationalization process (chapter 4). Subsequently, the concluding chapter summarizes the main observations of this paper, discusses the limitations of the approach and suggests possible areas for future research (chapter 5). See Figure 1 for reference.

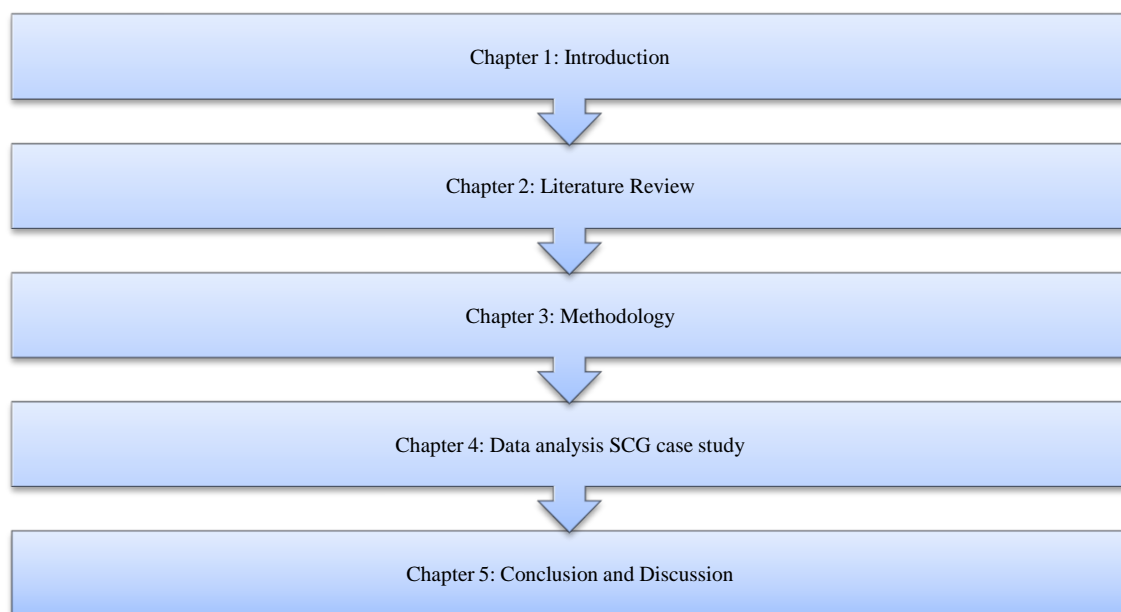


FIGURE 1: THESIS STRUCTURE

2 LITERATURE REVIEW

In this chapter the existing literature is reviewed and discussed. The chapter's purpose is to present the developments, discussions and gaps in the literature to establish a theoretical foundation for the theoretical framework. Consequently, the chapter is divided into three sections. The first section aims to identify and characterize the TE-firm. The second part will follow the evolution of the internationalization theory and will also focus on recent literature on Chinese internationalization and the internationalization of TE. The last part will discuss the gaps and proposes a theoretical framework that will be used for this paper.

2.1 METHODOLOGY LITERATURE REVIEW

In order to establish a justifiable research framework for this research a literature review has to be conducted. When searching for literature and extracting suitable information a methodology is needed to ensure that the review is complete and sufficient to support the decision for factors in the framework.

In order to get a good perspective on evolution of the internationalization literature a chronological order is chosen. In this way it is possible to get a good understanding of how the theories changed and merged due to changes in the world. The earliest theories, which lay the foundation, have to be included in the review to create a starting point. Most of this literature is found in well-known articles and books and can be searched by tracing back the references and sources of the more recent literature.

After establishing this foundation more criteria are used to search and select the most relevant literature from the databases. The more recent literature on internationalization is vast and provides a great variety of different theories, frameworks and concepts, most were presented in the last decade. Many of these studies are focused on specific topics such as, MNEs, SMEs, INVs, High Tech products, E-commerce, entrepreneurship, location, etc. In order to avoid a massive amount of data for this review only the literature that was published after 2000 is used. Furthermore, literature with a specific focus on MNEs or special kinds of products or service were also excluded, since these topics are too distant from the theme of this research and will thus add little value. To ensure reliability of the source a selection is made out of recognized journals, books and conference proceedings. The main focus of the search is to find literature that links internationalization with entrepreneurship and international small business management.

Since the literature on TEs and TE internationalization is more scarce more flexible criteria are used for the search and selection of relevant literature. Literature with a sociological and cultural perspective on international entrepreneurship is included in the search to justify a multiple level framework that considers individual entrepreneur, organizational structure and environmental factors.

Important instruments for this search are Google Scholar website, SFX, and the archives of the University of Twente Library. To ensure the reliability of this literature review all the literature sources are first cross-referenced and verified and after that the applicable data is extracted.

2.2 TRANSNATIONAL ENTREPRENEURSHIP PHENOMENON

This section presents a review of the current literature on transnational entrepreneurship. Defining the characteristics of the entrepreneur and the firm are essential to answer the first research question (RQ1). This section is split up into two parts. In the first part the literature behind the person of the firm (e.g. the transnational entrepreneur) is discussed. In the second the firm, which was established by this person is further defined and analyzed by using existing literature studies.

2.2.1 THE TRANSNATIONAL ENTREPRENEUR

The terminology of the transnational entrepreneurship phenomenon is important to clarify the scope of analysis and boundaries of this research paper; however, giving a generally accepted definition for TE is still somewhat problematic. Only recently a few researchers have started to further research and define this topic and each come out with slightly different definitions.

Henry Yeung (2002) states three main reasons for the difficulty for defining a TE. First, the term entrepreneur is tricky to define, because as soon as a definition is given to the term new restrictions to the term arise; Yeung (2002, p. 36) explains this by quoting William J. Baumol (1993):

“Any attempt at rigid definition of the term entrepreneur will be avoided assiduously here, because whatever attributes are selected, they are sure to prove excessively restrictive, ruling out some feature, activity, or accomplishment of this inherently subtle and elusive character.”
(Baumol, 1993, p. 7)

The second reason follows directly from the first, due to the difficulty of defining the term entrepreneur there exists a chaos of numerous definitions. Most of these are based on either the outcome of the entrepreneur’s activities or the process they go through during the creation of the new venture (Yeung, 2002, p. 37). The third reason, there are many different views of TE due to the high diversity of academic disciplines researching this topic (e.g. economics, psychology, sociology, management, and entrepreneurship). Sociologists, for example, view TE in terms of the immigrants’ integration and economic adaptation, whereas economical studies (e.g. the international business, entrepreneurship, and strategic management studies) see an influential role of TE in the creation of new business opportunities, knowledge transfers and globalization.

Yeung (2002) uses a business perspective to define TE as being “a social actor how is capable of bearing risks and taking strategic initiatives to establish, integrate, and sustain foreign operations” (Yeung, 2002, p. 37) and addresses three inter-related attributes that must be simultaneously present in the entrepreneurial process. First, the TE must have a certain control over resources in different countries (e.g. capital, information, and knowledge). Second, the TE must have capabilities in strategic management in those different countries (e.g. innovation and creative deployment of resource). Third, the TE must have abilities to create and exploit opportunities indifferent countries

In a study on South-American immigrants that migrated to the US (Portes et al., 2002), a sociological perspective was used to define the term TE as follows:

“Transnational entrepreneurs are self-employed immigrants whose business activities require frequent travel abroad (at least twice a year) and who depend for the success of their firms on their contacts and associates in another country, primarily their country of origin.” (Portes, Guarnizo, & Haller, 2002, p. 287)

Improving on the definitions of Portes et al. (2002) and Yeung (2002), Drori et al. (2006; 2009) integrated international and ethnical entrepreneurship. In their initial conference paper Drori et al. (2006) were the first to introduce a theoretical framework that addressed the scope, boundaries and theoretical lenses of TE research by building on preceding studies on transnationalism (Schiller et al., 1992; Smith & Guarnizo, 1998), which showed the importance of transnational networks for achieving commercial advantages. In a subsequent research paper, Israel Drori, Benson Honing, and Mike Wright (2009, p. 1002) argued that the previous definitions did not take into account the advantages that arise from the TE's transnational presence, and therefore defined TEs as follows:

“TEs are individuals that migrate from one country to another, concurrently maintaining business-related linkages with their former country of origin, and currently adopted countries and communication. By traveling both physically and virtually, TEs simultaneously engage in two or more socially embedded environments, allowing them to maintain critical global relations that enhance their ability to creatively, dynamically, and logistically maximize their resource base. We thus define TEs as social actors who enact networks, ideas, information, and practices for purpose of seeking business opportunities or maintaining businesses within dual social fields, which in turn force them engage in varied strategies of action to promote their entrepreneurial activities.” (Drori et al., 2009, p. 1001)

An important target of these initial studies is to separate the numerous terms and definitions of entrepreneurs in relation with migration, ethnicity and international business. In several studies clear distinctions were made between TE and terms such as immigrant entrepreneurs, ethnic entrepreneurs, enclave entrepreneurs, minority entrepreneurs, international entrepreneurship (Portes et al., 2002; Drori et al, 2006) and returnee entrepreneurs (Drori et al., 2009).

So far, the given definitions agree on the fact that TEs show entrepreneurial skills, are involved in foreign operations (primarily involving the country of origin) and they make use of different kinds of resource provided by multiple environments. However, there is no general agreement on the definition on the fact that all TEs are immigrants (Terjesen & Elam, 2009, p. 1094). In a study on the typology of expatriates, Brain Connelly (2010) uses the term TE to define an entrepreneurial individual, who is seeking to generate profit by leveraging competitive advantages in an international environment. Compared to expatriates of a MNE, these TEs are typically regarded as resource constrained and rely more on social networking in the host country (Connelly, 2010, p. 43). This difference in the definitions is rather important for this research, since the target group involves Western entrepreneurs settling and establishing a business in a developing country, most of them have a high degree of education and live a more privileged lifestyle. Although they live and work in these countries for a considerable period they cannot truly be called immigrants. Expatriates differ from immigrants in that

their relocation is generally more temporary (i.e., they retain citizenship in their country of origin, but choose to live and work abroad). In today's world, however, the lines between expatriates and immigrants may be blurry.

Traditionally, the TEs were seen as middlemen who were able to identify overseas trading partners and developed international social networks. They made use of their exceptional abilities and skills to communicate in more languages and interact with multiple cultures (Terjesen & Elam, 2009). The modern TEs make use of bilingualism, internationalization of English and international social networks. Their activities are supported by "advances in communication and transportation technologies and changes in the structure of technology markets and competition" (Saxenian, 2002, p. 184), this includes satellite communication, internet, email, VoIP, low cost jet travel and entrepreneurial visa (Light, 2007). They keep their networks up-to-date by frequent air travel and daily communication with contacts abroad (Saxenian, 2002).

In sum, the literature distinguishes the difference between IEs and TEs, where TEs are regarded as a sort of subgroup of many different IEs. Several definitions are used and sometimes redefined to describe the TE. The majority of the definitions focuses to describe migrants from developing countries, who seek to establish a business in a developed country. Most of the definition come forth out of sociological studies which mainly focus on integration and difference in mind set. For this research, a TE is shortly defined as an entrepreneur who seeks to act upon overseas business opportunities by establishing a life and business in a foreign country. They will use resources from both the home and firm-base country to pursue these opportunities and remain active in cross-country businesses activities.

2.2.2 THE TE-FIRM

The previous section provided an insight into the transnational entrepreneur personal characteristics; still it is also important for this research to have a look at the firm type and characteristics. Again, up to now the current literature doesn't provide a clear and definite description of this TE-firm. This section presents the current discussion and describes the conception and further growth stages of the TE-firm.

At inception the TE-firm often serves as an intermediary for organizations and other entrepreneurs who have trouble stepping into the new market. They are often involved in consultancy and import or export of products. The TE-firm takes advantage of knowledge spillovers, helps overcome knowledge gaps, find customers/suppliers, and reduce uncertainties and risks associated with operating in foreign markets (Terjesen & Elam, 2009). By combining their knowledge and resources from multiple environments they create competitive advantages that are not possible in a single environment (Patel & Conklin, 2009). Especially at inception the firm is subject to the liabilities of newness, smallness, (Zahra, 2005) and foreignness (Zaheer, 1995; Sapienza et al., 2006) and greatly depends on the entrepreneur's personal skills, experience, capabilities, and resources (e.g. social capital and knowledge) (Terjesen & Elam, 2009).

Literature on the TE's processes, dynamics and further developments are scarce. Little is known about their life-cycle, the different strategies of actions and the kind of opportunities they act upon. Also there is no direct research on the factors that influence their decisions on growth, expansion and further internationalization. Relating literature and models is used to give possible suggestions to how a TE-firm will further develop. A TE-firm can be seen as a rapidly internationalizing SME, because at inception the firm is immediately operating in two or more countries. In the literature there are different terms for this kind of companies, the two most common terms are international new ventures (INVs) and born globals (BGs). Benjamin Oviatt & Patricia McDougall (1994) defined INVs as follows:

'A business organization that from inception, seek to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries.' (Oviatt & McDougall, 1994, p. 49)

The term BGs was defined by Gary Knight and Tamar Cavusgil (1996) as:

'Business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries.' (Knight & Cavusgil, 1996, p. 124)

It is important to note that Knight and Cavusgil and also in this research both terms INV and BG are regarded to be identical. Since TE-firms share many characteristics with INVs the literature on processes, dynamics and further developments can provide more insight into how a TE-firm will further develop and internationalization.

2.2.3 EVALUATION: TE-LITERATURE REVIEW

This literature review shows that there is not yet a unified definition of the term Transnational entrepreneurs and their firms. In the last two decades the research on this phenomenon has increased, but the present amount of literature on this topic is still lacking. The review, however, provides a clear insight into the TE phenomenon and the researcher can answer the first research question (RQ1) by defining TEs as entrepreneurs who enact networks, ideas, information, and practices for purpose of seeking business opportunities or maintaining businesses within dual social fields, which in turn force them engage in varied strategies of action to promote their entrepreneurial activities." (Drori et al., 2009, p. 1001) Their companies are based in a foreign country and they engage into transnational business activities (e.g. consultancy, trading, or import/export) with their country of origin, they are uniquely positioned to internationalize directly and, in many cases, acts as an intermediary for local firms (Terjesen & Elam, 2009). This now allows to identify and select a TE-firm for further research.

Most of the data was mainly gathered by using the Google Scholar Search Engine and the archives of the University of Twente Library. The following search terms were used to search the literature:

- ✧ International Entrepreneurship
- ✧ Transnational Entrepreneurship
- ✧ Transnationalism

- ✧ Born Globals and International New Ventures
- ✧ Early Internationalization

In addition to these search terms the source references found in the literature are also searched by using the same search engine. The online library websites that gave the most reliable and informative literature were: JSTOR, Google Books, Emerald Insight, Science Direct, Wiley Online Library, SpringerLink, Allbusiness.com, and SFX.

Figure 2 shows a summary of the sources used in this part of the literature review. Especially, the articles from Academy of Management and Entrepreneurship Theory and Practice provided the most valuable data for this review.

Literature Source	Author	Subject
Articles		
Entrepreneurship Theory and Practice	Drori et al., 2009	Transnational Entrepreneurship
	Patel & Conklin, 2009	Transnational Habitus and Social Networks in Entrepreneurship
	Terjesen & Elam, 2009	Internationalization of Transnational Entrepreneurs
	Oviatt & McDougall, 2005	Internationalization of International Entrepreneurship
Journal of International Business Studies	Zahra, 2005	Technology Resources in Internationalization of New Ventures
	Oviatt & McDougall, 1994	Theory of International New Ventures
International Entrepreneurship and Management Journal	Connelly, 2010	Transnational entrepreneur as a type of expatriate
Academy of Management Review	Sapienza et al., 2006	Early Internationalization
American Sociological Review	Portes et al., 2002	Transnational Entrepreneurship and Immigrant Economics
Industry of Innovation	Saxenian, 2002	Transnational Communities in South East Asia
Asia Pacific Journal of Management	Yeung, 2002	Entrepreneurship and International Business
Advances in International Marketing	Knight & Cavusgil, 1996	Internationalization of Born Globals
The Academy of Management Journal	Zaheer, 1995	International New Ventures
Annals of the New York Academy of Sciences	Schiller et al., 1992	Transnationalism
Books		
Handbook of Research on Ethnic Minority Entrepreneurship	Light, 2007	Entrepreneurship and Transnationalism
Entrepreneurship and the Internationalization of Asian Firms: An Institutional Perspective	Yeung, 2002	Entrepreneurship and Internationalization of Asian Firms
Other Source		
Conference Paper	Drori et al., 2006	Theoretical Framework for Transnational Entrepreneurship
Research Paper	Smith & Guarnizo, 1998	Transnationalism

FIGURE 2: SUMMARY OF SOURCES FOR TE LITERATURE REVIEW

2.3 INTERNATIONALIZATION THEORIES

This section presents the evolution of the internationalization theory up to the present day. The section starts with the first academic theories on international trade developed in as far back as the eighteenth century and narrows down to the present discussions on the internationalization of SME's, INV's, TE's and China. This review is necessary to get an clear insight into the current discussions, influential factors and to understand the current gaps in the TE internationalization theory.

2.3.1 EVOLUTION OF INTERNATIONALIZATION LITERATURE

Several theories from the international business literature are presented to show the evolution and to explain why and how firms decide to internationalize.

Early macro-economic theories were the first to touch the topic of international trade between two countries. In 1776, Adam Smith proposed the concept of Absolute Cost Advantage (Smith A. , 1776) and in 1817 David Ricardo argued that international trade costs should also be viewed from target country viewpoint and introduced the concept of Comparative Cost Advantage (Ricardo, 1817).

Halfway the 20th century the studies on internationalization were mainly focused on production and trade. Richard Cyert & James March (1963) proposed a new perspective, in the form of a behavioral theory, to explain how internationalization decisions are taken within the firm. In short, the theory looks at how an individual considers optimization and maximization opposed to rationalization and satisfaction during the decision making process. Based upon this research Yair Aharoni (1966) introduced his theory of the Foreign Direct Investment Decision Process, a process which was divided into three stages, namely: the decision to look abroad, an investigation process and the decision to invest.

During the same time researches started to focus on the internationalization activities from a micro-economic viewpoint. The studies discussed the issues of overseas investments with the main focus on relocation of production for western MNEs (Southard, 1931; Dunning, 1958; Hymer, 1960). Ronald Coase (1937) gave an economical explanation to why businesses wish to form overseas alliances, thereby introducing the concept of transaction costs. These extra costs are endured due to the friction between buyer and seller, this includes for example, the searching costs, the cost of obtaining information, bargaining and mediation costs and the costs for controlling and enforcing contracts. Later this concept was further expanded by Coase's student Oliver Williamson (1975) founder of the foundation of transaction cost economics.

In sum, these early theories show that initial research was mainly focuses on the largest organizations in developed countries seeking opportunities in other western countries. An unavoidable topic in the internationalization theories, the costs or friction, are observed but the factors influencing these costs are not yet fully defined. The internationalization process and decisions were mainly based on a benefit versus costs principle, where the costs mainly rise from dealing with external organizations.

TRANSACTION COST AND ECLECTIC THEORY

In 1986, Erin Anderson and Hubert Gatignon (1986) proposed a new approach to help identifying the best way for a company to internationalize. They called it the transaction costs analysis (TCA) and the researchers defined the theory as follows:

“The theory, transaction cost analysis, combines elements of industrial organizations, organization theory, and contract law to weigh the tradeoffs to be made in vertical integration (and by extension, degree of control) decisions.” (Anderson & Gatignon, 1986, p. 7)

It is a systematic approach that is based on the concept of transaction costs economics, which was introduced by Oliver Williamson (1975; 1985). Transaction cost theory suggests that firms are determined to minimize the transaction costs. Firms will choose the least-cost international location for each activity and grow by internationalizing markets, bringing vertical activities under common ownership and control until the benefits of the further internationalization are outweighed by the costs. Anderson & Gatignon conclude that the transaction costs would depend on different factors and that by measuring the following four factors the firm could determine a fitting internationalization approach:

- ✧ Transaction-specific assets: investments (physical and human) that are specialized to one or a few users or uses;
- ✧ External uncertainty: the unpredictability of the entrant’s external environment
- ✧ Internal uncertainty: the entrant’s ability to determine its agents’ performance by observing output measures
- ✧ Free-riding potential: agents’ ability to receive benefits without bearing the associated costs

In the next decades the transaction cost theory became more popular and widely used; the approach was further extended and examined by several researchers. They extended and integrated the theory so that it would apply to: environmental and strategic factors (Hill, Whang, & Kim, 1990); channel integration (Klein, Frazier, & Roth, 1990); differences between service and manufacturing firms (Erramilli & Rao, 1993; Brouthers & Brouthers, 2003); institutional, cultural, experience influences (Delios & Beamish, 1999; Brouthers & Brouthers, 2000; Lu, 2002; Brouthers K. D., 2002), and to cover novel transactions across customers (Michael, 2007).

In 1977, based on the Transaction cost theory, John Dunning introduced his Eclectic theory of international production (Dunning, 1977; 1980), later also known as the Ownership, Location and Internationalization (OLI) Model. According to the theory a firm must consider international expansion based upon the following three criteria:

- ✧ First of all the firm must have an “O”- ownership advantage or firm-specific advantages over the competition in the new market. If not, the firm should not engage to internationalize.
- ✧ Secondly, the company needs to have an “I” - internationalization advantage, meaning the firm should have the know-how and the core ability to overcome expensive transaction costs. If it cannot, it is more appropriate to go for an indirect export approach.

- ◇ Thirdly, the company should consider its “L”- location advantage or country specific advantage. After meeting the first two criteria the firm should consider if the location can provide extra benefits (e.g. low labor costs, low tax, etc.) for building a subsidiary. If the location advantage do not exists the firm should stick to direct exporting.

In the following decades this model was further extended (Dunning, 1988) and supported by several empirical studies. (Dunning, 1995; Dunning, 1998; Brouthers, Brouthers, & Werner, 1999; Dunning, 2000) In 2008, Dunning and Lundan showed new alternations to the OLI model by making the O-advantage more dynamic by including a resource-based view, a knowledge-based view and network relations (Dunning & Lundan, 2008, pp. 117-123).

Up to this time, the theories have started to form systematic approaches that can be used during the internationalization decisions. These days, the TCA and the OLI-model still play an important role in the development of internationalization theories. The importance of the firm-specific advantage seen as the initial step to consider internationalization, however the categorization and the sources of these advantages are only vaguely defined.

PRODUCT CYCLE THEORY

Another significant economic theory that came forth from the studies on internationalization was the product life-cycle theory (Vernon, 1966). Raymond Vernon developed this theory to explain the patterns of international trade, which the famous mathematical Heckscher-Ohlin (O-H) model (Ohlin, 1933) failed to explain. The theory suggests that firms decide to internationalize in an attempt to protect their existing markets of mature products.

This theory uses a different and interesting perspective on internationalization, were the firm's products-life cycle is seen as an important reason for expansion. This theory, however, will not be further used in this research, since it mainly focuses on larger enterprises that seek to protect their own original products and defend their home-market share. SMEs are often not considering this option since their market shares are still minimum and/or their own products are still in a infant stage.

TRADITIONAL INTERNATIONALIZATION THEORY

In 1976 the traditional internationalization theory was presented, explaining why MNEs at a certain stage chose for direct investment in a new market (Buckley & Casson, 1976). The theory suggests that the company could either consider exporting their products to the new market, involving preparation, contracting and controlling costs, or the company could consider manufacturing the goods in the new market, involving coordination costs. Each action involves a different set of transaction costs and these must be compared to find the cheapest way to expand.

In later literature this theory was criticized because cost reduction and lowering transaction costs are not the only motives for a firm to internationalize. Although this theory doesn't apply for TE-firms, it thus, however, apply for many TE-firm's customers or suppliers. They are often seeking to their lower costs and chose to engage into business activities with TE-firms to avoid the transaction costs.

UPPSALA MODEL

At the beginning of 1970s the Swedish university of Uppsala started intensive research on internationalization of the SMEs to get a better understanding of why and how firms choose to internationalize. The result of these studies came to be known as the Uppsala (U) model, also known as the Stage of Development (SD) model. Under the influence of the work by Aharoni (1966), the Swedish researcher Jan Johanson and Finn Wiedersheim-Paul (1975) developed a framework that showed that internationalization has a gradual step-by-step pattern and is not a sudden, large-scale action. The researchers distinguished the following four different stages for the development within a specific country:

- ✧ No regular export activities
- ✧ Export via independent representative (agent)
- ✧ Sales subsidiary and
- ✧ Production/manufacturing

Initially the firm has only slight interest in exporting and only little amounts of products would end up in the new market. In the second stage the firm would become more interested and will choose to start exporting more of its products indirectly through, for example, agents. When the second stage was found to be successful the firm would commit more resources to develop operations in the new country by opening its own sales subsidiary. The final step in the stage model is that firm chooses to invest more and build local production facilities in the new area. These stages show a gradual increase in the degree of commitment and international involvement of the firm. Further developments in the literature introduced more possible entry modes, including licensing and joint ventures (Root, 1987).

To explain the development across different countries Johanson and Wiedersheim-Paul used the concept of psychic distance; this concept was earlier used by Beckerman (1956), Linnemann (1966) and Wiedersheim-Paul (1972). The concept was defined as follows:

“Psychic distance includes the factors preventing or disturbing the flows of information between firm and market. Examples of such factors are differences in language, culture, political systems, level of education, level of industrial development, etc.” (Johanson & Wiedersheim-Paul, 1975, p. 308)

The researchers suggested that a firm’s international activities related directly to the psychic distance and that further international expansion progresses into markets with successively greater psychic distance.

Later the model was further expended by Jan Johanson and Jan-Erik Vahlne (1977). They proposed a basic mechanism of internationalization; a cyclic model which shows the state and change aspects of the internationalization variables. Figure 3 illustrates their first version of the mechanism proposed in 1977. In 2009, this mechanism was revisited by the same researchers, considering the changes in business practice and developments in the literature (Johanson & Vahlne, 2009). The revised model (Figure 4) views the business environment as a network rather than as an environment with

independent suppliers and customers. The assumption of the mechanism is that the state aspects affect the change aspects and vice versa. This means that the degree of internationalization will gradually increase each cycle due to gained experience and the development in network relationships.

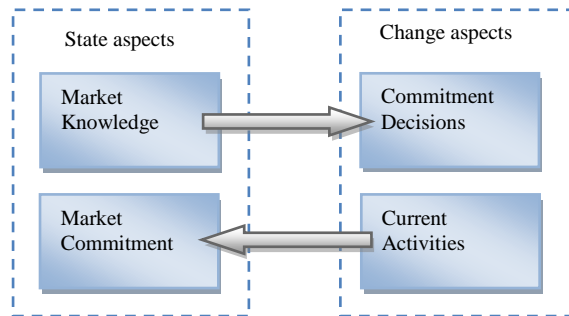


FIGURE 3: THE BASIC MECHANISM OF INTERNATIONALIZATION (JOHANSON & VAHLNE, 1977, P. 26)

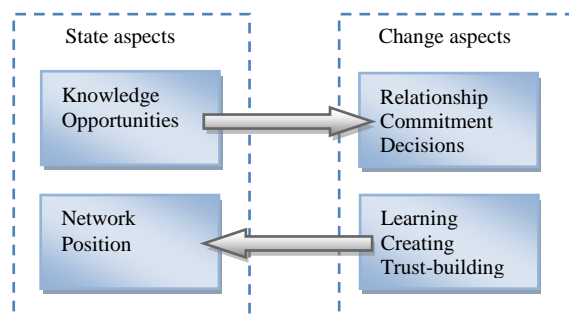


FIGURE 4: BUSINESS NETWORK INTERNATIONALIZATION PROCESS MODEL (JOHANSON & VAHLNE, 2009, P. 1424)

The state aspects, indicating the present state of the firm, were considered to be market knowledge and market commitment. The concept market knowledge referred to the knowledge the firm has on the foreign market. In the new model this was changed to knowledge opportunities to indicate that knowledge on opportunities in the new market are an important drive. The concept market commitment referred to the amount of resources committed and the degree of commitment to a foreign market. This was later changed into network position to consider the importance of relationships, referring to the level of specific knowledge, trust and commitment that a firm has with the players in that market.

The two change aspects, indicating the reasons for change, were considered to be commitment decisions and current activities. The concept commitment decisions referred to the decision to commit resources to the foreign operation, later the word relationship was added to emphasize the importance of network relationships. When the firm becomes more interested and committed to the new market there will be a gain in experience, knowledge and contacts and thus improving the state aspects market knowledge or knowledge opportunities. The concept current activities referred to the development of business activities within the new market. This concept was changed to learning, creating and trust-building to indicate the outcomes of the current business activities. By using and doing business with the current connections the firm will gain a more stable and trustworthy network, hereby improving market commitment or network position.

It should be noted that the previous and revised versions of the Uppsala model always show a gradual step-by-step internationalization model, this is due to relational shortcomings, lack of knowledge and commitment as reasons for the uncertainties. Although TE-firms don't show this gradual step-by-step process and directly internationalizes, it can be noted that TE-firm act upon the opportunity that other firms do follow this model. Often as a middleman, the TE-firm uses their resources to help other firms to fill in their shortcomings.

INNOVATION-RELATED INTERNATIONALIZATION MODEL

DURING THE DEVELOPMENTS OF THE UPPSALA MODEL IN SWEDEN, USA RESEARCHERS CHOOSE A APPROACH TO EXPLAIN INTERNATIONALIZATION BY MAINLY FOCUSING ON EXPORTATION. THIS STAGE MODEL WITH AN INNOVATION-RELATED PERSPECTIVE ON INTERNATIONALIZATION. THE INTERNATIONALIZATION MODEL (I-MODEL) IS BASED ON THE INNOVATION ADOPTION PROCESS 81-86) AND MOST LIKELY WAS ALSO INSPIRED BY THE U-MODEL CONCEPT. THE MODEL IS A MODEL THAT FOCUSES ON THE LEARNING SEQUENCE IN CONNECTION WITH ADOPTING INNOVATIONS P. 212). (

Figure 5) The important difference between them is not only the number of stages and the difference in stage description, but also the main incentive to start exportation. In the models of Bilkey & Tesar (1977) and Cavusgil (1980) the incentive to start exporting in the second stage suggests an external push force, while for the models of Czinkota (1982) and Reid (1981) the incentive seems to be an internal pull force (Andersen, 1993, p. 212).

Bilkey and Tesar (1977)	Cavusgil (1980)	Czinkota (1982)	Reid (1981)
1. Management is not interested in exporting	1. Domestic marketing: The firm sells only to the home market	1. The completely uninterested firm	1. Export awareness: Problem of opportunity recognition, arousal of need
2. Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting	2. Pre-export stage: The Firm searches for information and evaluates the feasibility of undertaking exporting	2. The partially interested firm	2. Export intention: Motivation, attitude, belief, and expectancy about export
3. Management actively explores the feasibility of active exporting	3. Experimental involvement: The Firm starts exporting on a limited basis to some psychologically close country	3. The exploring firm	3. Exporting trail: Personal experience from limited exporting
4. The firm exports on an experimental basis to some psychologically close country	4. Active involvement: Exporting to more new countries – direct exporting – increase in sales volume	4. The experimental firm	4. Export evaluation: Results from engaging in exporting
5. The firm is an experienced exporter	5. Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets.	5. The experienced small exporter	5. Export acceptance: Adoption of exporting/rejection of exporting
6. Management explores the feasibility of exporting to other more psychologically distant countries.		6. The experienced large exporter	

FIGURE 5: REVIEW OF THE INNOVATION-RELATED INTERNATIONALIZATION MODELS (ANDERSEN, 1993, P. 213)

Several studies from Europe and the USA explored the concept of this initial force or changing agent that triggers a firm to start internationalization (Simmonds & Smith, 1968; Lee & Brasch, 1978). New studies extended the I-models by proposing pre-export and the export start phase which identify the

initial factors that stimulated companies to starting exporting (Simpson & Kujawa, 1974; Wiedersheim-Paul et al., 1978; Olson & Wiedersheim-Paul, 1978; Welch & Wiedersheim-Paul, 1980; Dichtl et al., 1984).

It is important to note that all these studies consider export as the initial entry mode of the start of the firms internationalization process. Export or import can be considered the many life line for a TE-firm, since the start out directly as an international firm concentrating on trade between home and firm-based country. The I-model, like previous models, does also not consider the possibility of a firm to start with transnational operations as their core business.

INTERNATIONAL ENTREPRENEURSHIP

In the late 1980s, an International Entrepreneurship (IE) theory was presented to explaining a firm's internationalization process. This approach looked at internationalization from an entrepreneurial perspective, which emphasizes the unique circumstances of the entrepreneurs and their influence on the internationalization of the firm. Unlike the U-model, the theory suggests that the first steps to internationalization are driven by the firm's unique circumstances and the vision and international experience of the entrepreneur behind the firm. This approach is especially popular in the research on INVs (Oviatt & McDougall, 1994; 2005) or BGs (Knight & Cavusgil, 1996), since these company show unexplained accelerated internationalization and even instant internationalization at conception.

As discuss in section 2.2, the entrepreneurs provide the bases of a TE-firms existence and initial resources. They have a important role and should be considered at the start of the internationalization process. Especially, further sociological studies on TE-firms are focusing on these actors and consider them as a prime resource of a firm in the develop a TE internationalization theory.

NETWORK THEORY TO INTERNATIONALIZATION

Johanson and Mattson (1986) argued that both the U-model and the OLI-model only explained internationalization by looking at an individual firm and that these leave out the influences of the industrial network. The two previous models argue that a firm, as an individual actor, decides what the next step will be and how to internationalize. To overcome this one-sided view the industrial network approach (Johanson & Mattson, 1986) was proposed to explain internationalization from a network perspective. The approach describes that markets are a system of relationships among customers, suppliers, competitors and third party agencies. It concludes that the strategic decisions are rarely limited to a single organization and that these relationships influence the future decisions (Coviello & Munro, 1995, p. 50). Stating that by internationalizing the organization seeks to strengthen their network position, instead of the traditional thought of securing their position (Johanson & Vahlne, 2009, p. 1423). Johanson and Mattson (1986) identified four cases that presented the international marketing situations, these are as follows: the early starter, the late starter, the lonely international, and the international among others (Figure 6).

		Degree of internationalization of the market	
		Low	High
Degree of internationalization of the firm	Low	The Early Starter	The Late Starter
	High	The lonely international	The international among others

FIGURE 6: FOUR CASES OF INTERNATIONAL MARKETING SITUATIONS (JOHANSON & MATTSON, 1986, P. 252)

Empirical studies by Coviello and Munro (1995; 1997) support this theory and they also found that the network approach is successful in explaining the internationalization processes of SMEs. In particular, the theory supported the internationalization of knowledge-based business service firms, who achieve their competitive advantage by developing mutually supportive interactions with other service industries. Due to this new perspective new research was needed, not only on the issue of types of relationships, but also trust, control, resources, and interdependency within and between organizations (Ruzzier et al., 2006, p. 485).

The theories add the importance of the influences of a firm’s network resources to the firm’s internationalization process. For this research, this factor is considered as one of the main resources the TE-firm uses sustaining the present activities and generating new business opportunities.

RESOURCE-BASED THEORY TO INTERNATIONALIZATION

The resource-based theory to internationalization is an approach that uses a resource-based view (RBV), which partly originated from the work of Penrose (1959). She was one of the first to describe a firm as a collection of resources and used the term firm-specific resources to explain competitive advantage. The firm-specific resources are the resources controlled by the firm; it includes tangible assets, capabilities, organizational processes, information, knowledge, etc. These resources are the strengths of the organization and give the firm its competitive advantage. Barney (1991) further defined the resource-based view and used it to argue that market imperfections only exist under conditions of resource heterogeneity and immobility.

“The resource-based view of the firm substitutes two alternative assumptions in analyzing sources of competitive advantage. First, this model assumes that firms within an industry (or Group) may be heterogeneous with respect to the strategic resources they control. Second, this model assumes that these resources may not be perfectly mobile across firms, and thus heterogeneity can be long lasting. The resource based model of the firm examines the implications of these two assumptions for the analysis of sources of sustained competitive advantage.” (Barney, 1991, p. 101)

To show the relationship between resource heterogeneity and immobility and sustained competitive advantage, Barney (1991, p. 105) stated that a sustainable competitive advantage resource must have the following four attributes (Figure 7):

- ✧ Valuable: The resource must be valuable, in the sense that it exploits opportunities and/or neutralizes threats.
- ✧ Rare: The resource must be rare among the firm's current and potential competitors.
- ✧ Inimitable: The resource must be imperfectly imitable, so it will be unique.
- ✧ Insubstitutable: There cannot be a strategically equivalent substitute for the resources that are valuable but neither rare nor imperfectly imitable.

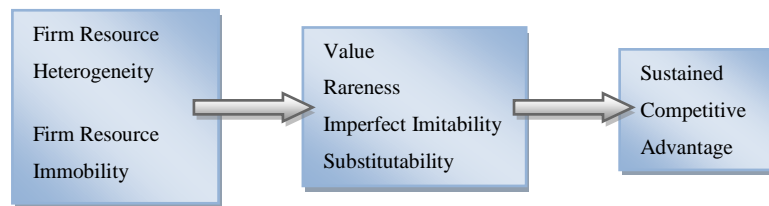


FIGURE 7: RELATIONSHIP BETWEEN RESOURCE AND SUSTAINED COMPETITIVE ADVANTAGE (BARNEY, 1991, P. 112)

Up to a few years ago, the research on the RBV approach has been relatively low; however, now this new perspective is becoming more popular and has become one of the dominant frameworks in research on SME internationalization and international new ventures (Bloodgood et al., 1996; Westhead et al., 2001). The approach was adopted to explain internationalization in a global environment (Fahy, 2002) and to form the bases of a dynamic capabilities perspective (Luo, 2000; Tallman & Fladmoe-Lindquist, 2002).

The RBV on internationalization forms the basis of this study and the theories are used to support the proposed research framework. Although the theories provide the argumentation for choosing a RBV approach, they do not clearly indentify which resources are important to consider, especially, the intangible and knowledge resources.

Knowledge-based Theory on Internationalization

At the beginning of this century, a new model was proposed that perceives knowledge as a vital resource of an organization. The knowledge-based view (KBV) is an extension on the resource-based view (RBV) and considers knowledge as a special strategic resource, which has different properties than any other resource. It is argued that RBV treats knowledge as a basic resource and it therefore does not distinguish the different types of knowledge-based capabilities. The KBV is especially potential for SMEs, since compared to MNEs the SME's essential resources are reduced to a single (intangible) one, namely knowledge. In his paper, Robert Grant (1996) provides a useful overview of KBV and identifies the assumptions around this new view. KBV is seen as a holistic approach that

explains different modes of internationalization (Fletcher, 2001) and new internationalization pathways, especially for SMEs (Bell et al., 2003).

In 2003, the view was adapted to form an internationalization framework (Kuivalainen et al, 2003) and was later extended by introducing the push, pull, and interaction factors (Etemad, 2004), by introducing a evolutionary model of internationalization (Saarenketo et al., 2004), and by adding social capital and internet as extra driving factors (Prashantham, 2005). In an additional research Kais Mejri and Katsuhiko Umemoto (2010) categorize the knowledge factors that influence internationalization into market knowledge and experiential knowledge, which can be further divided into network knowledge, cultural knowledge, and entrepreneurial knowledge. They related these factors to internationalization phases of SMEs by de describing their acquisition and level of utilization (Figure 8).

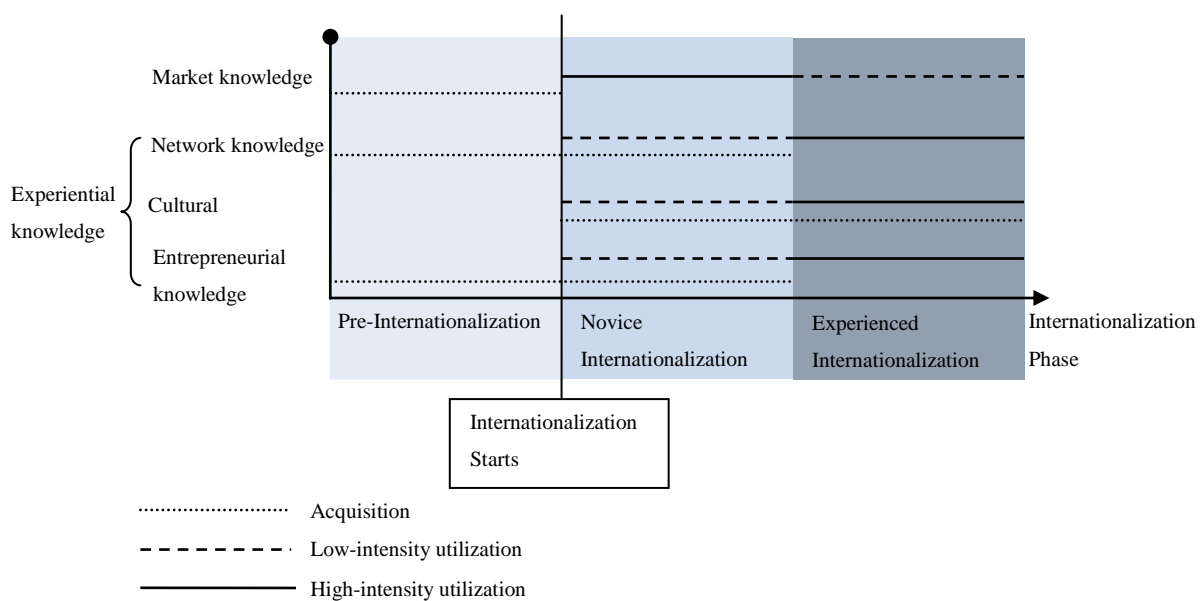


FIGURE 8: KNOWLEDGE-BASED MODEL OF SME INTERNATIONALIZATION (MEJRI & UMEMOTO, 2010, P. 162)

Conclusions of the KVB studies show that the knowledge-based approach is, compared to earlier approaches, a better way to explain the internationalization process of the SMEs and INVs. The theory clearly identifies the knowledge resources a firm uses to internationalize and includes the previous mentioned resources such as network and entrepreneur.

Internationalization in China

Since the area of this research focuses on TE's established in China it is important to have some inside into what the current views are on the developments in this country. The rapidly changing external environmental factors will influence the position and therefore the resources of the TE-firm.

In the late 1970's China started to open its economy's door to foreign countries, hereby initializing the initial step for internationalization. In the late 1980's, the Chinese economy was further liberated and state owned firms were privatized, which created a more capitalistic system. From the 1990's and

onwards, individuals were allowed to start their own private companies. Entrepreneurship in China used to be an oxymoron, especially during the MaoZeDong's era capitalistic behavior could easily mean public humiliation and persecution (Liao & Sohmen, 2001). Due to the Chinese economic reforms entrepreneurs were liberated and a large number of SMEs were established. In the last decade this growth of SMEs gained momentum and their contribution to Chinese economic development has become irreplaceable. Despite the growing trend, the degree of internationalization is still low but rapidly increasing.

Only in the last decade have researchers started to focus more on internationalization with respect to developing countries, such as China. A central point of discussion is on the question if the current western internationalization theories also apply to internationalization of Chinese firms. Mike Peng (2005) argues that there is no need for new theories or significant changes in the theory to explain internationalization in China. On other hand, John Child & Suzana Rodrigues (2005) argue that there is definitely a need for new extensions to explain and include the unique China circumstances. In their research they discuss several points that influence internationalization in China. First, they introduce the late comers' perspective and the catch up strategies. Many Chinese firms struggle with this competitive weakness of having a lack of intangible assets and due to this the firms tend to internationalize be large acquisitions so they gain quick access to modern technology or brand names. Secondly, the influence of the Chinese government is compared to western countries enormous. Up to some level, the large Chinese MNEs are still controlled by the government and therefore they enjoy government support in terms of financial funding and protection. In the case of the private Chinese SMEs the government is much less leaned and by even restricting access to some parts of the domestic market, the SMEs tend to internationalize much earlier than some western internationalizations theories would suggest (Boisot & Meyer, 2008). Thirdly, the Chinese entrepreneurs' business network and relations depend heavily on the traditional foundation of trust and who they know. Due to this cultural factor the entrepreneurs tend to expand to new market where they already have this relationship. Social relationship is also essential for foreign entrepreneurs, since it is seen as a prerequisite for most information and business exchanges (Björkman & Kock, 1995).

Foreign entrepreneurs establishing a business in China have to be able to cope with certain external environment factors, such as political, regulatory and cultural differences, to become and stay successful. The TEs are not only competing with domestic competitors, who are already established in the target market, but also with upcoming and internationalizing Chinese firms, which distribute similar 'made in China' products. This influences the rareness and sustainability of their unique resources.

Literature on TE's Internationalization

Most of the literature discussed above provides the essentials for the foundation of a theory on TE internationalization, but an integrate theory still has to be established. Firm internationalization is often considered to derive from a competitive advantage built up at the domestic market before entering foreign markets. However, due to changing business environment (e.g. emerging markets), firms occasionally must rely on competitive advantages built up directly in the global market. Most of the

earlier internationalization theories focuses on large, established MNEs and show a long, slow and gradual step by step movement into foreign markets. The U-model, for example, argues that internationalization is highly risky for small firms and new ventures (Johanson & Vahlne, 1990). These models, however, are contradicted by the TE phenomenon, which shows internationalization at conception and often at great psychic distances. Another limitation to the U-model is that it focuses on the firm as a whole rather than on individuals within the firm, such as the entrepreneur. The TCA model also has its shortcoming in describing the internationalization of the TE-firm. It is argued that the model neglects government regulations and excludes non-transaction benefits (Anderson & Gatignon, 1986), which are rather important for transnational business activities and decisions. The Dunning's OLI-model shows potential, it explores all important factors impacting internationalization but it fails to include the strategic factors, characteristics and situation of the TE and the competitors.

Up to now only several studies have been conduct to establish a theoretical framework for a foundation of the empirical phenomenon of TEs. Most of these studies focus on TE from a sociological perspective by analyzing transnationalism, the individual entrepreneur's characteristics and worldview, and the affects of experience, knowledge development and relationship (network) building.

Modern transnationalism (Portes, Guarnizo, & Haller, 2002) is facilitated by the increase of global transportation and communication technology; more individuals have developed strong transnational connections to more than one home country creating a more global social environment. These connections are a vital source for the development of TE-firms and can be best understood from a varied and multidimensional context. Drori et al (2006; 2009) introduced a practice-based analytical framework, which derived from Bourdieu's (1998) theory of practice, to integrate the different levels of TE analysis. The approach views TE as a social realm of immigrants who operate in a complex, cross-national individual worldview which consists of dual cultural, institutional and structural factors from which the entrepreneurs can derive their resources and strategies (Drori et al. 2006). The theory shows the foundation of the entrepreneur's individual capabilities and resources observed from multiple perspectives: agency, institutional, cultural, power relations and social capital and networks. See Figure 9 for reference.

Drori et al. (2009) proposed this sociological framework to answer the following question:

“Why, how and when do individuals and /or organizations pursue new business ventures, often in a far less attractive environments, while relying on abilities and opportunities stemming from the exploitation of resources, both social and economical?”(Drori et al., 2009, p. 1001)

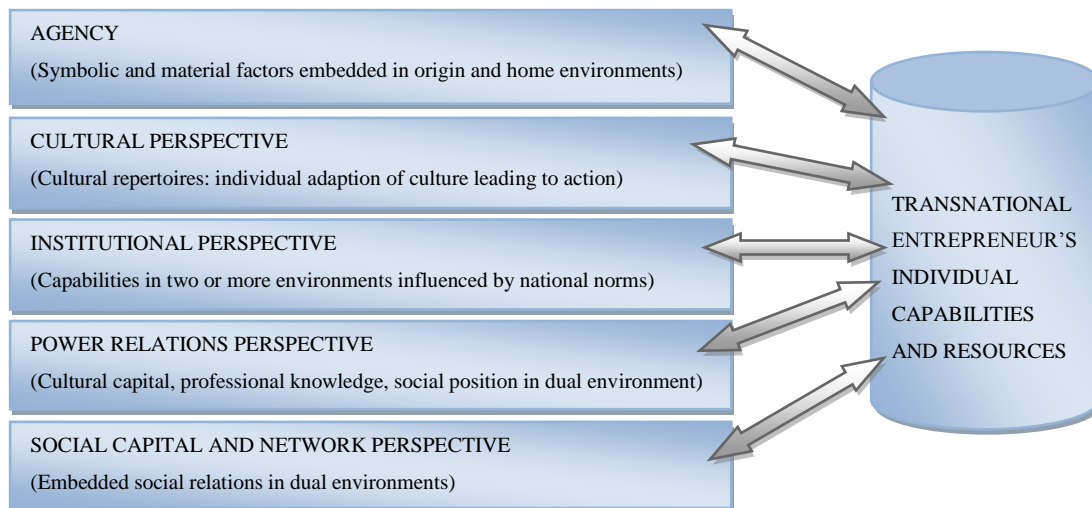


FIGURE 9: FACTORS INFLUENCING TRANSNATIONAL ENTREPRENEURSHIP AND THEIR OUTCOMES (DRORI ET AL., 2009, P. 1013)

In a more recent study these perspective were used by Siri Terjesen & Amanda Elam (2009) to form a framework that analyzes how personal resources, networks and additional factors affect the TE's practice outcome and path of internationalization. It must be noted that the researchers see entrepreneurship as a practice and not a process. In their study, they use a multi-level framework that is based on Bourdieu's (1998) theory of practice combined with Drori's (2009) model of factors influencing the TEs operations. Their model approach (Figure 10) illustrates TE's unique position by characterizing the entrepreneur's mindset and unique set of resources (economic capital, cultural capital, social capital, and symbolic capital), which are used to pursue internationalization and meet the requirements of the macro environment (cultural repertoires, legal and regulatory regimes, social and professional networks and power relations). They argue that the distinct entrepreneur's mindset and their use of resources, provides them a clear competitive advantage across the institutional settings of their home and host country. Furthermore, they suggest that it is only possible for the TE to produce a competitive advantage and to coupe commercially if they have a particular combination of the right mindset, the right resources and the right choice of institutional environments.

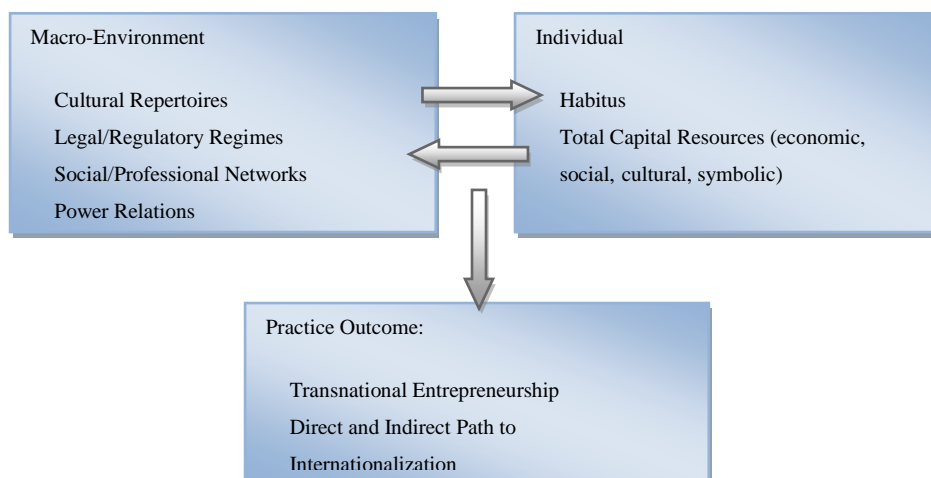


FIGURE 10: MODEL OF THEORY OF PRACTICE ON FIRM OUTCOMES (TERJESEN & ELAM, 2009, P. 1106)

Up to now the proposed theories still lack vigorous testing and empirically data to establish a clear and complete theory, explaining the transnational entrepreneurship. Researchers propose several future studies to establish a better understanding. First, new studies should collect more empirically data to confirm or disprove the current framework. Secondly, other kind of TEs such as artists, musicians and sport stars should be analyzed (Terjesen & Elam, 2009). Thirdly, since most studies are based on the internationalization of TE-firms from emerging markets to a developed economy. Future research should analyze the TE's dual activities between developed and emerging economies, but who have originated from developed economies (Drori et al., 2009). Finally, new research should explore the dynamics of highly diversified TE activities, which are operating in more than two countries (Drori et al., 2009; Terjesen & Elam, 2009).

2.3.2 EVALUATION: INTERNATIONALIZATION LITERATURE REVIEW

This part of the literature review shows that the amount of literature studies on internationalization theories and process is abundant and detailed. The review shows that theories diversified and specialized to account for new phenomenon and environmental changes. The review further shows the importance of several firm specific resources in the internationalization process and provides hereby the answer to the second research question (RQ2). This allows the select the resources and build up a framework for this research.

Most of the data was initially gathered by using the Google Scholar Search Engine and the archives of the University of Twente Library, while searching for the following:

- ✧ Internationalization Theories
- ✧ SME Internationalization
- ✧ Transnational Entrepreneurship Internationalization
- ✧ Internationalization of BGs and INVs
- ✧ Internationalization in China

By using the cross-references as secondary source of information the evolution of the theories could be traced back to their earliest dates. By working backwards from the newest TE internationalization theories to the earliest internationalization theories a compact en focused chronological review was created. The online library websites that gave the most reliable and informative literature were: JSTOR, Google Books, Emerald Insight, Science Direct, Wiley Online Library, SpringerLink, Allbusiness.com, and SFX.

Figure 11 shows a summary of the sources used in this part of the literature review. Especially, the Journal of International Business Studies, International Business Review and Entrepreneurship Theory and Practice provided the most valuable data for this review.

Literature Source	Author	Subject
Articles		
Journal of International Business Studies	Johanson & Vahlne, 2009 Lu, 2002 Brouthers, 2002 Brouthers & Brouthers, 1999 Dunning, 1998 Dunning, 1995 Oviatt & McDougall, 1994 Anderson, 1993 Dunning, 1988 Anderson & Gatignon, 1986 Reid, 1981 Dunning, 1980 Lee & Barsch, 1978 Wiedersheim-Paul et al., 1978 Bilkey & Tesar, 1977 Johanson & Vahlne, 1977 Simpson & Kujawa, 1974	Revision Uppsala model Institutional influences on Entry mode, Japan Influence of Cultural and Transaction Costs on Entry Mode Reviewing Dunning's Eclectic Framework Location and MNE Reappraising the Eclectic Paradigm Theory of International New Ventures Analysis of the Internationalization Process Eclectic Paradigm of international production Modes of Foreign Entry Export entry and expansion Towards Eclectic Paradigm of international production Exporting as Innovation Strategy Internationalization Uppsala model Small Firm Export Behavior Internationalization Process (Uppsala) Export Decision Process
International Business Review	Fahy, 2002 Fletcher, 2001 Dunning, 2000 Coviello & Munro, 1997 Björkman & Kock, 1995	Resource-based analysis in a Global Environment Holistic Approach for Internationalization Eclectic Paradigm for MNE activities Network Relationships and Internationalization process Social Relationships and Networks, Western Companies in China
Entrepreneurship Theory and Practice	Terjesen & Elam, 2009 Drori et al., 2009 Oviatt & McDougall, 2005 Bloodgood et al., 1996	Internationalization of Transnational Entrepreneurs Transnational Entrepreneurship Internationalization of International Entrepreneurship Internationalization of US ventures
Strategic Management Journal	Brouthers & Brouthers, 2000 Delios & Beamish, 1999 Grant, 1996 Hill et al., 1990	Influence of Institutional, cultural and transaction costs on Entry mode Transactional, Institutional and Experience influences on ownership strategy Knowledge-based Theory Eclectic theory for entry mode
Journal of Management Studies	Brouthers & Brouthers, 2003 Welch & Wiedersheim-Paul, 1980 Johanson & Wiedersheim-Paul, 1975	Influence of Transaction Cost, Risk and Trust on Entry mode Initial Export Internationalization cases studies (Uppsala)
Journal of International Entrepreneurship	Mejri & Umemoto, 2010 Prashantham, 2005 Bell et al., 2003	SME internationalization; knowledge-based model KBV of internationalization Small Firm Internationalization
Management and Organization Review	Boisot & Meyer, 2008 Child & Rodrigues, 2005	Internationalization of Chinese Firms Internationalization of Chinese Firms
Journal of Business Venturing	Michael, 2007 Westhead et al., 2001	Transaction Cost Entrepreneurship RBV on Internationalization
European Journal of Marketing	Coviello & Munro, 1995 Simmonds & Smith, 1968	Entrepreneurial Firms and International Networking Starting with Export
Journal of small business and enterprise development	Ruzzier et al., 2006	SME Internationalization
International Journal of Production Economics	Saarenketo et al., 2006	Knowledge in Internationalization of High-tech SMEs
Asian Pacific Journal of Management	Peng, 2005	Internationalization of Chinese Firms
Canadian Journal of Administrative Science	Etemad, 2004	Internationalization of SME
American Sociological Review	Portes et al., 2002	Transnational Entrepreneurship and Immigrant Economics
California Management Review	Tallman & Fladmoe-Lindquist, 2002	Capability-based Strategy for Internationalization
Stanford Journal of East Asian Affairs	Liao & Sohmen, 2001	Modern Entrepreneurship in China
Journal of World Business	Luo, 2000	Dynamic Capabilities in international expansion
Advances in International Marketing	Knight & Cavusgil, 1996	Internationalization of Born Globals
Journal of Marketing	Erramilli & Rao, 1993	Modified TCA approach

Journal of Management	Barney, 1991	Linking Resources to Sustained Competitive Advantage
International Marketing Review	Johanson & Vahlne, 1990	Mechanism of Internationalization
Journal of Marketing Research	Klein et al., 1990	TCA of international channel integration
Management International Review	Dichtl et al., 1984	Review of SME Export Decision
European Research	Cavusgil, 1980	Internationalization Process
The Quarterly Journal of Economics	Vernon, 1966	Internationalization and Product Cycle
Review of Economics and Statistics	Beckerman, 1956	Pattern of Intra-European Trade
Economica	Coase, 1937	Introducing the concept of transaction costs
Books		
Multinational enterprises and the global economy	Dunning & Lundan, 2008	Alternations to OLI
Management of Technology: growth through business, innovation and entrepreneurship	Kuivalainen et al., 2003	Knowledge-based view on internationalization
Practical Reason on the Theory of Action	Bourdieu, 1998	Theory of practice
Entry Strategies for International Markets	Root, 1987	Entry Strategies
Research in international marketing	Johanson & Mattson, 1986	Network Approach
The economic institutions of capitalism	Williamson, 1985	Transaction cost economics
Export development strategies: U.S. promotion policy	Czinkota, 1982	Variation on the Export I-model
European Research in International Business	Olson & Wiedersheim-Paul, 1978	Pre-Export behavior
The international allocation of economic activity	Dunning, 1977	Search for Eclectic approach
The Future of the Multinational Enterprise	Buckley & Casson, 1976	Traditional internationalization theory
Markets and hierarchies, analysis and antitrust implications: A study in the economics of internal organization	Williamson, 1975	Transaction cost economics
Uncertainty and economic distance	Wiedersheim-Paul, 1972	Psychic Distance
The Foreign Investment Decision Process	Aharoni, 1966	Foreign Direct Investment Decision Process
A behavioral theory of the firm	Cyert & March, 1963	Behavioral theory
Diffusion of Innovations	Rogers, 1962	Innovation adoption process
The international operations of national firms: A study of direct foreign investment	Hyer, 1960	Relocation of production for western MNEs
The theory of growth of the firm	Penrose, 1959	RBV on firm's growth
American investment in British manufacturing industry	Dunning, 1958	
Interregional and international trade	Ohlin, 1933	International trading
American industry in Europe	Southard, 1931	Historic view on Internationalization
On the principles of political economy and taxation	Ricardo, 1817	Comparative Cost Advantage
An Inquiry into the Nature and Causes of the Wealth of Nations	Smith, 1776	View on International Trade between two countries
Other Source		
Conference Paper	Drori et al., 2006	Theoretical Framework for Transnational Entrepreneurship
Research Paper	Linnemann, 1966	International trade flows

FIGURE 11: SUMMARY OF SOURCES FOR INTERNATIONALIZATION LITERATURE REVIEW

2.4 THEORETICAL FRAMEWORK

This section proposes a theoretical framework, which gives the outline of this research and connects the relevant aspects of the topic. Since the literature on internationalization of TE-firms is scarce, the framework is build up out of prior internationalization theories and additional extensions.

The literature review has so far answered the first two research questions (e.g. RQ1 and RQ2) and has given the bases for the third research question (RQ3). Several internationalization theories propose that the firm’s resources play a vital role in the creation of a competitive advantage (Dunning, 1980; Barney, 1991). Given that the tangible and intangible resources are the foundation for the firm’s unique strengths (Grant, 1991) and that controlling these resources gives the firm the ability to enter foreign markets (Westhead et al., 2001). An analysis of the resources will give an understand of how resources influence the internationalization process of a TE- firm.

This research proposes a theoretical framework where most independent variables were indentified and selected based on Siri Terjesen & Amanda Elam’s (2009) framework and the above discussed internationalization theories. The framework emphasizes the importance of TE-firm’s resources , which are provided by multiple countries and the entrepreneurs’ and firm’s knowledge It will take into account the sociological and multi-environmental perspectives so it suits the situation of TEs based in a distant country. It is important to analyze the firm on an international level because having control over resources, which are located in different countries, could give the TE-firm an additional advantages local competitors (Yeung, 2002). These unique set of resources, which the TE-firm has to its disposable to expand internationally are further discussed and their influences on the firm’s internationalization process is analyzed. Figure 12, shows the proposed framework for this research.

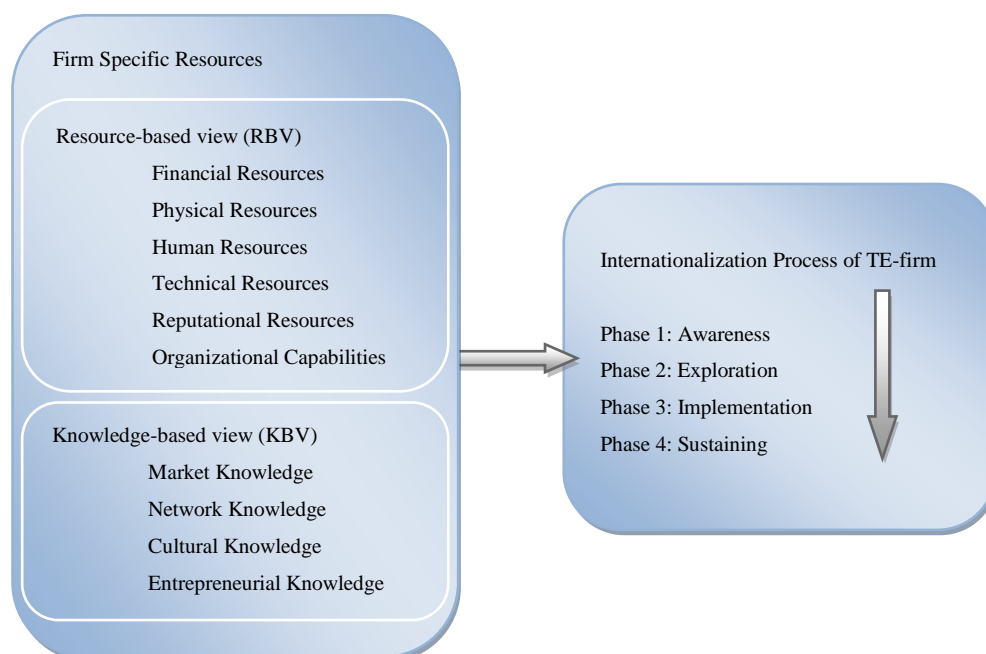


FIGURE 12: THEORETICAL FRAMEWORK

2.4.1 FIRM SPECIFIC RESOURCES

The Siri Terjesen & Amanda Elam's (2009) framework provides a good foundation for the exploration of the internationalization and the importance of TE-firm's resources. The framework not only includes tangible resources as a factor, but also includes the aspects such as culture, experience and networks. The proposed framework seems to be adequate for this research purpose but there are still some shortcomings which makes it necessary to slightly adapt it. The framework uses a sociological perspective and specifically looks at the initial start up phase of the firm, therefore it focuses on the individual entrepreneur and not on the firm as a whole. Although the entrepreneur is a very important resource of the firm, it cannot be concluded that this individual is the firm's only significant resource, especially during further internationalization of the firm. A more complete view is created by replacing Siri Terjesen & Amanda Elam's (2009) entrepreneur's mindset, economic capital, social capital, cultural capital and symbolic capital by the more economical resource-based and knowledge-based views. Resulting from this is that the framework now bends more towards a business and economical perspective but keeps the important sociological aspects.

RESOURCE-BASED VIEW ANALYSIS

The resource-based view analysis is a often used method for looking inside the firm and examining how its unique bundle of resources generates a competitive advantage (Barney, 1991). RBV has emerged as one of the dominant frameworks in research in SME internationalization, such as international new ventures and born globals. It suggests that superior performance results from unique differences in competitors' organizational resources. The existing literature suggests many different ways of defining and categorizing the resources. Grant's (1991) six resource categories are used to structure this analysis and these are as follows: financial, physical, human, technical, reputational and organizational.

Financial Resources

This tangible resource includes all the types of financial resources that the firm can use to purchase new resources, spend or use to raise new capital. For instance, cash on hand, assets, rents, loans and financial stocks, etc. A large amount of financial resources provides the firm an advantage in acquiring new knowledge, information and support needed to enter a new countries market. The firm's access to these financial resources depend mainly on investors, banks or government support. The accessibility of the last two (e.g. bank and government support) is different in each country and many depend on the political or legal circumstances.

Physical Resources

The physical resources are the firm's tangible properties, which are used for production and administration. Examples are plant, buildings, equipment, location, land, access to raw materials or energy. Analyzing the physical resources gives an inside into the firm's size and/or capacity and size, which is considered a valuable resource when internationalizing (Johanson & Vahlne, 1977).

Human Resources

The human resources of a firm refer to the total workforce, which includes the entrepreneurs, office staff, specialists, and production workers. This intangible resource can be analyzed by looking at the training, experience, judgment and intelligence of the people; these factors influence the firm's overall service and product quality, costs and most importantly it provides the firm with its market, network and entrepreneurial knowledge (Mejri & Umemoto, 2010). Especially the international entrepreneurs play an important part in this analysis, since these individuals are considered to be the core of international business success (Madsen & Servais, 1997; Yeung, 2002; Drori et al., 2009; Terjesen & Elam, 2009).

Technical Resources

The category technical resources can be tangible and intangible and include laboratories and R&D facilities, testing, quality control, technologies, patents, licenses, trademarks, copyrights, etc. The technical resources are not specifically mentioned by Terjesen & Elam (2009) and Drori et al. (2009), but other studies (Saxenian, 2002; Light, 2007) indicate that technological advances do influence international business activities. Firms that have advantage technology and/or produce products with higher level of knowledge or quality have a considerable competitive advantage when internationalizing (Zahra et al., 2003). Technological advances in communication, for example, make it possible to communicate faster and cheaper across longer distances and with remote areas. In other cases firms are tended to internationalize for the reason to acquire new technology.

Reputation Resources

Reputation is an intangible resource that shows the perception of the firm by society and its environment. It shapes the response, impressions and trust of customers, suppliers and competitors and is formed by aspect such as brand, image, loyalty and social capital (Terjesen & Elam, 2009). On a external level, the firm's reputation is directly linked to the country's and industry's image (Papadopoulos & Heslop, 2002; Leonidou, 2004). Thus, the image of TE's home-base and country of origin can create competitive advantage or disadvantage.

Organizational Capabilities

In order for the firm to function all resources need to work together; the glue that holds them together is called the organizational capabilities of the firm. The capabilities or competences include the firm's organizational structure, reporting structure, policies, procedures, and planning, scheduling and controlling systems.

KNOWLEDGE-BASED VIEW ANALYSIS

Among TE-firms, competitive advantage is not just explained by the firm's economical resources but rather by a special type of resource, namely, knowledge (Yeung, 2002; Prashantham, 2005; Mejri & Umemoto, 2010). The studies show that the knowledge-based approach is, compared to earlier approaches, a better way to explain the internationalization process of SMEs and INVs. Kais Mejri & Katsuhiko Umemoto (2010) categorize the knowledge resource, which influences internationalization, into market knowledge and experiential knowledge, which can be further divided into network

knowledge, cultural knowledge, and entrepreneurial knowledge (Figure 8). These categories can easily be correlated with Terjesen & Elam's (2009) social, cultural and symbolic resources.

Market Knowledge

Market knowledge refers to the information about foreign markets, which can either be explicit or objective. It includes the information about market size, competitors, suppliers, customers, country regulations, etc. The knowledge is intensively used during the first phase of internationalization but becomes less relevant in the later phases (Mejri & Umemoto, 2010).

Network Knowledge

Network knowledge refers to the relationships and connections of the firm in their industry, country of origin, home-base or target countries and involves both the social and business networks. This type of knowledge can be compared to the resource social capital which was used in Terjesen & Elam's (2009) framework. The strength of this knowledge depends on the network's size and the effectiveness by which the firm can use the networks for its activities and expansion. The knowledge helps the firm to get access to more market knowledge, cultural knowledge, innovations, capital, investors and other key resources, furthermore it reduce risks and uncertainty and gains trust. The social relationships arriving from the entrepreneur's network are especially important and used interchangeably by the TE-firm during the initial and direct internationalization (Drori et al., 2009). Network knowledge not only showed to be important during the initial phase but it also showed to be a powerful resource during further internationalization (Mejri & Umemoto, 2010).

Cultural Knowledge

Cultural knowledge on foreign markets refers to what the firm knows about the social-cultural environment and the difference between countries. A lack in understanding the social-cultural differences can lead to operational inefficiencies and eventually business failure. Examples of often seen problems are; lack of unity and morale in the workforce, mistrust of employees, customers or suppliers, misperceptions and false assumptions about other cultures due to stereotyping and miscommunication. This implies that familiarity with different social-cultures raises trust and lowers transaction costs (Terjesen & Elam, 2009) and thus creating the resource cultural knowledge (Mejri & Umemoto, 2010, p. 164). By possessing this knowledge the firm can more rapidly gain trust with people from a different culture and reduce risk and uncertainty in the international business activities. Terjesen & Elam's (2009) framework uses the comparable term cultural capital, they describe the term as the entrepreneur's knowledge, skills and experience and explain that the capital helps gain access to networks and status.

Entrepreneurial Knowledge

Entrepreneurial knowledge of the firm refers to the knowledge of the spotting opportunities and knowing how to exploit them. Mejri & Umemoto (2010) explain that this knowledge is crucial for the growth and internationalization of the firm and that it can only be gained by experience. Without the ability to spot and act upon overseas opportunities the firm will most likely never take the first steps to internationalize.

2.4.2 INTERNATIONALIZATION PROCESS OF TE-FIRM

Most of the internationalization processes discussed in the literature are focused on determining why and if a firm should internationalize. They compare the advantages and disadvantages and try to confirm if internationalization is an option for the firm (e.g. Transaction Costs Theory, Eclectic Theory and Product Life Cycle). By provide a model other theories try to indicating the different stages a firm can be in, starting with a non-internationalized firm and ending with a fully internationalized firm (e.g. U-model). The literature also offers models that help to select the right entry mode for firm, considering exporting to fully owned entity. However, none of these theories really shows a phase model that focuses on the firms internationalization process in a individual country and on one market. Therefore, the researcher proposes an internationalization process of the TE-firm that consist out of four phases: awareness phase, exploration phase, implementation phase and sustaining phase. These phases are extracted from the previous discussed internationalization theories and show the basic steps a TE-firm will go through when searching for a new market during further internationalization. Below each phase is shortly described and the most influential resource factors are discussed.

Awareness Phase

The first phase of the internationalization process is the awareness phase, where the firm recognizes that there are new international opportunities. The recognition of these new opportunities is essential for growth of the small, entrepreneurial firms and is considered a skill based on experience and knowledge. Especially, the entrepreneurs with their international knowledge and social network are essential for realizing this first phase. The awareness is formed by contacts, previous experience and market knowledge in multiple countries and is also influenced by physic distance. However, new opportunities can also arise from new customers, who show interest in the firm's good or services and like to form a new international business relationship. The firm's international reputation and openness to these signals is essential to detecting the new demands from foreign markets.

Exploration Phase

After a potential opportunity is recognized the next step is to explore the new market by gathering information on the industry and to investigate possible associated risk and threats. Firstly, this new knowledge is often obtained by conducting a market research and by using the firm's network relations. Investigative skills and good contacts are essential resources for the firm to successfully explore the new opportunity. Secondly, some potential customers are approached and the firm is introduced in order to set up an initial network, gain more information on market structure and to measure interest. By establishing a prospective on the market size, competition intensity and amount of potential customers the firm can decide if it should continue entering this market.

Implementation Phase

After the decision has been made to enter the new market a market entry strategy has to be chosen and implemented in the implementation phase. By marketing the firm and its products, calling and visiting potential customers and trust building customer awareness is created and a network of long term customers is obtained. The firm will become more committed to this new market and will start to invest

in seeking possible partners or acquisitions. For market entry there are several different approaches which depend on several external and internal factors which have to be considered. The success of this phase heavily depends on the human resources, such as sales, marketing and the entrepreneurs. Trust building is an essential part since many potential customers could hesitate due to uncertainty.

Sustaining Phase

Trust building is a slow process and maintaining trust is essential for a firm to continue in the new market. Product and service quality are essential to maintain relations and to gain more awareness and reputation. Frequent communication and support helps to gain trust and better cooperation between in the business relationship. Continues marketing of promotions and new product or services is also essential in this last phase to keep customers up to date and maintain awareness. A good organizational structure is necessary to response quickly to new order and enquiries or customer questions or problems.

3 METHODOLOGY

This chapter will explain how this research was conducted to gather the data necessary to answer the research questions stated in chapter 1: Introduction. In the first section of this chapter a common description of the research type is formulated. After this, the second section explains the choice for a single case study and introduces the TE-firm. Furthermore, the section illustrate how the data was collected for resource analysis. In the fourth section the method of analyzing the data is discussed and finally in the last section an overview of the limitations of this methodology given.

3.1 TYPE OF RESEARCH

In research studies there are two types of approaches, called deductive or inductive. In a deductive approach the researcher uses existing theories and then collects empirical data to test this theory. In an inductive approach the researcher uses collected empirical data to develop a new theory to explain the results. Although the researcher used previously acquired observations and experience to conclude that the existing a TE-internationalization theory are incomplete and do not fully describe the influences of the resources, the researcher did use a combination of existing theories to create an adapted framework that was tested with findings. Thus, this research can still be regarded to have a deductive approach.

The research type is normally defined by looking at the goal of the research. This research can be regarded as an exploratory research, since the goals of this study is to explore how resources influence the internationalization process of western TE-firms based in a developing country. A selection of resources is established by using previous internationalization theories (Chapter 2: Literature Review) and there influences on the internationalization phases are explored.

A single case study on a western Te-firm in China is conducted in order to obtain the data necessary to investigate the research problem. The choice for this strategy will be further discussed below.

3.2 CASE STUDY

This section will provide some background information and core activities of the TE-firm used for the case study, subsequently the methods for obtaining and analyzing the data is described. On the end of this section the research limitations of this methodology are presented.

For this study, the researcher has chosen to use a single case study to obtain the information, which is necessary to investigate the resources influencing the internationalization of a TE-firm established in the developing country. This case study offers the researcher the opportunity to experience and to get a deeper understanding of the firm's business activities and environments. By participating in the firms daily activities better access to already existing company data is acquired and interviews can be conducted more freely and thorough. Another motive for using this approach is that researcher did not have the resources and time to conduct multiple case studies for this research.

3.2.1 BACKGROUND INFORMATION ON SCG LTD.

For this research a case study is conducted where the TE-firm's resources are further analyzed during their internationalization process. A China based TE-firm called Scaffolding Group Ltd (SCG) is chosen for the case study.

SCG was founded in Gunagzhou (Guangdong province) in the year 2005 by Austrian and Swiss entrepreneurs, who live and work in China for already more than twenty-four years. The firm's main office is located in the centre of Guangzhou city while their production facilities are located in the nearby city, Foshan. For over five years, this small company has specialized in the manufacturing and exporting of a variety of high quality aluminum and steel scaffolding products and now employs around 50 people. The firm describes itself as a Chinese manufacturing firm with western management that delivers higher quality standard of customized products with better service when compared to other Chinese competitors. The firm regards Europe, especially Switzerland, as their main market and competes by delivering quality products for a cheaper price. At inception, SCG mainly focused on producing for one large scaffolding manufacturer in Switzerland, as a means of outsourcing. In the last few years, the health of this company has deteriorated and now SCG seeks to expand its business beyond the Swiss borders to find new customers to keep up production levels.

Initially, SCG is interested in expanding to Western-European countries especially Germany, the Netherlands, and the United Kingdom. Management presumes that these countries are very potential because their markets require high quality scaffolding, which SCG is able to produce at lower costs than domestic manufacturers. The firm targets three categories of customers; the direct user, the sellers and renters, and the manufacturers of scaffolding products. In 2009, a marketing/sales department was created to precede the firm's objective of market expansion and their first target market will be the Netherlands. Although the Netherlands is a small market it is known that it has several big producers and trading companies that import and export scaffolding products. An extra benefit for choosing the Netherlands as their first target market is that the researcher is from the Netherlands and can assist in the internationalization process.

3.2.2 DATA COLLECTION

In order to collect a sufficient amount of data to support the conclusion this research uses a combination of three data sources; document analysis, observation and interviews. All data can be divided into two groups; primary data, data that did not yet exist and is obtained by the researcher directly, and secondary data, data that comes forth out of previous research. The researcher is employed by the SCG's sales department and is so able to collect data and observe the firm's internal activities first hand.

For this analysis the RBV and KBV are used to analyze SCG's resources and their influence on the internationalization process. In section 2.4.1, the selected resources for this analysis are described. In order to include a multi-environmental view into this analysis China is labeled as the home-base country of the firm, Switzerland is the country of the entrepreneur's origin and the Netherlands is labeled as the target country. There are two different methods used to collect the data for this research

and these will result into qualitative data that used to answer the research problem. Firstly, the SCG is investigated internally involving the entrepreneurs and employees and secondly a customer perspective is obtained, involving potential Dutch customers.

Internal Analysis Data

The collected data from the internal analysis is mainly primary data and is collected by observations from the researcher and interviews with entrepreneurs and employees. During the research time the researcher is employed at the firm's sales department and has opportunity to visit the factory several times. This makes it possible to really observe and understand the flows and quantities of resources the firm has to its disposable and to further analyses them carefully. Furthermore, the researcher is directly involved with the internationalization process of the firm and is able to observe how certain resources provided benefits during the process. In order to get a better look inside SCG's environment several interviews are conducted to get more detailed information on finance, human resources, management, production and purchasing. Most of these interviews are unstructured, informal and free to touch different topics. However, these interviews are steered with guidelines (see Appendix 1 – Interview Guide) towards relevant topics, especially the external factors (e.g. political, economical, socio-cultural, legislative, etc.) that greatly influencing the resources are important. These factors are considered important while discussing the accessibility and availability of firm's resources. Important data obtained during these interviews are noted down in the researchers diary and quotations are used during the data presentation.

Customer Perspective Data

The second method, used to collect data on the SCG's resources, considers an external customer perspective by analyzing the customer's perspective on internationalization and starting a business relation with a TE-firm. Here, the question of interest is to find out whether the SCG's specific resources also holds value for their customer. In order to analyze the customers perspective a sample group of potential customers for SCG is selected and contacted.

The Netherlands is chosen as SCG's new target country and it is estimated by searching on internet and in the yellow pages that there are around 240 possible customers. This group can be divided into three categories. The first category and the largest (65%) are the customers who are direct users of scaffolding materials, such as scaffold erectors and constructors. This group purchases and uses the scaffolding for their own daily business activities. The second category (30%) are the customers that rent out or sell scaffolding, such as hardware stores, wholesalers and traders. This category of customers often purchase larger quantities and thus making them more interesting for SCG as a future customer. The third category (5%) are the local manufactures of scaffolding. Although they are competitors, this category is also very potential for SCG because SCG offers a service as producers of semi-parts or purchasers of Chinese raw materials. Meaning that the firm offers to make products according to the customer's design and they offer to search for new Chinese suppliers and do quality checks before products are shipped to their customers in the Netherlands. In order to give the survey a 95%-confidence level with an error tolerance of 5% a sample group of 148 customers is selected. Since the third category is most potential all producers were selected for the target group.

Each customer of the sample group is called and briefly introduced to SCG, explaining the unique situation of the TE-firm and the products and services they provide. After this the customer is asked if they would be interested in more information and a visit by a SCG representative. If they are not interested, a quick semi-structured interview is used to ask about their experience with overseas suppliers, about the competition's offerings, customer needs and the reasons for their disinterest. The customers who are interested in meeting are visited by an English speaking Chinese representative from SCG during a planned two week trip to the Netherlands. During these visits the customers are introduced to SCG's produces by showing catalogues and welding samples. The interviews were conducted based on interview guidelines (see Appendix 1 – Interview Guide). First, the interviewees are asked to talk broadly about the Dutch scaffolding industry, their business operations, international experience and about the source of customer value, expectations and perspective on doing business with SCG. Additionally, the interviewees are asked to define quality, reputation and trust in order to better illustrate the importance of knowledge resources. All the data is noted down by the interviewer in a visit report and collected by the research to be further organized and analyzed.

Since SCG and the researcher are located in China during the research period, Skype is used to communicate with the customers in the Netherlands. Although, Skype lowers the communication costs, a disadvantage is the quality of the call. It becomes more difficult to get the message across and to obtain sufficient in-depth information during these interview. Furthermore, the customers are often surprised by the call and are not willing to go into details on why they are not interested.

3.2.3 DATA ANALYSIS

In order to draw conclusions the collected data needs to be arranged and analyzed. In chapter 4, the data obtained from the internal analysis is combined and sorted according to the RBV and KBV. An overview of all the firm's specific resources is then presented. Subsequently, the influences of the firm's resources on the firm's internationalization process is analyzed. During the analysis the researcher uses the phases of the internationalization process and will describe the influences of each resource. In order to show the importance of each resource, the data collected by the customer survey is used to include a customer's perspective. From this analysis the relationships are identified and examined, so that conclusions can be drawn on how the resources influence the internationalization of western TE-firm based in China.

3.3 RESEARCH LIMITATIONS

The reader should be aware that the methodology used in this research has several limitations. The important limitations are as follows:

- ✧ The research is only based on one case study. SCG's situation and products may show to be unique and therefore may not give a good representation of other TE-firms. Furthermore the single case study focus on a single industry, while influential factors may vary depending on the type of industry.

- ✧ The research framework is only tested on a specific set of countries and may not be applicable in other situations. For example, TEs settled in a developed country and originated from a developing country may be confronted by other factors not considered in the model.
- ✧ The used methodology does not analyze the industrial factors of the TE-firm, competitors and suppliers in a specific industry may influence internationalization of a firm considerably.
- ✧ Since the research is employed by SCG the data and conclusion may be influenced by the researcher by his personal perception.
- ✧ Due to the large amount of customer interviews several interviews are not very thorough and in-depth. The costumers answered quickly and less thoughtful to avoid longer questioning.

4 DATA ANALYSIS: SCG CASE STUDY

This chapter presents the empirical data obtained from personal observations, research and interviews during the research period in China. Each section of this chapter describes one of SCG's specific resources and discusses their influence on the internationalization process. Since SCG is operating in a multi-environment the source of each resource is discussed and external factors are taken into consideration. In order to emphasize the strength and importance of each resource the results from the customer survey are added to each section.

4.1 FINANCIAL RESOURCES

Financial resources are a basic necessity for a firm, especially, when it seeks to invest in further expansion to new international markets. SCG is a small firm and most of their financial resources are based on personal investment by its entrepreneurs. All investments and expenses are paid in cash with the firm's savings because borrowing from banks is not seen as an option. This is because, due to political policies borrowing money in China is rather difficult for small foreign firms, the interest rates are quite high and the minimum amount that the bank is willing to loan are often too high. Furthermore, the SCG is not eager on keeping their financial resources in China, since the exchange amounts for foreign currency and also RMB are restricted by government policies. In order to avoid these exchange problems and Chinese corporate taxes the firm manages its financial resources from Hong Kong.

During the interview SCG's entrepreneur explained that due to the limited amount of financial resources SCG is not a large firm and capacity is therefore limited. This directly influences the second phase of the internationalization process because SCG has less cash available to explore the markets and to find new customers. Also the gathered information is less reliable because cheaper methods are used and regular exploratory visits to new market are often too expensive. Furthermore, the entrepreneur finds it too costly to start exploration by renting a booth at a European construction fair and transport sample products to this location. The low amount of financial resources also forces SCG to employ strict financial payment terms for their contracts where a full payment is necessary before starting production. The firm needs the money to purchase the raw materials and cannot afford a cancelation of the order after production. During the interview, the entrepreneur explains that the risk of not fulfilling the contract is much higher with a unfamiliar customer and therefore an upfront payment is necessary, however, when more trust is gained and orders are more regularly he will lower the customers risk by changing the terms. This payment policy, however, greatly influences the internationalization process, especially, again the second phase. Most of the visited customers in any group are concerned about these payment terms and feel that they are now taking all the risks. They argued that if SCG fails to fulfill the contract or the products are of poor quality it will be extremely difficult for them to claim and ask for their money back. During the research period, several potential business discussions with new customers got stuck on this one point. Most of them were only willing to offer a prepayment upon ordering and completing the payment upon delivery.

All in all, SCG's low financial resources show to have a negative influence on the internationalization process, especially, for the second and third phase. It reduces the speed of exploration and slows the gaining of trust with new customers. The first stage, however, seems not to be influenced heavily by the low financial resources since most information is easily obtained for free through networks and internet sources. The sustaining phase of the internationalization process is also not heavily influenced by the lack of this resource. As soon as there are regular orders, mutual benefits and trust the need for this resource becomes less.

4.2 PHYSICAL RESOURCES

Owning property in China, especially real estate, is rather difficult and tricky. As an example, no one can purchase land in China and it is often rented for 40 to 70 years. Even if the land is rented to an individual the government still has the authority to change the agreement and take it back. Furthermore, the Chinese law makes it difficult for foreigners to purchase or set up their own factory in China, often the only option left for a small firm is to establish a joint venture. Due to these two reasons SCG established a joint venture in order to have a production facility in Foshan and their main office building in the centre of Guangzhou is rented. In order to have full control over the joint venture production facility they have an agreement with a 'silent' Chinese partner. During several visits, the facility shows to be well-organized and clean, but the machinery, tools and equipment purchased by SCG are simple and not very modern. The advantage of having their own production facility in Foshan is that they have complete control over the facility allowing them to change production capacity and carefully control and plan production. Since a large metal industry is located in Foshan the firm can easily locate, select and visit raw material suppliers and surface treatment facilities. This gives SCG the benefit of short delivery time of raw materials and there is easy access to high quality and certified materials. More than half of the interviewed customers find that having a western fully controlled production facility in China makes SCG more interesting when comparing them with other Chinese scaffolding producers or traders. From the interviews it appears that they have more trust in a facility which is controlled and planned by western managers and they often asked how SCG is able to have a fully controlled facility in China. The biggest customers further confirmed that SCG's capacity and the flexibility of capacity is sufficient for their demands. However, the location of production causes some concern among some customers, especially the smaller scaffolding users. They find that a delivery time of four to six weeks is not fast enough, since they often require direct supplies within a couple of weeks. Another concern among the smaller customers is the six hour time difference, since they are used to calling their suppliers any time of the day when they need them. Most of the customers of this group suggested that SCG should have some storage facility in the Netherlands in order to deliver the products faster and to communicate at all time.

The main office in Guangzhou is located in a well-known building (e.g. the Citic Plaza) in the centre of Guangzhou. This building was familiar to five interviewed customers that visited Guangzhou and they found it impressive and think that it gives the firm a professional status. An additional smaller office is located in Switzerland, this facility is owned and sometimes used by the entrepreneurs. This Swiss

facility gives extra benefits to the second stage of the internationalization process since it is easier to acquire visas for the sales people and to communicate with them in the same time zone. The small office also makes it easier to store scaffolding samples and catalogues and as a base for future sales trips.

Overall, the physical resources of SCG seem to have little influence on the first phase of internationalization. From the interviews there was no indication that it benefited the firm on finding new business opportunities for expansion. The availability of a office located in Europe showed to have some positive influence on the second stage of the process. Exploration for the firm is made easier when a closer located office is available. For third and fourth phase, SCG's physical resources seem to have a positive but also negative influence. The phases are positively influenced by the fact that SCG has total control over a production facility and resources in China, and thus ensuring more reliability and constant quality. However, the long delivery time and slower communication due to the enormous distance between the customers and SCG facilities causes many potential smaller customers to loss interest.

4.3 HUMAN RESOURCES

SCG human resources consist of a mixture of Chinese and foreigners located at two locations. The Guangzhou head office employs 17 people, 12 Chinese and 5 foreigners. This group of foreigners consists out of the two entrepreneurs, one French salesperson and two interns with a German and Dutch nationality. During working time the most common language in the office is English or German. All of the Chinese staff members speak English and there is one translator who speaks German. The Foshan factory employs 53 people consisting of 35 workers, 10 certified welders, two Chinese technical engineers, an Austrian quality manager, a German production manager and a Chinese translator. Since none of the workers speak English or German the translator is needed for daily communication.

China is well-known for its large amount of relatively cheap labor, which is still attracting foreign firms from all over the world. SCG, also, uses this source of inexpensive labor to produce their products at their facility to create a price advantage over European scaffold producers. The unemployment rate was in 2009 estimated to be 4.3% (Central Intelligence Agency, 2011) and minimum wages in Foshan and Gaungzhou are set to 920 RMB and 1030 RMB per month respectively (Briefing, 2010). SCG's entrepreneur explains that there are, however, some problems with this Chinese labor force. Although unemployment is high, those unemployed are, to a large extent, poorly educated peasants from the countryside. These people are not certified welders, speak no English and often come from distant regions to look for work. In the last few years it has become more and more difficult to find qualified workers for SCG, especially, the Guangdong province shows a rapid decline in labor supply since there is growing competition and many firms go further land inwards in order to be closer to the cheaper labor sources. This distant labor force and movement also influences the firm's employment turnover at the firms which stands at almost 45% per year, causing a lot of information loss. SCG's management explains that the firm is often troubled by constantly having to training the new employees. In addition, the people that have graduated from university and speak English often

have little work experience and seek to build up a career quickly. A small firm such as SCG has trouble to hold on to these better educated people because they see SCG as a step towards larger international corporations.

In sum, although SCG employs certified workers, an English speaking staff and foreigners resulting in more expensive human resources than similar Chinese firm, the Dutch customers are still satisfied with the SCG's prices as long as they can guaranty higher quality, more stable quality, reliability and easier communication. The employment of Europeans in their Chinese facilities makes SCG more interesting for almost all the interviewed customers. They all presume that it makes the firm more reliable, quality will be higher and better preserved, and gives more familiar and easier communication. This mix of culture in the human resource shows to have a positive influence on the internationalization process from the customers view and helps to gain more trust due to familiarity.

4.4 TECHNICAL RESOURCES

The technical resources of SCG are the key to offer high quality products. The firms holds class C welding certificates for the execution and construction of steel and aluminum structures (e.g. DIN 18801, DIN 18808, DIN 18800-7, DIN 4113-1, DIN 4113-2, DIN V4113-3). These certificates show that the products are welded according to the German DIN standards and that they are safe to be use to build scaffold constructions. In order to obtain this certificate the production facility is required to have certified welders in their production process. Furthermore, SCG is the only scaffolding producer in China who holds an ISO 3834-2:2005 certificate. This quality certificate guarantees that products, production processes and production facility comply with the international standards for fusion welding activities. In order to maintain all these German certificates the production facility is annually checked by German inspectors. Designing scaffolding for the European market is a difficult and precise task since it involves strict safety regulations. One of SCG's entrepreneurs used to work for their Swiss customer, who produces high quality scaffolding according to their Swiss design. Through an agreement SCG is allowed to used these designs and make and sell it as their own.

Having these designs and European certificates has a positive influence on the first, second and third phases of the internationalization process. For SCG's entrepreneurs it was easier to recognize potential new markets since these markets demand products with these certificates. For the exploratory and implementation phases seems to be easier to impress customers and create an image of reliability when presenting the designs and certificates.

4.5 REPUTATION RESOURCES

Due to SCG's small and newness it has no reputation in the Netherlands and therefore the entrepreneur argues that the reputation of the countries China and Switzerland have a heavy influence on the firm individual reputation. Product and process quality in China is often a topic of discussion. In the last few years many scandals came forth concerning the product's safety and reliability, such as leaded paint in toys, added substances to milk and accidents with escalators and high speed trains. These scandals were

often caused due to cost cuts or poor quality control. The data collected from the customers interviews shows that the reputation of the 'made in China' product causes some difficulty for SCG's reputation resource. SCG's entrepreneurs tries to counterbalance this stereotyping by advertising that they use Swiss designs and German certificates to guarantee reliability and quality. By referring to these two countries the entrepreneurs try to link their firm reputation to the country's reputation of producing durable and high quality products. The Chinese market also has the reputation of suddenly breaking contracts or violating confidentiality agreements. From the customer visits it appears that many customers are precautious and hesitate to give their designs to Chinese companies since it is extremely difficult for the firm to start a lawsuit with a Chinese company. When approaching the customers, as a first response many of the interviewed customers showed disinterest when told that SCG produced in China. Six of them complained that they already had bad experience when dealing with Chinese suppliers. Product quality was often unstable and delivery was unreliable. One Dutch scaffolding producer talked about a previous experience where their Chinese supplier started adding little address notes to their products in order to contact their customers directly and cut out them out. Another scaffolding producer shared the story about the time that they sent some of their drawings to a Chinese supplier and that a year later the competitors in the Netherlands were offering their products made by the same Chinese supplier.

In contrast, Switzerland carries a more reliable reputation; they are familiar for delivering high quality and reliable products, and honoring agreements and confidentiality. SCG uses this reputation to gain trust and to distinguish them from other Chinese manufactures. SCG makes to the customers that they are dealing with a Chinese company that employs foreigner, who communicate and deal with them in a familiar western way of doing business. They try to show that confidentiality is very important by offering more transparency, regular visits and daily communication.

All in all, the Chinese reputation shows to have a negative influence on the second and third phase of the internationalization process. Many customers turned down SCG first offer up on hearing that they produce in China. They are mostly worried about the quality and the reliability of the firm and it seems to be difficult to convince them otherwise. The firm's connection with Switzerland helped a little to gain more customer trust but this was overshadowed by the Chinese reputation.

4.6 ORGANIZATIONAL CAPABILITIES

Effective organizational capabilities not only results in efficiency, clarity and responsiveness, but also in motivation and a good working atmosphere. At SCG it is clearly observed that there are some conflicts due to the way the firm is organized. The European entrepreneurs want to see a strictly organized, fully documented, formal and professional organization. Office software should be used to schedule meetings, fill-out reports and tasks should be documented. Internet access is limited and Skype should be used for communication with co-workers and customers. All these measures gives the entrepreneurs absolute control over the organization and the activities of their employees. The SCG's entrepreneur explains that he wants to keep this tight control because in previous experience employees used company information for their own benefits and in other cases the staff became sloppy. However

according to conversations with the staff it was found that they find these measures to cause slow-actions and hesitation in decisions, stress and apathy. During the research period it was clearly sentenced that the cultural mix within the firms has a negative effect on the organizational capabilities of the firm and there is a sense of mistrust among management and employees.

The organizational capabilities of SCG seem to have a negative influence on all the phases of the internationalization process. The awareness phase is negatively influenced due to mistrust by the management and the hesitation to share new information and ideas with employees. From previous experience the entrepreneurs are afraid that the employees will leave the company and sell the knowledge or use it to start their own business. In the exploratory and implementation phases, the sales people are heavily controlled, they are not allowed to visit or make agreements with customers without confirmation and they need to report and translate all visits, conversations and actions. This gives the customers the impression that the sales staff are nonnegotiable and time-consuming. For the same reasons the sustaining phase of the internationalization process is also negatively influenced, since customers find that problems and orders are handled too slowly.

4.7 MARKET KNOWLEDGE

The market knowledge is divided into two areas: Target market knowledge and home-base market knowledge. Most of the target market knowledge lies with and is obtained by the entrepreneurs and foreign employees. Since they are more familiar with the European markets it is far more easier for them to gather the information by searching the internet and asking contacts. By having market knowledge on other European markets it is easier for the firm to find new opportunities in nearby countries. The firm shows to be familiar with the Dutch regulations on imports and culture giving them an advantage over other Chinese firms. This market knowledge clearly has a positive influence on the awareness phase of internationalization. The Netherlands is a new market for SCG, so their target market knowledge on the scaffolding industry is still lacking significant details on market size, competition and market structure. This showed to have a small negative influence on the second and third phases since the customers are often unimpressed with the firm's knowledge on the Dutch market.

On the other hand, SCG's market knowledge on the home-base market China is extensive and well explored. Since the business is established in China and the firm employs Chinese it is easier to gain quick access to new market knowledge on new suppliers, legislation, political policies, and export or import procedures. SCG holds a large data base of Chinese suppliers and it is easy for them to visit these suppliers on a regular basis. Furthermore, the firm knows how to handle legal cases and can act quickly to avoid problems. Since most of the Dutch customers lacked this knowledge they were often impressed and saw this as a big advantage to do business with SCG. Especially, the customers who searched the Chinese market for suppliers had struggled with the lack of this knowledge and found it difficult to obtain. They saw a great benefit in doing business with SCG instead of searching for other Chinese suppliers.

In sum, the market knowledge has a positive influence on the whole internationalization process. Since European regulations and scaffolding requirements are fairly similar SCG already has an advantage in locating new market opportunities in Europe. And although SCG's lacked the market knowledge on the Dutch scaffolding industry they were able to quite quickly acquire new information and explore the market due to their European entrepreneurs and employees. All phases of the internationalization process are positively influenced due to the SCG's knowledge of the Chinese market. The knowledge gives SCG an inside on cost prices and quality of Chinese materials and the firm can therefore effectively search for new opportunities. For the later phases, the customers showed more confidence in SCG since they have a greater understand of the Chinese market and know how to prevent and solve problems with suppliers. Knowing how to handle suppliers influences the fourth phase of the internationalization process since SCG can guaranty stable quality from their Chinese suppliers and offers the customer to handle possible problems with the suppliers.

4.8 NETWORK KNOWLEDGE

As explained in the previous section networks are important for SCG in order to gain market knowledge of the target market. For the past five years, SCG has been doing business with a Swiss scaffold manufacturer and due to this relationship the firm has gained considerable network knowledge in Switzerland, Austria and Germany. Furthermore, since one of the entrepreneurs is a former employee of this Swiss firm he had to opportunity to bring personal and business contacts with him to SCG. By using these contacts SCG was able to contact a wholesaler in Luxemburg with more knowledge on the other European markets. Most of SCG's European network knowledge comes forth from the entrepreneurs and foreign employees. Having this knowledge greatly influences the first phase of the internationalization process since exploring new opportunities is easier. Similar Chinese firms, that do not possess this knowledge, have significant disadvantage compared to SCG in finding these opportunities in distant markets. The exploratory phase of the internationalization process is also positively influence since SCG can use their network to quickly scan new markets and find information on potential customers.

Although SCG has a large database of Chinese suppliers their network knowledge on the Chinese market is somewhat small and not very effective. Most relationships are strictly business and little is gained from knowing the suppliers. In this case, the network knowledge on the home-base market does not directly influence the first phases of the internationalization process. It does however support the last phases since SCG can use this network to find alternative solutions when their customers request them. A more powerful resource can, however, be found in the network knowledge outside the Chinese industry. In a foreign country the foreigners tend be more in contact with each other on a social bases, this is often referred to as the expat bubble. These social relationships with other foreign entrepreneurs and embassy staff gives SCG several benefits. Up-to-date knowledge on changes in China and new business opportunities are often shared among these foreigners at social gatherings. The acquaintance with embassy staff helps the firm in dealing with disputes and acquiring visa's for their Chinese

salespeople. This network knowledge positively influence the first phase of the internationalization process.

In general, network knowledge shows to be an important resource for SCG during the initial phases of the internationalization process. It helps the firm to spot new opportunities quicker and to gather information in a more effective manner. Also during the later phases the knowledge helps the firm to effectively solve problems with local suppliers or international customers.

4.9 CULTURAL KNOWLEDGE

SCG's cultural knowledge refers to what the firm knows about the social-cultural environment and their differences between countries. There is a rather large difference between the European and Chinese social-cultural. The Chinese social-cultural environment is shaped by their ancient history, which is influenced by Confucianism, communism, and international and modern aspects. The Chinese language, for example, is one of the oldest in the world and has little or no resemblance with any western language. Westerners consider the Chinese language to be one of the most difficult to learn due to the use of characters and tone pronunciation. SCG offers their suppliers and customers to do business in their own language and thereby hoping to create more clarity and trust. This was highly appreciated by the Dutch customers, who could often only communicate in English, German or only Dutch.

Confucianism plays an important part in the Chinese social-cultural environment and it forms the basis of the Chinese collective behavior and an individual's position in the society. Relationships are very important and often the term Guan Xi (关系) is used to describe the way of developing and maintaining a relationship. Personal and business relationships become more entwined and this is often ignored by western firms, causing uncertainty and mistrust. It is observed that when difficult questions are asked that many Chinese like to tell what the other person wants to hear, in order to not loss face. This often confuses foreigners since they fail to read the person's real thoughts and expect to hear the truth directly. Since SCG is established in China and has a staff of mixed cultures it is more easy for them to visit and coop with Chinese suppliers and authorities. During the case study, it is observed that Chinese suppliers and authorities are impressed and pleased if westerners come along for a visit. It is often regarded as an honor and it gives the visit a higher states of importance and seriousness. When looking at the target market, the firm has foreigners who travel more easily to Europe and coop with the customers desires.

Overall, SCG sees cultural knowledge as a important resources since it helps the firm to gain trust by acting accordingly to what the European customers and Chinese suppliers expect. Their unique situation enables SCG to shift the cultural barrier of internationalization away from their customers and suppliers and thereby making their business more attractive. The word 'shift away' is used because their situation does cause some internal problems as discussed in the section on organizational capabilities. The mix of culture among the staff causes some misunderstanding and friction that limits the effectiveness of the firm. Possessing cultural knowledge influences the internationalization process

positively on all levels. Due to the knowledge the customers in Europe are better understood and SCG sees this as an opportunity and thus supporting the initial phase. The later phases of the process are also supported by the knowledge since it is easier to communicate, understand and handle the customers and thus creating trust.

4.10 ENTREPRENEURIAL KNOWLEDGE

The entrepreneurial knowledge of a firm is based on the experience of the entrepreneurs. The two entrepreneurs at SCG provide the firm with two different sets of experience. One entrepreneur provides the SCG with geographical experience. He has already 25 years of international experience in working in China and shows to have great entrepreneurial skills in acting upon new business opportunities and starting several successful firms. In the interview, he tells about his prior experience with China and explains that he finds it challenging to work with the Chinese. In the past, he was too trustful and learned very quickly to keep tight control on all business activities in order to ensure the continuation of the business. Although the entrepreneur has worked in China for many years he is not able to speak or understand the language, but he argues that a good and trustworthy friend as a interpreter is sufficient to survive in China. During the interview, he points out the importance of his personal and social networks, which he uses effectively in getting things done and spotting new opportunities. The other entrepreneurs has little international experience but he does provides firm with another type of experience, namely industry experience. In the interview, he explains that he was working for a Swiss scaffolding manufacture that desired to outsource its products to foreign countries, such as Eastern Europe and China. While working for this Swiss firm he learned a lot about scaffolding products, quality requirements and the industrial network. The entrepreneur saw the opportunity to start a his own business and is now able to uses the experience to help SCG expand their business activities into new markets.

All in all, the combined entrepreneurial knowledge of SCG shows to be a benefit for the first phase of the internationalization process. First of all, the entrepreneurs used their knowledge to act upon the opportunity that arose when this Swiss scaffolding manufacturer desired to find new means of outsourcing. This lead to the creation of SCG as a transnational scaffolding firm operating across Swiss and Chinese borders. Secondly, the entrepreneurial knowledge lead to recognition of potential new markets and thus further internationalization. During the customer interviews it was found that entrepreneurial knowledge or experience did influence the customers interest in SCG. They are looking for risk of discontinuation of the a new supplier making the entrepreneurial knowledge of the firm an important influence on all the internationalization phases.

5 CONCLUSION & DISCUSSION

This final chapter concludes and summarizes the main observations of this research. Firstly, the results of the gathered data are summarized and the answer to the research problem is presented. Secondly, the implications and limitations of this research are stated and discussed. The final section of this chapter will go over the implications for future research in the field of TE-firms.

5.1 CONCLUSION

The main objective of this research thesis was to gain an insight into how the firm's resources influences the internationalization process of Western TE-firms located in a developing country. In order to draw a final conclusion four research questions had to be accurately answered. By conduction a literature study the researcher was enabled to answer the questions and develop a research framework. The framework uses a combination of resource-based and knowledge-based views to generate a realistic representation of the firm's resources. The selection consists out of organizational capabilities, financial, physical, human, technical, and reputational resources, as well as market, network, cultural, and entrepreneurial knowledge. After this the framework links these resources to the internationalization process, which is separated into four phases: awareness phase, exploration phase, implementation phase and sustaining phase. The proposed framework makes it possible to get a comprehensive and detailed overview of each resource's influence on the TE-firms internationalization process, see Figure 13.

A single case study was used in order to evaluate the effectiveness and completeness of the proposed framework, chapter 4 shows the results. By using a Swiss TE- firm called SCG, which is based in China, for the case study it was found that all resources do influence the internationalization process at a certain level. Similar to most TE-firms, SCG struggles with three weaknesses, namely: newness, smallness, and foreignness. The company just started to enter a new and unfamiliar market, it only has small amount of tangible resources and wants to operate in only foreign markets. The first step in the internationalization process is to spot the potential opportunities which the firm can act upon. The results of the case study show that SCG, especially, uses their knowledge resources to find these new opportunities. The market, network and entrepreneurial experiences are used in an efficient manner to acquire up-to-date information, search for emerging demands, arrange deals with supplies and discover new firm advantages due to changes in the markets. However, the analysis of the case study shows that SCG's organizational capabilities has a negative influence on the awareness phase. This is mainly caused by mistrust between employers and employees.

The exploratory phase of the internationalization process, where the firm seeks to explore the new opportunities by conducting market research and by establishing new relations with customers, seems to be also positively influenced by the firms knowledge resources. The knowledge helps the firm to gain new information on the Dutch market quickly at a low cost. However, the customer survey analysis shows that most of the customers that do not have international experience often do not see or recognize the benefits of this resource. The customers appear to be more focused on the financial,

physical, reputational and technical resources of the firm. Especially, reputational resource plays an important part in this phase of the internationalization process. China is well-known for their cheaper products so the customer immediately knows that SCG can deliver at lower costs, but China also carries the liability of producing low quality products. Safety requirements are an important issue in the scaffolding industry so many customers are suspicious about the quality of SCG's products and hesitate to explore the business opportunity. In order to convince the hesitating customer SCG can use their technical resources, such as their quality certificates. These German certificates are well-recognized and helps to overcome the reputational disadvantage. Another important resource in this phase is the international mix of human resource. It was often for the first time the Dutch customers were visited by Chinese representatives in a face-to-face meeting and found it pleasant that they were able to contact the Chinese office in their own language.

Since SCG did not yet reach the implementation phase of the internationalization process during the research period the conclusion is less based on seen problems and more based on the findings from interviews with customers and firms previous experiences in Switzerland. During this phase the firm has to start receiving and handling orders and thus making production and quality control become more important. The costumers that showed interest in doing business with SCG were mostly concerned about the payment terms on the contract. SCG's financial resources stops the firm from making contracts with other payment terms and thus shifting more risk to their customers. The physical resources of SCG shows to have a positive and negative influence on the phase. Customers were very interested in the fact that SCG had full-control over a production facility in China and they showed to be interested in visiting the site in the near future. However, for the smaller customers the distance of the facility and thus SCG's delivery time seems to be a problem. These customers are not eager to keep large amounts of stock and do not want to wait longer than two week for their order to arrive. SCG has to make the decision to either exclude these smaller customers or find a storage facility located in Europe. Furthermore, the resources mentioned in the exploratory phase also shows to have again a positive influence on the implementation phase.

The analysis of the sustaining phase of the internationalization process also represents a future scenario for SCG since the firm has not reach this phase yet. The sustaining phase is all about maintaining relations, product and service quality, building a better reputation and strengthening trust. Since SCG is located in China and has a fully controlled production faculty the firm can easily control their suppliers, delivery time and quality and thus keeping their reliability. Furthermore, their knowledge resources helps the firm to better communicate with customers, suppliers and also carriers. They can more easily resolve problems before goods are shipped and help their customers to solve their problems or reach their requirements.

Overall, it can be concluded that the possession of knowledge resources shows to have a substantial positive influence on the overall internationalization process of SCG. The case study shows that the knowledge helps to generate awareness of new business opportunities and it helps the firm to gain trust if the customer recognizes the benefits of these resources. Gaining and building trust shows to be an important issue in this research. Since SCG is located far away from their customers in a developing

country the uncertainties are higher and thus trust decreases. These uncertainties can be split into three separate factors: reputation, risks and costs. Since SCG is a small, new and foreign firm and has no reputation in the Netherlands, the customers tend to judge the firm first by looking at the reputation of the country where the goods are produced. Although, SCG tries to differentiate itself from other Chinese scaffolding manufacturers it still carries the ‘made in China’ reputation. The customers also tend to see SCG as a more risky and costly supplier than local producers. Firstly, the firm is based in China, which is not only distant but also has different laws and changing trade policies. Secondly, SCG is small, new and lacks the financial resources and, therefore, it has to be more protective with payment terms in their contracts. However, when SCG is compared to Chinese suppliers the firm benefits from its unique knowledge resources. The Dutch customers that have international experience and are looking for cheaper products recognize the benefits and are more willing to do business, since they can now avoid the higher uncertainty when dealing with the Chinese suppliers.

	SCG's Situation	Awareness Phase	Exploration Phase	Implementation Phase	Sustaining Phase
Financial Resources	Low, limited and rigid	Little	Negative	Negative	Little
Physical Resources	Small but organized and fully controlled factory Favorable location of office	Little	Positive	Positive	Positive
Human Resources	Cultural mixed staff	Positive	Positive	Positive	Positive
Technical Resources	Recognized European certificates	Positive	Positive	Positive	Little
Reputational Resources	Made in China image Swiss relation	Little	Negative	Negative	Little
Organizational Capabilities	Wary Management Strictly controlled	Negative	Negative	Negative	Negative
Market Knowledge	Large home-base and basic target market	Positive	Positive	Positive	Positive
Network Knowledge	Personal and Social networks	Positive	Positive	Little	Positive
Cultural Knowledge	Large: Chinese and European understanding	Positive	Positive	Positive	Positive
Entrepreneurial Knowledge	Complete: international and industrial knowledge	Positive	Positive	Positive	Positive

FIGURE 13: RESOURCE INFLUENCE ON SCG INTERNATIONALIZATION PROCESS

5.2 RESEARCH DISCUSSION AND LIMITATIONS

The last step of this research is to evaluate the framework in order to determine its contribution to the existing literature. Thereby, an important part is to assess the applicability of the framework concerning other firms, countries and markets.

The research framework proposed in this study seems to be comprehensive and adequate enough to explain the influence of resources on the internationalization process of SCG. It shows that even though the firm struggles with its smallness, newness and foreignness it can use certain resources to successfully internationalize. Due to its resources SCG can differentiate itself from the local European suppliers and also the internationalizing Chinese suppliers. It can offer cheaper products due to its location and gain trust more easily due to its knowledge resources. The framework can help the firms to better understanding the strengths of their resources and based on this they can decide on their internationalization strategy. Furthermore, the framework shows that the cultural differences and the low reputation of Chinese suppliers plays a key role for the firm in this study. It can be said that the firm uses the cultural gap and the unknowingness and caution of foreign firms to internationalize. The firm gains trust more easily by taking away the cultural barriers from their customers and suppliers by using its human resources and cultural knowledge. However the downside of this is that the firm now has to deal with these barriers internally. This research shows that the firm struggles with the culturally mixed workforce, which causes inefficient, mistrust and unhappiness.

For this research a producer of scaffolding was selected that manufactures products in China for the European market. Now the issue of this research is, is the framework also applicable for other TE-firms? The external forces in the SCG case will differ substantially from the forces acting on TE-firms operating in a different industry or developing country. Although the market and environmental forces are not mentioned explicitly in the framework, it is important to consider them during the analysis of each resource. Different countries can provide a firm with different resources and also the value of a resource can be different in another industry. If all these forces are considered during the analysis the framework can show to be suitable for any type of TE-firm. There are, however, some limitations to this research. Firstly, the framework is only tested with one case study and it may prove that in other cases the framework will not be useable. Secondly, since SCG did not completely go through the entire internationalization process during the research period, the data that was collected on the last two phases could show to be biased and incorrect. Thirdly, although this research uses an internal and customer perspective to collect data, other perspectives, such as suppliers and other stakeholders, should be used to get a full view of how the resources influence the internationalization process.

5.3 IMPLICATIONS FOR FUTURE RESEARCH

Since this is an exploratory research facing limitations such as single case study and considering the reliability of the data, the conclusions above should be seen as suggestions for further research in order to better understand the internationalization process of TE-firms, more than as conclusive statements.

Firstly, several more case studies have to be conducted in order to prove that the suggested framework will be generally useful to explain the influences of resources on the TE-firm's internationalization process. In these studies it is important to include different kinds of TE-firms, which operate in other industries and other developing countries. For example, TE-firms that sell their products in the developing country instead of producing or TE-firms in the service industry. Secondly, the research shows that there is an important connection between trust and the internationalization. Especially, the small, new and foreign firms have difficulty to implement an appropriate strategy to develop trust, leading to slow progress and failure. This shows that there is a need to understand which factors influence the development of trust and how a firm can market its resources and determine its entry mode in order to gain trust with the new customers or suppliers. A more in-depth focus is needed to understand how the cultural differences are influencing the development of trust externally and internally.

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APPENDIX 1 – INTERVIEW GUIDE

INTERNAL INTERVIEW

General Questions:

- How long has SCG been doing this business and what is the background story of the company?
- What is the main core business of SCG?
- What are the strong and weak points of the SCG, when considering Western-European and Chinese Competitors?
- How do SCG's products differentiate themselves from other competitors?

Questions on Financial Resources:

- What is the size of SCG?
- What are the sales in the last year?
- How do SCG's financial resources influence the internationalization process?

Questions on Physical Resources:

- In how many countries does SCG operate?
- Where are SCG's offices and production facilities located? Are there any reasons for locating them there?
- Where are your suppliers located and how are relations with suppliers? Are you satisfied with these suppliers?
- How do SCG's physical resources influence the internationalization process?

Questions on Human Resources:

- How many people work for SCG and what are their main tasks?
- How would you describe SCG workforce's qualifications and level of education? Do they have a lot of (international) experience?
- Do you see SCG culturally mixed staff as a strength or weakness for the firm?
- How do SCG's human resources influence the internationalization process?

Questions on Technical Resources:

- Which technical resources does SCG hold to gain a competitive advantage?
- How do SCG's technical resources influence the internationalization process?

Questions on Reputational Resources:

- Is SCG's name or brand well-known in the Western-European markets?

- Does the reputation of your home-base country and country of origin help to create the SCG's image?
- How do SCG reputational resources influence the internationalization process?

Questions on Organizational Resources:

- How would you describe SCG's organizational structure?
- Are you satisfied with SCG atmosphere? What aspects do you like and which you would like to change?
- How does SCG organizational structure influence the internationalization process?

Questions on Market Knowledge:

- How do external factors (e.g. political, economical, socio-cultural, technological, etc.) in China influence SCG?
- Are you familiar with the Dutch scaffolding market? Think of: costumers, competitors, industry regulations, market volume, etc.
- How does SCG's overall market knowledge influence its internationalization process?

Questions on Network Knowledge:

- Are networks important for SCG expansion? If yes, which one is more important: personal networks or the firm's networks?
- Are your personal networks important for the firm's internationalization?
- How do networks influence the SCG internationalization process?

Questions on Cultural Knowledge:

- What are the difficulties of managing a firm in China? How does SCG overcome these difficulties?
- How does cultural differences influence SCG daily operations? Internally and Externally?
- How does SCG's cultural knowledge influence the its internationalization process?

Questions on Entrepreneurial Knowledge:

- Why did you decide to move and live in China? What were the opportunities and challenges?
- How long have you lived in China?
- What are the main differences between China and Western Europe?
- Do you have any experience with international business or markets?
- What have you learned from your past experiences?
- What are your future goals?
- What is your knowledge of language?
- What are the future goals of SCG?
- How does the entrepreneurs' knowledge influence SCG internationalization process?

CUSTOMER INTERVIEW QUESTIONS

- What is your company's core business? (Scaffolding Producer / Trader & Seller / End User)
- Compared to your competitors what is the size of your company? (Large / Average / Small)
- Are you currently buying products from overseas suppliers?
 - If no, have you had any previous experience with overseas purchases?
 - If yes, which countries are they located and how long have you been doing business?
Are you satisfied with your overseas suppliers?
- Are you interested starting a new business relationship with a supplier in China? Please explain.
- What is your opinion on scaffolding products from China?
- What important aspects do you look for in a new supplier?
- How many weeks are you willing to wait for your order to be delivered?
- Is it important that the supplier has a lot of experience in producing scaffolding products?
- Is it important that you can do business in your own language and according your customs?
- Would you be more interested in doing business if the supplier is managed by European management?
- Is it important that the supplier has full-control over their Chinese production facility?