

# Chapter 19

## An Analysis of Internationalization Theories and Behavior of Finnish Retail SMEs in Russia

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### ABSTRACT

*The internationalization of large multinational retailers has been investigated and much attention has been given to their market entry mode choice and motives of internationalization. However, there is not enough research that has been conducted to specifically describe the internationalization and market entry mode choice of small and medium-sized enterprises (SMEs) from retail industry. To cover the research gap, this chapter will describe the main theories of internationalization and then shed light on motives, barriers, reasons, and mode of entry of Finnish retail SMEs in the Russian market. Data were collected through a mail survey questionnaire, and 145 usable responses were received. Findings, the implication of the study, and directions for future research are then discussed.*

### INTRODUCTION

International business (IB) literature has acknowledged internationalization as one of the most important subject of firm's progress and accumulated performance (Lu & Beamish, 2001), which has been perceived globally through fast internationalization of markets, industries and firms since the middle of the twentieth century (Olejnik & Swoboda, 2012). According to Fletcher (2001) internationalization process of the firms is one of the most regularly researched topics in international business over the past 40 years. Recently, internationalization developments have mainly been examined with reference to multinational corporations, but less for small - and medium-sized enterprises (SMEs) (Jansson & Sandberg, 2008; Wright, Westhead & Ucbasaran., 2007). The main reason for this was that smallness

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is frequently revealed as a problematic in internationalization, as SMEs often have a disadvantage in resource access (Jansson & Sandberg, 2008). Consequently, for SMEs internationalization is an attentive challenge, nevertheless many theories and approaches exist (Olejnik & Swoboda, 2012). Today SMEs are able and enforced to search for foreign markets though the foreign players enter their home markets. For the last two decades' internationalization has been studied, the emphasis on has been moving from company related characteristics towards environment-related attributes and from large companies towards small- and medium sized companies.

Presently, SMEs represent the mainstream of firms in most countries, and therefore, they play a very significant role in the economic growth of their representative countries. Even, the number of small firms operating in international markets has been increasing (Nummela, Saarenketo & Loane, 2016). As a result, the internationalization process of SMEs has become a subject of educational, political, and governmental consideration and research (McDougall & Oviatt, 1996; Nakos & Brouthers, 2002). Indeed, the decision relating to international market selection (IMS) (Ellis, 2000; Sakarya, Eckman & Hyllegard, 2007) and entry mode selection (EMS) (Brouthers & Nakos, 2004; Lu, 2002;) are considered acute for a firm's success abroad (Agndal & Chetty, 2007).

The present market capacity of most emerging economies is pushing more retailers to grow internationally as it is becoming tougher to attain local market growth. As a result, the level of international competition in the retailing industry is becoming fiercer; particularly in saturated product markets. Adverse developments of recent years for example the economic downturn, credit crisis, and a drop in consumer confidence, have further strengthened the international rivalry in the retail industry (Global Retailing 2009). Ample research have been conducted on the internationalization of retail operations (Williams, 1992a; Sternquist, 1997; Vida, 2000), but, it is interesting to note that the majority of studies have focused on the activities of large retail organizations (Burt, 1986; Alexander, 1990; Williams, 1992b; Sparks, 1995; Arnold & Fernie, 2000). Therefore, it is significant to investigate the internationalization of SME's in the retail industry. In order to understand and benchmark the internationalization process and market entry mode choice of smaller retailer following cases have been found within Europe; Neals Yard Remedies (UK), Godiva Chocolatier (Belgium), L'Occitane (France), Jil Sander (Germany), Bitte Kai Rand (Denmark), La Cicogna (Italy) and Lundia (Netherlands). It has been claimed that these smaller retailers have larger apparent in international markets than larger retailers weighed down by organizational predeterminations (Alexander & Quinn, 2002).

The dissimilarity between large firms and SMEs can be recognized in relations of physical size and presence. Cataloging of SME size can comprise number of employees, number of retail outlets, annual turnover, and a combination of employee and turnover measures (Kaynak, Ghauri & Olofsson-Bredenlow, 1987; Masurel, 2001). Though, empirical studies across industries emphasis on sales turnover as the optimum indicator of distinguishing between smaller and larger international firms (Cavusgil, 1976, Beamish, Craig & McLellan, 1993). Definition of SME varies significantly across continents. But for the development of this study it will be consider the definition of the European Commission (2014). An SMEs in Europe is a firm that has fewer than 250 employees and a turnover not exceeding 50 million euros or a balance sheet total not exceeding 43 million euros.

However, this chapter will discuss the reality about the internationalization of the retail Finnish SME's to Russia market.

The trade between Finland and Russia has extended backgrounds (Kallonen & Ketola 1996). Since 2007 to 2013 Russia was the biggest trading partner of Finland but in the beginning of 2014 Germany became the biggest trading partner. Though, Russia is still Finland's major state of imports and the third

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