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INTERNATIONALISATION AT HOME – THE INTERNATIONALISATION OF LOCATION-BOUND SERVICE SMES

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ABSTRACT

This study explores how location-bound service SMEs – such as tourism companies – internationalise. We suggest that key dimensions in the internationalisation of these firms are the available resource base, the company network and its embeddedness, and entrepreneurial capabilities, particularly entrepreneur's language skills, global mindset and cultural awareness. We propose an internationalisation framework model supported by three illustrative case examples from Finland. The framework differentiates between passive developers, emerging developers and international entrepreneurs. The study makes several contributions. First, it provides an advanced view on the internationalisation of service firms and challenges previously applied theories in a novel context. Second, it highlights the significance of locations-bound resources in the process. Third, the findings indicate that the interplay between the resource base, company network and entrepreneurial capabilities is decisive for internationalisation. We also suggest managerial implications for both the industry and policymakers supporting the internationalisation of location-bound service firms.

Diese Studie untersucht, wie ortsgebundene Dienstleister, wie zum Beispiel KMUs in der Touristikbranche, international expandieren. Wir schlagen vor, daß die verfügbaren Ressourcen, das unternehmerische Netzwerk, die Sprachkenntnisse des Unternehmers, die unternehmerischen Fähigkeiten, eine globale Denkweise und kulturelles Bewusstsein zu den wichtigsten Dimensionen der Internationalisierung gehören. Durch drei anschauliche Fallbeispiele aus Finnland entwickeln wir ein Internationalisierungsmodell, welches wir vorschlagen. Das Rahmenmodell, welches zwischen passiven und aufstrebenden Entwicklern, sowie internationalen Unternehmern unterscheidet, macht eine Reihe von Kontributionen. Erstens, es erweitert unser Verstehen der Internationalisierung von Dienstleistern und fordert etablierte Theorien durch einen neuen Kontext heraus. Zweitens, es hebt die Bedeutung der ortsgebundenen Ressourcen hervor, die zum Internationalisierungsprozess beitragen. Außerdem zeigen unsere Ergebnisse, daß das Zusammenspiel von Ressource-Basis, Firmennetzwerken und unternehmerischen Fähigkeiten von entscheidender Bedeutung für die Internationalisierung sind, Ergebnisse, die uns veranlassen, praktische Implikationen für Unternehmen, wie für Gesetzgeber vorzuschlagen, damit die Internationalisierung ortsgebundener KMUs im Dienstleistungssektor unterstützt wird.

SUMMARY HIGHLIGHTS

Contributions: The study is among the first to study the internationalization of location-based tourism SMEs. It highlights the difference between the internationalization of these firms and other service firms. It broadens the concept of internationalization and emphasizes the importance of location-bound resources in the process.

Research question: How location-bound service SMEs – such as tourism companies – internationalise?

Findings: Based on a conceptual analysis and with the help of three illustrative cases of Finnish tourism SMEs, we suggest that the key dimensions in the internationalization of these firms are the available resource base, the company network and its embeddedness, and entrepreneurial capabilities, particularly entrepreneur's language skills and global mindset as well as cultural awareness. We propose an internationalisation framework, which differentiates between passive developers, emerging developers and international entrepreneurs.

Theoretical implications and suggestions for future research: Our findings challenge existing assumptions on service internationalisation by introducing service companies with strong spatial fixity and highlighting the importance of context-specific issues, which have not been recognised in earlier research. It stresses the importance of the interplay of all three dimensions of the framework for successful internationalisation. The framework, which illustrates different internationalisation patterns, can serve as a starting point for further research in which researchers want either to study location-based service firms or compare them with other types of firms. We also suggest a novel definition of internationalisation, which can be used when studying these firms.

Managerial and policy implications: Continuous growth of the tourism business requires increasing effort in destination planning and developing services to meet demand. Participation of SMEs is needed as part of this process; but at the same time, they need to develop their resource base, networks and capabilities to meet international quality standards. Orchestration of this process requires clear vision, fair and explicit division of labour and rewarding incentives. At best, the process can start a positive learning cycle in this area as the key actors in the networks spread international activities in their network. In order to support the process, governmental policies should be developed taking into account the specific features of location-bound service SMEs.

Keywords: service internationalisation, inward internationalisation, service firms, tourism, SME, location-bound, Finland

1. INTRODUCTION

In spite of the significance of the service sector (World Bank 2011), research on the internationalisation of services is rather recent, particularly when building and testing theories as it emerged only in the 1980s (Javalgi and Martin 2007). Expertise has developed in the shadow of theories on manufacturing firms, and earlier it was natural to apply these theories to service firms (e.g., Axinn and Matthyssens 2001; Boddewyn et al. 1986). The need for service-specific theories has arisen mainly based on two key findings. On the one hand, researchers found that the patterns of service internationalisation differ from those in manufacturing (e.g. Erramilli and Rao 1993; Lowendahl 1993). On the other hand, the service sector is quite heterogeneous and it is likely that all service firms do not internationalise in a similar manner (e.g., Ball et al. 2008; Andersson 2006; Lovelock and Yip 1996; Sarathy 1994).

In terms of volume, the service industry is still under-represented in international business research (Pillmayer and Scherle 2014; Deprey et al 2012, Merchant and Gaur 2008). Furthermore, the existing research has some gaps that deserve more attention. First, it seems that researchers have focused on the international strategies and foreign entry modes of service firms (e.g. Blomstermo, Sharma and Sallis 2006; Grönroos 1999) and other forms of internationalisation have been of less interest (Björkman and Kock 1997). Second, differences in internationalisation patterns were often earlier explained by the nature of the service provided, such as hard vs. soft services (e.g. Brouthers and Brouthers 2003) or product services vs. service products (Nicoulaud 1989). However, later these simple classifications have been found inadequate to describe the variety of the field and more fine-grained distinctions have been called for in order to understand the diversity of services (e.g. Jack et al 2015, Pla-Barber and Ghauri 2012; Ball et al. 2008). Thus, it is more than probable that many forms of services remain under-investigated. Third, since the late 1980s researchers have been interested in service multinationals (e.g. Boddewyn et al. 1986; Weinstein 1977; Campbell and Verbeke 1994; Lovelock 1999) and this attention has continued to date (see, for example, Miozzo et al. 2012; Laanti et al. 2009; Kundu and Merchant 2008). Yet, in many countries, small and medium-sized actors outnumber their larger counterparts and they are considered to be the main source for future growth in the service sector (Thomas et al. 2011) . Our knowledge of how these firms engage in international markets still remains rather limited.

This study addresses the aforementioned gaps and introduces a number of novel perspectives to the field. It explores the inward internationalisation¹ patterns of tourism SMEs² and thus focuses on a form of internationalisation which has been neglected in earlier research (Nessel 2013, Björkman and Kock 1997) as well as a type of service which has been neglected in international business research (Hall and Coles 2008). It also challenges the concept of service internationalisation by introducing a location-bound,³ resource-based perspective. The study contributes not only to our understanding of

¹ Inward internationalisation refers to the activities of tourism companies to import potential customers to consume their service in the provider's home country (Björkman & Kock 1997).

² In line with Weaver and Oppermann (2000), for us, the tourism industry refers to those industrial and commercial activities which provide products and services wholly or mainly for tourist consumption.

³ Location-bound refers here to the fundamental characteristic of tourism businesses: the services are bound to a physical location and identical services cannot be provided elsewhere.

1 service internationalisation, but also to the emergent field of international entrepreneurship (cf. Oviatt
2 and McDougall 2005). Our thoughts were inspired by Jones and Coviello (2005), who describe
3 entrepreneurial internationalisation as a cyclical behaviour involving the entrepreneur and the firm,
4 moderated by the external environment within which the firm operates. This definition comes much
5 closer to the internationalisation of location-bound service firms than traditional definitions of
6 internationalisation (e.g. Welch and Luostarinen 1988). In our opinion, understanding *how location-*
7 *bound service SMEs – such as tourism companies – internationalise* deserves scholarly attention, and
8 therefore we also set that as our research question.
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10 11 12 **2. THEORETICAL POINT OF DEPARTURE** 13 14

15 Two decades ago it was common to argue that that there was no need for specific theories of service
16 firm internationalisation because the existing theories of internationalisation would be directly
17 applicable to the service context, or could be accommodated through some relatively simple
18 modifications (e.g., Agarwal and Ramaswami 1992; Boddewyn et al. 1986). Later, several
19 researchers showed that the patterns of internationalisation in the service sector differ from those in
20 the manufacturing sector. In line with Javalgi and Martin (2007) we may conclude that although
21 theories based on manufacturing firms provide a strong theoretical background, there is still a need
22 to develop new theories that integrate the various theoretical constructs in order to explain and predict
23 a service firm's behaviour, particularly in the new service-oriented economy.
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29 Developing a theoretical framework for service internationalisation presents a huge challenge. It has
30 been argued that internationalisation is too dynamic and broad a concept to be defined exclusively
31 within any one school of research, perspective or mode of explanation (e.g. Coviello and McAuley
32 1999) and that a holistic perspective should be adopted (Pillmayer and Scherle 2014, Fletcher 2001,
33 Jones 1999). As research on small business internationalisation is becoming synergistic and
34 incorporating research from various disciplines (Jones et al. 2011), it is logical to integrate multiple
35 perspectives when trying to understand the internationalisation of location-based service firms. This
36 study combines the resource-based view of internationalisation, the network approach and an
37 entrepreneurial capability perspective in order to provide a framework on the inward
38 internationalisation of location-bound tourism SMEs.
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43 44 45 *2.1 The resource-based view of internationalisation* 46

47 The early theory on firm growth defined a firm as a collection of heterogeneous physical and human
48 resources (Penrose 1959). Since then, this idea has been developed into one of the leading theories in
49 strategic management: *the resource-based view (RBV) of the firm* (e.g. Barney 1991; Wernerfelt
50 1984). Firms are viewed in terms of the unique bundles of tangible and intangible resources which
51 they own and control (Amit and Schoemaker 1993). These resources, again, can be seen as a source
52 of competitive advantage and company success rather than product-market combinations (Barney
53 1991). In terms of internationalisation, companies can obtain sustainable competitive advantage by
54 possessing certain key resources and deploying them in their product markets (Fahy and Smithee
55 1999). This theory seems to offer a fruitful basis for understanding the internationalisation of tourism
56 SMEs (cf. Javalgi and Martin 2007).
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1 Indeed, many service companies – particularly within the tourism business – base their competitive
2 advantage on *location-bound resources* which are utilised to provide services for foreign clients in
3 the domestic market (Ball et al. 2008). But what are these location-bound resources? Tourism is place-
4 specific; it is consumed *in situ*; and is strongly entangled with local communities and with nature
5 (Williams and Shaw 2011; Shaw and Williams 2004). Unique facilities and a special environment –
6 such as a natural or historical attraction – may, in some cases, be a source of competitive advantage.
7 Tangible resources also include the facilities and environment in which the services are offered –
8 such as lodgings, accommodation, golf courses and riding stables. They also include the elements
9 that are needed for the production of activities – such as canoes, horses and snowmobiles. Due to
10 spatial fixity internationalisation of tourism companies requires not only the internationalisation of
11 the firm, but also internationalisation of the location-bound resources.
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18 However, in order to take into account the specific context of tourism, it is essential to extend the
19 interpretation of resources slightly from the traditional view. Namely, from the viewpoint of a tourism
20 firm the ownership or control of resources is not necessarily decisive. Some of the location-based
21 resources may be owned and/or controlled by the firm, but others can also be shared with other actors
22 in the same location. Tourism companies operate as a part of an ecosystem: the tourism destination
23 and its ability to attract tourists mostly depends on the stock of factors at its disposal, such as its
24 original and unique local natural, historical-archaeological and social resources; and its knowledge,
25 capabilities, capital and infrastructure (Smeral 1998). Some of these factors are unique: they cannot
26 be reproduced, transferred or replicated and they are linked to a specific site or the culture of a specific
27 area (Bonnetti et al. 2006). These resources are strongly intertwined, and therefore the system is
28 characterised by strong resource dependency – the success of the destination requires that all actors
29 strive for the optimal utilisation of the bundle location-bound resources. The systemic nature of a
30 tourism business requires that we take into account the strong relationship between the actors – the
31 tourism networks – when discussing the internationalisation of these SMEs.
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39 *2.2 The network approach to internationalisation*

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42 Earlier research has highlighted the role of networks, particularly in entrepreneurial
43 internationalisation (Ruzzier et al. 2006). Networks are significant facilitators of SME
44 internationalisation (Hohenthal et al. 2014; Manolova et al. 2014; Coviello and Munro 1995), but
45 they can also be considered as stepping stones in the process of internationalisation, which is about
46 establishing and developing positions in foreign networks (Johanson and Mattsson 1988). Insidership
47 in relevant networks is considered to be a necessity; otherwise the company will suffer from a liability
48 of outsidership (Johanson and Vahlne 2009). However, tourism SMEs are also deeply embedded in
49 their local and domestic networks.
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54 All economic action is embedded in social relationships and networks (Granovetter 1985). Through
55 network embeddedness a company can both acquire information as well as learn from others; thus
56 the network can be considered as a strategic resource which has an impact on the company's future
57 (Andersson et al. 2002). Furthermore, network embeddedness extends across national borders and
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1 the networks in which the company operates are further embedded in different national business
2 environments (Fletcher and Barrett 2001).
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4 In the tourism industry network embeddedness occurs on multiple levels. As mentioned earlier,
5 tourism is a broad, complex phenomenon involving local and global networks, not only individual
6 products and services. Therefore, the competitive game is no longer controlled by individual
7 companies and organisations, but requires the multi-level co-ordination of resources, supply systems
8 and co-operation in any tourism destination (Lazzeretti and Petrillo 2006). A tourism destination is
9 also a bundle of products supplied by a wide number of co-operating players – tour operators, travel
10 agents, passenger carriers, hotels and other service producers – and the competitive advantage is
11 increasingly dependent on the system of the local actors (Capone 2006). On a company level, a
12 successful tourism product is typically based on co-operation among networks of companies,
13 organisations and public authorities. In sum, it can be argued that tourism enterprises internationalise
14 through and within the networks in which they are embedded. These networks can be social,
15 institutional, technological, regional and/or virtual, to mention a few. However, the network
16 embeddedness may be a source of comparative advantage, but it turns into a competitive advantage
17 only if the actors – entrepreneurs – are able to utilise the location-bound resources and network
18 embeddedness effectively in the long run (cf. Crouch and Ritchie 1999).
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2.3 Entrepreneurial capabilities and internationalisation

Earlier research on SME internationalisation and international entrepreneurship indicates that the personal characteristics of the key decision-maker have an impact on the internationalisation of the firm (Jones et al. 2011; Manolova et al. 2002). In this study three entrepreneurial capabilities are considered to be decisive for the internationalisation of location-bound tourism SMEs: the entrepreneur's global mindset, language skills and network competence.

In line with earlier research (e.g. Deprey et al. 2012, Wheeler et al. 2008) we consider the entrepreneur's *global mindset* to be a key driver of successful internationalisation (Nummela et al. 2004). It has also been identified as an important factor influencing internationalisation of services (Javalgi and Martin 2007). Global mindset includes both the manager's cultural awareness – referring to openness and understanding of other cultures – and his/her ability to manage complex, geographically-spread operations (Levy et al. 2007).

Additionally, early studies on SME internationalisation already pointed out the importance of personal characteristics such as language skills and exposure to foreign cultures through education or experiential learning (Dichtl 1984; 1990; Holzmüller and Kasper 1990; 1991). Later research has demonstrated the importance of language skills in particular for the initiation of international operations (Leonidou 1995; Fernandez-Ortiz and Lombardo 2009). Recent studies (e.g. Hurmerinta et al. 2015) indicate that language skills do have an impact in the recognition and exploitation of international opportunities among SMEs, thus we may assume that they are also important for location-bound service firms. In fact, their role is probably highlighted because of the continuous interaction between the customer and service provider, which is an essential part of the service experience.

Furthermore, given the importance of networks for the tourism industry, it is natural to assume that the entrepreneur's ability to form, maintain and develop the company's position in the network would be of importance. This ability can be labelled collaboration capability (Blomqvist and Levy 2006) or *network competence* (Torkkeli et al. 2015). The latter is slightly broader and includes both the management of individual relationships and co-ordination of the whole network (Ritter et al. 2002). The network embeddedness of the tourism business makes the entrepreneur's ability to create and manage the network as an important pre-requisite for the internationalisation of a location-bound service SME.

2.4 Synthesis

In the internationalisation of location-bound service SMEs the individual and organisational level elements are tightly intertwined due to the central role of the entrepreneur as a decision-maker. Based on the literature review, the inward internationalisation of location-bound service SMEs can be best described by three dimensions: location-bound resources, the company network and its embeddedness as well as entrepreneurial capabilities, particularly global mindset, cultural awareness and network competence. The entrepreneurial capabilities drive how the resource-base and the

network are developed and utilised during internationalisation. The strong reciprocal relationships between the dimensions – each dimension influences the other – give the internationalisation process a cyclical nature.

First, location-bound *resources* – especially appeal factors such as the attraction, reputation and image of the area as well as its accessibility and infrastructure – are the basis for internationalisation in terms of attracting international customers. Besides the private companies operating in the area also the actors in the public sector play an important role through tourism policy. Second, in order to convert the comparative advantage of the location into competitive advantage, SMEs and the other actors in the *network* have to ensure the quality, level and content of the tourism product and the processes involved. This requires the development of entrepreneurial *capabilities*, especially networking competence. Internationalising tourism SMEs differ in terms of the three dimensions and based on these differences they may be classified in three groups (see framework in the figure below).

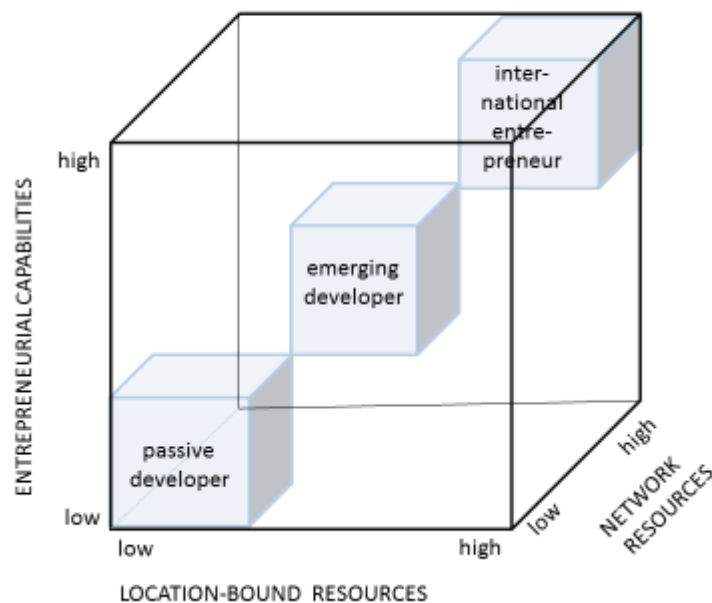


Figure 1. Theoretical framework for the study

The first group of firms – *passive developers of internationalisation* – represents tourism enterprises who base their operations heavily on the location-bound resources. They mainly operate in domestic markets, but at the same time they are a part of an internationally-operating tourism system or destination. For example, they may be sub-contractors to other companies or respond to unsolicited orders and often the tourism business is not their main source of income. They may have been involved in the international tourism business for a long time, but they do not consider themselves international enterprises. They possess some language skills and cultural knowledge, but they are not active in developing the location-bound resources of the area – its attraction, reputation, image, accessibility and infrastructure – or networking actively. In other words, they benefit from the location-bound resources but their value added to the system is limited.

1 The second group, *emerging developers*, refers to companies with both good access to location-bound
2 resources accompanied with budding international growth orientation. The entrepreneur may have
3 started actively developing co-operation in local, marketing and electronic (virtual) networks in order
4 to become one of the key operators in the area. Nevertheless, direct contacts with tour operators and
5 other distribution channels are still at a low level, but the entrepreneur has a clear vision and a strong
6 will to develop them. Theme-based networks are springing up, and commitment to and
7 communication with the surrounding tourist destinations may emerge. These companies have a strong
8 desire to develop the tourism business, and to market their services and the destination to international
9 markets.
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15 The third group, *the international entrepreneur*, is often an international new venture, many of which
16 have targeted their services to international audiences from the start. They are typically innovative
17 and their entry into the tourism business has not been driven by the existence of location-bound
18 resources, but by strategic choice. In other words, first came the business idea and then they searched
19 for an appropriate location; whereas in the other two groups, location drives the entrepreneur towards
20 a business idea. These entrepreneurs have been very professional from the start, with strong growth
21 orientation and a global mindset. Previous experience and personal networks may have facilitated
22 their internationalisation. They actively create their own markets and they are often the key actors in
23 their own area or system, both in marketing and service development.
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29 It should be noted that the framework above does not contain a temporal dimension – i.e. it does not
30 suggest that the three groups would be consecutive stages in the process of internationalisation, for
31 example. However, one can argue that the degree of internationalisation increases as the company
32 advances in the three dimensions of the framework. Additionally, the borderlines between the groups
33 are far from clear-cut, instead they are rather fuzzy, indicating that the three groups suggested are
34 more archetypes than clear classifications with explicit boundaries and measures.
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39 Next, we describe three illustrative case studies to study the internationalisation of location-bound
40 tourism SMEs, using the framework described earlier. With this approach we hope to be able to refine
41 the framework and bring more in-depth understanding to the three categories presented.
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44 **3. INTERNATIONALISATION OF FINNISH LOCATION-BOUND TOURISM SMES –** 45 **THREE ILLUSTRATIVE CASES** 46

47 *3.1 The research process* 48

49 Given our interest in the internationalisation of location-based service firms, an illustrative case study
50 was considered the most appropriate research strategy. The main objective of the case studies is to
51 document the internationalisation of location-bound tourism SMEs and to utilise the obtained
52 knowledge to develop the literature-based framework. The case-study approach has multiple
53 advantages: It allows the investigation of a contemporary phenomenon within its real-life context,
54 especially when the boundaries between the phenomenon and the context are not clearly evident (Yin
55 1994). Furthermore, case studies are particularly well suited to new research areas or those for which
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1 existing theory seems inadequate (Eisenhardt 1989) as well as for studying business networks
2 (Halinen and Törnroos 2005). As the focus of the study was on understanding and analysing the
3 phenomenon, the case studies are instrumental in nature (cf. Stake 1995), representing typical Finnish
4 small, medium- and micro-sized tourism companies. For this study we selected growing, location-
5 bound tourism companies from different parts of Finland. All the case companies had been involved
6 in international tourism for at least 10 years. The selected cases share some similarities but also differ
7 in terms of the three key dimensions – location-bound resources, network embeddedness,
8 entrepreneurial capabilities – thus providing fertile material for the refinement of the framework.
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12 The three investigated cases were: (1) Snow Games, an activity producer in Finnish Lapland; (2)
13 Loikansaaren Lomamökit, a holiday village in Eastern Finland; and (3) Leppäniemen Hirsihuvilat, a
14 holiday village in Southern Finland. The data were collected mainly through interviews with key
15 actors at each company. The interviews were planned initially to be semi-structured thematic
16 interviews, but they turned out as entrepreneurial narratives, because each interviewee wanted very
17 much to tell ‘a story’. As it was not possible to follow the pre-planned semi-structured format, the
18 narrative methodology was considered very useful. Additionally, multiple sources of evidence were
19 used in order to generate a holistic picture of internationalisation patterns (cf. Yin 1994; Ghauri 2004).
20 The interviews were transcribed verbatim and analysed systematically. First, a set of analytical
21 categories was developed based on the key concepts identified in the literature review, which also
22 served as the basis of the theoretical framework (cf. Coffey and Atkinson 1996; Miles and Huberman
23 1994). Next, the data was coded into these meaningful categories. Then, thematic analysis was
24 conducted in order to integrate the data into meaningful stories (cf. Eriksson and Kovalainen 2008).
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31 Case studies are not statistically representative, but they can offer depth and comprehensiveness for
32 understanding the phenomenon in question (Halinen and Törnroos 2005). As the purpose of the case
33 studies was to strengthen *a priori* understanding, it could be argued that the three instrumental cases
34 served this purpose relatively well, making it possible to justify the theoretical framework and,
35 importantly, to arrive at a more thorough interpretation and understanding of the phenomenon.
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40 3.2 Case 1: An activity producer in Finnish Lapland

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43 Snow Games Ltd is group of three family firms which was founded in 1994. It employs 40 people
44 during the high season and 13 people on a yearly basis. The British are the biggest customer group,
45 followed by Swiss and French tourists. The Luosto area has internationalised remarkably during the
46 last 25 years and the number of foreign visitors has grown steadily. Snow Games is one of the key
47 companies in the area, together with Lapland Hotel Luostotunturi, Santa’s Hotel Aurora and Lapland
48 Safaris. The key actors are tightly connected through collaboration, interrelated activities and cross-
49 ownership. During its history, Snow Games has had diverse business areas, but today their core
50 business is winter activities and entertainment.
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56 The location of Luosto is attractive as it combines two complementary arctic hill areas. A national
57 park between these two hills offers a versatile environment for different nature activities. Its facilities
58 for skiing activities – both downhill and cross-country – also give it a competitive advantage over
59 other ski resorts in Finland. Other essential *location-bound resources* include relatively easy access
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1 – there is a local airport and many airlines offer reasonably-priced flights to Helsinki, but connecting
2 flights from Helsinki to Luosto have been a bottleneck. Accessibility on the local level is of a high
3 international standard: there is a pedestrian village, and hot-bed and ski-in/ski-out principles are
4 followed. Service providers in the Luosto area promise their customers a genuine Lappish experience,
5 with a strong feeling of security. This is supported by activities such as visits to reindeer farms and
6 the amethyst mine or experiencing the Northern Lights.
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9 Snow Games – together with other actors in the area – is involved in many kinds of *networks* in their
10 efforts to develop an internationally-competitive tourist centre. The actors have even formed their
11 own tourist association to foster a spirit of co-operation, to start joint product development projects
12 and promote a common understanding of image, quality, pricing and marketing. In marketing the
13 partners include tour operators, airlines, and the Finnish Tourist Board. Locally, the company
14 collaborates with the three other major firms in order to market the area as an attractive destination.
15 In terms of service production, Snow Games co-operates with larger and smaller local companies,
16 providing services as a part of their offering. Additionally, it has its own service production and direct
17 contacts with international distribution channels. Furthermore, networks created through social media
18 are of importance and their significance is expected to grow in future.
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25 The *entrepreneurial capabilities* needed for internationalisation exist at Snow Games. To start with,
26 the company has been geared towards foreign markets from the very beginning. Seeking growth from
27 abroad was regarded as a natural strategic choice as the services were considered to meet the needs
28 of international customers better than domestic ones. Although the genuine Lapland experience is
29 considered more important than language skills, customers can be served in English and sometimes
30 even their own language. International marketing and sales are based on personal contacts and long-
31 term relationships and trust are essential, as the creation of the image of a reliable service provider
32 takes time.
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38 3.3 Case 2: A holiday village by Lake Saimaa 39

40 Loikansaaren Lomamökit (hereafter Loikansaari) is a family-owned rural tourism company by Lake
41 Saimaa in Eastern Finland. The tourism business started alongside farming and gradually became the
42 main income source for the family. Their business idea is to offer peaceful cabin and villa nature
43 holidays by a Finnish lake, close to the town of Savonlinna. They also offer catering services and
44 water-based activities in co-operation with two local companies. The customers are families and small
45 groups from both Finland and abroad. The company employs three people year-round; catering and
46 cleaning services are outsourced. The proportion of foreign customers is approximately 50 per cent,
47 the majority coming from Russia, but also Germany, Switzerland and Holland.
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53 The first phase of internationalisation started in 1977 when the founders of the company started their
54 tourism business. They built five lakeside cabins and developed the business gradually over the next
55 15 years. The first international customers came from West Germany and Switzerland. The second
56 phase of internationalisation started in 1994 when the business and farm were transferred to the next
57 generation. A strategic choice was made to develop rural tourism as the main source of income. All
58 the cabins were renovated during 1999-2000. This resulted in a remarkable increase in tourism
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1 income: there was a four-fold increase in turnover over four years. A third phase started in 1998 when
2 the Internet was introduced as a marketing tool; investment in internationalisation continued in 2004
3 by introducing new high-quality villas which doubled the accommodation capacity.
4 Internationalisation received an additional boost because of increasing interest in Finnish tourism
5 services in Russia.
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8 The attractiveness of the region is one of the key *location-bound*
9 *resources*. The Lake Saimaa district is the largest lake area in Europe, rich in nature and which offers
10 excellent opportunities for water activities. The image of Saimaa as a large lake area, its untouched
11 nature and the right of public access are highly novel elements for foreign customers. The region is
12 quite remote and it is not easily accessible to European tourists, who usually come by car. Still, the
13 company's future success may depend on the existence of an international airport in the region and
14 availability of charter flights in future. Train connections to Savonlinna have improved during the
15 last few years, which is significant for Russian tourists. In their operations, the company emphasises
16 excellent service, personal contact between the customer and hosts, and flexibility in meeting the
17 quality needs of international customers.
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23 The entrepreneurs have understood the importance of *networks* well. In marketing and promotion
24 they collaborate with Savonlinna Travel (ST) and the Finnish Tourist Board. ST – a regional tourist
25 organisation owned by the municipalities and 50 tourism companies – has been their closest partner
26 in marketing. Through this co-operation, they have advertised their services at tourism fairs,
27 exhibitions and workshops. However, today their most important marketing networks are Internet-
28 based. Since 2005 the company has established a presence on several tourism portals and joint web-
29 pages. Currently, booking.com is the main electronic sales channel in international markets.
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35 *Entrepreneurial capabilities* have already been developed over two generations. An explicit decision
36 to internationalise has been made and consequently they have been involved actively in the
37 development of tourism in the region. They have a clear vision in terms of increasing the numbers of
38 Russian guests, but they also want to diversify the business into other market areas. Because of their
39 strong emphasis on nature and the Finnish milieu, Finnish culture is embedded in their services.
40 However, awareness of other cultures is considered important in providing these services.
41 Additionally, more language skills are needed, but often English is sufficient. The importance of
42 international marketing skills has been understood, but as the family is also involved in the day-to-
43 day operations, time for long-term planning is scarce. Because of that, the entrepreneur relies on
44 regional development projects, which may compensate for the lack of appropriate skills.
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50 3.4 Case 3: A holiday village in Southern Finland

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53 Leppäniemen Hirsihuvilat (hereafter Leppäniemi) is a holiday village in Hauho in the south of
54 Finland. The company has 13 traditional log-wood villas which are suitable for year-round use. All
55 the villas have been built at the farm and they were designed by the entrepreneur. Besides
56 accommodation, the company offers its customers nature-based activities such as fishing or picking
57 berries and mushrooms. The company employs three employees all year round and the catering and
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1 cleaning services have been outsourced. The number of customers has been increasing steadily and
2 already half of the clientele are foreigners, Russians being the biggest nationality.
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4 As a response to expected changes in farming due to membership in the European Union, the
5 Leppäniemi family searched for new sources of income. In the 1990s they started a log-wood
6 construction business and the tourism business in 2000. The first customers came through the regional
7 tourism marketing organisation who had business contacts in Russia. The tourism business received
8 a major boost in 2005 when an adventure TV programme was filmed at the premises of Leppäniemi.
9 A medieval log castle was built for the programme and it has been used for the tourism business since
10 as it also provides accommodation opportunities. Since 2006, nine new villas, equipped with modern
11 conveniences, have been built in the area and as a result the numbers of both Finnish and international
12 customers have been growing. An important step for internationalisation was collaboration with a
13 Latvian tour operator who was interested in Leppäniemi as a destination for fishing tours and provided
14 their services to potential customers in Estonia, Latvia and Lithuania.
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21 In terms of *resources*, the location of Leppäniemi is quite central. It is in the middle of Häme, one of
22 the historical regions of Southern Finland, but at the same time close to the largest cities in the
23 country; for example, Helsinki is only an hour away. The scenery is varied, with forests, lakes,
24 marshes and ridges. Still, it is only in recent years that tourism has been valued as a serious business
25 in the Häme area and the region does not have a strong tourism image. The business idea and services
26 are based on the existing premises: lakeside scenery, the rural environment and nature. The villas are
27 situated by the pure, clear waters of Lake Iso-Roine, which is one of the deepest in Finland and offers
28 excellent opportunities for fishing.
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33 The company is embedded in various *networks*. The most important of the local networks is the
34 Hauho Route, which comprises 40 local enterprises offering activity, catering and accommodation
35 services. Another important network is the Finnish Rural Entrepreneurs' Association; and the
36 entrepreneur is also an active member of the local entrepreneur association. However, in terms of
37 domestic and international marketing, the most important partners have been a Finnish Internet portal
38 for cottage owners, Lomarengas, and the regional travel association, Hämeen Matkailu. Co-operation
39 with the Finnish Tourist Board has also started in recent years. In addition, the entrepreneur also has
40 some personal contacts with distribution channels and tour operators in Europe, especially in Latvia.
41 Nevertheless, the future lies on the Internet, and a high-quality website and an active presence on
42 social media are both considered necessary.
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49 Interest in internationalisation has been growing and the need for appropriate *capabilities* has also
50 been recognised. International growth orientation has developed alongside a strong entrepreneurial
51 spirit, and the entrepreneur is determined to develop his marketing and business skills continuously
52 by participating in different educational programmes, workshops and seminars. The next generation
53 on the farm has also shown interest in the tourism business and the future seems promising. The
54 importance of language skills, particularly Russian and often for practical reasons, English, has been
55 noted, as has the need to understand cultural differences.
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3.5 Case companies in the light of our framework

In terms of the dimensions of our theoretical framework, the three cases share some similarities, but also point out remarkable differences (compiled in Table 1).

Table 1. Cross-case analysis

	Resources	Networks	Entrepreneurial capabilities
Snow Games	Attractive location, good connections and developed, professional services	Extensive local and international networks, strong virtual presence	Global mindset, language skills, international growth orientation from the start
Loikansaari	Attractive but remote location, adjustable services	Extensive regional networks, strong virtual presence	International growth orientation in the second generation
Leppäniemi	Interesting, central location, 'homespun' services	Good regional and local networks, virtual presence	Emerging international growth orientation

Internationalisation of Snow Games is based both on their location-bound resources and tight co-operation between the various actors in the region. There has also been a collective improvement of entrepreneurial capabilities during the many development projects carried out in the area. The degree of internationalisation is reasonably high and the entrepreneurs have a strong global mindset, accompanied by marketing competence. Their entrepreneurial capabilities have facilitated turning the location-bound resources into competitive advantage in international markets. One could characterise Snow Games as *an international entrepreneur*.

Our second case firm, Loikansaari, also internationalised early, but the main drivers for internationalisation were the location-bound resources. Internationalisation was neither intentional nor smooth, as tourism services were developed alongside other income-generating activities. Incremental internationalisation was pushed forward by the incentives and actions of others, such as the regional tourism organisation. In other words, the network embeddedness was the decisive driver for internationalisation. Through a generational shift the company transformed from a passive developer into a more active mode and became *an emerging developer*, and this change was further supported by the emergence of new target markets, such as Russia. The budding global mindset was further encouraged by the regional tourism organisation and through evolving networks, both social and virtual in nature. It also seems that the current entrepreneur has a clear vision to develop Loikansaari into an active international entrepreneur. Nevertheless, that would require more extensive embeddedness in international networks.

Our third case, Leppäniemi, was also involved quite early in internationalisation. However, the number of international customers has increased partly due to unsolicited orders and unexpected contacts from interested partners. Thus, despite a strong entrepreneurial spirit, the level of international growth orientation has been rather low, and activities promoting internationalisation

1 have also been modest so far. The company networks are mostly local and regional, with the exception
2 of virtual networks, but these are also used mostly for marketing and booking purposes. The
3 internationalisation of the company has been mainly focused on the utilisation of the location-bound
4 resources. In sum, the company could be labelled a *passive developer*. Nevertheless, given the interest
5 in developing international activities and the entrepreneur's network competence, the company has
6 potential to become an emerging developer in future.
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8 9 10 **4. DISCUSSION AND CONCLUSIONS**

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12 This study investigates how location-bound service SMEs – such as tourism companies –
13 internationalise. Our literature-based framework and the three illustrative cases indicate that these
14 firms internationalise through utilising their location-bound resources effectively and by investing in
15 developing value-added services based on these resources. However, an attractive location and good
16 connections are not sufficient for international opportunities to emerge, it requires entrepreneurial
17 capabilities in order to both to recognise and exploit the opportunities. Moreover, the recognised
18 opportunities do not result in viable business without the support of extensive networks, both locally
19 and internationally.
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25 Our study provides several contributions. First, it challenges existing assumptions on service
26 internationalisation by introducing service companies with strong spatial fixity and highlighting the
27 importance of context-specific issues, which have not been recognised in earlier research. Second, it
28 builds on prior work on service internationalisation, but extends our knowledge by adding new
29 perspectives. The importance of location-bound resources and networks has been noted earlier
30 (Björkman and Kock 1997), but we argue that the possession of neither of those will lead to successful
31 internationalisation without appropriate entrepreneurial capabilities. However, the illustrative cases
32 indicate that all the three dimensions of our framework may act as a key trigger for
33 internationalisation, leading to slightly different internationalisation paths.
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39 Furthermore, research into service internationalisation has more or less ignored the variance in the
40 internationalisation patterns of service firms, and even the exceptional studies (e.g., Roberts 1999)
41 have focused on professional business-to-business services. Unfortunately, when it comes to forms
42 of international presence, the findings of these studies are also quite outdated, as they were conducted
43 prior to the emergence of the Internet and social media. With our framework, we are able to illustrate
44 how the internationalisation process of these firms may progress. Third, we present a framework
45 which allows comparison between location-based service firms in terms of internationalisation. As
46 mentioned earlier, our framework does not assume the three categories to be consecutive stages;
47 rather, it considers the three alternatives as different states of commitment between which the
48 entrepreneur and/or the firm may move non-sequentially. At the heart of the framework is the mindset
49 of the entrepreneur and his/her capabilities for turning location-bound resources into sustainable
50 competitive advantage.
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57 This study has also implications for research and practice. Future researchers interested in service
58 internationalisation should carefully consider the definitions of their key concepts. For example, what
59 is internationalisation? We argue that instead of traditional definitions, which have been mostly
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1 developed for studying manufacturing firms, other alternatives could also be developed. In our
2 opinion, internationalisation of location-based tourism firms is *a cyclical process of increasing*
3 *involvement in inbound tourism operations, with a strong interplay between intangible and tangible*
4 *resources*. This process requires embeddedness in both the local, internationally-oriented tourist
5 system and in international networks. From the viewpoint of international entrepreneurship research,
6 this study suggests that future studies might examine whether *collective entrepreneurial*
7 *internationalisation* exists and what kind of implications it has.
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11 On the other hand, the role of travel and tourism has been increasing steadily, now representing about
12 one-fourth of total exports of commercial services worldwide (World Trade Organisation 2012).
13 Continuous growth requires increasing effort in destination planning and developing services to meet
14 demand. Participation of SMEs is needed as part of this process; but at the same time they need to
15 develop their resource base, networks and capabilities to meet international quality standards. In
16 future we will also have passive and active actors in tourism networks, but their interplay is needed
17 in order to produce the best possible results. Orchestration of this process requires clear vision, fair
18 and explicit division of labour and rewarding incentives. At best, the process can start a positive
19 learning cycle in this area as the key actors in the networks spread international activities in their
20 network. Passive developers may be supported to become emerging ones and opportunities may arise
21 for emerging developers to raise their businesses to the next level. Given the growing economic
22 interest, it is obvious that this development also has important policy and practical implications, and
23 future studies should take into account how governmental policies and practices could support the
24 internationalisation of location-based service SMEs.
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32 It should also be noted that this study focused on three types of internationalisation among location-
33 bound service SMEs: passive developer, emerging developer and international entrepreneur. We did
34 not consider these three as predictive stages or study how a firm might progress from one type to
35 another. Futures studies should take into account that entrepreneurship is a life-long learning process
36 (Ghannad and Andersson 2012) and thus one might assume that through this learning (which is also
37 reflected in the mental models of entrepreneurs) a firm may be move between the three types,
38 especially if there is a change in the external environment. When studying this it might be fruitful to
39 include also other than service firms to the study to see how the patterns of service internationalisation
40 differ from manufacturing exporters.
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46 As with all studies, ours also suffers from some limitations. First, the study had a strong focus on
47 location-bound resources and purposely excluded other types and their impact on internationalisation.
48 We acknowledge the fact that other types of resources, in particular financial ones, may also have a
49 significant impact on internationalisation; and thus recommend that other researchers should take this
50 into account in future studies of location-bound service firms. Additionally, the fact that we took a
51 very narrow approach to entrepreneurial capabilities may have resulted in ignorance of the impacts
52 of other important capabilities related to entrepreneurial creativity and/or innovativeness, for
53 example. Furthermore, the empirical data in this study consisted of only three illustrative cases.
54 Although they strengthened our *a priori* understanding and justified the framework, further studies
55 with more cases and longitudinal data are required. These later studies should also take into account
56 that our framework was based on three types of entrepreneurs, which we considered most viable for
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1 internationalisation. In practice, other types of combinations of our key dimensions might be possible.
2 All in all, entrepreneurial internationalisation of location-bound service firms seems to offer fruitful
3 avenues for future research and hopefully we will see a growing number of studies addressing these
4 questions.
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