Trust-Building and Communication in SME Internationalization

When new business relationships are opened, trust is a critical element. The early internationalization of a firm is attractive for studying trust-building processes. Internationalization is related to risks just as trust is. But internationalization also provides circumstances wherein trust-building can be a challenge to achieve.

This dissertation increases understanding of the process of trust-building in a firm's early internationalization. It represents a view wherein trust is not an irrational act but a manageable act of faith in people, relationships, and social institutions. Communication of trustworthiness is one of the crucial empirical problems in the early stages of starting up a relationship with a party in a new market in that an ability to communicate must be fine-tuned along the way. Organizations and individuals functioning as trust-facilitators can strategically be used to strengthen the trust-building process.

By following three Swedish high-tech small and medium-sized enterprises (SMEs) during entrance into the Japanese market, lessons have been learnt on how actors provided a beneficial environment for trust-building and in this way actively affected the building of trust.

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HANDELSHÖGSKOLAN I STOCKHOLM

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A Study of Swedish-Japanese Business Relations

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To Jennifer

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Niklas Z Kviselius

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Table of Contents

PART I: INTRODUCTION

1   Introduction and Problem

In this introductory chapter, the underlying views, importance, and perspectives as well as the rationale behind this particular research are elaborated. Illustrations are taken from the empirical material regarding Sweden-Japan business relations grounding this dissertation, as well as the theoretical framework that is used as a starting point. Research problems and specific questions are pinpointed, and delimitations are explained. Finally, the dissertation disposition is presented.

1.1   Motivators for the study

Even if trust is central to all relational exchanges, there are reasons to believe that in a situation of internationalization trust is exceptionally important. The benefits of trust are widely accepted throughout the literature, though there is scarce empirical research on how trust can be built in a setting of internationalization. To engage in an internationalization effort is a risky project, and such a commitment is warranted only if the exchange partner believes that the relationships are worth developing. This expectation is based on the mutual trust that underlies relationship. Higher levels of trust strengthen the belief that the undertaking will result in positive outcomes, while limiting the unexpected actions of the foreign partner that might result in negative outcomes. Trust is highly important for the efficient operation of a knowledge-based economy since the market exchange of knowledge gives rise to a high level of risk and uncertainty. These risks and uncertainties are reduced by the presence of a high level of trust.

This study is based on recent research of early stage internationalization of a firm. Jones (1999, p.37) suggests that, "At early stages in the firm's development, a holistic examination of competencies, capabilities, and resources may suggest the types of cross-border links that, effectively managed, might contribute best to the firm's overall development." Although this study does not represent a holistic examination, it aims to provide insight into some of the abilities related to communication of trustworthiness necessary in the early internationalization of a small and medium-sized enterprise (SME). The empiric material as well as the analysis in this work partly deals with proceedings taking place in firms before actions have been taken to internationalize, i.e. when the decisions to internationalize are still forming. The process directly following these decisions is marked by learning through trial and error because there is a lack of routine and experience when few or no business relations have been opened up with actors in the foreign market. Research on these earliest stages is scarce but still relevant and necessary to understanding later stages in the internationalization process.

Trust is important to study for several reasons. Trust is a crucial element in business relationships and is essential for commercial transactions that are not fully controlled by the constraints of contracts (Oakes 1990). New business relationships forming in the context of internationalization are limited by the lack of a foundation of trust and contractually controlled conditions. Without trust, the actors must constantly design and follow up on costly binding contractual arrangements. Contracts have a function, especially when stakes for the involved actors increase, but successful outcomes can be achieved without them

(Malhotra & Murnighan 2002). In fact, trust has been suggested to both decrease uncertainty (Kollock 1994) and increase co-operation (Mayer, Davis & Schoorman 1995) making trust a substitute for contracts (Ring & Van de Ven 1994; Barney & Hansen 1994).

Research on trust is challenging because of the taken-for-granted nature of trust. Among practitioners, such as managers of companies, the interest in and acknowledgement of the phenomenon of trust might arise only on its breach or breakdown (Flores & Solomon 1998). This further justifies research into the phenomenon of trust as well as dissemination of the acquired information to decision makers in business even more important.

This dissertation aims to increase understanding of the process of trust-building in a firm's internationalization. Key persons active in the processes were examined and conclusions were drawn from the analysis of the empiric material that was collected on site in Japan and Sweden.

1.2   Context of internationalization

The actors in the cases are Swedish SMEs producing innovative computer software. These high-technology (high-tech) SMEs (Crick & Jones 2000; Coviello & Munro 1995) have the flexibility and entrepreneurial ship to quickly adapt to technology shifts thereby keeping a nation at the forefront of the research frontier which makes them especially interesting and relevant for business research. The managers of these firms have a strong ambition to extend their businesses into markets other than Sweden – more specifically the Japanese market. Internationalization in this dissertation is defined as the process of increasing involvement in international operations (Welch & Loustarinen 1988).

The internationalization of a firm is interesting for studying trust-building processes. The internationalization is related to risks just as trust is. When new business relationships are opened, trust is a critical element and internationalization is challenging to achieve in part because of issues relating to communication. The Japanese market has been considered an interesting object in internationalization because of its large psychical distance from Western countries, as well as a history of reservation to foreign business initiatives due to historic factors. The physical distance from Sweden to Japan helps to highlight the communication aspects of trust-building being studied in this research dissertation.

In this way internationalization is a parallel process underlying the process of trust-building. This parallel internationalization process serves as both the social context for the study on communication of trustworthiness as well as a way of keeping track of the present situation of the studied firms. Empirically this dissertation deals with the development of three business relationships between smaller Swedish and larger Japanese firms with a high-tech base during the establishment of these Swedish companies' into the Japanese market. Theoretically this dissertation is a study of the development of three business relationships between firms in two different markets, irrespective of the companies' country of origin, technology base, and size. This study includes material relevant for researchers as well as practitioners interested in the Japanese market. In summary, the context of internationalization is a fertile ground for the study of trust-building, just as trust-building can and should be an integrated part of internationalization.

1.3　Trust and trustworthiness

The concepts of trust and trustworthiness are based on three attributes including competence, integrity, and benevolent attitudes of the trustee as perceived by the trustor (Sako 2000; Mayer, Davis & Schoorman 1995). The perceptions related to significant ongoing social exchanges by relevant key informers between the trustee, trustor and intermediary are studied. A recent example of this approach is made by Muthusamy, White & Carr (2007). In this dissertation these three attributes are suggested as necessary for producing trustworthiness. Herein, the basic definition of trust is concretized and approached as perceived trustworthiness by an external actor – more specifically a potential business partner in a new market – Japan. In this framework these attributes must be present in the Swedish SMEs in order for it to be perceived as trustworthy. However, the focus is not on the attributes per se, but on the ability to communicate these attributes. Without a working set of communication abilities these attributes will go unnoticed.

Dasgupta (1988, p.53) explains trustworthiness as, "Trustworthiness concentrates on a person's overall disposition, his motivation, the extent to which he awards importance to his own honesty." The relationship between the concepts of trust and trustworthiness should be discussed before the argumentation continues because the association between the two is not always clear. Much of the literature on trust does not mention trustworthiness and few of the researchers note the distinction between trust and trustworthiness (Blois 1999). Indeed both trust and trustworthiness are usually subsumed under the heading of "trust".

In research addressing trustworthiness, several proposed qualities have been identified including discretion, reliability, and competence (Sheppard & Sherman 1998). However, there are no explicit tests or checklists which can be used to determine another party's trustworthiness (Blois 1999). Trust presupposes trustworthiness - either one is trustworthy or one is not. Hence, trusting takes the form of a kind of knowledge, the recognition that someone is trustworthy (Flores & Solomon 1998). Concentrating on trustworthiness, and the communication of trustworthiness, is one way of approaching trust-building with a focus. The connection between communication and trust is based on the use of communication as a tool to convince the opposite party of your trustworthiness. Trust and trustworthiness form a complementary pairing whereby if a person trusts another because he is trustworthy then this action of trustworthiness inspires trust (Flores & Solomon 1998). One should consider that trust is not always coexistent with trustworthiness - one can, and sometimes must, trust someone who is untrustworthy or untried (Flores & Solomon 1998). However, the element of trustworthiness in trust is in most cases ultimately something sought for and the process of building this element is the interest of this dissertation.

Trust belongs in the context of relationships between actors and is the result of honest interactions. The reciprocity of trust is central (Anderson and Weitz 1989). Having said this, simplifications are made in this study regarding the mutual dependence (reciprocity) of the business relationships studied. The main theoretical and empirical stance is taken from the perspective of the Swedish SME with usage of the Japanese firms as fix reference points for the key concept of perceived trustworthiness. Two themes have pervaded research on trust: (1) that trust entails the assumption of risks, and (2) that some form of trust is inherent in all relationships (Sheppard & Sherman 1998). A relationship is by its very nature ongoing and

dynamic. Trust is an essential and "existential" dimension of that dynamic relationship (Flores & Solomon 1998, p.219).

1.4   Process of trust-building

The process of trust-building is the focus in this dissertation. It is not, however, beyond questioning, that trust can be built actively and this must be studied further. One view is that trust is a feature of the relationship between individuals that is impossible to manipulate. Sako (1998), for example, argues that trust is a cultural norm which rarely can be created intentionally because attempts to manufacture trust in a calculative manner would destroy the affective basis of trust. Motives may be heavily questioned when attempts are made to build trust (Blois 1999).

The starting-point is that actors can provide a beneficial context or environment for trust-building to take place thereby actively affecting the levels of trust built (Parkhe 1998a, 1998b). This dissertation represents a view where trust is not an irrational act but a manageable act of faith in people, relationships, and social institutions. To just rely on passively biding time and maintaining hope that trust would increase is risky. Trust takes time to build (Rempel, Holmes & Zanna 1985; Sheppard & Tuchinsky 1996a) and should not be taken as an assurance that over time trust can be built.

While it might not be possible to force another party to trust you, it is possible to demonstrate one's trustworthiness which in turn may make it possible to gain their trust (Blois 1999). Crucial to this dissertation, trust is interpreted as the characteristic of trustworthiness and the communication of trustworthiness that takes place during a time period of entrance into a new market.

Much economic research deals with static models. The realities of business are however always moving and research bringing in the temporal dimension is important. Focusing on the process instead of applying a pure economic perspective is a link to the tradition of Nordic research of international business practices. The firm is viewed and characterized by bounded rationality, action-based learning processes, and a complex structure in terms of resources, competencies, and influence (Björkman & Forsgren 2000).

This dissertation presents several parallel processes of which the most significant is the internationalizing of the firm that provides the context for studying trust-building. There is also a process of negotiations resulting in a contract along the way. Several communication processes are described in the cases. The reality of business can be translated into a bouquet of processes that unfold as time proceeds. The following of everyday work by the firm is posited to give valuable and new insight for researchers and practitioners.

As for the trust-building process, to regard another as trustworthy is typically a slow evolution in which there may be no or few specific events. Trust is found to be process-based, in the sense that firms regularly test each other's integrity, moving from small, discrete exchanges of limited risk to more open-ended deals that subject the parties to substantial risk (Lazerson & Lorenzoni 1999). Trust evolves through a process of growth in knowledge and understanding of the people with whom the interaction takes place along with the actual

experience of collaborative work (Blois 1999). To gain this knowledge, studying communication between the parties is necessary.

On the other hand, research also shows that recognition or awareness of another's trustworthiness may take larger steps forward, not only through everyday experiences, but also through the involved actors' behavior in exceptional, and therefore infrequently occurring, circumstances (Blois 1999). For example, it is no coincidence that survivors (such as those from extreme circumstances like war and natural catastrophes) can develop especially close bonds to each other where trust is almost indefinite. To isolate and describe both the everyday smaller proceedings and these rare instances when collecting empirical data in business relationships, would provide a chance to further increase the understanding in the process of trust-building.

1.5 Individuals and intermediaries

The question of which actors should be included in the analysis is not a trivial choice and must be discussed further. I find that in a study where trust-building and communication are key concepts it is theoretically and empirically difficult not to closely examine the role of the individual. Researchers have separated the different basis for trust such as organizations, individuals, and institutions (Shapiro, Sheppard & Cheraskin 1992; Brewer 1981; Williamson 1993). Often in studies of conditions effecting internationalization, the firm becomes the focal point thereby making the study an examination of inter-organizational trust. A crucial question is whether an organization can trust in the first place. Much research on trust carries with them the assumption that organizations can trust which also has implications on the research instruments (Blois 1999). The perspective taken in this study is that inter-organizational trust must sooner or later come down to the analysis of the individuals; an acknowledgement that research on entrepreneurship supports (Morgan & Katsikeas 1997). As for the literature of internationalization, Björkman & Forsgren (2000) note that the role and importance of key individuals has not yet received much attention. The main actors in this dissertation are key individuals inside Swedish SMEs and their substantially larger potential Japanese business partners.

Is the trust-building process a mere development between a trustee and trustor, or are there other actors that should be brought into analysis? Research on business relationships has focused on the dyadic relationship between two actors (Havila 1996). Other actors are frequently discussed in implicit terminology during research on trust in the form of institutional trust and reputation. It is not always possible for an individual to assess a partner's trustworthiness. As a result, institutional mechanisms have emerged including courts, government bureaucracies, and banks as a means for enabling business trust between individuals. These institutional mechanisms create a basis for trust among parties not having the possibility to determine trustworthiness themselves (Sheppard & Sherman 1998; Ring & Van de Ven 1994; Zucker 1986). In this dissertation, these institutions appear in the role of trust-facilitators. The aforementioned intermediaries can be utilized as interim institutional trust mechanisms that precede the effective construction of trust between individuals.

Two actors with mutual contacts in a social network can be brought together in a business relationship by the third actor. Even when the two actors do not know each other, they can find out information on each other through third-party ties. The dyad's mutual contacts can

spread both positive and negative information throughout the social network (Chan 1997). Therefore, common ties serve as a basis for trust (Gulati 1995a; Portes & Sensenbrenner 1993; Raub & Weesie 1990). Hence, there are several reasons to bring in a third actor – the intermediary or trust-facilitator - as an explicit part of the analysis. A triadic level of analysis can provide an interesting dynamic to the problem (Madhavan, Gnyawali & He 2004). One starting point of this dissertation is that internationalization as well as the development of business relationships can be studied as a process. The business relationship is affected by other actors, and that is why the triad relationship between three actors should be analyzed and discussed. Possibly, the most interesting unit of analysis forthcoming from this study is the triad as a process over time. The key factor inside the triad in this process is the trust-building communication ongoing between the three actors involved.

The role of the intermediary comes naturally to practitioners opening up new business relationships, whether on the home-market or as a part of internationalization. By finding actors that can connect representatives to the right decision makers in other firms, by asking actors with an existing high level of perceived trustworthiness in a community to become a reference, the business executive can more speedily navigate into a new market.

1.6   Communication of trustworthiness

A SME in Sweden wants to convince a large Japanese firm to trust them. One way of doing this is by sharing knowledge on competencies relevant to the local market conditions (market knowledge), products (product knowledge), the individual's management skills, and the firm's economical stability and durability. Because much of this knowledge is more of an internal and/or implicit nature (Nonaka 1994; Nonaka & Takeuchi 1995), several obstacles frequently occur and must be solved through efficient communication. Features of a relationship that permits easy discovery and interpretation of the other's behavior, such as electronic communication linkages, are also important for trust production (Womack, Jones & Roos 1990).

Several researchers observe that for people to be willing to share their knowledge, they must have trust (Davenport & Prusak 1998; Podolny & Baron 1997; Kramer 1999). More specifically, trust has been discussed as a prerequisite for especially tacit knowledge sharing (Roberts 2000; Rolland & Chauvel 2000). In these studies, the level of trust is partially regulating the knowledge transfer – making it possible to happen. It is a rarity to examine how trustworthiness is communicated through a transfer of knowledge between two firms.

In the context of this dissertation, the communication of trustworthiness is considered to be a critical part of trust-building that will continue to evolve throughout the business relationship. Trust-building can be seen as a continuous dialogue that takes place between different actors (Flores & Solomon 1998). This view demystifies the concept of trust and makes it easier to penetrate through research. Trust has also been closely incorporated in the definition of knowledge as being shaped in processes closely interwoven with trust (Ellingsen 2003). With this perspective, the understanding of communication becomes a central element when studying trust-building. Trust and communication has also been connected in various studies, however communication has mostly been the antecedent to trust (Anderson & Weitz 1989; Anderson & Narus 1990).

Communication is the informal sharing of meaningful and timely information (Anderson & Narus 1990). There are indications that communication can be improved upon and is related to trust building. This communication ability is placed at the heart of the process of trust-building in this dissertation. Communication of trustworthiness, as defined in this dissertation, is an interactive process that affects, monitors, guides member's actions and their attitudes towards one another, and that ultimately determines the level of trust that exists between the actors (Kasper-Fuehrer & Ashkanasy 2001; Nelson & Coxhead 1997).

In relationships, the capacity of the actors to communicate is essential, but in some instances this is not always possible. Parties may be separated by great distances, or the speed in business proceedings demanded by the relationship may prevent complete or regular communication (Sheppard & Sherman 1998). In a context of internationalization, these instances can be especially pertinent. Business partners are separated by different time-zones and have to rely on key individuals or technologies to bridge these difficulties. These issues are even more critical in the early stages of the relationship and trust-building.

Communication has been examined with a focus on the actual transfer of information between parties (Rogers 1976; Rogers & Shoemaker 1971). Research has also pin-pointed that these transfers rarely are completed if not the receiving actor is capable of understanding and assimilating the new information (Cohen & Levinthal 1990). This is an ability that differs between organizations – and individuals. Here trust is a product of one's capacity to assess the trustworthiness of one's potential partner (Sheppard & Sherman 1998).

When communication is acknowledged as a central feature of trust-building, we become motivated to examine the factors that affects the ability for receiving and sending messages to better understand the nature of trust-building. Hence, for practical as well as theoretical reasons, it is important for researchers to develop a fuller understanding of communication in relation to trust-building.

1.7 Three company illustrations

This dissertation proposes that the communication of trustworthiness is a critically empirical problem in the early stages of starting up a relationship with a Japanese customer. The use of these three brief case descriptions will shed light on the importance of communication in establishing trustworthiness and this exercise will direct and focus the aim of the following chapters.

These brief cases have two features in common that enable a few concepts to be derived. First, they are illustrations of Swedish high-tech SMEs with Information and Communications Technology (ICT)-products in the middle of a day-by-day survival. Second, all these firms are in the process at different stages and levels of success, of internationalizing into the Japanese market. In the following section, it will be argued that by following the process and timeline of these firm's efforts more closely, much can be learnt about the nature of trust-building across national, organizational, and geographical boarders and distance.

1.7.1 Company case 1: Alpha Networking Products AB

Alpha Networking Products AB was founded in southern Sweden in 1984. The founders consisted of a graduate with a degree in International Business from the Stockholm School of Economics, and a student from the University of Lund studying computer science and electronics. In 1985, the first product – a device that connects printers to a network – was commercialized and sold in Sweden and Germany. In 2004, sales were up to 691 MSEK and Alpha AB operated globally with offices in 14 countries and in cooperation with distributors, systems integrators and OEM partners in 70 countries. Markets outside Sweden accounted for more than 95 percent of sales. In January 1993, one of the founders traveled to Japan for six months of intense networking. Meanwhile, the vice president in Sweden took care of business in Europe. The founder had the clear vision to start a subsidiary in Japan and worked to establish a simple desk at Alpha's Japanese distributor. Several organizations including The Swedish Trade Council and Alpha's own subsidiary in Japan as well as various individuals acted as intermediaries and these entities affected the relationship in sometimes unexpected ways. Between 1997 and 1999, Alpha negotiated the largest OEM-deal, for Alpha to date, with the Japanese electronics manufacturer Yotsu. This case follows several important key individuals in Sweden and Japan that were driving the process of trust-building between the firms forward. The importance of a local presence and the critical role of Swedish representatives of the trustee on site and how this affected the process of trust-building is addressed. During the process, we can explicitly follow how communication was conducted between the trustor and trustee. Furthermore, this in-depth examination establishes how communication abilities changed when difficulties and friction between the parties arose and how these issues were subsequently overcome.

1.7.2 Company case 2: Beta Software Solutions AB

Beta Software Solutions AB was founded in Lund, Sweden in 1999, by a Professor and two fellow researchers in the field of mathematics. In 2001, the first product – a software package to enable handwriting recognition on mobile devices – would be launched. Soon a version for Chinese as well as Japanese characters complemented the version for Latin. In February 2002, one of Japan's largest printer manufacturers became the first customer in the Japanese market. In June 2002, two Japanese persons were employed by Beta. One of these soon became involved in working with prototype design and Japanese handwriting systems at Beta. The case follows how Japanese employees helped to gain leverage in the communication and relations with Japanese firms. The CEO decided to leave Beta's operations in Sweden in the hands of his Swedish managers and leave for a two month trip to Japan. The case shows how communication abilities can be improved in a relative short period of time through dynamic interaction with internal Japanese experts and open-minded local visits and networking. In this case, The Swedish Trade Council also acted as intermediary resulting in immediate access to high-level leaders in the hierarchies of the Japanese firms. In June 2003, after two and a half year of testing and alterations, Beta closed its largest deal with one of the major consumer electronics manufacturers in Japan, Ichi. Even if Beta previously had been active with smaller deals in Japan, the contract with Ichi was the apex of their achievements in Japan to date. The case explores the importance not only of trust-facilitators but also of individuals acting as "door-openers". Furthermore, the case explores how the initiative of individuals inside the Japanese system (Japanese employees) became crucial for the positive outcome of the negotiations. When looking back on what landed this deal the evaluation suggests that, the trust-building process with "door-

openers" at Ichi proved to be crucial. The person acting as a "door-opener" managed to convince the hesitant engineers at Ichi to give the Swedish SME a chance. In addition, deciding to set up a temporary office in Tokyo with Japanese representatives from Sweden was essential to closing the deal with Ichi. The case addresses the response from the Swedish trustee to pressure from the trustor to have local presence in Japan and how this affected trust-building. The intensive work output from this small office proved to boost Beta's trustworthiness and intermediate communications with the developing engineers in Sweden.

1.7.3 Company case 3: Gamma Hotspots AB

Gamma Hotspots AB was founded in Stockholm, Sweden in 2001 by six experienced ICT-professionals and entrepreneurs. The core technology consisted of software and a server that enabled wireless hotspot network operators to automatically present and distribute complex applications to various wireless devices and via different kinds of networks. In September 2003, after nine months of negotiations, Gamma signed an exclusive agreement with one of Japan's oldest and largest trading houses, Futatsu, for distribution of their solutions. The resulting negotiations with Futatsu led to an agent contract where Futatsu acted as a wholesaler authorized to approach various Japanese network system integrators. The case describes how a small and relatively unknown Swedish company could attract the interest of one of Japan's largest trading firms, and how this trading firm was established as an intermediary for the Swedish firm in the Japanese market. The case follows the Japanese trustor Futatsu's changing view on the trustworthiness of the Swedish trustee Gamma and the direct role of intermediaries and individuals in this process of trust-building. The case shows that trust-building can be helped as well as hindered by intermediaries. The months of negotiation were filled with intense communication over meeting tables, email and phone. We see how the communication linkages between trustee, trustor and trust-facilitator evolve throughout the process. The case addresses frictions during the communications and the resulting effect on the trust-building process. When the deal was signed, technicians from Gamma briefly went over to Futatsu in Japan and provided support on the product in order to jump-start the relationship. The case shows how disruptions in communication on an individual level can affect the trust-building process as a whole. Gamma found it important to have both written instructions as well as knowledgeable people involved in the product transfer. An extensive CD-ROM with technical specifications was developed just for Futatsu. This intense communication that transcended time zones and continents proved to be vital in closing the deal and continuing the relationship with the Japanese partners. These cases can demonstrate how trust can be built and also, how the trust-building process can deteriorate and what actions were taken to stop this from happening.

1.8 Research problem and purpose

Research on internationalization suggests that the process of taking a firm abroad is a rich environment for studies of trust-building in business relationships. Globalization has fused national and international markets and made internationalization a necessity for both larger and smaller firms to become and remain competitive. As a result, internationalization has become more important earlier in a firm's life-cycle. Results from research on knowledge and communication give a firm grasp as to how trust in international business relationships can be built and conveyed. Accordingly, the theoretical foundation is built from three pillars of research: (1) Internationalization, (2) Trust, and (3) Communication. A motivating factor

for conducting this study is to bridge a theoretical gap in the research where these key concepts intersect.

Against this theoretical and empirical background, the overall purpose of this study is to increase understanding of the process of trust-building in a firm's internationalization.

The overall purpose of this study will be approached through the investigation of the following research questions:

1. What is the relationship between communication abilities and the process of trust-building?
2. What is the role of intermediaries in the process of trust-building?
3. What is the role of the individual in the process of trust-building?

In this context, a "role" is seen as a function performed specifically in the process of trust-building. The dissertation addresses the complexity and diversity of the phenomenon of trust-building when internationalizing a smaller firm.

1.9 Contribution

A study on the communication of trustworthiness in the early stages of internationalization of small and medium-sized high-tech firms is a contribution to the existing research body as well as to the managers of these firms. This dissertation represents an integration and extension of previous research on early internationalization, trust, and communication.

The dissertation illuminates how trustworthiness is communicated and how this communication can be managed to improve the process of trust-building. The study also extends the understanding of how individuals and organizations affect the process of trust-building. This dissertation supports previous research suggesting that timely and reliable information exchange (Bstieler 2006) is essential for achieving trust. Additionally, the findings demonstrate how managers can strengthen this exchange of information or communication. Communication and its role in facilitating trust-building in early internationalization has been a neglected area of study. In this way, a contribution is made to existing research by high-lighting communication as a way of understanding and being able to strategically influence this process. This dissertation also shows the trust-building process in the context of early internationalization

Furthermore, this thesis proposes that the framework provides a valuable foundation for additional empirical investigation and practical understanding of the process of trust-building. This study gives advice to individuals and firms that want and need to be trusted but are unsure how to achieve this reliance. The study suggests that it is important not only to focus on behavior in the classic business relationship dyad but also to manage behavior in relation to third parties.

1.10 Delimitations

Delimitations emerged during the research process where the dissertation narrowed down trends and factors that were isolated as predominant. The purpose has not been to test a number of set hypotheses but to examine the process in which trustworthiness is

communicated and then propose a number of concepts that can be used to analyze this process. Six delimitations of scope in this research are worth emphasizing.

This study treats trust as a positive and sought-after feature in business relationships. Researchers have increasingly emphasized distrust (Sitkin & Roth 1993; Bies & Tripp 1996). Researchers have also treated distrust as a distinct concept from that of trust. The view presented herein is that trust and distrust should not be defined as independent constructs but rather polar opposites as supported by the work of Rotter (1967). In this thesis, distrust is not in focus but rather treated as a low level of trust. In line with this, researchers including Wicks, Berman & Jones (1999) have proposed a more balanced view on the desire to increase trust and thus introduced the terminology of optimal trust dependent on the specific business situation. In this thesis, higher levels of trust, has per default, been seen as positive and judgments on optimal trust is omitted. The assumption is simply that partners aim at a high-trust relationship. Granovetter (1985, p.492) also suggests that high-trust in business relationships can have quite drastic negative results including malfeasance and fraud ("honor among thieves"). That this occurrence is rare strengthens the proposition of organizations aiming towards high trust (Ring & Van de Ven 1994).

This dissertation does not explicitly investigate the relationship between trust-building and financial results such as total revenue and profit. Even if increased levels of trust can be hypothesized to improve the bottom-line, this research has not tried to make a connection between trust and financial results. This dissertation is not focused on how organizational factors such as ownership and corporate structure affect trust. Trust is most probably affected by various contextual factors that are not considered in this dissertation and different organizational forms have different trust requirements (Chan 1997).

Researchers in business argue that rules, customs, and the behavior of the Japanese people are very different in comparison to the rest of the world (Kranias 2000). For example, cultural differences are pointed out by Hofstede's (1983) seminal study (also see Hofstede 1980, 1991; Hall 1976). Trust is also described in association with social embeddedness (Granovetter 1985, 1992; Gulati 1995a, 1995b; Portes & Sensenbrenner 1993) and ethnical enclaves (Light 1984; Light & Rosenstein 1995; Waldinger, Aldrich & Ward 1990). Previous cultural exposure is said to be an important factor influencing communication behavior (Wiseman, Hammer & Nishida 1989). Especially when the empiric material is taken from evolving business relations between actors in two substantially different nations such as Sweden and Japan, an emphasis on cultural differences would be a viable way of approaching trust in the context of internationalization. Even if I do not dispute this fact, because any national culture is unique, I have focused on other factors in this dissertation. The primary reason for mentioning these issues is input from discussions with the interview respondents who continuously brought up other factors for the problems at hand. Much of the decisions are driven by emerging business opportunity and not business or national cultural factors. This is supported by other research such as Hemmert & Bstieler (2005) who examined the influence of trust-building mechanisms and national culture on actual trust development and found that national culture only plays a moderate role for trust formation when compared to general trust-building mechanisms like communication quality, fairness, and conflict history. Having said this, language differences as well as different views on contractual agreements have been noted and accounted for in the case narratives.

This study does not incorporate an analysis of the holistic internationalization efforts (Jones 1999) of the company cases, but narrows down specific efforts of entering the Japanese market in general and the closing of one specific business deal in particular.

The research originates from problems small Swedish companies had in developing and selling products relating to the industry of information and communication technology face, when dealing with large Japanese multinational corporations. All three company cases are high-tech ICT companies with core competencies in software development – although they might sell systems incorporating hardware. This study is limited to conclusions based on analysis from these SMEs and does not provide analysis or insight into the problems larger firms, or those in more traditional industries moving into the Japanese market may encounter.

The focus is not on the internal cognitive characteristics of the individual, but to examine the observable characteristics in the relationships. Professional relationships are hypothesized to be characterized primarily of cognition-based trust, in relation to affect-based trust such as exemplified by the parent-child relationships (Chan 1997). Attribution theory suggests that causes of actions are accredited to internal characteristics of the other person when the behavior is consistent with prior expectations, and causes are ascribed to external situational characteristics when the behavior is inconsistent with prior expectations (Jones & Nisbett 1971). Even if this is acknowledged, the emphasis in this dissertation is not on the cognitive processes of the individuals where the perception of trust might be created, but on the visible relations in the form of real outcomes by actions and activities that are indicated in the cases.

1.11 Disposition

The disposition of the dissertation is depicted in Figure 1 and divided into four main parts: (I) Introduction, (II) Theoretical Arena, (III) Empirical Arena, and (IV) Analysis.

In the first part, the purpose and outline of the research work is described in two introductory chapters. In Chapter 1, a discussion pertaining to the empirical and theoretical setting and problems leads to the main and underlying research questions. In Chapter 2, the strengths and weaknesses of the chosen methodology are offered.

In the second part, a review of existing studies is presented that leads leading to a framework proposed for understanding the research problems used in correspondence with the gathered empirical material. In Chapter 3, relevant theories are presented as the theoretical pillars of the dissertation. These theories are reviewed and melted into a framework justified for this dissertation in Chapter 4. In the third part of the empirical arena, the three cases are presented in Chapters 5-7 and the framework from Chapter 4 is applied.

In the fourth part, the analysis of the cases continues with a comparative approach where the similarities and dissimilarities of the cases are brought to the forefront and analyzed within the proposed theoretical framework. In Chapter 8, these comparisons are presented and in Chapter 9, concluding remarks and generalizations are made. Chapter 10 includes managerial implications based on the previous analysis of this dissertation. Chapter 11 discusses suggestions for future research relevant to the subject of the dissertation.
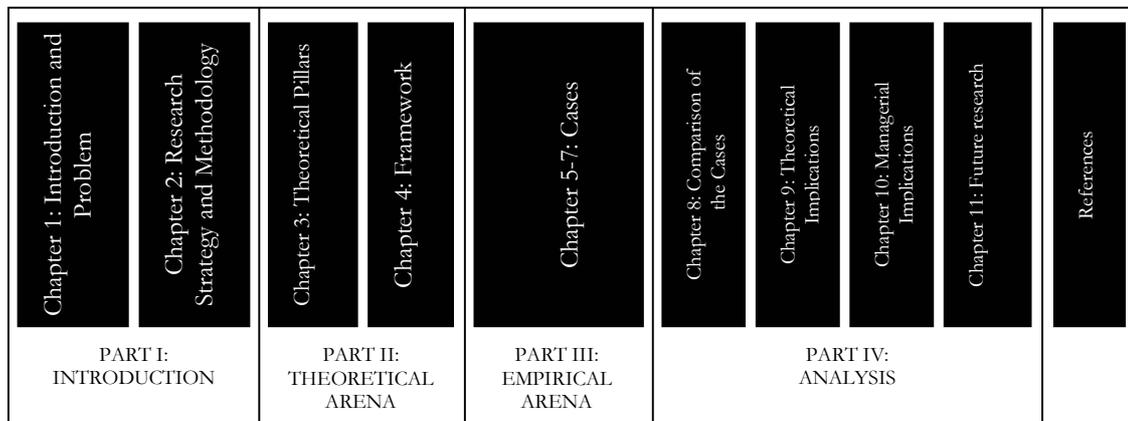
Figure 1: Dissertation disposition in four parts.

2 Research Strategy and Methodology

This chapter contains comments on the major choices regarding the research design and subject as well as background information relevant to data collection. Issues concerning the frame of reference, concepts and research problems are elaborated. The aim of the following discussion is to help assess the strengths and weaknesses of the research design and the choice of methods thereby allowing the reader to build an opinion on the results.

2.1 Locking on the target

The research question evolved gradually from the time of my acceptance as a PhD student at Stockholm School of Economics, and continued throughout the collection of empirical material in the form of company case studies. In 2001 I designed and concluded a research report on the Wireless SME business landscape in Sweden. For this report, I interviewed managers from 39 Swedish high-tech SMEs. One purpose for this report was to map the interest and potential for these companies to establish themselves on the Japanese market. During this work, I became interested in the internationalization of SMEs developing high-tech products and selling them outside Sweden. The difficulties these SMEs had in communicating the value of their solutions and stability of their companies to customers in distant (both in terms of geography and organizational culture) markets became visible. It also became clear that relatively little research had been done on the everyday business life of high-tech SMEs.

This interest in Swedish high-tech SMEs and internationalization was followed up in several conference papers presented and discussed at academic conferences worldwide. These reports presented case studies that followed up on aspects of specific industries and applications related to ICT. My previous connection to Japan, through academic studies of Japanese language, negotiation styles, culture, politics and management, led to several trips to Japan including a six month stay in 2003 at Waseda University in Tokyo as a guest researcher. These trips gave ample opportunity to follow up on research leads regarding business relations between Swedish SMEs and their partners in Japan.

While working on these conference papers, the area of knowledge management was studied. An extensive literature search on technology diffusion and transfer provided a rich amount of theoretical background material. When discussing the processes of communication and internationalization with the managers of the Swedish SMEs and their Japanese counterparts, issues around trust and trust-building came up frequently.

Progressively, I came to the conclusion that focusing on processes related to trust would provide a research contribution relevant to practitioners. The primary unit of analysis became the relationship between an entrepreneurial firm and its partner organizations. A literature study on trust in business relations revealed that the research area was vibrant but that information regarding the intersection between communication and trust, in the context of internationalization, would be an area where a contribution could be made.

2.2 Generating theory through case studies

As the research purpose and questions became refined, I found that a multiple case study would be a suitable method to pursue the sequential empirical gathering and analysis for this dissertation. One rationale for this choice developed from my aim of integrating the complexities of a study of processes over time. Another rationale was my ambition to introduce a new theory. Case studies can be used for various aims: to provide description; test a theory; or generate a theory (Eisenhardt 1989). The primary aim of the case studies in this dissertation is to build complementary theory to answer the research questions at hand – this is a proven research tradition (Glaser & Strauss 1967; Yin 1981, 1994; Miles & Huberman 1984; Eisenhardt 1989; Merriam 1994). I have, as far as possible, followed the proposed process of building theory from case study research as suggested by Eisenhardt (1989, p.533). One strength of the case study approach is the likelihood of generating new theory that is empirically valid. The likelihood of generating a valid theory is high because the theory-building process is closely tied to evidence, making it likely that the resultant theory is consistent with empirical observation (Eisenhardt 1989).

Like a series of related laboratory experiments, multiple cases are discrete experiments that serve as replications, contrasts, and extensions to the emerging theory (Yin 1994). While single-case studies can richly describe the existence of a phenomenon (Siggelkow 2007), multiple-case studies typically provide a stronger base for theory building (Yin 1994). Theory building from multiple cases typically yields more robust, generalized, and testable theory when compared to single-case research (Eisenhardt & Graebner 2007). As analysis will show, parts of the conclusions have been replicated in the different case studies at hand.

Theory-building research is to begin as close as possible to the ideal of a clean theoretical slate; however, this ideal is difficult if not impossible to achieve. After having embarked on the early gathering of empirical data, I pinpointed trust-building and communication of trustworthiness as central concepts for the internationalization of smaller firms. This resulted in a thorough theoretical composition and an initial framework with pieces missing. I aimed at extending the initial framework with the consecutive empirical data collection and analysis. The expected final product of the dissertation was a conceptual framework presented in a simple visual theory summary to enable understanding of the trust-building process.

I have chosen to methodologically observe the concepts, e.g. trust-building communication, of my framework from the rich empirical material through certain empirical indicators. These empirical indicators are directly linked to the definitions I have included in the section on theoretical discussions. The empirical indicators are summarized in connection to the comparative analysis of the cases. These summaries explain my view on the linkages from concept and its underlying factors, the grounding of the concepts in theory, what empirical indication that have been used and how this is used in the analysis. The respondents have read, commented and corrected the case narrative but not the following analysis. It should be pointed out that I, and not the respondents in the various organizations, bear the sole responsibility for the interpretations of the empirical indicators and the following analysis.

2.3 Selecting the cases

I started collecting data on Swedish SMEs in the ICT-sector and interviewing their managers. The Swedish SMEs were chosen because of they were smaller Swedish firms with

business relations and actors in the Japanese market, The selection criteria were not only high-tech SMEs but also a firm in a relatively early stage of internationalization into the Japanese market.

With these restrictions in mind, data on Swedish SMEs developing ICT-related products that have entered the Japanese market was collected from export databases as well as organizations promoting Swedish industry in Japan. The Swedish Embassy and Swedish Chamber of Commerce in Japan assisted with membership lists of Swedish companies present in Japan and this became the initial sample with which I worked.

In this sample, there was a heavy concentration towards large firms in traditional industries such as industrial tooling, and heavy machinery. A majority of subsidiaries were providing products to traditional manufacturing industries and in this sampling service firms and providers of consumer products were a clear minority. Only 11 out of the 101 subsidiaries were directly providing ICT-related products (providing software and/or integrated computer systems, or telecommunication equipment) to the Japanese market (Swedish Trade Council 2002). Of the three company cases, I finally selected for this dissertation, only one was included in the original sample. This is for two reasons. First, as has been argued previously, some of these firms proved to be relatively large corporations well outside the research focus. Second, all 11 firms could be classified as already successful because they had previously established a Japanese subsidiary.

However, because the companies with early and maybe unstable relations with the Japanese might not yet be members of Swedish business associations in Japan, this roster was complemented by a "snow-ball" sampling of Swedish SMEs having tried to enter the Japanese market whereas interviews with one SME, government agency, or industry organization, led to contact with another.

In total, managers directly involved in international operations from 33 Swedish SMEs were interviewed during 2003-2004. Including supporting functions for these SMEs undergoing internationalization, such as venture capitalists, industry organizations and chambers of commerce, think-tanks and consultants, interviews with 66 individual respondents were performed in Sweden and 34 in Japan. The outcome provided empirical data consisting of three in-depth case studies of the business relationship processes involving Swedish entrepreneurial firms in the computer software industry, their Japanese partners, and observed intermediaries. In this way, the empiric material consists of case studies of three groups of actors defined during a process of market entry: (1) Swedish SMEs developing ICT-related products, and in different stages of internationalizing into the Japanese market, (2) The Swedish companies' partners in Japan, (3) Supporting actors for this internationalization in Japan. Of these three, the majority of interviews belong to the first two groups.

The first group is the Swedish SMEs developing ICT-related products in different stages of internationalizing in Japan. According to the OECD-definition of small and medium-sized enterprises, these corporations have less than 250 employees with annual sales of less than €50 million and an annual balance sheet of less than €43 million (OECD 2004). The three cases scrutinized in this dissertation range from six to 200 employees at the time of entering Japan with sales of 1 to 350 MSEK. The company cases are all producing a technically

advanced product in the field of information and communication technology (ICT) where the product may be a mix of both hardware and software.

The second group is the Swedish case companies' partners in Japan. This group consists of large Japanese conglomerates with activity in the ICT-field. Even if these conglomerates have a global presence, sometimes including branches in Sweden, the Swedish SMEs are dealing with representatives from the local Japanese market. In this case, the local Japanese market serves as customers for OEM-solutions, off-the-shelf products, or system-integrators. The third group consists of actors that have a supporting role for the Swedish SMEs internationalization into Japan. These consultants, venture capitalists, and government agencies have acted as intermediaries in the business relationship processes. The selection of the second and third group of cases (Japanese partners and supporting intermediaries) resulted from the interviews with the Swedish SMEs when collecting data on the network in which the SMEs were active.

As the theoretical refinement of the research progressed over time and more data was collected from the companies, a set of three Swedish case companies was chosen to be included in the dissertation. The selection of cases relied on theoretical sampling not chosen for statistical reasons (Glaser & Strauss 1967). Theoretical sampling of single cases is choosing the cases because they are unusually revelatory, extreme exemplars, or opportunities for unusual research access (Yin 1994). The three cases explored were stories of interest because of similarities and distinct differences in line with the research questions. Furthermore, key informants provided me with rich and diversified material to analyze. I chose to make the cases relatively extensive in order to give the reader a chance to apply their own thinking as well as display support for the findings. The idea is to reach closure of the dissertation when theoretical saturation makes adding new cases and iterating between theory and data unnecessary (Eisenhardt 1989). However, constraints in time and space made me exclude cases that could have added relevant input.

2.4   Telling the story of the cases

I found that a presentation of the cases as narratives with events presented in a chronological order would help me answer my research questions, particularly regarding processes, in a fruitful way. This storytelling approach is a way to represent how events are embedded in particular contexts and enacted over time (Haydu 1998). A narrative approach can identify common patterns in sequences of events from two different periods or can treat elements of each period as individual events in a larger and longer sequence (Abbott 1983; Haydu 1998) which suited the purpose of this dissertation well.

Narratives are analytical constructs that unify a number of past or contemporary actions and happenings, which might otherwise have been viewed as discrete or disparate, into a coherent relational whole that gives meaning to and explains each of its elements and is, at the same time, constituted by them (Abbott 1990; Griffin 1992, 1993). In simpler words, a narrative captures and reflects the methodological and historical significance of an action's temporal order (Griffin 1993). Narratives have the form of an unfolding, open-ended story where cumulative consequences of past actions increasingly constrain and limit future action in a path-dependency (Aminzade 1992).

Quotations made by interview respondents have been used to complement the narrative case descriptions and highlight phenomena and critical events. Each quotation is followed by the respondent's name, title or position and organization. The narrative gives a rich and sometimes colourful description of the proceedings. When the narrative includes superlatives and exclamations, these have spilled over from the sometimes passionate respondents as story-tellers. It is the purpose of the following analysis to interpret the narrative in a format that addresses my research questions objectively.

The empirical material is structured in chronological order as a sequence of events where the narrative is divided into sections with year and sometimes month indicating when a section or a chain of events starts. Van de Ven & Poole (1990) define events as critical incidents that occur when parties engage in actions related to the development of the relationship. Events in the narrative permit me, as a researcher, to focus on both organizational and individual units of analysis. The processes were captured chronologically with the purpose of focusing on when, how and why each event occurred and the subsequent result. The sequence is simply an ordered list of events (Abbott 1995). There are many problems and possibilities involved in incorporating temporality into theoretical formulations and empirical research. By isolating two critical events common for all my cases, the chain of events is divided into three phases providing an analytical construct to help the analysis. As for the validity of periodization, researchers in sociology and history routinely divide the past into temporal periods. These periods can be viewed as separate cases that can be compared. In this dissertation the phases and "phase-breaking" episodes was defined as relevant switching points separating three phases with different characteristics. The taxonomy of events used for the phase-breaking episodes and phases are proposed in the framework. It is based on where there was potential for changes in the characteristics of the trust-building process and was later used to compare the cases. The phase-breaking episodes were also chosen because of the relative distinctiveness in time that they represent.

Narratives as stories can appear descriptive while in fact are a blend of explanation and interpretation (Griffin 1993). It should be noted that a chronological order does not necessarily suggest historical or causal significance because the distinction between a temporal antecedent and a causal one can be obscured in the narrative. Therefore, the narratives are followed up with a separate analysis as well as a joint concluding analysis that compares the narrated cases in detail. In the cases, events are ordered into a story with a beginning, middle, and end, central characters, and a coherent plot (Haydu 1998) while the analysis captures the inherent logic of the case narrative.

The analysis of the cases start with a within-case analysis presented in each case and followed up by searching for cross-case patterns presented in the comparison of the cases. Attention was paid to similarities and differences between the cases. This helped the author to move beyond first impressions of the material. A broad range of literature was considered in order to find conflicts and support. This literature was grouped into three theoretical pillars.

Based on the analysis, a number of conclusions were drawn. Some of these conclusions included the addition of constructs to the initial framework and sharpening of the existing constructs based on existing theory. In the analysis, the aim was to also link back to existing theory and find theoretical reasons for relationships in order to strengthen the internal validity, generalizability, and theoretical level of the findings.

2.5   Background information on data-collection

The research instruments included interviews with key informants and archival sources. Frequently, I asked respondents to quantify their statements as a control method for not getting carried away by vivid but false impressions of qualitative statements. Interviews are a highly efficient way to gather rich, empirical data, especially when the phenomenon of interest is highly episodic and infrequent (Eisenhardt & Graebner 2007).

As far as possible, both the Swedish SMEs and their Japanese partners have been interviewed on site, often with several follow-up interviews over telephone and email. Gathering extensive data on-site at the two geographically separated locations of Sweden and Tokyo was a challenge. The interviews directly relating to the cases presented herein were performed between 2004 and 2006, with the majority in 2004. With Japanese respondents the interview language was a mix between Japanese and English. With Swedish respondents the interview was conducted in Swedish. The interviews have, in the majority of cases, been taped and transcribed. If not, considerations have had to be taken of the negative reaction of the respondent facing a recorded interview. This rare reaction has only happened when performing research in Japan.

Each interview lasted for 2-3 hours and the interviewer concentrated on using open-ended questions to analyze the process and time-line of events of how connections between Sweden and Japan had progressed. Following the final selection of cases, a number of follow-up interviews (in person, over telephone and over email) took place and the relationship with these firms developed more into a dialogue rather than a series of isolated interviews. All interviews included in the dissertation were analyzed for both complementary and contradictory angles. I also examined internal documents provided by the firms as indicated in the reference list. Additionally, documents from the respective partners in Sweden/Japan and public information found in the business press and company databases regarding historical events relating to the specific business relationships were used to strengthen the case and enhance validity with triangulation (Denzin 1989). Interviews and other data collection were performed relatively close in time to the forming of the business relationships that were examined in this study. This insured that the key individuals still held their positions and had a relatively fresh memory of what happened.

I identified knowledgeable informants in the firms who could view the focal phenomenon from several perspectives. At least one key informer representing the Swedish and Japanese firm that was critical to the business negotiation proceedings throughout the phases was selected for an interview. All other informants had been an active participant in the events described. I also, when possible, used informants from different hierarchical levels as well as geographies inside the case organizations. Finding the right informants in the companies was the key to the depth obtained in the case studies as opposed to another approach that might have simply questioned a large number of individuals. Mayer, Davis & Shoorman (1995, p. 711) point out that the failure to clearly specify the trustor and the trustee encourages the tendency to change referents and even the levels of analysis, which obfuscates the nature of the trust relationship. Therefore, I have identified what individuals were involved in the processes as key informants. However, to some extent, the analysis had to be conducted both on an organizational and individual level. These levels are sometimes blurry for the respondents themselves.

Due to the negative impact on the access to data on the business relationships that I have encountered throughout my research, as well as explicit demands from the participating respondents and their organizations in both Sweden and Japan, all corporate and individual names are presented anonymously. However, the respondents' and their respective organizations' background have been presented in each case. Some data needed to be held in strict confidence because of trade secrets, corporations and people wanted to be anonymous so they are presented in that way and while maintaining anonymity and protecting trade secrets I was still able to present complete cases.

Certain logical tests have been applied in order to maintain a high quality throughout the work. Four such tests have been commonly used in empirical social sciences (Yin 1994). These tests are: construct validity, internal validity, external validity, and reliability.

Construct validity urges the researcher to establish operational measures for the concepts being studied. These measures have, in this dissertation, been developed and presented in connection to the design of the theoretical framework. Case studies have been under criticism for not having high construct validity standards meaning that data is collected with subjective judgments. In the case studies, three tactics was used to increase construct validity. First, multiple sources of support were used as suggested by Yin (1994) to strengthen the case studies through triangulation. In the cases, data-source triangulation was made, when possible, by interviewing several people at a company as well as to use external financial documents, and other actors with relationships to the company. Second, maintain a chain of evidence where documentation and argumentation was made that allows an external observer to follow derivation of any support. This was done with documentation and presentation of sufficient background information on each case for the reader. Third, allow informants from the case company to continuously review the narrative.

Internal validity urges the researcher to establish causal relationships, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships. This test is mainly relevant for explanatory or causal studies, not for exploratory studies. The intention has not been to prove causal relationships, but rather explore phenomena in the light of international trust-building.

External validity urges the researcher to establish the domain to which a study's findings can be generalized. For case studies, this has been a major barrier to this research design (Yin 1994). The main point here is that an analogy to populations and samples is incorrect when dealing with case studies. In the case studies, the aim has been for an analytical rather than a statistical generalization leading to a broader set of theories.

Reliability urges the researcher to demonstrate that the operations of a study, such as the data collections procedures, can be replicated with the same results. As with construct validity, the main tactic used was to "perform research like someone is looking over my shoulder." Documentation of cases was made so that an external observer can follow the derivation of any evidence.

PART II: THEORETICAL ARENA

3   Theoretical Pillars

In this chapter, the theoretical pillars of the dissertation are presented. The theoretical framework in this dissertation is built mainly from three pillars of research: (1) Internationalization, (2) Trust, and (3) Knowledge and Communication. In the next chapter, these pillars will be used to construct a framework with the purpose of analyzing the observations made from the SME cases entering the Japanese market. The concepts presented here will also be used for the concluding the final analysis.

3.1 Internationalization

This pillar places the SME in a context of internationalization activities where the business relationships specific to this study take place. Internationalization theories try to explain how and why the firm engages in overseas activities and in particular, how the dynamic nature of such behavior can be conceptualized (Morgan & Katsikeas 1997). Initiating business relationships internationally poses a number of specific challenges addressed throughout the literature. One such challenge is illustrated by the consequences of what is called "liability of foreignness". The "liability of foreignness" is defined by Zaheer (1995, p. 342-3) as `…the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit . . . broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur.' Studies have found empirical support for this stereotyping for or against foreign products (Insch & Miller 2005; Bilkey & Nes 1982; Nagashima 1970, 1977; Peterson & Jolibert 1995; Thakor & Katsanis 1997).

Even if the concept of internationalization is used considerably in literature, new attempts to provide an operational definition of its meaning are continually prepared (Morgan & Katsikeas 1997). One definition that encompasses the complexity of internationalization is provided by Welch & Loustarinen (1988, p.36) where internationalization is defined as "…the process of increasing involvement in international operations." In the following sections, this process will be problematized for providing the fundamental context for this dissertation.

3.1.1 Importance of internationalization continues to grow

Internationalization has become more important earlier in a firm's life cycle and this is especially the case with smaller firms whether or not they stay small or continue to grow. Increased globalization continues to change the world of business. Etemad (2004) argues that prior to the globalization of markets and industries, national markets were segmented. Large companies competed mostly in international markets, while smaller businesses remained local or regional.

However, the global competitive environment has gradually changed. Globalization has removed the barriers that segmented the national and international markets and separated small and large firms' competitive space (Levitt 1983; Fraser & Oppenheim 1997). Growing liberalization, integration and competition in world economies since World War II have resulted in increasing internationalization (Douglas & Craig 1995). Lam & White (1999) highlight a number of reasons why firms undertake internationalization in the first place.

Some firms internationalize due to necessity because rivals and customers have globalized (Ohmae 1990). Other companies internationalize their operations because multinationalism is a symbol of success and progress (Perlmutter 1995). There are also indications that increased internationalization results in improved profitability (Gerlinger, Beamish & daCosta 1989). SMEs face more challenges than their larger counterparts (Etemad 2004) do. They must develop both necessary and sufficient conditions for attaining competitiveness (Fahy 2002; Grant 1991; Mathew 2003), while handicapped by constrained resources (Bell, Murray & Madden 1991; Bonaccorsi 1992; Etemad 1999; Miesenbock 1988). A broad definition of resources available to a company includes factors within the company's operating environment (Physical, Financial, Human, Technological, Organizational, and Intangible), many of which are intangible resources (Hofer & Schendel 1978). Das & Teng (1998) isolate four types of critical resources in a business relationship: financial; technological; physical; and managerial. Financial resource refers to availability of capital. The financial resources available to small firms act as a considerable constraint towards developing international exposure. Kalantaridis (2004) posits that this constraint can take two forms: (1) Lack of finance may hinder the firm's ability to identify opportunities arising from the opening of national markets; while (2) inadequate financial resources may restrict the exploitation of opportunities already identified. Technological resource refers to superior Research & Development (R&D) capability and intellectual property. Physical resource covers raw materials, production capacity and distribution channels. Managerial resource is defined as upper-level directors and the skills necessary for effectively running a business organization.

3.1.2 A process-view

There are many theoretical viewpoints from which a researcher can analyze internationalization. In this dissertation, a process-view of internationalization is used.

Mainstream theories in use today can broadly be divided into two strands: the economic and the process approaches (Benito & Gripsrud 1992; Andersson 2000). The economic approach stems from mainstream economics of which one example is the eclectic paradigm (Dunning 1988a, 1988b) that focuses on ownership-specific, location, and internalization advantages to explain internationalization and the transaction-cost theory (Buckley & Casson 1976; Hennart 1982) in which explanations are focused on cost factors and the economic man who has access to perfect information and will choose the rational solution.

In research on international business, alternative theories have arisen opposite these static theories. Björkman & Forsgren (2000) have observed that especially Nordic researchers, to a large extent, use a behavioral rather than an economic perspective while studying the international firm. The firm is viewed and characterized by bounded rationality, action-based learning processes, and a complex structure in terms of resources, competencies, and influence. The process approach has its base in organizational theory, which replaces economic man with behavioral man (Cyert & March 1963). Some examples of this process are found in the Uppsala internationalization model (Johanson & Vahlne 1977, 1990) and also within various stage models provided by researchers worldwide (Bilkey & Tesar 1977; Loustarinen 1979; Cavusgil 1980). This dissertation uses elements from the process-view.

3.1.3 Lessons from the Uppsala-school of internationalization

A well-known process of internationalization is the Uppsala model that was first drafted by researchers at Uppsala University in Sweden in the late 1970s. Since that time, this model has received significant support but alterations have occurred as a result of criticisms leveled against the ideal. The origin of this line of thought was a collection of articles (Carlson 1975; Forsgren & Johanson 1975; Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977; Welch & Wiedersheim-Paul 1980) that later became known as the Uppsala-model. Later works include Welch & Luostarinen (1988), Eriksson, Majkgård & Sharma (2000), and Blomstermo, Eriksson & Sharma (2002).

The theoretical background of the Uppsala model focuses on knowledge as a driving factor affecting the internationalization process. It reaches back to the behavioral theory of the firm by Cyert & March (1963) and the view upon knowledge lined out by Penrose (1959). One essential type of knowledge, gathered from experience, pertains to a specific market. In the writings of Cyert & March the rationality of actors are questioned and the concept of "bounded rationality" is introduced as rational behavior conducted within strict boundaries regarding, for example, access to information. This leads to natural simplifications when making decisions about the firm.

Furthermore, the Uppsala model follows the thoughts of Johanson & Wiedersheim-Paul (1975) regarding an "establishment chain" that claims firms begin their international business with infrequent contacts and orders then move into more regular export activity, next establish a local sales office, and finally develop local manufacturing and ownership of production units. Johanson & Wiedersheim-Paul (1975) also see certain patterns in what direction this chain would take the company in regards to market selection. Markets culturally and geographically closer were approached before markets that were far away physically as well as culturally.

This observation is captured in the concept of "psychic distance" defined as the factors preventing or disturbing the flow of information between the firm and the market (Johanson & Wiedersheim-Paul 1975, p. 308). By acquiring more market knowledge, often through trial and error, the company enters markets with greater "psychic distance" (Johansson & Vahlne 1990). It should be emphasized that these factors not only connect to business activities such as the level of industrial development, but also incorporate differences in language, political views and level of education. With these starting-points, the Uppsala model presents a view wherein accumulation of market knowledge by the firm leads to an increased commitment of resources into a specific foreign market. This process sets up a system of expansion based on gaining additional market knowledge.

In the Uppsala model the knowledge critical to this process is market knowledge gained through personal experiences. This type of knowledge, in contrast to objective knowledge, is said to be difficult to transfer. The beneficial effect of gaining market knowledge results in a decreased uncertainty regarding the foreign market and new business opportunities. While objective knowledge, gained from indirect sources like pamphlets and market surveys, can make it possible to follow up on opportunities, it does not decrease the uncertainties of going abroad. Since the 1970s, several studies have supported the claims in the Uppsala model while proposing additions and clarifications (Kogut & Singh 1988; Erramilli 1991).

3.1.4 Models focusing on stages of internationalization

The publishing of the Uppsala model seems to have spurred a number of models using a step-wise description of a firm's internationalization (see Leonidou & Katsikeas (1996) for a comprehensive collection of models explaining internationalization in this fashion).

Besides the Uppsala model, stage-models receiving special attention in internationalization research include the Innovation-Related Internationalization Models (I-Models) as conceptualized by Cavusgil (1980). Cavusgil's version conceptualizes the internationalization process using five stages: a domestic marketing stage; a pre-export-stage; an involvement stage; an active involvement stage; and a committed involvement stage. Cavusgil (1980) provides a distinct operationalization by dividing the stages via an export/sales-ratio.

Contributions to this viewpoint are influenced by Rogers' stages of the adoption process (Rogers 1962, p. 81-86), and Vernon's (1966) product (life) cycle model. Innovation adoption describes the selection of an improvement as the most acceptable alternative, among a series of options, at a given point of time (Zaltman & Stiff 1973). The utilization of the innovation adoption framework in export decision making was first considered by Simmonds & Smith (1968) with significant advances made by Bilkey & Tesar (1977) who clarified the stages and variables that affected decision making. For example, Bilkey & Tesar (1977) and Czinkota (1982) use six stages while Rao & Naidu (1992) identifies four stages. Other early works include Czinkota (1982) and Reid (1981).

Andersen (1993) notes that the Uppsala model and the innovation-related internationalization perspective share several features. Both models are behavior oriented and the gradual pattern of internationalization can in both systems be attributed to the lack of (experiential) knowledge by the firm and uncertainty associated with the decision to internationalize. Just like in the Uppsala model, there exist fairly stable periods in which firms consolidate and generate an appropriate resource base to allow them to proceed to the next internationalization step. Andersen (1993) also notes differences making the Uppsala model more able to interweave knowledge in its framework. In addition, the I-model in his view is more specific for studying the time that the idea of exporting is initiated until the time the international activities are regarded as an ordinary and accepted part of the firm's activities.

3.1.5 Criticism and possible improvements

Several waves of criticism have been raised against the Uppsala and stage-models throughout the years. The main criticisms seem to stem from the idea that the models are either too deterministic or that the world has changed since the 1970s and globalization is making lack of market-knowledge scarce or irrelevant.

Johanson & Vahlne (1990) themselves account for some of the main criticism raised against the Uppsala model. Much of the criticism stems from the lax view on the importance of strategy among the researchers leaning on the model. It has been seen as too deterministic (Reid 1983; Turnbull 1987; Rosson 1987; Millington & Bayliss 1990), where the firm climbs a set ladder rather than choosing what ladder to climb in the first place. For example, regression to former stages in not unheard of (Turnbull 1987; Millington & Bayliss 1990).

Researchers positive to stage-models like that of Johanson & Vahlne (1990, p.12) posit that "…the internationalization process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not…". These statements seem to downplay the importance of strategy and management. This criticism also touches the role of the individual entrepreneur in the firm. Morgan & Katsikeas (1997) point out that to a larger extent, the roles of entrepreneurs should be taken into account in explaining the international trading activities of a nation. It appears reasonable that individual decision makers can, collectively, contribute substantially to economic performance.

Second, arguably the Uppsala model can only explain the earliest stages of a firm's internationalization. When the firm is present in many markets it can continue internationalization based on real market conditions rather than what is known and unknown. It should also be noted that empirical support for the Uppsala model comes from studies on early stages of internationalization so this is a comment on the models validity rather than its foundation.

Third, this criticism hits on the importance that knowledge is given in the Uppsala model. Both the Uppsala and innovation-related internationalization models state that a firm's internationalization is largely due to two key elements: the amount of knowledge the firm possesses particularly experimental knowledge; and uncertainty regarding the decision to internationalize. Morgan & Katsikeas (1997) points out that in many cases the development occurs in the very beginning of international involvement where firms rely on market experience and make incremental adjustments. When the international experience increases, planning systems are implemented with formalized strategic analysis and information searches. These systems help to translate the experience across different markets and between product groups thereby enabling firms to leapfrog the incremental process.

Björkman & Forsgren (2000) argue that there is one fundamental problem with the Uppsala model and that is its emphasis on organizational learning as a basic driving force of a firm's internationalization, in combination with the hardship of proving how experimental knowledge affects organizational behavior. Björkman & Forsgren (2000) finish this criticism by noting that the role and importance that key individuals play in internationalization has not yet received much attention.

Andersen (1993) points out a contradiction when the Uppsala model states that although the core explanation of the model is the interplay between market knowledge and market commitment, Johanson & Vahlne (1990) state that the firm's knowledge is the only explicit explanatory variable. No explanation is presented on how the process starts or the nature of the mechanism whereby knowledge affects commitment. Additionally, even though all explanations are more or less incomplete, Andersen (1993) argues that the use of only one explanatory variable can seldom provide a sufficient explanation. Andersen (1993) also suggested that the concepts of the Uppsala model are not defined, rather possible indicators are presented. This same criticism is relevant for the innovation model.

Fourth, the stages are seen as too rigid and, paradoxical to the dynamic ambitions of the process-view of internationalization, too static. Leonidou & Katsikeas (1996) comments on this rigidity both on intra- and inter-stage levels. As for intra-stage levels, the models fail to conceive each export stage as a continuum of episodes with important parameters such as

the type of country-markets, number of customers, and typologies of entry channels (Dalli 1994). As for inter-stage levels, the models fail to explain the dynamics of the firm's decision to move from one stage to another.

Fifth, more serious and relevant for this dissertation is if more and more firms start to shortcut the stages described, and there is empirical support and theoretical thought for this as well. There have been stringent examples where new firms get active in international markets (Moen & Servais 2002). However, limited empirical evidence exists as to whether this actuality indicates simply a reduced time factor in the pre-export phase or an important change in the export behavior of firms (Moen & Servais 2002).

Having aired this criticism, it is however still likely that these models offer an alternative to the economic views, which sees internationalization as mere choices of governmental mechanisms based on economic efficiency and describes the context in which the research of this dissertation takes place.

3.1.6 Internationalization of high-tech SMEs

There are studies critiquing the stage-models and specifically targeting SMEs, some of these specifically focusing on SMEs with high-tech products (for a more complete review of internationalization studies of SMEs see Coviello & McAuely (1999)). Rickne's (2000, p.32) definition of what she calls new "technology-based firms" is derived from Klofsten (1992) and stated as:

> "…a firm whose competitive advantage derives from the scientific, technological, or biomedical knowledge of its employees, its technological assets and its ability to generate products or services from these assets and this knowledge. More specifically we interpret being technology-based as firms generating and diffusing technology, where technology is to be used to form new industries or to develop existing ones. The age of the firm, i.e. its newness, is relative to the industry in which the firms operate."

In the following text, I will use the term "high-tech firms" in combination with "SMEs" to denote smaller firms of this nature.

This theorizing is a response made to adjust the older internationalization models for the smaller size and entrepreneurial characteristics of the SME (Anderson 2000). In this conjecture, there is more space for the actions and traits of the individual entrepreneur as well as company strategies. Lindqvist (1991), in her study of young, technology-based Swedish firms, finds that the speed of internationalization is particularly high in firms where managers have previous experience in foreign operations.

Andersson (2000) argues that both process and economic perspectives must be complemented by entrepreneurial thought. In his study, various international strategies were found in like firms acting in similar environments. However, the firm's entrepreneurs were different. There were strong indications that these individuals influenced the firm's international processes in various ways. Several scholars have proposed that the Uppsala model has to be revised to suit the internationalization of SMEs (Gankema, Snuif & Zwart

2000; Crick 1995; Zafarullah, Ali & Young 1998; Millington & Bayliss 1990; Sullivan & Bauerschmidt 1990).

This has laid the foundation for labels such as "born-globals" being used to describe these firms (Knight 1997; Knight & Cavusgil 1996; Madsen & Servais 1997). Other labels for this phenomena are "international new ventures" (McDougall, Shane & Oviatt 1994), "instant internationals" (Preece, Miles & Baetz 1998), or "global startups" (Oviatt & McDougall 1994). All these studies focus on firms that are heavily involved in exporting from their inception. According to Lam & White (1999) the interest in "born-globals" started early in the 1990s (Oviatt & McDougall 1994) and an increasing number of publications focused on this concept throughout the decade.

Oviatt & McDougall (1994, p. 49) define an international new venture as "…a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources from the sale of outputs in multiple countries." Knight (1997, p.1) defines a "born-global" company as "…a company which, from or near its founding, seeks to derive a substantial proportion of its revenue from the sale of its products in international markets." It is hard to place these kinds of behaviors under the rigid stage-models. Nordström (1990) claims the world is more homogenous with decreased psychic distance and has research results from Swedish firms entering the United Kingdom (UK), United States of America (USA) and Germany in a much similar way as they would have entered their Scandinavian neighbors with a supposedly less psychic distance.

Etemad (2004) might be close to an explanation for the phenomena of "born-globals" when stating that one distinct competency for the SME is the smaller firm's ability to establish and manage special relations with other partners at home and abroad (Etemad 1999, 2003). Managing relations, for the most part, are not dependent on physical resources but rely on entrepreneurial traits, social relations, social capital and even family networks (Baron & Markman 2000; Bygrave 1989; Jones & Conway 2004). He argues that SMEs can base their strategies on their local strong knowledge base, socio-political capital, social networks, as well as functional supply-chains, and by doing so design strategies that are hard to imitate even for much larger corporations. The role of the individual in smaller firms is increasingly recognized when studying the internationalization efforts of these entities (Crick & Jones 2000; Jones 1999; Coviello & Munro 1995).

Bell (1995) comes to the conclusion that stage-models might be unsuitable to fully understand high-technology (Moen & Servais 2002) and service-intensive (Engwall & Wallenstål 1988; Johanson & Sharma 1987) sectors. For example, computer software industries are growing rapidly and the entry barriers are arguably lower for these businesses as compared to traditional manufacturing industries. The size of the firm is not so important and the distribution of digital content is different from the export of physical goods. Bell (1995) points out that these factors give a SME, with a relatively small staff but good ideas, potential to be competitive on a global scale rapidly. It should be noted that many high-technology firms are active in industries that are international and the internationalization of these firms may be technologically driven as well as market led (Crick & Jones 2000).

The choice of firms in the software sector has implications on the analysis. Bell (1995) summarizes the specific characteristics of software firms with first, rapid growth in a

dynamic international industry, second, low entry barriers where the size of the firm is not critical as with manufacturing industries, third, high-value, low-volume offerings make physical distribution easy, fourth, specialist software has a high service element, and fifth, intra-industry relationships with hardware manufacturers and integrated systems developers impact the export strategies of small software firms. Finally, the concentration of markets for computer software has an important bearing on their foreign market direction. All of these factors influence the internationalization of small software firms.

Bell (1995) brings up several factors that point towards fast internationalization, independent from geographical proximity, such as a client following, sectoral targeting, and certain computer industry trends. Furthermore, Bell (1995) points out that software firms need to provide extensive client support in the form of customization, installation, training, upgrading and after-sales service which all work together to build a close interaction between buyer and seller. It should also be noted that distribution of software is easy and not normally associated with many legal or fiscal barriers.

Lindqvist (1991, p.228) concludes her study with "Since technology-based firms are often part of an international community, where contacts are based on a shared interest in a particular technology area rather than on geographical or cultural similarities, foreign markets are usually selected based on strategic considerations, e.g. access to advanced customers, market potential and the competitive situation."

A study by Jolly, Alahuhta & Jeannet (1992) makes an important comment regarding psychical distance which is a concept important in the Uppsala school. The conclusions for the internationalization strategy of the high-tech SME is that these startups should choose a business area with homogenous customers and minimal adaptation in the marketing mix. The argumentation is that SMEs cannot take as multi-domestic an approach as large firms can, simply because they do not have the sufficient scale in their worldwide operations. They are vulnerable because they are dependent on a single product, which they should commercialize in lead markets first, no matter where such markets are situated geographically. At the same time, such markets are the key to broad and rapid market access, which is important because the fixed costs of these firms are relatively high. Because this is the key factor influencing the choice of the initial market, the importance of psychic distance in the market selection criterion is reduced. Often, these firms govern their sales and marketing activities through a special network in which they seek partners that complement their own competence, which is necessary because of the firm's limited resources.

These findings are in line with the study of software firms by Bell (1995). In-depth interviews in the study by Bell (1995) revealed three findings concerning the internationalization process. First, there were indications, especially among the Scandinavian firms, that contact with foreign suppliers to obtain hardware, local software distribution rights or production licenses led to export initiation. These contacts accelerated the decision to internationalize. Second, almost 10 percent of the SMEs had begun exporting before they obtained any domestic sales. Third, neither age nor size of the software firms had a significant influence on the decision to internationalize. Almost half of the responding firms had less than 20 employees. Nearly three-quarters of the firms were established for less than ten years, but over half had been exporting for almost as long and almost half of the firms exported more than 50 percent of their total output. Therefore, there was little support that

software SMEs progress systematically from exporting to other market entry modes. Rather, their increased commitment took them to new markets as opposed to growing in the existing ones. Bell (1995) thinks it is important to study the entrepreneur's prior experiences or tendencies to initiate exports when searching for suppliers abroad.

3.1.7 Internationalization into Japan

The presence of Western (European and North American) firm's activity inside Japan has, despite 30 years of openness, been relatively low. Especially when considering that Japan is a large market, that in the later part of the 20th century also had been growing more rapidly than that of many other industrialized countries, that it is politically stable, and with world-scale competitors or even world-leaders in many industries. Argy & Stein (1997) also comment on the considerably lower inflows of foreign direct investment (FDI) compared to the outflows. Historically, this asymmetry can be caused by strict implementation of investment regulations. Now outsiders complain about excessive government regulations, high land costs and other problems such as difficulties in recruiting Japanese staff, coping with the distribution system and restrictive policies engaged by the large Keiretsu (in this context the strong vertical connections between manufacturers and suppliers). According to Buckley, Mirza & Sparkes (1987) this history of regulation and bureaucratic interference gave Japan a "closed door" image to potential investors. This combined with ignorance of Japan, potential language problems and other "cultural differences", together with fears of the opaque distribution system, led foreign multinationals, particularly European ones, to avoid Japan.

The Japanese market is an interesting study object for Western internationalization studies for several reasons. First, put in terms of the Uppsala model, the large psychical distance between Sweden and Japan makes it possible to compare this extreme with entering other Scandinavian countries. The entry barriers have arguably been high and continue to exist in the form of language difficulties. Second, there has been a relatively short time period in which Western companies could legally be active on a large scale in Japan.

Research on the entering of the Japanese market by Western firms seems, however, to have peaked in the days of the Japanese wonder in the 1980s and early 1990s (Simon & Palder 1987; Buckley, Mirza & Sparkes 1987; Hampden-Turner 1991). When put into perspective, several of these studies are children of their time, full of awe for the then seemingly invincible Japanese economy and ostensibly special conditions related to the Japanese market. Since then, both internal and external factors have changed Japan. The Japanese economy has had tough years struggling with deregulation of a rigid financial system, depressing macro-economic trends including low consumption and deflation, as well as political turbulence. Foreign direct investment and takeover of national jewels (e.g. Nissan) as well as a new generation of Japanese-speaking Western managers have entered the consciousness of the Japanese firms. Matsumoto (1996) debunked many of the myths about business relationships with Japan. When first making contact with the Japanese market, the difficulties and apparent dissimilarities might be overwhelming. One can then tend to forget how hard it can be to enter any foreign market, be it one that is culturally or geographically closer like the USA or Finland. The Japanese case can be argued to be "special", although the same can be said for any study country or region.

One study from the 1980s that arguably still holds ground and is relevant to this dissertation is made by Hedlund & Kverneland (1985). Their study of Swedish firms that had initiated operations in Japan concluded that the firm's behaviors are not in accordance with the Uppsala model. These authors conclude that a general internationalization and globalization of industries has taken place, which has made lack of market-knowledge rare. It can no longer be an explanatory factor for attributing the speed and patterns of internationalization. Therefore, they predict that the Uppsala model will gradually lose its explanatory power. In addition, Johanson & Vahlne (1990) hint that increased supply of information, better ways of transmitting this information as well as less fragmented markets are environmental changes that have occurred since the 1970s. In conclusion, this suggests that entry and growth strategies in foreign markets are changing toward more direct and rapid entry modes in contrast to those implied by theories of gradual and slow internationalization processes.

Even if studies like that made by Hedlund & Kverneland (1985) show that firms can take a "short route" into Japan and that many of the difficulties from the 1970s have decreased it would be unrealistic not to account for particularities of the Japanese market. Japan is still relatively distant from Sweden in a psychological sense, and certainly so in a geographical one as well. One consideration that probably still holds true today, as in the 1980s, is that entry strategies for both foreign and indigenous Japanese firms are affected by long-term relationships between suppliers and customers (Ellis, Williams & Roscorla 2001; Hedlund & Kverneland 1985).

Looking into what recent types of Swedish companies have successfully entered Japan and set up a subsidiary, there is a heavy concentration towards large firms in traditional industries such as industrial tooling and heavy machinery. A majority of subsidiaries are providing products to traditional manufacturing industries but service firms as well as providers of consumer products are clear minorities. Only 11 out of the 101 Swedish subsidiaries registered in Japan are directly providing ICT-related products (providing software and/or integrated computer systems, or telecommunication equipment) to the Japanese market (Swedish Trade Council 2002).

3.2   Summary – Internationalization

SMEs are reviewed in a context of internationalization activities. This context becomes an arena for further insights into how trust and communication of trustworthiness play a role in internationalization efforts. Internationalization theories try to explain how and why the firm engages in overseas activities and in particular how the dynamic nature of such behavior can be conceptualized. Internationalization is defined as the process of increasing involvement in international operations.

Internationalization has become more important earlier in a firm's life-cycle and also for smaller firms, whether they stay small or expand later. Globalization has removed the barriers that segmented the national and international markets and separated small and large firm's competitive space in the recent past. SMEs face even greater challenges than their larger counterparts do. They should develop both the necessary and sufficient conditions for attaining competitiveness while handicapped by constrained resources.

This literature of Internationalization can be summarized with the three key concepts of experience, resources and management impact. These three concepts help to explain how firms manage to internationalize through building international business relationships as depicted in Figure 2.

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              MANAGEMENT
                INTENT


EXPERIENCE                              RESOURCES
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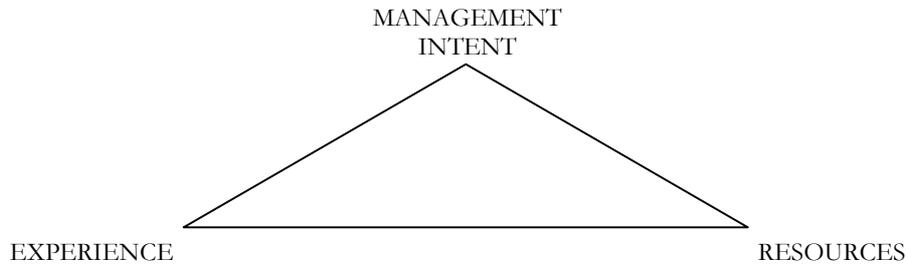
Figure 2: Three key concepts used to explain building of international relationships.

In this dissertation, elements from a process-view of internationalization, represented by the Uppsala and Innovation-Related Internationalization models, rather than an economic approach are used. Both experience and resources are basic concepts in these lines of thought that make up the view for explaining internationalization. I also argue that these concepts are crucial to understanding each and every process of business relationships. One of the notable characteristics of the process-view influenced models is the use of more or less distinct stages, rather than system-models with different characteristics. There exists fairly stable periods in which firms consolidate and generate an appropriate resource base that allow them to proceed to the next step. Through piecemeal stages where a company builds up more experience, resources with the guideline of the intentions of the management, the creation of international business relationships is explained. However, these stages do not have to be especially long or distinct, there are companies that are "born-globals" which, from or near its founding, seeks to derive a substantial proportion of revenue from the sale of products in international markets.

What the discussed stage-models of internationalization have missed out on is the key impact of the individual entrepreneur and the importance of management intent. The individual entrepreneur and his strategies should not be forgotten in the analysis and the role and importance that key individuals play in internationalization has not yet received much attention. The process perspective should be complemented by entrepreneurial thought. In the Uppsala model, the knowledge critical to this process is market knowledge gained through personal experiences and this type of knowledge, in contrast to objective knowledge, is said to be relatively difficult to transfer. The effects of gaining market knowledge include a decreased uncertainty regarding the foreign market as well as the identification of new business opportunities. While objective knowledge, gained from indirect sources like market surveys can make it possible to follow up on opportunities, it does not really decrease the uncertainties of going abroad. It appears reasonable that individual decision makers can contribute substantially to economic performance as well as internationalization.

One strenght for the SME is its ability to establish and manage special relations with other partners at home and abroad. Managing relations is not dependent on physical resources but relies on entrepreneurial qualities and social relations. SMEs can base their strategies on their local strong knowledge base and social networks. These factors give a SME with relatively small staff with good ideas potential to be competitive on a global scale rapidly. The size of the firm is not so important because the distribution of digital content is different from the export of physical goods. There is little support that software SMEs progress systematically from exporting to other market entry modes. Rather, their increased commitments take them to new markets as opposed to growing in the existing ones.

The Japanese market is an interesting study object for Western internationalization studies for several reasons. First, the large psychical distance between Sweden and Japan makes it possible to compare this extreme with entering for example other Scandinavian countries. The entry barriers have arguably been high and continue to exist in the form of language difficulties. When first making contact with the Japanese market, the difficulties and apparent dissimilarities might be overwhelming. Second, there has been a relatively short time period in which Western companies could legally be active on a large scale in Japan. The presence of Western firms' activities in Japan has, despite 30 years of openness, been relatively low. Especially when considering that Japan is a large market, that in the later part of the 20th century also had been growing more rapidly than that of many other industrialized countries, that it is politically stable, and with world-scale competitors or even world-leaders in many industries. Research on the entering of the Japanese market by Western firms seems, however, to have peaked in the days of the Japanese wonder in the 1980s and early 1990s.

3.3 Trust

A better understanding of trust-building in internationalization is the core of the research purpose of this dissertation. To investigate trust-building trust must be defined. Trust is central to all relational exchanges and the following reasoning and literature posit that the same is for internationalization. In recent years, the concept of trust has gained a significant place in management research (Tyler & Kramer 1996; Rousseau et al. 1998; Becerra & Gupta 2003). Support that increased levels of trust are affecting the chances of building successful international, as well as national, business relationships in a positive way has been found in the network approach (Hertz 1996; Chen 2003) and literature on negotiations (Paulson & Naquin 2004; Mayer, Davis & Schoorman 1995; McAllister 1995).

3.3.1 Basic views of trust

When reading the literature on how trust is defined in the economical/organizational discipline, I find two fundamental translations. First, trust is a governing device (or organizing principle) in building alliances and management principles, and second, trust is an asset that can and should be built and maintained. It is clear that trust is seen as important in economical exchanges and that it deserves more attention than such obvious governmental regimes as contractual agreements and ownership of equity. The situation typically studied is an economical exchange involving at least two parties who need to govern this exchange in a way that does not consume too many resources.

There is a discussion whether trust also has meaning at the organizational level (Jensen & Meckling 1976; Zaheer, McEvily & Perrone 1998; Hagen & Choe 1998; Dyer & Chu 2003). My view is that trust is a micro level phenomenon and has its basis in individuals. Even when the analysis encompasses institutional trust, it is always individuals that must see an institution as trustworthy. With this viewpoint, the term inter-organizational trust is defined as "…the extent to which organizational members have a collectively held trust orientation toward the partner firm" (Zaheer, McEvily & Perrone, p. 142).

Parkhe (1998a, 1998b) argues that the two types of uncertainty in alliances are uncertainty regarding future events and uncertainty regarding a partner's responses to future events. Uncertainty is connected to vulnerability, in that there is a risk of losing something of value, especially control. Trust is required in situations where possible economic damage exceeds economic gains. Ring & Van de Ven (1992, p.494) observe that "High levels of risk and trust typically will be present in cases where organizations use relational contracts to govern joint R&D, technology, or product development ventures. /…/ By its nature, tacit know-how is difficult to 'divide up', and it is virtually impossible to do so in advance of creation." In such a process, the involved parties are uncertain of future events. They may be unsure of what new critical knowledge this joint venture will produce, and they are uncertain of how the partner will react to these events. The other party might quickly absorb and act upon this new knowledge for themselves or they may share it for the common good of both parties. The outcomes might prove impossible to manage in an economical way when other governing devices, including intricate patent agreements, are involved.

In a somewhat different light, trust can be seen as an asset more than a controlling mechanism. Trust is described by researchers as a web of positive qualities that include

integrity, benevolence, reliance, and competence. Still, defined from the more negative aspect, trust is the willingness to accept vulnerability in all economical exchanges. The relation to risk is always present. Even so, to Madhok (1995, p.126), trust is an asset associated with both great potential cost saving and value enhancing potential: "The cost reduction and value enhancing properties of trust make available valuable resources for investing and reinvesting in the relationship for its continued sustenance. Opportunistic behavior, or expectation of such by the other, depreciates this asset of trust while mutually oriented behavior leverages it."

3.3.2 Definitions of trust

Researchers while studying the phenomena of trust have pointed out the difficulty to operationalize the concept because of the lack of definitional consistency both within and across research disciplines (Droege, Anderson & Bowler 2003), as well as its cross-disciplinary nature (Kasper-Fuehrer & Ashkanasy 2001; Rousseau et al. 1998; Tyler & Kramer 1996), and because a combination of different individual, organizational and relational factors exist when studying trust (Becerra & Gupta 2003).

Disciplines as diverse as sociology (Gambetta 1988), psychology (Rotter 1971), law (Williamson 1975), and economics (Williamson 1993) are aiming to define the concept of trust. The studies on trust factor in elements such as ethics (Brenkert 1998), morals (Brenkert 1998; Wicks, Berman & Jones 1999), emotions (Flores & Solomon 1998; Wicks, Berman & Jones 1999), values and natural attitudes (Flores & Solomon 1998). It seems especially hard to distinguish trust from these other factors and the question whether trust is a viable concept in itself, or if it is better described with other concepts is a relevant question. Moorman, Deshpandé & Zaltman (1993) point out that several researchers have assessed trust through measuring sincerity, caution, effort in establishing a relationship, equality, goal congruence and consistency. Several others include the expectation of cooperation (Sullivan & Peterson 1982), competitive behaviors, honesty, and beliefs about information sharing (Crosby, Evans & Cowles 1990) in this assessment. In short, research has not systematically distinguished trust from related factors. Factors that influence trust are components of trust itself. The antecedents to trust, effects of trust or trust itself can differ from study to study. In any case, trust should be distinguished from other concepts in order to fully understand how it is built and communicated. Table 1 illustrates the plethora of definitions of trust used.

Table 1: Definitions of trust

Author(s):	Definition:
Schurr & Ozanne (1985)	the belief that a party's word or promise is reliable and a party will fulfill his/her obligations in an exchange relationship
Dwyer, Schurr & Oh (1987)	A party's expectation that another party desires coordination, and as such, will fulfill obligations and will pull its weight in the relationship
Anderson & Weitz (1989)	one party believes that its needs will be fulfilled in the future by actions taken by the other party
Moorman, Zaltman & Deshpandé (1992)	A willingness to rely in an exchange partner in whom one has confidence
Barney & Hansen (1994)	the mutual confidence that no party to an exchange will exploit another's vulnerabilities
Mayer, Davis & Schoorman (1995)	the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party
Gulati (1995a)	a type of expectation that alleviates the fear that one's exchange partner will act opportunistically
Madhok (1995)	the perceived likelihood of the other not behaving in a self-interested manner

The similarities between these definitions, that reoccur, are elements of expectation, vulnerability, uncertainty and risk. The definition I posit as most relevant to this dissertation is made by Mayer, Davis & Shoorman (1995, p.712) stating that "…the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." This definition well describes the situation where new business relationships are formed in a context of internationalization. It implicitly includes the notions of uncertainty and risk – that something important is on the table - which is so closely related to a meaningful discussion of trust. In a business setting, this can be valuable information about a new product or technology. This view suggests that uncertainty is critical to trust because trust would be unnecessary if the firm could control an exchange partner's actions or has complete knowledge of those actions (Moorman, Zaltman & Deshpandé 1993; Coleman 1990; Deutsch 1958). Furthermore, it incorporates the vulnerability of a small firm when moving into new markets because it is temporarily in the hands of new and relatively unknown business partners. Seen in this light, trust is unnecessary without vulnerability, which Coleman (1990, p.100) defines as "…voluntarily placing resources at the disposal of another or transferring control over resources to another." The incorporation of expectations into this definition is supported by Zucker

(1986) who explicitly defines trust as a set of expectations shared by all those involved in the exchange.

3.3.3 Trust in international business relations

In network theory (Boje & Whetten 1981; Nee 1998; Honig & Lampel 2000), building a web of trust is an ideal organization model. Trust is considered important within networking literature for its role in reducing the need for formal contracts (and thus transaction costs). Kasper-Fuehrer & Ashkanasy (2001) argue that networks lack the traditional method of hierarchical coordination and control. As a result, the traditional mechanisms of control, which include direct supervision and enforcement of rules (Wiesenfeld, Raghuram & Garud 1998), are no longer adequate. Another network researcher, Hertz (1996), notes the importance of trust in her study of the transport industry. For solid cooperation, trust is often a prerequisite (Dwyer, Schurr & Oh 1987; Harrigan 1984; Tallman & Shenkar 1994). Trust provides stability in industrial networks that often transcend national borders (Gadde & Mattsson 1987). In these examples, the positive effects are explained in solutions to future conflicts (Heide & Miner 1992).

Sheppard & Tuchinsky (1996b) argue that trust acts as a substitute for control in lateral relationship organizations. Sheppard & Tuchinsky (1996b) even posit that modern organizations are more likely based on the development of trust and codependent relationships. Roberts (2000) states that trust is extremely important for the efficient operation of a knowledge-based economy, since the market exchange of knowledge gives rise to a high level of risk and uncertainty. These risks and uncertainties are reduced by the presence of a high level of trust.

Chen (2003) posits that to engage in an internationalization effort is a risky project, and such commitment is warranted only if the exchange partner believes that the relationships are worth developing. This expectation is based on the mutual trust that underlies the relationship. Higher levels of trust strengthen the belief that the undertaking will prove positive. An investor would therefore be more willing to assume risks in overseas investments if its partner's reciprocal commitment is trustworthy. Paulson & Naquin (2004) suggest that trust is a central component to international negotiations (Mayer, Davis & Schoorman 1995; McAllister 1995; Malhotra 2004) where uncertainty levels can be particularly high because social and cultural barriers exist to make trust-building more difficult (Brett 2001). Huemer (2004) makes a case of analyzing the ambiguous relation between predictability and trust in international business relations. He concludes that while predictability, in the form of routines and accepted standards of behavior, is essential for trust, there are potentials in the unpredictable and too strong a focus on prediction may reduce the ability to trust.

Risk is, on the whole, a concept that follows closely with trust. Ring & Van de Ven (1992) make it clear that high levels of trust are not only sufficient for high-risk transactions, they are necessary. If two parties are to engage in high-risk transactions, they are eager to build trust as early, and as deep, as possible. Trust is, however, not always the preferred remedy for managing risk. Ring & Van de Ven (1992) present several governance regimes for risk-management in alliances, and trust (in their view confidence in the other's goodwill) is not the only or outstanding factor. For example, detailed agreements with controlling legal

paragraphs are more suitable for certain types of relations. Another option, albeit possibly a drastic one, would be the application of a totally ownership-centered approach with full possession of the operation instead of a trust-centered arrangement.

To summarize the literature on trust related to international business relationships highlights the two important potential effects of flexibility for other governance regimes, and increasing stability and efficiency. Let me elaborate on these effects respectively.

First, trust affects the choice or need for certain governance regimes. According to Aulakh, Kotabe & Sahay (1996) trust can substitute for hierarchical governance in that it accomplishes attractive organizational objectives in inter-firm partnerships when ownership-based control is neither strategically viable nor economically feasible. One reason for this effect would be what Madhok (1995) describes as a reduced need for monitoring when trust is involved. This option might suit some firms more than others but should be taken into consideration in strategic alliance building.

Second, trust increases stability and efficiency in inter-firm relations. Ganesan (1994), Morgan & Hunt (1994), and Madhok (1995) argue that continued trust facilitates the relationship even during intermittent periods of inequity and therefore makes the relationship more stable. The social aspect of trust makes it possible for the parties to overcome temporary problems.

Gulati (1995a) compares trust and detailed contracts as mechanisms for predictability in a relationship. Drafting detailed contracts can be costly and time-consuming when compared to relying solely on trust. The effect of cost-reduction, which presumably would increase input of resources in the numerator of the efficiency equation, explains its gains. In addition, the costs of searching out new alliances are lowered when using trusted partners in a network, rather than building new connections.

3.3.4 Building of trust

3.3.4.1 Is trust manageable?

In the argumentation so far in this section, it has been implied that it is possible to create or at least manage trust. This is also concluded in literature on trust.

Researchers have suggested that there are three central modes to building trust: (1) process-based, wherein trust is tied to past or expected exchange, (2) characteristic-based, when trust is tied to a person, and (3) institution-based, in that trust is tied to formal societal structures or to intermediary mechanisms (Zucker 1986; Parkhe 1998b). Parkhe (1998b) argues that systematic management attention to these factors will generate trust in existing relationships. The exchange process itself builds processed-based trust. One can look back on the partner's cooperative history, the reputation of a partner or into the future and project that expected actions will continue into the present. Process-based trust becomes greater when there is a tight connection between current actions and future consequences. Characteristic-based trust builds on similarities between partners. In international alliances, these similarities include national culture as well as corporate culture. Morgan & Hunt (1994, p.25) name shared values as a direct precursor of trust by stating "…the extent to which partners have beliefs in

common about what behaviors, goals, and policies are important or unimportant, appropriate or inappropriate, and right and wrong." Institution-based trust stems from formal external mechanisms rather than past or future processes or partner characteristics. North (1990) defines an institution as the humanly devised constraints that shape human interaction. North (1990) makes a distinction between institutions and organizations in that an organization is a group of individuals bound by some common purpose to achieve objectives. Institutions reduce the amount of uncertainty by providing structure to everyday life. Institutional trust then is trust not always based on experience. Without the time constraints of obtaining detailed information about a partner, a party can rely on observation of certain signals that act as implicit "guarantees". Certificates like ISO 9000, stock market listings or membership in prestigious organizations are examples of these guarantees.

One way of looking at how institution-based trust is created by a trust-facilitator is through the effects of reputation. Reputation is defined by Parkhe (1998b, p.421) as "…the cumulative record of past behaviors." Reputation allows for confident expectations of the other's behavior based on third party experiences (Janowicz & Noorderhaven 2002). Trust based on reputation is likely to emerge in the initial stages of the relationship process and is closely connected to the role of the intermediary. For example, when the SME is new to a market, a charismatic entrepreneur managing to quickly make a reputation is an asset to the company. In this dissertation, the effect of reputation is implicitly analyzed under institution-based trust-building where I posit that institutions replace, at least an informal reputation.

If trust-building is viewed in the context of internationalization, institution-based trust may be difficult to accomplish. There are no proxy-institution (like ISO 9000 for quality) to signal how a firm will behave in an alliance. Using character similarities is time-consuming and as such leaves process-based trust-production where proof of historic work in alliances and clarity of future intentions, build the trust. Declarations of previous successful alliances as reference cases and a vivid explanation of the commitment to future partners are used extensively among firms depending on these alliances. At this point, communication is said to become a vital component of trust-building.

Beside the purely academic studies in recent years, a number of managerial guidelines have been written as to how trust can be created, managed and sustained. These books and articles list advice like "Manage your reputation", "Speak their language" (Malhotra 2004, p.4), "Send consistent messages", and "Send honest feedback" (Galford & Seibold Drapeau 2003, p.90). If nothing else, these works indicated a large current interest from managers on how trust, or lack thereof, is affecting their business relationships. Looking closer at the proposed and verified antecedents for trust in theoretical literature, it becomes clear that some of these factors are manageable while others are not.

3.3.4.2 Antecedents to trust

A number of factors that affect trust have been theoretically and, to some extent, empirically confirmed. With the help of existing research, I have argued that trust is a concept that is hard to grasp for practitioners as well as academics. To come better postulate the possible empirical indicators for trust a discussion of some proposed antecedents will be helpful.

In the Key Mediation Variable (KMV) model on trust and relationship commitment tested on a sample of independent automobile tire retailers, Morgan & Hunt (1994) suggested that there is a positive causal relationship between shared values, communication and trust. This work by Morgan & Hunt (1994) also suggested a negative causality between opportunistic behavior and trust. Shared values are exemplified when partners have beliefs in common about what behaviors, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong. Values are fundamental to definitions of organizational culture (Enz 1988; Weiner 1988). Schein (1990) holds that we can distinguish three fundamental levels at which culture manifests itself: (a) observable artifacts; (b) values; and (c) basic underlying assumptions. Values reflect culture when they are widely and strongly held (Schein 1990; Weiner 1988). Communication fosters trust by helping to resolve disputes and align perceptions and expectations (Etgar 1979). Opportunistic behavior taken from the transaction cost analysis literature is defined as "…self-interest seeking with guile…" (Williamson 1975, p.6). The proven negative causality implies that when a party believes that a partner engages in opportunistic behavior a resultant decrease in trust occurs.

The division of trust into five distinct types (reciprocal, earned, verifiable, calculative, and blind) by Crotts & Turner (1999) suggests that the outcomes of these types of trust effect commitment where reciprocal trust is leading to strongest forms of commitment, down to blind trust leading to the weakest form of commitment. The authors propose causality between no less than ten antecedents to these types of trust. What I again find interesting is the arguing, by the authors, of the importance put on communication that leads to informal sharing of meaningful and timely information (Anderson & Narus 1990). However, not unlike the work of Morgan & Hunt (1994), this causal model is largely untested with empirical data and so it is seen as a smorgasbord for future research.

Arguably, some antecedent factors to trust, notably communication and non-retrievable investments, can be manipulated. A firm can also choose in what context trust is created. On the other hand, it seems more unlikely in a business situation to manage such deep psychological factors as social and structural bonds. As seen in these models, and in other work on trust, communication consistently comes up as an important variable; therefore, it is at heart of this dissertation. Let me elaborate somewhat on one of the previous theoretical proposals concerning investments linked to trust and also comment further on the gradual process in which trust is built.

In Ganesan's (1994) study on relations between retailers and vendors a number of antecedents to trust (defined as credibility and benevolence) are tested. For these special relationships, contrary to some of the previous studies mentioned, both reputation and experience have ambivalent causality to trust. Either the connection is not supported or it is much more important for one side in the relationship. What the study finds however is that actual investments are important precursors to trust. Specific investments made by the vendor provide signals to the retailer about the vendor's intentions. The vendor makes trust-creating "sacrifices" by investing in assets that are not easily re-deployable elsewhere. Examples of these "sacrifices" include training the retailer's salespeople, developing displays, and providing new electronic communication links for inventory control. The same goes for investments made by the retailer. The results on investments are in line with the work by Ring & Van de Ven (1992) who propose that inside the framework of exchange-theory norms of equity build trust. The concept of equity includes reciprocity (you give something

in return for something received), fair rates of exchange between utilitarian costs and benefits, and distributive justice (all parties receive benefits proportional to their investments). These investments are an attractive way of convincing a party for whom "talk is cheap". The investments signal commitment to the relationship by showing economic support for trust. These investments have many purposes, but in light of trust-building they are sacrifices for trust.

Another way to approach trust, which will be followed and extended in this dissertation, is to see why a trustor has more or less trust for the trustee by examining certain attributes of a trustee. These attributes makes up the trustee's trustworthiness in the eyes of that trustor. Researchers have argued as to what constitutes trustworthiness (Muthusamy, White & Carr 2007; Mayer, Davis & Shoorman 1995; Ring & Van de Ven 1992; Good 1988). Dasgupta (1988, p.53) explains trustworthiness as: "Trustworthiness concentrates on a person's overall disposition, his motivation, and the extent to which he awards importance to his own honesty." Gambetta (1988) conceives of trust as a calculated decision to cooperate with specific others based on information about personal qualities and social constraints.

Several factors have been proposed but the three characteristics of ability, benevolence, and integrity appear to be essential to explaining a large part of trustworthiness (Mayer, Davis & Shoorman 1995). In this approach, the trust-building process of a business relationship is dependent on whether or not the partner possesses useful knowledge, experience, and capabilities relevant to the relationship. Furthermore, integrity is based on the perception that the other party maintains a set of acceptable principles. Lastly, a party is considered benevolent if it will not take advantage of the other party even when the opportunity is available. Mayer, Davis & Shoorman (1995) points out that these three factors are important to trust, but they can vary independently of one another. Together, these attributes can indicate the level of perceived trust in a business relationship and when all three factors are perceived to be high, the trustee is considered trustworthy.

3.3.4.3 The gradual process of trust-building

The gradual process of trust-building is also a common theme in the literature and deserves emphasis. In this discussion, it is relevant to acknowledge that trust can not only build up but also degenerate. Experiences from everyday life tell us that the fragile entity of trust can take a long time to build and once lost, it is impossible to rebuild to its previous strength and form.

Traditionally, trust has been studied in terms of long-term relationships; because trust is described as being history-dependent (Meyerson, Weick & Kramer 1996). According to these studies, trust builds incrementally in business relationships and accumulates over time. Ring & Van de Ven (1994) conjecture that three stages used to analyze the shaping of interorganizational relationships include the negotiation stage, commitment stage, and execution stage. In the negotiation stage, the parties develop joint expectations concerning motivations, possible investments, and perceived uncertainties of the business deal being explored. In the commitments stage, the entities reach an agreement on the obligations and rules for future action in the relationship. In the execution stage these commitments and rules of action are carried into effect and the parties buy materials, pay the amounts agreed upon, and otherwise execute the agreement.

Hallén, Johanson, & Seyed-Mohamed (1991) comment on trust-building over time by observing that, in a purely economic exchange, the acts by the parties are simultaneous and enforceable. In contrast, the theory of social exchange assumes processes evolve over time as the actors mutually and sequentially demonstrate their trustworthiness. Droege, Anderson, & Bowler (2003) discuss the smoothening out of hardships by trust and surmise that this gradual process is associated with both trust-creation and trust-destruction. Trust is gradually developed where small infractions are viewed relative to the historical framework (Jones & George 1998).

After experiencing many fulfilled promises, carefulness with shared confidential information and no opportunistic actions, a small drop in trust does not have such definite effects on a relationship gradually evolved, "Trust decline is a gradual process that reflects the stage of trust development" (Lewicki & Bunker 1996, p.125). Individuals are more willing to overlook small trust violations when the actor in whom trust is placed has demonstrated himself to be trustworthy. Gradually developed trust is more resilient than initial trust.

Droege, Anderson & Bowler (2003) further argue that trust formed gradually invokes different cognitive processes as compared to swift or initial trust (Meyerson, Weick & Kramer 1996). Rather than placing emphasis on the safeguards of reputation, sanctions, formal roles, norms, and assumptions of trustworthiness, gradual trust is based on knowledge and past interactions. Through experiences with the individual in whom trust is placed, reliance is based less on reputations, sanctions, roles, norms, and assumptions and more on personal knowledge of the trustworthiness of the actor. These experiences can be shaped by multiple interactions beginning with small exchanges where one gradually comes to trust another as opposed to having trust based solely on the contextual setting. Through successful exchanges, one comes to believe that the other will not take advantage of the trustor's vulnerability (Whitener et al. 1998). One is therefore more willing, by sharing more sensitive information, to place oneself in situations where another's opportunism, if acted upon, would be damaging.

3.3.5 Triads and trust - the role of intermediaries

Traditionally, international relationships are studied as dyads between sellers and buyers, even if an intermediating actor is involved, e.g. between mother company and foreign subsidiary (Pahlberg 1996) or manufacturer and distributor (Anderson & Narus 1990). The impact of the intermediating actor on the business relationship is usually not explicitly treated (Havila 1996). Research focusing on business relationships that include three parties is scarce and Havila (1996), Havila, Johanson & Thilenius (2004), and Ferrin, Dirks & Shah (2006) are few of the recent researchers that explicitly use a triad approach. Triadic structure is an important, but a neglected aspect of interfirm networks (Madhavan, Gnyawali & He 2004). A key goal in triadic analysis is to understand why and how certain patterns of tie formation occur.

The intermediary, acting as a facilitator for trust-building, is an important concept in this dissertation and needs to be defined further. Havila, Johanson & Thilenius (2004) use this definition of a triad whereby "…These three are seen to come together repeatedly or to be in communication often, conversing, exchanging products, and so on." (Thibaut & Kelley

1959, p. 191). A triad involving the business-relation triad (Havila 1996), is a group in which every party has contact with every other (Simmel in Wolff 1950). I treat and denote the intermediary in my analysis as the trust-facilitator. This facilitator is an actor that is standing outside a business relationship but that can affect the trust-building development. The term facilitator is a neutral denomination. Even if the facilitator, in this dissertation, represents a positive force in the process of trust-building, this actor might as well create problems and delays in the process of trust-building.

Havila (1996), in the analysis of triads, points out several interesting aspects or benefits that have special bearing on studies of processes over time and trust and communication of trustworthiness. First, the level of analysis makes this approach capable of including a small network, but at the same time has the granularity to include specific relationships between individuals, and therefore can be useful in studies of trust. Relationships make up the components of the network. Individual relationships are valuable to study in a network context, but this should be done at a suitable level of analysis. Triad analysis focusing on the interplay among three actors is suggested by Laage-Hellman (1989) as one suitable methodological vehicle. Analysis of triads provides the possibility of examining certain phenomena in the real world that are difficult or impossible to catch in "ordinary" dyad or network analysis. Individuals play important roles in business relationships (Klint 1985) and sometimes business relationships between companies end when one specific individual leaves.

Second, the existence of an explicit intermediary in the analysis makes it possible to study how this mediator takes on the role of trust-facilitator in a process of trust-building. It is conjectured that the intermediating actor plays an important role in business relationships (Cunningham & Turnbull 1982; Hägg & Johanson 1982) by assisting two other players. An intermediate actor can have many roles depending on the strengths of the links between the actors, including mediating and other specific tasks (Havila 1996). There is arguably a lack of knowledge on the role an intermediating actor plays within international business relationships.

Third, the relatively limited scope of the triad network, the smallest possible network existing, makes it possible to track changes and processes in time within relationships. Following these processes becomes increasingly difficult in larger networks. By studying triads it is possible to increase the understanding of processes in which dyadic interactions are translated into network patterns (Laage-Hellman 1989). Havila (1996) argues that a business-relationship triad may from a point of view change in three ways: (1) the business relationship as such ceases to exist; (2) the triad becomes a dyad; or (3) the business relationship triad changes to another type of triad where the intermediating actor is replaced by another intermediating actor. In all three situations, the intermediating actor is affected by the change of structure. It is assumed that the role of the intermediating actors in major international relationships changes over time as the customer and supplier adapt to each other (Hallén, Johanson & Seyed-Mohamed 1991).

Previous research has speculated on what gains an intermediary can expect (Honig & Lampel 2000). Madhavan, Gnyawali & He (2004) suggest that firms engage in triadic ties for both competitive and co-operative reasons. Suggestions from network theory include the possibility of improving their position in the network (Boje & Whetten 1981), capturing

network rents (Bensaou & Venkatraman 1995), and shaping the development of the network in line with their own policies or values (Nee 1998).

3.4 Summary – Trust

To summarize the literature on trust related to international business relationships at least two important potential effects are described: flexibility for other governance regimes as well as increasing stability and efficiency. First, trust affects the choice, level or need for certain governance regimes to be monitored. Second, trust increases stability and several types of efficiency in inter-firm relations. The social aspect of trust makes it possible for the parties to overcome temporary problems and prevents premature decisions. Two basic views on trust include trust as a governing device (or organizing principle) in alliance building and management, and that trust as an asset that includes a web of positive qualities like integrity, benevolence, and competence.

The risk of vulnerabilities exploited by exchange partners is closely related to uncertainty about future events and how the party will react to these events. In internationalization efforts, especially with joint R&D, these uncertainties can be both high and volatile. Cooperative governing of joint R&D, technology, or product development ventures includes handling tacit knowledge. Tacit knowledge is difficult to divide equally and it is virtually impossible to do so in advance of creation. In such a process, the involved parties both have uncertainties of future events regarding what new critical knowledge this joint venture will produce. Additionally, uncertainty of how the partner will react to these events and new knowledge for the common good of both parties remains vague. This might simply be impossible to govern in an economical way with other governing devices (e.g. intricate patent agreements) than trust.

The basic definition of trust used in this dissertation "…the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party…" (Mayer, Davis & Shoorman 1995, p.712). This basic definition is concretized and trust is approached as perceived trustworthiness by an external actor or more specifically, a potential business partner for a new market. This trustworthiness is based on three characteristics of the trustee: ability; benevolence; and integrity all of which are depicted in Figure 3.

Factors of
perceived
trustworthiness

Ability

Benevolence

Integrity
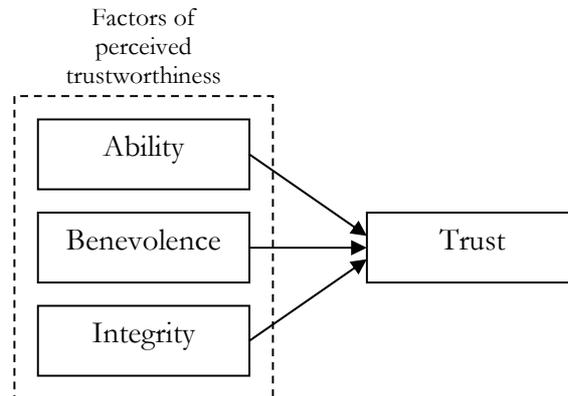
Trust

Figure 3: The factors of perceived trustworthiness (modified from Mayer, Davis & Shoorman (1995, p. 715)).

The question raised as to why, without much interpersonal history, two parties should start trusting each other, is relevant also for episodes of early internationalization Trust is possible to create, or at least manage and systematic management attention to certain "trust-generating factors", can create trust in existing relationships.

Three such trust-generating factors are the production of trust based on process, characteristics, and institutions. Process-based trust production trust develops from the exchange process itself, based on past or expected future interactions. This type of trust increases with a tight connection between current actions and future consequences. Characteristic-based trust builds on similarities that partners share. Institution-based trust production stems from formal external mechanisms rather than past and future processes or partner characteristics. Trust, in the international arena, is placed upon the actor's role rather than the actor, and is motivated by social norms, threat of formal sanctions, third party gossip and another's trustworthiness. The two previous types of trust-production demands detailed information on a partner. To obtain this information might simply take too much time. Instead, a party might rely on observation of certain signals from a third-party acting as an intermediary or facilitator when building.

In all these categories of trust and trust-building, there is a positive causal relationship between communication and trust. Opportunistic behavior negatively effects trust. Communication fosters trust by assisting in the resolution of disputes, aligning perceptions and validating expectations. Communication does not only involve talk but can also include actions. Investments are an attractive way to convince a party that the commitment to the relationship is tangible by providing economic support. In this case, investments act as a sacrifice for the sake of trust.

Triads of actors have special bearing on studies of the processes of trust, and communication of trustworthiness, over time. I want to emphasize that the concept of a relationship triad is particularly relevant to my research purpose as depicted in Figure 4.

```
┌─────────────┐                    ┌─────────────┐
│   TRUSTEE   │────────────────────│   TRUSTOR   │
└─────────────┘                    └─────────────┘
        \                          /
         \                        /
          \                      /
           \                    /
            \   ┌─────────────┐/
             \──│ FACILITATOR │
                └─────────────┘
```
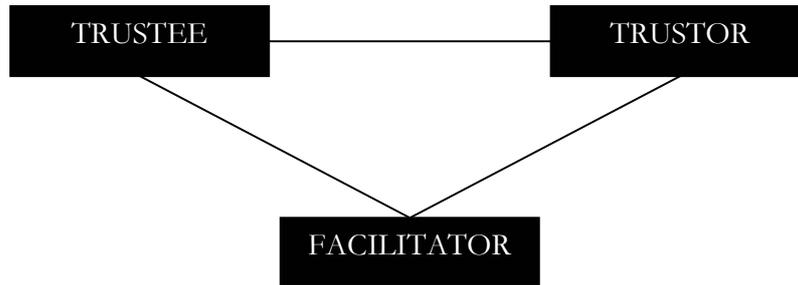
Figure 4: Business relationships in a triad as the unit of analysis.

The level of analysis makes this approach capable of including a small network but at the same time have the granularity not only to include specific relationships between individuals, which can be useful in studies of trust. The existence of an explicit intermediary in the analysis makes it possible to study how this intermediary takes on the role of trust-facilitator in a process of trust-building. The relatively limited scope of the triad network – the smallest possible network there is – also makes it possible to track changes and processes in time in the relationships.

3.5 Knowledge and communication

Communication of knowledge, and therefore learning, and trust, are interconnected. Communications theory looks explicitly at communication, whereas literature on trust and internationalization do not. One core thought in organizational learning is that we need to account both for the acquisition and for internalization of the strategically important capability possessed by a partner (Kale, Singh & Perlmutter 2000). Organizational learning cannot take place without the knowledge being acquired first. Not until the acquired knowledge has been assimilated can the learning be said to be complete (Janowicz & Noorderhaven 2002). A greater perceived trustworthiness in the partner will result in better understanding of the partner's knowledge (Janowicz & Noorderhaven 2002). Trust is seen in this way as a "…lubricant for potentially useful and important information to travel quickly and accurately through the network" (Kale, Singh & Perlmutter 2000, p.233). Because the ways communication of trustworthiness is conducted is central to this, a discussion of what is communicated and by what means it is communicated is necessary.

3.5.1 Knowledge in organizations

The definition of knowledge, as provided by Davenport & Prusak (p.5, 1998), encompasses knowledge that exists in context to an individual but is rooted in an organization:

> "…a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the minds of knowers. In organizations, it often becomes embedded not only in documents and repositories but also in organizational routines, processes, practices, and norms."

Herein, the fundamental question of how knowledge is created, transferred and used by mankind is raised. Sveiby (1994) observes that the concept of knowledge is traditionally the area of epistemology. Still, the fields of computer science, cognitive psychology, pedagogy and (lately) brain research have made contributions to this idea. Metaphors from computer science and information theory have been influential since the 1940s. In a business setting, scholars have often enough chosen not go into the details or rather capture the effects and antecedents of knowledge. There are notable exceptions, which will be discussed in the following statements. Constructivist and functionalistic views on knowledge differ, but both provide insight into knowledge as a concept and affect the boundaries of the research.

Alvesson (1993) makes a point to acknowledge the ambiguity of knowledge rather than to deny the existence of this uncertainty. By ambiguity, he does not mean that uncertainty can be handled through fact-gathering, but rather that the possibility of rationality becomes reduced. This constructivist view confines the researcher's possibilities. Alvesson (1993) interprets this reasoning as rationalistic corporate myth. The legitimate institution cannot be used when analyzing technical efficiency in a strict sense because the separation between having knowledge and marketing becomes misleading. Through interactions, a firm can communicate that it has the right knowledge without "sending something over". Knowledge, in this view, cannot be something fixed and packaged, ready to be sold and distributed. Alvesson (1993) seems opposed to the treatment of knowledge as something that has robust

properties like a substance. Knowledge may not be stored in manuals but can provide effects similar to "good results".

In a more functionalistic view on knowledge, Kalling & Styhre (2003) point out that it is important to separate abstract concepts of knowledge from practical use. This pragmatic instrumentalism is described as: "…making use of knowledge without being too concerned about whether or not such knowledge is really, really true as long as it works in practice" (Kalling & Styhre 2003, p. 60). That is, knowledge is articulated, expressed, and brought into being through various practices.

In understanding knowledge, the different levels of interpretation should be taken into consideration. There are individual as well as collective interpretations of knowledge (Teigland 2003) where knowledge can be held by the individual thinker or knowledge can be constructed and embedded in the social relationships between individuals (sociological approach of Kogut & Zander 1995). It is still not clear what makes knowledge individual or organizational. Schenkel (2002) notes there is a disagreement regarding which interpretation of knowledge is valid. Grant (1996a, 1996b), for example, postulates that knowledge resides exclusively in the individual. However, March & Simon (1958), as well as Levitt & March (1988), contend that organizations accumulate knowledge beyond the capacity of the individual through organizational learning. Because of the dynamic nature of knowledge as suggested by Nonaka & Takeuchi (1995), it is difficult to argue that knowledge is totally confined to an individual or firm. In Nonaka & Takeuchi's model of knowledge conversion, this conversion is a social process between individuals.

3.5.2 Communication of knowledge

Communication is fundamental to human activities such as economics and business. Although communication is central to defining knowledge, there is no way to fully understand what goes on when two people communicate. In the theories that stem from literature which try to present an understand trust, the entity of knowledge and its communication, is one of the variables that has not been given enough attention. I argue that in order to understand communication of trustworthiness, one must determine the (interfirm) communication mechanisms at large, as well as the inevitable problem of grasping what that really is, and can be, communicated. In a context of internationalization, knowledge communication has also been found to be theoretically important. Here, recent advances in the field of knowledge management, together with classical models for knowledge transfers, give answers.

Communication is defined as the informal sharing of meaningful and timely information (Anderson & Narus 1990). As pointed out by Crotts & Turner (1999), the focus of this definition is on the weight or usefulness of the information, as opposed to the quantity or amount. Katz & Kahn (1978, p.428) state that "…communication – the exchange of information and the transmission of meaning - is the very essence of a social system or an organization."

Literature on knowledge management proposes that knowledge can be transferred through socialization, education and learning. Knowledge, in these instances, may be purposefully transferred, or it may occur as an outcome of other activity (Nonaka & Takeuchi 1995;

Kogut & Zander 1995). Firms can be viewed as repositories of knowledge, which affect the transfer of knowledge through routine management and personnel activities (Roberts 2000).

There are a number of theoretical concepts and models helping that explain how messages are transferred between actors involved in intrafirm communication. The baseline model for communication is that of Shannon & Weaver (1949). This model was originally developed to explain electronic transmission of data, but has been incorporated into the scientific setting due to its simplicity and foundation in scientific principle. The Transmission Communication Model includes the basic building blocks of sender, receiver, message, and channel. The tradition of Shannon & Weaver can be described as a mechanistic perspective of communication theory (Krone, Jablin & Putnam 1987) where communication is viewed as a process. Still, Shannon and Weaver's model of the communication process has been criticized as an inadequate description of the complex process of human communication. Despite attempts to put forward new models, none of these alternatives to the Transmission Communication Model have been widely accepted. Criticism and extensions have throughout the years been raised where e.g. the lack of interpretation in the communication process has been brought up (Bowman & Targowski 1987). Extensions include message loops (Schramm 1954) and the meaning of the message (Berlo 1960).

Models that focus on communication in a business setting are also to be found in the literature on technology diffusion (Rogers & Shoemaker 1971) and international business (Sölvell & Zander 1994). The main elements of Roger & Shoemaker's model of communication are:

> "(1) the innovation, defined as an idea, practice, or object perceived as new by an individual or other relevant unit of adoption, (2) which is communicating through certain channels (3) over time (4) among the members of a social system" (Rogers 1976, p. 292; Rogers & Shoemaker 1971, p.11).

Mohr & Nevin (1990) merge the communications and organizational theories when studying business relationships and decide to focus on the following facets of communication: frequency; direction; modality; and content. Frequency is the amount of contact between organizational members (Farace, Monge & Russel 1977). Direction is the vertical and horizontal movement of communication within the organizational hierarchy (Farace, Monge & Russel 1977). Modality refers to the medium of the communication as the methods used to transmit information (Stohl & Redding 1987) and can occur as either face-to-face interactions, which are the richest, or written, telephone, and other modes. Content is the message that is transmitted (Anglemar & Stern 1978). Mohr & Nevin (1990) predict that communication will wary depending on whether the business relationship has high or low trust. Communication with higher frequency, bidirectional flows, informal modes, and indirect content is used when the degree of trust is high. Communication with lower frequency, more unidirectional flows, formal modes and direct content is used when trust is low. For Mohr & Nevin (1990) the term communication strategy refers to a particular combination of the facets of communication.

I find, in all analysis of communication, it is important to understand what and how information is exchanged. Using the research results of Mohr & Nevin (1990) I follow up on this by discussing the concepts of message and media.

3.5.3 Message

Message, in its most general meaning, is something that provides information. Its meaning is dependent upon the context in which it is used. In the communications theory, a message is information which is sent from a source to a receiver. The analysis of what is communicated is denoted as the message of the communication for the purpose of this dissertation. Specifically, the message is information and data about the characteristics used to assess the sender's trustworthiness (Mayer, Davis & Shoorman 1995).

One important distinction, found in the literature, is the differences in the level of emphasis on the distinction between "data", "information", and "knowledge". Kalling & Styhre (2003) note that there are no lexical definitions for data, information, and knowledge that match the practical work studied in regard to these concepts. One common interpretation is that information is one of the elementary forms of knowledge, which is based on data. Data is a subset of information is a subset of knowledge (Kalling & Styhre 2003). Bhagat et al. (2002) argue that knowledge is broader, deeper, and richer than data or information. Data reflects discrete, objective facts about events in our world, whereas information is organized around a body of data. Just as information is derived from data, knowledge is derived from information processed through a contextualization and comparison to an existing standard and examining the consequences a given body of information may have for immediate and long-term organizational actions and decisions. Here, knowledge is heavily related to learning and actions. Davenport & Prusak (1998) suggest that data is a set of discrete, objective facts about events, while information is a message with a sender and a receiver. Information is meant to change the way the receiver perceives something. Information is data that makes a difference.

Strictly speaking, it is the receiver that decides if a message is data or information. This certainly adds a dynamic dimension to the example of a communication model for knowledge transfer. Roberts (2000) interprets that the difference in data are necessary components of information and knowledge, and are defined as a series of observations, measurements, or facts in the form of numbers, words, sounds, and/or images. Data provides the raw material from which information is produced. Information is defined as data that has been arranged into a meaningful pattern. Data may be gathered by conducting a survey, whereas information results from the analysis of the data in the form of a report or charts and graphs that give meaning to the facts. Knowledge is defined here as the application and productive use of information. Knowledge is more than information, since it involves an understanding gained through experience, familiarity or learning. Droege, Anderson & Bowler (2003) argue that knowledge finds its origin partly in information because to create new knowledge it is essential that information is transferred throughout the firm (Zack 1999).

Alvesson (1993) comments on the increasing interest in knowledge as an entity related to increasingly knowledge-intensive organizations and workers – a change in society. Alvesson (1993) observes that a strong candidate for the label "knowledge" is formal, theoretical knowledge. Other labels could include cultural knowledge that includes skills necessary to master a particular value and symbolic environment and maneuver freely through cultural codes in a social setting. Then there emerge two poles of knowledge with formal knowledge on one side and more tacit forms on the other. A number of dimensions for knowledge are

possible and scholars have developed their own typologies in conjunction with their specific theories (simple vs. complex, individual vs. systematic, market vs. product and so on). Within the context of international business, Eriksson et al. (1997, 2000) refine the types of knowledge into three categories as a firm internationalizes. Internationalization knowledge concerns a firm's capability and resources to engage in international operations. On the other hand, business knowledge involves competitive situations in specific markets and clients in these markets whereas institutional knowledge concerns governance structures in specific countries and their rules, regulations, norms, and values.

The organizational knowledge literature examines the type of knowledge that is transferred (Szulanski 1996; Kogut & Zander 1995). This theory often divides organizational knowledge into two types: explicit knowledge and tacit knowledge. Explicit knowledge refers to knowledge that is transmittable in a formal, systematic language. Tacit knowledge has a personal quality, which makes it hard to formalize and communicate. It is connected to action and a specific context within the social interaction is in focus. In short, tacit knowledge is difficult to articulate while explicit knowledge can be codified (Nonaka 1994; Polanyi 1966). Knowledge that is codified can be recorded or transmitted in the form of symbols (writing or drawings) or embodied in a tangible form (machinery or tools). Tacit knowledge is non-codified and acquired via the informal take-up of learning behavior and procedures and it is often referred to as "know-how". This dimension is interesting for a study of transfers and communication, in that it actually describes knowledge from the viewpoint of transferability. Nonaka (1994), by using the theoretical concepts of Polanyi (1966), made popular the paradigm that organizational knowledge is created through a continuous dialogue between tacit and explicit knowledge. Nonaka (1994) makes it clear that knowledge is developed by individuals but also that organizations amplify that knowledge. Knowledge is then created through a conversion from tacit to tacit knowledge, from explicit to explicit knowledge, from tacit to explicit knowledge, and from explicit to tacit knowledge.

Even in this attempt to categorize, one important comment is made by Polanyi (1969) in that knowledge cannot be codified, "While tacit knowledge can be possessed by itself, explicit knowledge must rely on being tacitly understood and applied. Hence, all knowledge is either tacit or rooted in tacit knowledge. A wholly explicit knowledge is unthinkable." (Polanyi 1969, p.144). Kogut & Zander (1995) point out the knowledge dimension of codification. Codifiability captures the degree to which knowledge can be encoded. The degree of codification (and teachability) is shown to have significant effect on the speed of international knowledge transfer and is argued to have immense implications for the whole evolutionary theory of the firm. If a firm is seen as a repository of knowledge, the successful codifying of this knowledge becomes one of the central capabilities for the survival of a firm in a competitive environment. Davenport & Prusak (1998) emphasize that thinking of knowledge in terms of codifiability implies decision on what business goals the codified knowledge will serve, as well as identification and appropriation of suitable media for codification and distribution.

3.5.4 Media

The analysis of by what means a message is communicated is in this dissertation denoted the media of the communication. This incorporates the concept of a communication channel which I argue has been used as a unit of analysis to answer all the question of what, by what

means, and by whom, with unnecessary risks of a lack of clarity. The concept of media simplifies the discussion and focuses on the question of by what means a communication is conducted.

Several academic disciplines have been using network-mapping techniques for studying networked structures and tried to follow how communication takes place between actors or nodes (Granovetter 1978; Coleman, Katz & Menzel 1957). In Thorngren (1977), the concept of "silent actors" is elaborated. It is pointed out that a communication process normally has a history in which persons not presently participating may still have had a heavy influence. They may have helped to create specific paths but then became passive or "silent". However, they often still held the paths together and without them, the paths may have collapsed. The point taken is that it is important not to define the relevant actors too narrowly, because the researcher may miss out on actors necessary for the long-run life of a channel. Another problem formulated in sociology and dealing with social networks and spreading of information is called the "Small World Problem" and in 1969, an interesting study was conducted to determine how this social network functioned. The "Small World Problem" can be formulated by determined what the probability is that two persons from any large population will know each other. Travers & Milgram (1969) arbitrarily selected 296 individuals in Nebraska and Boston and asked them to generate acquaintance chains to a target person in Massachusetts. Sixty-three chains actually reached the target and the mean number of intermediaries was only 5.2. One of the conclusions was that geographical space made it harder to get a chain from starter to target. The study is interesting to the research questions in this dissertation because of the importance in understanding how an individual's contacts to a geographically and socially remote target can be extended. Studies that are more recent have also used a network approach with mapping of "nodes" and "ties" in social networks. For example, Davis (1991) examines the diffusion of a corporate practice called the "poison pill" which is a defense against a hostile takeover. His study is made in a tradition of diffusion in social networks, where ties between individual adopters are mapped. The number of ties an individual has prior to the adoption becomes an important variable.

Another interpretation of the concept of the communication channel is in the tools or artifacts used in the transfer. For example, Allen (1966) as early as the 1960s has listed the information channels he included in a study about communication in governmental R&D projects. The unit of study was a laboratory. The most frequently used channels were: literature (books, journals and other publicly accessible written material); vendors (representatives of or documentation from suppliers of design components); customers (representatives or documentation); external sources (sources outside the laboratory that do not fall into the three prior categories like paid and unpaid consultants); technical staff (engineers and scientists in the R&D laboratory who are not directly assigned to the project); company research (any other projects performed previously or simultaneously in the lab); personal experience (ideas which were used previously by the engineer for similar problems and are recalled directly from memory); and analysis and experimentation (ideas which are the result of an engineering analysis, test, or experiment with no immediate input of information from any other resources). Two results of the study conclude that literature as an artifact is not greatly used and is mediocre at best in its performance, and that individuals acting as what he later called "technological gatekeepers" are important.

Allen & Cohen (1969) find serious problems in transferring information across the boundaries between different organizations unless key individuals including the "technological gatekeepers" or "sociometric stars" showed the way. In Allen's study, the persons in the companies proved to be the overall most important media for communication of technology. Historically, movement of people has been the only way of spreading ideas over great geographic distances. Numerous other studies have been made to ascertain how important flows of manpower have been in the spreading of technology. Ettlie (1980) develops a model of the causes and impacts of manpower flows in the innovation process. He claims that information flows have been the main object for study in diffusion literature and that manpower flows are an underestimated channel. This work is followed up further in Ettlie (1985) where the importance of manpower flows in innovative work is studied. One main conclusion was that manpower flows stimulate organizational innovativeness only up to a point at which there are diminished returns due to disruptive impact of new personnel.

Theory on organizational boundaries suggests that boundary spanners are essential to the operation of organizations (Thompson 1967; Aldrich & Herker 1977). Adams (1976) introduced "boundary role persons" that acts as boundary spanners between groups. Relevant to communication, as approached in this dissertation, are suggestions by Aldrich & Herker (1977, p. 218) who extend the discussion of an information processing function in organizations and how certain individuals or "boundary role incumbents" help the organization to handle information overload: "Boundary role incumbents, by virtue of their position, are exposed to large amounts of potentially relevant information. The situation would be overburdening if all information originating in the environment required immediate attention."

In addition, Lee & Allen (1982) describe that even if hiring new staff is a possibility to acquire new technical knowledge, it takes time to incorporate new staff in R&D functions. This is identified by comparing the communication patterns of new and veteran R&D staff as a function of their work activities. The compelling thing about studying flows of manpower is that it is relatively easy to observe. Companies keep track of its staff and movements inside and between companies. Hetzner, Tornatzky & Klein (1983) study the modus operandi of federal programs designed to enhance the capabilities of the manufacturing industry in the US. They had a hard time finding out-spoken, well-articulated mechanisms for what they call transfer of technology. In the study, 12 "technology transfer mechanisms" are used in the questionnaire and include: personal meetings; seminars; telephone; workshops; dissemination of abstracts; newsletter and articles; advertising, demonstrations; technology assistance; advisory panels; funding/grants; survey of users; and managerial assistance. The data suggests that there is a clear preference for using interpersonal technology transfer devices. Personal meetings and seminars seem to be the mechanisms of choice closely followed by workshops and telephone contacts. Formalistic transfer mechanisms as newsletters, advisory panels, managerial assistance and the like, were used the least. Again, researchers find that only a certain type of information, or certain level or depth, can be encoded into artifacts.

Mansfield (1975), in a study of international technology transfer between the USA and the USSR, looked into the difficulty of international technology transfer. He observes that economists sometimes assume that technology is a set of blueprints that you can transfer to another country with the price of the stamp as the major and only transfer cost. However,

the transfer of information is neither a simple nor a costless process. Mansfield (1975) states that publications and reports are a much less effective way of transferring technology in comparison to the movement of people. To transfer "know how", which can be impossible to write down, there is no substitute for person-to-person training and assistance.

In this type of discussion, the modern realities of business urge us to also encompass usage of electronic information and communication technologies (ICT) as a means of opening communication channels. Roberts (2000) argues that the ICT revolution should not be viewed as synonymous with the rise of the knowledge-based economy, but that both phenomena are closely interrelated. ICT facilitates the rapid collection, collation, storage, and dissemination of data, thereby assisting the knowledge creation and diffusion process.

Roberts (2000) argues that ICT impact upon knowledge is first and foremost in the production of cheap decentralized computational power and allows for the collection, collation, storage and dissemination of data on a scale not practicable in the past. This gives rise to new information and from this new knowledge. Secondly, ICT facilitates knowledge transfer through the exchange of data. However, Roberts (2000) also observes that this requires a double transformation process converting knowledge to information and then to data, and back from data to information and, finally, to (fresh) knowledge. Where knowledge can be codified, it can, with the use of ICT, quickly be disseminated. The transfer of tacit knowledge, however, cannot be executed in such a simple fashion since the transformation from knowledge to information and on to data would be incomplete. Consequently, the transfer of tacit knowledge often requires proximity between the transmitter and receiver. Furthermore, Roberts (2000) and others find that the use of technologically mediated communication will be more successful when it is between agents who share common social, cultural, and linguistic characteristics. It will be less effective when agents are from diverse backgrounds, particularly during the early stages of an interaction.

Media richness theory posits that the content of a communicated message influences the choice of communication media (Daft & Lengel 1984, 1986; Webster & Trevino 1995). Media richness refers to the amount of information that can be conveyed through a communication medium (Poole, Shannon & DeSanctis 1992). Communication media are argued to vary in the ability to process information on a continuum whereas face-to-face contact is considered the richest media, often followed by telephone, email and written documents (Salmon & Joiner 2005). Face-to-face communication occurs when communicating parties interact in physical proximity to each other and this provides a wide range of aural, visual and nonverbal communication cues.

Daft and Lengel (1986) argue that organizational members could improve performance by matching media characteristics to the needs of the organization. Messages should be communicated on channels with sufficient and appropriate media richness capacities. In negotiations, it is suggested by Purdy & Nye (2000) that negotiators using leaner media may lack sufficient commonality to negotiate effectively. The lack of information in leaner media can cause feelings of depersonalization and a sense of anonymity (Straus & McGrath 1994).

3.5.5 The ability to communicate

Cohen & Levinthal's (1990) concept of absorptive capacity suggests that a platform of diversity of background and previous related knowledge is essential to the recognition of new, useful information and the development of new knowledge. The authors suggest that the ability of a firm to recognize the value of new external information, assimilate it, and apply it to commercial ends is critical to its innovative capabilities. This competency was labeled as a firm's "absorptive capacity" and the authors suggest that it is largely a function of the level of prior related knowledge. Cohen & Levinthal (1990) acknowledge the role of the individual in this process and start their discussion with the cognitive basis of the individual. An organization's "absorptive capacity" depends on the "absorptive capacities" of its individual members. A firm's "absorptive capacity" is however, not simply the sum of the "absorptive capacities" of its employees but rather there is a dimension that is tied to the organization and the organization's ability to exploit this competency. An organization's "absorptive capacity" is not resident in a single individual but depends on the links across a mosaic of individual capabilities as confirmed with Nelson and Winter's (1982) view of organizational capabilities.

To assess the organization's absorptive capacity it might not be enough to study the direct interface with the external environment. There are also transfers of knowledge across and within subunits and the model of Cohen & Levinthal (1990) also incorporates the structure of communication between the external environment and the organization, as well as among the subunits of the organization, and the character and distribution of expertise within the organization. The "absorptive capacity" is proposed to be history-dependent implying that one must pay attention to the path of events that led to the situation of today in order to evaluate this capability. Resources, in R&D invested along this path, are given critical importance. "Absorptive capacity" may be created as a byproduct of a firm's R&D investment.

In addition, previous experience is discussed by Cohen & Levinthal (1990) as a factor affecting the "absorptive capacity". One main idea behind "absorptive capacity" is that the organization needs prior related knowledge to assimilate and use new knowledge. Accumulating "absorptive capacity" during one period will permit accumulation that is more efficient in the next. Cohen & Levinthal (1990), based on learning-set theory (Harlow 1949, 1959), also stress that it is not enough merely to expose an individual briefly to relevant prior knowledge because learning is built up over many practice trials on related problems during the process. Here, following Nelson and Winter (1982), the less explicit the relevant knowledge, the more difficult it is to assimilate. The effects of higher levels of "absorptive capacity" are positive in the way that the organization increases its awareness of outside opportunities. The greater the organization's expertise and associated "absorptive capacity", the more sensitive it is to emerging opportunities and the organization will be more proactive and exploit opportunities. Organizations that have a lower "absorptive capacity" will be more reactive.

Lane, Salk & Lyles (2001) also provide a linkage between trust and "absorptive capacity" by declaring that interorganizational trust is a critical part of "absorptive capacity" because it encourages the firms to actively help each other to understand the knowledge that is communicated. Trust then influences both the extent (Inkpen 1997) and with what the

efficiency (Parkhe 1993) through which knowledge is exchanged. Cohen & Levinthal (1990) proposed three components of absorptive capacity: (1) Ability to understand external knowledge, (2) Ability to assimilate external knowledge, and (3) Ability to apply external knowledge. Lyles & Salk (1996) equate "absorptive capacity" with organizational flexibility. In line with this theory, partners must have similar knowledge bases in order for them to understand each other (Lane & Lubatkin 1998).

Firms develop routines that help them accomplish faster learning. Those routines form organizational capabilities (Dosi, Nelson & Winter 2002) and learning skills that constitute the firm's "absorptive capacity" (Cohen & Levinthal 1990). Barkema & Nadolska (2003) posit that for successful internationalization a firm must develop information processing and control capabilities to coordinate activities across diverse environments, the capability to tune into and interpret strategic signals specific to a foreign environment, and the ability to work with foreign partners. Capability development is made possible by organizational learning that allows the company to discover and remember previous experiences and therefore increase the use of knowledge from these past encounters. Barkema & Nadolska (2003) conclude that the firm's repertoire of readily available solutions (i.e., the "absorptive capacity") increases and it then becomes easier for a company to recognize, interpret, and solve a problem that already occurred in a similar.

3.6   Summary – Knowledge and communication

The organization or company is the arena for knowledge studies in business. Knowledge is developed by individuals, but organizations can amplify this knowledge. Although the communications revolution of the twentieth century has enormously reduced the barriers imposed by distance, the costs of international communication is often significant. Communication has been defined as the informal sharing of meaningful and timely information.

Of the four dimensions of communication, as suggested by Mohr & Nevin (1990), I find the content and modality as relevant for my research questions and reposition the factors making up communication in this dissertation to message and media as depicted in Figure 5.

Facets of communication			
Frequency			
Direction		Message	tacit
			explicit
Modality		Media	rich
Content			lean
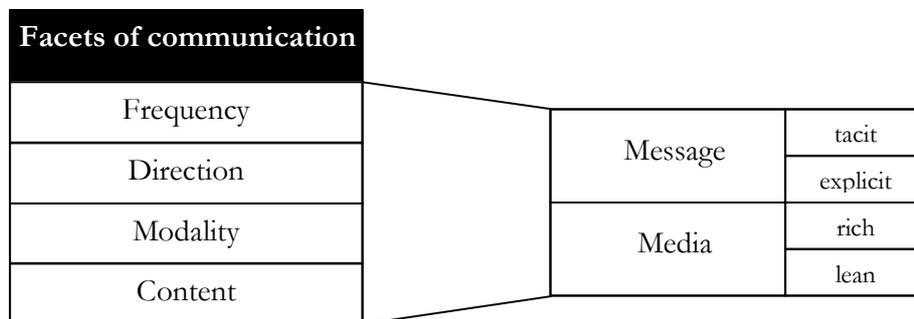
Figure 5: Adopted from the four facets of communication suggested by Mohr & Nevin (1990).

The message dimension is related to the facet of content as proposed by Mohr & Nevin (1990) and media is related to modality. Frequency is a well-used, perhaps the most commonly used, construct in studies of communication. However, in this study I chose to focus on the quality and timing of the communication rather than the sheer amount and this will be reflected in the dimensions of choice of message and media. The message of the communication is further divided into the dichotomy of tacit and explicit. The media of the communication is divided into a dichotomy of rich and lean. Knowledge can be codified or made explicit if it can be recorded or transmitted in the form of symbols or embodied in a tangible form. Tacit knowledge is non-codified knowledge, often referred to as "know-how", which is acquired via the informal take-up of learning behavior and procedures. Tacit knowledge has a personal quality, which makes it hard to formalize and communicate. It is connected to action and the specific context of social interaction is in focus.

Several academic disciplines have been using network-mapping techniques for studying networked structures and tried to follow how communication takes place in communication channels between actors or nodes. One lesson from these studies is that it is important not to define the relevant actors too narrowly, because the researcher may miss out on actors necessary for the long-run life of a channel. One special type of actors that has been examined in theory is individuals acting as "technological gatekeepers". There can be serious problems in transferring information across the boundaries between different organizations unless key individuals, "technological gatekeepers" or "sociometric stars" show the way.

Classical models of communication, with the emphasis on transfers of new knowledge (often labeled technology) in a business setting, include the concepts of innovation, defined as an idea, practice, or object perceived as new by an individual or other relevant unit of adoption, which is communicated through certain channels over time among the members of a social system. These channels can be interpreted as the actual tools, artifacts or situations used for the purpose of communication. Again, only a certain type of knowledge, level or depth can be encoded into artifacts. To transfer tacit knowledge there is no substitute for person-to-person training and assistance that often requires an extensive time commitment.

This also holds true for the increasing usage of Information and Communication Technology (ICT) in business. ICT facilitates the rapid collection, collation, storage, and dissemination of data, thereby assisting the knowledge creation and communication process. Where knowledge can be codified, it can, with the use of ICT, quickly be disseminated. The transfer of tacit knowledge, however, cannot be executed in such a simple fashion since the transformation from knowledge to information and into data will be incomplete.

Figure 6 depicts a simplification of what has become known as the Transmission Communication Model by Shannon & Weaver (1949, p. 34).

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Sender → Encoding → Message → Channel → Decoding → Receiver
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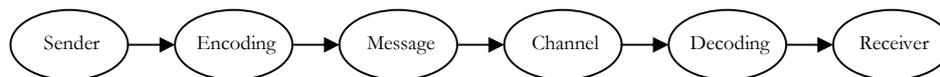
Figure 6: Transmission Communication Model. Adapted from Shannon & Weaver (1949, p. 34).

In this model, I find the most interesting aspect being the necessity for encoding and decoding messages if the purpose of the communication is to transmit not only data or information, but also knowledge, then an understanding of the implications of encoding and decoding is necessary. When moving into the communication of knowledge then the communication cannot be said to be completed if the message has not been thoroughly understood or assimilated by the receiver. I argue that the sender can help this process by having the knowledge of what kind of encoding or packaging has a higher chance of acceptance in the receiving organization. These thoughts are developed by Cohen & Levinthal (1990) with the introduction of the concept of "absorptive capacity".

The knowledge that the receiver can develop and strengthen the communication is basically an "absorptive capacity" of that firm. Again, I would like to add and stress that for the communication process, and in this thesis, focusing on the communication process that has been shown so crucial for the building of trust, should be analyzed also with the sender in mind. In the sending organization, a sending capacity is the mirror of the receiving organizations receiving capacity. The sender can, in a continuous learning process, build up a sending capacity that helps package external messages in a way that is suitable for a specific receiving party. The labels of sender and receiver will naturally change over time and as a whole, it is valid to speak of communication abilities including both the ability to send and receive external messages, as in the case of this thesis, relevant to the building of trust. I find that in this theory, the role of the individual is vague. From the suggestions of "boundary spanners", "technological gatekeepers" or "sociometric stars" I determine that there could be individuals inside the organizations that facilitate the communication between organizations (Allen & Cohen 1969; Aldrich & Herker 1977). These individuals could take the form of "door-openers" which would denoted a person that works inside the trustor and not only acts as a communicator but also takes ownership of the deal at hand and, if necessary, protect and market the relationship with the trustee inside the trustor.

Knowledge and communication of knowledge is interconnected to the concept of trust. Communication is largely seen as an antecedent to trust but the opposite causality that more rarely enter the models. It is clear that communication fosters trust by assisting to resolve

disputes and align perceptions and expectations. Communication of trustworthiness is defined as an interactive process that affects, monitors, and guides members' actions and their attitudes in their interactions with one another, and that ultimately determines the level of trust that exists between them. Arguably, effective communication of trustworthiness is a prerequisite for trust-building. A parallel can be drawn to virtual organizations where individuals lack many of the richer means of communication such as face-to-face meetings and have to make-due with leaner communications like email and telephone. This environment is arguably similar to the interactions between SMEs and their foreign partners in early stages of internationalization. In such an environment of trust-building becomes cumbersome, but still important.

3.7 Concluding discussion

In this chapter, existing literature relating to the research problem has been presented. The positioning of the dissertation is illustrated in Figure 7. The theoretical internationalization of firms and specifically that of high-tech SMEs entering Japan was put forward, followed by recent specific theoretical work on trust in international business relations. The chapter also focuses on communication and the interrelations between communication of knowledge and trust. This presentation of the theoretical pillars of internationalization, trust, and communication of knowledge builds the foundation for the development of an elaborate framework to be used when studying the trust-building processes. Especially relevant research strands for the underlying research questions dealing with the communication abilities, intermediaries and individuals are high-lighted in the concluding discussion.

INTERNATIONALIZATION   TRUST

Johanson & Vahlne (1977, 1990)

Mayer et al. (1995)

Etemad (2004)

Havila (1996)

Crotts & Turner (1999)

Flores & Solomon (1998)

Knight & Cavusgil (1996)

Zucker (1986)

Current study

Rogers & Shoemaker (1971)

Kasper-Fuehrer & Ashkanasy (2001)

Cohen & Levinthal (1990)

Shannon & Weaver (1949)

Mohr & Nevin (1990)
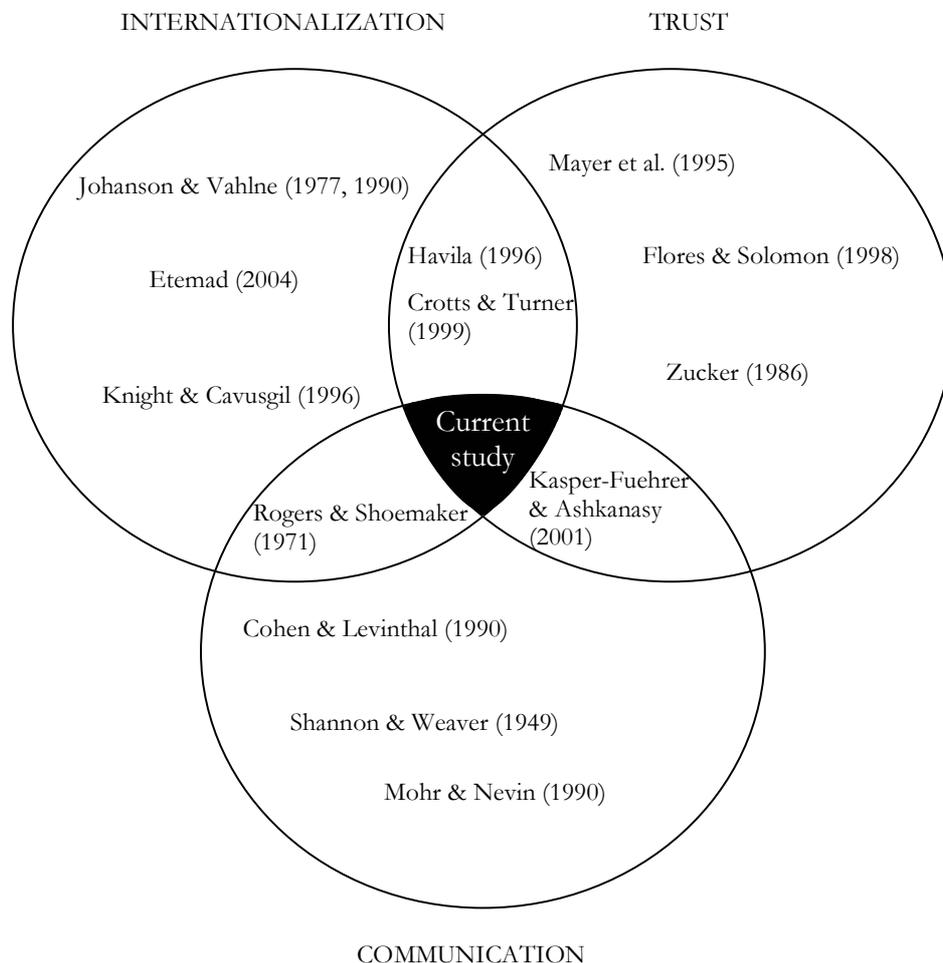
COMMUNICATION

Figure 7: Theoretical map. Positioning of this dissertation compared to selected studies of Internationalization, Trust, and Communication.

Effective communication of trustworthiness is a prerequisite for trust-building and this is supported by previous research. Some of these theories can be found in studies of so-called

virtual organizations (the idea of the "virtual organization" was popularized by Davidow & Malone 1992), where the researchers are curious as to how trust can increase within groups where individuals are geographically as well as culturally dispersed. For example, Jarvenpaa & Leidner (1999) and Kasper-Fuehrer & Ashkanassy (2001) argue that trust is maximally important in new and temporary organizations, because it acts as a substitute for the traditional mechanisms of control and coordination. Additionally, these individuals lack many of the richer means of communication – like face-to-face meetings – but have to make do with leaner communication like email and telephone. This environment has arguably many things in common with the interactions between SMEs and their foreign partners in early stages of internationalization. In such an environment, trust-building becomes cumbersome, but still important.

Communication is largely seen as an antecedent to trust, but the opposite causality more rarely enters the models. Communication is posited to foster trust by assisting in resolving disputes and aligning perceptions and expectations (Etgar 1979). Past communication is an antecedent of trust, but "In subsequent periods… this accumulation of trust leads to better communication" (Anderson & Narus 1990, p.45). Anderson & Narus (1990) find that, from both the manufacturer and distributor's perspectives, past communication was positively related to trust. Anderson & Weitz (1989) also find that communication was positively related to trust in channels. Drawing on Nelson & Coxhead (1997), Kasper-Fuehrer & Ashkanasy (2001) define communication of trustworthiness as an interactive process that affects, monitors, and guides the actions of members and their attitudes and interactions with one another, and that ultimately the level of communication determines the amount of trust between each actor. The focus is on means for establishing trust in rapidly changing settings, with the implication that communication between the collaborating parties is functioning well. In a study of trust, in market research relationships, Moorman, Zaltman & Deshpandé (1993) make a case for one factor that distinguishes firms that merely possess information from those that use information and that one factor is the level of trust users have in the producers of information.

It has been noted that the role and importance key individuals play in internationalization has not yet received much attention (Andersson 2000). It appears reasonable that individual decision makers can contribute substantially, especially in a smaller firm. Part of the explanation for the success of some firms lies in the individual entrepreneur and the special abilities of the smaller firm. The view that some critical individuals can enhance communication between two organizations has been accepted (Allen & Cohen 1969).

Communication is based on certain abilities related to previous knowledge. These abilities are proposed to be history-dependent implying that one must pay attention to the path of events that led to the situation of today in order to evaluate this capability (Cohen & Levinthal 1990). There is a link between communication and trust that is useful in addressing the research questions of this dissertation, as well as extensions and contributions to this theory to be done. Three key concepts from the literature of internationalization include experience, resources and the impact of management all help to explain how firms manage to internationalize through building business relationships. I posit that the literature of internationalization can help with insight into how these communication abilities can be affected.

In early stages of internationalization, it was suggested that the firm entering a new market can be introduced to actors on that market by intermediaries. These can be agents or trading houses, venture capitalists, or governmental organizations or export promoting consultants. Research suggests that analyzing information flows and trust that depend on these intermediaries can give useful insights. From the literature of trust, I want to emphasize the concept of a relationship triad as particularly relevant to my research goals.

4 Framework

In this chapter, a framework for structuring and analyzing the following empirical material is presented. The structure and application of a framework with static features is combined into a timeline of events, resulting in the capturing of the dynamics in the process of trust-building. In addition, operationalization of the following work with the empirical material is discussed.

In starting the discussion about a framework for my purpose, let me recapitulate the research questions of this dissertation.

1. What is the relationship between communication abilities and the process of trust-building?
2. What is the role of intermediaries in the process of trust-building?
3. What is the role of the individual in the process of trust-building?

In order to address these research questions, I will construct a framework collecting the main analytical tools necessary. After having processed the empirical material through this framework, I expect to find enough important discrepancies from reality to rectify changes of the framework in the final discussion and analysis of the dissertation.

4.1 Trust-building communication – a continuous dialogue

One central thought in this dissertation is that communication and trust-building are dependents that reinforce one another. Causal links between communication and trust can be found in models constructed for analyzing matters around trust (Morgan & Hunt 1994; Crotts & Turner 1999; Shepherd & Zacharakis 2001; Becerra & Gupta 2003; Droege, Anderson & Bowler 2003). However, the causality is often described as communication affecting levels of trust positively in a one-sided approach rather than elaborating on the interdependence of these two constructs. More work that is theoretical could be done in this area and this dissertation should provide new building blocks for this discussion.

Several writers define trust as necessarily reciprocal (Anderson & Weitz 1989; Blois 1999). This reciprocity strengthens the theme of this dissertation where communication is seen as an important part of trust-building. Anderson & Weitz (1989, p.320) state that "The mutual trust in a relationship is in turn strongly influenced by the level of communication in a dyad." However, it should be duly noted that the reciprocity might be asymmetrical. Through communication, trust is built into relationships and as such, trust does not precede the affiliation. Trust is built, as well as torn down, through continuous dialogue, promises, commitments, expectations, and explicit as well as tacit understandings (Flores & Solomon 1998). By studying and understanding this communication a better appreciation of trust and the framework used in this dissertation to integrate communication and the process of trust-building can be developed.

The chosen level of analysis be it individual or organizational trust, in this study is not clear-cut, and arguably does not need to be. I posit, and find support for this in theory (Blois

1999; Flores & Solomon 1998; Moorman, Deshpandé & Zaltman 1993) where trust is built between individuals, even though these individuals happen to be representatives for organizations and the trust takes form in a setting of a business relationship. I use the starting point that trust can only be granted by individuals. However, a common formula for inter-organizational trust used by writers is "…two sets of individuals each of which is trusting the organization of which the others are members…" (Blois 1999, p. 203). I still primarily envision trust as something for which we are individually responsible (Flores & Solomon 1998). In this dissertation, the voice and interpersonal characteristics of a number of trust-building process critical individuals is followed up in the analysis. Therefore, the construct of trustee and trustor in the framework includes sets of individuals representing the organization as a whole, but much of the analysis is based on certain interpersonal characteristics in these sets.

I chose to look at the development of business relationships as a bundle of messages being communicated continuously. This dissertation deals with messages that can be characterized as trust-building in the way that they communicate certain characteristics of trustworthiness in a firm. These messages include information conveyed through certain media. It should be observed that, in the category of messages, I include behavior related to meeting expectations such as performing relevant tasks competently and reliably, sharing information, and consistently delivering expertise and resources (Cullen, Johnson & Sakano 2000). The messages are information that helps communicate these characteristics of trustworthiness.

Admittedly, this works two-ways and the direction of the causality between trust and communication can be discussed further. Trust increases the efficiency of information transfer and affects what messages and by what media these messages should be communicated, in short, trust shapes the communication. The existing level of trust is a variable in how information moves between senders and receivers and more specifically with what accuracy and frequency information is exchanged. Trust help telling apart firms that only possess information from those that manage to use that information and turn it into knowledge.

Trustworthiness is divided into the factors of Ability, Benevolence, and Integrity as suggested by Mayer, Davis & Shoorman (1995) and possessed by the sending trustee. In this dissertation the term Competence is better describing what Mayer, Davis & Shoorman (1995) denoted as Ability (McKnight, Choudhury & Kacmar 2002) because it decrease the risk for confusion with the theorizing of the ability to communicate. Competence is still defined as the ability of the trustee to do what the trustor needs, benevolence is the trustee's caring and motivation to act in the trustor's interests and integrity is the trustee's honesty and promise-keeping (McKnight, Choudhury & Kacmar 2002).

In this way, the message studied in this dissertation involves detailing the information from and about the Swedish trustee about its competence, benevolence and integrity, which is sent through different media to the receiving Japanese trustor. I have chosen items used in the literature to indicate these factors of trustworthiness by adapting measurement wordings from Mayer & Davis (1999) and McKnight, Choudhury & Kacmar (2002) resulting in these empirical indicators used in my empirical analysis:

Table 2: Empirical indicators for used factors of trustworthiness

Factor of Trustworthiness:	Empirical Indicator:	Theory:
Competence:	The Swedish firm is knowledgeable in their field and able to produce products with the features we desire.	Mayer & Davis (1999), McKnight et al. (2002)
Benevolence:	The Swedish firm is sincerely concerned about our well-being and when problems arise, they are helpful in the process of solving these problems.	Mayer & Davis (1999), McKnight et al. (2002)
Integrity:	The Swedish firm is fair and keeps their promises and is ethical in our business relationship.	Mayer et al (1999), McKnight et al. (2002)

If putting the operationalization in less distinct wordings, ability is possessing the skills to get the job done, benevolence is caring about the other persons, and integrity is adhering firmly to a code of moral or ethical values. Individuals and organizations that score high on all of these are trusted by their peers and the marketplace (Mayer & Davis 1999). Using the empirical material, the trustworthiness is defined from the perceived view of the Swedish firm by the Japanese firm.

This framework is constructed to better understand the process of trust-building and in that process the level or strength of trust would be of interest – at the same time connected with measurement problems. In many studies focusing solely on trust, no explicit measurement of trust is made at all (Saxton 1997; Madhok 1995; Parkhe 1998b; Mayer, Davis & Schoorman 1995; Ring & Van de Ven 1992; Barney & Hansen 1994). The construct has been mostly grounded theoretically without field-studies and the ideas are partly based on previous referred empiric results. As discussed in the Theory-chapter, it seems especially difficult to distinguish trust from other factors (Moorman, Deshpandé & Zaltman 1993). As for a study actively measuring trust, Gill & Butler (2003) provided an inductive line of attack where the respondents, through open-ended questions, defined the concept of trust. Then the informants were asked to draw curves of how their trust, in each of the other organizations, had changed over time. In addition, Butler (1991) starts with a compilation of conditions for trust from respondents, then from this, develops measurement scales. More approaches that are deductive can also be found in the literature that relies on a number of items for each specific dimension of trust. Some of these approaches include statements that the respondents reacted to with a 5- or 7-point attitude scale ranging from "Strongly disagree" to "Strongly agree" (Johnson et al. 1996; Ganesan 1994; Aulakh, Kotabe & Sahay 1996; Morgan & Hunt 1994; Larzelere & Huston 1980; Sullivan et al. 1981). For example, some of the statements tested in the survey by Ganesan (1994) include the following: (1) this firm's representative has been frank in dealing with us; (2) promises made by this firm's representative are reliable; (3) this firm's representative does not make false claims; (4) if problems such as shipment delays arise the firm's representative is honest about the problems; (5) this firm's representative is like a friend; (6) we feel that the firm's representative has been on our side..

I approach increases and decreases in trust in the way that respondents are urged to explain what trust means for them in the specific context of international relations in general and with the case-firms in particular, as well as estimating in what direction the trust-building process is going at a certain moment. Answers to these questions not only provide rich data, but also supply the stories and incidents valuable for the analysis as a whole. The levels of trust (perceived level of trustworthiness of the trustee) can increase or decrease at certain phases of the case stories. This focus on the change of trust level is suitable for this processual analysis of trust-building. To estimate an absolute strength or level of trust at a certain point of time would imply that the researcher had an assessment of the baseline level of trust, which is outside the purpose of this study.

In the theoretical framework of this dissertation, a trustee must be successful in communicating these three factors of trustworthiness (Competence, Benevolence, and Integrity) in order to be seen as trustworthy by the trustor. The trustee and trustor here are involved in a trust-building dialogue that creates trust. In this framework, trust-building communication is theoretically examined though a mix of chosen messages and media over time.

The message is divided in the theoretically constructed dichotomy of tacit vs. explicit. Again, I will point out the difficulties of an operationalization of tacitness, which is often given form by a mere contrast to codification. Ambrosini & Bowman (2001) point out that tacit knowledge has so far resisted operationalization. Polanyi (1962, 1966), who introduced the concept, describes tacit knowledge as follows: "I shall reconsider human knowledge by starting from the fact that we can know more than we can tell" (1966, p. 4). Still there are suggested characteristics of tacit knowledge that are more viable for operationalization. I have chosen items used in the literature to indicate tacitness by adaptation from suggestions of Ambrosini & Bowman (2001) resulting in the empirical indicators of individualism and context used in my analysis.

Individualism posits that tacit knowledge consists of mental models that individuals follow in certain situations. These are deeply embedded in the individuals and tend to be taken for granted (Sternberg 1994; Nonaka 1991). Ravetz (1971) suggests that tacit knowledge becomes so embedded in the individual that it seems entirely natural. Tacit knowledge is in this way personal knowledge and this is a reason why it is so attached to the knower. One of the characteristics of tacit knowledge is that it is difficult to write down and formalize (Nonaka 1991). People that possess tacit knowledge cannot explain the decision rules that underlie their performance (Ambrosini & Bowman 2001). Tacit knowledge is context specific and rooted in action. It is a knowledge typically acquired on the job or in the situation where it is used (Sternberg 1994, p. 28) such as in the activities of a specific work group or team. Explicit knowledge, on the other hand, can "…be communicated from its possessor to another person in symbolic form and the recipient of the communication becomes as much `in the know' as the originator…" (Winter, 1987, p. 171). It refers to knowledge that is transmittable in formal and systematic language (Nonaka 1994).

The media is divided into the dichotomy of rich and lean. These concepts are taken from Media Richness Theory where media richness refers to the amount of information that can be conveyed through a communication medium (Poole, Shannon & DeSanctis 1992). Here a continuum exists where face-to-face contact is considered the richest media, often followed

by telephone, email and written documents. I have chosen to operationalize face-to-face as a rich media and other media like telephone, email and written documents as lean (Salmon & Joiner 2005).

These factors of communication, empirical indicators, and theoretical grounding are summarized in Table 3.

Table 3: Empirical indicators for used factors of communication.

Factor of communication:	Subdivision of factor:	Empirical Indicator:	Theory:
Message:	Tacit	The message is closely attached to persons in the sending firm and rooted in actions specific to a context.	Sternberg (1994), Nonaka (1991)
	Explicit	The message is transmittable in a formal and systematic language.	Nonaka (1991, 1994)
Media:	Rich	Face-to-face communication i.e. where parties interact in physical proximity to each other.	Daft and Lengel (1984, 1986), Poole, Shannon & DeSanctis (1992)
	Lean	Telephone, email and written document forms of communication.	Daft and Lengel (1984, 1986), Poole et al. (1992)

4.2 Communication abilities

In the framework of this dissertation I further posit that there are certain communication abilities associated with the sending trustee that make it possible to engage in trust-building communication, i.e. for a sending trustee to send messages about its characteristics of trust-worthiness to a receiving trustor. In this dissertation, with a focus on the SME working to start business relationships with partners in a foreign market, these communication abilities are conceptualized as a sending capacity of that firm. With the focus on a process of trust-building, the sending capacity is in the framework defined as the ability of a firm to translate and transmit internal information in order to build trust through a continuous dialogue. In this translation the pure transformation of information from one language to another is not central, however it is not trivial either, but instead the concept implies that the sending trustee uses an existing knowledge base in order to filter and package a message. This often has to be done despite separation by great distances, with complex messages delivered by leaner media like email.

The sending capacity is theoretically grounded in existence of the "absorptive capacity" (Cohen & Levinthal 1990; Lane, Salk & Lyles 2001). By adopting this theory to a sending party, a firm must have the ability to send messages in a way that a receiver can understand, assimilate, and apply. The sending capacity is an ability to tune into and interpret strategic

signals specific to a foreign environment and use this knowledge to send messages of trustworthiness that are received and understood. I posit that this ability and the sending capacity are made possible by three factors that are pertinent indicators of the sending capacity: resources, experience, and management intent. These three factors of resources, experience, and management intent are closely interwoven and sometimes empirically hard to distinguish, although all three have separate theoretical positions in the framework.

Based on both theory and results from the case interviews the construct of experience is argued to be one of these factors. The factor experience is more formally defined as market knowledge (Johanson & Vahlne 1990) of the Japanese market, and with the length of the Preparation phase used as one possible proxy. The experience is closely connected to learning and as the cases unfold, the Swedish firms make different choices in terms of investments in learning and the speed at which learning occurs. Experience, as reported in the literature, is a key factor of internationalization (Johanson & Vahlne 1990). In my framework, I translate that the effects of experience have an impact on the communication ability of the firm. The theoretical background of the Uppsala model focuses on knowledge as a driving factor affecting the internationalization process (Johanson & Vahlne 1990). One essential type of knowledge here is the knowledge gained, about a specific market, through experience. According to the Uppsala model, the effect of gaining market knowledge leads to a decreased uncertainty regarding the foreign market as well as new business opportunities. Experience is generally a prime source of learning in an organization (Penrose 1959). Experience is also discussed as a factor affecting the "absorptive capacity" where one main idea attributable to "absorptive capacity" is the fact that the organization needs prior related knowledge to assimilate and use new knowledge (Cohen & Levinthal 1990). Accumulating "absorptive capacity" during one experience will permit accumulation that is more efficient in the next.

In the same line of thought, I posit that for sending capacity, as seen in this dissertation in a context of internationalization, the experience from a specific market which is the aim of a communication of trustworthiness becomes a key factor that will increase or decrease a firm's sending capacity. The sending capacity is in this way seen as history-dependent and continually evolves through trial-and-error and gradually built in a process involving several factors. While using empirical material from cases where episodes are followed up chronologically in a process, the choice of operationalization is the time that the sending firm has had to gain experience in a specific foreign market. Experience is listed as the time-period from where the firm initiated contact and started learning about a specific foreign market. In other words, this experience could be likened to knowledge about a market as used in the Uppsala model.

I argue that resources also have part in whether a firm can develop a sending capacity for trust-building communication. Instead of including a set of financial, technological, physical, and managerial resources as suggested by Das & Teng (1998), this study focuses on what Etemad (2004) related to as "up-built" relations of the firm. Internationalization, and as examined in this thesis the trust-building communication that goes along with it, puts a smaller firm's ability to establish and manage special relations with other partners at home and abroad to a test. Managing relations is not primarily dependent on physical resources, but relies on entrepreneurial trait, social relations, social capital and even family networks (Etemad, 1999, 2003, 2004). I conclude that it is not primarily physical resources but rather

"up-built" relations that are the valuable resources when building communication abilities. These relations, I would argue, are built between individuals primarily on site in the foreign market. Following this reasoning, and again with the processual approach to the empirical material in mind, the resources in this dissertation are hence operationalized as the time spent by key individuals from the sending actor in the foreign market, from that an interest in a foreign market has emerged.

The role of the individual in this study is examined to the extent that individuals act as door-openers for the trustor inside the trustee. A door-opener is denoted a person that works inside the trustor and takes ownership of the deal at hand and, if necessary, protects and markets the relationship with the trustor inside the trustor. The role of the individual is examined to determine to what extent influential managers decide to execute the building of the international business relationship. Conceptually, I posit that this factor of management intent affects how the firm's communication abilities evolve.

There is an increasing effort in the work on theories of internationalization to better understand the role of the individual in international business relations (Crick & Jones 2000). I reinforce this effort by arguing that in the area of trust-building communication, where smaller firms are involved, the individual manager's choices certainly influence the outcome. It is likely that entrepreneurial issues associated with key decision-makers have an important influence on the nature and pace of internationalization (Crick & Jones 2000). Research on managerial characteristics and internationalization suggest that the positive attitude of the manager and having a global mindset is a significant factor in distinguishing exporters from non-exporters (Nummela, Saarenketo & Puumalainen 2004; Etemad 2004; Gregersen, Morrison, & Black 1998; Knight 2001). These individuals' willingness for learning is highlighted (Gregersen, Morrison & Black 1998; Townsend & Cairns 2003).

I take the viewpoint, supported by previous research by Wicks, Berman & Jones (1999), that the willingness of managers to create mutually trusting relationships is a matter of strategic choice. Managers can, through their behavior and outspoken intention, help determine levels of trust in relationships between the firm and its various stakeholders. I posit that this willingness can be traced to how managers help shape the communication abilities of the firm and how the firm learns to communicate. Learning happens only by intention and hardly ever by default (Hamel 1991), so management intent is an "…essential ingredient in the commitment to learning…" (Hamel, Doz & Prahalad 1989, p.134). In line with this concept, I argue that management intent is necessary for an organization to develop the abilities to communicate trustworthiness to a partner.

Hamel & Prahalad (1989) were the first to use the phrase "strategic intent". They take the view that "strategic intent" should not be constrained by existing resources but rather it should focus the search for the necessary resources and in this way drive the firm beyond its present constraints. In this way, "strategic intent" broadly describes what the firm means to become in the future. In the same way management intent is argued to be a key variable in the analysis of this study because it can focus both resources and experience while enhancing learning. Hitt et al. (1995) argue that it is imperative that firms with international operations understand the strategic orientation and intent of their managers. O'Driscoll, Carson & Gilmore (2000) build on Hamel and Prahalad's (1989) ideas and define "strategic intent" as the firm's longer term, overall strategy, and strategic ambitions for itself that provide a vision

for the future. In this study, the relevant aspect of the firm's strategy is the intention of the managers to open up business relations with parties on the foreign market. Management intent is therefore, operationalized as management's outspoken objective to open business relationship with a party in the foreign market.

These factors of the communication abilities seen as the sending capacity of the trustee, the empirical indicators, and the theoretical grounding are summarized in Table 4.

Table 4: Empirical indicators for used factors of sending capacity.

Factor of sending capacity:	Empirical Indicator:	Theory:
Experience:	Time spent learning about a foreign market.	Johanson & Vahlne (1977, 1990), Cohen & Levinthal (1990)
Resources:	Time spent by individuals in foreign market.	Etemad (2004)
Management intent:	Outspoken intent to open and develop business relationship with a party in foreign market.	Hamel & Prahalad (1989), Crick & Jones (2000), Nummela et al. (2004)

4.3   Relationship-triad

This dyad is interesting in itself but may not be enough to fully understand the process. Some theories, including my personal experiences, point towards the inclusion of a third party in the communication process thereby allowing the analytical case to become a relationship-triad. In the framework of this dissertation, the actor is denoted as a facilitator for trust-building.

With the introduction of a third actor in the process of trust-building communication there is a distinction in the analysis between dyadic and triad routes of communication. Dyadic routes denote continuous communication taking place between two connected actors, while triadic routes denote continuous communication taking place simultaneously between three actors shaping a triad. In this way, these routes are not mere linkages between actors made up of formal or informal agreements, but actually linkages where active communication takes place.

Let me recapitulate two arguments for extending the framework into a business-relation triad instead of the simpler dyad. First, the level of analysis makes this approach capable of including a small network, but at the same time has the granularity to include specific relationships between individuals, and therefore can be useful in studies of trust. Second, the relatively limited scope, of the smallest possible network, the triad network makes it possible to track changes and processes in time as the relationship develops. The triad or more specifically the business-relation triad (Havila 1996) forms a group wherein every party has contact with each other.

The question rose concerning why, without much interpersonal history two parties should start trusting each other, is relevant for episodes of early internationalization. The answer might be found in what Zucker (1977) refers to as institutional trust, or as argued by Droege,

Anderson & Bowler (2003) as being motivated by social norms, threat of formal sanctions, the assumption that similar others are trustworthy, threat of reputation damage from third-party gossip, or by trust, is placed in the actor's role rather than upon the actor himself.

The trust-facilitator has an opportunity to contribute to that trust is developed between trustor and trustee through three fundamental ways including: (1) Matchmaking; (2) process-based trust-building and (3) institutional trust production (Zucker 1986; Parkhe 1998b). Direct facilitation through matchmaking is the activity of introducing actors that did not previously have contact with each other. By these introductions, the actors are potentially becoming connected to each other though initiated communication. The skill to successfully match business partners, possibly situated on geographically separated markets, is a skill in itself which goes outside the scope of this dissertation. Facilitation through process-based trust-building can be both direct and indirect. The facilitator can directly, and in the short-run, affect trust-building through helping the trustee to fine-tune the communication of their attributes of trust-worthiness so that they are easily understood by the trustor. This facilitation can include finding a suitable mix of rich/lean media as well as tacit/implicit messages. The facilitator can, in this way, indirectly help the trustee to increase its sending capacity. Facilitators can provide resources as incentives, thereby making the relationship more attractive (Honig & Lampel 2000). Examples of resources can be to provide a hosting office with back-office support. In this way, an effect of trust transferability linked via trusted intermediaries takes place (Ferrin, Dirks & Shah 2006).

Indirect facilitation through institutional trust-building is based on external mechanisms rather than past or future processes or partner characteristics. In the best of worlds, the facilitator helps bring the two sides together and shapes the environment for business relationships in a way that creates conditions for trust-building. I find that especially institutional based trust-building helps explain why the trust facilitator has such an opportunity to contribute to the trust between trustee and trustor in a context of internationalization.

4.4 Concluding discussion

For the purpose of this dissertation, I introduce a simple communication framework where the main actors in the social system become the trustee and the trustor. The framework derived from the discussion thus far is presented in Figure 8.
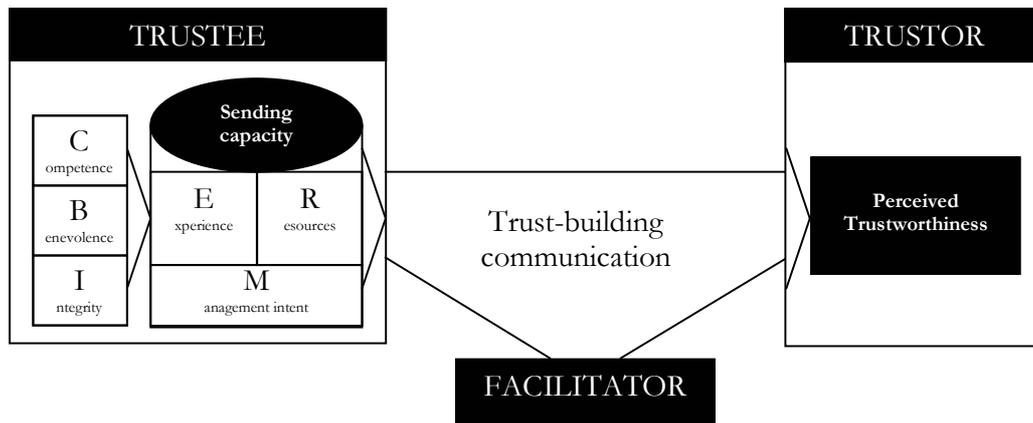
Figure 8: Static framework for examining trust-building.

There are resemblances to the classic communication model of Shannon & Weaver (1949), including communication of messages taking place between a sender and a receiver through certain media. A parallel can also be drawn between the necessity of message-encoding in this Transmission Communication Model and the sending capacity used when communicating the attributes of trustworthiness. The Swedish firm entering the Japanese market takes the initial role as the trustee and their Japanese partner in the relationship is the trustor. A firm, operating as the trustee, is trying to convince another firm, identified as the trustor, that the trustee firm possesses a number of positive attributes indicating trustworthiness.

The framework proposed in the previous section is primarily static and not well suited for studying processes. It should handle momentaneous events as described above fairly well, but the focus of this study is the process.

From the field of trust literature (Ring & Van de Ven 1994) I take with me the concepts of relationships as a progressive process divided into phases. I argue that the development of each specific business relationship in the context of internationalization there are certain stages or phases that can be used to distinguish necessary actions and resources. Dynamic models describing the development of network dyads have been proposed before in literature by Larson (1992). In the model by Larson (1992), the first phase includes preconditions for exchange and how a foundation of mutual trust is set down before two companies begin their transactions. This type of model with the transactions of a dyad in focus is not suitable for my research purpose. First of all, in my cases, there were not always prior relations or reputations but the firms jump into a phase of negotiations quickly and have to still be able to handle issues around trust. My empiric material also includes a third actor in the form of an intermediary that has crucial impact on the proceedings and has to be

included in the discussion where the triad not dyad is in focus. Other researchers such as Ring & Van de Ven (1994) have proposed the usage of stages in the building of interorganizational relationships and trust.

As depicted in the proposed dynamic framework of Figure 9, these phases of the process are denoted as Preparation phase, Negotiation phase, and Execution phase. I propose an analytic approach where this static framework is applied to a timeline with three phases in the evolution of the business relationship in focus so to gain a description of the interaction between the parties in Sweden and Japan. By structuring the empirical material in the case studies in a chronological order, certain critical episodes isolated in consensus with the interview-respondents sudden changes in trustworthiness, emerge. In my pre-studies of the cases, I isolated two main episodes that are common to all the cases: the first meeting between trustor and trustee and the point in time where the first real contract consolidating the particular business deal was signed. It must be stressed that these phases are analytical constructs while the real process goes on without such clear-cut transitions.
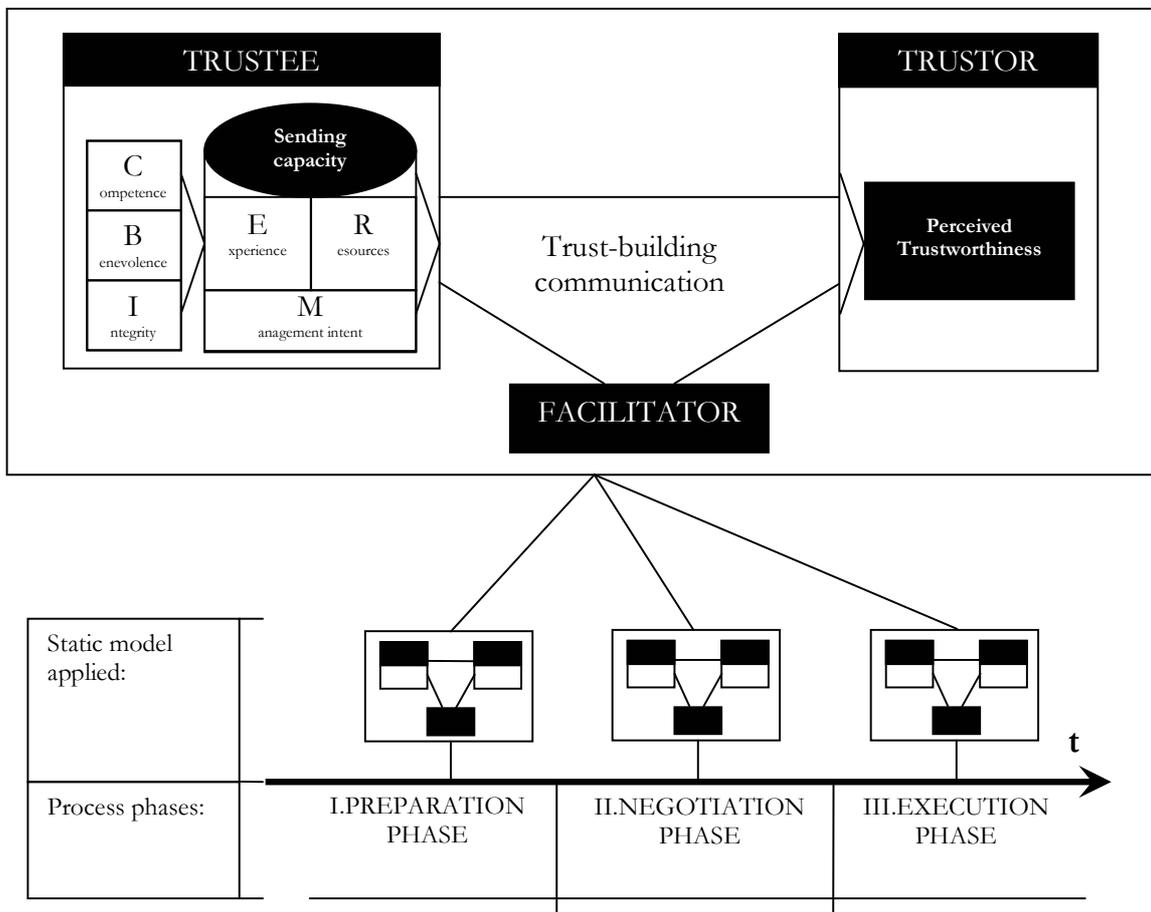
Figure 9: Static framework applied to time-line with phases.

In the Preparation phase, the firm and emergent trustee is starting to show an interest in business opportunities and subsequently begins to learn about the foreign market. The Preparation phase, in this dissertation, is operationalized as the time from whence the firm starts building an interest and takes active measures to approach the foreign market through engaging in contacts and learning from the that market until the first meeting with the actor in the specific deal under examination as depicted in Figure 10. In this way, the length of the Preparation phase indicates how much experience the firm had accumulated about the foreign market of interest before they engaged in the business relationship analyzed in this dissertation.

Process phases:	I.PREPARATION PHASE	II.NEGOTIATION PHASE	III.EXECUTION PHASE
Empirical indicators:		First meeting	Contract signed
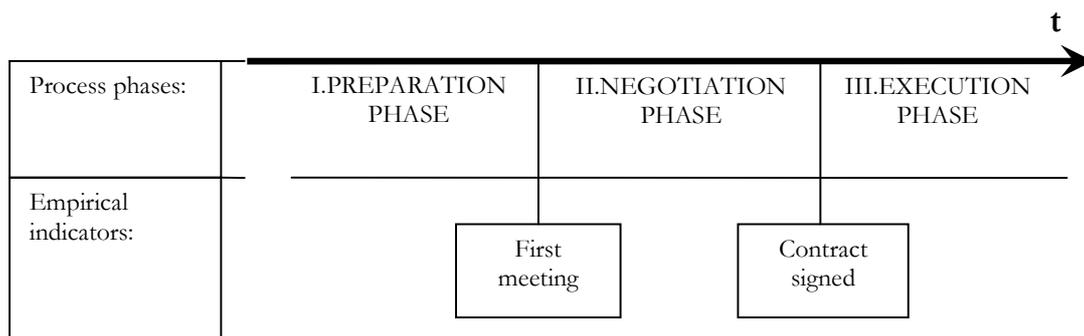
Figure 10: Three proposed phases describing a business relationship in the context of internationalization.

In the Negotiation phase, parties develop expectations about their motivations, possible investments, and perceived uncertainties of a business deal that they are exploring (Ring & Van de Ven 1994). This phase gives opportunity for repeated piecemeal discussions by the parties to assess the other's trustworthiness, uncertainty associated with the deal, and their rights and duties in the deal being considered. In this dissertation, the Negotiation phase is operationalized as the time from the first meeting with the actor to the signing of a formal agreement regarding the specific deal under examination.

In the Execution phase, the parties act on the formal and informal agreements taken and begin executing the actions together. The parties also become more familiar with one another thus giving more opportunities to evaluate the trustworthiness which may in turn weaken or strengthen the trust. The Execution phase is operationalized as the time after the signing of a formal agreement regarding the specific deal under examination and forward. Empirically I follow up on this phase until the year of 2004.

When adding a dynamic dimension to the framework it is interesting to follow up on whether the basic modes of trust-building, as illustrated in Table 5, will change in the separate phases (Zucker 1986; Parkhe 1998b).

Table 5: Empirical indicators for modes of trust-building.

Mode of trust-building:	Empirical Indicator:	Theory:
Process-based:	Trust is tied to past or expected exchanges in business relationships.	Zucker (1986), Parkhe (1998b)
Characteristic-based:	Trust is tied to individual persons.	Zucker (1986), Parkhe (1998b)
Institution-based:	Trust is tied to a trust-facilitator.	Zucker (1986), Parkhe (1998b)

These modes are connected to the role of the individual, whereby I emphasize the characteristic-based trust-production as an indicator of whether certain individuals in the trustee and trustor have an impact on the process of trust-building. Institution-based trust-building captures when a trust-facilitator is active, while the mode of process-based trust-building emphasizes the continuous dialogue and communication that takes place via interactions.

PART III: EMPIRICAL ARENA

5 Company Case 1: Alpha Networking Products AB

5.1 Case description

5.1.1 Company background

In 1984, one university student and one graduate founded Alpha Networking Products AB in southern Sweden. Sven was a recent graduate with a degree in International Business from the Stockholm School of Economics. The other founder was studying advanced computer science and electronics at a Swedish university. In the beginning, the operation was run from a student dorm room. From the start, the company ideas were centered on network connectivity. Sven and some engineer friends first made a network-enabled OH-slide projector, but saw that the market was too small. From this point on, they became interested in other networked units like printers.

The founders, especially Sven, were determined to put Alpha on the international arena. There was a drive to make a small niche company that could operate abroad immediately. The principle idea was to focus on a few products and compensate for this small cache of products by going outside Sweden to market large volumes. Sven saw his classmates from Stockholm School of Economics start careers in international investment banks and management consultancies so even if he had chosen the path of entrepreneurship, he was determined not to let his choice affect his international career ambitions. Partly because of these personal reasons, from the start, Alpha chose to approach other markets rather than Sweden. Before any products were developed and before any major Swedish customers were attracted, customers in Germany and the other Nordic countries were approached.

The first product of printer servers became commercially available in 1984. The unique selling point from Alpha's side was to provide a cheap solution to hook up printer units to a network. In those days, printers did not have their own printer server built in. With the European markets in focus, in June of 1985 Alpha had three MSEK in sales. These sales were segregated with 50% from a German customer and 50% from the Swedish distributor. Soon 80-90% of sales came from export to approximately 10 countries. In the beginning, the distributors (the concept was called master distributors) had the exclusive right to sell the product during the first one to two years. Both smaller and larger companies sold the Alpha products. Sometimes the Alpha founders helped people start up a "subsidiary" abroad that only dealt with Alpha products but these people had to provide the capital risk themselves so they were not subsidiaries. Sven and the sales officer traveled around Europe as much as they could afford in terms of time and money. They started by going to trade shows and then worked their way down through contacts. However, there was no money invested in advertisement at that time.

In 1986, Sven went to the US for the first time and achieved initiating some random sales but no large contract. In 1992, about 1-2 MSEK from a total of 50 MSEK in sales was from

Japan. In 1999, sales peaked at 695 MSEK before the IT-bubble burst in Sweden and some misdirected investments brought three years of large losses to Alpha. Sales recovered in 2004 to 691 MSEK.

In 2004 Alpha described themselves as a "connectivity company", providing specialized hardware and software solutions that enable people with different operating systems to easily, efficiently, and securely access all kinds of resources on a network. In addition to products sold under their own brand, other manufacturers used Alpha's technology in a large number of contexts. Original Equipment Manufacturers (OEM) sales accounted for the major share of the sales.

Alpha's product portfolio consisted of network cameras and video servers for surveillance and remote monitoring, servers for printers, and scanners. These products could be grouped into the business areas of Print, Video, and Other. Print was where Alpha started and what had become a mature cash-cow segment while Video was where the company was betting its future. Alpha's growth potential was largely linked to the shift from analog video surveillance systems to IP-based video solutions. Examples of applications sold included security surveillance, remote monitoring and document management. Alpha's development work was focused on both hardware and software for networked solutions, primarily in Video and Print. However, a significant portion of this work was devoted to software platforms and applications. The core of many of Alpha's ASIC products (Application-Specific Integrated Circuit) was an integrated circuit for connection to fixed and wireless networks. This, chip along with Alpha's software platforms, was included in almost all products.

Alpha employed a R&D staff of 120 people concentrated to the headquarters in southern Sweden in 2004. During 2003, 14 new patents were granted, of which most were in Video. Alpha had been awarded 33 patents over the years. The work force in 2004 consisted of approximately 350 people throughout the world. The average age of employees in 2003 was 35.5 years. Personnel at Alpha showed great diversity in terms of national background. For example, people with a background in over 20 nationalities worked at the head office in southern Sweden. In 2003, a Swedish business magazine said Alpha had one of the best work places in Sweden. In 2004 approximately 50% of Alpha's Swedish workforce consisted of engineers developing products at the Headquarters (HQ) in southern Sweden.

The customers for Alpha's branded products ranged from large enterprises to small companies as represented by the six main areas of: Transportation (public transport, airports, railways, systems for traffic monitoring, toll systems); Retail (shops, gas stations, department stores, superstores, restaurants, hotels); Industrial (manufacturing companies, mining and construction companies, pharmaceutical industry, energy companies); Banking & Finance (banks, post offices, insurance companies); Government (state, regional and local authorities, police, military, health care, prisons, museums); and Education (universities, schools, private educational institutes).

The competitors for the Video products came from the analog video industry of close-circuit camera systems. Many major electronics manufacturers had competing cameras in their assortment. In the business area of Print, the vision of printers with built-in networking functions, had in 2004, become the standard of the industry and all major printer companies had solutions for non-proprietary networked printing.

Alpha's products were manufactured by subcontractors and brought to the market through: (1) a two-step process through distributors and resellers to end-customers; (2) Original Equipment Manufacturers. In 2004, OEM sales accounted for the major share of Alpha's sales. Customers were global manufacturers of printers and copiers, as well as companies that developed video products. Customers included large Japanese electronics manufacturers. The major share of sales consisted of printer solutions, although video solutions accounted for a growing share of OEM sales.

In 2004, the company was still to a large extent (~37%) owned by the two founders. Alpha was listed on the Stockholm Stock Exchange in 2000. As explained previously, the two main business areas were Network Video Solutions and Network Print Servers. Alpha had, in 2004, a worldwide #1 position in the first area with an installed base of more than 400,000 units (73% of sales) and a worldwide #2 position for the second with more than 2,000,000 units installed (21% of sales). The net sales in 2004 was 691 MSEK (compared to 624 MSEK in 2003), the operating profit 48 MSEK (compared to 1 MSEK in 2003), and the profit before tax of 57 MSEK (compared to 8 MSEK in 2003).

In 2004, Alpha operated globally with offices in 14 countries and in cooperation with distributors, systems integrators and OEM partners in 70 countries. The 14 countries were Australia (Melbourne), China (Shanghai), France (Paris), Germany (Munich), Italy (Torino), Japan (Tokyo), Korea (Seoul), Netherlands (Rotterdam), Singapore, Spain (Madrid), Sweden (Lund), Taiwan (Taipei), United Kingdom (Hertfordshire), United States (Boston, San Diego). Markets outside Sweden accounted for more than 95 percent of sales (Asia 18%, EMEA 53%, Americas 29%).

5.1.2 Entering Japan and closing the deal with Yotsu

5.1.2.1 Introduction

In this section, I will focus on the process of Alpha entering the Japanese market and on the closure of a deal with Yotsu, a major Japanese consumer electronics manufacturer.

Alpha had, at the time of starting business relations with Yotsu, been previously active in the Japanese market and had operated an in country subsidiary. The deal with Yotsu turned out to be pivotal for the focus on OEM contracts and much larger than initially perceived by Alpha's managers. In the text, the Japanese word for the trading house (Jap. *sogo shosha*) will be used to denote a Japanese trading house.

The process is based mainly on the accounts of the following people, who all played a role in the Japanese operations and the closure of the deal with Yotsu:

Sven, Chairman and Co-Founder, Alpha AB as a fresh graduate from Stockholm School of Economics in 1984 he actively developed Alpha into a multinational firm with 691 MSEK in sales and offices in 14 countries. Sven had been in the top-management of Alpha and switched from CEO to chairman when the company went public in 2000. He continued to invest in other companies acting as a business angel and working on several boards of directors.

Per, Corporate Executive Vice President Alpha AB & Regional Director Japan, Alpha KK, joined Alpha in Sweden during October 1997 coming from a supplier of integrated systems for building automation. He started as Business Unit Manager for Video within Alpha. That unit was then four persons and just in a trial stage. In January 2004, Per took over as manager of Alpha Japan. He had been in Japan maybe 10 times before and had entertained many Japanese guests who had come to Sweden. Besides the Yotsu camera project, he was also in charge of a project with another major Japanese electronics firm giving him a track record of business with Japanese firms.

Thomas, OEM Manager Japan, Alpha AB joined Alpha in Sweden in 1994 directly from his University studies in engineering. In 2000, Thomas became the coordinator and connection between the Japanese customers and the Swedish developers. He also was in charge of increasing sales in Japan and starting new projects in that market. Thomas came back to Sweden in May 2004 after 3.5 years in Japan.

Kaji, Technical Officer & Regional R&D Manager, Alpha AB joined Alpha in Japan in February 1994 with a Masters in Computer Science from a private Japanese university. At that time, he had worked for four years on his dissertation and was in charge of the computer center at the University.

Gun, Product Manager OEM, Alpha AB joined Alpha in Sweden in 1993. He moved to Sweden because of his Swedish girlfriend and then became connected to Alpha via a small IT-service provider where he initially worked. At that time, Alpha was just about to scale-up business in

Japan and hired Gun. Gun's role in the beginning was to translate between the Swedish and Japanese engineers. After two weeks he was sent to Japan to meet customers. The majority of the time Gun had been based in Sweden but during a time of management crisis in Japan, he went over for a two-year period.

Tobias, Senior Software Engineer, Research & Development, Alpha AB joined Alpha in Sweden in November 1998. Tobias completed his Ph. D. in physics and was based in Japan from 1992-93 as part of his research. He was also in Japan during 1996-98 for a postdoc and at that time moved his family there. After returning to Sweden in November 1998, he was employed within Alpha for his computer skills. Throughout the years he had developed contacts with Japanese customers and helped the staff at Alpha in Sweden to understand the Japanese culture.

Fredrik, previous product developer at Alpha AB in Sweden and Alpha KK in Japan, started at Alpha in 1997 but has since left the firm. Fredrik was deployed to Japan during several periods where he acted as the Alpha technical expert developer on site.

Watanabe, Staff Engineer at Yotsu Inc, was responsible for Yotsu's contacts with Alpha regarding the OEM-business since 1997 and had promoted, followed, and shaped this relationship throughout the years.

5.1.2.2 I. Preparation phase

1987
Sven went over to Japan for the first time when some small deals were made, but he wanted Alpha to be more settled in Europe before major investments were made in Japan. On this trip, he met representatives from a Japanese company that had contacted Alpha sales officers in the USA and Europe during several trade shows. He started negotiations with them. That company was producing sewing machines but saw the potential synergies with printer technologies (matrix printing using needles and ink to print). However, as a latecomer into the printer segment, they wanted to try Alpha's interfaces and the positive for them was that Alpha was not bound up to existing large computer standards.

Alpha had been international from the start and early on saw Japan as a strategic market because all large printer companies came from Japan.

> "There were two strategic markets for us – USA and Japan. In Japan the printers were made that set the standards for the whole world and in USA the standards for the networks were developed." (Sven, Chairman and Co-Founder, Alpha AB)

The two founders built a culture that was based on internationalization. There never was a focus on the Swedish market. Sweden was always too small a market and Alpha has never developed products for Sweden specifically.

1987 December

Negotiations with the Japanese sewing machine company took place in Japan just before Christmas. Sven and another person from Alpha finally closed an OEM-deal. Alpha delivered new hardware with new software for graphics-handling in the printers. The negotiations with the Japanese sewing machine company gave Sven insights on Japan and how Japanese work. Sven was then 26 years old and Alpha employed 15 people.

1988

Alpha gradually obtained a real understanding of the Japanese market and Sven started to go over to Japan several times a year. Sven saw that there should be a need for their products with other larger printer companies and started to work through the contacts of their Swedish distributor as well as directly with several large Japanese printer manufacturers. Alpha eventually landed a contract with one large printer manufacturer in the end of the 1980s and also started to look for distributors in Japan. Soon Alpha had 3-4 OEM customers in Japan.

1987-1992

During this period, Sven went to Japan on short visits at least once a year. Contacts were made with several other printer manufacturers. These contacts landed a contract with a major Japanese printer manufacturer. While slowly working on contacts in Japan, Sven was not really aware of the services provided by consultancy companies and governmental agencies like The Swedish Trade Council so he worked alone. During this period, Alpha also got a Japanese distributor. As for subsidiaries, Alpha had previously started a small branch (one man employed) in the USA but the Japanese economy had come to impress Sven with its prosperity. After years of slowly getting to know people and business contacts in Japan, Sven felt that he had built strong personal ties in Japan. This led to the decision to enter the Japanese market in a more systematic way.

Sven was approaching Japanese trading houses before 1993 by contacting houses in Sweden to get contacts in Japan. This did not help so much. The contacts they had with a Swedish trading firm with a long history in Japan did not lead anywhere either, probably because the Alpha product complexity was too high and the market niche too small. Therefore, these traditional middlemen were not interested.

1993

Sven went over to Japan in January 1993 for six intense months filled with meetings to try and get the business flying. Meanwhile, the vice president in Sweden took care of business in Europe. Sven had the clear vision to start a subsidiary in Japan. He could set up a simple desk at Alpha's Japanese distributor. It soon became obvious that it was impossible to work alone, so the Japanese distributor helped out with translating manuals and interpreting as some examples of the assistance provided. A "turbo effect" was created when a large portion of the marketing budget was burned in a few weeks of intense advertising in magazines (instead of spreading the advertisement out in time). This gave a high visibility and the impression that Alpha was suddenly everywhere.

> "Japan is a very tight and closed system – foreign companies must really earn their trust. But when you have climbed over a certain threshold suddenly everyone knows you." (Sven, Chairman and Co-Founder, Alpha AB)

Sven did not present himself as living in Tokyo so when he turned up at all events during these six months; people thought he flew over every time thereby giving an illusion of the resources Alpha was putting into their expansion to Japan.

In 1993, Sven started setting up the Alpha office inside their Japanese distributor. Kaji's manager now introduced Kaji to Alpha and Kaji started taking care of technical questions in the two-man office. The office inside the distributor's office was really not an office but rather a small space with a desk. Sven was always traveling, so Kaji did not frequently see Sven or the other founder. Kaji in any case soon learned Alpha's product specifications in detail. The main product then was the networked printer server. At that time, this concept was new and innovative. Many customers did not know how it worked and Kaji helped them out by explaining the application and analyzing their specific problems. Kaji had learned the basics of networking from his work at the university so he understood the products pretty well. He learned about the details of the products from talking to the Swedish staff but even more from the Japanese manual. Without the Japanese manual, it would have been harder to sell the product.

> "One way we used to decrease misunderstandings in business relationships in Japan was to go up in detail level as for the documentation and of course provide it in Japanese." (Gun, Product Manager OEM, Alpha AB)

Alpha Japan's first manager had already translated the Alpha printer server manual to Japanese but Kaji spent some time improving the document. Kaji was working two days a week for Alpha while continuing as a doctoral student.

Alpha had offices in Hong Kong and Singapore since prior to entering Japan. Alpha did not spend much time entering other Asian markets because Japan was considered so important and Sven had to stay for at least six months in the beginning. The USA and Japan were the only strategic markets for Alpha being that they were the 1st and 2nd largest market in the world, and standardization around printers takes place in Japan while standardization around networking takes place in the USA. This also holds for video/camera.

The first solid result from Sven's efforts was in June 1993, when a deal was closed with a specific firm where a joint venture for standardization between a large US company and other Japanese printer manufacturers was helped by Alpha's Japanese distributor. In this contract, joint development should take place between the printer joint venture and Alpha.

In 1993, Alpha globally had 67 MSEK in sales with Japan contributing largely to this achievement. In the start-up stage in Japan, it was important to find the right Japanese staff. Soon, two people started working for Sven on a consultancy basis, one female office manager in charge of economical matters and Kaji as the technical director. These two Japanese were described, by Sven, as un-Japanese because they did not fit the corporate book in Japan, but Sven needed some entrepreneurial spirit in the operation. After three years, the female manager had to leave Alpha, but Kaji stayed with Alpha Japan. The Swedish Trade Council in Japan was now tested for business expansion. The contacts with The Swedish Trade Council came from suggestions from another Swedish company in Japan that had good experiences working with these suggested companies.

"The Swedish Trade Council in Japan gave me as an entrepreneur a support that I needed at the time. In Sweden lots of people were sceptical to our plans for Japan – it seemed a tough market" (Sven, Chairman and Co-Founder, Alpha AB).

So far, Alpha had not received any help from The Swedish Trade Council in Europe or elsewhere. Sven, however, felt that The Swedish Trade Council really wanted to support Alpha because they for once got to help export IT to Japan and not the other way around.

1994
Contacts with The Swedish Trade Council led to Alpha Japan's first office outside the Japanese distributor in the Swedish Embassy incubator office space. The office started in the Sweden Center in Roppongi, Tokyo on February 1 of 1994.

When Kaji dropped his Ph.D. studies and started at Alpha in February 1994, it was his chance to start a new career and way of life. It was quite unusual to start at a foreign company but because he knew the first manager of Alpha Japan and its founder Sven it was an old trusted relationship and the product itself was interesting and easy for Kaji to understand.

"One early challenge for me was to recruit Japanese staff that knew or could learn to understand how Swedish people think – it is not only the Swedish that should learn to communicate with the Japanese but also the opposite around." (Sven, Chairman and Co-Founder, Alpha AB)

Kaji did not care how big the company was, or that it was a foreign company. Among university students at that time, large firms like national telecom incumbents were the most popular employers. The feelings about these large companies 10 years ago have changed drastically compared to now. There were many hidden problems inside the corporate giants that new recruits did not know about. The large Japanese firms cannot automatically attract the best students anymore.

1994-1995
Sven continued traveling between Sweden and Japan to make sure business in Japan was growing.

1996
Alpha Japan expanded its staff and moved their office onto larger premises called "the Sweden Center" run by the Swedish Export authorities. In this center, Alpha could pay low rent and get good administrative support. At this time, the vice president of Alpha Sweden took over the Japanese focus and Sven moved on to work more on other markets. The Japanese operation quickly moved up to 100 MSEK in sales when the second generation of network based printers was released at a good time for Alpha.

The first years after establishing a presence in Japan were characterized by rapid growth in personnel and sales. The firm changed offices a number of times. Customers in other countries started to know that Alpha made it in Japan, considered the trickiest market in the

world, and that increased the self-esteem for the whole company. When approaching the USA in 1996-97 Sven felt confident from the boost Alpha had received from being successful in Japan. Sven personally thought that the USA was the hardest market to enter and be successful.

This year a contract with a smaller Japanese company in the Yotsu Group was landed. This later led to contract with Yotsu Inc. The general integration of printer servers into printers on the market started during this time.

1997

In 1997, Alpha started to contact Japanese printer companies (Japanese-to-Japanese contacts). An ambitious local Japanese sales person, Tanaka, was hired by Alpha to work on contacts with Yotsu's printer division. He made an extraordinary good contact inside Yotsu. Alpha made some smaller projects first for specific Yotsu printers. Yotsu demanded to have technical support on site in Japan, which led Fredrik to go over as technological co-coordinator. Development for Yotsu was made in Japan and in Sweden.

The first contact between Yotsu and Alpha was between Watanabe and Tanaka, who at the time was working with Yotsu. This was in 1997 when Tanaka was recruited by the Japanese manager of Alpha Japan at that time to Alpha. Watanabe was introduced to Tanaka via Tanaka's sales contact within Yotsu.

At that time, Watanabe and Yotsu were investigating how to proceed with networked technologies for the future. Yotsu was, at that time, slightly understaffed and without proper funding in the area of networking technology and needed "help from outside". The situation inside Yotsu regarding networking solutions was complex and the research activities where not only scarcely funded, but also spread out inside the Yotsu organization. Research was conducted in Watanabe's department, which was part of the Yotsu Sales Department, in Yotsu's Main Developing Department in Japan. The other main research was conducted in Yotsu's US Developing Department. Watanabe proposed a change in the organization to join forces. This was approved and implemented over a lengthy time period. Watanabe also proposed that Yotsu should go outside the organization to advance in the networking area, and this was eventually approved inside top management in Yotsu. Yotsu had relations with other Japanese SME vendors but Watanabe had the belief that foreign companies were more advanced when it came to networking technologies. Therefore, the timing for the first contacts with Alpha was right.

When Watanabe first met Alpha (through Tanaka) he had heard of Alpha but for him it was only one of several other foreign networking companies. The first meeting was between Watanabe and Tanaka in a Yotsu open meeting space where Tanaka gave a presentation. At the end of this meeting, Tanaka proposed to bring an engineer from Sweden for a follow-up visit at Yotsu. Watanabe wanted to proceed although he had previous bad experiences in relations with US and UK firms.

After these two meetings, Alpha and Yotsu had a technical startup or kickoff meeting at Yotsu which included the participation of Swedish engineers. The interaction with those Swedish engineers was a positive experience for Watanabe in comparison to his previous foreign experiences.

> "The technical start-up meeting was critical. I knew almost nothing about Alpha at the time – they were just one of several foreign companies in the business. /…/ When their engineer quickly did his homework and got back to me with answers of high quality then I started take them seriously." (Watanabe, Staff Engineer, Yotsu Inc.)

At the technical start-up meeting, the Swedish engineer Fredrik was given some homework (he was only in Japan one week at that time) and he delivered answers on time and with high quality. This impressed Watanabe and Yotsu. The outcome was that Watanabe identified a business opportunity for using Alpha technology in Yotsu's low-end printers. After the technical start-up meeting, Alpha and Yotsu started some joint projects where the people could gradually get to know each other and develop trust.

Watanabe, Tanaka, and Tanaka's sales contact within Yotsu had a close connection and this accelerated the process. Usually starting cooperation with a foreign company would take longer but these three individuals had an internal meeting and decided to arrange the start-up meeting quickly and with the involvement of the Swedish engineers.

> "We three had a unique, tight connection and this made everything go really fast. Usually something like this would take much longer time. We had an informal meeting and decided to get going." (Watanabe, Staff Engineer, Yotsu Inc.)

Watanabe never felt that the small size of Alpha would pose a problem in the relationship because many computer networking companies were small. Still, Watanabe investigated Alpha and discovered that they had operations worldwide already.

A new boss in Japan was recruited and he continued to focus on the OEM-business. Under this new boss, the later successful deal with the Japanese printer manufacturer Yotsu started taking form. Sales of Alpha Japan dropped to 50-60 MSEK because of neglect in getting the branded products out and maybe too much focus on OEM-contracts. The Japanese operation overall showed quite a jagged sales curve throughout the years.

1996-1998
Thomas went over to Japan on many shorter missions. Thomas had no previous experience with Japan when he was asked to solve some specific technical problems related to the printer servers on location in Japan in 1996. When Thomas went to Japan, Alpha had a functioning subsidiary selling the printer servers with great success. The first phase for Alpha Japan was to sell the stand-alone products. As it turned out, another important mission for Thomas was to show Japanese customers that a person from the HQ in Sweden came and took the time to visit them. That was said to be an important signal to show the customer that he was important by sending a man from the faraway HQ in Sweden. The Japanese side really wanted to have many Swedish people coming over. Thomas' communication with Sweden was already handled mostly via email in 1994.

> "There is some kind of Japanese expression of a "visiting flowerpot" – a person coming in from the head office and showing that you take the

customer seriously. I came to understand how important the visits from Sweden were in advancing the relation, the Japanese side was very, very happy when Swedish people came over." (Thomas, OEM Manager Japan, Alpha AB)

1997
At that time over 100 people worked at Alpha and the company expanded to over 300 employees in just a few more years. Japan was a clear conscious strategy because the CEO, Sven, worked up a sales and support office in Japan. In 1997, there were no development staff from Sweden in place in Japan on a permanent basis, but Fredrik worked with the print-server products.

1997-1998
Some projects with Yotsu where Alpha would build internal printer servers inside Yotsu's printers were initiated.

Alpha developed ALPHA 1600, which is a card built into Yotsu's laser printer. Yotsu evaluated the ALPHA 1600 and liked the product. However, during these four years, from when initial contacts with Yotsu were made until commercialization of the product, the Alpha 1600 was developed basically without any engineering help from Yotsu. Alpha got specifications from Yotsu Sales where Alpha had friends and designed it themselves. However, that specific product did not become successful.

A Japanese business developer with prior contacts in Yotsu was employed as business development manager at Alpha and he was working, with great energy, to get Yotsu as a customer. This business development manager convinced some people inside Yotsu to become door-openers for Alpha. These key-persons within Yotsu had already become convinced that Alpha was the right choice. These people could push the internal decision process in favor of Alpha. Alpha soon found themselves in a race competing with one internal group at Yotsu and one external Japanese SME to get the first project with Yotsu. Many prototypes were developed in Sweden and the developer Fredrik was sent over from Sweden. This work proved to be costly and time-consuming. Fredrik was there first, and for three months in parallel to landing the deal. However, while the evaluation was under way, Alpha sold stand-alone products with high margin in Japan and could work on OEM as a new business model. OEM-activities had, until then, been small projects in Japan. Yotsu also partly paid Alpha consultancy fees for the development work done. The insiders inside Yotsu proved to be crucial.

> "I can say with confidence that if we hadn't had the champions inside Yotsu so to speak work for us, we wouldn't have had a chance. That's how important they were." (Thomas, OEM Manager Japan, Alpha AB)

The first step for Alpha was to supply the insiders at Yotsu with material to be able to lobby internally. They wanted to give Alpha the project and without these insiders, the deal would never have been landed.

Meanwhile, the smaller projects with Yotsu resulted in a rolling schedule of Swedish people going to Japan. Fredrik was the second developer to visit Japan from Sweden. Yotsu

demanded to have a developer in Japan to coordinate the development as it unfolded. It is a complicated deal to get external software from Alpha to work with Yotsu's own hardware. Fredrik got prototype printers from Yotsu and prototype cards from Sweden and sat and tested these pieces. Prototype printers were also sent to Sweden. Because of the time difference and only having developers in Sweden, response times were too long. Often Yotsu sent an email at the end of the day. However, if they had problems in the morning they had to wait and lost a whole day of work. One major advantage in having Fredrik in place in Tokyo was to avoid the time difference.

Fredrik stayed six months in Japan during 1997-1998. Fredrik returned to Sweden after this period because his girlfriend could not find work in Japan. When Fredrik was in Japan the large deal with Yotsu was not yet landed. There was a lot of karaoke singing and partying with the Alpha Japan sales guy and Yotsu people before the deal was landed. Fredrik had no working-visa but went back and forth to Hong Kong after three months to get another legal period of stay in Japan. He worked from the Alpha sales office in the central district of Ginza, Tokyo, and his duty was to develop the joint projects with Yotsu in parallel with the people at Alpha in Sweden. Fredrik was never at Yotsu alone, always with an interpreter from Alpha Japan. Before leaving for Japan, Fredrik talked a lot with the people that had been there before. Fredrik volunteered for the assignment, but the salary was the same as in Sweden however, with allowances for expenses, the compensation was pretty good. The working language was a mix of Japanese and English. The local Alpha sales person was the interpreter and documents were mostly in English but had to be translated by Alpha into Japanese on some occasions.

At this time, Alpha came to identify one guy at Yotsu that liked Alpha. Yotsu already had their own network solutions, but Alpha's printer server outperformed Yotsu's products. The hardware printing performance was superior. The technical problems came later when it proved to be very hard to get Alpha's software to work with the integrated Yotsu software in the printers.

5.1.2.3 II. Negotiation phase

1997-1998
Yotsu started to evaluate Alpha's solutions, but the people at Yotsu Sales already had established partners and wanted to choose one of them. These previously established partnerships were the biggest competition for Alpha.

Watanabe had the opportunity to evaluate the quality of Alpha's products by means of comparing Alpha's output from the research projects with the output from Yotsu's internal team. The quality of output from Alpha and Yotsu's internal development team was about the same. Still, it took Yotsu about six months to be convinced that the other competitors providing the technology to Yotsu (another Japanese SME and Yotsu's internal team) were technologically behind Alpha.

When the OEM negotiations with Alpha started, Yotsu had a Japanese company providing the printer servers but Yotsu were not entirely satisfied with the product. Still Alpha had to fight a hard resistance from Japanese top-management to choose Alpha because it was a

non-Japanese company with only about 120 employees. The projects with Alpha were initiated to check on the quality of Alpha's technology.

> "The smaller joint projects were in a way where trust step by step was created." (Watanabe, Staff Engineer, Yotsu Inc.)

It took about 4 years to land the large deal with Yotsu. The first smaller projects were in the inkjet-printers area. These smaller projects were sold to Yotsu as R&D projects at a fixed price. Alpha did not have to put in much of their own (unpaid) resources to cover the project cost but no real profit was made either.

The negotiations with the Japanese side involved a mixed group of Japanese staff - both engineers and sales people. There were often large groups of 20 people. During negotiations, Fredrik had the feeling that the Japanese side really had deep and very detailed research material on Alpha. Yotsu knew exactly how many people and at what levels these people were working on the project even if Alpha had not mentioned that information. Both Yotsu and Alpha were very open with problems that evolved during the project. However, on the Japanese side the project leader participated at every single meeting. Fredrik hypothesized that the project leader and people from marketing participated in the meetings so that the technicians did not promise something they could not deliver.

During contacts with Yotsu, Fredrik had daily contacts via email with his Swedish counter parts at Alpha in Sweden. The hardest part was when they asked new questions and Fredrik had to get back to Sweden for details. Alpha did not have any access for its customers (like Yotsu) into its intranet. The Alpha Intranet had bug report systems and so on but it would be messy if customers could see into other projects that were not part of their work. For security reasons customers did not have access to the projects. The Japanese always went through the Alpha office in Japan and then to the bug reporting system on the Alpha Intranet. Telephone conferences between Sweden and Japan did not work very well. Often there were 15 Japanese in a meeting and they talked Japanese 20 minutes with a follow-up question in English and this did not work very well over the telephone. It was a clear advantage being on site in Japan. There were Swedish people over to Japan maybe once a month but not all in the printer-server area. When Fredrik went home, another Swedish guy took his place.

Regarding the actual communication between Yotsu and Alpha, Yotsu contacted Alpha Sweden only in exceptional cases and normally only dealt with Alpha Japan. Yotsu always involved Alpha Japan in every communication. Even in direct contacts between Yotsu and Alpha Sweden, Alpha Japan was involved through copies on all emails. Both email and telephone conferences were used to bridge the time difference (eight hours) with Sweden although this rarely occurred. Most communication occurred when Alpha Japan and Yotsu would meet face-to-face relatively every two weeks.

> "When I wanted to get a specific important message across to Alpha in Sweden I asked Tanaka to set up an evening meeting with me, Kaji and Thomas. Usually we met halfway between our office and the Alpha Japan office in some bar in Juugaoka. Then we were drinking a lot and I asked

Thomas to get the specific message across to Sweden." (Watanabe, Staff Engineer, Yotsu Inc.)

Communication between Alpha Sweden, Alpha Japan, and the Japanese customers were handled through daily email and personal contacts. TV-conferences were better than email and phone because several people talked at the same time and saw the pictures. Nothing could beat face-to-face contacts but they were costly. People had a hard time understanding the material and one another if they did not sit together.

Sven had always tried to sell the company as well as the product. In Japan, it was important to have a good product, because if that did not exist then the commitment and trust were worth nothing. One practical example – you could never sell scratched products to Japan, but to Italy or US, it was OK as long as you offered a reduction in price.

Tobias described one particular cause for friction in the contacts between Japanese end-customers, Alpha Japan and Alpha Sweden regarding product quality. Alpha Sweden worked extensively with software upgrades and constantly developed new versions to solve problems. One problem here was that Alpha Japan continued to sell old products. The reason was that the Japanese side perceived the quality of the Swedish products as inferior for the Japanese market. Alpha Japan was testing the products harder than in Sweden and this took time. For example, the Japanese side required more thorough "idiot tests" like pulling the cord in the middle of an operation. Meanwhile, they sold older versions that had been tested thoroughly by Alpha Japan. They would never take the newest version from Sweden and just sell it because they did not yet trust the new product. Also, if a new version came out then the Japanese customers wanted to know exactly how the problem had been solved. That it was solved was simply not enough. This increased the demand for details and documentation.

> "Kaji in Alpha Japan is testing through all the products one more time. If they don't meet his expectations of what he thinks is good quality, then they do not exist in Japan. /…/ The Japanese are testing much more intense than in Sweden – they take a more personal responsibility for the products than we do." (Tobias, Senior Software Engineer, Research & Development, Alpha AB)

Tobias wanted to try involving the Japanese support staff in the design process so they felt a closer relationship with the products. Sometimes when Alpha Japan received a product and tested it and found bugs, the specific Swedish development project had to be closed down and the product could not be released on the Japanese market. To sell a system before it was completely ready was hard in Japan. First, they wanted to discuss all details immediately. Second, they really believed that a working prototype must already have been constructed. They could not work well on the concept level. If they found a bug, they fixed it immediately and they did not want to wait for the next release. The common Swedish viewpoint was that if they worked with a 0% margin for errors then the company would never get any projects out.

During business negotiations, the contracts or proposals were exchanged between Alpha Sweden and Yotsu in English. Technical communication with Yotsu was done in Japanese.

Usually, Yotsu sent an email to Alpha Japan in Japanese. If the contents of the email had to be relayed to Alpha Sweden, then people within Alpha Japan, usually Kaji, translated the document. Normally, Yotsu's translator translated technical documents. In that case, Alpha Japan just passed the document on to Alpha Sweden. If this was not the case, and it depended on different divisions in Yotsu, Alpha Japan needed to translate the document. Alpha Sweden sometimes sent emails directly to Yotsu in English. In the other direction, when Alpha Sweden sent emails to Alpha Japan and the contents had to be relayed to Yotsu, Alpha Japan needed to translate it to Japanese.

As for language and interaction with Yotsu, Thomas attended meetings at Yotsu a couple of times every week but was worked from the Alpha Japan office as his base. The interpreting was made by the local Alpha Japanese staff. There were no vast number of documents that were translated, but in the end of the 1990s, there were a lot of specifications in Japanese from Yotsu that had to be translated to English. In this phase, Yotsu wrote these kinds of specifications in English. Thomas could not use Japanese in a business setting but coped in everyday use – he had taken some courses. If he would go to Japan again, he would study more Japanese language including the Japanese alphabets. It was always good to have a piece of hardware to hand around in meetings in Japan, as in other markets.

As for translation, some resources clearly went to translation. In Japan, the Japanese language was very much in focus in business – English was sometimes not acceptable. It was absolutely worth it to translate to Japanese. One interpreter was working 100% to translate code and manuals. Alpha once used an external translating company to translate some texts – but with bad results. The translation was simply not in line with the language feeling of the rest of the software.

1998
The Yotsu relationship that started with printer servers was extended to cameras in 1998. Yotsu was eager to increase their knowledge in networked cameras so this continuous relationship was viewed with great interest.

At the end of 1998, Thomas went to Japan for five months of concentrated efforts to land the contract with Yotsu. Thomas went over on the assignment because he had become an expert on the printer products. Thomas had no previous experience of working abroad. Before Thomas left Sweden, he spoke with Fredrik about his Japanese experiences. In hindsight, Thomas realized that there was a big difference to go over for only a few weeks at a time when compared to staying five consecutive months. During those months, there were many meetings with persons on all levels including members of Yotsu's board of directors. Representatives from Alpha met ~20 people from Yotsu in 1998 and by 2004; this figure had grown to around 200.

> "In general it was requested by the customers to meet Swedish managers and
> engineers directly on site in Japan – this was the case also for Yotsu." (Kaji,
> Technical Officer & Regional R&D Manager, Alpha KK)

In the beginning, Yotsu was interested in what type of company Alpha was and the types of international standardization organizations with which Alpha was associated. People from Yotsu had many questions requiring detailed answers about Alpha's future, product

development environments, quality, and products. Representatives from Yotsu did not go to Sweden at all before the first OEM-contract was landed.

Over the last eight years, Alpha had no direct consultancy help from The Swedish Trade Council. No consultants were involved to support Alpha in Japan besides for some administrative services. Alpha was already established when Thomas came over the first time. Thomas never had contacts with any Japanese intermediaries such as Japanese trading houses. As for other general networking activities in Japan, Thomas was not much involved in the Swedish Chamber of Commerce in Japan. In recent years, that membership had not created any new business. In Thomas's opinion, the Swedish embassy might be a good center for new Swedish firms on the Japanese market until you get a critical mass of local Japanese staff. Alpha's networks in Japan were more involved with their large Japanese customers.

1999 May

The deal with Yotsu was landed in May 1999 by a signing of a letter of intent. It was a large step for Yotsu to commit to a Swedish SME. With an official decision about a letter of intent from Yotsu, Alpha knew that the project was home. The letter of intent was the most drastic turning point that led Alpha to notice the sudden increase in commitment by the Japanese side. After this point, Alpha had to dedicate more resources to managing the relationship and products. The contract on the other hand took much more time to design. It took probably one additional year to get the framework contract in place. Meanwhile, everything went on – there was nothing to wait for. However, the letter of intent was much deeper and far reaching than Alpha had thought when they finally read the details. It was not one project alone, Alpha was chosen as the supplier of all network-based products for Yotsu. The Yotsu deal also led to a larger strategic decision at Alpha in Sweden to enter Japan with more resources.

As to the level of detail, everything was documented in the interactions between Japan and Sweden to avoid any risks of being misunderstood. Just to have separated cultures and language was difficult. Therefore, the Japanese used a high detail level and thorough documentation yet there was always a fear of being misunderstood.

Non-Disclosure Agreements (NDAs) were signed during the projects. Before an NDA was signed almost nothing could be disclosed, especially in OEM-deals where the customer was also a potential competitor. Yotsu strongly signaled to Alpha Sweden that the contract was a document of significance and the signing an important event. At the same time, after the contract was in place there was no further mentioning of any contracts.

> "Yotsu took the content of the contract extremely seriously. They had a whole group of legal experts who were fighting about every little wording! But after the contract was signed it seemed like they put it away in a drawer and we could go on with business. As far as I know there has never been situations where they have referred to the contract in any way. Naturally this might have naturally changed if things had gone bad – if a conflict had started." (Thomas, OEM Manager Japan, Alpha AB)

The Yotsu contract framework had no time limit, but you made appendices for every new product development project with deliveries referenced to the main framework document. As for other contracts in Japan, Alpha had relations with Japanese customers where no contracts were used because they had yet not reached an exact agreement. In those cases, business continued as usual.

> "That you could go on and do business without any contracts in place is something that I haven't seen anywhere else – on no other markets in the world." (Per, Corporate Executive Vice President, Alpha AB & Regional Director Japan, Alpha KK)

That could only happen in Japan. Alpha tried to sign contracts and to write them in English. Very few contracts were in Japanese. Having Japanese contracts meant relying on Japanese laws and legal expertise and that was a matter of cost.

Kaji was not directly involved in the initial contacts with Yotsu but he mentions two reasons why Yotsu finally chose Alpha: (1) The good product; and (2) Personal relationships. Especially an energetic sales person, Tanaka, had a close relationship with people within Yotsu which he had built when he previously had worked as a chip vendor. The manager of Alpha Japan at the time then followed up the energetic salespersons opening and personal connections within Yotsu. These internal connections were crucial. It took a long time, approximately four years to close the OEM deal because Yotsu was such a large company and it took time to establish contact with all the key people. The long time was not due to technical evaluation but to management negotiations. The four years it took to get the OEM-contract with Yotsu were filled with joint activities in the form of the development of one of Yotsu's printers.

Kaji was convinced that Alpha won the race because of the proven technological superiority, but as said before, this was not enough, without personal contacts there would have been no deal.

Watanabe believed that the triggers for the successful startup of the relationship with Alpha were three: (1) Previous and continuing personal relationships; (2) High quality of developers; and (3) The local presence of Alpha in Japan via Alpha Japan. For example, on occasions when Alpha Sweden delivered solutions with quality problems, these issues could be solved quickly through communication between Yotsu and Alpha Japan. Human-to-human relationship was crucial for the success of Alpha/Yotsu business. During the process and joint projects, Tanaka and Watanabe became personal friends and of course spent personal time together. The continuous parallel projects assured that the high level of trust was maintained and that Alpha continued to deliver high quality, even if there were some critical occasions. Watanabe felt that Sweden, Germany, and Japan had a similar view on quality.

A summarized collective picture by the respondents of Alpha Sweden, Alpha Japan, and Yotsu included these success factors for the outcome of the negotiation: First, without the local presence with the subsidiary in Japan Alpha would not have got the contract.

"The opinion by many Japanese corporate decision makers was that it didn't matter what you had done in the rest of the world. Without local presence it wouldn't have mattered what we had done in the rest of the world – it wasn't Japan so it didn't count! We couldn't have convinced them only with price or technical data." (Thomas, OEM Manager Japan, Alpha AB)

Second, if Thomas had not gone over for five months the deal would not have been landed. Third, it was a long relationship that had to be developed, with more or less the same persons at Yotsu throughout the whole time that it took to close the deal. Fourth, Alpha won the deal because of the good functionality of both the software and hardware. Alpha's in-house developed CPU was the core in the offering to Yotsu. The CPU was manufactured in Korea but was developed fully in Alpha's HQ in southern Sweden. The CPU made the solution smaller, faster and cheaper than making it from discrete/standard components. Fifth, that Alpha had relationships with partners in Silicon Valley was a large advantage compared to their Japanese competitors. The network industry is in the US and Yotsu acknowledged Alpha's contacts there.

5.1.2.4 III. Execution phase

2000
Alpha spent a lot of money and work hours on the Yotsu project. Thomas approximated that 3/4 of the staff in Tokyo were directly involved in the project and as much as 20 developers in Sweden. For example, in 2000, Thomas was sent over on a one-year contract. Alpha had developers from Sweden on site in Japan for three-month periods, but usually one Swede at the time. Compared to Germany, France and other countries, this commitment was only in Japan signifying the importance of the OEM-relationship. It was of course a big problem having a large distance physically between end users and Swedish developers. Fredrik worked with about ten people in Sweden that were part of the Yotsu projects. Meanwhile, there were other people working with other projects not in the print-server area. Maybe three-four projects were in parallel progress between Yotsu and Alpha.

2002
Alpha had to find a new manager in Japan and made what the Swedish management called a recruitment mistake which led to an increased involvement from management in Sweden.

2003
As for the implications of the Yotsu deal, when Alpha won the first project in May 1999 the real product specification was sent over from Yotsu. The product specifications detailed a much bigger and complicated project than had come to light during the discussions. It was then that Alpha started to learn that if they were to work with these large demanding Japanese customers they would have to be very flexible and not bring up specific project specifications and ask the Japanese OEM-customer to pay more, but look at the whole picture. The relationship in 1999-2000 was very demanding for Alpha. This single project soon became ten large developing projects. These projects were partly financed from Yotsu but the money was not always enough based on resource requirements of Alpha. Alpha learnt the hard way that they had to have extra resources in case of emergencies with these kinds of large Japanese firms.

The Yotsu deal resulted in additional deals arranged through Yotsu for projects in Japan. Previously, there had been few independent international sales directly through Yotsu. However, Alpha's products were sold throughout the world through Yotsu's sales network and that might have opened up new deals. Alpha had a lot of international sales of one particular print server developed with Yotsu and branded with Alphas' name.

Yotsu had been in Sweden surprisingly little. They had been in Sweden on courtesy visits, not because of any trouble or check-ups. Manufacturing specialists from Yotsu had also been visiting Alpha's outsourcing partners in Sweden and in other countries to check up on the manufacturing processes. The long-term Yotsu OEM relationship was unique for Japan. After 2000, the project was successful and profitable for Alpha. Alpha had managed to become the OEM for Yotsu's built-in printer servers worldwide.

A significant share of Alpha's sales in Asia derived from Japan, even if the expansion the last years has included the ASEAN-region with Singapore, Malaysia, Indonesia and Thailand. The quick build-out of broadband and the fact that Japan was the world's second largest economy were two reasons why Japan received a high priority in Alpha's global strategy. As been noted before, Alpha had OEM contracts with several of the largest electronics companies in Japan. That many of the largest competitors both in Video and in Print were Japanese companies was also stated as a reason.

As for theft of intellectual property, Alpha did not feel a threat by Yotsu to steal their technology. Alpha had many patents protecting its core technology, primarily in ASIC (i.e. the ETRAX-chip), but Alpha protected its investments with fast development rather than covering all aspects of their technology with patents. Alpha had a couple of persons working with patenting core technologies. Alpha had never had any problem with companies stealing their technology and certainly not Yotsu. It was also clear that it was not the specific patents Alpha had that made Yotsu work with them year after year. Yotsu had been very candid about the internal stuff going on inside Yotsu.

To send Swedish developers to Japan had not been so expensive as compared to not having anyone there or hiring the wrong Japanese. However, finding the right Japanese was of course cheaper. Throughout the years there was always a local Japanese subsidiary CEO in Alpha Japan that recruited Japanese talent. However, it was hard to get good management candidates in Japan at the end of the 1990s. It was a common understanding among the Swedish managers that there were a few key staff in Alpha Japan that was holding the company together and they would be hard to replace.

Kaji's team consisted of five persons of which some of them were hired through his personal network stemming from his time at Waseda University. They had all been working at another company before. Recruiting for the technical side and marketing side was different. On the technical side massive man hunting or usage of personal connections was necessary. It was seen as risky to hire someone you didn't know therefore, one must go through private connections.

Kaji, in this phase, had close daily contacts with Alpha Sweden. He maybe wrote and responded to 100 emails every day. Some of those emails stemmed from Japanese customers

and those he had to translate to English and pass on to Sweden or vice versa. The full-time translator was only involved in translating user manuals and not daily emails. The female translator was always busy to translating user's manuals for Alpha products and getting the local Japanese touch on Alpha products. She was not involved in the ongoing business with Yotsu at the moment. Kaji's most important job was to take care of emails and distribute the communication. Direct and indirect time allocated to contacts between customers and with Sweden was about 50% of his working-time.

> "We have worked with sort of communication interfaces between key persons on the Japanese and Swedish side. It is easier that these key persons learn how to communicate with each other than if everybody is talking to everybody." (Tobias, Senior Software Engineer, Research & Development, Alpha AB)

More Swedish Alpha people came to Japan than Japanese going to Sweden did. Kaji had been to Sweden a total of 7-8 times and not at all for the last two years. Kaji had only a few times met with other Asian Alpha office people. One rare company trip had been made to Singapore with the whole Japanese Alpha office. Even at that time, Japanese staff did not visit Sweden very often.

Yotsu handled feedback on problems by email because Alpha had no additional Internet support site. In Tobias's experience, email could sometimes escalate in rudeness whereas this was unusual in face-to-face meetings. Alpha had no Swedish technician on site during the last two years, so the Japanese technicians solved these problems themselves. Customer feedback loops were relatively long. When an issue came to Sweden the problem had gone from Yotsu's customers through Yotsu to Alpha Japan to Alpha Sweden. That loop could take two months. According to Thomas, Yotsu was handling maybe 30, 000 support calls from end-users yearly, and only a microscopic share of those were really "bugs" that escalated all the way to Alpha's developers in Sweden.

As for contacts between customers in Japan, Alpha Japan and Alpha Sweden, on many occasions Alpha Japan had tried to communicate specific customer demands without complete success. It was hard to explain to the Swedish that they had to come to Japan directly and get the complaints firsthand. This was costly so at first Alpha Japan tried to explain problems in detail via email. Some questions from Japanese customers were directed straight to Alpha Sweden, but many problems from customers had been filtered and translated by Alpha Japan. They translated so that the Swedish side did not get offended and hurt and it was through this action that information could be lost. One Japanese customer had badly designed software but the Japanese Alpha staff could not tell them this so Tobias had to contact the Japanese customer directly and solve the problem. After that, support in Japan could take over. Contacts with small Japanese end-customers were always dealt with through the Japanese subsidiary.

2004
In January 2004, the vice president in Alpha Sweden, Per took over as director in Japan. This was the first time a Swede was in charge in Japan. Now the US market had grown in importance so Gun had not gone to Japan as often as when the Japan operations were being

built up but still he went over 4-5 times a year. Alpha had a much larger product assortment today than when Gun started in 1993.

Alpha Japane employed 17 persons in Japan and only Per was Swedish. The Japanese office started as 2-3 persons and had increased. In the years of 1999/2000 Alpha Sweden made a large investment in Mobile Internet which was something new that eventually became a financial failure. Alpha Sweden became divided because some people wanted to get into the new economy and the other individuals wanted to stick to the old competencies. Sven was among those who wanted to go into Mobile Internet and the new concept. Because of this investment, the number of people hired in Japan increased. At its peak, 22 people were employed in Alpha Japan. After the dotcom crash landing cuts had to be made and in 2003 additional cuts were made. There have been 1-3 Swedish engineers connected to the printer side and sometimes camera side. There was also a temporary Swedish manager in the beginning of 2003 for six months and then the last six months, the Swedish management took turns as CEO of Japan operations. At this point, Per commuted approximately four times to Japan during those six months. After that, Per, took the job full time. Per was also corporate executive vice president in Sweden, so he was sitting in two chairs.

Alpha Japan had tried to recruit managers from outside, by using an expensive headhunter, but it was a great failure. The manager in 1997 was seen as pretty good and worked until 2002. Before employment, the local key Japanese staff interview was followed by interviews with the Swedish manager so Alpha got two pictures. Then they had a joint meeting and decided together who was best. Swedish managers made the final decision. Recruits had to speak OK English, not perfect but OK. The office language in Alpha Japan was English. However, an estimated 98% of all meetings with customers were in Japanese. Per had been to only two meetings during his time in Japan where the meeting were in English. Because of the language barrier, everything took twice the time. In the Japanese office, one person was employed full time to translate and 1/2 that time was spent taking care of the Japanese web. Alpha had local sites in many countries and at least 10 different ones running at the same time. Because some customers were in the security business, they were conservative and didn't speak English. Translating everything including the website was a must.

One problem that consistently came up in the discussions was the Japanese high demand for quality and the Swedish ignorance of this fact. This discrepancy in thought was tough to communicate to Sweden. The department and people in Sweden that had been working with OEM in Japan had learned this lesson. For example, everything that was completed and tested in Sweden was tested one more time in Japan before it was sent out. There had been too many mistakes historically with low quality shipments from Sweden. For periods of time every single product was taken out, polished, and tested. During the Execution phase, Alpha Sweden was trying to incorporate the Japanese tests in the overall test process because otherwise it would have been too expensive.

Alpha Japan tried to explain this need for excellence by saying that the Japanese customers were prepared to pay a much higher price for quality than European customers. Gun had tried to teach this to the staff at Alpha Sweden. In Japan, it often had nothing to do with content but rather the packaging. A scratch on the product in the USA would mean selling it with some discount. In Japan, the product would be impossible to sell. In Japanese department stores, young girls wrapped the merchandise in paper. This was not free, but the

Japanese customers were prepared to pay a price for this service. Japan prices were generally about 20-30% higher than the USA. The Swedish style was more American. This was very hard to explain to the Swedish people, but thanks to the fact that so many Swedish people from Alpha had visited Japan, the lesson was learned. Gun had formal seminars for Swedish engineers. However, the most important way to teach this was to go to Japan with a Swedish person. If he was observant and looked and listened to Gun's the engineer could learn the ways of the Japanese and then they could go on their own. Gun thought that he needed to go slowly when teaching Swedish people about Japan by slowly setting examples and demonstrating what worked in Japan. By this time, there were several Swedish people that had been living in Japan and told people in Alpha Sweden about Japan and awoke their interest but it was difficult to document those experiences.

> "The hardest thing for the Swedish to get is the high Japanese quality demands. The Swedish people simply don't get it. And the Japanese cannot understand that a Swedish person cannot get it. The Japanese put a tremendous amount of time on trying to explain this and find it very difficult." (Per, Corporate Executive Vice President & Regional Director Japan)

> "It has been very hard for us in Japan to explain in detail Japanese customers' demand for high quality to the Swedish side. It has been very important to bring the Swedish people to Japan." (Kaji, Technical Officer & Regional R&D Manager)

Alpha Sweden and Alpha Japan relations had been strained due to those problems. The Japan office had isolated themselves from some decisions coming from top-management in Alpha Sweden.

> "There is no secret that Alpha Japan had become an island on its own. What I am trying to do is to tow this island towards the mainland and build a bridge in the form of improved communication. I try to set up lots of communication processes, for example by scheduling routine meetings. Initially I had to impersonate this bridge but I now try to get Mr. X in Japan talking to Mr. Y in Sweden so if I disappear tomorrow this will work anyway." (Per, Corporate Executive Vice President & Regional Director Japan)

Some Japanese came to Sweden on a one-week introduction. Some Japanese went to Sweden once a quarter and the goal was to send different Japanese as often as possible. Swedish people came to Japan at least once a month. Per had tried to start some interdisciplinary projects where several functions were involved. However, the Japanese market was by Per seen as not different from other markets. What made it different was that people kept on saying that it was different – that was repeated again and again. Of course the language was different, but Per could not find one single market characteristic that was uniquely different from other markets.

Alpha had no formal routines for learning export skills in-house, but Per tried to take many Swedish people to Japan and follow the flow all the way to the customers. The manager

responsible for quality at Alpha Sweden as well as the Swedish operations manager had been taken on study visits to Japanese customers. Per also tried to rotate engineers between projects so that they could spread the knowledge. There was also an Alpha newsletter from the Japanese office, where market trends were shared. Per regularly received questions from Sweden about Japan. Alpha has worked so many years with Japan that key staff at Alpha Sweden in the HQ in southern Sweden knew the basics.

During this phase Alpha no longer had any contact with Swedish support functions like The Swedish Trade Council. There were many Swedish companies that called and wanted to help Alpha in Japan. There were many management companies that wanted to get into Japan by selling to Swedish companies. Per believed that Alpha could handle new customers better themselves by relying on a few individuals with great knowledge of Japan. Per used Japanese staff as a front towards the customer.

5.2 Case analysis

5.2.1 I. Preparation phase

The trustee, Alpha was from the beginning characterized by international ambitions. This basically came from one of the founders, Sven, who wanted to take Alpha global from the start. It also came from the business of networking devices where the market in the home country Sweden was too small to sustain a large company. Sven also had a special liking for the Japanese market and the interest of entering the Japanese market was one of his outspoken desires. Alpha gradually built up experience by learning to act in several international markets. The CEO and founder were fresh from the university when they started the company but built internationalization experience throughout the years. At the point of executing the decision to enter Japan, he dedicated six full months to learn the Japanese business logic. He spent much time and money on internationalization and Japan became the main market for these efforts. Not only did the CEO spend six months full time living and networking in Japan but he also spent money on a Japanese marketing campaign that consumed money rapidly with the intent of becoming a kind of marketing explosion. Eventually the lack of previous experience was partly balanced by directly hiring local technical and marketing expertise in Japan. These Japanese were both ambitious and somewhat tired of the Japanese way of working their way up through academia or big corporations. This resulted in a large part of Alpha's sales coming from the Japanese market.

The Japanese worldwide manufacturer of printers, Yotsu, was the trustor in this case, and the staff engineer Watanabe was acting as Yotsu's main representative from start. Watanabe had previous experience with foreign firms, primarily from the UK, and the US. At the time of Yotsu's first contacts with Alpha, staffs dedicated to developing networking solutions were relatively scarce, and scattered around the divisions of Yotsu. However, a strong focus towards networking solutions took form at the time of these first contacts, especially with the aim of arranging the right business relationships with suppliers. Therefore, a strategic objective to open up a discussion with Alpha about an OEM-relationship was given high priority. Alpha used trust-facilitators in the Preparation phase. These trust-facilitators were Alpha's Japanese distributor, and later The Swedish Trade Council in Tokyo. The Japanese distributor let Sven and Alpha act and network with the distributor's office as a launch pad. Trust between Alpha and the distributor had grown from previous sales and connections. The distributor was well positioned on the Japanese market, with relevant industry contacts, and had dedicated staff for Alpha already. It was in the distributor's interest that Alpha would succeed to sell on the Japanese market.

The Swedish Trade Council also had interest in the success of Alpha on the Japanese market because helping Swedish companies establish sustainable operations in Japan is one of their assignment from the Swedish government therefore, helping Alpha was part of their assigned mission. The Swedish Trade Council could also act from their base inside the Swedish embassy, which gave them a specific position of trust from the viewpoint of Japanese companies. They had also accumulated experiences for helping Swedish companies in Japan and could offer subsidized resources to Alpha. As for the initial contacts with Yotsu, the then newly employed sales person Tanaka, and his previous relationship to a sales person within Yotsu, proved to be a door-opener leading to the first meeting. Despite

Watanabe's previous bad experiences with foreign business partners, he decided to give Tanaka and Alpha a chance to give a first presentation. In order to arrange the first technical start-up meeting, which proved crucial for Watanabe to continue the relation, the personal dynamics between these three men acted as a catalyst.

The early routes of communication between Alpha in Sweden and the Japanese market were both dyadic and triadic. Sven made several direct contacts with Japanese firms by networking on site, as well as being introduced by the trust-facilitators in the form of the Japanese distributor and The Swedish Trade Council. Much of these contacts were taken, or followed up by Sven personally while in Japan. Sven convinced the Japanese parties that Alpha was an international company with a technologically superior networking product by personally showing that this was an important part of the firm's strategy and his personal passion. Additionally, there were traditional marketing campaigns supporting the efforts of Sven.

The perceived trustworthiness of Alpha was partially connected to Sven who in words and action focused Alpha to the Japanese market. As for other Japanese companies Alpha met, Alpha stressed the existence of their local office. Watanabe, Tanaka, and Tanaka's sales contact within Yotsu soon developed a close relationship further increasing the perceived trustworthiness. Here Tanaka's sales contact introduced Watanabe to Tanaka. The relations between Alpha and Yotsu were not regulated by legal agreements but rather the relation was controlled by technical agreements and NDAs. Alpha could use the Japanese distributor's office as a launch pad for marketing in Japan. That the Swedish engineer Fredrik delivered material based on the questions he received, at the first start-up meeting in a swift and accurate way, is said to gradually have increase Yotsu's perception of Alpha's trustworthiness. Perceived trustworthiness by Alpha was gradually increased because of Alpha keeping its promises to deliver relevant information. This asset was later used when Alpha got engaged in Negotiations on the OEM-deal. The start-up meeting in itself was an especially critical point for Watanabe. Watanabe checked the details on Alpha before meeting Alpha-representatives, and the relatively small size of Alpha had no negative implications. On the other hand, this size was not so small relative to other companies in the high-tech business of networking and Alpha had already proven international success.

5.2.2 II. Negotiation phase

Alpha had, at the time of the negotiations for the OEM-contract, been working with firms in the Yotsu-group. Not all these projects resulted in commercialized products but Alpha was learning from these experiences. During these smaller projects, Alpha accumulated experiences about the Japanese market in general and about working with Yotsu in particular. This resulted in knowledge that was not only conferred to the Japanese Alpha sales office, but also to headquarters in Sweden through a rolling scheme of Swedish engineers and managers that had been working on site in Japan and returning to Sweden after two-four months and replaced by other Swedish staff. The current resources during the negotiations with Yotsu also increased over time. Besides the expatriates from Sweden, the staff at the Japanese office increased with local employees. In 1997, there was no Swedish development staff in Japan, but gradually after that point there was at least one full-time Swedish development engineer was on-site at all times in Japan. The presence of the Swedish engineer proved to be of more value than for just solving technical problems. Yotsu translated the presence of the engineers into benevolence from Alpha's side because it

helped solve problems immediately. Yotsu also knew how much it cost to keep a Japanese sales office running. That Thomas went over to Japan for five months of intense support for the negotiations of the OEM-contract was seen as crucial for the signing. The outspoken management intent from Sweden to move forward with the Japanese customers increased. One indicator for this was when the new Japanese manager of Alpha Japan, with the Swedish managers' sanctions, started to focus more on OEM-contracts.

Respondents within Yotsu stated that they were interested in continuing to do business with Alpha, but only in a Japanese way, and not really with a "foreign" company. Alpha had a disadvantage in not being a Japanese company and had to prove that it was able to communicate in a way that matched that of its Japanese competitors. During the many smaller projects with Alpha, Alpha Japan had to act as an intermediary in issues regarding product development. Swedish developers had to use local translators in contacts with Yotsu who did not provide English speaking developers dedicated to Alpha. In business negotiations, English was sometimes not acceptable, and Alpha had to do a lot of work with translating English documents to Japanese. However, more or less the same core individuals within Yotsu were engaged in contacts with Alpha during the period previous to the OEM-contract.

During the smaller projects, that opened the way for the OEM-negotiations, the interest from Yotsu's side on keeping Alpha as a partner was perceived by Alpha as relatively low. This gradually changed with the efforts from the internal door-openers within Yotsu.

At the time for the OEM-negotiations with Yotsu, Alpha had little contact with The Swedish Trade Council although they previously helped Alpha out with matchmaking services. In this part of the contacts with Yotsu, the actor that should be interpreted and evaluated as the actual trust-facilitator between Alpha (Sweden) and Yotsu is Alpha Japan. We have seen that the role of Alpha Japan was crucial to land the OEM-deal with Yotsu. Alpha Japan had gradually built trust via personal relationships, presence and persistence to stay on the Japanese market. They had genuine, up-close and prior experiences of working with Yotsu and were provided resources from Sweden with a focused strategy to help Alpha Sweden succeed in Japan. There are indications in this phase that Yotsu actually preferred doing business with Alpha Japan rather than Alpha as an international firm with its headquarters in Sweden. Alpha Japan not only was Yotsu's main business partner, but also acted as a filter and intermediary on behalf of Yotsu. In the concrete example of product quality standards, Alpha Japan provided special activities to make sure that the products passed the standards of the Japanese market. This worked both ways, because communication from Yotsu was filtered and smoothed out before being passed on to Alpha Sweden.

The triad between Alpha Sweden, Alpha Japan, and Yotsu was observed through the frictions regarding product quality. Alpha Japan communicated with a rich media of communication with Yotsu on site in Japan. The communication between Alpha Sweden and Yotsu was mainly via leaner media like email and telephone. However, the Swedish developers on site in Japan made use of rich communication media. We also have seen that Alpha Japan did not relay all this feedback to Alpha Sweden but sometimes acted as a filter. The Swedish developers in Japan handled most questions without getting back to HQ in Sweden. Alpha Sweden did not feel any need to give Yotsu access to its intranet because it

contained too much internal information on other customers. Yotsu could report bugs in the software directly on the Alpha homepage.

The staff of Alpha Sweden and Alpha Japan had met approximately 200 individuals within Yotsu at all levels. Respondents stated that people had a hard time understanding one another if they did not sit down together. Telephone conferences did not seem to work well for communication partly because of language difficulties but mostly because of different meeting etiquettes in Sweden and Japan. The Japanese often discussed an issue in Japanese for 20 minutes that was boiled down to one single question in English. The telephone conference was not well designed for those kinds of meetings. Translation during communication took up significant amounts of time although maybe half of the Alpha Japan staff could speak English. One translator within Alpha Japan worked full-time just to translate manuals and documents. Alpha had previous bad experiences with external translators. Emails from Yotsu that had to be relayed to Sweden usually came to Alpha Japan where it was translated and resent. Technical documents usually were already translated to English by Yotsu's translators. This was not the case in the beginning of the relationship when technical documents had to be translated by Alpha Japan. Emails from Alpha Sweden could go both directly in English to Yotsu, or via Alpha Japan for translation into Japanese. We have to remember that this puts in a filter in the communication were the final email might differ in the sense of urgency and importance. Contract proposals and business negotiations were usually in English

Yotsu demanded detailed technical documentation. One Japanese respondent within Alpha Sweden interpreted this as a way of handling the risks of being misunderstood where a higher level of details in documentation decreased this risk. One respondent mentions the differences between the Swedish and Japanese technicians when developing new software code. While the Swedish side could assess a working prototype, the Japanese side mistook prototypes for a finished product and was disappointed in the quality and functionality. Yotsu wanted to get all the details on the new design early. In this way, it was not easy to work on a conceptual level with product development, but all details should have been in place when communicating in order to get a constructive response from the Japanese.

Alpha Japan helped translate the communication from Sweden into conditions and formats useful for Yotsu. Most of the communication was relayed through Alpha Japan and even in direct communication between Alpha Sweden and Yotsu; Alpha Japan was involved as a translator. In some instances, this pre-packaging of communication from Sweden was handled by the Swedish engineers on-site. Inside Yotsu, Watanabe acted as a translator of the information through his close contacts with the engineers. In this phase, Watanabe's work with comparisons of the output from Alpha compared to that of the internal R&D was important. The large importance that the Japanese side had given to the informal meetings in pubs between the Alpha Japan and Yotsu offices was noted. In these meetings, issues were explained to the Swedish visiting engineer in a way so that he could explain it further to Alpha Sweden.

Messages generating explicit knowledge were produced in the form of technical documents and legal contracts. Both the Japanese and Swedish side put an emphasis on developers needing to be present in Japan with face-to-face meetings. The personal relationships were seen as crucial for the success of the negotiations. From the personal relationships, much

tacit knowledge about Alpha's intentions and commitment could be communicated to Yotsu. The Swedish staff, that had been working in Japan, also brought with them tacit knowledge about the Japanese market and Yotsu when they returned to Sweden.

The focus on quality issues continued and Alpha Japan did not trust Alpha Sweden to conduct proper quality checks to ensure acceptable quality. The quality of the product became a proxy for how well trusted the company was as a whole. Another signal that could build trust was the existence of the local office in Japan. The presence of an office in Japan was respected by Yotsu and they knew how expensive that was to maintain. However, the size of the office was maybe not that important. The perceived trustworthiness, in Alpha by Yotsu, was increasing during this stage and culminated in the signing of the letter of intent for the OEM-deal. A mark for this was that OEM-business in reality started even if the real framework contract had not been properly signed - as one involved Swedish representative said, something that could only happen in Japan. The contract, that eventually was signed, was much more far reaching than Yotsu first presented and it turned out that the contract was the beginning of a long relationship crossing into several international markets.

In the Negotiation phase, Alpha continued to work with smaller projects for Yotsu and trust was gradually built up. Alpha had to build trust by passing a row of technical tests during those years. When the negotiations for the real OEM-deal heated up, Yotsu became more interested in the future plans of Alpha. These negotiations involved some new people within Yotsu. Yotsu sent representatives to Sweden, but treated Alpha Japan as their main partner or simply trusted them to be representative for the whole Alpha Corporation. The negotiations took about four years and more or less the same persons were involved during this period. They had many opportunities to gradually build trust in their relationships. It was what the involved persons perceived as a large step for Yotsu to choose a Swedish SME over domestic firms and internal developers. In general, the Swedish respondents felt that Japanese firms did not trust foreign firms as much as a domestic firm and that you had to already have succeeded on the Japanese market in order to be seen as trustworthy.

5.2.3 III. Execution phase

Respondents in Alpha stated that when they got to work after finally signing the contract, previous experiences from working with Yotsu proved really helpful in the daily routines of work and communication. Alpha, as a company, had continued to expand internationally with gradually increased experiences by doing business overseas. Despite these previous experiences, Alpha was in for a shock when they realized the full impact of the deal for worldwide provisioning of software for Yotsu's printers. The pressure on Alpha increased when they became a part of the Yotsu family.

More and more Swedish people were working in Japan during this phase and Swedish respondents said that the communication was smoother. There was a continuous effort to take Swedish managers for study visits to Japan to personally see what was occurring. These study visits included both time with the customers and in the office of Alpha Japan where they got to know the Japanese employees. This became increasingly common after the OEM-deal became a fact. Key staff within Alpha Sweden learnt the basics in relations with Japan and fewer mistakes were made in the communication. Yotsu visited Alpha Sweden only a few times and the visits were viewed as courtesy visits and not for real business.

Again, we see that the resources Yotsu dedicated to dealing with Alpha were more or less constrained to Alpha Japan. The interest in Alpha increased after Alpha won the OEM-contract. Suddenly Alpha was chosen to provide software for Yotsu's printers all over the world. Despite previous experiences, the problems with quality issues continued to cause problems for Japanese customers. Alpha in Sweden as well as Japan committed substantial staff (e.g. 3/4 of the staff in Japan and 10 people in Sweden) to the work with Yotsu. There was a focused management intention to stay in Japan now that there was a firmer relationship with Yotsu and because the activities in Japan had become even more profitable.

In this phase, Alpha Japan did get somewhat of a life of its own and this "island" started to drift away from Alpha Sweden which led to new Swedish management in Japan for the first time. Still there is a triad in the communication where messages between Alpha Sweden and Yotsu were communicated occasionally. The case story actually indicates signs of decreased trust not between Alpha and Yotsu, but between Alpha Japan and Alpha Sweden. These issues became most visible when it came to product quality. It came down to that the vice president of Alpha taking over the role as the first Swedish manager of Japanese operations. In this role, he personified a stronger communication bridge between Alpha Japan and Alpha Sweden.

Alpha was no longer using a trust-facilitator like The Swedish Trade Council, but the firm had enough self-confidence to handle new contacts in Japan with their own staff and knowledge. However, it was interesting to note that in this phase the previous triad also started to involve more actors in Japan, because the deal with Yotsu resulted in additional business on that market. Yotsu in Japan had started to gradually become not only a trustor, but also a trust-facilitator opening up opportunities for further business contacts.

As in the other phases, there were indications of a mix of rich and lean media. Yotsu went over to Sweden seldom and then only on courtesy visits. This also applied to the Japanese staff at Alpha Japan. For example, Kaji had only been to Sweden seven-eight times and not at all during the Execution phase. The usage of expats from Sweden decreased during this phase. Kaji, in Alpha Japan, continued to be the communication hub for contacts between Alpha Sweden and Yotsu. He spent about 50% of his time communicating between Alpha Sweden and the Japanese customers. So in this phase at least the technical questions had moved to using more lean media like email and telephone. The feedback loops from Yotsu to Alpha Sweden could take up to two month.

A full-time translator was translating manuals and getting the Japanese touch on the products sold in Japan, but Kaji had to relay some 100 emails every day. At this stage, Alpha had no Swedish technician on site in Japan helping with the application inside Yotsu. Sometimes the process failed as exemplified when Alpha Sweden, in direct contact with a Japanese customer, had to solve some technical issues because Alpha Japan had problems with giving clear feedback about the bad news. The face-to-face meetings between Yotsu and Alpha Sweden had decreased. Alpha Sweden had no Swedish technicians on site in Japan any longer, but for the first time, a Swedish manager was leading Alpha Japan. This manager had also been willing to communicate tacit knowledge from the Japanese creating a stronger communication bridge between Alpha Japan and Alpha Sweden through routine meetings. He also had sent Japanese staff to Sweden on one week introductions, as well as bringing Swedish staff over to Japan for one month at a time.

The staff in Alpha Japan showed a higher churn rate during this phase. The trust-building continued gradually while the business relationship proceeded. Still the key staff like Kaji was the same and kept up the relations with Yotsu. In addition, on the Yotsu side, Watanabe continued to be the main contact for Alpha. The type of trust continued to be based on personal relationships. The perceived trustworthiness in Alpha in this phase was increasing as indicated by Yotsu engaging Alpha for more and more work all over the world. What started as a single development contract soon became ten projects. The relation between Alpha and Yotsu survived some rough roads where quality problems, or discrepancies in expectations of quality resulted in friction but these were resolved.

6 Company Case 2: Beta Software Solutions AB

6.1 Case description

6.1.1 Company background

In 1999, a professor founded Beta Software Solutions AB together with two mathematics researchers. The three largest investors were two Swedish and one Danish Venture Capital (VC) firm. In January 2001, the investors brought in an experienced entrepreneur as the CEO of Beta. At that time, the firm consisted of one of the founders and two consultants sitting in a 10 m^2 office space. A rude demo had been constructed but no products were yet developed. Beta was more or less a blank canvas with an algorithm for handwriting recognition.

Intense development led to the first product release of a Chinese handwriting recognition software in July of 2001. This Chinese version was followed by a Japanese version in the fall of 2001. The same year in September, contacts with a multinational Japanese electronics manufacturer led to the integration of Beta's software into the Japanese firms latest PDA. In October 2001, Beta signed an agreement with a Swedish digital pen manufacturer for provision of their software in their digital pens. In November 2001, three venture capitalists invested in Beta. International acknowledgement by the media also came in 2001 when one of the world's largest weekly magazines names Beta "Startup of the Week". In February of 2002, a Japanese branch of a large US electronics manufacturer chose to license Beta's technology.

In May 2003, a second Japanese consumer electronics giant licensed Beta's software. That same year Beta attracted venture capital from this Japanese customer's European VC-branch, as well as from a Swedish venture capitalist. The Swedish VC brought 10 MSEK to Beta. In July 2004, Beta broadened their product portfolio and customer base by releasing handwriting recognition software for advanced mobile phones.

Beta aimed to provide leading software for handwriting recognition. This was done by bringing together language experts, mathematicians, and experts on man-machine interactions. Beta also aimed at providing a generic solution for all languages, alphabets, and mobile devices such as mobile phones and handheld computers. The product was handwriting recognition software for mobile devices. The solution consisted of three parts: (1) algorithms that translate the handwriting; (2) a database that compare the characters; and (3) the user interface on the screen of a Personal Digital Assistant (PDA) for example.

Supported operating systems were Palm OS, Windows CE and Symbian. Beta's recognition engine was optimized for low memory requirements and processor speed, making it ideal as an embedded solution in small mobile devices such as PDAs and cellular phones. The solution took up the smallest memory space of all the applications available on the market.

The uniqueness of Beta's patented algorithm was that it recognized written characters of different sizes, slant and orientation, as well as gave better recognition for shaky handwriting, which was vital in handheld devices. Furthermore, the algorithm was generic and therefore applicable to all human scripts. Another important feature was the incorporation of local differences in writing an example of which is found within the US and Europe that had some distinct features in writing the Latin alphabet. Age and gender also affected the writing. Local versions, for China, also had their own design of the user interface to suit cultural customs. A single input area was used for writing and presenting recognized letters and for editing the text. The user did not have to learn or adjust to a certain writing style or learn a special alphabet. Uppercase and lowercase characters, digits, punctuation marks and special symbols, as well as accented characters, could be mixed in the same input mode. Japanese, with its mixture of script forms has been described as the most complicated writing system in the world. Kanji, as well as Kana characters can be written simultaneously with English letters and Arabic numerals. To summarize the features of Beta's products, focus had been put on capturing different writing styles, designing a user-friendly interface for inputting the characters, reducing the recognition software so it could work with low memory requirements and processor speed in embedded systems such as small mobile devices, and a comprehensive language database with a large vocabulary for each specific market.

In order to sell these products, Beta worked primarily with a licensing model where license fees were collected from hardware manufacturers choosing to integrate the software into their mobile devices. Beta's customers were manufacturers of PDAs, digital pens, and mobile phones. They included several major Japanese consumer electronics manufacturers, as well as a large Swedish mobile phone company. In 2004, Beta started to sell a downloadable version of the software through a re-seller. Main competing handwriting recognition systems were made by a US firm for alphabetic products and a Chinese firm for Chinese characters. Other competitors included larger multinational manufacturers that had already designed handwriting recognition systems.

The first Swedish customer was a Swedish digital pen manufacturer and a large Japanese consumer electronics manufacturer became the first customer outside Sweden. Since that time, Japan prevailed as an important market for Beta. A license agreement with another major Japanese PDA manufacturer, for the European and US versions of their PDAs, opened a way into internationalization to the rest of Europe and the US.

The core in Beta's software was a patented software code that could translate geometrical input data from the user into various characters. Beta was aiming to do most research in-house, which shows through the composition of the workforce. Of the 27 employees in 2002, seven had PhDs in Mathematics and 19 were engineers. The R&D was conducted at the headquarters in southern Sweden, located in a science park with access to a cluster of other small high-tech firms as well as a large university. A row of managers was recruited from other companies in this company cluster. Beta's international staff included a number of Japanese and Chinese associates, and several multilingual workers. In June of 2002, two Japanese persons were employed by Beta. One of these soon became involved in working with prototype design and Japanese handwriting systems at Beta. The other worked as the account manager with one of Beta's Japanese customers. Besides the headquarters in Sweden, in 2004 Beta Software AB had regional offices in Beijing and Tokyo. Japan early on

became an important market for Beta, and in 2004, as much as 75% of sales for the coming two years were linked to the main contract with Ichi KK on that market.

There was a close co-operation between the people at Beta and two major universities in southern Sweden. This was described as useful due to that the software was dependent on competence in several academic disciplines including linguistics, mathematics and computer science. Three Swedish Professors got involved in Beta's Advisory Board first meeting in June 2002: one professor in Japanese; one in automatic control; and one in mathematics. Beta also received advice from one professor at a Japanese university and one professor in linguistics at a Chinese university. The contribution of these two professors was in the area of handwriting recognition and user interfaces. Throughout the years, Beta actively participated in many exhibits such as COMDEX, CeBIT, and 3GSM World Congress.

Until 2002, invested venture capital was 34.5 MSEK. The original largest owners were two Swedish and one Danish venture capitalist firm. In September 2003, the European VC branch of an investing firm owned by a large Japanese electronics manufacturer and one of Beta's major customers invested 20 MSEK and got 18% of Beta stock. At the same time, one of the venture capitalists general managers became a member of the Beta Board of Directors.

6.1.2 Entering Japan and closing the deal with Ichi KK

6.1.2.1 Introduction

In this section I will focus on the process of Beta entering the Japanese market and the closure of a deal with a major Japanese consumer electronics manufacturer referred to as Ichi KK. Even if Beta previously had been active with smaller deals in Japan, the contract with Ichi KK was the apex of their achievements in Japan.

The process is based mainly from the accounts of Lars, the CEO of Beta from the start until early 2004, Yukiko, an employee of Japanese origin and account manager at Beta, and Kenji a software product planner at Ichi KK. All three were highly involved in closing the deal between Beta and Ichi KK and followed the process from the first meetings to the signing of the contracts and beyond. Additionally, Yamaguchi, a senior project leader at the Swedish Trade Council in Tokyo, gave first-hand data on the specific process from the perspective of this institution-based at the embassy of Sweden in Tokyo.

Lars, CEO, Beta AB had an engineering background from the nuclear power industry and worked many years in Belgium, Spain and Sweden for a US power firm building nuclear plants. When he was offered a senior management position in the US headquarters, he declined due to family reasons and moved back to Sweden. There, he started an entrepreneurial career founding a consultancy firm dealing with automation. The company grew very quickly and in 1986, there were 175 employees in 12 offices throughout Scandinavia. After selling this company in 1988, he started to take assignments on many boards of directors, but soon grew tired of board work and wanted to get back to operative duty. After working some years for a Swiss firm in its Scandinavian subsidiary, he bought and managed his second company, a small software company dealing with software for clinical laboratories. Lars managed and built this firm for almost the entire 1990s and under his direction, the firm expanded quickly and brought in capital to develop a new software platform, which in the end did not succeed which resulted in Lars dividing and selling the firm. By then Lars had built up a large international network with license takers in both Europe and Japan. An investor in the very end of 2000 asked Lars if he wanted to build up the newly born Beta and he accepted. Lars told the investor that he would stay until the organization was in place and the company had a product, customers, and an industrially competent party in the owners circle. So when Ichi KK closed the deal September 11, 2003 with Beta, the mission was accomplished and Lars left Beta and started a new consultancy.

Yukiko, Account Manager, Beta AB started working at Beta in June 2001. She was an economist and married to a Swedish man. Before moving to Sweden, she was a marketing manager at a US firm in Japan. In Sweden, she studied Swedish for one year then started looking for available jobs. She gained temporary employment at Beta with the goal of writing the Japanese characters into the software that was under development. Then she asked the management if she could start in sales at Beta and they agreed.

Kenji Software Product Planner, Hand-held planning group, responsible for third-party software, Ichi KK was Japanese but grew up partly in the USA and speaks fluent English. In 2004, he had a leave of absence from Ichi KK to finish an MBA in California. When Ichi closed the deal

with Beta, Kenji was working in the hand-held computer division at Ichi KK as part of the PC-group and was the main contact for Beta at Ichi KK in the introductory discussions and further development. Eventually, this division became its own company. Kenji was in the product-planning group for handhelds, which consisted of a mix of engineers and marketing people. The PDA being used for prototype studies was Ichi's main PDA and all the investments were made in this model. The product-planning group should manage the coordination of R&D and marketing, packaging of the product and so on. The engineers were the true project leaders in a strict sense but Kenji's group had the whole picture and was responsible for important decisions on the timeline for a specific product. Kenji was in charge of third-party software that could be made outside Ichi KK.

Yamaguchi, Senior Project Leader at the Swedish Trade Council in Tokyo had been working at the Embassy of Sweden, Commercial Office for 22 years in total and four years in this position. He actively had been helping several Swedish SMEs gain entry into Japan and he was active in enabling Beta when they used the Swedish Trade Council and the Embassy as a launch pad into Japan. Yamaguchi had been particularly interested in how to organize a knowledge transfer from successful cases of smartly managed Japanese SMEs to Swedish SMEs.

6.1.2.2 I. Preparation phase

1999-2001
One of the first things the new CEO Lars did was to hire a skilled marketing manager. Beta did not have a product at the time and it was Lars conviction that the marketing manager must be in the firm early to take part in strategy development and meeting potential customers. When Lars recruited people for Beta he put emphasis on their social skills and that they had an interest in going abroad and meeting new cultures.

> "So Beta was more or less an empty paper with an algorithm and there were no products but only a rude demo where one could write on an electronic plate which showed that the writing could be translated into electronic characters." (Lars, CEO, Beta AB)

One of the early missions for the marketing manager was to get a critical viewpoint, from an external company, on the viability of the future product. Lars sent the marketing manager to Finland to speak with a major Finish telecom manufacturer because Lars had previous good experiences with the candidness and openness of the Finish Company. The feedback from the Finish manufacturer was that the concept was interesting, but that they were not interested in Western character recognition, only Chinese. This early input later proved to be very important for the success of Beta. Beta had a dialogue with the Finnish firm throughout the entire development period, although in the end, the Finish firm chose a Chinese solution for character recognition. It was psychologically important at this early stage for the marketing manager to see that it was possible to have contact with a potential customer. During these interactions, Beta was concerned that the large Finish telecom manufacturer would walk away with knowledge about the product, so they had to be very careful with what they showed. The presentation for the Finish firm was the very first presentation of the idea to an external party.

Because of the Chinese character systems, hand recognition solutions were in great demand in China. For some reason, the same level of demand did not exist for the Japanese market despite a similar use of a complicated character system. Beta first developed alphabetic products, then Chinese followed by Japanese. Yukiko believed that the company was not very focused on Japan at the beginning, but since Beta received a good response from Japan, CEO Lars decided to focus more on that market.

When Beta finally had a prototype they could demonstrate, the ensuing strategy discussions led to what Lars called his "cascade strategy". This strategy was inspired by what another entrepreneur and CEO of a high-tech company in Southern Sweden had accomplished with his company. This entrepreneur worked in the vicinity of Lars, in Lund, and they met frequently because of the relationship built from previous collaborative projects. The entrepreneur had two pieces of advice that he gave Lars. He suggested that first, consider expanding the business east towards Asia instead of west towards USA, and second, think globally from the start rather than targeting Denmark. Lars's "cascade strategy" is illustrated in Figure 11 and can be described as an approach where product development in Sweden leads to product launched in Japan which in turn leads to the Chinese, US and European Union (EU) markets.
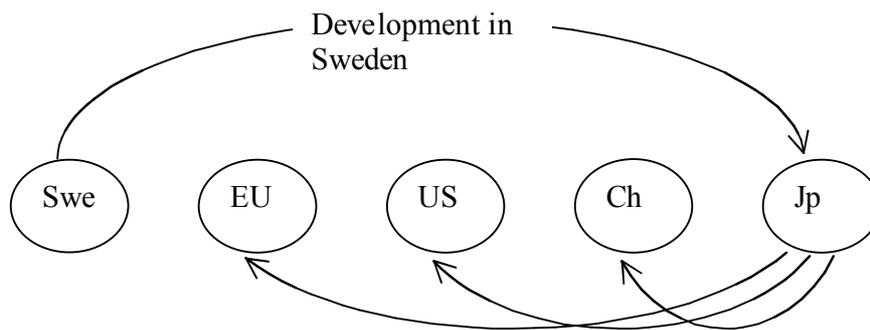
Figure 11: Cascade strategy of Beta.

In this model, Japan became the key to the other markets. The reason that Japan was the starting market was that most strong brand names in electronics and especially handheld devices were Japanese. If Beta's product was integrated with a visible brand name in Japanese hardware, then this would help them build their own brand name when these products were sold in the USA, EU and China.

Based on this strategy, Beta asked The Swedish Trade Council in Japan to arrange a road show for Beta and their products. According to Lars, The Swedish Trade Council in Japan worked excellent and the cooperation between Beta and The Swedish Trade Council in Japan was very good. Beta had a list of 25 companies they wanted to visit in Japan and The Swedish Trade Council arranged meetings with these on a 14 day road show.

> "I soon learned that the Swedish Trade Council had a high status in Japan. Because of this we got immediate access much higher in the hierarchies of the Japanese firms than otherwise." (Lars, CEO, Beta AB)

The first years when Beta tried to get a foothold on the Japanese market, Lars traveled there on several business trips, with some of these lasting several weeks. It gradually became a clear strategy for Lars that success with sales in Japan could become a launch pad for international expansion elsewhere.

Just before Yukiko came to Beta, the Chief Marketing Officer at that time and Chief Technology Officer went on business trips to Japan helped by The Swedish Trade Council and met 15 potential partners. The CMO and CTO visited these potential customers and showed the English product and early prototypes for the Japanese market.

Lars had hired two Japanese women, in Lund, to enter the Japanese characters into the Beta database. Lars saw pretty soon that one of them, Yukiko, had a good understanding of the psychology of the Japanese. Early on she became engaged in the process of closing the Ichi deal and saw this as a personal challenge.

One of the companies Beta visited was a large Japanese electronics manufacturer. When the road show moved on to China after a couple of weeks, the Japanese electronics manufacturer called the Beta representatives and asked if they could come back to Japan for another meeting. Therefore, within a couple of weeks the Japanese electronics manufacturer started to show great interest in Beta's product. The Japanese electronics manufacturer was about to launch a new product in September of 2001 in the US and they thought that Beta's product targeting Western characters was perfect to be integrated with this launch. After having met the corporation in Japan the first time in May 2001, they called Beta one week later and said that they wanted to settle a license agreement. The product that would use Beta's software (the Latin version) was only to be sold on the US market. It took until September 2001 before the product officially launched on the US market. This deal with a large multinational Japanese firm was considered, by Lars, as important for further sales work in Japan and elsewhere. It was good to have development projects with large Japanese companies from an internationalization viewpoint because they have channels and products in all major markets. The deal was closed relatively quickly. The license agreement opened up for other deals with Japanese manufacturing firms. Beta had got their first customer outside Sweden and this in turn led to other Japanese companies taking Beta much more seriously. The observation from the Japanese market was that if one Japanese firm buys a product, then other Japanese firms were sure that the product was good.

> "When this other large Japanese firm we talked to became interested directly after the first deal I was surprised that they did not even want to test the product. They simply said that if that other Japanese firm had bought our product, then it was presumably OK." (Lars, CEO, Beta AB)

Beta, however, wanted to reach the big companies in Japan and the first customer was a relatively small player of the group of electronics manufacturers.

In Yukiko's words, after one such visit arranged by The Swedish Trade Council, one large Japanese electronics manufacturer became interested in Beta's software for the US market and decided pretty fast to buy Beta's product. The Japanese customer's product in the US did not have any handwriting recognition from the start so they needed to complement that immediately.

While engaged in the potential deals with Japan, Yukiko did not teach the Swedish workforce at Beta or the other three sales people about Japan. When Yukiko first started at Beta, she often went to Japan with her manager. During these early trips, Yukiko tried to not shove the Swedish representatives' face into was good or bad according to the Japanese. She slowly gave hints on how to be more Japanese like how to write "Good day" and "Thank you" in Japanese.

Fall 2000
The first contact between Beta and Ichi KK, another of Japan's largest multinational Japanese consumer electronics manufacturers, was made at a major tradeshow in Las Vegas in the fall of 2000. A representative from Ichi KK saw the Beta company presentation and was so impressed with that demonstration that another presentation about three months later was arranged at Ichi KK in Japan. This presentation was attended by Kenji and some senior managers.

At that time, Ichi KK was evaluating handwriting recognition software for Japanese characters but there was no real urgency. There was already handwriting recognition software inside Ichi's PDAs, but it was a bit outdated and the engineers responsible had started on other projects, so it was hard to quickly get an update made internally. The operating system of the main PDA was the Palm OS and the way the user entered Japanese (without handwriting recognition like Beta's product) was to write phonetically in Western characters (Jap. *romaji*) which was translated into Japanese characters (Jap. *kana* and *kanji*). The idea was to include some third-party software, like browsers and handwriting recognition, to sharpen up the PDA features.

2001
This meeting was part of the Japanese road show where Beta also met other companies. The presenters from Beta included Lars and Yukiko and they thought that the audience at Ichi had been quite skeptical of their products. Afterwards, Beta heard that they had made a big impression on what people within Ichi thought, when they heard that Beta was Swedish and developed character recognition software incorporating Japanese characters. Apparently, Ichi thought that Beta was either crazy or had something really special. Beta gradually managed to prove that it was the latter.

> "I got a good impression of Beta immediately because I felt a personal connection with the Swedish manager and Yukiko-san during the first presentation. The question of doing a due diligence on Beta did not come up until much later in the process." (Kenji Software Product Planner, Hand-held planning group, responsible for third-party software, Ichi KK)

The respondents at Beta described writing as something personal and Japanese is one of the hardest languages to master. Lars thinks that Beta obtained a good reception from Ichi because they could see that the software was better than what they had seen in-house before.

The demonstration went well, although it was fairly casual, but the most senior manager from Ichi present was Kenji's manager. Beta's software was then not fully operational, but they had a PowerPoint-presentation with representative screenshots. Overall, it was a

positive meeting. Questions were mostly raised on the product and it was only later in the evaluation that questions about the Beta were raised. As long as the startup had an interesting technology, it was seen as OK by the Ichi KK managers, the financial background of the company was something that would come up later.

Before Lars met Ichi in Japan, he had no previous experience with them, but the overall impression was very positive. Lars held brainstorming meetings where he asked for spontaneous feedback from his employees on different Japanese manufacturers. For example, he could say: "What comes to your mind when I say Japanese manufacturer X, Y, Z?". Then the staff wrote down a few words on each, the impression of Ichi was always very positive. Ichi had a strong brand in Sweden, but the Beta staff did not know what it was like to work with Ichi.

6.1.2.3 II. Negotiation phase

2001
When contact with Ichi had been made, Lars said he realized that the Japanese market would become a key success factor for Beta.

> "After the first meetings with Ichi I decided to get my hands dirty on the Japanese market. I planned to go over for some longer time to Japan to get some first-hand information and of course also to do some networking. I needed this - it was crucial." (Lars, CEO, Beta AB)

This trip was taken at the advice of the Swedish entrepreneur that inspired him to implement the "cascade strategy". The entrepreneur said that you cannot go to Japan three days, but must stay several months and he actually suggested Lars stay six months. The Beta organization in Sweden was by that time so solid that Lars, as the CEO, could be away for an extended period of time without problem and in the event of a problem things could easily be handled from Japan. At that time, Beta had grown to 12-15 people and almost all were engineers. There was one administrator and one CFO to handle the office. Lars finally decided to leave Beta's operations in Sweden in the hands of his Swedish managers and leave for a two month trip to Japan. Yukiko was with Lars occasionally during these two months when she was not working on getting access to Japanese customers. Lars also benefited from a contact that his entrepreneurial friend had made in Japan when he started his company's Japanese subsidiary. The Swedish entrepreneur had just reorganized his business in Japan and decided to change some of its staff. One of the persons that left the company was still a good friend of his and he recommended him to Lars. This Japanese man became Lars's first guide to Japan during his two month stay. Lars followed this Japanese man to many social occasions in different clubs and this man shared with Lars the internal workings between different people and introduced him to who was most influential and who could "open doors" in the different industries. Lars learned a great deal at these social meetings guided by the Japanese contact.

During the two months Lars was in Japan, he developed a connection with a Japanese academic who was researching handwriting recognition. He simply asked several of his contacts who came to mind when he mentioned handwriting recognition and a majority

mentioned one specific academic researcher by name. So Lars visited this professor a couple of times and the professor was later included on the Beta advisory board. The professor was doing research on handwriting recognition so he was of course very interested, but Beta had to be a little careful on what they told him on specific technical details. The especially interesting thing with this contact was that the professor invited Lars (and Yukiko) to an inner circle of people in Tokyo who came from all major Japanese firms. This group met regularly to discuss handwriting recognition.

Lars mentions another person that was important during these two months in Japan. Lars's wife was Danish and she helped Lars contact the Danish embassy in Tokyo to see if they had any good people or contacts. There, Lars found a Danish man that held courses for companies on how to approach Japanese firms. Lars met this man many times and although he was young, he had worked a great deal with Japanese high-tech firms. From this Danish consultant Lars learned about the long lead times in Japanese firms. That is, before Japanese firms stroke a deal they have a significant amount of negotiations and preparations, but when the deal was done, they delivered fast. On the other hand, US firms make the deal much faster, but then problems and delays came up when it was time for deliveries resulting in further technical development. Europe and European firms were somewhere in the middle of these two groups. This was useful for Lars to learn for when he worked with Ichi, because that he found this to be right on the spot.

During the two months that Lars was in Japan, he spent a lot of time in the Ichi Building (an interactive exhibition where Ichi displays its new and old products and prototypes) in Tokyo. As soon as he made contact with Japanese visitors, he talked to them about Ichi's products on display. On these visits, Lars got the Japanese consumer's view of Ichi and that was also very positive. Lars understood that Ichi was a different type of company than the traditional Japanese ones. There seemed to be a strong innovative culture within Ichi but the philosophy was somewhat non-Japanese because the employees were not hierarchical, rather they were close and worked cooperatively.

There were however many more meetings before things started to really happen with Ichi. After the first 14-16 meetings, more and more people from Ichi began attending the meetings. From maybe eight to ten people in the first meetings to a room full of people in the last ones. There was a lot of laughter during these meetings. According to Lars, the Japanese laughed when they saw something interesting, and this was what happened when Beta showed their product. The Japanese drew their breath and started laughing like crazy and that happened all the time, which Lars took as a good signal.

When communicating the product (and company) benefits to Ichi in the first meetings, Beta had the advantage of having a product that was easy to demonstrate. The results could be presented immediately and visually in a direct way. Large screen-demonstrations for a large audience were possible and common. As for communication with the Japanese within Ichi in the beginning, Lars emphasized that Yukiko did a great job when she explained and instructed Lars as to when he should enter the discussions after a presentation. There was both a technical exchange with Ichi during the long process, and Yukiko worked on the relationship building. Then Yukiko called for Lars at the times in the process when she felt that he would contribute. In meetings with Japanese staff in the lower regions of the company hierarchy, Japanese was the primary language but higher up in the hierarchy;

English became more and more predominant. The presentations looked the same as if they were made it in Germany or the USA.

> "I tried to be sensitive to the situation and told the Japanese in the meeting room that if they felt like talking Japanese they should do just that. /…/ One thing I remember as important was that I started talking first after Yukiko said: "Now!" In this way I could get into the discussion at exactly the right level and timing." (Lars, CEO, Beta AB)

As for the levels of the contacts, Ichi had a separate subsidiary handling their handheld devices and Lars held discussions with the CEO. After the first meetings, Beta started to send products to Ichi and at the same time Yukiko visited them frequently in order to read between the lines as to what they wanted to have changed and what they liked. Lars did not worry that Ichi would steal their ideas. Quite the opposite, Japanese firms were very correct when it came to intellectual property rights and because they had been accused of copying so much from the West, they were scared to be blamed for this again.

Beta also had talks with a large US software firm but Beta was so scared that they would steal their technology, based on other stories they had heard, that this led nowhere. Lars heard from another firm that developed handwriting recognition software that they had stolen their product without giving them anything. When Lars approached the large US software firm with this, the responsible person at the US firm simply said that that company did not have their papers in order. This shocked Lars, and he wanted to keep a distance from that large US player. With the Japanese, Lars had not felt uncomfortable regarding the theft of intellectual property.

Kenji was to become a central person in closing the deal with Ichi. He had been living in the US for long periods of time and spoken fluent English. This made the other, more senior Ichi people rely on Kenji for judging foreign companies and technologies and he received more qualified assignments than you would assume from his formal position. In the end, he had the whole Japanese side of the negotiations in his hand. After a while, more senior people at Ichi started to ask him for advice. Therefore, Kenji could make decisions right at the table.

> "I pushed it a lot, personally. The way our organization worked was that a respected person could really act as a product champion. And in my case I had earned that respect through my international knowledge." (Kenji Software Product Planner, Hand-held planning group, responsible for third-party software, Ichi KK)

Kenji's group made several internal presentations arguing that Ichi needed handwriting recognition and that Beta was one of the options. The primary choices for Ichi KK were Beta and a Japanese software firm. This is typical for how new ideas and companies were brought into Ichi KK. The evaluation process of new software, in the fairly young division, was not very systematic. In the following three weeks other meetings at Ichi KK were held where engineers were included. Then Ichi KK asked Beta for a software demo on a PC. Non-disclosure agreements were signed at this time with Beta, but not letters of intent. The engineers needed specifications and to be convinced that the software would work.

A competing Japanese software firm that also produced handwriting recognition software could give a low price and it became hard for Kenji to convince the engineers the benefits of Beta's product compared to the Japanese firm. The engineers also saw language as a barrier when cooperating with Beta, compared to the Japanese software firm. However, from a technology and design standpoint the product planning group and Kenji liked Beta's solution better.

> "To have Yukiko-san there really helped – handwriting is to be honest a quite local issue and having a native Japanese on the team helped to convince some people inside Ichi." (Kenji Software Product Planner, Hand-held planning group, responsible for third-party software, Ichi KK)

To make Ichi KK trust Beta in spite of its small size and foreign origin was hard. However, Yukiko thought that the existence of Japanese staff within Beta did a lot to ease this situation. The evaluation of Beta was primarily based on their product, but there was also an evaluation on how much support they could provide. Ichi KK had to commit some engineering resources to see if Beta's software could be integrated. Therefore, after having reached a managerial consensus, engineering resources started to evaluate.

Many people at Ichi KK could use English in a business setting, but specifically at the engineer level, the (English) language skills were lower. Many Ichi-engineers were not comfortable with English. However, that was not anything that came up in discussion officially and because of the Beta presence in Japan, problems were avoided. The Beta presence in Japan came up in discussions early on. Ichi KK wanted to have an engineer based in Japan because of the problems with time difference between Europe and Japan and the question of language. Beta from the start also had staff in Japan and that was an important issue to their success.

After some rounds of scrutinizing the technical features, all engineers were satisfied, but the thing that really made the deal happen was that Kenji pushed it hard as a kind of "product champion" inside Ichi.

> "From a technology level we liked Beta, but from an engineering level there were objections to what kind of support this Swedish firm could give us. Here Beta's local presence became a crucial factor where a continuous daily contact could be maintained when closing the deal. This dedication made a difference." (Kenji Software Product Planner, Hand-held planning group, responsible for third-party software, Ichi KK)

February/March 2002
The Beta office at The Swedish Trade Council in the embassy was set up in 2002 during February/March as the first office in Japan. Approximately one year after Beta was founded; they got help from The Swedish Trade Council to market their software in Japan. The Business Support Office worked well and Beta had the option to buy extra consultancy help from The Swedish Trade Council. When Beta first talked with The Swedish Trade Council, they actually had their office in another place in Roppongi, a part of Tokyo, but moved to the embassy house when Beta established themselves in Japan.

"The Swedish Trade Council does not use that name in Japan but instead call themselves something like The Export Department at the Swedish Embassy. This was very useful for us. I mean, usually we have to go out to customers, but in Japan the customers were more than willing to come and visit us at the embassy!" (Yukiko, Account Manager Beta AB)

2002

Yukiko soon became the Beta representative in the small office in Tokyo, and remained there for some time before she was called back to continue work with the Japanese market from Sweden. In 2002, Yukiko spent almost two weeks in Japan and two weeks in Lund every month since it was so difficult to be stationed in Japan with her family.

Yukiko believed the participation in trade shows had been important for entering the Japanese market. The first trade show she went to with Beta was Comdex 2002. At that time, a Japanese journalist from a Japanese newspaper wrote about Beta in their web site article. Yukiko sent a link to this article to all her contacts in Japan, and this helped to create credibility among for Beta. Beta also had a booth at CEATEC in Japan, and this continued to successfully show their commitment to the Japanese market.

As for Beta's contact network in Sweden and Japan, the location in the science park in southern Sweden, was ideal because the company founders were researchers at a nearby major university and could get low rent for starting the first office. There always was a close connection to the founder's university with students writing undergrad dissertations often coming to Beta. Invest in Sweden Agency had sent many companies and journalists to visit Beta's headquarter, including Chinese TV, but this had not led to any real business, at least not in the short run. In Japan, Yukiko could meet many other Swedish company representatives that were in the same situation as Beta. At Beta's Swedish office, she met many technicians/academics, while in Japan she mostly met sales staff from other companies that could share experiences with her.

March 2002

While talks were on going with Ichi KK in 2002, the Japanese branch of a major US electronics manufacturer became the first customer for Beta on the actual Japanese market. Users of the US firm's PDA could install Beta's software from an additional CD-ROM sold in a bundle with a keyboard. At that time, the major operative systems for PDAs were Palm and Pocket PC and they had built-in handwriting recognition. The US firm already had the handwriting recognition based on Pocket PC but did not find it good enough.

There was a marketing campaign launched where the US firm's PDA with keyboard and Beta's software were marketed together as a bundle. When this campaign started, Beta and the US firm had a press conference together and a conference at the Swedish Embassy. Using the Swedish Embassy for this worked very well. The normal case was to visit customers to sell products, but in Japan, the customers wanted to come to visit Beta instead. The Beta office on the Swedish Embassy premises added a prestigious flavor to the company.

2002

As for resources spent on Japan in this phase when negotiating with Ichi, it took about 80% of the company's resources. It was Lars and 4-5 people that worked a lot of the time on acquiring contacts in Japan and Yukiko worked full time in the Japanese market. During the negotiations, several engineers came over to Japan as backup in the vent that the discussions became involved in technical details. As for resources during the late negotiations, Beta had the product well developed so everything worked out smoothly.

December 2002

Discussing Japanese assessment of information on Beta as a company, this came in very late in the negotiations. First, at the end of December, Lars was called to a separate meeting with the group controller who was a very high manager, and this person was much more interested in Lars as a person than in Beta's finances. He made Lars feel that if he did not deliver, he should go home and commit hara-kiri (Japanese traditional suicide with sword).

Therefore, after Yukiko had been dealing with Ichi for this long period, and almost all the details had been worked out, she asked Lars to come back to Japan for the closing of the deal. Therefore, Lars came over almost four weeks before Christmas 2002. Lars came over in November and one then two then three weeks passed and the person in charge at Ichi said that they had become stuck in some bureaucracy which led to the delays. However, Lars wanted to get home to Sweden to celebrate Christmas. Therefore, when Lars was out drinking with the responsible representative at Ichi on December 16 he said that he would not go back to Sweden before he had signed the deal but that he really wanted to get back before Christmas Eve to celebrate Christmas with his family. Lars compared Christmas with some other important celebration days in Japan and at this point, the Japanese representative shook Lars' hand and promised that this would be done before Christmas. On December 19, both parties signed the deal.

The official press release between Beta and Ichi KK was to be delayed because a new generation of the main PDA was to be launched 2003. Therefore, the team waited a little until the more powerful platform was in place. Meanwhile engineering was involved in more evaluations and improvements.

May 2003

In May of 2003, Beta's largest deal so far was announced to the public by publicizing that Ichi KK had decided to license the software and use it in their main PDA. Beta felt that it was pretty amazing that a Swedish SME managed to sell handwriting recognition software to the Japanese in Japan and the Japanese side was equally surprised.

Lars came back to the importance of previous personal history as a key factor in business relationships. If Lars did not know a person from before he followed his gut feeling and first impressions. If it was intuition or a feeling or whatever Lars did not know, but it had to be there, and it could be created in an instant. He followed this feeling in small things like employing individual people and bigger things like major business decisions. If the feeling was not there then the result was always lower. Lars also found trust as something that is hard to repair. Lars, he could have trust for an organization but it was the result of having trust in one or several persons within that organization. Lars learnt that if the other party has no personal history with you, then you can only try to be yourself and remove all filters so

that the person sees you for what you are because this is important when dealing with the Japanese.

Lars learned that trust had been built with Ichi when one of the Ichi managers sent Lars an email with a question totally unrelated to the Beta deal. Lars first thought that the Japanese had sent the email by mistake. He replied that there must be a mistake because Lars is working with handwriting. However, he got the answer back that, no, it was right and the Japanese wanted a second opinion on the issue from Lars. The issue concerned strategies for some of Ichi's products in Europe that was part of a substantially large deal. At that point, Lars felt that he and Beta were inside the walls. He then felt that they had full trust in him and in Beta.

To conclude, what finally made Ichi KK choose Beta as a supplier was the friendly and passionate people from Beta, the good technology, composed of visual appeal and a quality user interface, and their local presence in Japan. The performance by the Swedish manager and Japanese speaking Yukiko at the first presentation was also an important initial signal. On Ichi top-management's impression of Beta, Beta quickly got a good response from Japanese customers, even if many company representatives were surprised that a small Swedish company had developed such an advanced solution.

6.1.2.4 III. Execution phase

2003
There was at this time a clear pressure from Japanese customers, including Ichi KK for Beta to have contact points on site in Japan. From 2003 on, Beta managed to send two of their staff that could speak Japanese for three to four months at a time. Yukiko also moved to Japan with her family for seven months beginning in September of 2003. Management in Sweden wanted to have people on site that were able to speak with home base without friction. This was in line with the advice from the Swedish Trade Council.

> "It's important that the Swedish firm's local Swedish person in charge or Japanese manager has the right abilities to be able to communicate feedback to Sweden. This person must communicate accurate information from what is happening in Japan ASAP to Sweden. When we help out with the recruiting in Japan this is what we look for." *(Yamaguchi, Senior Project Leader, The Swedish Trade Council in Tokyo)*

That Beta would have a presence in Japan through the business support office in the Swedish Embassy was something that Beta showed from the start. Ichi also said from the start that this was a condition for the deal to happen. Later it became clear to Beta that they could handle most of the actual operation from Sweden.

> "It was much more important to have that local address and the telephone number, than to really be there all the time." (Lars, CEO, Beta AB)

Regarding communication and presence, Beta felt a pressure to answer emails more or less 24 hours a day so they had to be in place and reply as soon as possible. The Swedish

technicians had to learn two important things when dealing with the Japanese counterparts: first, how to keep deadlines, and second, how to answer emails directly and swiftly. Before Beta learned this, the Swedish side could received a question from Japan that required some time to answer and the Swedish side would take time for research and come back with extensive feedback later. The Japanese side was used to short but immediate feedback even if that feedback did not include complete answers. The more complete feedback could be sent later. Sometimes such misperception of the necessary timing caused problems.

> "You did not have to have the exact answers directly, but you had to respond fast. A short answer was enough and then one could discuss more deeply and come back to customers. But to neglect answering fast, got the customers really frustrated. There were many occasions where customers got nervous because of this." (Yukiko, Account Manager, Beta AB)

Pragmatic discussions on how to increase trust in the relations with the Japanese customers were held among the key persons in Beta that were dealing with Japan. Active listening was a term often used. First of all, Beta had good products which built a foundation. Yukiko drilled the staff on how important it is in Japan to keep deadlines and not promise more than you can deliver. So Beta was extremely careful in this regard and if they had some problems that would delay the proceedings, Beta brought this to the table immediately and involved Ichi in the problem-solving. Seen from the Swedish side, this worked because Ichi took on this responsibility of being involved and worked to help Beta. After a while, Beta's people stopped thinking of Ichi as the big conglomerate it was and treated it as any other customer they were working with.

Kenji had the opportunity to visit Beta in Sweden after the contract was signed with some managers and engineers. This visit was not a part of the evaluation. The representatives at Beta were kind and perceived as maybe a little shy. Ichi's culture was very creative and engineering was not everything. The product had to be fun and appealing as well as technologically smart. Ichi's culture was different from most other large Japanese electronics firms.

As for communication between Yukiko and the headquarters in Sweden and Ichi KK, emails and personal visits were most frequently used. According to Kenji, the main communication channels between Beta and Ichi was emailing and telephone conferencing.

Seen in retrospect, the decision to choose this small Scandinavian company by Ichi was brave. If Beta had not had a fairly complete product that you could see and work well with the Japanese language, they would not have been chosen. That Yukiko was present really created value. Beta also mentioned that they had another large US PDA-manufacturer as a customer, which also helped in building trust with Ichi KK. Compared to the first customer in Japan, the deal with Ichi was typical to how it works in Japan, with long time periods of relationship building, testing and so on.

As for other actors helping Beta in Japan, The Swedish Trade Council only arranged the meetings in the beginning and later Beta did not use their services anymore. Thanks to Yukiko, Beta could handle things in Japan on their own without any support from other consultants or Swedish companies in Japan.

June, 2003
June 17, 2003 was the official launch for the Beta product incorporated into Ichi's PDA. The OEM-development work with Ichi's PDAs might have seemed long, but was considered relatively normal for this kind of complex software integration. When the contract with Ichi was signed, Beta was then invited to other parts and subsidiaries of Ichi to show their products. For example, in the video camera division, Ichi's video cameras also had pressure sensitive screens so possibly the technology could be merged into that product. After the deal, Beta became part of the Ichi family.

December 2002 – September 2003
In the end of December of 2002, when the last negotiations were settled and the actual deal eventually was signed with Ichi KK, Lars met a lot of senior Ichi representatives in Japan. In the meeting with the group controller, Lars explained that Beta had planned three financing rounds and that they had one left and now was just out with the prospect. After mentioning this, he asked the controller if maybe Ichi KK would be interested in investing. The controller's assistant said "How interesting!", but then Lars did not hear anything more about this until January of the next year in 2003 when Ichi Venture Capital Europe (VCE) called Lars and showed interest. They said that they had got information from Ichi HQ in Japan that Beta was interested in financing.

Then people from Ichi Venture Capital (VC) Europe came over to Sweden and at the second meeting they also had a technical PhD from Germany that looked at the technological details. The conclusions from these meetings were that they might be interested. After this, a long process of examinations followed until September of 2003. It was a due diligence as though Beta was a billion dollar company and it consumed so much time for the Beta staff that it almost broke them down. Lars regretted many times over, that he had asked Ichi in Japan if they might be interested in investing in Beta. This process was separate from the deal in Japan. Ichi Venture Capital Europe only invested in what was strategically important and relevant for Ichi so it was not a traditional venture capitalist firm. Ichi Venture Capital Europe had previously purchased a share of a large PDA manufacturer, and Lars of course saw the connection between these investments. Beta was also strategically important for Ichi.

September 2003
In September 2003, Ichi KK VC Europe invested capital in Beta. With this investment, Ichi VC Europe gained such a significant share that they could prevent takeovers of Beta by other large players. The motives for Ichi VC Europe for this investment was because Beta's handwriting recognition software was seen as among the best in the world and the relationship was to be strengthened so that Beta's software was to become available in more and more products from Ichi KK. Ichi was, however, not actively involved in the management of Beta.

As for Ichi's venture capital investments in Beta, Kenji was involved in this decision as well. This VC branch of Ichi KK was supposed to invest in technology that made strategic sense for Ichi and it was never simply a matter of financial profit. Established in 2000, Ichi KK VC Europe was the venture capital arm of Ichi KK Europe, and a wholly-owned subsidiary of Ichi KK. Ichi KK VC Europe aimed to strengthen Ichi's technological products and

services, mainly by forming partnerships with promising start-up companies in emerging wireless and broadband technologies, services and applications.

The VC people were somewhat disconnected from the product planning people and it did not work smoothly and Ichi KK Venture Capital does not exist anymore. Ichi KK VC was separated into a US and a European branch. When Ichi KK VC Europe invested in Beta, they acted on their own will and did a due diligence on Beta in normal order for a VC-firm. In September of 2003, the announcement of the investment was made, but the investment and the deal in Japan were separate processes. There could potentially be more products in the Ichi product portfolio that could need handwriting recognition so the investment made sense, but it was not a clear strategy to first check out the technology provided by Beta and then invest. It happened in a parallel fashion and organizational-wise, it was separate. Ichi also invested in the largest US PDA-firm, which was a decision from the product group as a strategic investment. However, the Beta-investment was not strategic in that sense. It was, however, clear that the timing and size of the investment was coordinated so that Ichi would have a seat on the Beta board of directors and know when an acquisition offer by competitors would be made on Beta. The thought was that Ichi would, in that situation, have the choice of acquiring Beta first by right of first refusal.

When this Ichi VC Europe investment was closed, Lars felt that he had accomplished what he said he would with Beta. Therefore, he started looking for another CEO to take over the company.

2004
In the beginning of 2004, Ichi had released four PDA models in Japan, five models in the US and three in Europe with Beta's software pre-installed.

Many software developers from abroad contacted the PDA-division, and the work with Beta was relatively characteristic in terms of time: About three months to introduce the technology/company; about three months for evaluation; and some extra months to work out details and convince internally for a decision. In total the process took about 12-16 months.

Regarding the status of the deal in 2004, the Ichi KK PDA operations was performing badly and Ichi was pulling out the PDA Beta worked on from the US and European markets. In Japan, the evolution seemed to be going towards customer's use of their thumbs to enter characters. Handwriting recognition had gone from being the only method to input text, to become one of them. Further cooperation between Ichi KK and Beta was possible because Beta would always have devices with many ways of entering text. Industry prognosticators had suggested that consumers were interested in pressure sensitive screens but this did not become a reality. For example, one industry prognosticator had given the prognosis that 25% of all mobile phones would have pressure sensitive screens, and that was not the reality yet. Both in China and Japan young people were using their thumbs to enter text fast.

Later in 2004, after Lars had left Beta, he read the Financial Times and was startled to find that Ichi announced they would close down their entire hand-held division and stop producing PDAs. Lars knew that 75% of sales for Beta for the coming two years was based on prognoses from Ichi and those prognoses were very positive for Beta's part. He called the

new CEO of Beta directly when he landed in Budapest and she said that they had received the same information by mail the previous day and they were shocked. This was traumatizing for Beta and they had to find new ways and new clients which they had been doing to some extent. For many, Japanese Beta has become synonymous with good character recognition software. Beta continued to slowly do business in Japan with other customers coming.

In any case, Ichi KK became Beta's largest customer so far, and the Japanese market is still important for Beta in terms of sales. After Ichi decided to license Beta's software, similar licensing agreements were extended from Asia to Europe and the US. A recent customer was one of the largest mobile phone operators and manufacturers in Japan for their wireless PDA.

6.2 Case analysis

6.2.1 I. Preparation phase

The trustee in this case was Beta Software Solutions AB. Much of the contacts with Japan and Ichi KK were handled by the CEO, Lars, and the account manager, Yukiko. Lars had a strong entrepreneurial background in international settings. He had, during his career, already managed contacts with Japanese firms when he built a network of license takers in a previous company. Yukiko, a Japanese woman married and living in Sweden, was standing with one foot in Japanese and one foot in Swedish culture and language and managed to gradually teach the managers of Beta about what was appropriate and not in Japanese business relations. Lars had recruited staff to Beta that was interested and skilled in international contacts.

The strategy of Beta did not include internationalization into Japan from the very start but this gradually occurred. Japan was to be used as a launch pad for further internationalization according to the CEOs "cascade model". This strategy also worked when the first international customer became a larger Japanese electronics manufacturer through whom Beta could approach the US and European markets. This choice of strategy, looking East instead of West, was made in part after discussions with potential buyers of handwriting recognition software as well as the CEOs discussions with another SME in the region that had succeeded in Japan. The early positive feedback from the Japanese market was also a factor. Lars asked for and got support from his staff during his inquiries on whether or not Ichi seems to be a valuable partner to pursue in Japan. The management intention of entering Japan was in this phase taking form and at the end of this phase outspoken. The first deal with a Japanese firm gave Beta valuable experiences with the Japanese industry. The deal itself was closed relatively fast with a license agreement signed within one week from Beta's first visit to the Japanese partner's office in Tokyo.

The trustor we follow in this case was Ichi KK. As one of Japan's largest consumer electronics manufacturers, Ichi KK had the resources and experiences to handle contacts with foreign suppliers. Ichi KK was investigating was to update their handwriting recognition software for the Japanese market, but was not in a rush. There was an on-going scan of possible third-party software suppliers that could help Ichi in this endeavor.

An early trust-facilitator for Beta, in Japan, was The Swedish Trade Council. Beta asked The Swedish Trade Council to arrange a road show where Beta could present their solutions on site in Japan to a selected number of 25 Japanese companies. The CEO of Beta was pleased with this two week road show and felt that The Swedish Trade Council's was trusted among top-level Japanese companies which made them an important intermediary. The Swedish Trade Council gave Beta access to high-level management in the Japanese firms that would have been hard to reach without help from a trust-facilitator. The attention The Swedish Trade Council gave Beta at this and during later phases (e.g. giving them the opportunity to rent office space inside the embassy premises) indicates their interest in helping Beta. In this phase, the routes connecting Beta to actors on the Japanese market were under construction. This resulted in triadic routes with The Swedish Trade Council in Japan and the potential suitable Japanese business partners. Beta's first customer in Japan also opened doors for

further business and gave Beta valuable experience in conducting business in Japan. Presence at tradeshows was used as well, and this proved to be the place where Ichi and Beta first connected. At this early stage, the initial meeting with Ichi, after the first contacts at the trade show, involved PowerPoint-presentations on site at Ichi by Beta's managers with a talk in English and screenshots of the prototype. Questions asked were mostly on the product and not on the company per se.

The Japanese candidates that Beta met on the road show already trusted The Swedish Trade Council to introduce interesting Swedish firms and technologies. As for trust-building, the response from other Japanese firms after Beta's first deal with a Japanese smaller electronics manufacturer in May 2001 was fast and suddenly Beta's technology was proven by an incumbent player on the Japanese market and following business candidates lowered their otherwise rigorous testing of the product to a minimum. This deal with a Japanese smaller electronics manufacturer was also closed relatively fast with a license agreement within one week from Beta's first visit to their office in Tokyo.

6.2.2 II. Negotiation phase

In this phase, the trustee Beta continued to convince Ichi KK of the value of the deal. After the initial contacts with Ichi turned out positive, Lars dedicated much of Beta's resources towards Japan. His two months of networking and information gathering trip shows the increase in interest of entering Japan from Beta's side. This decision was influenced by the previous experiences by another Swedish entrepreneur that had built up a successful business in Japan. In Japan, Lars continuously learned more about Japanese negotiations from a Danish consultant on site in Tokyo. In February/March of 2002, Beta set up a permanent office in The Swedish Trade Council's premises in Tokyo thereby indicating their interest in the Japanese market. Yukiko spent at least 50% of her time on site in Japan. In total ~80% of Beta's marketing resources were concentrated on the Japanese market (Lars, Yukiko and 4-5 persons).

Ichi, the trustor, responded by engaging in serious negotiations. The contacts with Beta gradually became a larger part of the software product planner Kenji's responsibilities. Kenji grew up in Japan and the US, could speak English well and had the basic understanding of non-Japanese customs and business practices. On the other hand, he had to struggle with the internal promotion of Beta inside Ichi and there are indications that the engineers inside Ichi felt uncomfortable with dealing with a smaller foreign firm. After the initial talks, the managerial consensus was to give Beta a chance and the engineers started to work on the project.

As for the role of trust-facilitators, at this stage The Swedish Trade Council did not directly continue to act as Beta's trust-facilitator. Their only involvement was having Beta as tenants in their business support office located in the Swedish Embassy. However, Beta commented on how important it was to hold press conferences at the Swedish Embassy premises and in this way, the Japanese customers actually came to visit them instead of Beta chasing them around Tokyo to arrange meetings. It was not the case that The Swedish Trade Council's skills had decreased, but Beta had simply moved on to take more responsibility themselves. Lars' initial guides in Japan included Yukiko and the Swedish entrepreneur who could introduce Lars to business and social settings that would have been closed otherwise. At this

stage, Kenji gradually rose as Beta's most important door-opener inside Ichi. With his knowledge of English and foreign customs he had a far more powerful position than his rank indicated. In the negotiations, senior Ichi members consulted Kenji and with his help, decisions could be made more quickly. Kenji also actively promoted Beta's solutions internally in Ichi over the competing Japanese products. In this way, Kenji acted as the door-opener for Beta inside Ichi by pushing Beta's solutions. Another trust-facilitator was found in a professor, who specialized in handwriting recognition, and invited Lars and Yukiko to an inner circle of experts.

From the first meetings in the negotiations to the last, resources from Ichi's side increased when key individuals from Sweden were involved directly in Japan. The triad of Beta-The Swedish Trade Council-Ichi had been replaced by a dyad between Beta-Ichi. Marketing staff as well as engineers went to Japan to communicate directly with Ichi on site. The media in the communication remained rich with top management from Beta, led by Lars and Yukiko who were meeting large numbers of Ichi staff face-to-face. The benefits of selling a highly visual product to the Japanese were perceived, by Lars, as strength because graphic schemes could be used to transcend differences in vocabulary. Yukiko taught sensitivity and timing and she gave the CEO Lars instructions on the appropriate instances during the meetings when he should come in and make a point in English. Japanese was the predominant language in the lower regions in the company hierarchy, while English was the primary language higher up. The discussion was partly made on the CEO level between Lars and the Japanese CEO of the handheld division at Ichi. It was seen as important to let the Japanese counterparts discuss issues in their native language in peace.

Beta continued to use richer media in the communication from both the CEO and Yukiko who were spending time in Japan. Trade shows continued to be used to communicate Beta's products and intentions with the Japanese market, as well as establishing good relations with Japanese journalists. Press and media were visiting the Beta HQ in Sweden, partly because Invest in Sweden promoted Beta as a successful Swedish high-tech SME in Japan. These media contacts rarely led to any tangible business. In one episode, Lars explains how he made several visits to the Ichi showcase for new products with the purpose of interacting directly with customers and to get a better feeling for Ichi as a company. These visits indicate the tacit knowledge involved and much of this information would not have been accessible through forms that are more explicit. Fairly soon, Beta also started to send product demos to Ichi, with Yukiko paying them visits in order to read between the lines about what they liked and disliked. This was a way of understanding whether Beta had really communicated the right things and that Ichi understood this communication.

When the Japanese side explained what made them choose Beta they brought up the performance of Lars and Yukiko on the first presentation, the friendly and passionate people, good technology including visual appeal, and Beta's local presence in Japan. Technology was seen as only one ingredient in this cocktail. The feeling of prestige that leaked over on Beta from the address in the Swedish Embassy and approval of The Swedish Trade Council and Invest in Sweden Agency was also considered valuable for increased perceived trustworthiness of Beta. In the final stages of the negotiations, Lars was called up to a high official of Ichi who really scrutinized him as a person. This encounter made Lars feel the personal responsibility for the project and its success. In this phase, Lars and Beta

had achieved a constant increase in perceived trustworthiness. This was indicated by the episode where an Ichi official asks Lars' advice about a matter not related to the Beta-Ichi business negotiations.

The trust-building was linked to the performance of Lars and Yukiko at the first presentation and to the Japanese engineers' positive view on the Swedish technology and Beta's competence to deliver. The Ichi engineers brought up potential language difficulties as well as a higher price, lack of support, and the risks with Beta's small size, and Kenji and his group had to struggle to convince the Ichi engineers to accept Beta. The Japanese staff inside Beta, including Yukiko, represented a way for the firm to gain experiences and create knowledge that could be used in the communication with Ichi. Parallel with the technical exchange between Beta and Ichi, there was a relationship building process that Yukiko was orchestrating. It was apparently not enough to convince Ichi solely with technical arguments.

6.2.3 III. Execution phase

In this phase, Japanese speaking staff from Sweden was sent over for three to four months each and Yukiko moved over to Japan with her family during a seven month time span. This was in response to pressure from Ichi, who wanted to have Beta present in Japan. In this way, the resources of trustee Beta were additionally increased. The trustor Ichi continued to increase involvement in the deal and in this phase Kenji and a few managers and engineers also paid Beta a visit in Sweden. This showed a continued interest during the Execution phase. In this phase, the need for a trust-facilitator was limited and only Kenji continued to act as Beta's door-opener inside Ichi.

The dyadic route between Beta and Ichi remained during the Execution phase. Mostly rich media, in the form of staff on site in Japan, was used. However, Beta managed gradually to handle the demands from Ichi to have staff based full-time in Japan and could let people return to Sweden without losing their connection with Ichi. It proved more important to have the address and telephone number of the business support office in the Swedish embassy of Tokyo, than to really be there with staff. Respondents in Beta also commented on the need to be accessible 24 hours a day via email or phone. The answers did not have to be exactly right, but replies had to come fast. Beta had the ambition to answers emails from Japan practically around the clock. During this phase, Beta, especially Beta's engineers, learned that fast exchange of messages and great respect for deadlines were important factors when building trust.

Both explicit and tacit knowledge was indicated with personal visits and transfers of documents in parallel. The personality of Yukiko was perceived as important by Ichi in developing the business relationship with this unknown Scandinavian firm. Perceived trustworthiness was increasing as in previous phases. Gradual trust-building continued throughout the phase with personal visits and other communication interactions between the parties.

7 Company Case 3: Gamma Hotspots AB

7.1 Case description

7.1.1 Company background

Gamma was founded in 2001 by six people, all with extensive international management and IT experience. In September 2003, after nine months of negotiations, Gamma signed an exclusive agreement with Futatsu & Co in Japan for distribution of Gamma's software solutions. In February 2003, Gamma announced a new version of its middleware platform for Wireless Local Area Network (WLAN) at a large IT-trade show in France. WLAN is the linking of two or more computers without using wires. A common use is to connect portable devices such as laptops to the Internet. To do this a WLAN utilizes radio waves to enable communication between devices in a limited area.

In 2004, Gamma's software platform won a Swedish major award for new products. In the same week, the Swedish Trade Council recognized Gamma's achievements in exporting Swedish Technology by awarding the company the Swedish Trade Council's Marketing Prize. The award was devised in order to promote Swedish product development and to acknowledge Swedish companies and individuals who advance the IT industry in Sweden.

Gamma's vision was seamless mobility regardless of location, time and device with the goal of increasing the productivity of workforces that previously had not been using ICT-tools. Gamma strived to be a leading provider of wireless solutions to Wireless Internet Service Providers (WISP) also known as wireless "hotspot" providers. "Hotspots" are venues that offer WLAN access. In the company vision there was an idea that usability of ICT-tools came from simplicity and multiple usage of the same device through context-aware software. The same type of hardware can transform into several tools depending on the context in which it was used. Gamma's software could be able to deliver up-to-date information to customers, colleagues or visitors on their personal mobile devices, whether it was a multimedia city map, a work database or a software update.

Initially, Gamma's management believed that enterprise deployments would drive sales of devices and usage of application provisioning. When devices are readily available to mainstream customers, the networks would open up for widespread public use. The networks themselves would be high-bandwidth local area networks owned by the venues in which they were installed.

The core technology in Gamma's offering was a server that enabled hotspot network operators to automatically present and distribute complex applications to various wireless devices (smart phones, PDAs, laptops and pen tablets) and via different kinds of networks (WLAN, Bluetooth, GPRS). The device was detected when it entered a wireless network and the end-user was presented with applications that were available within the network. By

selecting an application, it was automatically downloaded, installed and executed locally on the wireless device. Features of the software included automatic device detection, service discovery, application installation, as well as automatic un-installation and discard of applications when leaving network coverage. The software was actually not dependent on the WLAN-technology because other standard wireless networks could be a part of the solution. The software was based on standardized modules programmed in JAVA, with as few proprietary components as possible.

This product was riding on a current trend of widespread rollout of WLAN hotspot networks by new types of actors previously not engaged in Internet access provisioning. One such type of new actor was the real estate owners (airports, train stations, hotels, conference centers, airports, subway/railway systems, healthcare facilities). One common traditional business model for these hotspots was provisioning of Internet access to mobile workers for a fee.

Gamma was positioning themselves as the providers of WLAN application provisioning software to these new hotspot operators. However, Gamma targeted the facility workers rather than the passing passengers or guest. In this way, the hotspot became a "workspot" and the WLAN-network was used as a tool in operations such as maintenance. The benefits of a wireless solution, compared to what was in use (at best) previously, were first flexibility because it removed the need for time-consuming manual synchronization using cradles or infrared communication. Second, the positioning of segmented wireless deployments into zones and providing proximity-triggered applications based on geographic locations and user profiles. Gamma used WLAN that could handle XYZ positioning within a two meter accuracy. Third, complementing existing "online-only" web-based solutions with interactive stand-alone applications that could be used both online and offline.

The term application provisioning was describing the need to automatically install applications on handheld devices used on the move. The dimension of a physical location was central to Gamma's solutions for distributing these applications because some applications may be exclusively provided only in certain areas. Application provisioning could be defined as the method by which applications and services are made available to the user. This included download, installation, configuration, execution, termination and deletion of the services and associated software from the wireless device. The goal was to perform these actions without unnecessary user interaction.

There were basically three types of revenue streams. First, directly from the customer as was the case for two larger train-operators in Sweden. Gamma's revenues came mainly from this type of system deployment at a location. For example, in the Japanese market, revenue would begin at 240, 000 SEK (JPY 3.5 million) for a standard trial. The second revenue stream came through a system integrator who then approached the customers. Gamma's relations to ICT-consultancy firms were of this type. Roughly 50% of the revenue share then went to the system integrator. Third, Gamma went through an agent or wholesaler who in turn approached system integrators, leading to end customers. This was the case with Futatsu & Co in Japan. In this third example, around 50% of revenue went to the middle hands (20% to agent and 30% to the system integrator).

There were two general customer types. First, there were location owners using telecom data services like GPRS as a tool for their staff and who wanted to mix this with WLAN. The second customer type was location owners having a WLAN network, but having a difficult time figuring out how to make it more useful. The sales were only business-to-business and 80% of sales came from customers in transportation (ground, air, and railway). Some of these customers included one of the world's largest US chip manufacturers, a French communication firm involved with the airplane industry, two major French train operators, two major Swedish train operators, a university in Switzerland, a French major Telecom operator, and two Swedish trade show organizers. In Sweden, the two train operators were the most important customers. The focus on transportation had been a strategic choice and because of that the players in this industry had been first to implement mobile technology for their staff. There had been trends to push people previously behind desks out for work in the field of maintenance. The drawback had been long selling cycles. There were competitors working on the US market, but not in Europe.

The internationalization strategy was described as aggressive and with many good reasons. First, the founder team was international and had a wide international contact network from previous employment. The managers also had a personal willingness to maintain these international contacts. Second, a focus on the transportation industry implied an international scope from the start. In this industry, there were a few large actors that were all working internationally. The founders of Gamma chose to start in Sweden because of the market's ability to adapt quickly to the usage of new wireless products and services. Stockholm also had a good public transportation network relative to the US, which went for all of Europe. Office facilities were also considered cheap.

Gamma needed to team up with other IT-companies to develop and integrate Gamma's solutions into "workspots". The companies Gamma considered as partners were a row of large multinational communication equipment manufacturers who also acted as system integrators. These system integrators had been important for Gamma to this date and through these partners, Gamma reached customers that otherwise could have been hard to approach.

In 2004, Gamma employed 17 people in total with nine of these being engineers. The management was a mix of people educated in business and administration in the US and Swedish engineers. The management of Gamma was made up of a multi-national team of people with previous experiences in international business from various high-tech fields. Two of these had MBAs from top US universities and they had teamed up with computer engineers. Gamma had also formed a supporting advisory board and attracted senior executives from large Finish and US Telecom equipment manufacturers as well as academics from a well-renowned US business school. Gamma had established contact with three kinds of professional advisers including individual professors that had been contacted to help in solving some specific business problem, an advisory board of people to deal with general issues and consultants involved in current operations. As of 2004, two consultants were employed.

As for product development, Gamma had a resource-sharing agreement with one of the largest technical universities in Sweden and had access to some of its laboratories and facilities. Gamma had also joined some partner programs through which pre-

commercialization and pilot testing was done. Gamma had been granted several patents worldwide.

Gamma had raised a total of €3.5M through financing by 2004. The total amount of this money was raised outside Sweden (France and Switzerland), and in 2004 after the first financing round, Gama was owned 50% by the investing venture capitalist and 50% by the founders. Gamma projected breaking even for 2004 and a new financing round aiming at 50 MSEK was under way. This new money would be used for more aggressive internationalization. Gamma found the Swedish VC market immature and risk averse. Gamma did not get the impression that the (US) management competency of the company leadership weighed heavy in talks with the Swedish VC, nor did Gamma feel that the fact they had won prizes in several business idea contests impressed the Swedish VC.

Indirect financers were the startup office providers in whose facilities Gamma had put up the office as well as generally entrepreneurial activity supporting organizations.

7.1.2 Entering Japan and closing the deal with Futatsu & CO

7.1.2.1 Introduction

In the text below, I will concentrate on the process of Gamma entering the Japanese market and particularly the deal with one of Japan's largest trading house (Jap. *sogo shosha*), Futatsu & CO. The resulting negotiations with Futatsu & CO led to an agent contract where Futatsu & CO acted as a wholesaler that approached various Japanese system integrators. The deal became a first step for Gamma into the Asian markets and Japan. The narrative and analysis is grounded in interviews with Pierre, in 2004, the vice president and head of sales and marketing within Gamma, Otsuka, the initial contact for Gamma within Futatsu & CO, and Uetake, the manager that took over the contacts with Gamma after Otsuka received new assignments within Futatsu & CO. All these individuals have been involved with the deal and were able to give accounts beginning with activities at the first meetings and continuing throughout the process.

Pierre, VP Sales & Marketing, Gamma AB, before co-founding Gamma, was the COO of a French technology start-up where he managed product development, worldwide sales and marketing. From this assignment he obtained internationalization experience from markets in Europe, the US and Asia. He also had worked as a consultant for several companies in the Wireless arena in Sweden. Pierre holds an MBA from Harvard Business School. He is of French origin and does not speak Swedish.

Both *Otsuka* and *Uetake* worked as *managers* in the *Global IT Business Division within Futatsu & CO*. As for Otsuka's experience with foreign companies, he had traded with UK, USA, China and several other countries all over the world. However, Gamma became his first experience with a Swedish firm. Uetake had been based abroad shortly as trainee 18 months to New York.

A brief introduction to Japanese trading houses in general and to Futatsu & CO is necessary. Approximately 100 years ago, the Japanese trading companies worked in import and export to provide the island nation of Japan with goods. These *sogo shosha* imported cheap raw materials and sold them on the home market. This trading business was gradually complemented with enhancement of the value through construction of products, which were sold in Japan as well as exported back overseas. In this way, a two-way profit was gained, and there seemed to be no limit with the kind of items or resources that a *sogo shosha* could trade. Today, these functions have also been complemented with large financial institutions within the corporations. In this way, *sogo shosha* can better be described as industrial combines composed of large networks of companies. Futatsu has interests in cement, petrochemicals, commerce, construction, energy, engineering, finance and insurance, food, machinery, mining, metals, real estate and shipping.

As for Futatsu & CO, it is a descendent of an even older family-controlled financial and commercial organization. The firm started in the late 17th century when a son of a sake brewer opened two textile shops in Kyoto and Edo (now Tokyo). As the shops began to prosper, the family diversified its services into money lending and other financial services and became the largest Japanese merchant house of the Tokugawa period (1603-1867). In

the late 1800s, Futatsu became the bank of the Meiji government. The Meiji regime was pushing Japan towards rapid industrialization. The original firm later moved into paper, textiles and machinery, and formally created the bank and the international trading company Futatsu & CO in 1876. After WWII, Futatsu & CO was split into more than 180 separate companies by US forces. In the 1950s, the former entities of Futatsu started to reorganize through informal agreements between company leaders, through financial interdependence and other cooperation. Even if Futatsu's & CO in 2000 had revenues of 118 billion USD, only around 10,300 people were employed which is similar to other *sogo shosha*. In 2000, Futatsu then had 549 consolidated subsidiaries, 282 in Japan and 267 abroad.

The IT Business Division and Information Business Unit, to which Otsuka and Uetake were tied, imported IT and sold it to other companies within the group and to companies outside the group. Usually a division was tied to one large corporation in each major industry (automotive, steel, mobile network operators etc). Hardware was the main part because the division has its history in the mechanic industry. In the *sogo shosha* tradition, a normal business for this division would have been to create a larger IT-company (e.g. computer manufacturer), lead it to an IPO, and then sell. This resembled the function of a venture capitalist. The difference from, at least basic forms of venture capitalism, was that Futatsu always was deeply involved in the business of the startup. Inside Futatsu & CO, there were actually also four venture capitalist firms. They were used if the idea, technology or purpose was too far away from the core of Futatsu, or simply too risky then a special subsidiary funded by these venture capitalists was set up.

The Information Business Unit was started in 1984 when privatizations of the Japanese Telecom industry led the *sogo shosha* managers to believe that IT and especially Telecom would become a large business. Its major clients were the Japanese Telecom carriers, which were to a large extent owned by power and electricity companies. Almost all investments were related to the relations between top management at Futatsu and power and electricity companies. The unit was concentrating locally on the Japanese market and introduced new business models and technologies from abroad, mostly from the USA and Israel, to these Japanese Telecom carriers.

7.1.2.2 I. Preparation phase

Before November 2002
Although Europe was the primary market for Gamma, an expansion towards Asia was highly interesting. In Asia, the potential markets were graded in order, with the first being Japan, second Korea, and third Singapore. This order was based on the availability of deployed WLAN networks and the level of transportation infrastructure. Japan came first because of a high willingness to pay for good services. Entering the Japanese market was also seen as a test for the solutions and if Gamma managed to succeed in Japan, the most advanced market for wireless services, the products should be able to succeed anywhere in the world.

In Japan, traditional telecommunication operators and a new generation of wireless operators were rapidly deploying local broadband networks in public access zones such as subway/railway stations, hotels, coffee shops and airports. The total number of hotspots in

Asia had already risen above the European level. As the number of public hotspots continued to increase, hundreds of companies were simultaneously deploying internal networks for their own workforces in so called "workspot" access zones as they were labeled by Gamma.

Gamma was in especially close contact with two public-sector organizations; The Swedish Trade Council and Invest in Sweden Agency (ISA). Both are partially funded by tax money, however, Gamma was at times put in a position where The Swedish Trade Council acted more as a consultancy, with fees in exchange for their services, than a direct support from the Swedish government to smaller companies.

> "It was actually terrible. These organizations are financed by tax money and still they tried to sell consultancy hours to us working hard to enter this foreign market." (Pierre, VP Sales & Marketing, Gamma AB)

Invest in Sweden Agency had a strong presence "on the ground" in Tokyo, which in the case of Gamma resulted in an arranged press-conference when the Futatsu deal was closed. As for public sector programs for financing industry initiatives, Gamma had come through with some bad experiences. As a new venture, Gamma was turned down for some financing from several Swedish governmental organizations and other private sources for start-up financing.

Gamma had also found that cooperating closely with smaller firms in a certain niche that complemented Gamma could be good on local markets. In general, partnering with smaller firms outside Sweden took too much time and coordination resources to be worth the effort. No particular contacts were made with industry associations regarding internationalization efforts. However, players arranging industry international trade shows and conferences were of interest for this purpose.

November 2002

In November 2002, representatives from Futatsu first met Gamma at a large trade fair in the USA. Otsuka was looking for new mobile opportunities in Sweden and the rest of the world. He had another business he was responsible for in the US, and had met with representatives from this firm at the trade show. Otsuka had a routine when attending trade shows and that was to check out as much as possible about the companies attending that might be interesting, including details about their products. Then he contacted the interesting firms in advance for meetings face-to-face. At first, Otsuka was always after knowledge about the firms' technology. Otsuka had no special orders from his boss on what companies he should meet, so he improvised. However, he wrote a proposal to his boss before he left for a trade show about what companies he would meet and afterwards he held a debriefing at Futatsu & CO. When he had finished with those meetings, he wanted to look for new companies on the floor. After these meetings, he was roaming around with free time at Comdex.

At Comdex, there was a Swedish booth where three or four Swedish companies were displayed and one of them was Gamma. Otsuka asked somebody at Gamma to explain the unique sales point of the product. When he heard the explanation, he thought the product was quite interesting.

Otsuka and Uetake made it clear that a small foreign company managing to contact and convince a large *sogo shosha* directly without middle hands was very rare and that this was probably not feasible.

> "A start-up rarely knows about the benefits of a sogo shosha and only eventually learns about these benefits. That a SME comes directly to us is very rare. First of all, – outside Japan - we contact them in the normal case. Alternatively, if we have some presence in for example Sweden then we have a relationship with the Invest in Sweden Agency. There is a system to contacting us." (Uetake, Manager, Global IT Business Division, Futatsu & CO)

There were "random" possibilities like large international trade fairs where a match could be made. More likely, the situation occurred where a SME received money from a Swedish VC that in turn contacted a company such as Futatsu to try making a match. Another way was for Futatsu to contact a VC which has already screened the "seed-list". The problem was not really that Otsuka did not trust an individual entrepreneur, but rather that it was quite hard to find Otsuka inside such a large and complex corporation as Futatsu.

Sometimes the quite decentralized workings inside a *sogo shosha* could make it hard to reach the relevant contacts from the outside. Redundancy could occur, such as where several analysts looked at the same company. An electronic knowledge sharing system had recently been introduced but there was no real incentive for managers and analysts to share any knowledge so this system was not being used. The truth was that a *sogo shosha* depended on each individual. However, according to the Futatsu respondents, it was not a good way and the hope was that this could change and a functioning knowledge management system would be used. On the other hand, the frequent job rotations inside the firm could be described as a knowledge transfer system.

Uetake had only been based abroad shortly, as a trainee for 18 months, to New York. Staff at Futatsu usually rotated for three-five years abroad. In the case of the IT-industry and the Global IT Division, three years might be too long of a time to be abroad. If they were abroad three years, they might lose their touch of what was happening home in Japan. When staff came back to Japan they did not really have an internal seminar about their experiences, but they were forced to write a report and if others got interested in that country they could read this report and contact them.

Otsuka liked the technology that Gamma produced because it could be used to make a portal WLAN where customers could be charged. The portal was the first Internet-page people see. The first page had a high value of marketing and all companies liked to own this page. The click-rate was of course highest on the first line on this page, lower for the second line and so forth. With this kind of portal, the WLAN-technology could be profitable, which according to Otsuka was not happening at the time. Otsuka believed that Gamma technology could provide this gate or portal to various WLAN-networks. This was not the applications Gamma had been thinking of but the discussions were positive. Otsuka had the impression that Gamma did not know that their technology could be used for a portal. Otsuka wanted to refine their ideas and make this first page and manage it. The idea for this came from similar portals used for cellular phone systems in Japan. Otsuka's general idea of

the mobile market in Japan, at the time, was that it was maybe four years ahead of the US and European markets but some elements for improvement could still be found in the mobile sector abroad. After that first impromptu meeting, communication was set up between Gamma and Futatsu.

7.1.2.3 II. Negotiation phase

December 2002
Gamma, after the first meetings, spent nine months in technical discussions on a very detailed level. It was hard to estimate how much monetary resources this took for Gamma, but hard facts show that one person (out of 17) worked full time during these nine months to settle the deal. Futatsu sent a 60+ pages questionnaire probing the technical solutions. During these nine months, contact was mainly conducted by email. Phone calls and emails were most frequently used between Otsuka and Pierre. In the IT-business, there was usually a high speed in communication because that was the business culture.

As for language and necessary translations, normally translation of manuals, presentations and so on were a part of a *sogo shosha* core competency. Futatsu normally did this work. However, at a demo stage only the presentation was translated into Japanese and not the software source code in itself. All Futatsu employees had basic English language skills but the system integrators had, according to Futatsu, advanced English skills so there was no real problem with language. As for Swedish vs. Japanese business culture, an understanding of this was seen as an important issue by Futatsu & CO but not a problem in the case of Gamma. Otsuka told Pierre several times to not become Americanized. This was seen as very important, otherwise Futatsu and Gamma could never be partners according to Otsuka. In Otsuka's view, the US way of performing business was very pushy and negative. In the trading industry model used by Futatsu, the seller (*sogo shosha*) was stronger than the buyer. The *sogo shosha* knew what its customers needed and Otsuka did not appreciate foreign companies that did not readily want to share information but worked alone. Negotiation styles and how to build trust was different between the nationalities. The US was different because of heavy reliance on contracts. They had a very special business style and special people that did not always go well with Japanese business customs.

End of 2002
After the initial meeting, Otsuka sent some emails to 2-3 people at Gamma detailing information about Futatsu and what they could offer Gamma. The beneficial reasons Otsuka and Uetake gave for employing a *sogo shosha* to enter Japan as a foreign SME, was the trading company's wide network in practically all industries of Japan. Futatsu could give IT-companies customers not only in the Japanese IT-industry, but also in retailing etc. In this mode, a *sogo shosha* worked as an enabler, and through one, you could reach end-user companies that might be outside the IT-industry. However, a SME did not usually know these strengths of a *sogo shosha* from the start.

Otsuka asked some of his men to send emails with questions about the Gamma technology, request some white paper and gain information about their business model including a

general company profile. There was always a check of the company as well as the technology.

February 2003

Next time Gamma and Futatsu met face-to-face was at a mobile congress in February 2003 where a member of Futatsu sought out Gamma and talked to representatives in person. The next step after that was a presentation in Japan at the Futatsu HQ. After this, a demo was sent over from Gamma that could be tested by Futatsu's system integrator partner. A lot of emailing was done by Japanese engineers in order to understand the Gamma technology. The system integrator partner in Japan was contacted and had questions.

> "If we get no information from the company, if the company is reluctant to communicate - then it's over. We have 20 other candidates every day! Most important things are firstly, can we make business with them, only then we start a negotiation including a due diligence of the company. Of course we check the background of the company, but only after we are sure that we can make money of the product. This is decided by our contacts that would be buyers in Japan. In case of IT these are mostly system integrators." (Otsuka, Manager, Global IT Business Division, Futatsu & CO)

Even if Otsuka liked what he initially learned about Gamma, he needed other industry peoples' comments before he could proceed with discussions that are more serious. This was the common way in which a *sogo shosha* representative works. Therefore, he lined up the company candidates for clients (in this case Gamma) when he returned to Japan. Otsuka called these candidates of interest "seeds". These contacts gave their impressions on whether a particular foreign firm, idea, or technology was interesting, too late, or maybe not suitable for the Japanese market. Otsuka also spoke to various local venture capitalists (VC) in the specific country. These local VC-firms sometimes also sought out Futatsu for providing money to invest. Because Futatsu & CO had local representation in many places (Silicon Valley, etc.) the local VC could go directly to these offices. Even if the local representative was from the food division, he could redirect the questions through email.

A *sogo shosha* was described as foremost a trading company because if orchestrates trades. However, it could also finance foreign ventures if necessary. Money in the range of 1 MUSD could be provided without the approval of management. Such an investment happened only after a clear market opportunity in Japan had been found. A young firm was usually very poor and could not expect any direct practical support from the *sogo shosha*. Staffing and man-hunting for a local office must be done by other consultants, if it was not a very fast and easy decision.

There existed a vast international network of Futatsu employees abroad. These persons were connected to specific divisions such as food. There was a Futatsu-employee in Stockholm until 2001 that was dealing with IT and Telecom. His mission was to maintain the relationship with the large Swedish and Finish telecom equipment manufacturers, as well as check for new business opportunities. When the telecom business shrunk some years ago, that office stopped covering IT.

Colleagues at a local Futatsu-office could send information about a specific startup back to Futatsu HQ in Japan. In the evaluation, the technology was the most important. It must fit the work of the particular division within Futatsu, but if not, then Otsuka could send it over to another division. It was important to understand that a *sogo shosha* could not make the decision whether to help a SME by itself, but it must always first introduce it to its clients in Japan. The *sogo shosha* made a business proposal and then let its clients decide.

Gamma was swift to send more material on their offering and company. A non-disclosure agreement was signed quite early. Before this, nothing could be disclosed. In Otsuka's experience, technology companies used NDAs at a very early stage in the discussion. However, if the company was not earnest and wanted to give away information then Futatsu immediately stopped discussions. Otsuka wanted to know specifically what Gamma's technology could do, and what the service image looked like. Otsuka's team wrote a hypothesis of what could be done with the technology from a Japanese perspective, which was sent to Gamma.

When Otsuka and his team evaluated Gamma, the most important questions were in regards to whether or not they could develop a business and was the product good enough to make money. A second set of important questions sought to determine if Futatsu customers would be interested and this information was determined by proposing a hypothesis or business model to customers. As a trading company, Futatsu had many contacts and customers in all industries inside its divisions. Or make the distributors and system integrators interested? This check was easy. If the product should be altered then this was done. If it should be sold through distributors or system integrators, then those were contacted. The foreign SMEs were almost always too small to be able to sell their products by themselves. Thirdly, is the company financially solid? This required due diligence.

April 2003
From April of 2003 onward Otsuka became more involved in negotiating a deal with Gamma. Otsuka went over to Sweden alone to meet with the CEO of Gamma and Pierre to discuss an agreement. Basically, the discussions were proceeding well and there was some legal checking ongoing as well. For Otsuka, the major purpose of the trip was to make sure Futatsu and Gamma had a similar view of the future and to not get involved in any detailed contractual discussions.

> "There was of course some legal checking, but as soon as we had agreed verbally on the formation we could start working. We had to have the same intent first, before we made any formal written agreements." (Otsuka, Manager, Global IT Business Division, Futatsu & CO)

This face-to-face meeting was seen by the Japanese side as very important at this stage. It was natural that face-to-face was the preferred way to communicate. If any problem arose, without the face-to-face meeting, these problems would be very hard to solve.

> "Without face-to-face meetings we are not confident to commit resources and trust them." (Otsuka, Manager, Global IT Business Division, Futatsu & CO)

"Here the personal relationships are important where problems that would take a long time to solve otherwise can be solved quickly between two businessmen. In this way the face-to-face meetings can reduce the risk and raise efficiency – the meetings and relation work like an insurance." (Otsuka, Manager, Global IT Business Division, Futatsu & CO)

September, 2003
September 11, 2003 Gamma formally signed an agreement with Futatsu. Futatsu was motivated to sign with Gamma because the products after an analysis of the existing revenue model for Hotspots with only Internet access suggested this business was weak. The Japanese market was saturated with quite a number of Hotspots and Futatsu felt it would take more value-added services on top of this access to create a sustainable business. Futatsu was planning to target system integrators as customers for Gamma's solutions. In marketing the Gamma main technology, Futatsu would work with one of its subsidiaries, who would manage sales and technical support. Futatsu also planned to appoint other systems integrators for deployment in specific industries sectors. Futatsu would handle requests for trial versions and supply OEM versions to major Japanese device manufacturers. Gamma hoped that the agreement with Futatsu would give them profitable access to the largest Japanese Telecom operators.

In contracts between Futatsu and an SME, specific promised volumes that Futatsu would sell were not usually stated. Generally, a *sogo shosha* could not promise any specific level of business, but this depended on the partner. If it was an incumbent telecom equipment manufacturer with a proven product then the level of business might be promised. Futatsu did, in the case of Gamma, set up a target of about 70 MSEK (JPY 1 billion) in sales per year within three years. In the contractual relationship, the exclusivity to only sell through Futatsu on the Japanese market was necessary for Futatsu.

The contract was seen by both parties as important and Futatsu explicitly considered their legal department as one of its strengths.

"One of the important functions of a trading company is our legal department. We make sure for the parties – both Japanese and overseas – how to manage the agreements and make up lines for the business." (Otsuka, Manager, Global IT Business Division, Futatsu & CO)

Sogo shosha had a long tradition of taking the risk with foreign partners that were far away because they had the knowledge about the legal matters to handle this risk. The legal matters were of course important, but time and efficiency was also crucial and not everything could be solved through legal matters. Personal meetings reduced some of the risk and worked like insurance. For example, if the shipment was delayed than the insurance paid out 95% of the value, but this took time. If there was a good relationship with a customer than they could maybe wait a little and the insurance did not have to be claimed.

Closing the deal with Futatsu took a lot of time from the staff of Gamma. One person worked full-time for nine months to iron out the details. These details were to a large extent technical and extensive questionnaires had to be filled out by Gamma's engineers followed by follow-up emails. The normal time-cycle for Futatsu from first contact to decision was six

to ten months. Eight months to reach a decision and then two months for the contract negotiations. The decision to sign a contract with Gamma was a case that went a little bit faster than usual.

Looking on resources from the Japanese side in general, in Uetake's team there were three members. One or two of the three worked on a candidate deal or "seed" part-time. In this team there were only marketing people. When this team had done an evaluation, Futatsu let the technical evaluation be made by subsidiaries or clients. As for estimating resources that Futatsu put into the deal with Gamma, a starting point for understanding was that one person at Futatsu had several companies/projects under evaluation at the same time. When the project actually started, more people got involved. How many, depended on how much potential or actual money the project could make. In the case of Gamma, three to four people were involved at the peak. More specifically, approximately one and a half (1.5) people of Otsuka's marketing group was working with the Gamma along with the Futatsu-engineer on the technical side who contributed about a $1/5^{th}$ time. There were three people, from the system integrator, who spent 20% checking the Gamma-case (0.2 X 3 = 0.6). On top of this Otsuka himself spent most of the time working with getting the system integrator interested (0.8). This added up to between three and four full-time positions (3.1) involved with the Gamma-case from the Japanese side if we combined Futatsu and a potential Japanese system integrator. If everything went well and the product was starting to be sold in Japan, then full-time people might be assigned at Futatsu. In the beginning, Otsuka clearly told Pierre to not invest a lot in their relationship before Futatsu acquired interest from some system integrators interested in the technology. If the Japanese system integrators did not become interested then Pierre should forget the whole thing.

7.1.2.4 III. Execution phase

September 2003 - 2004
When the deal was signed, technicians from Gamma went over to Futatsu in Japan and talked about the product in order to jump-start the relationship. An extensive CD-ROM with technical specifications was developed just for Futatsu and sent over. Gamma found it important to have both written packages on the solutions as well as knowledgeable people going over. A business representative (not technical) went over to Japan once every quarter. On these trips, the representative from Gamma stayed one-three days to meet with Futatsu internally and then with customers. The target was to spend 30% of the time with Futatsu and 70% with other customers, mostly those Futatsu recommended.

Contacts with Gamma were in this phase handled via email mostly. Because of language, Uetake could not understand 100% of all the messages and could not say 100% of what he meant. In total, Otsuka did one trip and Uetake made one trip to Gamma in Sweden.

After a period of resource draining and intense contacts with the Japanese side, Gamma did set up a commercial so-called "Issue Tracking System" for key customers. In this way, they could handle feedback and support questions with much smaller staff than if every call or email would be answered individually. In the communication between Gamma and Futatsu, there were examples of several possible ways of communication. In the contacts with Futatsu, first people met up face-to-face, then moving into an intense written

communication through emails, especially tailor-made technical information on a CD, and technical questionnaires. This was then followed by quarterly face-to-face contacts, but immediate technical questions were handled in a centralized, web-based issue tracking system.

Language was occasionally a problem because the Japanese did not speak very good English over the phone. Email was the best way to communicate, and then the Japanese could understand and formulate themselves much better than over the phone. The time-difference was not such a large problem because there were not many phone conversations.

Pierre went over to Japan two times in total and that was during 2003. Extensive discussions regarding the business model as well as the technologies had been present throughout the relationship as exemplified by the long technical questionnaire that Futatsu sent over and Gamma answered. Otsuka had been over to Sweden once and Uetake twice. The contract was signed by Uetake just before they switched as responsible person for the deal in Japan. After the signing of the contract, Gamma perceived that everything in the relationship began moving slower.

Just before the contract was signed, a handover of responsible persons for the contacts with Gamma within Futatsu was made. Otsuka was rotated to another assignment at Futatsu and Uetake took over. This resulted in Uetake being the one from Futatsu who flew over to Sweden to sign the final contract with Gamma. Handovers like that between Otsuka and Uetake were very frequent at Futatsu. Usually a person changed position every year within the division and might hand over companies.

As for the handover, Otsuka wrote a report and handed over all the documents and presentation material to Uetake along with some of the most important emails. Then he had a talk with Uetake to give his view about the profit potential. The new person in charge at Futatsu, in this case Uetake, then decided how to proceed, but of course listened to the advice from the previous analyst. However, sometimes the passion was different, where the first Futatsu-analyst had passion for the project with some intentions for the case company and had therefore made specific promises. Then the following analyst might lack this passion in the idea or simply had a different opinion of what should be done. The new analyst was still fully in charge, and after the handover, Otsuka had nothing formally to say about the project. This was often the deal, so the foreign SME had to learn how to cooperate with the company as a whole, not with special individuals. After this time, Otsuka did not know anything about the status on the Gamma-deal.

Gamma was the first company Uetake had to deal with after taking over for Otsuka and they were very humble and sincere. Uetake had been to Sweden only once and that was when he signed the contract with Gamma. The technology was very interesting and that was why Otsuka started the project. However, in every discussion with Gamma there was the question of how to make money on their technology. The WLAN-business was not really profitable and Otsuka's clients, mostly Telecom operators, were reluctant to invest in WLAN-related companies.

As for the status in 2004, Uetake's department in Futatsu had tried to sell Gamma's technology to the Japanese mobile phone operators. Futatsu would continue to focus on the

telecom operators because that was where they had their connections. That was fine, but Pierre believed that Gamma could probably create more value for other types of companies, especially firms that had mobile workers. This was to some extent the case also for other markets than Japan. The Telecom operators had no good idea on what to do with Gamma's technology at that point. Gamma was now trying to target the transportation industry in all its forms. For example, railroad companies and airports that had deployed WLAN-networks were of interest. There were at the time more alternatives to WLAN than what was found a couple of years previously. In Japan, the mobile phone system PHS had also grown as a complementary service to WLAN-access to Internet and was used in the Narita-airport.

As for the relations with Futatsu, the biggest problem at this time was that Gamma had spent so much time educating Otsuka about Gamma's products and their possibilities. Then Futatsu switched the person in charge from Otsuka to Uetake and Gamma simply did not have enough resources to start over again and convince Uetake about the benefits. Gamma had up until 2004, not managed to engage Uetake as much as Otsuka.

> "We just spent more than nine months building up the documentation and educating Otsuka-san about our product and what we wanted – we could not start all over again with Uetake. / …/ The trust-building went through a long process were we convinced Otsuka-san, but then we lost some of that benefit when they switched people." (Pierre, VP Sales & Marketing, Gamma AB)

Futatsu introduced Gamma to two large incumbent Japanese Telecom operators who were building WLAN-networks. However, in 2004, these operators were spending small amounts of money on these projects and getting very little revenue in return. They were waiting to see how the market would develop and were not so interested in the technology. The reason WLAN could be profitable in Europe was that businessmen moved from spot to spot (e.g. office to airport). While in Japan, the businessmen walked and moved around more all the time and wanted full coverage including vertically in the skyscrapers of Tokyo. Generally, Telecom operators provided a platform for content providers to get their content out and then the operators received increased airtime. In the case of WLAN, the number of users was too small and content suppliers made almost no good content so there was a negative cycle. As for public WLAN-services, it was hard to say if it would be successful and maybe some business users would be the target. Almost 50% of people in Japan had broadband access at home or in the office and did not need other WLAN-access. In any case, one of the large telecom operators Futatsu contacted on behalf of Gamma declined the offer. So now, a system integrator might want to sell Gamma's system to their clients.

> "What we need to do is to make a story of the company we are representing. We need the headlines. So we construct a story that we tell the potential customers in Japan as audience. It is important that we feel that we can trust the overseas firm representatives to have passion in the deal." (Otsuka, Manager, Global IT Business Division, Futatsu & CO)

The deal Pierre saw from the start was that initial heavy resource commitment would lead to low resource commitment later and that Futatsu would simply sell the products. This did not

happen. From the Swedish point of view, it was a misunderstanding of goals and Pierre was convinced that it would all go through smoothly.

> "When Otsuka-san pushed very hard we became convinced that we should commit resources." (Pierre, VP Sales & Marketing, Gamma AB)

If something was to happen in 2004, it would be to reactivate another department in Futatsu such as a large Japanese computer manufacturer and a system integrator where both were parts of Futatsu and would be a valuable contact to continue with for Gamma. It would however not be possible to go directly to that Japanese system integrator for Gamma at the time. The language level was even lower at that firm. There was a meeting and some Japanese guys from that system integrator did not say one single word in English.

The handover between Otsuka and Uetake actually went very smooth. About one month in advance Otsuka said that he would start working with other clients instead and introduced Uetake. Then Pierre lost contact somewhat with Otsuka. Pierre however talked to Otsuka about the handover and Pierre said that he could not believe what was happening. However, Otsuka said that it was all in the hands of Uetake from now. Otsuka and Uetake definitely had different views on the business.

When thinking back on the pros and cons with working through a Japanese trading house based on Pierre's experiences so far, one natural constraint was that the trading house would never become more than an agent selling Gamma's solutions. There was no chance that a trading house would step in as a system integrator. They could however provide the contacts necessary for this. Coming back to the slow development time after the contract with Futatsu was signed; the departments at Futatsu did not seem to communicate efficiently according to Pierre. Therefore, even if they had departments dealing with mobile workforces, which they most certainly did, they could not be reached through the current agreement and contact person. It would have worked better if Uetake had said that today we could not find customers for your products through our department, but we will link you to another department. This did not happen and the whole thing did not work out well to this point. It was all based on the individual's decisions at Futatsu. At the time, there were only occasional contacts with Futatsu, but absolutely no hard feelings in any direction.

Gamma had really tried and had met Uetake a couple of times after the contract signing but to no real benefit. Now the relationship was put on ice and Gamma was not putting more resources into the deal. If something positive happened, Gamma could and would act quickly and provide more resources to Japan. Gamma had also been in contact with a larger Japanese electronics manufacturer and they said that they wanted to work with Gamma at some time. This might turn into another approach into the Japanese market.

As for lessons learned from the deal with Futatsu so far, Gamma had not really had the chance to evaluate the quality of the actions in this deal. The network of Futatsu should be really right for Gamma, but Pierre did not feel he knew how to use them at the time.

Regarding other contacts in Japan, all contacts with the system integrators from the initial talks had to go through Futatsu anyway. The contacts with Futatsu might have been put on ice, but the fact that Gamma was chosen and approved by Futatsu was still valuable. It was

more that Futatsu, and Uetake in particular, did not believe in WLAN in general at the time was a business decision and not personal or aimed at Gamma. However, it was very difficult to understand for Gamma and Pierre where Futatsu stood at the time. Gamma was focusing on US and Europe and not so much on Japan.

After the contract was signed, there was a long process of communication with Otsuka, and then Gamma lost some of that benefit when Futatsu changed the person in charge. It was hard to start over again and Pierre was not sure if Gamma had succeeded. Futatsu probably had trust in Gamma as a company, but probably not trust in the market opportunity. At least from the viewpoint of the operators, this was the approach for the time being.

Pierre did not think Gamma could learn much from this deal with Futatsu and pass it on to other markets. He had a hard time finding the real decision-makers and a local agent, in the form of a Japanese trading house, did not seem to be a good choice when they switch staff as they did. The strength with a local agent is usually that they have a local office and can be close to the customers but that was not so in this case.

If Pierre had the opportunity to get to Japan once a month that would definitely make a difference. However, Pierre felt that this was not possible and completely out of the question. It was not the ticket price but Pierre had no time to travel that much. On the other hand, Gamma had not felt any pressure by Futatsu to start a Japanese office.

> "It is too hard to communicate effectively with emails. If I had time to go to Japan once a month the situation would be different – now we do not get the message through." (Pierre, VP Sales & Marketing, Gamma AB)

The problem was that Futatsu was not prepared to evangelize towards the mobile operators and educate the customers. Futatsu was not interested in letting the business grow, but were after short-term profits. When Otsuka gave the dynamic, energetic impression about the opportunities, Pierre started committing heavy resources because he assumed that all Futatsu-staff had the same intentions and interest in the products. If Pierre had known that this was not the case, he would never have started the deal in 2003.

Gamma had several meetings with Futatsu's clients and they had objections, which potential new customers always present. That should not have stopped Futatsu that easily. Customers always have objections in all markets because that is how it works. From what Pierre could gather, Futatsu's clients did not say no completely. However, there was some work to be done and Otsuka was prepared to do this work. However, at this point, Gamma is not working with Otsuka anymore.

Pierre did get continuous info on the status of Futatsu's trials to sell their product through spread-sheets, reports and face-to-face meetings with Otsuka first, and then Uetake later, but it was all very frustrating. Now Gamma was waiting for Uetake to go away to make their next move. The industry in Japan would develop as it had in the US and Europe and until then, Gamma was taking a low-key approach to Japan. In the long run Gamma still believed in some opportunities in the Japanese market.

As for further connections to the Swedish market for Futatsu, in 2004 the specific stable channels between the Swedish IT-market and Futatsu in Japan were really only Invest in Sweden agency. The Japanese governmental trade agency in Sweden (JETRO) was not of any real use to Futatsu. Trade exhibitions could sometimes give random contacts like those that the case with Gamma has shown but Futatsu never had a booth but would, in advance, contact companies for contact talks. Futatsu was not actively looking for startups in Sweden at the time.

7.2 Case analysis

7.2.1 I. Preparation phase

In this case, we followed the trustee Gamma. The six founders of Gamma all had international experience, as well as many international networks from before. During this phase, Gamma managed to win contracts in Europe, but the early contacts with Futatsu were the first steps for Gamma into the Asian markets. Experiences with the Japanese market were described by respondents as basically non-existent. Pierre had experience with Asian markets from previous work but most of his experience was with the US and Europe.

There was outspoken management intent to internationalize Gamma rapidly in Asia and the Japanese market was of special interest. The Japanese market had a high penetration of the underlying technology that Gamma's solutions needed (WLAN and workspots) and the market was identified as having good growth margins for Gamma's products. Japan was the number one market in Asia, followed by South Korea and then Singapore. It should be noted that the Japanese market was considered hard to enter and was one of the world's most advanced ICT markets making this a good test for Gamma's products.

Whereas in the previous two cases where the trustor was a Japanese business partner interested in buying the Swedish firms products and actively incorporating this acquisition into their own product offering but in this case the trustor was almost invisible. The negotiations with Futatsu were aimed at making Futatsu act as the non-governmental and professional trust-facilitator that would find Japanese firms with which Gamma could do business. The case unfolded with Futatsu acting as the trustor in the first two phases but the ultimate goal of Futatsu was to transcend into a trust-facilitator role in the Execution phase if the business relationship worked out.

The relation to Gamma started without an intermediary that could act as trust-facilitator when the match between Futatsu and Gamma happened. Futatsu had been using Invest in Sweden Agency as such a trust-facilitator before, and the Invest in Sweden Agency had recommended Swedish SMEs that Futatsu could contact. Gamma's initial trust-facilitator, when entering Japan, was The Swedish Trade Council and Invest in Sweden Agency, both with relatively large representation on the ground in Japan. These agencies however did not play an essential role. Gamma's experiences with these organizations were both good and bad. Gamma felt somewhat used when they had to pay consultancy fees to The Swedish Trade Council because in their opinion these services had been paid already through the Swedish tax system. The work as a governmental "professional" trust-facilitator as well as interest in this task of the Swedish Trade Council has been discussed in previous cases.

Futatsu, as a trading house, had accumulated a vast knowledge in dealing with foreign firms so this was understood to be at the core of their business. The financial and management resources they had internally as well as the connections in Japanese industry seemed impressive from the trustee's perspective, but we also learn that a small work-force maintained all the foreign company contacts. Individuals within the trading house undergo training and assignment of three to five years abroad as part of their job. In this way, they learned about foreign business markets and gathered valuable experiences. Both Otsuka and

Uetake had done business with Europe and the US, but Gamma became their first Swedish experience.

The IT Business Division where Gamma connected with Futatsu had a general interest in finding novel IT-solutions abroad that they could introduce into Japan. There was however, no special strategy of looking for companies like Gamma and their special technology or competence.

At this phase, a dyadic communication route started forming between Gamma and Futatsu. What was described as a coincidence spurred Otsuka's interest in Gamma when he was roaming about in a trade show. The trade-show where Otsuka and representatives from Gamma met gave brief opportunities for face-to-face discussions. Gamma representatives communicated the unique sales points of their solutions directly to Otsuka in this trade show and awoke his interest. Otsuka explained that these types of random matches were rare. Usually the foreign SME was introduced to the trade company through a venture capitalist or governmental agency. He further explained that the communication routes into a trading house were hard to find.

The trading house was described, by the Japanese respondents, as individualistic whereby each analyst had large freedom of action and responsibility to choose and drive each case further. Communication inside the trading house was described as complex which sometimes led to redundancy because several analysts could work on similar problems or cases without any knowledge of each other. The constant job rotations, where managers were rotated away from cases and replaced with other individuals sometimes with totally different views of what contacts are valuable, was a way of life for the trading house.

It became clear that there was a discrepancy from the start between Otsuka's initial views of how Gamma's solutions could be applied to Japan and what Gamma had in mind. Otsuka wanted to take on Gamma as a case, but also wanted to push their business into another direction as opposed to what Gamma had been accomplishing elsewhere (into a WLAN-portal compared to a Gamma's intentions as a tool for workspots). In this early phase, Otsuka's meeting with Gamma at the trade show involved no prepared explicit knowledge, but was an impromptu meeting where Gamma representatives explained their business and company. This was the first opportunity for Futatsu to evaluate the trustworthiness of Gamma and Otsuka came away with a positive view. Otsuka had no further information on Gamma as a company or their products at that time, but nevertheless became convinced enough to arrange follow-up meetings quickly.

7.2.2 II. Negotiation phase

The first focus is on the trustee, Gamma, and how they started to work towards closing the deal with Futatsu and increasing management intent to engage in business in Japan. Still there was not much effort to let key individuals spend time in Japan because efforts were focused in Sweden. One person worked full-time to comply with the extensive questionnaires on the technology that Futatsu demanded. Futatsu in this phase explained what they could offer Gamma on the Japanese market, and Gamma thought this offer provided an attractive business opportunity. Futatsu also started to put more pressure on Gamma to deliver information about their solution and resources during this phase.

After the initial meeting with Futatsu, Gamma received a positive view of how the business could develop through Futatsu and their interest in the Japanese market became more focused. Gamma was especially attracted by Futatsu's possibilities to reach customers even outside of the ICT-field. In the US and Europe for example, transportation companies had become important reference customers for Gamma. Gamma trusted Futatsu to provide similar connections inside Japan. Gamma had not fully understood that the initial positive reaction from Futatsu did not mean that they would get this support. First, Futatsu had to check with its clients to see if they approved. The management intent of Gamma to enter the Japanese market became more outspoken.

Futatsu had built trust throughout the years with domestic industries and with their previous track-record and current resources could quickly match a foreign SME with a Japanese partner. From Futatsu's side, three to four people's full time was involved with Gamma and additional personnel was dedicated by prospective clients. The interest at Futatsu was totally dependent on the reaction of the Japanese potential customers known as the system integrators in this case. Otsuka took in the opinion from various sources in his network including venture capitalists that could assess the idea and possibly provide financing in the future. Futatsu's interest in Gamma increased during the negotiations, where preliminary statements were made that indicated Gamma sales in Japan could approximate 70MSEK within three years.

In this phase, communication in the dyadic route between Gamma and Futatsu was still predominant, even when Futatsu started to contact a few system integrators that could become Gamma's customers in Japan. Lean media was used with emails and occasional phone calls were made to communicate important issues as to what Futatsu could offer Gamma if they proceeded with them as their representative on the Japanese market. Representatives meet on occasion face-to-face in industry events, and a presentation by Gamma was given at Futatsu's headquarters in Tokyo. At the end of the negotiations, Otsuka went over to Sweden for the first time to meet Pierre and the CEO of Gamma. The main purpose of this visit was to align the expectations of the deal with Gamma. Otsuka also talked about close face-to-face contacts as an insurance where mistakes can be handled smoothly and without legal action if these contacts have been made strong. Manuals and presentation from Gamma were translated to Japanese by Futatsu, but the English skills were perceived as good among Futatsu employees as well as potential Japanese customers, so language was not an issue.

There were indications of Futatsu's dominant position in the relationship in this phase. Otsuka and Futatsu were satisfied with how the communication between Gamma and Futatsu was handled but Otsuka warned Gamma how they should and should not behave to keep this a successful relationship. Otsuka's team gathered information on Gamma's solution and then wrote their own interpretation of how the products could best be applied to the Japanese market. Even if Gamma did not approve 100% of the picture that Futatsu painted, they wanted to proceed. An interesting new interpretation had been made of Gamma's offering. Futatsu had a long tradition of altering foreign technology to suit the Japanese market and make money in the process. It was not clear if Gamma fully understood the impact on this process and how much flexibility Futatsu demanded. Soon after communication between Gamma and Futatsu had been established, this communication

turned focus from tacit towards explicit knowledge. Gamma had to spend time answering technical details in a 60+ page questionnaire designed by Futatsu. In parallel, phone calls and emails were exchanged between Pierre and Otsuka. In addition, a company checkup of Gamma was mainly handled through explicit knowledge of whitepapers, and emailed answers from Gamma on their company status.

Gamma and Pierre was assured that Futatsu and Otsuka would proceed according to plan and start selling Gammas solutions to clients in Japan. Even if no clients had been convinced yet, there was comfort for Gamma to have the support from Otsuka in Japan. There were not many other contacts on lower levels between Gamma and Futatsu. The negotiations culminated in a personal visit from Otsuka to Gamma in Sweden. Otsuka emphasized the importance of making face-to-face contact at this stage so that it would be easier to sort out problems in the future.

As for trust, it was interesting to see that Futatsu worked hard on the written legal agreements in parallel with the negotiations. It seemed important for Futatsu to deploy their power through the legal construction of the deal, where the exclusivity to sell Gamma's technology was the core. Out of the six to ten months that Futatsu usually estimated this kind of process takes, two months were often dedicated to iron out the contract. In order to continue the process of trust-building between Gamma and Futatsu, Gamma had to provide detailed information about their technical solution. In order to continue to build trust with the *sogo shosha*, Gamma had to prove that their technology was good quality. In the interview material there was not much said about personal networking, instead the focus was constantly on the technical solution.

7.2.3 III. Execution phase

After the switch from Otsuka to Uetake as the main representative, Gamma felt the communication and progress slow down radically. Gamma felt that they had spent lots of time communicating their trustworthiness and educating Otsuka about their potential solution during the previous year. There were simply not enough resources to start this process all over with Uetake. Gamma was expecting that the initial heavy resource deployment to the Japanese market would be followed by much less resources and that Futatsu, after the initial period, would start to act on their own and sell Gamma's solution. When this did not happen, Gamma felt that the expectations raised by the more passionate Otsuka could later on not be fulfilled by Futatsu and Uetake. Gamma had not been able to reach other industries or departments in Japan through Futatsu, even if Futatsu seemed to have contacts suitable for the products of Gamma. In the end of this phase, Gamma felt locked to the agreement with Futatsu and could not act on their own by contacting other partners.

Pierre did not think that Gamma could learn much from the experience with Futatsu for other markets. Pierre found it hard to find the real decision makers in the Japanese business landscape with the complex relationships between trading houses and companies that he saw. In total, there was also a drastic drop in Gamma's management intent to succeed on the Japanese market during this phase. Other markets were perceived as more interesting when the implications of the change in management on Futatsu's side became clear.

Potential Japanese business partners at the time showed up indirectly in the case in that Futatsu handpicked system-integrators that were supposed to buy the solutions from Gamma. These actors let Futatsu act fully as the intermediary and technical and other questions went through Futatsu to Gamma and back. The system integrator specializing in the Telecom sector would manage sales and technical support on behalf of Gamma. Futatsu also wanted to bring in other system-integrators that target other industries but failed to do so. Gamma did not actually gain direct contact with these potential trustors. During this phase, Futatsu introduced Gamma to two major Japanese Telecom companies, but did not get any response that led to a business relationship. Futatsu continued to work on system-integrators as potential buyers of Gamma's solution. One meeting was set up by Futatsu with a system integrator during this phase, but Gamma was totally dependent on the help of Futatsu, partly because the English-level was so low that direct communication with that potential customer was hard. Futatsu became Gamma's agent in Japan and should have acted as a wholesaler, or trust-facilitator, contacting Japanese system integrators to sell Gamma's solutions.

In the process of signing the contract between Gamma and Futatsu, the responsible person for the deal inside Futatsu was changed from Otsuka to Uetake. This caused disturbance and surprise inside Gamma. These types of handovers was said to happen frequently in Futatsu, and the practicalities in the handover was actually seen by both Gamma and Futatsu to have went smoothly. Gamma received a notice one month before the handover and Uetake was properly introduced, but Gamma did not initially understand how much would change. In practice, Otsuka wrote a report on the status of the deal and handed over all documents regarding the relationship with Gamma to Uetake for him to build his own opinion of the potential of the deal. Then he left the assignment totally. After the handover, the new manager from Futatsu made all future decisions on how to proceed. After Otsuka had left the deal, Pierre also lost touch with him. Uetake listened to the advice from Otsuka but did not have the same view that this could be turned in to a profitable deal. Futatsu's view was that companies have to learn to see the trading house as a company, not as specific individuals that they are dependent on. This statement is a paradox because the construction Futatsu used emphasized the role of the responsible Futatsu manager for each case.

Gamma acknowledges that Futatsu made an effort to sell Gamma's solutions to Japanese Telecom operators. However, Gamma thought that Futatsu should target transportation companies instead because this business had been successfully approached by Gamma on other markets. Futatsu did not approve of this suggestion. It became increasingly visible that Futatsu had the right network to introduce Gamma in Japan but lacked the interest to do so. Interest by Futatsu in Gamma was decreasing in line with the hesitant reviews from potential customers during this phase. Even if the future of the deal with Futatsu was uncertain, Gamma acknowledged that the fact that Futatsu chose Gamma as a case has increased their position in Japan.

In this phase, the routes are shaped as a dyad between Gamma and Futatsu, and a dyad between Futatsu and the Japanese customers (system integrators). Once every three months a manager from Gamma came over to Japan to spend time with the customers that Futatsu had recommended.

In the beginning of this phase, we saw a peak in the communication between Gamma and Futatsu with both rich and lean media in use, even if little attention was given to tacit knowledge. Technicians from Gamma went over to Japan and an extensive CD-ROM with technical specifications was produced just for Futatsu. Futatsu demanded both written specifications as well as having key technicians come over to Japan. At that point, Gamma set up an issue tracking system where technicians at Futatsu and Gamma could communicate technical issues in one interface, as well as handle future support-questions from customers. Gamma felt that email was the best media to handle communication over a distance. The English-level was not always good on the Futatsu-side, and Gamma got better messages than by direct communication over the phone. Emails were also superior to phone calls because of the time difference. With emails, the time difference was not such a big problem.

Soon the communication was more often handled via email. A representative from Futatsu stated that he did not understand 100% of the message in an email, although his English was fairly good. At the end of this phase, Gamma had only sporadic contacts with Futatsu. They tried to persuade Uetake to put more interest into the deal, but froze all further resource deployment to Japan, even though Gamma still believed in the Japanese market. Pierre felt that if he could go to Japan once a month that would significantly improve the chances for Gamma on the Japanese market. On the other hand, there had not been any pressure from Futatsu on Gamma to be better represented in Japan. There were both exchanges of explicit (e.g. CD-ROM with technical specifications) and tacit knowledge (e.g. face-to-face between technicians of Gamma and Futatsu) in this phase.

From a perspective of trust-building, the impact of the change of contact person from Otsuka to Uetake was severe. Otsuka and Uetake did not have the same motivation as perceived by Gamma to push Gamma's solutions to customers in Japan. When one central individual was replaced, the trust-building process received a blow that was hard to repair.

It should be noted that this was reciprocal, because Pierre stated that he lost most of his trust in Futatsu. The initial positive discussions and expectations were not met by Futatsu. Gamma felt that when Futatsu encountered difficulties in selling Gammas solution they gave up too easy. They also felt that the immense contact network the trading house sits on was not used fully to the advantage of Gamma and that the departments inside Futatsu did not seem to communicate between each other, good internal communication being something a Japanese trading house is famous for. Later they felt totally at the will of one individual, their representative, as the only person to be deciding how everything should proceed. Futatsu was only interested in short-term profits and did not want to engage in a longer process of educating the market. Lastly, Gamma had lost their belief that the agent-model would work in Japan because it did not have the same effects that they had seen in the US and Europe. This led Gamma to the conclusion that all actions on the Japanese market should wait until positive signs appear. It also made Pierre regret that he chose to commit to Futatsu in the first place. Pierre still thought Futatsu really had trust in Gamma as a company, but had lost interest for the market Gamma was addressing.

PART IV: ANALYSIS

8 Comparisons of the cases

In this chapter, a comparative analysis is performed on the three cases to address the research questions, explore if the proposed theoretical framework can be extended, as well as isolate findings for managerial implications. The theoretical framework developed in Part II is applied to the cases in this chapter (see Figure 12 for recapitulation).
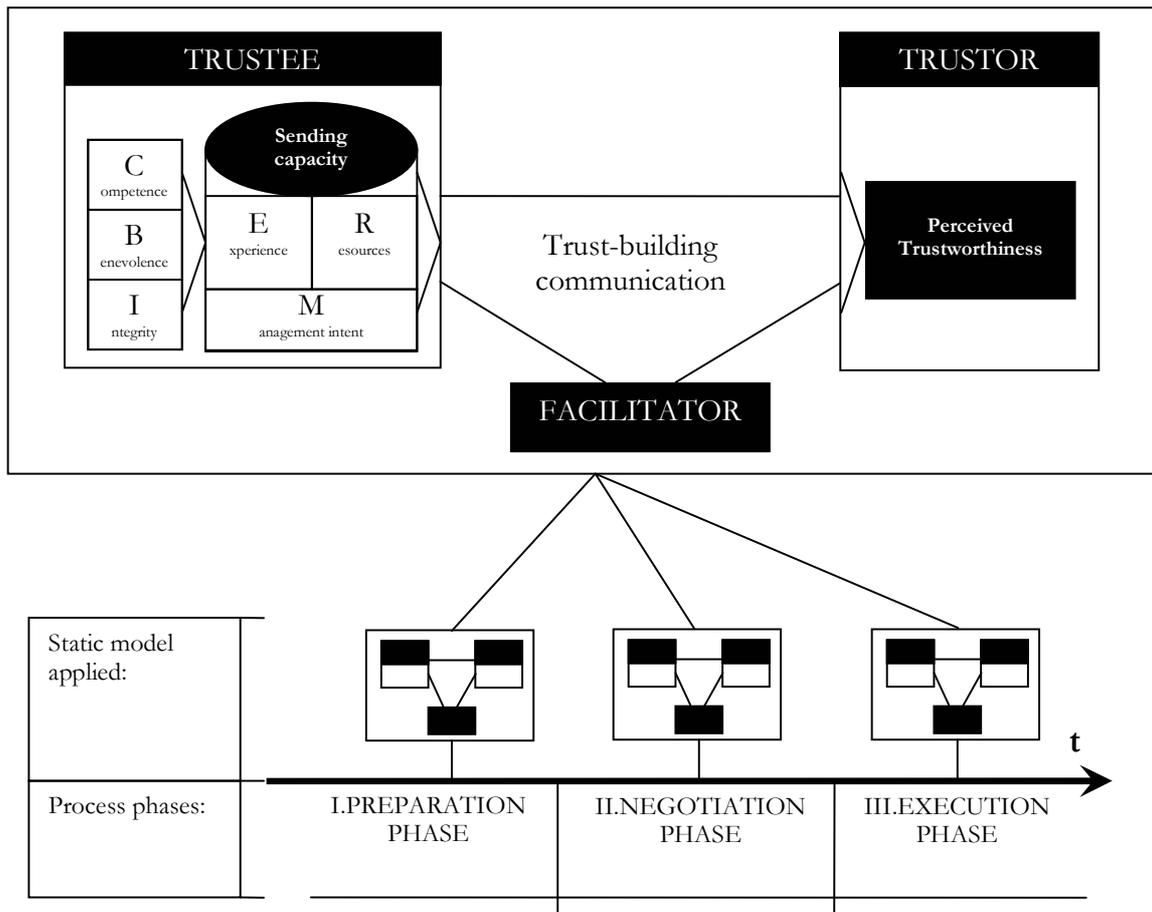
Figure 12: Static framework applied to time-line with phases and episodes.

In this framework the triad of trustee, trust-facilitator and trustor are identified as actors and connected through communication routes. The static framework is applied on each of the phases by dividing episodes used as analytical tools to study the communication process of trust-building thereby creating a dynamic framework for structuring the analysis of the cases and making comparisons relating to theory across cases possible.

The overall purpose of this study is to increase understanding of the process of trust-building during a firm's internationalization into a new market. The purpose of the study is approached through the investigation of the following research questions:

1. What is the relationship between communication abilities and the process of trust-building?
2. What is the role of intermediaries in the process of trust-building?
3. What is the role of the individual in the process of trust-building?

These research questions are addressed in the explicit analytical steps described in the following sections.

The relationship between communication abilities and the process of trust-building is approached in three steps. The first step in the analysis is the sending capacity of the trustee. This sending capacity is central to how well the trustee manages to communicate the attributes of the trustee that will affect the trustor's perception of the trustee's trustworthiness. The posited underlying factors for the trustee's sending capacity are experience, resources, and management intent. The second part is the analysis of the communication of the attributes of trustworthiness. The communication is studied by reviewing the factors of the message and media through an examination of the dichotomies of tacit-explicit message and rich-lean media. Finally, the third step of the analysis evaluates what attributes the trustee managed to communicate to the trustor and by this means determine by what rationale the trustor judged the change in perceived trustworthiness.

The role of intermediaries in the process of trust-building is approached in two steps. First there is the analysis of the existence of trust-facilitators and whether routes were dyadic or triadic. The second step entails the analysis of the modes of trust-building and if institution-based trust-building existed.

The role of the individual in the process of trust-building is approached in three steps. First, an analysis of the impact of individuals in the forming of sending capacity as related to the factor of management intent. The second analysis examines the modes of trust-building and if characteristic-based trust-building existed. The third and final analysis looks for the existence of individuals acting as door-openers.

These research questions are, by their nature, not possible to completely separate but analysis of each question shares material from analysis regarding the other questions. Especially the analysis of the role of the individual includes several parts of the framework and needs to be addressed throughout the material.

8.1 Sending capacity

In the framework, I propose that an actor gradually develops a sending capacity which becomes a critical component in the communication dialogue where trust is built. Based on the cases, the factors especially relevant for the development of sending capacity are posited as experience, resources, and management intent and an analysis is summarized in Table 6.

Table 6: Analysis of sending capacity.

Phases	Case: Alpha			Case: Beta			Case: Gamma		
	I	II	III	I	II	III	I	II	III
Sending capacity	HIGH	+	+	LOW	+	+	LOW	+/-	+/-
- experience	10 yrs.	4 yrs.	+	3 yrs.	2 yrs.	+	2 yrs.	9 mts.	+/-
- resources	high	high	high	medium	high	medium	none	low	low
- management intent	yes	yes	yes	no	yes	yes	yes	yes	no

Let me review how the phases in the dynamic framework are defined. The starting point of the Preparation phase is defined as the point at which the Swedish case company first builds an interest in and takes active measures to approach the Japanese market. The Preparation phase ends with the initial meeting with the Japanese negotiation partner for the specific deal described. The Preparation phase then moves into the Negotiation phase which ends with the signing of a contractual agreement regarding the deal in focus. The Negotiation Phase then moves into the Execution Phase which is followed until the year 2004.

The length of the Preparation phase is reflective of how much experience of the Japanese market the companies had accumulated before they engaged in the business relationship described in this dissertation. The empirical indicator for experience in the analysis was in fact the time-period of learning from the foreign market. In comparison, Case Alpha shows the longest time periods for both Preparation and Negotiation phases while Case Beta and Case Gamma display shorter time-spans, as can be seen in analysis summary of Table 6. When Alpha started to negotiate the OEM-deal with Yotsu, they had already established an ongoing operation in Japan embodied in the subsidiary Alpha Japan and closed several other major Japanese deals. The Preparation phase of Beta was shorter, but intense in terms of contacts with various Japanese business partners. Before the contact with Ichi, they had already landed one major contract with a Japanese manufacturer although the activity was to be conducted in the US market. Compared to both Alpha and Beta the case of Gamma revealed much less activity towards the Japanese market in the Preparation phase. Gamma was in contact with Swedish governmental organizations promoting business initiatives between Asia and Sweden, which eventually led to the contact with Futatsu. However, Gamma had not accumulated much experience from the Japanese market at the point of time when the business relationship with Futatsu started. The length of the Negotiation phase follows the same pattern as the Preparation phase where Case Alpha shows double the time as Case Beta and more than four times that of Case Gamma. Here the complexity and size of the deals should be taken into consideration. Alpha was negotiating a world-spanning OEM-deal with large consequences for both parties involved. The deal in Case Beta was considerably smaller in scope where the negotiation primarily was restricted to a specific product line. In Case Gamma, the negotiations primary goal was to tie up Futatsu as an agent for Gamma in Japan.

Resource was indicated by the amount of time spent by individuals from the Swedish firm in the foreign market. In the Preparation phase, Alpha had both top managers including the founder Sven and two specialized developers on site in Japan for six months at a time. Additional personnel from Alpha were on a rolling schedule with many shorter stays ranging from a couple of days to two weeks. The CEO of Beta, Lars, spent two weeks on site in Japan followed by a road show meeting with up to 25 prospective partners during the

Preparation phase. He also traveled there on several business trips, some of these lasting several weeks and was accompanied by Yukiko. In this phase, Gamma had no individuals spending time in Japan.

In the Negotiation phase, at least one full-time Swedish development engineer from Alpha was on-site at all times in Japan. In the end of 1998, Thomas went to Japan for five months of concentrated efforts to land the contract with Yotsu. Lars, the CEO of Beta, spent two months of networking and information gathering in Japan. Beta also set up a permanent office in The Swedish Trade Council's premises in Tokyo where Yukiko spent at least 50% of her time on site in Japan. Even if Gamma had to spend considerable time ironing out all the detailed information for Futatsu, there were only a few visits to Japan by individuals from Gamma and the main occasion was a presentation in Japan at the Futatsu HQ.

In the beginning of the Execution phase, Alpha increased the number of Swedish people based in Japan, including the developer Thomas who was sent over on a one-year contract. In the middle of this phase, Alpha had no Swedish technicians or managers on site and the Japanese technicians solved problems themselves. In the end of the phase, the vice president of Alpha Sweden took over management in Japan. In this phase, Beta increased resources by sending over Japanese speaking staff from Sweden for three to four months and Yukiko moved over to Japan for a period of seven months. However, these resources were decreasing gradually when Beta learned to handle communication without people on site. For Gamma, in the beginning of the phase, developers went over to Japan to jump-start the execution. Additionally, a business representative from Gamma visited Japan once every quarter. The key individual, Pierre, went over to Japan two times in total and that was in the beginning of this phase. Soon during this phase, these resources were frozen and after the change managerial responsibility by Futatsu, no resources were deployed.

Management intent was indicated by the outspoken goal of the managers in the Swedish firm to open and develop a business relationship with a party in the foreign market. Already during the Preparation phase Alpha had an outspoken vision to enter the Japanese market. The reasons consisted of Alpha wanting to concentrate on working with relevant partners and competitors in the printer industry and because Alpha's leader Sven previously had developed a special liking for the Japanese market. Beta did not have an outspoken intent even if discussions started in this phase where Japan was seen as a possible launch pad for further internationalization according to the CEOs "cascade model". Gamma had ranked Japan as the most interesting market in Asia based on the availability of deployed WLAN networks and level of transportation infrastructure as well as the perceived willingness to pay for services.

In the Negotiation phase, the outspoken management intent from Alpha was to move forward with the Japanese customers. One indicator for this was when the new Japanese manager of Alpha Japan, with the Swedish managers' sanctions, started to focus more on OEM-contracts. Beta realized that the Japanese market would become a key success factor for Beta when contact with Ichi had been made. Gamma was especially attracted by Futatsu's possibilities to reach customers even outside of the ICT-field and their interest in the Japanese market became more focused.

In the Execution phase, Alpha indicated continued management intent to continue internationalization now that the activities in Japan had become even more profitable. Beta got involved more with other parts of Ichi including a capital injection and Lars maintained his intent to develop this relationship. In this phase, Gamma's management did not want to continue to develop their relationship with Futatsu further. Other markets were perceived as more interesting to Gamma after the change in product team management altered its focus.

By evaluating the factors and indicators in these cases, we can analyze the impact of sending capacity in trust-building communication illustrated by the cases presented in this dissertation. With the focus on a process of trust-building, the sending capacity is defined as the ability of a firm to translate and transmit internal information in order to build trust through a continuous dialogue.

Summarizing my analysis of the sending capacity during the phases is presented in the following synopsis. Alpha went into the negotiations with a high sending capacity and continued to increase this throughout the time period studied. Some concrete examples of this increased sending capacity by Alpha includes activities during the Negotiation and Execution phases where the trustee had ample opportunity to gradually build their sending capacity while working on smaller parallel projects. In this, we saw a gradual development of sending capacity. No smaller projects resulted in a commercialized products but Alpha had been learning from the experiences. It should be noted that this knowledge was not confined to the Japanese Alpha sales office, but shared with headquarters in Sweden through a rolling scheme of Swedish engineers and managers that had been working on site in Japan who returned to Sweden and shared their acquired knowledge. Even beyond the scope of this analysis, the case narrative indicates later signs of decreased trust, not between Alpha and Yotsu, but between Alpha Japan and Alpha Sweden. We also saw in the last phase that the trustor Alpha Sweden took counter-measures to correct the decreased trust between the two Alpha entities. This corrective measure occurred when the vice president of Alpha took over the role as the first Swedish manager of the Japanese operations. In this role, he personified a communication bridge between Alpha Japan and Alpha Sweden which can be interpreted as increasing the sending capacity. Part of his task was to increase the communication ability of Alpha Japan that would be sustained after he left.

Beta had a low sending capacity when moving into the negotiations but managed to build this capacity quickly and also continuously increased this throughout the time period of study. In the case of Beta, Lars actively recruited staff to Beta that was interested and skilled in international contacts, especially with the Japanese market and this can be interpreted as a means to positively increase the sending capacity. Japanese speaking staff from Sweden was sent over for three to four months at a time and Yukiko managed to gradually teach the managers of Beta about what was and was not appropriate in Japanese business relations. Lars two months networking and information gathering trip demonstrates another active measure to increase Beta's sending capacity.

Gamma entered the negotiations with a low sending capacity, but unlike Beta, did not manage to increase this capacity quickly. In the case of Gamma, the trustor Futatsu presented himself as having vast experiences with foreign firms, stemming from the system of international job rotation for employees. Overall, the sending capacity of Gamma increased during the Negotiation phase but no major initiatives were made to bring more

experience into the firm or educate the individuals involved. This chain of events that later led to a stagnation in the relationship could be explained in that Gamma lacked the sending capacity to reach out to the new representative and to make a correct assessment of what was happening.

8.2 Communication and perceived trustworthiness

The purpose of the sending capacity is to help the firm in the actual communication and increasing perceived trustworthiness by the receiving partner. The cases displayed continuous communication throughout the business relationships and this is argued as an integrated part of the trust building that takes place. A SME in Sweden aims to convince a large Japanese firm to trust them. One way of doing this is by sharing knowledge on the positive attributes of the firm and in this way communicating ones trustworthiness. Because much of this knowledge is more of an internal and/or implicit nature, several obstacles frequently occur and have to be solved through communication. Features of a relationship that permits easy discovery and interpretation of the other's behavior are also important for trust production. In the internationalization processes of the cases we have followed, this communication at times has problems because the trustee and trustor were separated by great distances and during the different phases of complex negotiations, they had to continue a dialogue in order to advance their business relationships.

Research on trust is challenging because of the taken-for-granted nature of trust. Among practitioners, including the respondents in the case organizations, the acknowledgement of trust does not necessarily become outspoken until critical changes such as a breach of trust occurs. Still, this processual analysis of the role of intermediaries is arguably strengthened by incorporating a view on the approximate times during which a change in trust occurs.

In the interviews, respondents within the trustors have indicated in all the cases a progressively increasing perceived trustworthiness characterizing the Swedish trustor. What is more interesting, and the focus of this analysis, is what factors caused this increased perceived trustworthiness. The three proposed factors analyzed are competence, benevolence, and integrity. Competence is indicated by the trustor's perception that the Swedish firm is knowledgeable in their field and able to produce quality products with the features the trustor desires. Benevolence is indicated by the trustor's perception that the Swedish firm is sincerely concerned about their well-being and that when problems arise they are helpful in solving these issues. Integrity is indicated by the trustor's perception that the Swedish firm has a fair behavior, is ethical and that they keep their promises to the trustor.

Hence, let us examine this communication closer throughout the phases in the cases by using the proposed theoretical tools factorizing communication as it relates to the message and media. Messages were analyzed in the dichotomy of tacit-explicit where indicators for a tacit message included the message being closely attached to persons in the sending firm and rooted in actions specific to a context while an explicit message was indicated by the message being transmittable in a formal, systematic language. Media was analyzed in the dichotomy of rich-lean where indicators for rich media included face-to-face communication whereby communicating parties interact in physical proximity to each other while indicators for lean

media include communication by telephone, email and written documents. The analysis is summarized in Table 7.

Table 7: Analysis of communication and perceived trustworthiness.

	Alpha – Yotsu			Beta – Ichi			Gamma - Futatsu		
Phases	**I**	**II**	**III**	**I**	**II**	**III**	**I**	**II**	**III**
Communication									
- message	t	t/e	t	t	t/e	e	t	e	t/e
- media	r	r/l	l	r	r/l	r	r	l	l
Perceived trustworthiness	+	+	+	+	+	+	+	+	+
- competence	yes	yes	yes	yes	yes	yes	yes	yes	yes
- benevolence		yes	yes		yes	yes			
- integrity			yes		yes	yes			

In the Preparation phase, the communication between Alpha and Yotsu shows indicators that the communication is primarily characterized by tacit messages and rich media as exemplified by messages being closely attached to persons in the sending firm and rooted in actions specific to a context and face-to-face communication where communicating parties interact in physical proximity to each other is used. Tanaka, hired by Alpha, worked on peripheral contacts with Yotsu to get contacts inside Yotsu. Watanabe from Yotsu, Tanaka, and Tanaka's sales contact within Yotsu soon developed a close personal relationship. The start-up meeting at Yotsu was an especially critical point for Watanabe. Yotsu then demanded to have technical support on site in Japan, which led to Fredrik going over as a technological co-coordinator. In the Preparation phase, Alpha managed to communicate its attributes of competence. The Swedish engineer Fredrik delivered material based on the questions he got at the first start-up meeting in a swift and accurate way which was said to gradually have increase Yotsu's perception of Alpha's trustworthiness.

Beta's communication with Ichi is characterized with tacit messages and rich media. The road-shows gave opportunities to meet Japanese company representatives face-to-face thereby allowing the top management from Beta to connect directly with contacts inside the Japanese firm. Several presentations, during the Preparation phase, were made on site with Ichi by representatives including senior managers from Beta. Beta managed to communicate the attribute of competence. Questions in the first meeting were mostly about the product and specific technologies; questions on the company including the financial background came up much later in the evaluation process. Beta's product was seen as superior to what had been developed in-house.

As in the two previous cases, Gamma's communication with Ichi during the Preparation phase is characterized by tacit messages and rich media. The first meeting with Gamma, at the trade show, was an impromptu interaction where Gamma representatives explained their business to Otsuka by face-to-face media. Otsuka had no further written information on Gamma at that time, but nevertheless, he became convinced enough to arrange follow-up meetings quickly. Gamma also, as in the previous cases, managed to communicate the attribute of competence. Otsuka liked the technology that he saw even if he anticipated other uses for it in Japan compared to what Gamma was doing in Europe.

In the Negotiation phase, there are indicators for a mix of tacit and explicit messages and usage of both rich and lean media. During the negotiations there were technical documents and legal contracts exchanged. Yotsu demanded detailed technical documentation. This was interpreted as a way of handling the risks of being misunderstood because it was believed that a higher level of details in documentation decreased this risk. However, we also note the large role that the Japanese side had given to informal meetings in pubs located between the Alpha Japan and Yotsu offices. In these meetings, issues were explained to the Swedish visiting engineer in a way so that he could explain it further to Alpha Sweden. The communication between Alpha Sweden and Yotsu was mainly via leaner media like email and telephone. However, the Swedish developers on site in Japan represented rich communication media. Both the Japanese and Swedish side put an emphasis on the need for developers to be present in Japan for face-to-face meetings. The staff of Alpha Sweden and Alpha Japan met approximately 200 individuals at all managerial levels within Yotsu.

In the Negotiation phase, Alpha continued to communicate the attribute of competence, but also added benevolence. The presence of the Swedish engineers proved to be of more value than for just solving technical problems and showing that Alpha could master their products. Yotsu translated these developers' presence into benevolence from Alpha's side when it helped solving problems on the spot.

As in the case of Alpha, Beta's communication with Ichi was characterized by a mix of tacit and explicit messages using both rich and lean media. After 14-16 meetings between each other, more and more people from Ichi attended the meeting. From maybe eight to ten people in the first meetings to a room full of people in the last ones. Ichi asked Beta for a software demo on a PC. Beta sent these product demos to Ichi. Yukiko visited Ichi to read between the lines about what they liked and disliked. This was a way of understanding whether Beta had really communicated the right things and that Ichi understood this communication. Non-disclosure agreements but not letters of intent were signed at this time with Beta. The engineers needed specifications and to be convinced that the product would work. The benefit of selling a highly visual product to the Japanese was strength because graphic schemes could be used to transcend differences in vocabulary. Both the CEO and Yukiko spent time in Japan with the CEO staying for two consecutive months and Yukio spending about 50% of her working time at the local Japanese office after it was established. In addition, other marketing staff as well as engineers went to Japan to communicate directly using face-to-face communication with Ichi on site.

In the Negotiation phase, Beta continues to communicate the attribute of competence, but added both benevolence and integrity. The evaluation of Beta was primarily based on their product, but there was some importance placed on evaluating how much support they could provide. Beta also set up a permanent office in Tokyo further emphasizing their ability to provide support. Beta managed to communicate to Ichi that when or if problems arose, they were ready to deal with them. Beta was trusted to help out with providing information about other details on some of Ichi's products in Europe unrelated to the Beta deal. Furthermore, there are indicators for the factor of integrity because the ethical values of Lars, as the CEO, were scrutinized in the final stages of the negotiations by a high official of Ichi.

Gamma's communication with Ichi in the Negotiation phase is characterized by explicit messages and lean media. Soon after communication between Gamma and Futatsu had been established, this communication turned from tacit towards explicit messages. Gamma answered technical details in a 60+ page questionnaire designed by Futatsu. A demo was sent over from Gamma that could be tested by Futatsu's system integrator partner, but this was not complemented by staff who could demonstrate it on site in Japan. Even if representatives met face-to-face on occasion at industry events, and a presentation was held in Futatsu's headquarters in Tokyo, predominately lean media was used with emails and occasional phone calls.

Gamma, as in the previous cases, manages to and was urged by Futatsu, to communicate the attribute of competence. In order to continue to build trust with the sogo shosha, Gamma had to prove that their technology was good quality. Respondents did not indicate any emphasis of the factors of benevolence and integrity; instead, the focus was constantly on the technical solution. The work with the details and technicalities in the legal agreements were given high importance by both the Japanese and Swedish side. One contrasting interpretation would be that Futatsu tried or preferred to handle the factors of benevolence and integrity via the contractual agreement and in absence of situations with explicit messages and richer media.

In the Execution phase, there are indicators in the Alpha case that communication is primarily characterized by tacit messages in combination with lean media. I use the issues around quality, to illustrate how this mix of tacit messages and lean media became problematic. One problem that consistently came up in the discussions was the Japanese high demand for quality and the Swedish ignorance of this fact. The Japanese staff found it hard to communicate the view Ichi had on quality by use of lean media alone and there was a perceived need to relay the importance of quality. At the same time, Alpha had no Swedish technician on site for the last two years and technical questions during this phase were handled by lean media like email and telephone. The feedback loops from Yotsu to Alpha Sweden could take up to two months. This mismatch in communication between tacit messages communicated through lean media led to costly double-work to ensure quality of the product. In the end of the time period of study in this phase, these problems had been acknowledge and measures taken for improvement that included the assignment of a Swedish manager on site in Japan.

In the Execution phase, Alpha continued to communicate the attribute of competence but with extended opportunities to communicate benevolence as well as integrity when problems arose. The relation between Alpha and Yotsu survived some rough roads where quality problems resulted in friction but that was resolved successfully. When Alpha became a part of the family of suppliers for Ichi, the demands increased substantially. The final product specification was larger and more complicated than the discussions had suggested. During this phase, Alpha was given the opportunity to communicate by actions that they still kept their promises according to formal and informal agreements despite additional workload.

Beta's communication with Ichi during the Execution phase is characterized by predominately explicit messages and rich media. In this phase, the messages were mainly regarding issues around the implementation of the technology which could be

communicated without a hands-on approach of technicians on-site. This implementation proceeded without any significant problems thereby creating the opportunity to migrate from the use of a rich media to a lean media. Both personal visits and transfers of documents were used in parallel to fix these issues. Two Japanese speaking staff members from Sweden were sent over for three to four months each and Yukiko moved over to Japan with her family for seven months time. However, Beta gradually retrieved the staff based full-time in Japan and gave more emphasis to lean media.

In the Execution phase, Beta continued to communicate the attribute of competence, benevolence and integrity. Competence in development and implementation of the technology was continuously assessed. Beta also complied with the wishes from Ichi to have staff based full-time in Japan thereby showing that they took the requests of Ichi seriously and through this action, they managed to communicate benevolence. Beta also emphasized the importance in keeping deadlines and to not promise more than they could deliver during this phase. If they had some problems that could delay the proceedings, Beta brought this to the table at once and involved Ichi in the problem-solving.

Gamma's communication with Ichi is characterized by a change from explicit to tacit messages and lean media in the Execution phase. The messages involved at first detailed technical and codifiable information but soon moved to involve the declining support in the relationship between Pierre of Gamma and Uetake of Futatsu. This change happened as the contract between Gamma and Futatsu was signed and the responsible person for the deal inside Futatsu was changed from Otsuka to Uetake. These messages should clearly be closely attached to Pierre and rooted in actions specific to the context of the deal.

Despite an initial peak in communication between Gamma and Futatsu with rich and lean media early on which included technicians from Gamma going over to Japan and an extensive CD-ROM with technical specifications produced just for Futatsu, this quickly progressed into leaner media like emails. This was despite Futatsu's signals about the need for richer media. An example of Futatsu wanting a richer media included extensive technical questions from Japan that almost begged for deployment of technicians on site in Japan, but rather Gamma chose to invest in an electronic issue tracking system where technicians in Futatsu and Gamma could communicate technical issues in one interface. Gamma felt that this system, when complemented by email, was the best media to handle communication. Gamma also, as in the previous cases, manages to communicate the attribute of competence through work with the detailed CD-ROM. However, there was little or no opportunity to complement communication of this attribute with communication of either benevolence or integrity.

8.3 Routes

In the schematic view of Figure 13 the processual analysis shows how dyads and triads are formed during different phases. Dyadic routes denote continuous communication taking place between only two connected actors, while triadic routes denotes continuous communication taking place simultaneous between three actors shaping a triad. In this way, these routes are not mere linkages between actors made up of formal or informal agreements, but actually linkages where active communication takes place.

Figure 13: Processual analytic matrix indicating dyadic and triadic routes.

168
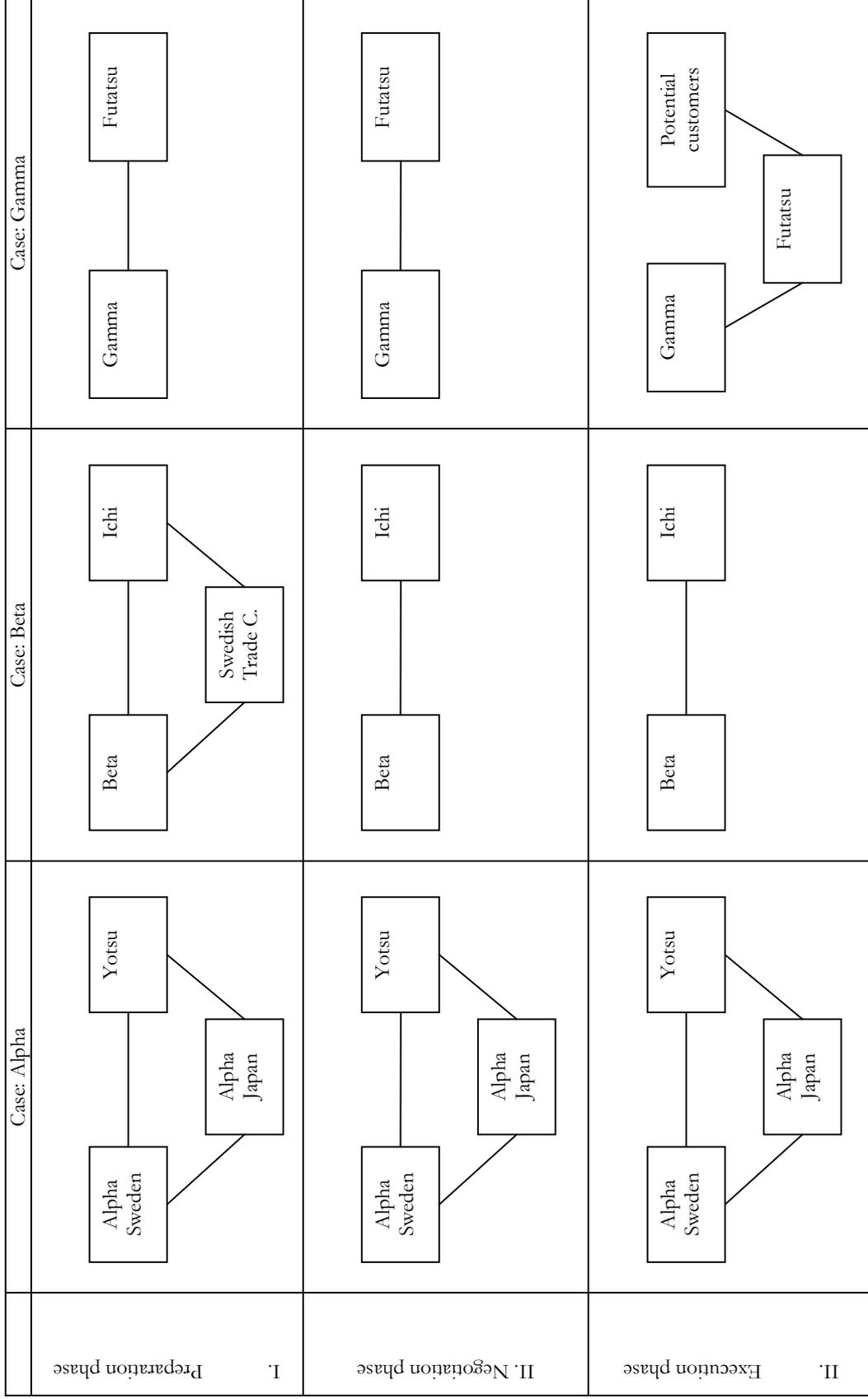
Both Alpha and Beta were supported by The Swedish Trade Council when opening up their first offices in Japan. While Alpha took care of most of the initial contact with prospects in Japan by themselves, Beta was actively supported by The Swedish Trade Council in the screening and matchmaking of their initial Japanese customers. For Alpha, trust-facilitators like Alpha's initial Japanese distributor and The Swedish Trade Council were useful, but the most influential trust-facilitator for Alpha has been identified, in this analysis, as Alpha's Japanese subsidiary known as Alpha Japan. Gamma had a more hesitant approach towards The Swedish Trade Council acting as a government agency that demanded consultancy fees from the companies they should support. When the case companies got more accustomed to the Japanese market, the case firms stopped utilizing The Swedish Trade Council's services.

In case Alpha, we see a triad throughout all the phases. Alpha had from the earliest point and through their CEO started to build both triadic and dyadic routes in Japan. Even if not graphically depicted in the simplified graphical representation in Figure 13, this was done with the help of various trust-facilitators including their original distributor in Japan as well as The Swedish Trade Council. Their first distributor helped link the CEO of Alpha to other companies, but he also put emphasis on approaching Japanese companies directly on his own. At the time when their business relationship to Yotsu took form, Alpha Japan was in place and a communication triad between Alpha Sweden, Alpha Japan and the Japanese customers had formed. The focus of the case analysis is on the triad between trustee Alpha Sweden, trustor Yotsu, and trust-facilitator Alpha Japan where the routes were worked up during the Preparation phase. It should be noted that Alpha Japan gradually became an island that drifted apart from the headquarters in Sweden and started to take their own initiatives that were not sanctioned by Alpha Sweden. Alpha Sweden was dependent on Alpha Japan for their relation to Japanese customers. At the same time, we saw signs of decreasing trust between Alpha Sweden and Alpha Japan culminating in the first deployment of a Swedish manager eventually running Alpha Japan. Alpha Japan had gradually taken control in the triad. The trust between Alpha Japan and Yotsu continued to build throughout this entire process. This was illustrated with the issues of product quality. Alpha Japan did not trust the product testing done in Sweden so they performed their own quality testing in Japan. They also stopped selling newer versions of software that were not completely free of bugs. The development finally resulted in changes in management in Alpha Japan were a Swedish director was sent to take over and start rebuilding trust. In any case, the triad with Alpha Japan working as a trust-facilitator held throughout all three phases.

Case Beta displays an initial forming of a triad that later turns into a dyad. The trust-facilitator had no ambition to stay connected in the triad after the initial trust-building had succeeded. Trustee Beta, during the Preparation phase, started out to form routes with the trust-facilitator the Swedish Trade Council which connected them to trustor Ichi. Gradually, in the next phase, the role of the trust-facilitator diminished and the corresponding route was closed down which resulted in a dyad formed with Ichi during the Negotiation phase. This dyad continued into the next phase of Execution.

Case Gamma showed a dyad in the first two phases and a partial triad in the last phase. Gamma did not have direct help from any trust-facilitator when opening up the route with Futatsu in the end of the Preparation phase which is illustrated by a dyad between trustee

Gamma and trustor Futatsu in Figure 13. The first contact was in fact initiated by Futatsu. This dyad continues during the Negotiation phase. In the Execution phase, we see that Futatsu has introduced new actors in the form of potential customers for Gamma in Japan. According to the plan, during the Execution phase, Futatsu should have changed into the role of a trust-facilitator to introduce trustor, Gamma, to business partners in Japan. Futatsu had pre-established communication routes with these potential Gamma business partners. However, the figure only displays a partial triad with the connection between Beta and the Japanese potential customers missing. Gamma acknowledged that Futatsu tried to sell Gamma's products according to their vision, but also that they did not use their skills in matchmaking to link Gamma up with industries other than ICT. Gamma wanted to be linked with industries such as transportation because that is where Gamma saw more potential. For Gamma, the negotiations in the previous phase had given the impression that Futatsu would facilitate fast revenue growth if they followed a certain product strategy. Even if this strategy was not exactly in line with that of Gamma in other markets, Gamma agreed on trying this interpreted vision by Futatsu for the Japanese market.

8.4   Modes of trust-building and individuals as door-openers

The key to both understanding the role of intermediaries as well as adding one more piece into the puzzle for the analysis of the role of the individual occurs by examining the different modes of trust-building that took place during the phases. There were several indications of the importance for the process of individual door-openers that were crucial for the Swedish firms, especially during the negotiations. The existence of door-openers in the Negotiation phase will be the focus. Door-openers are identified as a person that works inside the trustor and act as a communicator that takes ownership of the deal at hand and, if necessary, protects and markets the relationship with the trustor from inside the trustor. I see characteristics-based trust-building as being connected closely to individuals, as compared to process-based trust-building and opposed to institution-based trust-building. Institution-based trust-building explains the use of trust-facilitators. Process-based trust-building is indicated by trust tied to a past or expected exchange in the business relationship, whereas characteristic-based trust-production is tied to individual persons, and institution-based trust-building is tied to a trust-facilitator. The analysis is presented in Table 8.

Table 8: Analysis of trust-building modes and individual door-openers. (PB=Process-based, CB=Characteristic-based, IB= Institution-based)

	Alpha-Yotsu			Beta-Ichi			Gamma-Futatsu		
Phases	**I**	**II**	**III**	**I**	**II**	**III**	**I**	**II**	**III**
Trust-building	PB+IB	PB+CB	PB+CB	IB	CB	PB	CB	PB+CB	PB
Individuals as door-openers	-	yes	-	-	yes	-	-	yes	-

In the Preparation phase, Alpha had previously been involved in projects with other firms in the Ichi-group and could use the fact that past exchanges existed and these supported the trust building for the OEM-deal with Ichi. The other two firms did not have previous interactions as a reference and had to use other modes for trust-building.

All case companies to various extents used the services of The Swedish Trade Council in the early stage of entering Japan. The prestigious address of the Swedish Embassy acting as a natural hub for business between Swedish and Japanese companies seemed to be important. However, this institution-based trust-building was most visible in cases Alpha and Beta. Existing trust in the The Swedish Trade Council as well as in Alpha's existing Japanese distributor was used. For Beta, the Japanese prospective customers, including Ichi, already trusted The Swedish Trade Council to introduce interesting Swedish firms and technologies. The positive results of Beta's first deal with another large Japanese firm may be categorized as a form of institutional trust that helped establish the trust relationship with Ichi in the form of a positive reputation as opposed to an active trust-facilitator. This parallel process helped establish the trust-building in the larger deal with Ichi. Gamma did not have a strong influence from trust-facilitators in this early phase, but instead trust-building was connected to direct interaction between Otsuka of Futatsu and persons in the Gamma-team. Trust-building between Gamma and Futatsu was characteristic-based because Otsuka had no extensive information on Gamma as a company or their products at that time, but nevertheless became convinced enough to arrange follow-up meetings.

In the Negotiation phase, we see an increase in the importance of the key individuals for Alpha and Beta. In these cases, there was a pattern with initial interest from the Japanese firm's managers, followed by reluctance by the Japanese engineers, then the gradual overcoming of this reluctance with the help of door-openers inside the Japanese firms. In all cases, one Japanese person was key to the contacts and trust-building during the negotiations. This person became the owner of the contacts with the Swedish firm and promoted the relationship during this phase, despite reluctance from engineers or others inside his organization. In the case of Alpha and Beta, these persons were the same throughout the whole negotiation of the deal and beyond. The close personal ties between the engineers in Alpha and Yotsu developed into long-lasting personal relationships. At the same time, Alpha continued to work with smaller projects for Yotsu and trust was gradually built from this process. For Beta, the prior trust-facilitator of The Swedish Trade Council decreased in importance while Lars and Yukiko connected personally with individuals inside Ichi. Yukiko was perceived as important by Ichi and thus she contributed to developing the business relationship. For Gamma, this stage is characterized by processual interactions where much detailed technical information was outlined in close interaction but no close personal interaction was developed. Still, the trust-building relied on the support of Otsuka inside Futatsu.

In the Execution phase, Alpha continued to move the trust-building further with help of the modes of process and characteristics. The key staff like Kaji was the same and kept up the personal relations with Yotsu. Beta focuses on the ongoing process of executing the signed agreement with less focus on personal interactions and reliance on key individuals. For Gamma, the reliance on the early characteristic-based trust-building from Otsuka as a key individual weakened when a dramatic change of managers was made inside Futatsu and Otsuka left the table. Still, the business relationship is not terminated but the process-based trust-building only continued marginally.

Another indicator for the role of the individual in the empiric material is the presence of door-openers in the cases. These individuals work inside the trustor and act as communicators but also take ownership of the deal at hand and, if necessary, protects and

markets the relationship with the trustor inside the trustor. In this way, the door openers have been individuals acting as ambassadors for the Swedish firm inside the Japanese counterparts. These door-openers have been crucial, especially in the Negotiation phases for all the cases. In the case of Alpha, key individuals have affected the process of trust-building in all three phases. In case Alpha, we have seen how Watanabe became a key person for the early contacts and that he stayed in-touch with other key individuals like Kaji at Alpha Japan and Thomas at Alpha Sweden throughout the phases. Watanabe, Tanaka, and Tanaka's sales contact within Yotsu developed a close relationship that would last throughout the process and possibly beyond. Inside Yotsu, Watanabe acted as a translator through his close contacts with the engineers. Kaji, at Alpha Japan, continued to be the communication hub for contacts between Alpha Sweden and Yotsu. In case Beta, the role of Kenji at Ichi was perceived as crucial during the first meetings and increasingly important during the negotiations that followed. Inside Beta we have seen Yukiko building Beta's presence in Japan and working as a counterpart to Kenji. Beta soon relied on Kenji who struggled with the internal promotion of Beta at Ichi. In addition, these cases showed on-going negotiations conducted with more or less the same individuals for long stretches of time. The negotiations lasted for Alpha, four years, for Beta, three years, and for Gamma, nine months.

In case Gamma, the initiative and persistence of Otsuka at Futatsu was driving the early contacts and negotiations with Pierre as the main communication partner at Gamma. In fact, Otsuka acted as a door-opener inside Futatsu. The early communication between Gamma and Futatsu was characterized by uncertainty on both parts because of the unorthodox direct route of communication taken between a foreign SME and a Japanese trading house. Traditionally, a trading house was not used to direct routes without a trust-facilitator like The Swedish Trade Council or Invest in Sweden Agency. This route was made possible because of the Futatsu-representative Otsuka having a firm belief in the industry and ideas of how Gamma would fit a need. Gamma had invested a lot in the relationship with Otsuka as a person. Later when this central individual was replaced, the trust-building process received a blow that was hard to repair. Here is an example of one individual leaving the communication loop and this event having a large and direct impact on the outcome of the relationship. When the interest decreased, Gamma was surprised. Gamma perceived that one year of gradual trust-building had been devastated and that they simply could not spare more resources to build trust with Uetake, the new manager. The Japanese trading house was, from the experiences of Gamma, described as a paradox in that it wanted to be seen as one single entity, not especially dependent on any one individual; on the other hand, individualism was strong because each manager had total control of the case in his hands.

In all three cases, these individuals built routes of communication and pushed the relationships, negotiations, and trust-building forward over long stretches of time. The Swedish companies had, to various extents, door-openers inside the Japanese business partners.

8.5 Concluding discussion

Table 9 provides a summary of the factors analyzed in this chapter compared over the cases and phases. In this discussion, the research questions will be summarized and addressed.

Table 9: Summary of cross-case analysis

	Alpha			Beta			Gamma		
Phases	**I**	**II**	**III**	**I**	**II**	**III**	**I**	**II**	**III**
Sending capacity - experience - resources - management intent	HIGH 10 yrs. high yes	+ 4 yrs. high yes	+ + high yes	LOW 3 yrs. medium no	+ 2 yrs. high yes	+ + medium yes	LOW 2 yrs. none yes	+/- 9 mts. low yes	+/- +/- low no
Communication - message - media	 t r	 t/e r/l	 t l	 t r	 t/e r/l	 e r	 t r	 e l	 t/e l
Perceived trustworthiness - competence - benevolence - integrity	+ yes	+ yes yes	+ yes yes yes	+ yes	+ yes yes yes	+ yes yes yes	+ yes	+ yes	+ yes
Type of route	Triad	Triad	Triad	Triad	Dyad	Dyad	Dyad	Dyad	Dyad
Trust-building	PB+IB	PB+CB	PB+CB	IB	CB	PB	CB	PB+CB	PB
Door-opener	-	yes	-	-	yes	-	-	yes	-

Research Question #1. What is the relationship between communication abilities and the process of trust-building?

The conclusion from the cross-case comparison is that the sending capacity as well as the communication stemming from this sending capacity affects the process of trust-building.

The communication ability of sending capacity is examined in this dissertation. I conclude that this ability can be actively developed by a firm. A firm that has previous market experience, when in pursuit of a new business relationship, has the foundation for a high sending capacity. Still, a firm without this experience can fairly improve sending capacity if there is management support and enough resources are committed to learning this process. In the cross-comparison of the cases in Table 9, trends are represented by the three cases. One case started the negotiations with considerable experience in the desired entry market complemented by positive management intent and high deployment of resources all of which resulted in steadily increasing the sending capacity. A progressive learning process was the result. One case started negotiations with less experience, resources, and management intent but swiftly increased resources and this met with positive results related to sending capacity. The increase in resources would not have been possible without management forming the intent to build sending capacity and encouraging a swift learning process. One case had management intent but did not follow up on this intent with deployment of resources and this produced a negative result on the learning process of sending capacity.

The sending capacity was used to communicate the attribute of trustworthiness. Here, the cases show a mix of tacit-explicit messages and rich-lean media in the different phases. One trend and conclusion is that there is an apparent need for tacit messages and rich media in communication. In most phases of all the case, there is a match between a tacit message and media richness. Tacit messages match with rich media and explicit messages match with lean media. A message that is closely attached to persons in the sending firm and rooted in actions specific to a context would be sent via face-to-face communication where

communicating parties interact in physical proximity to each other. A message that is transmittable in a formal and systematic language would be sent via other media like email and written documents. In the cross-case comparison, this match of tacit/explicit and rich/lean holds well in the first two phases. More interesting is that there are times when cross-matching of message and media occur. Three observations can be identified during the Execution phases that stand out regarding message and media matching.

In the first observation, the Execution phase of case Alpha is predominantly characterized by tacit messages but lean media. In this phase, the tacit messages crucial for this phase involved issues around differing expectations on the levels of quality of the products. There was a need to be on site in Japan get a feel for how the customers, including Ichi, valued quality. These issues risked having a negative impact on the perceived trustworthiness of Alpha by Yotsu. The case narrative indicates the difficulties of communicating these messages via lean media. Still, Alpha Sweden had chosen to rely more heavily on lean media for communication with the Japanese market. The case narrative also indicates that at the by end of this phase Alpha had discovered this mismatch and taken action to use a richer media in the form of the new Swedish manager.

The second observation is from the Execution phase of case Beta which is predominantly characterized by explicit messages employing rich media. In this phase, the implementation of Beta's software in Ichi's products went smooth and messages were mainly concerned with support and some technical details and alterations. Still, Beta had previously complied with the wishes of Yotsu and set up an office in Japan staffed by personnel from Sweden. In this case, Beta became aware that there was no need to handle these rather explicit messages with people on site in Japan and thus withdrew resources from Japan that could be used elsewhere while continuing to support Yotsu through leaner media like email.

The third observation is from the Execution phase of Gamma case which is predominantly characterized by explicit and tacit messages that use lean media. In this phase, the critical messages dealt with the declining support, by Uetake of Futatsu, for the future execution of the deal. Throughout the phases Gamma had used the least rich media and created the least opportunities for tacit communication in comparison with the other Swedish case companies. In this phase, these issues involved the specific individuals of Pierre of Gamma and Uetake of Futatsu. Still, Gamma continued using leaner media like emails throughout the communication in this phase and in this mismatch of media and message continued to be surprised by ongoing developments.

With these illustrations, I conclude that these mismatches actually had a negative impact on the communication and that the choice of the mix of message and media is essential to the communication. I further argue that this conclusion applies to the communication of the three attributes of trustworthiness, which arguably is the purpose of improving the sending capacity and in this manner directly affects the process of trust-building. This explains another observation in the cross-case comparison when assessing perceived trustworthiness because the trend in the cross-case comparison is that competence comes early while benevolence and integrity comes later. In addition, case Alpha and Beta show indications of the progressive application of competence early on, followed by benevolence and integrity in later phases, while case Gamma did not have the opportunity to move beyond the attribute of competence.

One way of analyzing these observations in line with my framework is shown in Figure 14 where the two facets of communication, choices of message and media, are contrasted through a simplification with the attributes of trustworthiness positioned accordingly.

MEDIA

	lean	rich
explicit	C ompetence	Risk for loss of information
tacit	Risk for loss of information	B enevolence I ntegrity

(MESSAGE on vertical axis)
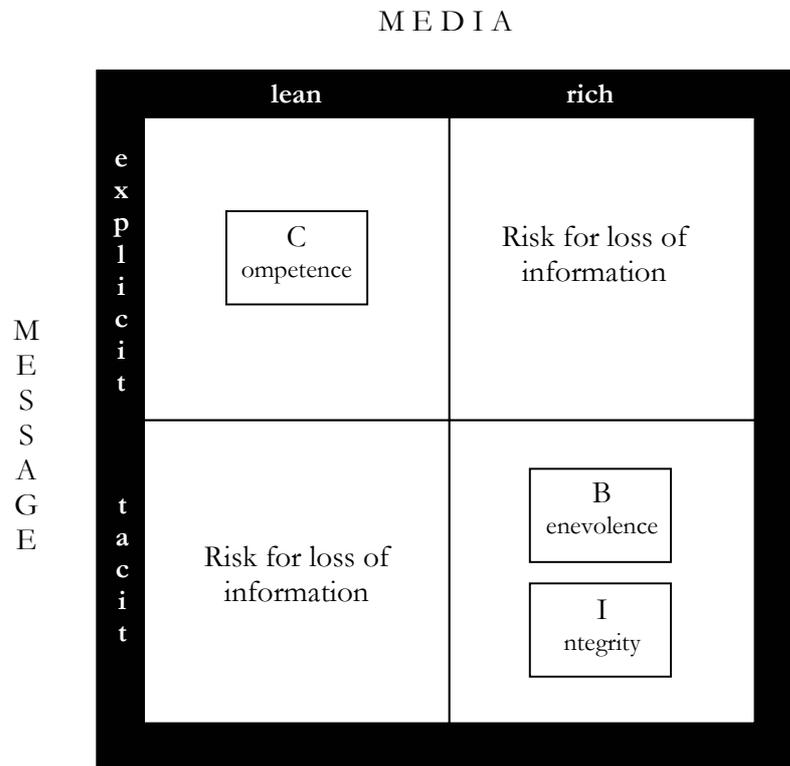
Figure 14: Matching factors of message and media with attributes of trustworthiness.

Based on the empiric material I argue that communication of the attribute of competence or, in other words, that the Swedish firm is seen as knowledgeable in their field and able to produce products with the features the trustor desires, is well suited to the matching of explicit messages and lean media. In the case review this attribute showed up often as detailed technical specifications and working prototypes. I further argue that communication of the attributes of benevolence, or that the Swedish firm is sincerely concerned about the trustor's well-being in that when problems arise they are helpful in finding solutions, as well as integrity, or that the Swedish firm has a fair behavior and keep their promises and is ethical in the business relationship with the trustor demands tacit messages via rich media.

As indicated in Figure 14 when a mismatch of message and media becomes predominant, there is a risk for loss of information. According to this line of thought, it is risky to try to communicate good problem-solving abilities and ethical business attitudes through emails. On the other side of the scale, it is risky to try to communicate detailed technical specifications that would signal the features or quality of the company's work through face-

to-face communication. In both these examples, the risk lies in loss of information caused by the mismatch of message and media.

This would help explain why Gamma did not have opportunities to communicate its attributes of benevolence and integrity. On the same note, another explanation is that the predominantly explicit messages and lean media were not suited to provide a progress into the attributes of benevolence and integrity. An alternative explanation would be that these attributes come later in the trust-building process and that Gamma may simply not have been able to reach a point in the business relationship process where opportunities arose to communicate these attributes. Still, the case of Gamma did in fact progress through negotiations into the execution phase like the other two cases that displayed more indications of increases in trustworthiness due to several attributes of trustworthiness.

Research Question #2. What is the role of intermediaries in the process of trust-building?

The conclusion from the cross-case comparison is that usage of intermediaries as trust-facilitators is helpful in the process of trust-building, although total reliance on one single trust-facilitator increases the risk of this actor potentially blocking business opportunities.

The triad was used in two of the cases. In one case, triadic routes were consistently used in all phases. In one case a trust-facilitator was used when first approaching the foreign market. In one case the triad did not show up, although in the last phase there were tendencies to the forming of a triad as part of the progress in the business-relationship. In these cases the triad had impact on the trust-building processes. This supports the conclusion that the triad is in fact a relevant unit of analysis in the context of studying trust-building as it relates to internationalization. One explanation of why these trust-facilitators showed up in the empiric material is found when analyzing the different modes of trust-building.

Process-based trust-building where trust is tied to past or expected exchange in business relationship takes place in the cases when a communication dialogue of the business relationship has progressed from the initial interest and first meetings. Case Alpha was in this regard an exception compared to the other cases as indicated by the cross-case comparison due to the fact that they had a previous history of exchange with their trustor when entering the Negotiation phase. However, in the case of existing trust-facilitators the modes of process-based and character-based trust-building was complemented by institution-based trust-building tied to these trust-facilitators. It is noted that the strongest indicators for institution-based trust-building were in the first phase when the trustee and trustor first meet.

Case Gamma illustrates a situation when Futatsu, in the role of trust-facilitator, was in control of practically all communication between Gamma and potential customers. If only ties A-B and A-C exist, A enjoys a so called tertius advantage (Burt 1992). B and C will in this situation have a strong incentive to cancel A's tertius advantage by forming a direct tie (Madhavan, Gnyawali & He 2004). Gamma did not succeed in canceling the tertius advantage.

Research Question #3. What is the role of the individual in the process of trust-building?

The combination of the role of the individual in the form of management intent, indications of characteristic-based trust-building, and door-openers gives a conclusion that individuals play a role in several parts in the process of trust-building.

The cases primarily illustrated that with the existence of management intent focused the firm into working with a specific firm in a specific market thereby allowing an individual, acting as a manager in the Swedish firms, to impact the direction and shape of the process of trust-building. However, in most of the phases in the cases the two factors of management intent and resources are connected. In all the cases, the resources were represented by key individuals, and in one of the cases the CEO himself was a resource that spent significant time on site in the foreign market. Case Alpha shows consistency in management intent and deployment of resources, while case of Beta shows consistency in the two later phases. However, in the case about Gamma we see that although there was management intent to engage in deals in the Japanese market, little or no resources were deployed to that market. Based on case Gamma alone, the conclusion is that management intent in the absence of deployment of resources is not enough to increase the sending capacity.

The role of the individual in the trust-building process was addressed through the analysis of modes of trust-building where characteristics-based trust-building was noted in all cases. In the two cases without previous history of exchange, the individuals involved in characteristic-based trust-building made it possible for the involved firms to initiate building and later continuing the trust-building process complemented by process-based trust. In the Gamma case there was a reliance on characteristic-based trust-building tied to the interactions between Otsuka and Pierre and this proved unfortunate when Otsuka left the deal. One conclusion based on the Gamma case is that it is a sound decision to spread the risks in trust-building by emphasizing as many modes of trust-building as possible.

The individuals acting as door-openers were illustrated in several of the phases in the case narratives. In this analysis their impact in the Negotiation phase is seen as particularly crucial. In fact, in all cases one or a few Japanese persons in the Negotiation phase were key to the progress of this negotiation as well as trust-building. These door-openers managed to work internally in the trustor and convince other departments and decision-makers that the deal with the Swedish firm in fact was worth pursuing. It can also be noted that these individuals were active for long stretches of time, as is best exemplified in the Alpha case.

9 Theoretical implications

The theoretical foundation was built from three pillars: (1) Internationalization; (2) Trust; and (3) Communication. A motivator for this study was to bridge a theoretical gap in the research where these key concepts intersect. In this chapter, theoretical implications are discussed based on the findings of this dissertation.

I summarize the main theoretical propositions based on the empirical analysis. For a trustee, to possess attributes of trustworthiness is not enough to be perceived as trustworthy by a trustor; the trustee must also be able to communicate these attributes to the trustor. Sending capacity is key for the trustee to communicate the attributes of trustworthiness. Sending capacity can be actively increased, and in this way, the context for trust-building can be managed. A careful matching of message and media improves the chances of communicating several attributes of trustworthiness. Using intermediaries that act as trust-facilitators between organizations, as well as individuals acting as door-openers inside organizations, are additional ways for a trustee to manage the process of trust-building.

In this chapter, I present a further discussion on these propositions and also speculate and generalize more freely in the line with the presented empirical and theoretical material of this dissertation.

For a trustee, to possess attributes of trustworthiness is not enough to be perceived as trustworthy by a trustor; the trustee must also be able to communicate these attributes to the trustor.

This study represents an approach in which the abstract concept of trust is advanced through trustworthiness and a distinction is also made between these concepts, which is relatively uncommon in previous research where both trust and trustworthiness are commonly subsumed under the heading of "trust" (Blois 1999). If trust presupposes trustworthiness, then I take the conceptual stance that existence of attributes of trustworthiness as well as the functioning communication of these attributes presupposes trustworthiness. As has been shown in previous research (Anderson & Narus 1990; Anderson & Weitz 1989; Etgar 1979), communication is largely seen as an antecedent to trust, but the opposite causality more rarely enters the models. Several researchers observe that in order for people to be willing to share their knowledge, they must have trust (Davenport & Prusak 1998; Podolny & Baron 1997; Kramer 1999). This is related to factors in the internationalization that can prevent or disturb the flows of information between the firm and the foreign market (Johanson & Wiedersheim-Paul 1975). In these studies, the level of trust is partially regulating the knowledge transfer and thus makes it possible. It is rare to examine how trustworthiness really is communicated through a transfer of knowledge between two firms. Adding these findings to the analysis in this dissertation I acknowledge that the relationship between communication and trust is more of a positive spiral than a one-directed causality where trust leads to communication and communication to trust.

This study supports the view that the attributes of ability, or competence, benevolence, and integrity as conjectured by Mayer, Davis & Shoorman (1995) to explain a large portion of trustworthiness, is in fact helpful in analyzing and structuring the abstract concepts of trust and trustworthiness. Some researchers have chosen to see trust as divided into a rational and an emotional component (Cullen, Johnson & Sakano 2000; McAllister 1995). If so, then I would argue that ability or competence represents the rational component while benevolence and integrity are represented by the emotional component. Theory suggest that when used together, these attributes can indicate the level of perceived trust in a business relationship, and when all three factors are perceived to be high, the trustee is considered trustworthy. The perspective taken in this study is that the existence of these attributes are not enough, but I urge researchers to also follow up on how these attributes are communicated and what made the trustor accept these attributes.

Sending capacity is the key for the trustee to the communication of the attributes of trustworthiness.

Going back to the fundamental model of communication suggested as early as 1949 by Shannon & Weaver, the concepts of encoding and decoding, in various forms and under different names, has been used to analyze what happens when a message moves from a sender to a receiver. This study focuses on the equivalent to the "encoding" part of the "transmission" in creating an understanding of what kind of communication ability it takes from the sender's side to ensure that the message has a higher chance of acceptance in the receiving organization. In a way, this ability can be said to increase the efficiency of the communication. It seems plausible that an organization with high sending capacity can make best use of its available resources by the way it communicates.

Through the communication, we have seen how the actors managed, with varying degrees of success, to provide a more or less beneficial context or environment for trust-building to take place and in this way actively have affected trust building. In this dissertation, trust is the result of these interactions within the business relationships. While it is not possible to force one party to trust another party, it is possible to demonstrate or communicate one's trustworthiness to another which is the focus of this analysis.

The focus on the sending party leads to a speculation about complimentary communication abilities in general and more specifically in a business relationship triad. One theoretical foundation for the framework in this study is in fact the theory of absorptive capacity as introduced by Cohen & Levinthal (1990). I have given my interpretation of the importance of absorptive capacity in Figure 15. Parts of the information that is relevant for the organization at a point of time, such as information that is necessary for continuous R&D in an international business relationship or for the assessment of another party's trustworthiness, is not absorbed by the organization with the lesser absorptive capacity, which is denoted in the illustration as Organization II .
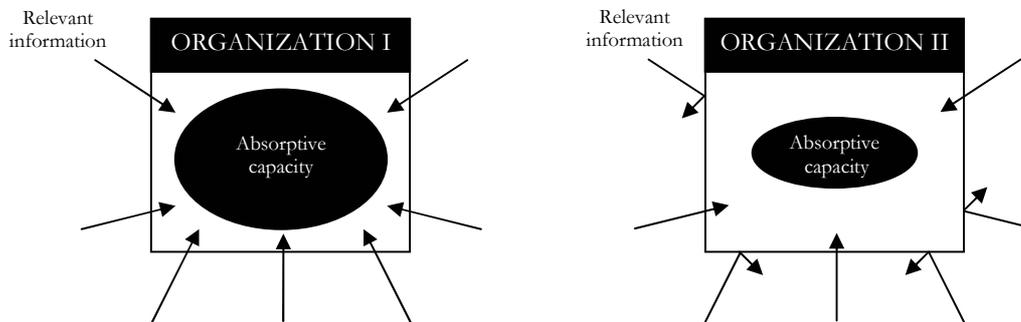
Figure 15: Illustration of the impact of absorptive capacity on absorption of relevant information

This concept fits well into the, with sending capacity complimentary, communication ability of receiving capacity. In a triad examined in this dissertation, receiving capacity would denote how well the trustor manages to interpret the messages from the trustee and finally transform information to knowledge. Extending this line of thought to the third actor or trust-facilitator in the triad allows for a comprehensive framework with the communication of trustworthiness to form. The ability of the intermediary to succeed in being matchmakers is well worth further study. The intermediary must not only match several partners and get them to communicate but also have the ability to see in what types of situations two actors would create new business opportunities if they were to engage in a business relationship.

Relaxing the focus on a party acting as a sender while another party is acting as receiver gives a more complex and realistic picture of the communication as a continuous dialogue over time instead of incremental steps of sending and receiving. The labels of sender and receiver are due to change over time, sometimes in the split of a second, and one actor can possibly be characterized by both these labels simultaneously. These speculations justify a discussion about reciprocity in the proposed framework and the communication of trustworthiness. Research has shown that trust can be built with symmetrical reciprocity and in situations with asymmetrical reciprocity or perceived inequity (Chan 1997).

The framework in this dissertation, however, displays an asymmetric picture of the trust-building process. We have a sending trustee and a receiving trustor. This lack of reciprocity is partly due to the focus of the trustee in the thesis, partly due to the necessities of simplification in a framework, and lastly with the actual realities in the empirical material at hand. This thesis uses the Swedish SME with international ambitions as its launching pad to study the processes of trust-building that unfolds through a part of a firm's journey. In this way, the main standing point for the reader is the Swedish firm looking over the horizon towards the market of Japan. Furthermore, the necessity to simplify the framework, one of the very goals in any conceptualization, resulted in snap-shots where the dialogue of the business relationship is asymmetric in the way that the trustee is mostly sending trust-building signals about their positive attributes to the receiving trustor. Lastly, I argue that this asymmetry (rather than one-directionality) well describes the situations depicted in the cases with early stages of communication between a SME and a large company in a foreign market. It is, in these cases, not the well-known Japanese firm that has to prove its trustworthiness in

terms of competence, benevolence, and integrity to the relatively unknown foreign firm but the opposite around. A stronger reciprocity can, and is likely, to develop as the business relationship matures.

One final note on reciprocity and trust is that the consequence of trust can actually be trust. Reciprocal trust is when a firm's trust of a partner encourages that partner to trust in return (Bradach & Eccles 1989). Johnson et al. (1996) shows a relevant example of reciprocal trust as exemplified when Japanese and U.S. partners create a trust cycle where trust creates trust. From the trustee's perspective, when a partner trusts you, you trust your partner. In this thesis the reciprocity of trust is acknowledged but this notion is outside the scope of the study. Instead, the concept of trust is indicated by the perception of the trustor and examined from the standpoint of the trustee.

Sending capacity can be actively increased, and in this way the context for trust-building can be managed.

It is easy to take for granted that trust will increase without special effort of the parties involved in an international business relationship. Trust is in itself an abstract concept that is hard to quantify and it is even harder to quantify its assumed positive effects. We do not have to look at practical situations to realize this; also, academic scholars have had difficulties in operationalizing the concept combined with the lack of a definitional consistency both within and across research disciplines (Droege, Anderson & Bowler 2003). The often gradual and time-consuming (Jones & George 1998) process of trust-building has led research of trust into studying relationships (Meyerson, Weick & Kramer 1996), and can make the idea that trust can be treated strategically and managed actively hard to grasp. Some researchers take the stance that trust hardly can be influenced. Sako (1998), for example, argues that trust is a cultural norm which rarely can be created intentionally because attempts to create trust in a calculative manner would destroy the affective basis of trust.

This dissertation provides a framework where the process of trust-building can be influenced via the sending capacity. Trust is defined in this thesis as the perceived trustworthiness of the receiver and one way to affect trust-building is to learn how to communicate with this receiver. This increasing of sending capacity is seen as a process where organizational learning constantly upgrades the sending capacity or the knowledge of how to communicate. The sender can, in a continuous learning process, build up a sending capacity that helps them to package external messages in a way that is suitable for a specific receiving party.

Of the three proposed factors of sending capacity, the interrelation between them is yet to be examined, and of these factors management intent is arguably the most complex. Linking to the work of Hamel & Prahalad (1990) this managerial intent would be a driver for mustering the necessary resources in the future and also the driving force for building experience through learning. With the management intent in place, resources and experience can be mustered. Without the management intent, resources and experience would not necessarily increase sending capacity. This is connected to the learning organization that postulates learning happens only by intention and hardly ever by default (Hamel 1991) so management intent would be the "…essential ingredient in the commitment to learning…" (Hamel, Doz & Prahalad 1989, p.134), especially in a smaller firm where the impact of a few key managers' beliefs and strategy choices weighs heavily on the organizational direction.

The management intent of the SME and its CEO can be practically identical while in a larger company there might be more room for disparate management intent inside the company. In the SME it might, and should, be hard to separate the overall management intent of the firm with the intent of its CEO. Here, the role of the individuals is highlighted where the organization's communication ability certainly is dependent on the involved individuals' communication abilities. In a larger company there might be more separate management agendas at one time. This could give room for the role of the individual because the intent of the door opener might be different from the intent of the top-management of the firm. In the long run, this door opener can prevail and contribute to a change in the management intent of the company. It is possible that management intent and the communication ability are interrelated and they may affect each other along a time-line, which would support suggestions by O'Driscoll, Carson & Gilmore (2000).

We can also consider whether the sending and receiving capacity is related or if they should be considered as alone. I would argue that the sub-concept of managerial intent could be an underlying connection between the sending and receiving capacities in a specific business relationship. One might speculate whether there is a timely fit between the management intent of the two firms and how this would affect the trust-building process. A situation with a fit in management intent would be exemplified where the trustee is extremely interested in introducing a product on the foreign market and at the same time the trustor is very interested in this particular product or its underlying technology. There would in this case be a fit between the organizations which would assumedly have a strongly positive impact on the trust-building dialogue and the business relationship over the long run.

A careful matching of message and media improves the chances of communicating several attributes of trust-building.

Through the cases we have followed trust-building in the rapidly changing settings of internationalization. I argue that this situation resembles the circumstances described in research on trust-building in virtual organizations (Jarvenpaa & Leidner 1999) where team members meet each other scarcely and infrequently. The focus in both situations is on the means for quickly establishing trust in rapidly changing settings. In the process described in the cases, the trustee in Sweden and trustor in Japan had to during long stretches of time relying on leaner communication media like email and telephone calls, mixed with infrequent face-to-face communication.

In my cases, I have observed where lean media like email can lead to misunderstandings. Respondents reported how emails could lead to misunderstandings and stop trust building in the business relationship. These misunderstandings might have been avoided if set rules and expectations were laid out before negotiations through email started. Recent research by Paulson & Naquin (2004) suggests that that the benefits of e-mail may at times be offset by the potential relational hazards of the medium.

However, a line where richer media per default is superior to leaner media is not driven in my study. A careful matching of message and media might be of importance not only for communication of trust-building, which the analysis of this dissertation suggests, but also for all communication. This is in line with a recent study on managing knowledge-sharing in organizations by Murray & Peyrefitte (2007) that suggests communication media classified as

having low-media richness were most likely to be chosen to share information or explicit knowledge, whereas media classified as having high-media richness were most likely to be chosen to transfer know-how or tacit knowledge. In my study, the matching of media and message is linked to the communication of a certain type of messages to portray the attributes of trustworthiness.

Arguably, both theoretical thought as well as practical experiences indicate that a simple categorization of media into rich and lean, without taking into consideration the surrounding context, can be misleading. For example, a seemingly lean media like email can be used to transfer complex, tacit knowledge if the sender and receiver have an already deep understanding and rich body of experiences in dealing with each other. Two long-time friends can, with a few words or a maybe an internal joke, transfer a complex message containing knowledge about current feelings. A blueprint to a skilled engineer might say much about the sending firm's status regarding R&D, organization and so on.

Using intermediaries acting as trust-facilitators between organizations, as well as individuals acting as door-openers inside organizations, are additional ways for a trustee to manage the process of trust-building.

When starting the work on this dissertation, one of the working hypotheses was that the process of a company's internationalization would provide rich material for studying the process of trust-building. Within the process of internationalization it was assumed that the process of trust-building played a key role. These assumptions turned out to be true and the study of firms engaged in internationalization proved to give ample opportunity to study several modes of trust-building.

There is a special level that exists between the dyad and the network that has proven to be interesting when analyzing the cases in this dissertation and that is the triad. Much research on communication, business relations, trust, and negotiations has focused on the dyadic form, and research attention has also been focused on larger complexes of actors in studies on network theory. The triad is a meso-level that proved to be of relevant explanatory value in the analysis of trust-building. This dissertation indicates that application of research on triads as an entity previously taken up by Havila (1996) continues to be interesting to current and future research and in several other fields of study. There are aspects or benefits in the analysis of triads that has special bearing on studies of trust-building. Summarizing adapted arguments posited by Havila (1996): First, the level of analysis makes this approach capable of including a small network but at the same time have the granularity to include specific relationships between individuals, which can be useful in studies of trust. Second, the existence of an explicit intermediary in the analysis makes it possible to study how this intermediary takes on the role of trust-facilitator in a process of trust-building. Third, the relatively limited scope of the triad network, the smallest possible network, also makes it possible to track changes and processes in time in the relationships.

In early stages of internationalization, the firm entering a new market can be introduced to actors on that market by intermediaries. These can for example be agents or trading houses, venture capitalists, or governmental organizations and export promoting consultants. The research presented in this dissertation suggests that looking at communication and trust depending on these intermediaries can give additional insights to the process of trust-

building. The conclusion from the empirical analysis of this dissertation is that some of these actors have been quite successful in their role as trust-facilitators using their position and existing trust in the local environment to facilitate trust-building for other actors. Some of the actors can be argued to have this as their main purpose and source of income. The empiric material in this dissertation definitely supports the observation of Zucker (1986) that institutional-based trust can be a commodity that is "manufactured" by individuals, organizations and even entire industries, and that at least some types of it are purchasable.

The process-aspect of how the triads are formed and dissolved is interesting. In the cases we see examples where the trust-facilitator was reluctant to lose initial control and tried to regulate how much contact the two other parties had with one another. In the cases when the trust-facilitator linked other parties together and their dyadic relationship grew stronger, they stopped communicating through the trust-facilitator. In one case the trust-facilitator held develop a strong linkage yet the other two parties did not manage to build a dyadic relationship. The trust-facilitator stayed in control of the triad. In another case this also risked happening in part of the process described due in part to the foreign subsidiary and trust-facilitator became isolated on an island when their loyalty was closer to their local clients than to the overseas headquarters. While the triad constellation enhanced the market development activities of two of the case firms, it also might have placed constraints in terms of pursuing specific marketing opportunities and establishing relationships with others. In the third case this constraint became visible in the last phase. This can be compared to similar findings by Coviello & Munro (1995) when studying network relationships in internationalization.

The process-aspect of how the triads are formed and dissolved can be related to the modes of trust-building. In a wider perspective, Zucker (1986) predicts that the process-based trust-building will be supplemented or even replaced by institutional-based trust-building in conditions of exchange across group boundaries, where there is significant social and geographic distance between those groups. The analysis of this dissertation supports this concept but goes further to suggests that the mode of institutional-based trust-building, at least represented by trust-facilitators, is strongest in the beginning of the business relationship and eventually process-based trust-building predominates.

As for explaining both the role of trust-facilitating and individuals, the indicated modes of trust-building (Zucker 1986; Parkhe 1998b) proved to be relevant. Still there is room for speculation based on the analysis in this dissertation on possible complementary modes of trust-building. The empirical material contains several critical events or episodes that had a direct impact on trust-building. In line with a view upon trust-building as a long row of interactions and events comprising a dialogue (Lazerson & Lorenzoni 1999; Flores & Solomon 1998) there is a possibility to isolate and categorize some of these events as having certain impacts on trust. Typical events taken from the analysis of this study are first meetings and the contract signing which were used to separate the analytical constructs of phases in the business relationship. Events are not always on a positive note; on the contrary in this study they have represented frictions and problems in the communication between the trustee and trustor including diverging expectations of product quality, and sudden changes in key individuals for the communication. I speculate in that trust-building based on certain critical events might be seen as an additional mode and that the events that were at the time seen as critical and negative for the business relationship might in fact be relevant to

the trust-building. One possibility would be that these negative events can be used as pivotal tools for quickly building trust if the trustee is aware of this and acts in time.

I have proposed that the role of the individual in research and theorizing on trust-building in international business relationships has been relatively neglected and I have in this dissertation posited some areas where the individual, as opposed to the organization as a whole, have been crucial to the process of trust-building. The door-openers that we have encountered in all of the cases bear resemblance to the concept of "technological gatekeepers" or "sociometric stars" in previous research (Allen & Cohen 1969; Allen 1977; Tushman 1977). Another parallel is to the theoretical concept of organizational boundary spanners as used by Cohen et al. (2005). These boundary spanners are described as members who perform boundary functions at organizational interfaces such as with customers are critical to its effectiveness due to their informational (i.e., providing information from external sources to promote innovation and change), relational (i.e., building relationships with key stakeholders) and exchange-value contributions (i.e., consummating value-adding exchange of resources). The function and value of such individuals have been supported by the analysis in this study where these individuals' actions linked organizations together and in this way facilitated trust, but also where they could use their position inside an organization to support a certain product or company.

In a more general analysis of trust-facilitation based on the findings in this dissertation the individuals identified as door-openers could, in fact, also be interpreted as facilitators of trust. Then a distinction should be made between external and internal actors acting as trust-facilitators. The external trust-facilitator is an organization or individual that assumes the role of intermediary outside the organizations of the trustor and trustee so this would still arguably be analyzed in terms of institution-based trust-building. While an internal trust-facilitator as demonstrated in the setting of this dissertation, is an individual inside the trustor organization so he/she will be analyzed in terms of characteristic-based trust-building. Taking this view, the trust-facilitator is not always an external actor but in fact an individual inside an organization that is able to function as a trust-facilitator.

10   Managerial Implications

These managerial implications are primarily aimed for the manager of a SME starting to pursue market opportunities on a new foreign market. I have kept them short and to the point based on the empirical and theoretical findings of this dissertation. Having said this, I am confident that these managerial implications can also be useful for the other two main actors in this research: the company being approached by a potential new foreign business party, and the person or organization that finds themselves in the role of an intermediary between two potential business parties.

Treat trust strategically. The level of trust is not necessarily given, but can be influenced by your actions as a manager. When trust has been damaged it is hard to rebuild. You must be able to manage situations where not every transaction and facet of the business relationship can be governed in a contract. If you are dealing with high-tech products and internationalization this may be particularly true due to fast changing market characteristics. During the building of international business relationships you might find yourself engaged in R&D which includes sharing of sensitive information with foreign partners, uncertainties of what the outcomes of this R&D will be, and who will benefit from these outcomes. All complexities in such arrangements cannot be regulated in formal agreements. Trust-building can, if used successfully, provide great strength and a sort of informal though flexible insurance. Experiences, resources, and your intent as a manager, are some factors that are involved in the trust-building process. As a manager you can actively control these variables. Make use of the strengths of a smaller company compared to a larger one: your ability to establish flexibility and manage relations with other partners at home and abroad. If you decide to penetrate the foreign market be prepared to dedicate resources over time, build experience, and make clear what your managerial intent while being patient in the development of trust.

Proactively build your communication abilities. It is not enough for your firm to possess a number of attributes of trustworthiness; you also must be able to communicate them. There are no shortcuts to make a new business partner see you as trustworthy. But it is possible for you to create an environment where the chances for this improve. A crucial part of this environment is your communication abilities. When this environment is created you can convey the competence, benevolence and integrity of your company in relation to the business partner with positive attributes that will help your partner to determine your trustworthiness. Trust-building is a central process to monitor when your company approaches potential foreign business partners. The potential foreign business partner will decide if and when they can trust you and your company based on what signals you and your company are sending. Therefore, it is crucial that you build up knowledge in your firm of how to best approach these foreign business partners. Exactly what makes the other firm trust you can be different in every case. You have to have the skills to understand what triggers the other company, the trustor, and the flexibility in your organization to act on these triggers. Through the communication by you, your managers, engineers, assistants, written documents, technical specifications, products, and so on, messages are transmitted from your company to the other company. The signals can be direct facts on the benefits of

your products as well as indicating behavior like your long-term presence and taking demands of quality clearly into consideration. This continuous bunch of signals can both build and destroy trust that the foreign company has in your company. All communication stemming from your company should be packaged in a way that is easily understood and assimilated by the foreign business partner. How well you handle this packaging is in turn affected by the experience and resources you have decided to dedicate to the business relationship. Your decisions and your intent as a manager will have a critical impact on the building of these communication abilities needed for wrapping up the communication in an attractive package.

Learn when to use richer and leaner media for communication. Your company's behaviors and interactions in the relationship provide trust signals to the partner. You should analyze your communication in the dimensions of message and media. These dimensions should have a fit if you are to communicate efficiently. In some situations you find that a message is complex and multifaceted. This can be the initial presentations, for a foreign potential business partner, on your products and the value they represent as well as your company strategy. For trust-building to occur during these presentations, you must communicate the integrity of your company as well as your good intentions with the negotiation partner. These messages have a higher degree of tacitness. Then you have to choose an appropriate richness in your media, such as face-to-face communication by you personally. Other messages are technical specifications or financial information which can be inappropriate to communicate through richer media. In this communication you can prove and document your company's competence. These messages can and should be made explicit and communicated though leaner media like written summaries and tables. If you have a subsidiary in the new market then this will be your most important node for communication. Because the local companies will identify the subsidiary as the primary representative for your company and it is of uttermost importance that its management is on the same page in terms of strategy. If not, the subsidiary might, instead of being your listening post on the new market, instead act as a filter where relevant feedback on your products and initiatives are lost. Do not base all your trust-building on one single individual in the opposite organization. Spread your risks by communicating with a number of individuals. If one person leaves then your efforts of trust-building might have a severe blow but will not collapse. Make sure to give time and resources to maintaining personal relationships, even if they cannot be labeled as crucial for the current market activities Because they might very well be useful later. To keep continuity in the relationships is central. Local presence should not be taken literally so make use of the flexibility you have as a smaller company when deploying personnel and resources. When crucial business negotiations or market activities are under way you must project an image that you are on site with everything you have got. If this means having the CEO on site for months at a time so be it. In calmer periods of execution, a post box or a local phone number could be enough. Again flexibility is the key. Rotate people between Sweden and Japan to build experience quickly among your employees, but find a few that have the interest and commitment to stay longer and act as bridges. When staff returns, have structures and processes ready for active knowledge transfer. The homecoming staff has experiences to share but this can be transferred more efficiently if a structure is in place.

Do not miss out on facilitators of trust. Take advantage of the opportunities that actors outside the immediate relation to a primary business partner provide. It is not only important

how you behave in the direct relationship with a potential business partner, but also how your relations proceed with third parties that might become facilitators of trust. Many of your future business opportunities that you develop with your international business may come from indirect actors. You should be aware of how these relationships are created. Pick your partner strategically with trust in mind. Actively seek actors, that today or in the future, can become facilitators for your company in the trust-building process. When starting off an international venture you may feel that resources are inadequate. You have a hard time getting the attention of attractive foreign business partners. Now is the time to strategically work together with facilitators. These facilitators can propel the trust-building process by means of letting their local position and earned trustworthiness spill over onto you and your company. What to be careful of is a facilitator not willing to let you stand on your own legs as you develop your own trust. This actor can progress from a useful facilitator to an intermediary that hinders your local progress. When working with facilitators, during the internationalization process, these specific actors might want to stay in control in the triad longer than you find pleasant or beneficial. You should be prepared for this and continuously build relations and ties on different levels with your primary business partner, the trustor. The triads of trustee-facilitator-trustor are dynamic. Remember that what initially was the trustor in a triad can later become an important facilitator when finding a new business opportunity. However, facilitators are not only influential government bodies or local distributors; facilitators can also be found inside the potential business party. When you have the potential business partner's attention you may feel that you are still fighting an uphill battle in building the necessary trust in the relationship. During the early meetings you find that that your ability of maintaining product quality, giving support, and a number of other reasons are held against you. As a foreign firm it can be a long and resource-draining process to convince the partner about your merits. You can make this phase of negotiation easier if you manage to seize the opportunity to find individuals inside the trustor who can act as your internal door-opener during the negotiations. If these valuable door-openers are supplied with sufficient support and attention your chances of a successful negotiation increases. As time goes by you and your company may very well find yourself in the role of the facilitator. As an actor working in the role as facilitator for other parties you are working on the strength that you have built up probably during many previous years in the local business community. You must be aware that your position on that market is also influenced by what trustees you chose to support. You are taking on a responsibility and must make sure to screen new trustees closely so as to not erode your position as a facilitator.

Think in terms of processes. Be aware of the different phases that a successful, developing business relationship with a foreign business partner goes through. It might be useful to consider the three phases of Preparation, Negotiation and Execution when engaging in business with new actors abroad. In this way you can stay ahead of the proceedings and take appropriate action, such as resource allocation, at the right time. In the Preparation phase you have started an interest in a new market but have not yet managed to engage in negotiations with a potential foreign partner. During this time you should manage your organization so that maximum knowledge and experience is gained about the new market. Your organization must increase their knowledge fast through a learning process that often must be quick in order to be ready for coming business opportunities. Your intent as a manager is the key variable sharpening your firm's willingness to gain relevant experience and muster the necessary resources for the task of penetrating the market. Exposure to the foreign market and selective employment of staff with previous experience can help prepare

your company during this phase. Still, it must be emphasized that you may find it necessary to personally be deeply engaged in this learning process. Setting aside longer stretches of time for networking and learning on site in the new market has given SMEs good results in the past. Take ground work on site in the new market seriously because it takes time to know the market and this learning process must be done by key managers who have a holistic view of the company's strategy, strengths and weaknesses. When negotiations start, the communication abilities you have built and/or fine-tuned in your organization during the Preparation phase will be helpful. As negotiations progress and hopefully reach some sort of formal or informal agreements you have to keep your attention on the demands of the foreign business partner. Do they want you to build up a permanent local presence in the new market? This does not have to imply dedicating your employees for full-time assignments stationed in the new market. Swift and well-maintained communication machinery in your Swedish organization may be able to partially handle these demands through leaner media like email and telephone calls. Experience have although proved that it is important to give the trustor a sense of availability at all times. When your team is based on a different continent it is particularly important to maintain functioning communication through all means possible. Seriously, evaluate smaller projects that might not seem profitable. High performance in incremental steps can lead to larger contracts later on.

Finally, consider the Japanese market for your products and services. Smaller Swedish companies can succeed in engaging in profitable business with larger Japanese corporations. Have self-confidence in relations with Japan because there are a few magical cultural factors to be afraid of and in these situations common sense prevails. Swedish SMEs can report on particularly well-functioning support from Swedish governmental organizations on site in Japan that help you get started in the world's second largest economy.

11   Future research

The framework developed in this dissertation has many potential extensions. The operationalization of the suggested factors of sending capacity can be broadened. A more thorough examination of the dependence of the actors' sending capacity on its previous internationalization experience and its current resources defined more broadly would be especially interesting. The construct experience could be evaluated through what internationalization stage the firm has reached. Cavusgil's (1980) five stages is an option for this, partly for its explicit operationalization via the export/sales-ratio. Additionally, the firm can be asked in how many previous countries they were selling at the time of the first contacts with the Japanese market.

There is also a matter of the importance of previous personal experiences by the key individuals involved in the Japanese internationalization. More extensive qualitative data has to be gathered on the personal history of these individuals such as previous work with internationalization in other firms and family ties. The construct resources should try to pinpoint, in a more holistic way, the amount of resources that have been delegated to the internationalization into Japan. This can be done in direct monetary terms, man-hours spent on the project, or the amount of seniority held by the staff involved in this activity. Assessing the management intent has to primarily be a matter of interviews, recording the outspoken external and internal intentions of the firm. Contrasting several respondents' views upon these intentions can hopefully give an accurate view.

More types of communication abilities should be included in future research. Especially the sister concept of receiving capacity is a suggested extension. As in the case of the counterpart, sending capacity, one should probe how much previous experience with internationalization in general and with foreign smaller high-tech firms in particular the receiver has in his/her history. Again, not only the firm, but also the involved individual's personal history is important. Resources should be assessed in the same way as for the sending capacity, with quantification in monetary terms as far as possible, combined with asking how influential or senior persons in the firm are involved. Management intent is elusive, but could be assessed in terms of strategic fit with what the Swedish firm has to offer. One may ask if the message from and contact with the Swedish firm is valuable and timely for the Japanese trustor.

Figure 16 gives an example of this extended framework according to this discussion.
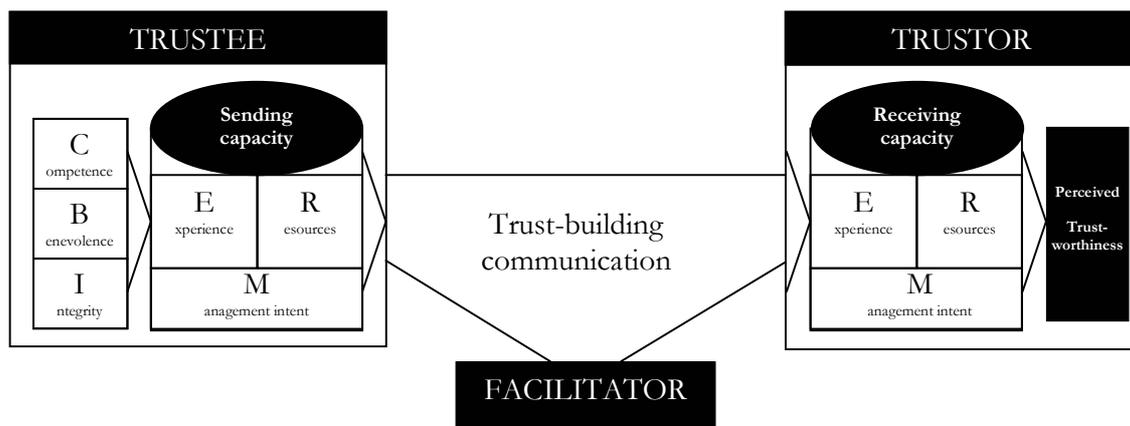
Figure 16: Example of extended static model for future research including communication ability of trustor.

As for the trust-facilitator in the triad of the framework, I propose that future research develop a complementary construct of matchmaking capacity which hypothetically would depend on experiences, resources and management intent, but also on the existing strength of trust between the trust-facilitator and the two other parties in the framework. Data on experience, resources, and management intent should be collected in much the same manner as for the trustee and trustor.

Extensions in the factors of communication may give further insight. For example, the impact of timing in the communication of trustworthiness, if using the general definition of communication as the informal sharing of meaningful and timely information (Anderson & Narus 1990), provides opportunities for more theoretical and empirical investigation. This definition implies that some information can be timelier than other information which may have significance for the process of trust-building. There are indications in the empiric material that the very timing of the communication as well as the accessibility and response time could act as signals of trustworthiness. All three cases take up problems in timely communication as an issue that can disrupt trust-building. Related to this is how firms handle risks of communication overload, i.e. the quantity of communication with scarce resources. These additional facets of communication are worthy of follow-up studies.

How actors in a business relationship, or constellation of business relationships like the triad, switch in between various roles (Shapiro 1987) and how this affects communication of trustworthiness is an area of study that could give further insight in line with the work in this dissertation. Contemporary research in this area has been conducted by Perrone, Zaheer & McEvily (2003). Understanding the dynamics of the role of intermediaries like the trust-facilitators observed as well as the individuals acting as door-openers could be enhanced.

I further suggest that the main avenues for future research include but are not limited to alternative, complementary, or contradictory explanations to the trust-building process besides communication such as formal agreements, and comparisons of industry sectors.

This study includes empirical material on a negotiation leading to a formal agreement or contract. The role of formal and informal contracts has been studied in literature on trust, where non-contractual trust-building have been contrasted with usage of formal agreements (Ring & Van de Ven 1994). Trust is suggested to eliminate the need for formal contracts, which are costly to write, monitor, and enforce (Hill 1995; Barney & Hansen 1994). I can agree on these effects of trust but find that at least a sharp dichotomy comparing "non-contractual" and "contractual" trust-building can be misleading. Instead, I take the conceptual stance supported by Zucker (1986) that trust is necessary even to write a contract and this is supported in part through at least the level of complexity in business negotiation that have been examined in this dissertation. The situation can be even more complex where the usage of written binding contracts has been suggested to also reduce the likelihood of trust-building because parties attribute cooperation just to contracts and not to the individuals themselves (Malhotra & Murnighan 2002). Still the formalization of a negotiation into a formal contract is an event that can be potentially critical for the trust-building process between trustor, trustee and possibly trust-facilitator. In communication, it might be crucial that all involved parties have the same expectations and understanding on the very concept of the written contract. I suggest more detailed research on how these expectations are aligned through communication when a formal agreement is outlined and the effects on trust-building in the business relationship if the communication regarding the contracts breaks down.

The Swedish firms examined in this study were all involved in development of software. Whether software industry characteristics as described by Bell (1995) affected the approach to international business relationships and trust-building in these relationships could be a possible valuable extension of the study.

Ending on a note of precaution, the argumentation has been aiming towards the production of high levels of trust as positive. The "darker side of trust" has not been examined closely. Researchers like Krishnan, Martin & Noorderhaven (2006) have suggested that high levels of trust can have negative effects; more specifically overconfidence in the information provided by each partner leading to reduced alertness that is so strongly needed in the presence of high uncertainty and these high levels of trust instead create a potentially dangerous numbness to external critical input. One implication is that measures for trust-producing should only be taken when and if the expected payoff is positive. Further research on when trust-building should not be encouraged would be valuable.

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