

# **Financing of Internationalisation Process and its Effects on Finnish SME**

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## ABSTRACT

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<p>Abstract</p> <p>This research focused on a study of how small businesses can launch their foreign operations, with a focus on the internationalisation process by Akukon OY. The study examined the factors and theories of internationalisation and it was found that the main forms of financing used by SMEs were self-funding, debts, equity, venture capital and grants by government and other associations. The study further examined how the various theories of internationalisation (Uppsala model, Dunning Eclectic Paradigm, and the Born Global theories) influenced the internationalisation of small and medium enterprises. Previous studies indicate that the Uppsala model influenced SMEs to internationalise slowly by first exporting to other markets. This means that the companies start by self-financing before graduating to other forms of financing such as debts and equity. In contrast, Dunning Eclectic Paradigm holds that internationalisation process should commence in instances where the company is likely to benefit or possess ownership, location and internalisation capabilities. Taking a different approach, Born Global theory looks at firms that start out as global organisations. The theory argues that such firms have advantages such as globally skilled founders that gives them an edge over domestic firms which expand later. By taking a qualitative approach, the study used extant theoretical approaches to develop interview questions, which were used to collect responses from face to face interviews. Four interviewees from the case company were sampled and targeted, and the data was analysed using content analysis. Three findings are notable. First, Akukon company gradually internationalised some of its operations and used minimal market commitment in its international operations. This proved that it was applying some aspects of Uppsala theory. It also invested in countries where the SME would have ownership advantages and market advantages by acquiring the best talent. This demonstrated that Akukon applied the eclectic paradigm. Akukon also had founders with international experience and possessed intangible assets. This proved that Akukon used Born Global strategy to some degree. The study demonstrates that SMEs that combine various approaches leverage their strengths and minimise their weaknesses.</p>	
Key words: Internationalisation process of SMEs, Financing internationalisation process, Internationalisation theories	
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# 1 INTRODUCTION

## 1.1 Background of the study

The emergence of the internet, rapid globalisation and reduced costs of telecommunication technologies led to rapid organisational growth, both domestically and abroad. Baldegger and Schueffel (2010) and Stam, et al., (2009) note that the integration of markets provided new opportunities for cross-borders operations among business organisations, leading to the growing popularity of the concept of internationalisation. Studies on the subject have focused on the foundations of the internationalisation, its benefits, challenges as well as costs (Knapp and Kronenberg, 2016). While appreciating the significance of these perspectives, this study narrows down its focus to the benefits, costs and financial implications of internationalisation.

According to Pinho (2007), internationalisation chiefly benefits an organisation in two levels, namely, firm level and industry level. At the firm level, it helps organisations attain their two core objectives, which are revenue generation and profit generation, and organisational growth. Knapp and Kronenberg (2016) agree, adding that at the industry level, internationalisation also intensifies the competitive position of firms through innovation and performance, enhancement of managerial skills and human capital and

diversification of the business risks. Upon such a backdrop, the study focuses on understanding how internationalisation theories can play a role in an organisation's international growth and the benefits and associated costs and financial implications of specific internationalisation approaches. The bottom line is to understand whether internationalisation leads to increased profitability or not.

Founded in 1994, Akukon Oy is an independent planning and consulting company headquartered in Helsinki Finland (Akukon, 2018). The company's main business is production and retail of acoustics, noise control and audio-visual designs for the Finnish market. Its success led to a rapid growth of market share leading to its expansion efforts abroad. As of the beginning of 2020, it was present in five other countries in the Baltic and Middle East, with offices in Estonia, Middle East, Latvia, Georgia and Lithuania. Headed by its founders, Henrik Möller and Tapio Lahti, the company has employed over 50 experts in acoustics and sound technology. The company's core objective is to provide its customers and people with a better living environment by protecting their environment from noise pollution, and promoting the safety, functionality and excitement within their premises. Its mission is to improve people's physical and mental well-being and work productivity through good planning. According to its published statements, the company's quality audited systems comply with ISO 900 and is also certified by Construction Quality RALA Oy (Akukon, 2018).

With the goal to operate internationally, Akukon has identified and registered subsidiaries in five countries noted above. All of them were joint ventures with local acoustic specialists.

The first one was Akukon Lietuva UAB (Akukon Lithuania), which was established in September of 2016, as a joint venture between Akukon Oy and Sonus Exsertus UAB. Subsequently, Akukon Middle East Ltd (Jerusalem) was started in July of 2017, with Akukon owning 51% of the shares, May Hanna - 45% and Viktor Makhoul-4%. Since Akukon Oy was rejected to open a bank account in Israel, May Hanna established a separate company called Jerusalem Acoustics Ltd. Currently, all projects are done through that company. Afterwards, SIA Akukon-Būvakustika (Akukon Latvia) was founded in August of 2017. Currently, Akukon Oy owns 60% of the shares, while

Latvian representatives own 40% of the shares. The second daughter company founded outside of EU, Akukon Georgia, was established in May of 2018. Akukon Oy owns 51% of shares, while Georgian partners own 49% of the shares. Finally, Akukon Eesti Oü (Akukon Estonia) was registered in 2019, with Akukon Oy owning 51% of the shares, and Estonian partners owning 49% of the shares. Akukon Oy had been doing projects in Estonia since 2002, but the official daughter company was established only in 2019. Akukon Oy also plans to establish a new daughter company in Russia, by the end of 2020.

Akukon Oy's internationalisation goal, small size as well as location in Finland are three of the main factors why the company was found a suitable case for consideration in a study looking to investigate internationalisation as a subject while relying on empirical data and primary evidence. This study therefore uses the company as a case study to explore the extent to which internalization is a viable business strategy. The study also looks at the costs and benefits of internationalization, and its effects on company's financial performance.

Two main gaps exist in contemporary literature. First, Malhotra, Agarwal, and Ulgado (2003) state that progress continues to be made in transport and communication technologies, pushing mass globalization even more over the past decades, so does the traditional national boundaries become obsolete barriers for business. While country borders used to be a barrier for companies that wanted to move their operations out of the country in the past, this issue is increasingly going moot, leading to an observable rapid growth of start-ups as seen in the cases of Uber, Netflix, Alibaba, Tesla and other companies which quickly gained a global presence (Campos, et al., 2018). However, different companies have different motivations for internationalisation, and Knapp and Kronenberg (2016) emphasizes that even in today's global environment, new challenges arise for small businesses looking to grow abroad based on their reasons for expansion as well as other set of factors like size, liquidity, and industry. Cadogan, Diamantopoulos and Siguaw (2002) further rightly point out that without a carefully planned and strictly implemented internationalisation strategy that puts into the forefront the advantages of the emerging environmental dynamics, an organisation may fail to make profits, grow or achieve any of its other expansion objectives. In practice most small firm managers may

not understand the theories that explain these dynamics, leaving them likely to avoid internationalisation.

Secondly, studies show that different approaches have their weaknesses and strengths (Cadogan, Diamantopoulos, and De Mortanges, 1999). However, few studies have showed how these theories can work together to give an optimal internationalisation approach to organisations, especially for small businesses that lack large cash reserves. Even fewer studies exist that are focused primarily on the issue of internationalisation while focusing directly on Finnish firms. This study contributes to fulfilling these gaps.

## **1.2 Rationale of the study**

### **1.2.1 Theoretical rationale**

A copious amount of studies has been published that try to explain internationalisation as a growth strategy for companies. But, as shown above, there exist a gap for management-oriented as well as finance-oriented literature for organisations in general, and especially for those operating in the Finnish market. Most of the studies have focused on companies from North America and West Europe that have taken internationalisation. There is also a gap in literature that explains SME's internationalisation strategies because researchers have mainly focused on big and often publicly traded companies. Baldegger and Schueffel (2010) highlight this concern, going further to observe that smaller businesses are not smaller versions of big companies as they differ on so many aspects. Thus, by examining the effectiveness of internationalisation for an SME based in Finland, the study provides beneficial information to both managers and academics interested in the subject.

Secondly, Baronchelli and Cassia (2008) are of the opinion that there exist two major approaches to how firms internationalize their businesses. The first is the stage approach which refers to companies that start selling products in their home markets followed by looking to sell the products in other countries. The second is the Born Global



approach, in which companies start their international activities from their birth (Baronchelli and Cassia, 2008). The other theory that explains the existence of internationalisation as a growth strategy is the stage approach. This theory has two models: The product life cycle theory that was proposed by Vernon in 1966 (Vernon, 2017) and the Uppsala Internationalisation Model (Johanson and Vahlne, 2006). According to Vernon, the internationalisation process of the firm tends to follow the development of the Product Life Cycle which is underlined by the observation that companies first introduce new products in their home markets and they eventually go international in the product maturity phase. Without linking them to organisational practice, these theories can only serve to confuse SME managers.

Knapp and Kronenberg (2016) argue that the decision to internationalize is one of the most difficult decision from a manager's perspective. The complexities and risks for an SME's that chooses to internationalize are even more complicated than for large firms which is due to constraints of substantial financial and other resources that are needed for the expansion (Knight and Kim, 2009). The ability for a business to succeed in a foreign market is mostly a function of the internal capabilities of the firm. By developing an appropriate set of internal competencies, business firms prepare for international ventures. Study by Knight and Cavusgil (2004) shows that successful international SME's abjure strictly domestic orientation and instead have a global mindset in which the management views the world as the firm's marketplace thus implanting a culture of international business. SMEs that have gone international do not fit the profile of the traditional multinational firms that are characterized by substantial financial and tangible resources. By definition, SMEs possess fewer fixed assets (plant, property and equipment) as well as the financial and human resources that favour the internationalisation of MNEs (Baronchelli and Cassia, 2008). This makes it a challenge for SMEs to implant successful internationalisation. Thus, this study attempts to benefit managers by directly linking theory to practice.

### **1.2.2 Practical rationale**

In Finland, the business of acoustic, noise abatement and audio-visual design has seen rapid growth in the recent past due to strict regulations by the government. Finnish regulations provide strict guidance on the level of noise that is permitted in houses which are comparable to those that govern sound pollution across all Nordic countries (Akukon, 2018). While other parts of the world may have friendlier regulations, having succeeded in Finland and the Nordic market makes it an advantage for a sound company that is expanding abroad since it will not only have likely met all the required minimums, but will also have an advantage with customers who are conscious of sound pollution (Cadogan et al., 2002). This study therefore may shed more light on how the company could exploit this potential.

### **1.3 Research aim and objectives**

The aim of this research is to examine how Akukon Oy, a Finnish SME, is internationalizing its business operations. The study uses this case to understand how theories can be used for to influence implementation of SMEs internationalisation goals. To achieve this goal, the study examines the following specific objectives:

- (i). To investigate how the Uppsala model can influence the internationalisation process of Akukon Oy Company.
- (ii). To examine how the Dunning's Eclectic Paradigm theory can determine the internationalisation process of Akukon Oy Company.
- (iii). To determine how the Born Global theory can impact the internationalisation process of Akukon Oy Company.
- (iv). To analyse financial statements of Akukon Oy from 2015 till 2019:
  - a. Compare quantitative data (financial reports) with qualitative data (interviews).
  - b. Determine how internationalisation process influenced company's financial shape, whether is led to increased profitability or not.

## 1.4 Research Structure

This study is organised into six chapters, with chapter one focusing on the background of the topic while identifying the main gaps in literature. The chapter also discusses the research rationale and this is split into theoretical and practical rationales. Lastly, the chapter offers the main aim of the study together with the related study objectives. Chapter two is the literature review. The chapter first identifies and defines the key concepts and theories of internationalisation. This is followed by a critical review of literature and the link between various theoretical approaches and organisational expansion practices. This chapter also discusses the financial statement analysis and its importance in evaluating SME performance. The topic of financial statements affecting financing of internationalisation process is covered in chapter two as well. Chapter three critically discusses the theoretical implications. Afterwards, chapter four gives the research procedures and methodologies used in conducting the research, whereas chapter five is a presentation of the findings and analysis of the study. Chapter six, which is the last chapter gives the conclusion of the research findings, limitations of the study and as well as recommendations.

## 2 LITERATURE REVIEW

From a manager's perspective, the decision to internationalise is one of the most difficult decisions to make. Knapp and Kronenberg (2016) point out why, noting that organisation is often faced with the complexities and risks of the new market while its local market challenges still abound. The authors note that is not only the result of financial resource constraints, but also because of other issues such as management expertise, experience, strategy and other factors. It is imperative therefore to understand what motivates the internationalisation process for specific organisations from a theoretical standpoint (Campos, et al., 2018).

Fletcher and Prashantham (2011) are of the opinion that for one to understand the internationalisation process, the organisation must be aware of the causative elements that initiate the decision by the SME to internationalise. The organisation must also understand how the process is implemented and sustained. Literature on the subject fail to agree as to what can be termed as the major drivers for the growing internationalisation trends. Azuayi (2016) argues that much of the research in the past has demonstrated that the proliferation of technology as well as the recent changes in the socio-economic conditions is the main drivers behind the global trend of internationalisation of SMEs. Chetty and Campbell (2012) on the other hand, are of the opinion that it is changes in variables such as the environment, the organisational structure and the resources that influence the internationalisation process of SMEs. Motivations for the decision are also varied. Wilson (2006) is of the opinion that the main objectives of internationalisation is the need for maximizing returns, minimizing production costs, and increased sales, which has a direct bearing on market share. On the other hand, Nisuls and Söderqvist (2010) opines that organisations make this decision because they want to attain internal developments of the company that can be achieved by gaining access to international opportunities, such as capital, labour competencies and technology. This part looks into the definitions related to internationalisation and SMEs. It then looks into the theories of internationalisation and how they relate to the financing of the internationalisation

process. The fourth part explores research that has linked the internationalisation theories with the financing of internationalisation process of Nordic SMEs.

## **2.1 Key definitions**

### **2.1.1 Internationalisation**

Like many terms in business management, internationalisation has been defined differently by various authors. Rammer and Schmiele (2008) consider internationalisation as the process of designing the company's products or services to meet the need of the users in foreign countries. They go further to illustrate this definition using a company's website that is created with the capabilities to translate content from English to Spanish while still maintaining its aesthetics and meaning. Supporting this definition, Wilson (2006) further adds that such a process is an expensive undertaking which requires a careful analysis of the opportunity costs and the risks prior to making the decision to pursue.

Azuayi (2016) conceives the term differently, taking an economic perspective. He defines it as the steps that a company takes to grow its capacity in order to capture a large market share for the global market. The author further argues that the global market is leaning towards internationalisation due to rapid globalisation, which is characterised by economies that are highly interconnected. Supporting this definition, Wood et al. (2011) further add that this interconnectivity accelerates cross-border commerce, and since globalisation also comes with economic integration, these steps towards internationalisation must be geared towards cross border trading.

Another viewpoint about internationalisation is that it involves designing products so that they can conform to the needs of international user (Knight and Kim, 2009). The growth of business across the world is nowadays pegged on the type of business strategy applied by the business. The business strategy has to factor in how the business ought to respond to demands of globalisation. Such considerations of the external and internal environment of the business can influence the business to internationalise its

operations by moving beyond its national boundaries in search of better markets for its products.

### **2.1.2 Launching International businesses**

Since it recovered from the 2008/2009 financial crisis, the global market place has continued to grow positively at a steady rate of 3%, and is expected to continue growing while improving the growth margin (Hardach, 2018). A World Bank (2018) report indicated that the global economic growth was expected to expand by 3.1% in 2018 and increase to 3.5% by 2020, with the long-term growth of the global economy expected to grow more strongly. Schwens and Kabst (2009) argue that a growing economy is a positive sign for a small business that wants to take their business international. According to them, this is because such growth provides the motivation for increased sales, the satisfaction of providing a needed product or service for a new market, and the ability to establish a worldwide presence.

Advancement in technology, especially the rise of e-commerce capabilities, has catapulted global transactions beyond what was practically possible through traditional banks and businesses. For instance, global retail ecommerce sales reached \$2.3 trillion in 2017, a 24.8% year-over-year growth (International Finance Corporation, 2018). This growth has been spurred by the mobile commerce. Together with globalisation, technological advancements have provided the two strongest impetus for international growth, making many local businesses find it relatively easier to internationalize. As a result, businesses that limit their operations to the local market are limited by the potential to which they can grow compared to their internationalizing counterparts, and as Servais, et al. (2008) argue, they may find it harder to compete if they do not soon expand abroad.

Kirwan et al. (2019) makes the point that a strong international business strategy is one of the key requirements for businesses that would wish to launch its international business. This supports the view by Servais (2008), who notes that the first step in launching an international business is conducting market research. One of the questions that should be asked to the target market include is whether there is a need for the

product or service that the business offers (World Bank, 2019). The other question relates to the competitiveness of the industry and what differentiates what the company offers with other similar companies. Further, Khaw (2019) points out that another important consideration for the management is whether the target market has the infrastructure that is required for maintaining business operations. It is also important to understand how strong the economy is and whether the product or service being offered fits in the cultural standards of the target market (International Finance Corporation, 2018).

Beyond socioeconomic considerations, Cadogan et al. (2002) point out the importance of considering legal frameworks that guide business operations in the foreign country. In this regard, compliance with regulations is at the fore. This is because an international product launch can be illegal depending on the target country regulations. For instance, there are countries that outlaw commercial sales of particular products or ingredients within the food and drugs businesses, and some other countries have higher standards for product and service quality and qualifications for service provision (OECD, 2019). Failure to comply with established legal procedures may result in litigations, which have the potential of increasing legal costs, attracting penalties as well as leading to business failure. Baldegger and Schueffel (2010) recommend that organisations wishing to avoid such outcomes have the responsibility of studying these regulations, understanding them, and when they make the decisions to expand into the country, complying with them. Schwens and Kabst (2009) concludes that if this is done, it may not guarantee a business success, but significantly reduces the chances of immature failure.

One more concept which is relevant to launching international businesses is stages of internationalisation. The first stage is called domestic operations. During this stage, the firm's market is exclusively domestic. The second stage is export operations, which means that the firms starts to offer domestic products or services to other countries also but maintains all the facilities within domestic borders. The third stage leads companies to establishing subsidiaries or joint ventures. During the fourth stage, firm starts multinational operations, and officially becomes MNC. The final stage, the fifth stage, occurs when company launches transnational operations, which incorporates the idea of achieving both global efficiency and local responsiveness. (Bo Rundh, Karlstad Business

School, 2015). Based on the information above, Akukon Oy clearly belongs to the 3<sup>rd</sup> stage of internationalisation process, because it has established joint ventures in 5 different countries but does not perform multinational operations yet.

### **2.1.3 SMEs**

Small and Medium-sized Enterprises (SMEs) are defined based on their sizes, which depend on several metrics that vary from one jurisdiction to the other. According to the North American Industry Classification System (NAICS), these metrics include the number of employees, and the total turnover, and the industry (Eikebrokk and Olsen, 2007). Within the European Union, for an organisation to be classified as an SME, it ought to be an independent company that has less than 250 employees, and a turnover below €40 million or total assets of less than €27 million (European Commission, 2016). The term independent enterprise as used in this case refers to an organisation not owned by one or more enterprises with 25% or more of the capital or voting rights. This definition of SMEs that captures the size of employees, capital investment limit and the management structure is the most common across the globe (Darren and Conrad, 2010).

In general terms, the SMEs sector is broadly categorized into three classifications: micro, small and medium enterprises. Naturally, micro enterprises are the smallest. EU (2016) points out that in the UK, they refer to businesses with less than 10 employees. On the contrary, in Australia, microenterprises are businesses that have five or less employees. The key feature of microbusinesses is that they are smaller versions of SMEs that employ less than 9 employees. Accordingly, those that do not have employees fall in this category (Darren and Conrad 2010). By comparison, small businesses are bigger than the microbusinesses in terms of employees, size, structure, capital investment and economic contributions (European Commission, 2016).

On the other hand, medium businesses are biggest in terms of manpower, operations, number of employees, structure, and capital investments. Darren and Conrad (2010) note that medium businesses employ up to 249 employees in the UK, while the number is 250 in the EU, 200 in Australia and 500 in the US. For this study, the definition and specifications for SMEs by the EU is used.



## 2.2 Financing options during the internationalisation process of SMEs

Darren and Conrad (2010) note that internationalisation process is both demanding and resource intensive and, as a result, small businesses find it hard to maintain. Xie (2017) agrees, adding that even the lowest level of internationalisation, which is exporting, needs resources to cater for shipping and maintaining contact with the export market if the process is to be successful. There are various internationalisation processes and each of the internationalisation process demand different amounts of resources and capital. According to Tsoukatos, et al. (2015) one of the major sources of seed capital for SMEs during the internationalisation process is founder savings. This strategy is also known as bootstrapping and usually involves the founder cutting as much costs as practically possible to raise sufficient funds for the process, although sometimes this is done at the cost of quality and future efficiency. This is also done by retaining a huge percentage of the earnings and net profits and using them to finance the internationalisation processes.

Kock, Nisuls and Söderqvist (2010) found that this was highly preferred approach by most investors mostly because they had limited options, especially when starting out. One reason they give is that the risk involved is minimal and it helped the company to retain control of its operations, which may not be the case with debt and equity financing. This is true because personal financing also empowers the business to make critical decisions without having to consult other shareholders. The owner also benefits from profits without feeling the need to reward or pay costs to the investors or other owners who have contributed capital. Wood, et al. (2011) add that this strategy increases the innate value of the start-up or the SME as it demonstrated efficient financial management and huge managerial capability of the founder since the such firm had good leverage ratios as well as huge cash savings to enable them finance their international operations. It also minimised risk of losses since the investment was done gradually based on the investors surplus finds.

Apart from the founder's resources, the business can also access funding from entities that support small businesses in the country. In Finland, for instance, as per Suortti (2017), Finnish businesses can access financial support from Business Finland,

which provides grant capital to SMEs to enable them to internationalise their operations. The financing usually comes in form of a grant to a company which meets a particular criterion, ranging from volumes exports, amount of revenues, or type of technology used by the business. OECD (2019) noted that businesses with unique products and services that could be accepted in other markets had higher chances of grant funding. These grants were highly preferred by SMEs, especially the Born Global firms because they were resource constrained as their major markets were global markets rather than the local market. The main advantages with grants are that they are non-repayable, which means they can be used to make long term capital investments without the worries of repayments (Ericksson, 2017). SMEs that want to establish subsidiaries or other long-term investments benefit most from the grants since the funds can be channelled to such long-term investments. The other advantage of grants is that they come with the provision of talent and consultants who can help the SMEs to manage the finances appropriately. According to Crampton (2018), the main challenge with the grants form of funding is that it is very competitive. Many SMEs compete for the chance and only very competitive SMEs with unique ideas qualify for such funding.

The other source of funding that SMEs can consider for their internationalisation prospects is loan from banks (Kock, Nisuls and Söderqvist. 2010). While SME owners prefer to use their savings, it is often inadequate to fulfil all the costs associate with the international expansion project, and loans end up being their biggest alternative. The authors note that loans have been considered to be a main source of funding for SMEs especially those focused on exporting. According to Tsoukatos, et al. (2015), beyond financial provision, banks are usually strict on SMEs, and they also play a significant role in providing currency exchange information and advisory services that help the SMEs to cushion themselves against currency shocks and issues that may arise in the export markets. The main problems with the bank loans is that they are expensive and only work for SMEs that are already established and have the capability to repays the loans through proven exports (Rupeika-Apoga and Saksonova, 2018). This means that the banks are not a source of funding for the SMEs that are starting the internationalisation process. Instead

they are source of funding for SMEs that have already internationalised and may need additional money to serve additional markets.

Additionally, SMEs can also consider venture funding as an alternative to access capital. This refers to provision of venture capital, which provide seed capital to SMEs and other start-ups that have got unique ideas and products to internationalise their operations in exchange of owning a part of the businesses. The venture capitalists usually inject funds in the businesses by purchasing a part or almost the whole of the businesses provided they are convinced that the business has a potential market and products with a wide market. The main advantage is that the investor obtains capital to run or start the business without having to put their own finances (Hetcht, 2016). The venture capitalists also provide especially experienced managers to help run the business and assist the business gain entry into the international markets. This form funding has however been criticised because it eliminates the initial founders and makes them managers instead of the owners of the business (Kock, Nisuls and Söderqvist, 2010). As noted earlier, this is the reason founders fear equity financing and prefer using owner savings, grants, or debts as the first choices prior to settling for equity capital.

### **2.3 Financial Statement Analysis**

Financial statements are always established as an obligation to meet external reporting requirements and to help in making business decisions within the company. As noted by Koller, Wessels, Goedhart (2010) these statements play a very fundamental role in helping business managers to make various decisions. Financial statement analysis can be defined as the process of evaluating the financial condition of a company by analysing its profitability, liquidity and financial solvency. It is also one of the methods of comparing company's performance with competitors. (Koller, Wessels, Goedhart, 2010).

To this end, a number of financial statement analysis theories were explored including ratio analysis theory, income statement analysis and comparative balance sheet. Firstly, ration analysis is defined as a fundamental method or approach that is

utilised in analysing financial statements. In their original form, the financial statements such as income statement and balance sheets are viewed as monotonous figures because they tend to be more detailed. As such, ratio analysis plays a very essential role due to its ability to present financial statement information in not only systemised but also in simplified forms. It for instance helps business managers to measure financial soundness and profitability of a firm by looking at the relationship between profits and sales or between current assets and current liabilities. Therefore, analysis of company's profitability, liquidity and financial solvency can be done through the concepts of financial ratios. Some of the examples of profitability ratios are Return on Assets (ROA), Return on Equity (ROE), Operating Profit Margin (OPM), etc. Liquidity ratios include Current Ratio, Quick Ratio (Acid-Test Ratio), Operating Cash Flow Ratio, etc. Finally, financial solvency can be measured by Debt Ratio, Debt-to-Equity ratio, Interest Coverage Ratio, etc. (Koller, Wessels, Goedhart, 2010). Table 1 below shows a list of ratios that were analysed for Akukon Oy.

On the other hand, financial statements are the primary way of reporting financial information for internal and external users. In addition, companies based in Europe must follow a set of requirements and rules for preparing financial statements. International Financial Reporting Standards (IFRS) is the "ground rules" for financial statements and reporting as well. This standard provides a framework which makes financial information more reliable and comparable. (Koller, Wessels, Goedhart, 2010). According to Koller, Wessels and Goedhart, another approach of analysing company's financial performance is recognition of the items in balance sheet, income statement and statement of cash flows into three categories of components: operating, nonoperating and sources of funding.

In Order to measure the company's performances, both the financial and non-financial indicators should be taken into accounts. So, the samples were collected from group of companies to analyse financial statement (Quantitative) with Qualitative Data or Indicator. Hence, the Financial Statements of Akukon have been analysed for previous five years as shown in Table 1. Tables 2 and 3 demonstrate raw data, income statement and balance sheet of Akukon Oy.

Table 1 Financial ratios of Akukon Oy

	1.1-31.12.2018	1.1-31.12.2017	1.1-31.12.2016	1.1-31.12.2015
	Year 4	Year 3	Year 2	Year 1
<b>Profitability Ratio:</b>				
Return on Equity (ROE)	4.47	6.58	4.24	2.13
Return on Assets (ROA)	0.07	0.10	0.09	0.05
Gross Profit Margin	1.08	1.08	1.08	1.15
Operating Profit Margin	0.03	0.05	0.03	0.02
Net Profit Margin	0.02	0.04	0.03	0.01
<b>Liquidity Ratios</b>				
Current Ratio	1.60	1.56	1.57	1.63
Quick Ratio	1.46	1.44	1.39	1.56
<b>Activity Ratios</b>				
Inventory Turnover	- 3.28 -	3.15 -	2.66 -	14.52
Accounts Receivables Turnover	4.79	4.54	4.91	6.17
Total Asset Turnover	3.00	2.72	3.31	3.79
Average Collection Period	76.24	80.38	74.30	59.15
<b>Financing Ratios</b>				
Debt Ratio	1.00	1.00	1.00	1.00
Debt-Equity Ratio	64.00	64.29	49.08	42.79
Times Interest Earned Ratio	- 22.26 -	29.61 -	16.24 -	11.30
<b>Market Ratios</b>				
Earning per Share (EPS)	89.36	131.60	84.73	42.60
Price Earnings (PE)	0.22	0.15	0.24	0.47

Table 2 Income Statements and Balance Sheet of Akukon

<b>INCOME STATEMENTS</b>				
	1.1-31.12.2018	1.1-31.12.2017	1.1-31.12.2016	1.1-31.12.2015
	Year 4	Year 3	Year 2	Year 1
<b>NET TURNOVER</b>	<b>3,839,113.29</b>	<b>3,494,073.98</b>	<b>3,249,837.78</b>	<b>3,243,446.64</b>
Other operating income	15,597.04	59,388.11	6,060.49	10,205.77
<b>Raw materials and services :</b>				
Purchases during the financial year	- 4,233.98 -	20,413.72 -	18,801.24 -	13,042.46
Variation in stocks	- 19,035.38	4,736.01	65,112.14	- 6,693.14
External services	- 298,153.09 -	253,921.11 -	306,673.68 -	457,998.65
<b>Cost of Goods Sold</b>	<b>- 321,422.45 -</b>	<b>- 269,598.82 -</b>	<b>- 260,362.78 -</b>	<b>- 477,734.25</b>
<b>Gross Margin</b>	<b>3,533,287.88</b>	<b>3,283,863.27</b>	<b>2,995,535.49</b>	<b>2,775,918.16</b>
<b>Staff expenses :</b>				
Wages and salaries	- 1,906,710.96 -	1,714,023.83 -	1,545,028.27 -	1,514,291.09
<b>Social security expenses :</b>				
Pension expenses	- 408,661.69 -	347,109.10 -	313,409.93 -	313,291.53
Other social security expenses	- 39,743.73 -	36,230.57 -	65,080.74 -	49,933.71
<b>All social security expenses</b>	<b>- 2,355,116.38 -</b>	<b>- 2,097,363.50 -</b>	<b>- 1,923,518.94 -</b>	<b>- 1,877,516.33</b>
Depreciation, amortization and reduction in value	- 52,376.44 -	47,234.07 -	44,768.48 -	43,486.38
Other operating expenses	- 1,011,379.64 -	971,965.82 -	917,804.42 -	801,433.93
<b>OPERATING PROFIT</b>	<b>114,415.42</b>	<b>167,299.88</b>	<b>109,443.65</b>	<b>53,481.52</b>
Financial income and expenses	829.75	1,045.93	165.48	106.63
Other interest income and other financial income	- 2,966.08 -	3,329.95 -	3,447.45 -	2,415.55
Interest and other financial expenses	- 2,136.33 -	2,284.02 -	3,281.97 -	2,308.92
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>	<b>112,279.09</b>	<b>165,015.86</b>	<b>106,161.68</b>	<b>51,172.60</b>
Income taxes	- 22,921.05 -	33,410.88 -	21,435.16 -	8,567.79
<b>PROFIT OF THE FINANCIAL YEAR</b>	<b>89,358.04</b>	<b>131,604.98</b>	<b>84,726.52</b>	<b>42,604.81</b>

Table 3 Balance Sheet

<b>BALANCE SHEET</b>				
	<b>1.1-31.12.2018</b>	<b>1.1-31.12.2017</b>	<b>1.1-31.12.2016</b>	<b>1.1-31.12.2015</b>
	<b>Year 4</b>	<b>Year 3</b>	<b>Year 2</b>	<b>Year 1</b>
<b>ASSETS</b>				
<b>Non-Current assets</b>	-	-	-	-
<b>Intangible assets :</b>	-	-	-	-
Intangible rights	-	-	2,089.95	3,369.95
Development expenses	51,645.37	46,769.02	-	-
Other intangible assets	17,430.17	26,044.52	27,346.78	20,804.00
Goodwill	6,600.00	8,800.00	6,428.00	12,856.00
Advance payments	-	-	-	-
<b>Investments :</b>	-	-	-	-
Holdings in group undertakings	6,065.00	3,515.00	1,275.00	-
<b>Tangible assets :</b>				
Machinery and equipment	87,429.63	78,568.03	79,710.24	91,124.22
<b>Non-Current assets in Total</b>	<b>169,170.17</b>	<b>163,696.57</b>	<b>116,849.97</b>	<b>144,574.57</b>
<b>Current Assets</b>				
<b>Short Term :</b>				
Other stocks	97,993.13	85,480.51	98,022.50	32,910.36
<b>Receivables :</b>				
Trade debtors, accounts receivable	801,911.88	769,461.39	661,512.24	525,623.64
Amounts owed by group member companies	14,298.46	4,298.46	-	-
Other debtors	11,939.24	10,323.15	4,867.17	3,583.75
Prepayments and accrued income	12,186.97	63,134.35	39,570.43	48,982.42
Investments	-	-	6,000.00	6,000.00
<b>Cash in Hand and at Banks</b>	<b>172,512.36</b>	<b>189,344.12</b>	<b>54,844.16</b>	<b>94,053.41</b>
<b>Current Assets in Total</b>	<b>1,110,842.04</b>	<b>1,122,041.98</b>	<b>864,816.60</b>	<b>711,153.58</b>
<b>ASSETS IN TOTAL</b>	<b>1,280,012.21</b>	<b>1,285,738.55</b>	<b>981,666.47</b>	<b>855,728.15</b>
<b>LIABILITIES</b>				
<b>Capital and reserves :</b>				
Subscribed capital	20,000.00	20,000.00	20,000.00	20,000.00
Share premium account	3,500.00	3,500.00	3,500.00	3,500.00
Other reserves	-	-	-	-
Reserve for invested non-restricted capital	12,096.00	9,072.00	-	-
Retained earnings gain	459,764.51	402,983.53	322,154.01	354,549.20
Profit for the financial year	89,358.04	131,604.98	84,726.52	42,604.81
<b>EQUITY</b>	<b>584,718.55</b>	<b>567,160.51</b>	<b>430,380.53</b>	<b>420,654.01</b>
<b>Creditors</b>				
<b>Short Term :</b>				
Accounts Payables	69,354.16	86,708.10	58,058.55	115,030.26
Other creditors	281,551.17	255,132.13	218,608.33	88,684.93
Accruals and deferred income	344,388.33	376,737.81	274,619.06	231,358.95
<b>Creditors in Total</b>	<b>695,293.66</b>	<b>718,578.04</b>	<b>551,285.94</b>	<b>435,074.14</b>
<b>LIABILITIES IN TOTAL</b>	<b>1,280,012.21</b>	<b>1,285,738.55</b>	<b>981,666.47</b>	<b>855,728.15</b>

## 2.4 Transactional cost theory

The transaction cost theory holds that the internationalisation process of firms is driven by transaction costs. According to Hennart (2010), firms tend to use export strategy when they export small volumes to foreign markets because the transaction cost of exporting is very low compared with the transaction costs of using subsidiaries or joint ventures. This theory holds that firms internationalise their operations whenever they establish that the cost of internationalising is lower than revenues earned from internationalisation (Alagheband et al., 2011). The transaction costs in internationalisation include the monitoring costs, partnerships costs, marketing costs that the host firm has to incur in its bid to sell its products in foreign markets. Other costs may include the cost of searching for partners and representatives to distribute the goods in the international markets. The firm is likely to internationalise its operations if the transaction costs of exporting exceeds the costs of setting up operations in a foreign country (Alagheband et al., 2011). The financing of the internationalisation process is usually based on the costs. Since there are lower costs at the start-up phase, the financing is usually made by the owner through retained earnings and revenues of the business. The financing mostly focuses on meeting the transactional costs identified earlier. Once the cost exceeds revenues the financing stops and the SME company must consider other alternatives. However, if the perfect market conditions hold and the cost remain lower than the revenues, the investor or the investments firm is not likely to use any other form of financing other than self-financing through the retained earnings (Mittoo and Zhang, 2008).

The other assumption upheld by this theory is that of imperfect market conditions. The theory holds that market conditions are not perfect hence transaction costs keep on changing due to changes in the market conditions such as demand and supply (Williamson, 2010). Perfect market conditions imply that forces of demand and supply are at work and that there are minimal forces such as government regulations, tariffs and other restrictions that come into the way of supply and demand. Under perfect market conditions, the company's operations are guided by the market factors and not much knowledge and investment are required to understand the market or influence the

market to behave in a particular way. Imperfect market conditions imply that forces of supply and demand are not at work due to external influences such as regulations that affect the supply and demand factors in the foreign market (Hennart, 2010). With the imperfect market conditions, it means that the financing of the internationalisation process would have to require more finances as the cost are likely to exceed the revenues at some point due to changes in government regulations. These regulations and restrictions may affect supply and demand, in such instances, the company would need to finance its operations through debt in order to meet short term obligations main or changes in the market. Beck, Demirguc-Kunt and Maksimovic (2008) agreed that the volatile nature of the international markets could complicate the markets and expected revenues of a SME thus amplifying risks and chances of making losses. To deal with this the companies seeking to internationalise their operations should have low leverage ratios that allow them to take debts or other long-term credit to finance their international operations. This could help the company deal with issues such as changes in taxation, price fluctuations of key commodity or raw material and other costs.

Companies therefore chose entry mode and financing methods based on the transaction costs, market conditions or the uncertainty in the market (Mroczek-Dąbrowska, 2013). Perfect conditions and low transaction costs makes the company favour the self-financing or financing through the retained earnings since there is no need to risk or to incur much costs such as interests yet the market conditions are favourable. However, when the market conditions are not favourable and the transaction costs are very high; companies usually prefer to use leverage or debt to manage and establish wholly owned subsidiaries to gain entry into the foreign markets (Schwens and Kabst, 2009).

According to Mittoo and Zhang (2008), this theory therefore holds that companies initially finance the international operations using the self-financing at the start of the internationalisation where market conditions are good. They apply other forms of financing such as debt and equity when the market conditions become imperfect or transaction costs becomes higher than the cost of setting up operations in the foreign market. The long-term debts and equity were viewed as viable options mostly due to the



fact that they had long repayments period that allowed the investor or the SME to navigate around the challenges in the market and make more revenues to repay the debt (Lian and Chen, 2017). In case the company applied equity when the risk was long term and the company need to have funds which did not have to be returned in form of cash. it also applied when the company was so certain that it could make money to pay the investors. For instance, the companies which were internationalising in countries where there was no competition applied this strategy.

## **2.5 Uppsala model**

The Uppsala model is an internationalisation theory that holds that the process of internationalisation is gradual and that companies internationalise through small steps and processes. As per Gripsrud, Hunneman and Solberg (2015) countries tend to internationalise to countries which have closer physical distance compared to countries with long physical distance. The companies tend to internationalise their operations in a gradual manner as they learn and acquire more knowledge from the foreign markets. The second tenet of Uppsala model is market commitment where it was established that firms engaged in internationalisation process commence the internationalisation process with very minimal market commitment. They therefore invest minimal resources and finances at first and gradually get more committed as they acquire more knowledge and market insights concerning the foreign market (Vahne and Johanson, 2017).

Therefore, companies commit resources to foreign market entry methods gradually as they gain more market knowledge. This theory further upholds that large firms have got very low appetite for risks which makes them commence internationalisation process using market entry mode that have low risk until they increase market knowledge and capabilities to operate in foreign market. Further, the model has the aspect of market knowledge, which is the degree of information, skills and capabilities that the company possesses in relation to acquisition of new markets. Firms that succeed in the international markets must possess market specific skills and

capabilities which the company can utilise to increase market share in the new market. This knowledge can be experiential based or acquired knowledge.

Based on the above assumptions, the model holds that during the internationalisation process the companies start incrementally by internationalising into the neighbouring countries. Gripsrud, Hunneman and Solberg (2015) further point out that the incremental internationalisation helps the firms to internationalise to countries that have similar physical distances thus allowing the firms to incrementally acquire experiential knowledge and tactical knowledge. This helps the firms to commit more knowledge and resources gradually as they incrementally acquire knowledge capabilities and enhanced experience (Childs and Jin, 2014). Enhanced experience and market knowledge enable the firms to internationalise to other countries and to use market entry modes that require more resources such as joint ventures and wholly owned subsidiaries. The aim of this theory is that it enables firms to mitigate risks associated with internationalisation since the companies only enter into markets where they have experiential knowledge in. This mitigates risks and losses that come with internationalisation (Gripsrud, Hunneman and Solberg, 2015). The other advantage is that it allows firms to focus on knowledge acquisition in the new markets instead of market acquisition thus enhancing the firms learning capabilities and knowledge absorption from the foreign markets. However, Yamin and Kurt (2018) noted that the assumption that knowledge acquisition and internationalisation should be experiential slows down the companies' process of internationalisation. Companies that use the Uppsala method to internationalise their operations take too long to enter into foreign markets and tend to lose out to global competitors that apply other models.

According to the theory, companies ought to commit resources gradually since the risk of the internationalisation process is usually higher at the start of the internationalisation process (Beck, Demirguc-Kunt and Maksimovic, 2008). The financing at the export stage should be based on the retained earnings which are not pegged on any external risk. This is to allow the company meet the internationalisation expenses and acquire knowledge at low cost. As the company gradually gains more market knowledge, Lipuma (2006) noted that the company can choose to internationalise to other

markets where the activities can be financed through long term debt. For instance, at the second phase of internationalisation that is after exporting phase where the company has learned about the market and identified reliable partners who can work with the company for given period of time. The company can choose to finance the internationalisation process using long term debts, which have two key advantages. First, long-term debts ensure that the firms make returns while paying debts during the duration of the partnership. Secondly, act as leverage, allowing the company to maintain high liquidity, which minimise their chances of failing because of cash flows. It also allows the company to halt operations in case there are losses and make repayments on time.

From this analysis of the theory, it is argued that the Upsala model is most suitable only once the company has been assured of having adequate knowledge and market in the foreign market. Lipuma (2006) noted that the foreign operations can be funded through equity investments. This is where investors pull together resources in order to finance a particular operation in return for owning shares in the company. However, this is risky as it entails commitment of huge amounts of financial resources yet returns are uncertain.

## **2.6 Dunning's eclectic paradigm theory**

This paradigm is also referred as the OLI framework or the OLI paradigm and it holds that the firms are unlikely to internationalise or engage in internationalisation process unless they have some key advantages. Beleska-Spasova and Glaister (2011) identify posit that, according to this theory, a firm has to have one of the three advantages, which are ownership advantages, location advantages and internalisation advantages. According to Xie (2017), for this reason, firms usually have different advantages that propel them to expand into international markets, although some firms have a combination of two or three advantages. Ownership advantages refer to the firm-specific factors which gives the company an edge over its competitors in terms of readiness to expand in the

international market. Gray and Peter (2003) notes that these advantages may include a strong brand, large capital reserves, significant market share as well as strong demand for the company's products and services. Location advantages refer to the factors within the host country which attract an organisation to that particular market as opposed to other markets (Dunning, 2000). By contrast, internalisation advantages refer to the ability of the organisation to exploit its strengths and opportunities while minimising its weaknesses to gain a strategic advantage, for example through highly competent management, efficient processes, lower cost production strategies, as well as highly motivated staff.

According to Lian and Chen (2017), the firms that seek to have the ownership specific advantages had to seek a higher form of financing in order to acquire the assets which they need in the international markets. Companies that seek to have ownership had to set up new subsidiaries in the new market which implies higher cost of internationalisation. Huge firms especially MNEs could self-finance this since they had the resources to do it, but smaller firms are less likely to manage doing the same. In fact, Lian and Chen (2017) noted that possession of huge amounts of finances resulted in high levels of internationalisation. The authors note that, at a certain level of internationalisation, the firms could internationalise use Initial Public Offerings (IPO) in their domestic markets to finance their international operations.

Because firms seeking location-specific advantages are mostly looking for a strategic region to set their business, they should have already assessed their ownership advantages and ensured that they have a controlling share of the market, or, at least a strong home position, domestically (Dunning, 2000). Location advantages are assessed using the market-based theory of the firm, and vary from company to company based on the industry type as well as organisational needs. These advantages could be either availability of raw materials, availability of huge market or availability of labour (Xie, 2017). For small organisations, costs of attaining location advantages, including research and due diligence, may be higher than they can sustain with founder savings, and this may necessitate them to consider debt financing and equity funding (Mittoo and Zhang, 2008). Should they succeed, the company could afford to pay debts and other obligation

to bondholders or the investors from the high cost margins from the international operations, although business failure leaves them exposed to the negative aspects of these funding options as discussed in the earlier section.

Khaw (2019) found that strategically selected locations gave an organisation strong location advantages such as low cost and high-quality raw materials, which allowed the company to gain immense revenues that could not be attained at home even through reduced processing costs. This allowed the companies to grow into publicly traded companies by relying on debts and equities (Park, Suh and Yeung, 2013).

## **2.7 Foreign direct investment theory**

This theory has been used to explain the flow of FDI and the factors that impact the flow of FDIs into countries (Moore and Heeler, 1998). This theory holds that firms use subsidiaries or foreign direct investments to enter into foreign countries because there are some internalisation or subsidiary specific advantages that come with the internationalisation of firms using the FDI. The subsidiary specific advantages (SSAs) are factors that are very specific to the subsidiary of a particular firm and tend to provide some competitive advantages to the firm owning the subsidiary. According to Rugman and Verbeke (2001) study on subsidiary specific advantages that motivate the firms to internationalise their operations, SSA are very different from firm specific advantages. This is because the SSAs are not found across all MNEs and they are also distinct from the country specific advantages because these advantages that come with internalisation benefits are distinct from the country specific advantages. The financing of foreign direct investments involved self-funding of the internationalisation in order to obtain subsidiary specific advantages. This was mostly done by the MNEs which had huge financial resources to establish subsidiaries. Beck, Demirguc-Kunt, A. and Maksimovic (2008) agreed that FDI were investments by foreign companies which had vast financial capacity to develop fully owned subsidiaries that protected their competitive advantages such as the technology, innovations and brand names. Such companies did not mind

putting huge investments into subsidiaries because they were assured of protecting their core assets in the foreign markets.

Companies could afford to invest using the FDI mostly because of the advantages that came with the subsidiaries. These advantages included product research and development capabilities that enabled the firms to produce superior and innovative products. The use of FDI financing came with the advantage of internalising sales capability which enhanced the firm's competitiveness in the foreign market. With a subsidiary the company benefitted with higher sales capability in terms of sales force coverage, good and relevant advertising capacity which helped the company gain larger market share (Moore and Heeler, 1998). The FDI theory also highlighted that the subsidiary specific advantages included manufacturing capability that enabled the firms to subcontract other local manufacturers. Other advantages included the development of regional headquarters that helped the company to coordinate its operations in the foreign markets. Others were low labour costs that the subsidiary in a low labour market benefitted from.

According to Boateng et al (2015), the main limitation of FDI theory is that it mostly focused on the firm's capabilities and subsidiary related advantages while ignoring the role played by other external factors such as the government and market forces. It also underrated the role of the experiential knowledge. This theory only works for companies that were well-endowed with capital resources (Buckley, 2017).

## **2.8 Born Global theory**

Born Global theory holds that some firms are developed and incubated with an aim of exporting global markets. The firms are conceptualised with global vision from their start. According to Cancino and Coronado (2014) various factors lead to the establishment of the Born Global firms, including advancement telecommunication technologies, reducing costs of internet in emerging markets, increasing affordability of enabling goods such as smartphones and laptops, as well as the rising disposable income

within many consumer markets. Supporting these conclusions, Zander et al. (2015) add that increased specialisation in industries leading to the development of firms that cannot be sustained by the local markets. Such firms have to focus on the global markets for the firms to be sustainable (Braunerhjelm and Halldin, 2019). According to Ruzzier et al. (2006), the presence of highly skilled labour with global capabilities also contributes to the use of this strategy. This is because there is an increasing number of employees with international experience and exposure who are helping the firms to internationalise their operations since the employees already have global experience from other firms.

The use of the Born Global internationalisation strategy is guided by various tenets, the first of which is lack of adequate resources. The Born Global strategy was mostly applied by companies or MNEs which do not have adequate financial resources to enable them to set up in different countries (Schueffel, Baldegger and Amann, 2014). Lack of resources therefore became the motivating factor for the Born Global firms to internationalise their operations. The second factor is also lack international experience. This is due to the fact that most of the Born Global firms do not have foreign operations (Ruzzier et al., 2006). These companies therefore tend to leverage on networks and creation of alliances with other companies that are operating in foreign markets. Knight (2015) also noted the other feature of Born Global firms is that rely on their founders who are the ones who possess the experience and knowledge about the firm's operations. These founders have the advantage of good educational background that make them highly skilled. Chetty, Ojala and Leppäaho (2015) also noted founders were endowed with effectuation capabilities due to their international experience by having worked with other multinational companies which provided them with global worldview that makes them view the globe as their market. The founders also have the advantage of possessing entrepreneurial inclination which minimises risk aversion.

In regard to how firms using Born Global strategy finance their internationalisation process, Kontinen and Ojala (2010) noted that firms that were applying Born Global internationalisation first evaluated whether they possessed any of the four types of capital which included the financial capital, social capital, managerial capital and strategic capital. The financial capital was critical for the new international

ventures that commenced as global organisations. As per Kirwan et al (2009) arguments the new international ventures or Born Global firm usually source their financial capital externally since they did not have the funds from ongoing business prior to launching. The founder of Born Global had to self-finance at the initial phase before they go to the next phase of attracting venture capitalists. However, majority of Born Global depend on the venture capital and grants in order to internationalise, their ideas have to be so compelling to warrant funding from the venture capitalist firms and grants from support communities that support the internationalisation of new international ventures (Khaw, 2019).

According to Kirwan et al (2019) the firms using the Born Global or international new venture approach mostly internationalise to countries where they are certain that they possess social and managerial capital. Once they have this certainty, they then source for funds from the venture capitalist or other external sources willing to lend or invest in new venture. However, Kontinen and Ojala (2010) noted that traditional forms of financing such as debt by banks and self-financing don't apply for the international new ventures. This is because the venture does not have any reputation or financial history with banks and banks consider them to very risky. The firms also lack their own firms since they are start-up firm with no significant revenues and tested market.

Beck, Demirguc-Kunt and Maksimovic (2008) further noted that another preferred funding option for this Born Global firms is governmental or institutional-based financing referred to this form of financing as institutional facilitation by the government and non-government entities. As per Juho and Mainela (2009) the government provides various forms of support to small and medium enterprises as well as to businesses that engage in international finance as a way of export promotion. The government can provide financial facilitation in form of grants to the Born Global organisation with convincing and executable ideas with huge international potential. This form of facilitation provides initial start-up fund and capita as well as consultation, research and other support services. Further, non-governmental entities such as business associations also provide financial support to the SMEs with unique ideas, as was the case with other expansion strategies discussed earlier.



In summary, this chapter has looked at the various theories of internationalisation, namely, Uppsala model, transaction theory, FDI theory and Born Global theory. These theories provide different perspectives regarding how firms make the decision, implement the plan and create resources to achieve this goal. The chapter has shown that the processes followed by firms during internationalisation differ from firm to firm and this is influenced by a wide range of factors, the chief of which are financial capabilities, management expertise as well as industry forces. The next chapter looked into how the theories determined the type of financing to be used to finance the internationalisation process.

### **3 THEORETICAL IMPLICATIONS**

#### **3.1 Implications of Uppsala model on the financing of internationalisation process of SMEs**

Under the Uppsala model of internationalisation companies internationalised their operations gradually. The firms commence the process by exporting, they then graduate to other forms of financing. This means that even financing of the internationalisation process is carried out gradually. Previous study by Irwin and Scott (2010) noted that the funding of the internationalisation process among MNEs and SMEs was gradual. The parent companies mostly funded the internationalisation process gradually based on their market knowledge and understanding of the external factors in the host country. Kontinen and Ojala (2010) agreed that the Uppsala model advocated for gradual investment and financing of the operations in foreign countries. This was to allow the company to gain understanding of the legal and political environment of the host country so as to minimise risks. This is because rapid and abrupt internationalisation process could have its share of demerits as different countries had differing regulations.

As per Oystein and Servais (2002) study on Danish SMEs companies tend to internationalise to countries which have closer physical distance compared to countries with long physical distance. Likewise, the SMEs seeking to finance an international process should commence the financing process by gradually financing small operations such as exporting to the closer countries which have similar regulations and similar tax regimes and political environment (Lipuma, 2006). This meant that the SMEs financing internationalisation were expected to start the process by identifying markets that had closer physical distance. This is because it was easier for company with limited resources to succeed in these markets and to invest minimal capital through exporting before they graduate to other types of financing operations such as debts and capital markets to raise funds.

Servais et al (2008) found that Danish SMEs used the Uppsala model of internationalisation. The SMEs commenced the internationalisation process by exporting to the neighbouring Nordic countries. More than half of the SMEs sampled in the study indicated that they had commenced exporting to Nordic countries within the third year of operation and exported outside Nordic countries by their sixth year of operation. The financing of these operations was incremental and started with self-financing and graduated to debt financing through banks which then graduated to financing through capital market bonds and equity. However, for most SMEs self-funding or use of internal capital was the most commonly applied financing strategy.

### **3.2 How Dunning's eclectic paradigm theory impacts the internationalisation process of SMEs in the Nordic countries**

As it has already been noted, the eclectic paradigm specifies that internationalisation process is based on three factors, namely, the ownership advantages, location advantages and the internalisation advantages. To highlight this concept in regard to the SMEs, the ownership specific advantages refer to the competitive advantages that small firms gain as a result of having possession of certain assets that make the firm unique or competitive (Fang et al., 2008). The kind of advantages that the SME want to gain in the internationalisation determine the type of financing or the financing strategy adopted by the firm. Companies that sought to gain ownership advantages usually apply self-financing strategies. As the previous chapter showed, they mostly self-financed in order to acquire new suppliers or subcontractors, acquire cheaper raw materials or ability to hire affordable labour. They internally raised the funds to finance the internationalisation process. This was done through retained earnings; it could also be done by through internal debts where the parent company lent out funds to the subsidiary or the joint venture which the company wanted to use to expand its operations in foreign country (Tripathi and Thukral, 2016).

The firms which wanted to retain or to acquire location-based advantages mostly used debt financing. This is because the location-based advantages were deemed to be low risk-high return opportunities. The companies were assured of favourable tax regimes or favourable market that would make the company experience huge returns. Manolopoulos (2014) agreed that assurance of huge returns due to location-based advantages motivated the firm to fund their internationalisation using debts.

Likewise, the existence of market-based advantages motivated the SMEs to internationalise using the external capital. Firms with assurance of huge market advantages tended to risk more in order to obtain huge returns on the investment. Companies that were assured of possessing markets where they would have low or non-existent competition tended to use the debt financing and equity and other forms of external capital to fund their operations as they were usually confident of having huge returns from the markets. Beck, Demircuc-Kunt and Maksimovic (2008) agreed that the market-based opportunities attracted the companies to internationalise their operations. They also made the firms take risk-based financing, especially when they were certain of exploiting a huge market which had little competition or markets that would give the companies first-mover advantages (Fang et al., 2017).

### **3.3 Impact of Born Global theory on the internationalisation process of SMEs in the Nordic countries**

The Born Global firms suit Nordic SMEs when applied by Nordic companies which have constrained financial resources to enable them set up in different countries (Schueffel, Baldegger and Amann, 2014). Shortage of finances by SMEs spur innovation and efficiency among the SMEs that empower them to become competitive in the international markets. The Born Global strategy for SMEs has been seen to require the SMEs to have global capital structure that could enable them to finance a global organisation system that help them to communicate, transport or undertake global organisation operations with much ease. Tuomisalo and Leppäaho (2018) noted that the

Born Global or international new ventures or start-ups that applied the Born Global strategy mostly commenced their operations with external funding. Such firms usually had the international financing competencies which they had acquired through organisational learning. Additionally, such firms usually had networks and capabilities to lobby for venture capital and other institution-based capital to finance their operations. Since they commenced as global organisations, their ability to raise capital to start their operations was critical to their success (Gabrielsson, Sasi and Darling, 2004). Unlike other firms which relied on proved and tested market, the Born Global firms relied on the uniqueness of their ideas and technologies to raise funds for their operations. This could be done through investor fundraising or through venture capital where the venture capital firms provided funds in exchange of a stake or controlling stake in the SME or Born Global firm. The venture capitalists invested in the hope of recovering their funds once the company becomes global (Melen and Nordman, 2009). Venture capitalists also expressed lots of interest on firms that globalised fast as it demonstrated global focus and high likelihood of having unique idea and knowledge that gave the founders confidence of establishing a global venture.

However, Abor (2004) noted that most of the SMEs and start up organisation with Born Global vision did not focus on external financing; instead the external financing from venture capitalists was and acted like a bonus. The owners of such organisations usually bootstrapped their operations. They mostly self-financed the global operations, by partnering with other organisations or by leveraging on the web and internet to globalise their operations. Some of the entities such as software companies which did not require to have physical goods and locations usually globalised using the internet (Manolopoulos, 2014). They used the internet to build partnerships and to serve customers in different parts of the globe. Such organisation therefore did not need to have external financing as they could rely on self-financing and bootstrapping to extend their operations to different countries.

Other than self-financing, the Born Global firms were found to be good candidates for the institutional financing or which came through grants. Some of the institution with interest in international finance such as EU usually had funds that were set aside for SME

as grants. The funds were seen to be provided to SMEs which had unique market ideas that demonstrated huge potential and high return for the investors (Servais et al, 2008). Such entities were financed through grants which were non repayable loans that were advanced to finance some of the SMEs' foreign operations especially when the companies were under incubation phases or before their ideas could be monetised. Countries such as Finland usually had such associations and institutions that supported the entrepreneurs with good ideas with grants (Gabrielsson, Sasi and Darling, 2004).

This chapter has highlighted how different models influenced the financing of the internationalisation process and the implications of the models to small firms. The review identified that the Uppsala model was all about caution and gradual internationalisation and companies using the model funded their internationalisation through self-financing. They when gradually used their debts and equity-based financing. In regard to the Dunning eclectic paradigm companies internationalized where they were certain of having certain advantages. The financing methods used depended on the advantages accrued. For instance, self-financing applied when the company wanted to possess ownership advantages while the debt and venture capital applied when the company wanted to have market and location-based advantages. For Born Global firms, self-financing was seen to be the most popular, especially if the SME was small and the idea had not been tested in the market. Those with greatest ideas that had been tested in the market used venture capital to finance their internationalisation. The subsequent chapter looks into the research procedures and techniques used in the study.

## **4 DATA AND METHODOLOGY**

This section explores the research methods applied by in this study. It looks into the procedures and the methodologies used to obtain information from the research phenomena, followed by an examination of the research design, the research tools used and the sampling strategy used. Further, it also examines the sample size selected as well as the data collection methods applied by the researcher. The chapter then explores and examines the data analysis strategies applied as well as the research ethics that were used in this research. The final section of the chapter presents a brief summary of the findings.

### **4.1 Research design**

Two main research designs are the quantitative and qualitative research design. The qualitative research design mostly involves information that is not measurable or quantifiable. This information is mostly transmitted in the form of words, emotions, expressions, attitudes which is information which is not measurable (Lewis and Thornhill and Saunders, 2006). The quantitative design on the other hand is concerned with information that is measurable, quantifiable and accurate. It provides information that could easily describe the phenomena and worked in instances where the researcher needs to obtain descriptive information (Pickard, 2007). This study preferred the use of the qualitative research method because the qualitative research design enabled the researcher to collect intensive and in-depth data. As Pickard (2007) rightly point out, such data helps the researcher to make new findings especially if the area under investigation did not have so much theories and information concerning small and medium sized companies. This was the case with this research as the issue of the internationalisation focused on the major firms but not the internationalisation of the Small and Medium enterprises (SMEs). Therefore, the qualitative research would help the researcher identify new information and concepts as well as the perspectives that the SMEs had on the internationalisation of their firms. Further, qualitative data makes it easier to use open-

ended collection tools such as interviews, which allow the researcher to obtain as much information as possible concerning the phenomena being investigated (Punch, 2013). This helped the researcher to generate new theories and perspectives concerning the phenomena of the internationalisation of SMEs.

## **4.2 Research tool**

Various research tools can be utilised in an empirical investigation to obtain information from the phenomena of interest. The most commonly applied research tools are the interviews and the questionnaires (Taylor, 2006). Interviews collect comprehensive information that entail words, phrases, feelings and emotions of the interviewees. On the other hand, the questionnaire collects numerical information that represent certain values or information. The questionnaire work in instances where the researcher needs brief and accurate information about the issue being investigated. The interviews work where the researcher needs to collect insights and explorative information that explain the phenomena and the behaviour of the phenomena as well as the underlying reasons behind that behaviour (Creswell, 2013).

This research gave preference to the use of the interview tool because the focus of this research was to identify the underlying reasons behaving the internationalisation of Finnish firm. In addition, interview gave possibility of obtaining qualitative data on top of quantitate data, financial statements in this case. The use of interview tools could help the research identify how the small medium enterprise entrepreneurs felt about the internationalisation of their small firms and how they perceived the various factors in internationalisation. Most importantly the tool would help identify and obtain explanations on how the various theories of internationalisation such as the Uppsala model, Dunning's eclectic paradigm and the Born Global theory impacted the internationalisation of small Finnish firms. The other advantage of the interview tool is that it helped the researcher identify collect additional information and new insights based on the explanation which enriched the research through collection of new



information that checked to create new perspectives and theories. Additionally, the interview tool was consistent with the qualitative research design as it collected information that was qualitative (Berg, 2004). The main limitation of interviews is that it could collect information that was irrelevant to the research as an open-ended tool. This could be avoided by creating a semi structured interview tools which is an interview tool that does not have a strictly followed and formalized list of questions. Thus, interviewees were restricted to provide answers related to the research questions and the research objectives. Another limitation is small sample size and response bias, such as question order bias.

### **4.3 Sampling and the sample size**

Lewis, Thornhill and Saunders (2006) explain a number of sampling strategies that can be utilised in an empirical investigation, which they group into probability sampling and non-probability sampling method. Probability sampling mostly focuses on using a random sample, thereby giving all members of the population a fair chance of being selected for participation in the study. Non-probability sampling, on the other hand, refers to selection of participants from a sample that is selected without using random methods, but by other techniques which prioritise certain kinds of participants, such as those willing and ready, or those recommended by the last interviewed participant (Collis and Hussey, 2009). Generally, non-probability sampling was found relevant to research that was qualitative while probability sample worked in instances and in researches that were interested in collection of quantitative information (Lewis, Thornhill and Saunders, 2006). For this study, non-probability sampling was found appropriate for one main reason. First, it works best in instances where only a small population was involved or the population of interest is small, scattered and difficult to obtain a representative sample as was the case of this research (Collins and Hussey, 2009). Specifically, as a small enterprise of only 50 employees, operating in a single location in Finland and in five other different countries Akukon OY has, making it a challenge to

find the representative sample, especially since they are scattered in all these regions different regions.

To make the study practical while also ensuring sufficient data is collected, a sample of size of four interviewees was selected. A sample size was small since as per Berg (2004), who recommended that small sample sizes in qualitative studies can be compensated by depth of information obtained from the participants. Notably as well, most of the interviewees were the founder employees of the Akukon Oy and had previously worked in small and medium enterprises in Finland which had internationalised its operations hence could provide answers that were relevant and practical to the internationalisation of Finnish SMEs. The participants had to have been employed more than 15 years in Small and medium enterprises for them be considered as appropriate and relevant to this research. The employees also had to be located in Helsinki as it would be costly to conduct interviews outside the city.

#### **4.4 Data collection**

To collect the data, the researcher wrote to the chief executive of Akukon OY in Finland requesting him to consent and participate in an academic interview that focused on identifying the factors and forces that influenced them to internationalise their operations to other countries. This was done as per the recommendations of Pickard (2007) who emphasises the significance of institutional permission where sensitive company data may be at stake of being revealed deliberately or unintentionally. After making the request, the chief executive responded by indicating the time which was relevant and which he and other employees could be available for the interviews. The researcher collected the data through face to face the interviews after the participants were informed that the data would be recorded and their informed consent obtained.

## **4.5 Data analysis**

The first step of data analysis was transcription of the recorded audios into text, which was done manually into a Word document. Content analysis was then used to analyse the data. According to Taylor (2006), this analysis method focuses on analysing the text or the words used by the interviewees to identify their meaning, attitudes and feeling conveyed by that concept. The reason for this was to assess whether the feelings and attitudes provided the responses to the research questions and whether the responses supported the research questions or not. Therefore, the main concern of the content analysis was to identify whether the content affirmed or negated some concepts that were being investigated by the researcher (Pickard, 2007). For instance, in this research the focus was to identify the various theories that influenced the internationalisation of the Akukon Oy. Hence the focus was to identify the information supplied by the participants indicated regarding the various factors that supported or enhanced the internationalisation of the SMEs. The researcher therefore reviewed the text answers to identify whether the participant was in support of the various theories of internationalisation such as gradual internationalisation (Uppsala), evaluation of market and ownership advantages (OLI) and Born Global factors towards the internationalisation or not. Interviewees would respond to the research questions by indicating the factors that supported the internationalisation and then the researcher would then analyse the supporting reasons that made the interviewees take a particular perspective (Punch, 2013).

## **4.6 Research ethics**

This research adhered to the principles of ethical research. This was done by ensuring that the researcher followed the university guidelines on ethical research which were confidentiality and privacy of the participants and the consent (Collis and Hussey, 2009). The privacy and confidentiality of the participants were obeyed, anonymising the

interviewees identity. Since the researcher focused on the small and medium enterprise, Akukon Oy, which had internationalised, the researcher anonymised the participants by not disclosing the identity of the entrepreneur or the interviewees as well as the anonymising the positions in which they worked for to avoid exposing the interviewees to third parties and making them lose privacy. In addition, the participants were availed consent forms where they had to sign that they had provided their consent and that they had not been influenced to answer the research questions in a particular manner. The participants were also informed that the interviews would be recorded (Berg, 2004).

#### **4.7 Summary**

In summary, this research applied the qualitative research design and used interviews. Purposive sampling was then used to identify participants of the study from among Akukon employees and founders in Helsinki. In total, the researcher interviewed four interviews face-to-face. The data collected was analysed using content analysis. The research adhered to the guidelines of ethical research by ensuring that the research confidentiality was enhanced by anonymizing the participants' identity and by making sure that participants signed consent forms. Chapter five focuses on the presentation and analysis of the findings.

## 5 RESULTS AND ANALYSIS

This chapter presents the study findings and analysis of the data by linking back to the literature review in the previous chapters. The chapter presents participants' perspectives on how they think the various theories and perspectives of internationalisation influenced the actual expansion of Akukon OY into the international market. The chapter is organised into four sections based on research objectives identified in chapter one. This introductory section is followed by a discussion of the results on internationalisation strategies used by Akukon Oy during their expansion whether those strategies were consistent with the Uppsala model. The third section examines how Dunning paradigm influenced the internationalisation of Akukon OY. The fourth section discusses how Born Global theory influences the internationalisation process of Akukon OY.

### 5.1 Evaluation of whether internationalisation process of Akukon OY aligned with Uppsala

To analyse internationalisation processes adopted by Akukon OY and whether it aligned to the Uppsala theory, the respondents were asked whether the firm internationalised its operations gradually or suddenly. All the participants indicated that the company internationalised gradually. For instance, the Interviewee A1 said that the firm internationalised gradually. He explained that *"We did it slow. We didn't do any big investments. We didn't go to Estonia with a huge campaign, that now we are in Estonia. The same for Georgia. We do it with minimum investment at first and with minimum market commitment. But it's true that it's much harder for a small company to go international. We don't have the connections."* Interviewee A2 agreed that the company internationalised its operations slowly by noting that *"Yes. Usually we need to train our people from very beginning, and that's quite long process."* Interviewee A3 argued that the yes and no. *"We are specifically targeting markets which do not have an established market for acoustics. If you want to go to an established market, you basically need to*

*pour a lot of resources to open up your own office, do a whole lot of marketing and try to penetrate market that way. That would need a lot of resources, which we cannot afford. The second option is to buy a competitor."* Based on these responses on the process of internationalisation it was clear that the company applied some of the aspects of Uppsala model in order to internationalise its operations by gradually internationalising its operations to different countries based on the available resources. As from the Interviewee A1 responses company's internationalised to Georgia and Latvia by hiring consultants to work in those countries before establishing full-fledged operations in those countries.

To better understand how the founder and the interviewees perceived the internationalisation, the researcher asked the participants whether they made minimal market commitments at the start of internationalisation or they internationalised with full market commitment. Interviewee A1 indicated that *"Yes, as I mentioned before, we always expand to a new country with minimal market commitment."* Interviewee A2 intimated that they started with minimal market commitment and noted that *"Yes and no. We start with relatively small resource. On the other hand, because of our expertise is so narrow and specialized, usually it is not even possible recruit more local resources that we do."* Interviewee A3 explained that *"So, problems with workforce and size of market limit our pace and speed of internationalisation, and makes us go forward with one small step at a time."* The interviewee A4 did not provide relevant responses. This means that three of the four interviewees agreed that the company began the internationalisation process with minimal market commitment which demonstrated the use of Uppsala model.

Further, the respondents were also asked whether there was a maximum point of loss where they pulled out of the internationalisation process, Interviewee A1 further explained that the company had point at which they decided whether to continue with the process or to stop it as explained herein *"We actually have a point after which we want to be break even and certain period of time after which we want to see some money coming back. and we also have a point of loss after which we will pull out."* Interviewee A2 noted that *"Not actually. Our financial investment is always relatively small. We*

*recruit local partners for our subsidiaries, and they also share the risk. We lease equipment and, in some cases, we loan some money, but typically it is question of relatively small amount."* Interviewee A3 was of similar opinion and opined that *"No, not as far as I know. I don't think there is any pre-set limit, or at least middle managers like me are not informed about it."* This meant that two of the three interviewees who indicated that the company did not have a point of maximum loss as the company ensured that the risk was shared or that the investments in the foreign markets was limited.

However, the Interviewee A1 had indicated that there was a limit but that information was not shared with everyone especially the employees which demonstrated that there was a loss limit which was not disclosed to all the employees. Based on the above responses, it was clear that the Akukon OY used the Uppsala model to plan for internationalisation. This is because the interviewees indicated that the organisation internationalised its operations gradually. They also did this through minimal market commitments where the company started through minimal market commitment and by setting a point of maximum loss that was only known to the founders of the company. These findings are in line with the findings in the company's income statements from the period of 2015 to 2017 through to 2018. As evident in the figure below, going international has enabled the company to increase its profitability gradually from 42,604.81 in 2015 to 131,604.98 in 2017 before experiencing a small decline in 2018 to 89,358.04. Moreover, going international has also enabled the company to experience a steady increase in its net turnover between the periods of 2015 to 2018. These gradual increases in profitability and a decline in profitability during 2018 were in line with the gradual investment by the company with an aim of achieving a break even or seeing more money coming back to business as particularly pined by Interviewee A1. Table 4 below represents income statement of Akukon Oy.

Table 4 Income Statement of Akukon Oy

1	INCOME STATEMENTS				
2		1.1-31.12.2018	1.1-31.12.2017	1.1-31.12.2016	1.1-31.12.2015
3		Year 4	Year 3	Year 2	Year 1
4	<b>NET TURNOVER</b>	<b>3,839,113.29</b>	<b>3,494,073.98</b>	<b>3,249,837.78</b>	<b>3,243,446.64</b>
6	Other operating income	15,597.04	59,388.11	6,060.49	10,205.77
8	<b>Raw materials and services :</b>				
9	Purchases during the financial year	- 4,233.98	- 20,413.72	- 18,801.24	- 13,042.46
10	Variation in stocks	- 19,035.38	4,736.01	65,112.14	- 6,693.14
11	External services	- 298,153.09	- 253,921.11	- 306,673.68	- 457,998.65
13	<b>Cost of Goods Sold</b>	<b>- 321,422.45</b>	<b>- 269,598.82</b>	<b>- 260,362.78</b>	<b>- 477,734.25</b>
15	<b>Gross Margin</b>	<b>3,533,287.88</b>	<b>3,283,863.27</b>	<b>2,995,535.49</b>	<b>2,775,918.16</b>
17	<b>Staff expenses :</b>				
18	Wages and salaries	- 1,906,710.96	- 1,714,023.83	- 1,545,028.27	- 1,514,291.05
19	<b>Social security expenses :</b>				
20	Pension expenses	- 408,661.69	- 347,109.10	- 313,409.93	- 313,291.53
21	Other social security expenses	- 39,743.73	- 36,230.57	- 65,080.74	- 49,933.71
23	<b>All social security expenses</b>	<b>- 2,355,116.38</b>	<b>- 2,097,363.50</b>	<b>- 1,923,518.94</b>	<b>- 1,877,516.33</b>
25	Depreciation, amortization and reduction in value	- 52,376.44	- 47,234.07	- 44,768.48	- 43,486.38
27	Other operating expenses	- 1,011,379.64	- 971,965.82	- 917,804.42	- 801,433.93
29	<b>OPERATING PROFIT</b>	<b>114,415.42</b>	<b>167,299.88</b>	<b>109,443.65</b>	<b>53,481.52</b>
31	Financial income and expenses	829.75	1,045.93	165.48	106.63
32	Other interest income and other financial income	- 2,966.08	- 3,329.95	- 3,447.45	- 2,415.55
33	Interest and other financial expenses	- 2,136.33	- 2,284.02	- 3,281.97	- 2,308.92
35	<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>	<b>112,279.09</b>	<b>165,015.86</b>	<b>106,161.68</b>	<b>51,172.60</b>
37	Income taxes	- 22,921.05	- 33,410.88	- 21,435.16	- 8,567.75
38	<b>PROFIT OF THE FINANCIAL YEAR</b>	<b>89,358.04</b>	<b>131,604.98</b>	<b>84,726.52</b>	<b>42,604.81</b>

These findings are also in line with the previous study by Oystein and Servais (2002) in their study of Danish SMEs companies where they found out that these companies tend to commence the internationalisation process gradually by exporting the closer countries which are other Nordic countries as they learn and acquire more knowledge from the foreign markets. The study also noted that the longer an SME exported its products, the large the number of countries it exported to.

## 5.2 Evaluation of whether internationalisation process of Akukon OY aligned with Dunning eclectic paradigm

This section investigated how the Dunning eclectic paradigm theory impacted the internationalisation process of Akukon OY. This was done by examining whether there were OLI factors that influenced the internationalisation of Akukon OY. The researcher



sought to investigate whether the company took into consideration of the ownership, location and internalisation advantages when internationalising their operations. The first question related to OLI framework asked whether the company considered any of the OLI advantages when internationalising the operations, the interviewee A1 held that *“No, we didn't consider these advantages, because our business is a bit fishy in the sense that if we don't have the right people, we cannot do anything. Like the Georgians came through Edmundas (Lithuanian office). We met them. Okay, they were interested. We considered it hard work because they didn't have proper education background. But we had guys who are interested so let's go with minimum risk. As of the other countries, in Latvia we actually bought a company.”* This means that the company did not focus on the any specific advantage but instead internationalised when they felt the internationalisation would be low risk by hiring right people or having ownership advantages by buying out a company. Interviewee A2 was of different opinion and stated that *“Yes we did, but more in general level. I think, that we can explain our strategy and planning better with few words: look around, and when you find opportunity, use it!”* Interviewee A3 and A4 had similar opinion and mostly emphasised on having ownership advantage, with interviewee A3 stating that: *“We own 51% of every subsidiary company. We don't care about the location as long as there is a potentially successful market opportunity. and about internationalisation, we, and especially founder, have many international connections.”* Thus, three interviewees agreed that the company took into consideration of OLI factors and especially the ownership factors which even the first interviewee indicated that the firm was concerned with ownership of the subsidiaries.

The section further looked into the strategies by Akukon Oy especially those related to previous knowledge, experience or understanding of the market interviewee and if they influenced internationalisation decisions. Interviewee A1 stated that *“Yes, in all of the countries. Usually I go there before we start the company. Actually, in Palestine I was already operating there before we started the company, also with local contracts. And Georgia, I went there for a visit. Then, Ari went there for a visit with me. We had meetings. We found out that there are a lot of projects. So, the question was, can they*

*afford this service?" Interviewee A2 stated that, " Our strategy is based on competence, not so much on the market. We believe, that if we have competent and enthusiastic people, they can find the market for their knowledge. Actually, our target market is all the world, but we don't have to have resources everywhere." The interviewee further stressed that the market was identified as follows " We look around and when we see an opportunity, we use it. And the opportunity usually means that we find enthusiastic people, having same values as we have, for partners." Interviewee A3 stated that " But in my opinion, it happens mostly by chance. You just hear that somebody may be interested in doing this and he or she is in the right country and it looks pretty okay, so let's try it out. This is how it's worked in Estonia, Latvia, Lithuania, Georgia and Middle East." From those identified arguments, 2 of the three participants argues that market identification was important and they mostly looked for talent that could identify and exploit the market opportunities in a given location.*

Based on the above responses, it was clear that the OLI framework or the Dunning eclectic theory was applied in the internationalisation process of the company which is why the interviewees noted that during internationalisation some employees went to evaluate the market and they also internationalised by owning the subsidiaries in order to have ownership advantages or by hiring competent employees who could help in identifying market opportunities in a given country. These are in line with the company's profitability ratios, liquidity ratios activity ratios, market ratios as well as financing ratios during the four year period as evident in the figure below. In particular, by hiring enough and competent work force while going international has enabled the company to minimise risks and achieve a gradual increase in return on equity from 2.13 to 4.24, 6.58 and 4.47 during the 4 year period as shown in the figure below. This was because the company was able to minimise the risks involved in the business as a result of hiring competent employees. Moreover, going international also enabled the company to achieve an improvement or an increase on its return on assets from 0.05, 0.09, 0.10 and 0.07 through the four year period from 2015 to 2018 as shown in Table 5 below.

Table 5 Financial Ratios of Akukon Oy

1	INCOME STATEMENTS				
2		1.1-31.12.2018	1.1-31.12.2017	1.1-31.12.2016	1.1-31.12.2015
3		Year 4	Year 3	Year 2	Year 1
115	<b>Profitability Ratio:</b>				
116	Return on Equity (ROE)	4.47	6.58	4.24	2.13
117	Return on Assets (ROA)	0.07	0.10	0.09	0.05
118	Gross Profit Margin	1.08	1.08	1.08	1.15
119	Operating Profit Margin	0.03	0.05	0.03	0.02
120	Net Profit Margin	0.02	0.04	0.03	0.01
121					
122	<b>Liquidity Ratios</b>				
123	Current Ratio	1.60	1.56	1.57	1.63
124	Quick Ratio	1.46	1.44	1.39	1.56
125					
126	<b>Activity Ratios</b>				
127	Inventory Turnover	- 3.28	- 3.15	- 2.66	- 14.52
128	Accounts Receivables Turnover	4.79	4.54	4.91	6.17
129	Total Asset Turnover	3.00	2.72	3.31	3.79
130	Average Collection Period	76.24	80.38	74.30	59.15
131					
132	<b>Financing Ratios</b>				
133	Debt Ratio	1.00	1.00	1.00	1.00
134	Debt-Equity Ratio	64.00	64.29	49.08	42.79
135	Times Interest Earned Ratio	- 22.26	- 29.61	- 16.24	- 11.30
136					
137	<b>Market Ratios</b>				
138	Earning per Share (EPS)	89.36	131.60	84.73	42.60
139	Price Earnings (PE)	0.22	0.15	0.24	0.47
140					

These findings are in line with the previous research study by Wu (2015) on Nordic, specifically Norwegian, SMEs that were motivated to internationalise into the foreign markets due to their ownership of unique products that could not be easily replicated such as employees with international experience.

### 5.3 How the Born Global theory influenced the internationalisation of Akukon Oy

This section looked into how the Born Global theory of internationalisation influenced the internationalisation process of Akukon OY. To evaluate the influences of Born Global theory, the researcher evaluated this aspect using three questions which were whether the firm started out as a global company, whether the firm had unique intangible resources and whether the firm was a follower of the Born Global theory. On if the firm started out as a global company, interviewee A1 indicated although the firm did not have

the intention to be global it started with the characteristics of a Born Global firm in the sense that the founder was international and had international contacts Interviewee A2 further explained this by stating that *"Yes. Actually, because Akukon is constructed internationalisation in mind. For example, our quality system has been generic and English-written for many, many years, even before globalization."* This implied that the Akukon applied the Born Global strategy. Interviewee A3 indicated that only the founder could provide the best response. This meant that although the founder did not have the intention to start a global firm, the international experience he had and international contacts positioned the firm to be a Born Global firm.

The aspect of being Born Global was evaluated by assessing whether the firm had any intangible assets. From the responses most of the participants indicated that the firm possessed some intangible assets. The interviewee A1 said that *"Our industry is quite small and limited. Akukon Oy has been on the market for more than 20 years, that we've done many high-quality projects and that we can be trusted. So, of course our good reputation helped us to some extent."* Interviewee A2 also said that *"Yes, our brand and references are essential."* Interviewee A3 likewise said that *"I think we live by our CV. CV is important, what kind of projects we have realized, because this helps gain trust of customers and potential partners."* All the three interviewees agreed that intangible resources especially the brand reputation based on its previous achievements were some of the key intangible resource that Akukon OY possessed. This meant that the company had characteristics of a Born Global company as it possessed intangible assets in form of its brand reputation, and goodwill among others.

These observations or findings are in line with the findings in the company's balance sheet for four years; 2018, 2017, 2016 and 2015. The balance sheet shows that while Akukon OY possessed significant amounts of intangible assets during the four year period in the form of development expenses, goodwill as well as other intangible assets as shown in the figure below. In particular, intangible assets such as goodwill played a key role in the success of the company's internationalisation process by giving the company a good reputation in the new international market. Table 6 below shows the balance sheet of Akukon Oy

Table 6 Balance Sheet of Akukon Oy

<b>BALANCE SHEET</b>				
	<b>1.1-31.12.2018</b>	<b>1.1-31.12.2017</b>	<b>1.1-31.12.2016</b>	<b>1.1-31.12.2015</b>
	<b>Year 4</b>	<b>Year 3</b>	<b>Year 2</b>	<b>Year 1</b>
<b>ASSETS</b>				
<b>Non-Current assets</b>	-	-	-	-
<b>Intangible assets :</b>	-	-	-	-
Intangible rights	-	-	2,089.95	3,369.95
Development expenses	51,645.37	46,769.02	-	-
Other intangible assets	17,430.17	26,044.52	27,346.78	20,804.00
Goodwill	6,600.00	8,800.00	6,428.00	12,856.00
Advance payments	-	-	-	-
<b>Investments :</b>	-	-	-	-
Holdings in group undertakings	6,065.00	3,515.00	1,275.00	-
<b>Tangible assets :</b>				
Machinery and equipment	87,429.63	78,568.03	79,710.24	91,124.22
<b>Non-Current assets in Total</b>	<b>169,170.17</b>	<b>163,696.57</b>	<b>116,849.97</b>	<b>144,574.57</b>
<b>Current Assets</b>				
<b>Short Term :</b>				
Other stocks	97,993.13	85,480.51	98,022.50	32,910.36
<b>Receivables :</b>				
Trade debtors, accounts receivable	801,911.88	769,461.39	661,512.24	525,623.64
Amounts owed by group member companies	14,298.46	4,298.46	-	-
Other debtors	11,939.24	10,323.15	4,867.17	3,583.75
Prepayments and accrued income	12,186.97	63,134.35	39,570.43	48,982.42
Investments	-	-	6,000.00	6,000.00
<b>Cash in Hand and at Banks</b>	<b>172,512.36</b>	<b>189,344.12</b>	<b>54,844.16</b>	<b>94,053.41</b>
<b>Current Assets in Total</b>	<b>1,110,842.04</b>	<b>1,122,041.98</b>	<b>864,816.60</b>	<b>711,153.58</b>
<b>ASSETS IN TOTAL</b>	<b>1,280,012.21</b>	<b>1,285,738.55</b>	<b>981,666.47</b>	<b>855,728.15</b>
<b>LIABILITIES</b>				
<b>Capital and reserves :</b>				
Subscribed capital	20,000.00	20,000.00	20,000.00	20,000.00
Share premium account	3,500.00	3,500.00	3,500.00	3,500.00
Other reserves	-	-	-	-
Reserve for invested non-restricted capital	12,096.00	9,072.00	-	-
Retained earnings gain	459,764.51	402,983.53	322,154.01	354,549.20
Profit for the financial year	89,358.04	131,604.98	84,726.52	42,604.81
<b>EQUITY</b>	<b>584,718.55</b>	<b>567,160.51</b>	<b>430,380.53</b>	<b>420,654.01</b>
<b>Creditors</b>				
<b>Short Term :</b>				
Accounts Payables	69,354.16	86,708.10	58,058.55	115,030.26
Other creditors	281,551.17	255,132.13	218,608.33	88,684.93
Accruals and deferred income	344,388.33	376,737.81	274,619.06	231,358.95
<b>Creditors in Total</b>	<b>695,293.66</b>	<b>718,578.04</b>	<b>551,285.94</b>	<b>435,074.14</b>
<b>LIABILITIES IN TOTAL</b>	<b>1,280,012.21</b>	<b>1,285,738.55</b>	<b>981,666.47</b>	<b>855,728.15</b>

From the findings in this section, it is clear that all the responses from the three questions on Born Global strategy indicated that the firm applied the Born Global strategy to internationalise its operations. This is why one of the interviewees explained that, for many years, the firm had an English-based system that it relied on to serve the global market. Nonetheless, although the company reduced its considerations for its reputation or goodwill, it did consider development expenses as well as intangible rights

as critical intangible assets for the success of Born Global firms. This finding was in line with the previous study by Tuomisalo and Leppäaho (2018), who noted that the Born Global or international new ventures or start-ups that have internationalised successfully usually had some competencies or intangible assets that made it possible to penetrate to the new markets.

## 6 CONCLUSIONS

This chapter summarises the thesis by pointing out the main study findings and highlighting the extent to which the study objectives were achieved. The chapter further presents some recommendations that could be implemented by the organisation, as well as by other organisations facing the need for internationalisation despite being small in size. Finally, the chapter highlights the weaknesses of the research and offers suggestions for future research.

This study managed to attain the first research objective of the highlighting whether the internationalisation strategies of Akukon aligned with the Uppsala model. The study noted that Akukon internationalised some of its operations gradually. The other evidence was that the company internationalised by making small market commitments to minimise risk and by having a maximum point of loss at which the company could withdraw its investments in a given country. This proved that Akukon was applying some aspects of Uppsala model to enter into foreign markets.

This research also attained the second research of investigating whether strategies used by Akukon Oy were aligned to the Dunning eclectic paradigm or the OLI framework. The study noted that the company took into consideration of the market advantages and ownership advantages when internationalising their operations. Hence the company internationalised in locations where it could possess ownership advantages and also in locations where it could hire staff with the capability to exploit market opportunities in that country. This proved that Akukon considered the ownership, location and the internationalisation factors before engaging in the internationalisation process.

The study also attained the third research objective of assessing whether Akukon used the Born Global internationalisation during its internationalisation process. The study noted that the firm the firm had intangible assets and the some of the employees had international experience to help the firm globalise its operations. It also had international partnerships and joint ventures with other companies in foreign locations which made it to be a Born Global firm despite its small size and financial capacity.

From the research, it was clear that the company followed all the three theories to internationalise its operations. However, in order to have more successful internationalisation, the company needs to ensure that its internationalisation processes were gradual and based on its international experience. Thus, it is recommended that the company therefore enter into countries where it already has some experience, as this move makes it most optimal for it to capitalise on its limited resources while banking on its strategic advantage of information and knowledge.

The company should also ensure that it has internationalised to countries that makes it easier to build up ownership advantages in the host country, in addition to the location advantages it stands to gain. To do this, it will be necessary to create a strong base of and internalisation advantages, which it can achieve through intensive employee training, employee motivation, realignment of its long-term and short-term goals, as well as efficient processes within its organisational operations. Further, it could also consider hiring competent staff with international experience, as well as partnering or acquiring subsidiaries with superior technologies.

At the same time, it is recommended that most of the effort exerted by the management of the company should be put towards maximising the strengths of Born Global strategy, especially on areas in which the firm has the least available resources. So far, it has been noted that Akukon Oy internationalised through the joint ventures. Going forward, it is recommended that the company consider combining that advantage with the use of Born Global strategy where the emphasis lay on the firm's capability and intangible assets as the main foundation of internationalisation. The Born Global strategy can be entrenched through employee training and also by hiring employees with global outlook and experience.

The first weakness of this study was that the research focused on just one SME. This narrowed-down focus made it difficult to generalise the findings of this research to all the SMEs in Finland. Secondly, the use of the qualitative research meant that some of the information provided could not be verified or ascertained and must be taken at the interviewee's word. However, by triangulating the respondent views with the studies in



past literature, some level of reliability is ascertained, even if the content remains subjective to the participants' perspectives.

It is recommended that future research should investigate more than one SME in Finland in order to make the findings of the researcher more generalisable and applicable to all Finnish SMEs. If possible, a future study ought to focus on a selected industry within which to base the study. Further, future research should also consider using quantitative studies not only to increase the ability to collect data from a larger sample of participants, but also to enhance the credibility of the findings by using a more objective approach.

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## APPENDIX 1 Interview Questionnaire

**Full Name:**

**Position at Akukon Oy:**

### 1. Initiating internationalisation:

**Question:** According to the “Born Global” theory, firms are conceptualized as global from their inception. Did you also found the company with intentions of making it international in the future?

**Answer:**

**Question:** Why did you decide to internationalise?

- ❖ Did you think that Akukon Oy was in its maturity stage and the only possibility for further growth was going international?

**Answer:**

**Question:** How risky did you consider the idea of internationalisation to be?

- ❖ Did you think that it could jeopardize the operations of the main office, from a financial point of view?
- ❖ Did you have prior experience of working with companies that became international?

**Answer:**

### 2. Planning internationalisation:

**Question:** Usually, SMEs do not have as many resources as big corporations. As a result, it is rarer for SMEs to go global. Did you see this as an obstacle during the internationalisation planning process?

**Answer:**

**Question:** Did you plan to internationalize in small steps and phases in order to acquire knowledge and skills about new markets gradually? (Uppsala model)

**Answer:**

**Question:** According to the Uppsala model, companies start to become international with minimal market commitment. Was it the case for Akukon Oy?

**Answer:**

**Question:** Had you set a point of maximum loss which provided a point where you will pull out your investments and shut down the subsidiary?

**Answer:**

**Question:** Did you plan internationalisation process according to your ownership, location or internationalisation advantages in the target countries? (OLI paradigm) If yes, specifically what did you consider to be your advantages in each of these three approaches?

**Answer:**

**Question:** How did you choose your target markets? Did you base your decision only on market research, or also visited local markets, etc? How did you test where there was a need for Akukon's services in those markets?

- ❖ Did you have prior knowledge and experience of doing business in your target markets?

**Answer:**

**Question:** It is common for Nordic companies to expand to other Nordic countries when becoming international because it is considered to be less risky. Why did you choose destinations like Georgia and the Middle East?

**Answer:**

**Question:** Did you possess any intangible resources which would help your internationalisation process (for example company's reputation or brand name)?

**Answer:**

**Question:** How would you evaluate the importance of networking during the internationalisation process?

**Answer:**

### **3. Becoming international in reality:**

**Question:** There are many ways to become international: exporting, franchising, joint ventures, wholly owned subsidiaries and greenfield investments. Which way did you choose and why?

**Answer:**

**Question:** Did the actual market conditions meet your expectations? How?

**Answer:**

**Question:** Did you expand to all five countries at the same time or did you take specific intervals of time between setting up new offices?

**Answer:**

**Question:** Were you able to actually utilize ownership, location or internationalisation advantages in the target countries? (OLI paradigm)

**Answer:**

**Question:** How did you finance the internationalisation process? Did you get any loans from commercial banks or support from government bodies?

**Answer:**

**Question:** If you had projected costs of going international, did it match with the actual costs incurred? What unexpected expenses did you incur and how did you pay for them?

**Answer:**

**4. Evaluating current situation:**

**Question:** How would you evaluate the effectiveness of Akukon Oy's internationalisation process?

**Answer:**

**Question:** Which subsidiary is the most successful so far and what expectations do you have for future development?

**Answer:**

**Question:** Would you evaluate Akukon Oy as a follower of the "born global strategy"?

**Answer:**

## APPENDIX 2 Financial Statements of Akukon Oy

Years 2018 and 2017

### Akukon Oy

Y-tunnus 0983772-0

TULOSLASKELMA	1.1 - 31.12.2018	1.1 - 31.12.2017
LIKEVAIHTO	3 839 113,29	3 494 073,98
Liiketoiminnan muut tuotot	15 597,04	59 388,11
Materiaalit ja palvelut		
Ostot tilikauden aikana	-4 233,98	-20 413,72
Varastojen muutos	-19 035,38	4 736,01
Ulkopuoliset palvelut	-298 153,09	-253 921,11
	<u>-321 422,45</u>	<u>-269 598,82</u>
Henkilöstökulut		
Palkat ja palkkiot	-1 906 710,96	-1 714 023,83
Henkilösivukulut		
Eläkekulut	-408 661,69	-347 109,10
Muut henkilösivukulut	-39 743,73	-36 230,57
	<u>-448 405,42</u>	<u>-383 339,67</u>
Henkilöstökulut yhteensä	-2 355 116,38	-2 097 363,50
Poistot ja arvonalentumiset	-52 376,44	-47 234,07
Liiketoiminnan muut kulut	<u>-1 011 379,64</u>	<u>-971 965,82</u>
LIKEVOITTO	114 415,42	167 299,88
Rahoitustuotot- ja kulut		
Muut korko- ja rahoitustuotot	829,75	1 045,93
Korkokulut ja muut rahoituskulut	-2 966,08	-3 329,95
	<u>-2 136,33</u>	<u>-2 284,02</u>
VOITTO ENNEN SATUNNAISIA ERIÄ	112 279,09	165 015,86
VOITTO ENNEN TILINPÄÄTÖSSIIRTOJA JA VEROJA	112 279,09	165 015,86
Tuloverot	<u>-22 921,05</u>	<u>-33 410,88</u>
TILIKAUDEN VOITTO	<u><u>89 358,04</u></u>	<u><u>131 604,98</u></u>

**Akukon Oy**

Y-tunnus 0983772-0

TASE

31.12.2018

31.12.2017

**VASTAAVAA**

## PYSYVÄT VASTAAVAT

Aineettomat hyödykkeet

Kehittämismenot

51 645,37

46 769,02

Muut aineettomat hyödykkeet

17 430,17

26 044,52

Liikearvo

6 600,00

8 800,00

Sijoitukset

Osuudet saman konsernin yrityksissä

6 065,00

3 515,00

81 740,5485 128,54

Aineelliset hyödykkeet

Koneet ja kalusto

87 429,63

78 568,03

PYSYVÄT VASTAAVAT YHTEENSÄ

169 170,17163 696,57

## VAIHTUVAT VASTAAVAT

Lyhytaikaiset

Muu vaihto-omaisuus

97 993,13

85 480,51

Saamiset

Myyntisaamiset

801 911,88

769 461,39

Saamiset saman konsernin yrityksiltä

14 298,46

4 298,46

Muut saamiset

11 939,24

10 323,15

Siirtosaamiset

12 186,97

63 134,35

938 329,68932 697,86

Rahat ja pankkisaamiset

172 512,36189 344,12

VAIHTUVAT VASTAAVAT YHTEENSÄ

1 110 842,04

1 122 041,98

VASTAAVAA YHTEENSÄ

1 280 012,211 285 738,55



## VASTATTAVAA

### OMA PÄÄOMA

Osakepääoma	20 000,00	20 000,00
Ylikurssirahasto	3 500,00	3 500,00
Muut rahastot		
Sijoitetun vapaan pääoman rahasto	12 096,00	9 072,00
Edellisen tilikauden voitto	459 764,51	402 983,53
Tilikauden voitto	89 358,04	131 604,98
	<u>584 718,55</u>	<u>567 160,51</u>

### VIERAS PÄÄOMA

Lyhytaikainen		
Ostovelat	69 354,16	86 708,10
Muut velat	281 551,17	255 132,13
Siirtovelat	344 388,33	376 737,81
	<u>695 293,66</u>	<u>718 578,04</u>

VIERAS PÄÄOMA YHTEENSÄ 695 293,66 718 578,04

VASTATTAVAA YHTEENSÄ 1 280 012,21 1 285 738,55

## Akukon Oy

Y-tunnus 0983772-0

### LIITETIEDOT 31.12.2018

Edellisten tilikausien voitto	534 588,51	406 880,53
+ myyty omia osakkeita 10 kpl	10 176,00	30 528,00
- jaettu osinkoa	-85 000,00	-34 425,00
	<u>459 764,51</u>	<u>402 983,53</u>
Tilikauden voitto	89 358,04	131 604,98
	<u>549 122,55</u>	<u>534 588,51</u>

OMA PÄÄOMA YHTEENSÄ 584 718,55 567 160,51

### Laskelma voitonjakokelpoisista varoista

Edellisten tilikausien voitto	459 764,51	402 983,53
Tilikauden tulos	89 358,04	131 604,98
Taseeseen aktivoidut kehittämismenot	-51 645,37	-46 769,02
	<u>497 477,18</u>	<u>487 819,49</u>

## Years 2016 and 2015

### Akukon Oy

Y-tunnus 0983772-0

TULOSLASKELMA	1.1 - 31.12.2016	1.1 - 31.12.2015
LIKEVAIHTO	3 249 837,78	3 243 446,64
Liiketoiminnan muut tuotot	6 060,49	10 205,77
Materiaalit ja palveut		
Ostot tilikauden aikana	-18 801,24	-13 042,46
Varastojen muutos	65 112,14	-6 693,14
Ulkopuoliset palvelut	<u>-306 673,68</u>	<u>-457 998,65</u>
	-260 362,78	-477 734,25
Henkilöstökulut		
Palkat ja palkkiot	-1 545 028,27	-1 514 291,09
Henkilösivukulut		
Eläkekulut	-313 409,93	-313 291,53
Muut henkilösivukulut	<u>-65 080,74</u>	<u>-49 933,71</u>
	-378 490,67	-363 225,24
Henkilöstökulut yhteensä	-1 923 518,94	-1 877 516,33
Poistot ja arvonalentumiset	-44 768,48	-43 486,38
Liiketoiminnan muut kulut	<u>-917 804,42</u>	<u>-801 433,93</u>
LIKEVOITTO	109 443,65	53 481,52
Rahoitustuotot- ja kulut		
Muut korko- ja rahoitustuotot	165,48	106,63
Korkokulut ja muut rahoituskulut	<u>-3 447,45</u>	<u>-2 415,55</u>
	-3 281,97	-2 308,92
VOITTO ENNEN SATUNNAISIA ERIÄ	106 161,68	51 172,60
VOITTO ENNEN TILINPÄÄTÖSSIIRTOJA JA VEROJA	106 161,68	51 172,60
Tuloverot	<u>-21 435,16</u>	<u>-8 567,79</u>
TILIKAUDEN VOITTO	<u><u>84 726,52</u></u>	<u><u>42 604,81</u></u>

**Akukon Oy**

Y-tunnus 0983772-0

TASE

31.12.2016

31.12.2015

**VASTAAVAA****PYSYVÄT VASTAAVAT**

Aineettomat hyödykkeet		
Aineettomat oikeudet	2 089,95	3 369,95
Liikearvo	6 428,00	12 856,00
Muut aineettomat hyödykkeet	27 346,78	20 804,40
Ennakkomaksut	0,00	16 420,00
Sijoitukset		
Osuudet saman konsernin yrityksissä	1 275,00	0,00
	<u>37 139,73</u>	<u>53 450,35</u>
Aineelliset hyödykkeet		
Koneet ja kalusto	79 710,24	91 124,22
<b>PYSYVÄT VASTAAVAT YHTEENSÄ</b>	<u>116 849,97</u>	<u>144 574,57</u>

**VAIHTUVAT VASTAAVAT**

Lyhytaikaiset	.	
Muu vaihto-omaisuus	98 022,50	32 910,36
Saamiset		
Myyntisaamiset	661 512,24	525 623,64
Muut saamiset	4 867,17	3 583,75
Siirtosaamiset	39 570,43	48 982,42
	<u>803 972,34</u>	<u>611 100,17</u>
Rahoitusarvopaperit	6 000,00	6 000,00
Rahat ja pankkisaamiset	54 844,16	94 053,41
<b>VAIHTUVAT VASTAAVAT YHTEENSÄ</b>	<u>864 816,50</u>	<u>711 153,58</u>
<b>VASTAAVAA YHTEENSÄ</b>	<u>981 666,47</u>	<u>855 728,15</u>

**VASTATTAVAA****OMA PÄÄOMA**

Osakepääoma	20 000,00	20 000,00
Ylikurssirahasto	3 500,00	3 500,00
Edellisen tilikauden voitto	322 154,01	354 549,20
Tilikauden voitto	<u>84 726,52</u>	<u>42 604,81</u>
	430 380,53	420 654,01

**VIERAS PÄÄOMA****Lyhytaikainen**

Lainat rahoituslaitoksilta	0,00	6 250,00
Saadut ennakot	0,00	66 000,00
Ostovelat	58 058,55	42 780,26
Muut velat	218 608,33	88 684,93
Siirtovelat	<u>274 619,06</u>	<u>231 358,95</u>
	551 285,94	435 074,14

**VIERAS PÄÄOMA YHTEENSÄ**

551 285,94 435 074,14

**VASTATTAVAA YHTEENSÄ**981 666,47 855 728,15**Oman pääoman muutokset**

		<b>2016</b>	<b>2015</b>
<b>OMA PÄÄOMA</b>			
Osakepääoma	400 kpl * 50	20 000,00	20 000,00
Osakeanti, ylikurssin osuus	50 kpl * 70	<u>3 500,00</u>	<u>3 500,00</u>
		23 500,00	23 500,00
Edellisten tilikausien voitto		397 154,01	387 249,20
- jaettu osinkoa		<u>-75 000,00</u>	<u>-32 700,00</u>
		322 154,01	354 549,20
Tilikauden voitto		<u>84 726,52</u>	<u>42 604,81</u>
<b>OMA PÄÄOMA YHTEENSÄ</b>		430 380,53	420 654,01

**Laskelma voitonjakokelpoisista varoista**

Edellisten tilikausien voitto		322 154,01	354 549,20
Tilikauden tulos		<u>84 726,52</u>	<u>42 604,81</u>
		406 880,53	397 154,01

## APPENDIX 3 Translation of Main Accounting Terms from Finnish to English

tuloslaskelma	income statement
LIKEVAIHTO	REVENUE
Liiketoiminnan muut tuotot	Other operating income
Materiaalit ja palvelut	Raw materials and services
Ostot tilikauden aikana	Purchases during the financial year
Varastojen muutos	Variation in stocks
Ulkopuoliset palvelut	External services
Henkilöstökulut	Staff expenses
Palkat ja palkkiot	Wages and salaries
Henkilösivukulut	Social security expenses
Eläkekulut	Pension expenses
Muut henkilösivukulut	Other social security expenses
Henkilösivukulut yhteensä	all social security expenses
Poistot ja arvonalentumiset	Depreciation, amortization and reduction in value
Liiketoiminnan muut kulut	Other operating expenses
LIKEVOITTO	OPERATING PROFIT
Rahoitustuotot ja -kulut	Financial income and expenses
Muuto korko- ja rahoitustuotot	Other interest income and other financial income
Korkokulut ja muut rahoituskulut	Interest and other financial expenses
VOITTO ENNEN TILINPÄÄTÖSSIIRTOJA JA VEROJA	PROFIT BEFORE APPROPRIATIONS AND TAXES
Tuloverot	Income taxes
TILIKAUDEN VOITTO	PROFIT OF THE FINANCIAL YEAR
TASE	BALANCE SHEET

VASTAAVAA	ASSETS
Pysyvät vastaavat	Non-current assets
Aineettomat hyödykkeet	Intangible assets
Aineettomat oikeudet	Intangible rights
Kehittämismenot	Development expenses
muut aineettomat hyödykkeet	other intangible assets
Liikearvo	Goodwill
Ennakkomaksut	Advance payments
Sijoitukset	Investments
Osuudet saman konsernin yrityksissä	Holdings in group undertakings
Aineelliset hyödykkeet	Tangible assets
Koneet ja kalusto	Machinery and equipment
Pysyvät vastaavat yhteensä	Non-current assets in total
Vaihtuvat Vastaavat	Current assets
Lyhytaikaiset	Short term
Muu vaihto-omaisuus	Other stocks
Saamiset	Receivables
Myyntisaamiset	Trade debtors, accounts receivable
Saamiset saman konsernin yrityksiltä	Amounts owed by group member companies
Muut saamiset	Other debtors
Siirtosaamiset	Prepayments and accrued income
Rahoitusarvopaperit	Investments
Rahat ja pankkisaamiset	Cash in hand and at banks
Vaihtuvat vastaavat yhteensä	Current assets in total
VASTAAVAA YHTEENSÄ	ASSETS IN TOTAL
VASTATTAVAA	LIABILITIES
Oma pääoma	Capital and reserves
Osakepääoma	Subscribed capital

Ylikurssirahasto	Share premium account
Muut rahastot	Other reserves
Sijoitetun vapaan pääoman rahasto	Reserve for invested non-restricted capital
Edellisten tilikausien voitto	Retained earnings gain
Tilikauden voitto	Profit for the financial year
Vieras pääoma	Creditors
Lyhytaikainen	Short term
Ostovelat	Accounts Payables
Muut velat	Other creditors
Siirtovelat	Accruals and deferred income
Vieras pääoma yhteensä	Creditors in total
VASTATTAVAA YHTEENSÄ	LIABILITIES IN TOTAL