The Internal Change Process – Exploring the Inside of Firms as They Grow to International Markets

Master’s Thesis 30 credits
Department of Business Studies
Uppsala University
Spring Semester of 2015
Date of Submission: 2015-05-29

Gustav Dahlin
William Dannevig

Supervisor: Katarina Hamberg Lagerström
Acknowledgments

We would like to express gratitude toward our supervisor Katarina Hamberg Lagerström, for her constant challenging viewpoints and critical examination of our study, and to the members of the seminar group, who all contributed with valuable comments during seminars along the semester. The insights provided to us made the study what it is today in its final form.

We would also like to thank the case firms and informants who put up valuable time and contributed with insightful empirical data. We are truly glad that all case firms realized the importance of the study and wanted to contribute with their experience as growing international firms.

Uppsala University, May 29, 2015.

_______________________________  ______________________________
Gustav Dahlin                           William Dannevig
Abstract
This study examines how the internal change process unfolds in firms as they grow beyond country borders and into international markets. With the help of theories on resource management and dynamic capabilities, a conceptual framework of the internal change process in the context of internationalization is developed. The study takes a qualitative, multiple-case study approach, and is conducted on five Swedish food and beverage SMEs. The study’s findings report that firms change internally by discovering a change in the external environment, reacting to the change by activating the resource management process, and take action against external environmental changes by implementing value creating strategies based on the resources and capabilities that were developed in the resource management process. The process of discovering, reacting, and taking action is found to be a valid proof of the possession of dynamic capabilities, which help the firms in the internal change process. As the firms gain experience on the international markets they develop a proactive behavior, which also is found to be a valuable part of possessing dynamic capabilities and undergoing the internal change process cyclically, learning and benefiting from past experience.

Key words: Internal Change, Internationalization, International Growth, Resource Management, Dynamic Capabilities, SMEs, Food and Beverage.
Table of Contents

1. INTRODUCTION ........................................................................................................................................ 5
   1.1. PROBLEM DISCUSSION ......................................................................................................................... 5
   1.2. AIM OF STUDY AND CONTRIBUTION ................................................................................................. 7

2. THEORETICAL FRAMEWORK ....................................................................................................................... 7
   2.1. INTERNATIONALIZATION AS A PROCESS OF CHANGE ........................................................................ 7
   2.2. RESOURCE MANAGEMENT ................................................................................................................... 9
      2.2.1. Resources ....................................................................................................................................... 10
      2.2.2. Capabilities ................................................................................................................................... 11
      2.2.3. The Resource Management Process ............................................................................................. 12
   2.3. DYNAMIC CAPABILITIES .................................................................................................................... 14
      2.3.1. The Dynamic Capabilities Framework ........................................................................................ 15
   2.4. THE INTERNAL CHANGE PROCESS - AN INTEGRATED CONCEPTUAL MODEL .................................. 17

3. RESEARCH METHOD ...................................................................................................................................... 19
   3.1. RESEARCH DESIGN ............................................................................................................................... 19
   3.2. CASE SELECTION ................................................................................................................................. 19
      3.2.1. Industry Selection .......................................................................................................................... 19
      3.2.2. Selection Criteria of Case Firms ................................................................................................... 20
      3.2.3. Selection Criteria of Informants .................................................................................................. 21
   3.3. DATA COLLECTION .............................................................................................................................. 23
   3.4. DATA ANALYSIS AND PRESENTATION ............................................................................................. 24
   3.5. CRITICAL REVIEW AND LIMITATIONS ............................................................................................ 25

4. EMPIRICAL FINDINGS .................................................................................................................................... 26
   4.1. CASE STUDY FIRM OVERVIEW .......................................................................................................... 26
   4.2. IDENTIFICATION OF GROWTH CHALLENGES AND INTERNAL ADAPTATION .................................. 27
      4.2.1. Foreign Market Challenges ........................................................................................................ 27
      4.2.2. Increasing Employee Base .......................................................................................................... 29
      4.2.3. Organization and Internal Processes .......................................................................................... 30
      4.2.4. Product Quality Control ............................................................................................................ 31
      4.2.5. Financing the Growth ................................................................................................................ 33
   4.3. STRUCTURING THE ORGANIZATION AND MANAGING THE INTERNATIONAL FIRM ......................... 34
      4.3.1. Handling a Growing Organization .............................................................................................. 34
      4.3.2. Developing a Proactive behavior ................................................................................................ 35
   4.4. SUMMARIZING THE EMPIRICAL FINDINGS ....................................................................................... 36

5. ANALYSIS ...................................................................................................................................................... 38
   5.1. DISCOVERY OF CHANGE IN THE EXTERNAL ENVIRONMENT ............................................................ 38
   5.2. REACTING TO THE EXTERNAL CHANGE ............................................................................................. 39
      5.2.1. Structuring Resources ................................................................................................................ 39
      5.2.2. Bundling Resources ................................................................................................................... 42
   5.3. LEVERAGING AND TAKING ACTION .................................................................................................... 44
   5.4. SUMMARY AND REVISION OF THE CONCEPTUAL MODEL ............................................................. 45

6. CONCLUSIONS .............................................................................................................................................. 47
   6.1. CONCLUDING REMARKS .................................................................................................................... 47
   6.2. CONTRIBUTIONS ................................................................................................................................. 49
   6.3. LIMITATIONS ....................................................................................................................................... 49
   6.4. PROPOSITIONS FOR FUTURE RESEARCH ......................................................................................... 50

7. LITERATURE LIST ........................................................................................................................................ 51

APPENDIX ....................................................................................................................................................... 57
   APPENDIX 1 - DEFINITION AND OPERATIONALIZATION OF KEY CONCEPTS AND VARIABLES ..................... 57
   APPENDIX 2 - INTERVIEW GUIDE CASE STUDY FIRM INFORMANTS ....................................................... 58
   APPENDIX 3 - INTERVIEW GUIDE BUSINESS SWEDEN ............................................................................. 59
1. Introduction

1.1. Problem Discussion

Internationalization is a growth strategy argued to have a positive effect on firms’ long-term performance (Capar & Kotabe, 2003; Autio et al., 2000; Nummela et al., 2006; Ruzzier et al., 2006; Sommer, 2010; Lee et al., 2012). Internationalization, however, requires firms to adapt to difficult challenges related to the growth process (Lee et al., 2012). Challenges in the international growth process have been argued to include external barriers, such as sophisticated systems of trade taxes and tariffs, differentiated consumer preferences and cultural divergence (Barkema et al., 1996; Acs et al., 1997). However, as a process of growth, internationalization also implies changes in many internal aspects of the firm (Ruzzier et al., 2006), which research has put less focus on (Nummela et al., 2006). Internal challenges include, for example, expansion and knowledge differentiation of the employee base, changes in organizational structures, financial difficulties (Welch & Luostarinen, 1988), and adaption of internal processes (Nummela, 2004). The large focus on the external side of internationalization has limited the acknowledgment of other important perspectives of internationalization (Welch & Luostarinen, 1988), and there is consequently a lack of research and understanding regarding the internal side of internationalization (Nummela, 2004; Nummela et al., 2006). It is evident that there is a need for this kind of research, since internal changes take place in fundamental functions and processes, such as human resources, organizational structures and finance as firms internationalize (Welch & Luostarinen, 1988; Nummela, 2004; Nummela et al., 2006). This makes international growth not only a process of external change, but a process of internal change as well. Managing internal change successfully is not only a crucial and important task (Todhem By, 2005; Baretto, 2010), but an equally challenging one (Appelbaum et al., 2012).

One of the most critical success factors for growing firms is to be able to adapt to rapidly changing market conditions (Barney et al., 2001). Chester Barnard acknowledged this almost eighty years ago, as he argued that the success of a firm is dependent upon how well the firm adapts to its external environment (Barnard, 1938: 83). Since then, the management of resources has played an important part in research and in developing an understanding of how firms adapt to changing environments (Ambrosini & Bowman, 2009). The resource management process
explains how firms internally adapt to changing market conditions by managing their resources and capabilities (Sirmon et al., 2007). This is because the management of the resources and capabilities is dependent upon, and affected by, the environment the firm is present in (Penrose, 1995: 204f; Jaffee, 2001: 219; Sirmon et al., 2007). An equally important concept to regard to fully understand how firms compete in uncertain environments, such as international markets, is the concept of dynamic capabilities (Mahoney, 1995). Theories on dynamic capabilities present a picture how firms manage, make changes to, and develop their resource bases, capabilities and competences to adapt to changing external environments (Teece et al., 1997; Baretto, 2010). Firms benefit if they have a strong ability to recognize when and how to reconfigure their resources and capabilities, and thereby pursue internal changes (Teece et al., 1997; Sirmon & Hitt, 2009; Baretto, 2010).

As internationalization is a process of growth and change (Ruzzier et al., 2006), internal changes is a natural consequence of international growth (Welch & Luostarinen, 1988; Nummela, 2004; Nummela et al., 2006). The question of how the internal change process looks like remains, however, largely unexplored (Helfat et al., 2007: 46; Sirmon et al., 2011), meaning that we know little about how and why internal changes occur. To our best knowledge, there only exists two studies that investigate internal changes as firms engage in international operations (c.f. Nummela, 2004; Nummela et al., 2006), whose authors request more research in the area. Theories on resource management and dynamic capabilities offer a possibility to explain these internal changes from an unexplored perspective. From the above line of discussion, it is evident that there is a need for additional research on how firms internally change as they expand their business operations to international markets. Based on what has been discussed above, the following research question is in focus:

How does the internal change process unfold for firms growing internationally?
1.2. Aim of Study and Contribution
The aim of this study is to create an understanding of the process of internal changes taking place when firms are growing to international markets. An additional aim is to unveil the reasons behind why the internal changes take place, and to depict what these changes are.

The study contributes to both academia and practitioners. The academic contribution lies in the theory development and deepened understanding of the internal change process in the context of firms’ international growth. Based on previous research, a conceptual model of the internal change process is developed. Thereby, the study contributes with an extended understanding of how firms adapt internally as they grow to international markets. The study also contributes with insight on what role resources, capabilities and dynamic capabilities play for internationally growing firms.

The practical contributions are achieved by providing practitioners with an understanding of how firms adapt to changing external environments and what changes the firms encounter. More specifically, the study creates an understanding on what resources and capabilities that are important for internationally growing firms to possess. As internal changes occur for all firms on an international trajectory, the study and should be of interest to any firm that considers international expansion. The developed model is however not to be seen as a step-by-step guidebook on how to change, but should rather be regarded as a model that extends the understanding of this process of change.

2. Theoretical Framework

2.1. Internationalization as a Process of Change
Internationalization has previously been described as a process of growth, highly connected to change (Coviello & Munro, 1997; Hutchinson et al., 2006; Ruzzier et al., 2006). One of the most notable works on the process view of internationalization is the Uppsala internationalization process model (Ruzzier et al., 2006), which explains how firms gradually commit resources to an international market (Johanson & Vahlne, 1977). The firm's commitment to the international market takes into account, among other things, the amount and size of resources committed to
the foreign market and considers investments in, for instance, marketing, organization and personnel as important for succeeding internationally (Johanson & Vahlne, 1977). It is often assumed that a firm’s international market commitment, in terms of resources located in the foreign market, are the most committed sort of resources (Johanson & Vahlne, 1977). It is, however, important not to forget or disregard the commitment of resources located in the home country, which are aimed at supporting the activities in the foreign market. Resources located in the domestic market can also be committed to, and support, the foreign market expansion and are equally important for the international success (Johanson & Vahlne, 1977). This implies that organizational changes also may take place at home to support the internationalization process and the business activities abroad.

Later research argues that it remains unclear what kind of resources and skills that are needed to support the internationalization (Welch & Luostarinen, 1988; Nummela et al., 2006). It is claimed that internationalization research has shifted toward focusing more on the resources needed for internationalization, from previously focusing on the definition and analysis of the international activities (Ruzzier et al., 2006). Ahokangas (1998: 63) adopted the resource perspective of internationalization and defined the internationalizing firm as “[...] mobilizing unique and interdependent resource stocks that enable and contribute to the firm's internationalization activities within its natural context”. According to Ahokangas (1998), firms develop external and internal resources, which can be adapted between the firm and its environment, or internally within the firm, implying that internationalization is a “[...] process of mobilizing, accumulating, and developing resource stocks for international activities” (Ruzzier et al., 2006: 479).

Moreover, Ahokangas (1998) and Ruzzier et al. (2006) emphasize that internationalization is about managing resources. This in turn implies internal changes in firms that grow to international markets (c.f. Welch & Luostarinen, 1988; Teece et al., 1997; Nummela et al., 2006; Sirmon et al., 2007). Internal changes occur in many parts of the firm as it grows (Van de Ven & Poole, 1995; Álvarez & Merino, 2003). Welch and Luostarinen (1988) distinguish between three categories of internal changes that take place in firms that grow beyond national borders, namely; personnel, organization, and finance. An international expansion has a big impact on the
The workload increases as the firm grows, while the work tasks become more complex, consequently implying that more personnel need to be hired (Welch & Luostarinen, 1988; Penrose, 1995: 202; Nummela et al., 2006). The increasing complexity of tasks puts pressure on the firm to find or create specialization of the personnel (Nummela et al., 2006). This in turn has an effect on the knowledge base of the personnel, where new skills and knowledge need to be integrated into the firm (Welch & Luostarinen, 1988). The internal changes are often connected to each other (Nummela et al., 2006), which means that a change in personnel further can trigger a change in the organization as new roles and processes emerge (Welch & Luostarinen, 1988; Sirmon et al., 2011). A change in the organizational structure can also emerge if the current structure is not sufficient enough to support the on-going internationalization (Lam & White, 1999; Nummela, 2006). Further, internationalization is a costly process for a firm that previously only has operated on a domestic level (Hutchinson et al., 2006). Thus, many of the problems firms encounter during international growth are connected to finance (Teece et al., 1997; Nummela, 2004), and acquiring capital needed for the expansion is a large challenge for the firm, especially if it is small (Penrose, 1995: 218f). Before taking measures as acquiring external debt or capital, a firm will try to finance the internationalization by their internal funds (Nummela et al., 2006). A firm with limited funds has to make the correct investments decisions in the development of new resources (Teece, 2007).

2.2. Resource Management
It is evident that internationalization is dependent upon the management of resources, but the internationalization theories do not go into depth on resources specifically. The resource management literature offers a possibility to elaborate on this further. Theories on resource management describe that, as firms grow internationally, they must adapt to external environments that are significantly different from the domestic market they are used to operate in (Penrose, 1995: 204f; Lam & White, 1999; Jaffee, 2001: 210; Sirmon et al., 2007). To adapt to the new environment, there is a need for firms to manage and make changes to the resource-base of the firm (Sirmon & Hitt, 2003; Sirmon et al., 2007; Sirmon et al., 2011). This implies that internal changes take place as a direct consequence of internationalization, and that these changes consequently occur on the inside of the firm, at the resource-base. Closely related and interlinked to resources are capabilities (Barney et al., 2001). Resources are a firm’s attributes,
and firms can leverage on their resources by using their capabilities (Barney & Arikan, 2001), making capabilities an equally important concept to discuss when depicting the changes taking place within a growing firm. One model that in-depth describes how firms adapt to changing external environments is the resource management process (c.f. Sirmon et al., 2007). However, to understand the resource management process, the key concepts of resources and capabilities must first be discussed and defined.

2.2.1. Resources
Resources have been defined in various ways in previous research. Barney (1991: 101) defines resources as “[...] all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”. This definition includes all things that a firm possesses, which it can use to create value, and thus, the definition as such is rather vague. Barney (1991) does not explicitly distinguish between tangible and intangible resources, but mentions that various assets a firm possesses further could be defined as either tangible or intangible. As an extension to Barney’s (1991) definition, Barney and Arikan (2001: 138) emphasize on the tangibility of resources, as they define resources as “[...] the tangible and intangible assets firms use to conceive of and implement their strategies”. Here, strategy implementation and consequently value creation is central, similar to Barney’s (1991) definition. Without any emphasis on value creation, Wernerfelt (1984: 172) defines resources as “[...] those (tangible and intangible) assets which are tied semipermanently to the firm”. Although Wernerfelt (1984) does not explicitly lift the importance of value creation in his definition, he argues for ways in which the use of resources creates value for a firm. The tangibility of resources is frequently discussed in the resource literature. Tangible resources are financial and physical capital, while intangible resources are human and organizational capital (Barney & Arikan, 2001; Penrose, 1995: 24). Examples of tangible resources are a firm’s plant and equipment (Johanson & Mattsson, 1988; Teece et al., 2007), raw material (Barney, 1991), debt and equity capital (Barney & Arikan, 2001). Examples of intangible resources are the employees and the knowledge and experience they possess (Johanson & Mattsson, 1988; Barney, 1991; Penrose, 1995: 25), organizational culture and reputation (Barney & Arikan, 2001), technological assets and processes, and firm brand (Wernerfelt, 1984; Itami & Roehl, 1991: 1).
From the above discussion on resources, it is possible to conclude that the commonalities of the definitions are the focus on value creation and the tangibility of the resources. The definitions however leave out any connection to change. As discussed above, the management of resources is central in responding to external change (cf Sirmon & Hitt, 2003; Sirmon et al., 2007; Sirmon et al., 2011), but this relation is left out in the previously discussed definitions on resources. This is important to include, since resources only create value if they are applied in the right environmental context (Sirmon et al., 2007). It is therefore important to lift the change perspective also when defining resources in the context of this study. Based on the above definitions and the importance of including a change perspective, we define resources as the tangible and intangible assets that firms use to create value in response to changing external environments. ‘Assets’ and ‘resources’ are consequently used and interpreted interchangeably throughout the study, in line with previous definitions on resources. Under the resource definition, both tangible and intangible assets are included in line with previous definitions (c.f. Wernerfelt, 1984; Barney & Arikan, 2001; Sirmon & Hitt, 2009). The content of changing external environments is the various international markets the firm encounters on the international growth journey.

2.2.2. Capabilities
McKelvie and Davidsson (2009) argue that a firm’s value creation is not entirely dependent upon a firm’s resources, but also on its capabilities. Barney and Arikan (2001) distinguish between resources and capabilities by arguing that resources are a firm’s essential attributes, and that firms can leverage on these attributes by using their capabilities. Winter (2003: 991) define a capability as “[…] a high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization’s management a set of decision options for producing significant outputs of a particular type”. Here, emphasis is put on routines, which are patterned behaviors that are learned by the firm and its employees (Winter, 2003). Capabilities have also been defined as “[…] those attributes of a firm that enable it to exploit resources in implementing strategies” (Barney & Arikan, 2001: 139), or “[…] the ability to perform a particular task or activity” (Helfat et al., 2007: 1). In other words, capabilities are bundles of resources that form a possibility to create value (Sirmon et al., 2007), which is in line
with the two definitions above, and Barney and Arikan’s (2001) distinction between resources and capabilities. This way, both resources and capabilities are potential bases for value creation, but once again only if there exists a fit with the external environment (c.f. Sirmon et al., 2007). Helfat and Peteraf (2003: 999) define capabilities as “[...] the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result”, capturing the focus on performing specific tasks in line with previous definitions. Also in line with Winter (2003), they emphasize that capabilities are routines that are learned. Based on the discussion, we define capabilities as bundles of resources that create routines and enable the performing of tasks that in turn creates value for the firm. This way, there is a clear connection between resources and capabilities (c.f. Barney & Arikan, 2001), where capabilities are based on the resources a firm holds, and together they create value for the firm.

2.2.3. The Resource Management Process

Resources and capabilities have been discussed and defined in the above section. However, the question how the management of resources is carried out as a response to changing external environments, and what role capabilities play in this process, still remains to be answered. Sirmon and colleagues developed a model of the resource management process, consisting of three components; namely structuring, bundling, and leveraging (Sirmon et al., 2007; Sirmon et al., 2011). Resources and capabilities play important roles in the resource management process. The process is crucial for a firm that wishes to perform well when facing changing external environments (Sirmon et al., 2007). All three components are dependent upon, and influenced by, the environmental context in which the firm is active (Sirmon et al., 2007; Molloy et al., 2011; Sirmon et al., 2011). Moreover, all three components and their sub processes are equally important to create value (Sirmon et al., 2007).

The first component, structuring, involves the sub processes of acquiring, accumulating and divesting of resources. Often, it is not sufficient to only manage the existing resources, but a firm will also need new resources that it can use to support the growth and international expansion (Penrose, 1995: 66; Sirmon & Hitt, 2009). This reasoning is in line with our definition on resources, which takes into account the changing external environment that comes with
international expansion (c.f. Coviello & Munro, 1997; Hutchinson et al., 2006; Ruzzier et al., 2006). A firm can get their hands on new resources by acquiring, where the firm purchases the resources externally, or by accumulating, which is the process of acquiring new resources by internal development (Helfat et al., 2007: 6; Sirmon et al., 2007). Accumulating resources may be necessary when the demanded resource is not available to acquire externally. It involves internal development by learning and training, for example developing managerial skills (Sirmon et al., 2007). Finally, resources that are no longer necessary can inhibit value creation, and should thus be divested (Sirmon & Hitt, 2003; Sirmon et al., 2007).

The second component of the resource management process is *bundling*, which is the process of combining resources to create capabilities that can support a change. It involves three sub processes; stabilizing, enriching and pioneering (Sirmon et al., 2007). Stabilizing is about making small incremental modifications in capabilities to ensure that the level of knowledge and capabilities are retained over time, similar to the accumulation of resources (c.f. Sirmon et al., 2007). Enriching is the process of developing a capability further, through new learning or by adding a resource to an existing bundle of resources (Sirmon et al., 2007). The enriching sub process improves the capability over time, as the employees carrying out the tasks supported by the capability extend their knowledge on how to manage it continuously (Helfat & Peteraf, 2003). The final sub process, pioneering, is the process where existing capabilities are managed and newly acquired resources are integrated with each other, or existing resources, to create new capabilities (Sirmon et al., 2007). The firm-specific knowledge of employees, the human capital, is a crucial mediator in this step (Mahoney, 1995; Sirmon & Hitt, 2003), and the need for bundling resources into new capabilities is higher the more uncertain the external environment is (Sirmon et al., 2007). Taking the definition on capabilities into account, this would mean that a new external environment demands new and refined routines from a firm.

The last component, *leveraging*, is the process of creating value from the capabilities the firm holds (Sirmon & Hitt, 2003). The leveraging capability includes the sub processes of mobilizing, coordinating, and deploying. A firm mobilizes its capabilities to prepare them to be coordinated and deployed, by recognizing and preparing the capabilities that are to be used in a market (Sirmon et al., 2007). In the coordination sub process, the capabilities that have been mobilized
are integrated into configurations of capabilities, by spreading and communicating knowledge and capabilities inside the firm (Sirmon et al., 2007). Finally, the firm deploys their configurations of capabilities to implement strategies and create value, through deciding how to use their capabilities and in what markets to enter. Firms find market opportunities with playroom for competition where the firm’s resources and capabilities form an advantage (Sirmon et al., 2007). In ‘Figure 1’ below, a summary of the resource management process is presented.

![Figure 1: “The Resource Management Process”, (Sirmon et al., 2007). Authors’ application.](image)

2.3. Dynamic Capabilities

In the resource management process, capabilities are developed to help the firm implement value creating strategies in new environmental contexts. However, research has argued that a specific kind of capabilities are needed for firms to successfully adapt to changing external environments (Winter, 2003; Cepeda & Vera, 2007). These are the dynamic capabilities, which can be seen as a way of optimizing firm performance by responding to changes in the external environment (Teece et al., 1997; Helfat & Peteraf, 2003; Baretto, 2010). Dynamic capabilities are frequently used in analyzing how organizational structures and processes in firms change (Helfat & Peteraf, 2003; Helfat et al., 2007: 30; Baretto, 2010). This makes dynamic capabilities a promising tool of analysis when studying internal change as a consequence of international growth. In this way, dynamic capabilities are associated with internal changes that unfold in firms as they respond to changing external environments (Teece & Pisano, 1994; Teece et al., 1997; Helfat et al., 2007: 30; Teece, 2007; Baretto, 2010), with international growth being an example of this change trigger (Eisenhardt & Martin, 2000; Dawson, 2007). A firm that lacks dynamic capabilities will have trouble coping with change in a successful way (Winter, 2003). Contrary, dynamic
capabilities implemented in the right way contribute to value creation as the firm successfully adapts to environmental changes (Teece et al., 1997).

Dynamic capabilities have been defined as “[...] the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece et al., 1997: 516), “[...] the capacity of an organization to purposefully create, extend, or modify its resource base” (Helfat et al., 2007: 121), or “[...] the firm’s ability to integrate and change resource bases to address changing environments” (McKelvie & Davidsson, 2009: 65). Similarly, Baretto (2010: 271) defines dynamic capabilities as “[...] the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base”. The definitions on dynamic capabilities are closely related to each other and more homogeneous compared to those on resources and capabilities. Emphasis is put on the ability to address changing external environments by managing the resource base. Teece et al.’s (1997) definition focuses on one firm attribute, competences, but it has been argued that dynamic capabilities also encompass a firm’s routines and processes (Eisenhardt & Martin, 2000; Baretto, 2010), resources (Helfat et al., 2007: 44), and knowledge (Eisenhardt & Martin, 2000). In this way, dynamic capabilities ties back to resources and capabilities, which is in line with the above discussion. Since the purpose of this study is to explore the inside of the firm, the internal changes, the focus on the literature on dynamic capabilities will be on the internal competences and capabilities, as these can be assumed to be tightly connected to the internal changes that occur in firms as they grow to international markets.

2.3.1. The Dynamic Capabilities Framework
Helfat et al. (2007: 2) describe dynamic capabilities as a framework consisting of three functions, where firms (1) recognize a need for change, (2) develop a response to this need for change, and (3) plan and execute a strategy for how to adapt to the change. Similarly, Baretto (2010) summarized earlier theoretical development on dynamic capabilities into four functions, namely (1) sensing changing conditions in the competitive landscape, (2) managing the resources as a response to the changing market conditions, (3) making market-oriented decisions, and (4) making timely decisions. We summarize these functions in ‘Figure 2’ below and label them as
Discovery, Reaction, and Action-Taking. As a whole, these functions constitute the dynamic capabilities framework. The functions that are outlined are based on Helfat et al. (2007) and Baretto (2010) categorizations. The dynamic capabilities framework is a process where discovery is followed by reaction and action-taking (c.f. Helfat et al., 2007; Baretto, 2010). As the dynamic capabilities framework is a response to changing external environments (Teece et al., 1997; Baretto, 2010), it is reasonable to argue that the framework is not a one time occurrence, but rather that firms use dynamic capabilities continuously as they encounter new external environments, i.e. new international markets (c.f. Eisenhardt & Martin, 2000; Dawson, 2007). Based on the above discussion and definitions on dynamic capabilities, and the dynamic capabilities framework, we define dynamic capabilities as the firm attributes that continuously enable the internal change process of discovering, reacting, and taking action against changing external environments.

![Dynamic Capabilities Framework](image)

In the dynamic capabilities framework, discovery includes identification of problems and opportunities that arise due to changing market conditions (Helfat et al., 2007: 30), where firms actively scan the environment for market-based changes, both domestically and abroad (Teece, 2007; Baretto, 2010). A firm will benefit from having a good sense of how the external environment changes (Teece et al., 1997). We define discovery as the ability to sense a change in the external environment that needs to be attended to. Reacting to the discovery of change
involves activities where firms manage their resource base to match the environment (Helfat et al., 2007: 30; Baretto, 2010). The reaction function is in this way closely tied with the resource management process (c.f. Sirmon et al., 2007). Consequently, we define reaction as the ability to react to the change demand, by activating the resource management process. Once the firm has made the necessary changes and additions to the resource base and bundled capabilities, the structuring and bundling steps, it takes action against the change by executing strategies that are in line with the new resource base (Helfat et al., 2007: 31). This way, the action-taking function in the dynamic capabilities framework and the leveraging component in the resources management process are closely related. In action-taking, it is important that the decisions taken are in line with the environmental context in which the firm is active, and that the actions are taken at the correct time (Baretto, 2010). We define action-taking as the ability to implement value creating strategies where a fit between the new external environment and the internal resource base is achieved. The dynamic capabilities framework and its content is coherent with our definition on dynamic capabilities. Dynamic capabilities drive and support the internal change process, conceptualized in the framework as discovering, reacting and taking action against changing external environments.

2.4. The Internal Change Process - An Integrated Conceptual Model
Based on the theoretical framework, we put forward a conceptual model describing how the internal change process unfold during international growth, visualized in ‘Figure 3’ below. The model of the internal change process integrates the resource management process and dynamic capabilities framework. In the model, key components are resources, capabilities and dynamic capabilities. Dynamic capabilities are not situated in any specific part of the model, but are expected to be represented by the model as a whole. This is because dynamic capabilities are used in adapting to changing external environments, where discovery, reaction and action-taking are the three components that enables the adaption.
The context of the internal change process is internationalization. The international growth provides the firm with an environmental context new to the firm, thereby pushing the firm to internally transform to succeed (c.f. Teece et al., 1997). The internal change process takes off in the discovery phase, where firms search for changes in the external environment that they need to address (c.f. Helfat et al., 2007; Baretto, 2010). This in turn triggers a reaction from the firm in the resource management process, where firms structure resources and bundle capabilities (c.f. Sirmon et al., 2007). Structuring includes acquiring, accumulating and divesting resources. Bundling involves stabilizing, enriching and pioneering of capabilities. In the final phase of the process, leveraging and action-taking, the firm uses its newly acquired set of capabilities to form strategies that in the new environmental context brings value and success to the firm. The steps of leveraging and action-taking are joint together in one phase, as both are about creating value through effective strategy implementation with the resources and capabilities created in earlier steps of the internal change process (c.f. Helfat et al., 2007; Sirmon et al., 2007; Baretto, 2010). The internal change process should not be seen as a one time occurrence, but is rather a continuous process, which firms go through multiple times as they encounter new external environments, or new international markets (c.f. Eisenhardt & Martin, 2000; Dawson, 2007).
3. Research Method

3.1. Research Design
The area of interest in this study, the internal change process in international growth, has previously been largely neglected by scholars and to our best knowledge, only two empirical studies have been conducted on the subject (c.f. Nummela, 2004; Nummela et al., 2006). Consequently, an exploratory approach was chosen, allowing for developing theoretical concepts in a research area where previous studies are few (c.f. Ghauri & Gronhaug, 2010; Saunders et al., 2012). However, when it comes to answering questions such as why and how, the exploratory approach alone cannot provide adequate answers (Babbie, 2010). By complementing with a descriptive approach, important events related to the internal change process could be described in a clear manner to obtain a better picture of the internal change process (Yin, 2014). Thus, a mixed method approach was applied (c.f. Yin, 2006). As the study aims at understanding a process, a qualitative case study approach was chosen (c.f. Bryman & Bell, 2007). The case study approach allowed for a deeper understanding of the internal change process firms go through during international growth (c.f. Saunders et al., 2012). The study contributes with theory development and empirical findings to an identified research gap. A case study methodology was deemed most appropriate for this kind of set up (c.f. Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Ghauri & Gronhaug, 2010). The time scope of this study did not allow for following the case firms during a longer period of time, therefore a retrospective research form was used. This means that rather than following a firm for a longer period of time and continuously collecting data, it was collected during one occasion (c.f. Bryman & Bell, 2007).

3.2. Case Selection

3.2.1. Industry Selection
The study was performed on Swedish firms belonging to one single industry. This was important since manufacturing firms within an industry can be believed to have similar value chain activities, thereby increasing the possibility for cross-case comparability (c.f. Eisenhardt, 1989;
Bryman & Bell, 2007). The food and beverage industry was chosen, since it is an industry where firms to a large extent seek international opportunities to establish a substantial growth (Livsmedelsföretagen, 2014). The Swedish food and beverage industry has been growing substantially during the last years (Business Sweden, 2015; Dagens Industri, 2015; Euromonitor International, 2015), much due to the industry’s increased internationalization, with an increasing number of exporting firms (Varnauskas, 2015). Directing attention to the global market by exporting has been a crucial step to take for Swedish food and beverage firms to establish substantial growth, which is hard to achieve on the Swedish market alone (Livsmedelsföretagen, 2014). The increased internationalization of Swedish food and beverage firms implies that the industry consists of firms that go through internal changes (c.f. Nummela et al., 2006).

3.2.2. Selection Criteria of Case Firms
To secure a selection of case firms that had valuable information to confide and that cross-case comparability was enabled (c.f. Eisenhardt, 1989; Bryman & Bell, 2007), the following selection criteria were established:

1. The case firms should be small- and medium-sized enterprises (SMEs), as defined by European Union guidelines, namely (1) no more than 250 employees, and (2) below €50 million in annual revenue (European Union, 2003). The criterion was chosen because SMEs today engage in rapid internationalization (Lu & Beamish, 2001; Ruzzier, 2006), which means that these firms have undergone internal changes that can be studied (c.f. Nummela, 2004). SMEs are also appropriate to study in the context of the Swedish food and beverage industry, as the majority of the firms active in the industry are SMEs seeking international growth opportunities (Livsmedelsföretagen, 2015).

2. The case firms’ internationalization should have been initiated more than three years ago. This criterion was chosen to ensure that the case firms have gone through internal changes as an effect of being international firms.
3. The case firms should have a sufficient share of their revenue coming from international sales. If the share of international sales is too small, the case firms might not experience identifiable internal changes.

4. The case firms should have entered foreign markets by export only. This criterion was chosen because export is the most common strategy for international growth (Salomon & Shaver, 2005), thus being a convenience criterion, as it increases the number of potential case firms.

5. The final criterion was to look at firms that have downstream internationalization (c.f. Porter, 1986), as it affects all parts of a company in a greater degree than only engaging in upstream internationalization (Ruzzier et al., 2006).

From the above selection criteria, 45 Swedish food and beverage SMEs were deemed appropriate for the study and contacted through phone calls and email. The majority of the selected firms did not have the possibility to dispose time for the study. Five firms responded positively, and after the criteria were confirmed, these firms were chosen to be included in the study. In ‘Table 1’ below, an overview of the case firms is presented.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Founding Year</th>
<th>Number of Employees*</th>
<th>Revenue (MSEK)*</th>
<th>Export Revenue Share (%)</th>
<th>Year of First Internationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003</td>
<td>7</td>
<td>27</td>
<td>20</td>
<td>2010</td>
</tr>
<tr>
<td>2</td>
<td>1991</td>
<td>25</td>
<td>104</td>
<td>43</td>
<td>2004</td>
</tr>
<tr>
<td>3</td>
<td>1992</td>
<td>29</td>
<td>112</td>
<td>15</td>
<td>1994</td>
</tr>
<tr>
<td>4</td>
<td>1911</td>
<td>52</td>
<td>177</td>
<td>17</td>
<td>1985</td>
</tr>
<tr>
<td>5</td>
<td>1991</td>
<td>25</td>
<td>35</td>
<td>10</td>
<td>2001</td>
</tr>
</tbody>
</table>

*Retrieved from latest available annual reports. The other figures are retrieved from the interviews.

3.2.3. Selection Criteria of Informants
Similarly as the selection criteria for case firms, criteria for the selection of case firm informants were set up. This was done to ensure that interviewees possessed the necessary knowledge and experience. Earlier works of Nummela (2004) and Nummela et al. (2006) focused on
interviewing one key person - CEO, chairman of the board, or the founder - of each firm. These persons have a strong influence in the company and make key decisions (Andersson, 2000). They are situated at the top of the firm hierarchy, and have worked for the firm for a longer period, having experienced the internal changes and being able to recall events related to the internal change process. To build a broader empirical collection as base for the analysis, two or more key employees at each case study firm were interviewed. This way, it was possible to critically compare and assess the empirical findings, ensuring more accurate data (Saunders et al., 2012). Apart from the CEO, board, and founder positions, employees with operating responsibilities in areas such as sales, export, production, and distribution were also deemed appropriate informants. It was important that at least one of the informants had been with the company for a longer period, preferably from the founding state, but at least from a time before the first international expansion. This criterion was chosen to secure that the informants could present a picture of the firms’ entire timeline of internationalization. In ‘Table 2’ below, the informants and their roles are presented. The abbreviations are used in the empirical findings when a specific informant is mentioned.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Role of Informant</th>
<th>Abbreviation</th>
<th>Years in Firm</th>
<th>Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Founder and CEO</td>
<td>CEO 1</td>
<td>2003-present</td>
<td>Personal</td>
</tr>
<tr>
<td></td>
<td>Founder and Product Manager</td>
<td>PM 1</td>
<td>2003-present</td>
<td>Personal</td>
</tr>
<tr>
<td></td>
<td>Export Manager</td>
<td>EM 1</td>
<td>2013-present</td>
<td>Personal</td>
</tr>
<tr>
<td>2</td>
<td>Vice President of Marketing and Sales</td>
<td>VPMS 2</td>
<td>2001-present</td>
<td>Telephone</td>
</tr>
<tr>
<td></td>
<td>CFO</td>
<td>CFO 2</td>
<td>2008-present</td>
<td>Telephone</td>
</tr>
<tr>
<td>3</td>
<td>Founder and CEO</td>
<td>CEO 3</td>
<td>1992-present</td>
<td>Personal</td>
</tr>
<tr>
<td></td>
<td>Export Manager</td>
<td>EM 3</td>
<td>2013-present</td>
<td>Personal</td>
</tr>
<tr>
<td>4</td>
<td>CEO</td>
<td>CEO 4</td>
<td>2000-present</td>
<td>Personal</td>
</tr>
<tr>
<td></td>
<td>Chairman of the Board, retired CEO</td>
<td>CoB 4</td>
<td>1982-present</td>
<td>Personal</td>
</tr>
<tr>
<td>5</td>
<td>Founder and CEO</td>
<td>CEO 5</td>
<td>1991-present</td>
<td>Telephone</td>
</tr>
<tr>
<td></td>
<td>Chairman of the Board, responsible for export</td>
<td>CoB 5</td>
<td>2010-present</td>
<td>Telephone</td>
</tr>
<tr>
<td></td>
<td>Head of Sales</td>
<td>HoS 5</td>
<td>2010-present</td>
<td>Personal</td>
</tr>
</tbody>
</table>
3.3. Data Collection

To collect the primary data, an interview format was chosen, allowing to discuss the subject in-depth with the informants (c.f. Silverman, 2001). Specifically, a semi-structured interview form was chosen (c.f. Bryman & Bell, 2007). This way, the interview guide was not forced to be followed to the letter, but rather allowed for spontaneous follow-up questions, the possibility to create new questions and to make changes to the interview guide during and between interviews (c.f. Bryman & Bell, 2007). The questions stemming from the research topics were in the interview guide formulated in a way that allowed for open questions that instigated discussions with the informants. Additionally, basic questions regarding the informants’ roles and history at the companies were included in the interview guide, allowing for contextualization of the answers that the informants provided (c.f. Bryman & Bell, 2007). Neither the conceptual model nor any theoretical concepts were discussed with the informants. Instead, the interview guide was outlined based on the conceptual model and the definitions of the key variables, into questions that could be understood by the informants, and directly related to their experience in the company and its international growth (c.f. Schlemmer & Webb, 2008).

This study aims at investigating how the internal change process unfolds in firms that are growing to international markets. The primary unit of analysis is not the actual changes that occur and what these are, although these are also interesting and an integral part of the aim of the study, but rather the process of how the changes unfold (c.f. Yin, 2014). The conceptual model provides a theoretical picture of the internal change process. The model involves several concepts and variables, which on first glance might be difficult to interpret. Therefore, it was vital to operationalize the variables and key concepts of the conceptual model, to be able to pose correct, measurable, and understandable questions when interviewing informants (c.f. Bryman & Bell, 2007; Saunders et al., 2012). The table in ‘Appendix 1’ shows the definition of the theoretical concepts and variables, and how these were operationalized into understandable and measurable interview questions. The operationalization has consequently been transformed into the semi-structured interview guide, see ‘Appendix 2’.

All interviews were recorded, which enabled access to the material at any time and allowed for accurate transcripts to be produced. The transcripts were helpful in the data analysis, allowing for
thorough comparison between informants and collection of precise quotes (c.f. Bryman & Bell, 2007). The interviews were conducted in Swedish, as this was the informants’ primary language. When the geographical distance allowed for it, the interviews were conducted face to face at the firms’ offices. In other cases, the interviews were conducted by telephone. The case firms and informants were offered full anonymity, allowing informants to speak freely and avoid hiding sensitive information (c.f. Bryman & Bell, 2007). The real case study firm names and the names of the informants are thus not disclosed in the study. Prior to conducting the interviews, the case firms and their history were studied by looking at the firms’ web pages and annual reports. This way a good overview of the firms was obtained and key events in the past could be identified, which could be of interest to acknowledge in discussions during the interviews (c.f. Schlemmer & Webb, 2008).

To gain a general understanding of the food and beverage industry, an interview was conducted with Maria Varnauskas, Senior Project Manager for the food industry at Business Sweden in Stockholm. Varnauskas has extensive experience of consulting Swedish food and beverage firms on the challenges they meet as they start their international venture, and helps firms overcome these challenges on a daily basis. This way, Varnauskas provided valuable input for what we could look for when interviewing the respondents. The interview guide used in this interview is found in ‘Appendix 3’.

3.4. Data Analysis and Presentation
The transcripts were thoroughly read to get an understanding of each individual firm and their pattern of the internal change processes (c.f. Langley, 1999). Each case was discussed and compared to secure a mutual understanding of how the internal changes had unfolded and why. This is an appropriate approach when dealing with a large amount of qualitative data (c.f. Eisenhardt, 1989). During the analysis process, a number of important categories emerged. These were challenges the firms met during their international growth, what internal adjustments the firms made as a response to these challenges, how the outcome of the responses unfolded, and what key success factors the case firms reported as important in this process. Within these categories it was possible to go deeper and identify common themes (c.f. Langley, 1999; Bryman
& Bell, 2007). Structuring the data this way made it easier to distinguish between important and less important parts of the empirical data.

The empirical findings were presented thematically based on the common patterns that were found during the data analysis. The themes were presented in a narrative approach, describing events in detail, which allowed for a better understanding of how an event unfolded, how decisions were taken and what the outcomes were (c.f. Langley, 1999; Eisenhardt & Graebner, 2007). Presenting the empirical data thematically eased the way the cases could be compared and contrasted against each other in relation to different theoretical themes (c.f. Narayanan et al., 2009). This method of presenting was also adopted in the analysis section for continuity throughout the study, but here the theoretical concepts constituted the themes of the analysis. This way, a close tie between theory and empirical data was held, which enabled a rigorous evaluation of the theoretical framework (c.f. Eisenhardt & Graebner, 2007).

3.5. Critical Review and Limitations
The study’s generalizability can be questioned, as the empirical findings are drawn from a restricted set of data. The empirical data, even though consisting of a limited number of cases, is however richened by conducting multiple interviews at each case study firm and by making sure that the content of the interviews followed the interview guide (c.f. Bryman & Bell, 2007). The generalizability is also limited due to the rigorous selection criteria of case firms (c.f. Eisenhardt & Graebner, 2007), but this was necessary to secure some degree of cross-case comparability (c.f. Bryman & Bell, 2007). Even though the empirical results cannot be generalized, we have made sure that the theoretical development was properly carried out, since theoretical generalizability to some degree is possible (Bryman & Bell, 2007; Yin, 2014).

A necessity to capture the process of internal changes over time was to perform the interviews with a retroperspective approach. One potential limitation with a retrospective approach is that the respondents may face difficulties in recalling historic events. To mitigate this, the interviewees were, prior to conducting the interviews, asked to reflect over the firm’s journey and important events in the past (c.f. Bryman & Bell, 2007). Data was also gathered from founders of the case firms. These individuals have been highly involved in the firm’s evolution
and journey from the start and could thus give an account for the whole timeline of the firms. Moreover, four of the interviews were performed by telephone, making it impossible to observe the interviewees' body language, consequently affecting the validity of interviews (c.f. Saunders et al., 2012). However, the majority of the interviews were performed face to face. Lastly, the interview transcripts were in Swedish, and the study was being written in English. This meant that empirical data was interpreted in one language, and presented it in another. Here it was important to be careful with the interpretations and translations into English. This was mitigated by thoroughly discussing how to translate information and quotes to be sure that the narratives in English represented the true meaning of what was discussed during interviews.

4. Empirical Findings

4.1. Case Study Firm Overview
The five case firms are all active within the premium segment of the food and beverage industry. Firm 1 produces healthy food and snacks and leverages on the consumers’ increased awareness in health and wellness. Similar traits apply to Firm 2, whose health products and drinks also are beneficial for the consumers’ well being. Firm 3 likewise exploits the consumers’ awareness of fair-trade, producing organic snacks. Firm 4 produces soft drinks and cider. Last, Firm 5 produces crisp bread. All companies except Firm 2 are family founded and managed firms, while Firm 2 is a publically listed company. In terms of production, firm 1 outsources the production to an international supplier. Firm 2 has both foreign outsourced production and domestic, in-house production. Firm 3, 4 and 5 all have domestic, in-house production. All five firms started their internationalization process with export, and up to this moment still deploy this strategy. The case firms also have similar patterns of internationalization. As a first step, the Nordic market was approached, followed by markets in the EU, and at last markets outside of the EU. The firms agreed that it was easier to approach the Nordics and the EU first, since these markets are similar to the Swedish market. A summary of the general information of the case firms is found in ‘Table 3’ below.
4.2. Identification of Growth Challenges and Internal Adaptation
As the case firms started their international operations they encountered a number of specific challenges that needed to be responded to in some way. These can be divided into foreign market challenges, increasing employee base, organization and internal processes, product quality control and last finance.

4.2.1. Foreign Market Challenges
When the case firms started their international journey, they faced numerous challenges, leading to the firms making internal adjustments. First, the firms needed a way to get their products to the consumers, which proved more difficult than expected. In this process, finding the right distributing partner was a key challenge, all case firms reported. CEO 1 described it as “A heavy process”. The firms engaged in agreements with numerous partners, but experienced trouble with the partners not having a well enough understanding of the products, and in turn were having trouble communicating the true value of the products to the end market. The firms came to this conclusion as partners over and over again raised concerns over the products and their price, while at the same time not meeting the budgeted sales targets. As premium product firms, all case firms relied on high quality, which had an effect on the price of the product. But this was something that was not understood by the partners. Informants over and over again emphasized that the partners did not understand the value of the product.
Although the firms faced the challenges described above, some partnerships started off positively. However, they later ended in disappointment due to the fact that the firms did not devote as much time as needed to make the partnerships work. CEO 4 explained that “It is hard to take care of new markets, new labels, new rules. Everything should be launched and it is a quite circumstantial process”, which was something Firm 4 learned along the way as they dealt with more and more markets. To make the relationships work, the firms realized that someone needed to visit partners in export markets frequently, which was an extremely time consuming process. CoB 4 explained that “You should visit the partner a couple of times each year to get the attention you need, but the distance is too long for me to do it. I do not have the time”, referring to their business relationships with distributors in a far away market. The firms could not devote the time needed and the result was that partners lost interest in the firms’ products, and sales consequently dropped. From the above challenges, the firms learned that for a partnership to work, they had to establish a close personal contact with the partner, and persistently push for the partner to prioritize the firms’ products. CEO 4 exemplified by describing how the firm worked closely with a distributor in their largest export market, and when their personal contact left the firm the business relations with the partner ended quickly. Establishing a partnership was a time consuming process, and the informants ventilated concerns over the challenge of keeping up with other daily business tasks parallel to working closely with international partners.

As a response to the challenges related to the partner relationships, the firms came to the conclusion that a full-time employee working with export sales was needed. The workload related to the international market was too heavy for existing personnel to handle, and time constraints was a direct effect of increased international presence. Consequently, Firm 1 and 3 hired an export manager and Firm 4 was in the process of doing so. In contrast, Firm 2 hired multiple sales personnel responsible for different international geographical regions, instead of having a single person responsible for export. Firm 5 hired a sales manager for the domestic market so that CEO 5 could allocate more time to the export markets, from previously being responsible for both domestic and international sales. As a result of having employed a full time role responsible for the export market, the export managers worked more closely together with their international partners. They made sure that the products were prioritized among the partners’ product portfolio and better understood by their partners. EM 1 described that a
majority of the workday consisted of having contact with partners. PM 1 was happy with the choice of hiring an export manager, and explained that the firm along the way understood the importance of dedicating time to educate the partners about the firms’ products. Once an export manager was hired more positive sales results were generated, the case firms reported.

4.2.2. Increasing Employee Base
Once higher sales volumes from the international markets started to come in, bottlenecks evolved in various parts of the firms’ value chains and it was clear for the firms that they were in need of more personnel. “We were not able to handle everything ourselves. We needed more people”, CoB 5 recalled from the expansion phase. This was recognized by the fact that mistakes had been made, mostly due to excessive workload and lack of knowledge. This resulted in shortcomings such as errors in shipment, lack of quality control and trouble handling product orders.

The firms consequently invested in personnel for roles where bottlenecks arose, which varied from production staff to administrative office personnel. Firm 3 grew from the founding three partners to 17 employees within four years from the founding of the firm, as a direct effect of expanding to international markets. CEO 3 described that the extensive hirings were a consequence of the founders being uncertain if their own competence would be sufficient enough to facilitate growth in new markets. Moreover, Firm 2 and 4 described that they acknowledged that they were in need of more personnel in the warehouse since the existing personnel repeatedly had shipped articles to wrong markets. The mistakes were due to a combination of excessive workload and lack of knowledge, CFO 2 and CoB 4 argued. Firm 2 hired two persons responsible for quality control, since they had a lack of knowledge in that area. Firm 5 described similarly how they felt the pressure of excessive workload and therefore felt a need to invest more in personnel working in their factory. Out of their 25 employees, 21 worked within production. In contrast, Firm 1 did not have any in-house production facilities. Instead, Firm 1 noted a need for someone working full time with product development, and consequently hired a person for that.
The firms described the process of hiring was quick. Once an area that lacked personnel was identified, a decision was made almost immediately. The need of hiring was recognized when bottlenecks appeared and when mistakes were made. It was the board of directors that made these kinds of decisions, but since the board was rather close to the organization, and the working founders often were part of the board, these decisions could be made quickly and without any larger bureaucratic barriers. It was a quick process, VPMS 2 argued, and said that it was up to the management team to make suggestions to the board regarding the new hiring, and after a quick discussion a decision was made by the board.

4.2.3. Organization and Internal Processes
As the firms grew in size and employee base as a consequence of the international growth, new routines and processes needed to be implemented. For issues that earlier could have been solved during a coffee break, formal policies and more clear guidelines on how to work were now a necessity. These policies were partially implemented due to the fact that the firms came to the conclusion that it would allow them to run their business more smoothly. At the same time the personnel also requested the policies. CFO 2 explained that the need for more formalization of processes became more and more evident as the firm grew, and stated that “Certain things happened that you knew should not”. The firm encountered problems with not having any formal travel policies as the amount of employees grew. Traveling to foreign markets became a frequent cost item as the firms grew to international markets. Employees were confused about which types of tickets or hotels they were allowed to book. Some had booked trips costing more than what was considered reasonable, CFO 2 claimed. EM 1 described that they previously worked on a more ad hoc basis and solved issues as they arose. Lately they had implemented routines, such as priority schedules and checklists, which they could base their work on. To facilitate working strategically with expansion, these kinds of routines were necessary, PM 1 argued.

In the firms’ early days the founders were taking on a wide range of roles and dealt with everything from product development and administration to sales and marketing. This meant that they had many, more or less, informal roles and responsibilities within the firm. As the firm grew, so did the amount of tasks and duties. In the end the firms reached a certain point where the founders could no longer keep up with work the way it was organized at the time. The fear of
for example forgetting to pay a bill or missing an important meeting due to growing workload made them realize that they were in need of clearer division of roles and responsibilities. Moreover, the informants ventilated concerns over that the company was dependent on a small amount of people, in many cases only the founders, and that the business would fail if someone decided to leave. This made them come to the understanding that communication and documentation of clear role and responsibility descriptions was needed to facilitate future growth. CEO 4 expressed it in a clear way when he argued that “From the beginning everything was controlled by one person on the top. That person made decisions about everything and the business depended completely on that person. It was impossible to build on that kind of structure”. CFO 2 exemplified how they came to such a conclusion and said that “A person is away from the office for a longer period of time and suddenly you notice that there is no documentation how that person's work tasks are supposed to be carried out”. To deal with these challenges all the firms set up clear role and responsibility descriptions and task guides to make sure that things were not unintentionally neglected, while the employees in a better way understood what to focus on and how to prioritize.

4.2.4. Product Quality Control
The authorities and regulatory systems in the export markets put extensive pressure on the case firms’ product quality control systems. VPMS 2 explained that “When we exposed ourselves to a more commercial environment the requirements on us were different. It put more pressure on accuracy”. Across all firms, informants reported that the international markets had substantially higher product control compared to the control in Sweden. CEO 4 stated that “The Swedish food and beverage safety control is a joke”. For the firms to start expanding internationally they had to engage in meetings with foreign governmental authorities who wanted to know every detail of the firm, their production process and their products. The foreign authorities even visited the firm’s production plant and made a thorough investigation of production processes, CEO 4 explained. Moreover, customs in the international market aggravated the export process. Small problems in for example packaging turned into an impossibility to deliver products to the market, EM 3 explained. The firm had experienced this in a market with high regulatory standards, whose customs had kept a container of the firm’s products for several months due to a typing error in the shipping documentation.
As the firms realized the issues with product quality control, they had to make several internal adjustments. As a direct response to the higher quality control, the firms had to make sure that the product packaging information met international requirements. Along with adding more detailed product information on the packaging, the language on the packaging needed to be adjusted for each market. Firm 1 described that they from the start adjusted the language for each separate market. They later realized that this was not a sustainable solution as issues arose when they wanted to allocate products from one market to another. The products produced for one market could not be sold anywhere else, as they were packaged in a specific language. The firm realized that they lost money on producing new packaging, so a decision was made to start producing packaging with several key market languages on them instead. This made it easier to change allocation of products and move them between markets. Firm 4 also adopted this solution, but raised concerns about getting all the information onto the packaging. With information in eight different languages, and additional information being added due to product quality control requirements, the firm had to be clever in producing a design that could fit everything on the packaging. “We learned to prioritize depending on where we are or where we feel that we are headed”, CEO 4 described, referring to the choice of languages on the packaging.

The firms also experienced issues with the products’ expiration dates when entering foreign markets. In part, exporting to markets further away from Sweden meant a longer delivery process in terms of the geographical distance the products were to travel, as the exported products were to be shipped and placed at a distributor’s warehouse until sold on to stores. The process of shipping a newly produced product until placed on a shelf in a store could take up to several months, CoB 4 argued. This meant that once the products were ready to be placed in the stores, the expiration date was almost due. Many foreign quality control authorities had requirements that there should be at least 50 percent of the expiration time left when the products hit the stores, which at many times was impossible with the existing production processes and expiration dates the firms had. As a consequence, Firm 3 invested heavily in optimizing the production process and thereby lengthening the expiration time of the products. Firm 1
experienced the same issues with expiration date. Their solution, after evaluating the whole logistics system, was to aim at delivering products in smaller quantities to minimize lead times.

A third step in adapting to the product quality issues experienced in international markets was to secure global quality certifications. This was a quality insurance for the firms, officially showing that products and production processes met global standards for product safety and quality. For Firm 5, high product quality had always been central. “I have to think about the Swedish quality, it is really important”, CEO 5 explained and continued by saying that foreign customers think of Swedish products as always having high quality. As the firm secured the official certification, they could prove that they had reached the expected level of quality. In addition, the certifications turned out to be valuable when marketing the products in international markets as well. “The certification was important to ensure reaching the markets”, CoB 4 explained. To secure certifications, the firms had to invest in improving the production processes and increase control over sourcing of raw material. Firm 4 set up control and documentation over processes. The firm realized that to deliver products that met requirements, they had to replace the whole production equipment. This was an expensive investment, but necessary to meet requirements, said CEO 4. Firm 5 needed to continually expand their production facility to be more time efficient while at the same time not cutting down on quality. For Firm 2, the increased level of quality and control did not fall on the product side alone. Everything the firm did was more and more put under scrutiny and the international presence demanded more clarity in processes and reporting, VPSM 2 explained.

4.2.5. Financing the Growth
A general theme throughout the challenges the firms encountered was increased costs, which brought the financing of the growth process up to discussion. For example, Firm 1 experienced pressure on the cash flow, as the export operations provided long periods from the placement of an order until the firm received payment. CEO 1 described that “You have to lay a budget when you are about to start exporting and be aware that the cash flow is going to worsen drastically”. HoS 5 further argued that one should be aware of that international expansion is a rather long process and to succeed one must be financially persistent. All case firms agreed that bringing in external capital, both in terms of external loans and equity, would hinder the founders’ ability to
exert control over the firm. This was however a necessity in many cases, to support the expensive growth. CEO 4 stated that to the extent that it was possible, the family put up personal funds to finance the growth, but when considered necessary, they had financed with bank loans. CoB 5 agreed and said that “We want to finance as much as possible with personal funds. It feels wrong to take too much help from the bank”. Firm 3 took measures to ensure that no external capital had to be taken in at all, by manufacturing all production equipment by hand, instead of choosing the more expensive option of buying machinery. This was made possible by the fact that CEO 3 had a background in engineering and mechanics, which proved valuable for the firm. The steady growth Firm 1 had experienced allowed them to solely finance the growth by the firm’s funds, explains PM 1. Firm 2 differed in this aspect from the other case firms, as it was a publically listed company and also has had venture capital invested into the firm. External funds were brought in when the firm changed from a smaller to a bigger stock-exchange list, but since then there had been no need to bring in additional funds due to their high level of profitability over the years, CFO 2 explained.

4.3. Structuring the Organization and Managing the International Firm

Once the investments in resources were made, the firms needed to structure their organizations in a way that incorporated the new resources into daily operations. The firms also needed to learn how to act as international organizations.

4.3.1. Handling a Growing Organization

The case firms witnessed knowledge sharing as an important mediator as they integrated new resources into the operations. New personnel needed tools and experience on how to carry out work tasks. Firm 2 solved this by starting to focus on internal training to integrate new employees into the firm and get them up to speed. The training involved acquiring in-depth knowledge about products and production processes. Similarly, Firm 5 gave new employees one year of education parallel to working. Moreover, all employees in the case firms, new and old included, needed to learn how to operate new production equipment, incorporate quality control into the production process, and generally to act as representatives of a firm with international presence. EM 1 described how processes on how to work were improved when they implemented strategic workflows to be followed. Firm 3 and 4 set up documentation on for
example task descriptions and work processes, to keep the knowledge within the firm in case an employee would leave the firm.

Additionally, the firms learned how to integrate different parts of the organizations with each other. VPMS 2 described how knowledge and issues were shared between sales staff in different international sales locations by having frequent meetings, both divided in product and geography. This way, the firm acquired a better picture on how to allocate resources across the organization. Firm 4 similarly set up team meetings where current issues could be raised and new product concepts constantly were discussed. Firm 5 worked closely with distributors in international markets and taught them about their products and how consumers abroad were to be educated into getting interested in the products. Firm 1 agreed that this was an important part that they had learned over time. “The only thing we can do is to educate our agent who in turn educates the sellers who in turn educates the buyer”, EM 1 explained.

4.3.2. Developing a Proactive behavior

The informants claimed that they during the first international expansion relied heavily on trial and error. Along the way, the firms acquired knowledge from mistakes they made, and learned from each international experience. HoS 5 meant that it was through their mistakes that they learned how to go about and not make the same mistakes again. Consequently, the firms learned how to develop a proactive behavior along the way by using the experience they accumulated. The experience from previous growth became an input on how the firms should act in later expansions, and the firms gave striking examples on how this proactive behavior helped in facilitating further growth. The experience and mistakes from previous growth influenced the firms’ understanding and taught them the importance of trying to find out as much as possible about a new market to minimize the occurrence of an undesirable event. EM 1 explained that “We have to do our homework to a larger extent”, referring to the preparation process of entering a new market. CEO 3 also emphasized the importance of preparation before entering a new market, and highlighted that it was not until a mistake was made that they actually learned and transformed that into knowledge, which then could be used throughout the organization. The firm learned from the first international experiences to develop the expiration date of products before taking on more foreign markets with a large geographical distance.
All case firms reported that experience from previous foreign markets helped the firms to set up procedures and checklists for how to approach a new market. Knowledge from previous experiences was integrated and converted into procedures for how to work with production, logistics and regulatory frameworks, which according to EM 1 facilitated future work on new foreign markets. Firm 2 depicted that to enable further growth, they played with different scenarios. CFO 2 exemplified with “What do we need in five years time if our turnover has doubled?” They elaborated on what areas they needed to invested in to be able to handle future growth coming from new markets, PM 1 explained. “We prepare ourselves now by for example building up document management systems so we in another way are prepared for the future”, PM 1 said. The informant continued by arguing that it was much easier to implement a new business ERP system before the growth process accelerated further, so it could facilitate future growth instead of doing it once you already were growing rapidly. Firm 4 had tried to control an entire foreign market in the beginning, but along the way understood that it was better to start off small and grow in a controlled pace. CEO 4 described that “We have learned that we are too small to try to go in and control a market by ourselves, we do not stand a chance”. Similarly, Firm 5 had previously put large focus on growing as fast as possible, but realized along the way that this was not a sustainable way of growing. “It has been too much focus on increasing revenue and trying to maximize a market, instead of doing as good as you possibly can and let the market come to us. We have done this the wrong way and that is always dangerous”, explained CEO 5. In general the firms argued that the lessons learned from previous experience turned into routines and policies, which formed the basis on how to work with the following expansions.

4.4. Summarizing the Empirical Findings
The case firms encountered several challenges when they grew from domestic actors to international exporters. These challenges were overcome by investing in personnel and finance, developing the organization and acquiring external market knowledge. Once the investments were in place, the firms started to integrate them into existing parts of the company and continuously learned how to operate as international firms. The firms also learned how to act proactively to support future growth. In ‘Table 4’ below, a summary is presented of the
challenges the firms met as an effect of changing external environments, the responses the firms made and the outcome of these responses.

**TABLE 4 – SUMMARY OF EMPIRICAL FINDINGS**

<table>
<thead>
<tr>
<th>Growth Challenge</th>
<th>Internal Response</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finding the right distributing partner and communicating the true value of products.</td>
<td>Hiring of an export manager.</td>
<td>Improved understanding of the product and consequently better international sales volumes.</td>
</tr>
<tr>
<td>Dedicating enough time to international markets.</td>
<td>Hiring of an export manager.</td>
<td>Better international sales volumes.</td>
</tr>
<tr>
<td>Higher requirements on product control.</td>
<td>Improvements in packaging.</td>
<td>Access to more markets, better dynamisms of product allocation.</td>
</tr>
<tr>
<td></td>
<td>Certifying products with quality certifications.</td>
<td>Higher perceived value of the products.</td>
</tr>
<tr>
<td>Expiration dates.</td>
<td>Internal development of production processes.</td>
<td>Enabling of shipment to markets further away from Sweden.</td>
</tr>
<tr>
<td>Bottlenecks in the value chain.</td>
<td>Hired more personnel.</td>
<td>Processes in value chain flow better. Fewer mistakes were made.</td>
</tr>
<tr>
<td></td>
<td>Setting up role descriptions.</td>
<td>Better guidelines on how to work and perform tasks.</td>
</tr>
</tbody>
</table>
5. Analysis

5.1. Discovery of Change in the External Environment
As been described in the empirical findings, the firms encountered numerous challenges as they grew to international market. These challenges were new experiences to the firms, and thus a factor of the changing external environments the firms encountered as they grew internationally. This consequently led to the realization that internal changes had to be made (c.f. Teece et al., 1997; Helfat & Peteraf, 2003; Baretto, 2010), which confirms that internal changes is a necessary consequence of internationalization (c.f. Nummela 2004; Nummela et al., 2006).

From the findings, it is possible to point toward a pattern where the firms at first did not search for environmental changes actively, but rather acknowledged the environmental changes first after they started to export to a new market. An example is the fact that all case firms did not realize the need of an export manager until the first step toward foreign export markets had been taken. It was not until then that the firms realized that internationalization demanded this role to be appointed. As the firms took the initial internationalization steps they did not know what to expect from the foreign markets, and went through the growth step with the idea that the current organization would be able to handle the growth. Therefore, the firms did not search for any environmental dissimilarities. Theory suggests that firms actively scan the environment for environmental changes (c.f. Helfat et al., 2007; Teece, 2007). The empirical findings on the one hand contrast this statement, as the case firms did not actively look for environmental changes initially. It can be argued that this is not very surprising, since domestic firms growing internationally do not know what to look for in the international markets, having no experience of them. Moreover, all case firms’ initial export markets were inside the EU whose markets were considered similar to Sweden, therefore the need to seek for dissimilarities in the environment seemed to be considered redundant. If the firms instead had chosen to enter a market outside of the EU as the first international market, it is possible that they would have realized beforehand that such a market was significantly different, and thus more actively would have scanned the external environment for diverging characteristics. On the other hand, the firms learned from their early experience that expanding to new markets does imply changing external environments and that actively scanning for dissimilarities helps in establishing on a market. Thus, later in the
growth process the firms did scan for environmental changes actively, in line with theory (c.f. Helfat et al., 2007; Teece, 2007). It is clear from the empirical findings that the firms learned to do their homework, which proves that the experience from the early internationalization steps taught them what needed to be done when expanding to a new market. There thus seems to be two ways in which firms can come to the conclusion that the environmental context is different, partly by first realizing a changing external environment only by encountering the changes hands on, and partly by later learning how to actively scan the environment for expected changes.

5.2. Reacting to the External Change
The changing external environment that the firms encountered needed to be attended to in some way. All challenges the firms met were responded by investing in personnel, developing internal processes and quality control while setting up a clear structure of the organization. These responses are signs of internal changes the firms made as a consequence of growing in line with what was expected from the theoretical framework (c.f. Teece et al., 1997; Sirmon & Hitt, 2009; Baretto, 2010).

5.2.1. Structuring Resources
The investments the case firms made confirms that firms acquire both tangible and intangible resources to respond to the environmental contexts the firms met in the international growth (c.f. Sirmon et al., 2007). Generally, the resources needed to support the internationalization were mainly of two kinds. First, tangible resources in terms of expanded production capacity and improved production equipment were necessary to invest in for all firms with in-house production (c.f. Johanson & Mattsson, 1988; Teece et al., 2007). This facilitated the possibility to manage increasing sales volumes coming from the export markets. Although an expensive investment, it was necessary for the firms to continue growing internationally. The second main resource the case firms invested in was intangible, in terms of the specific knowledge that came with the employees being hired when the firms grew (c.f. Johanson & Mattsson, 1988; Barney, 1991; Penrose, 1995). The export managers that were hired had specific knowledge in how to operate as an exporting firm and this became a valuable resource for the firms as they continued to grow internationally. This created value for the firms, since the international business improved significantly as a direct effect of hiring the export managers (c.f. Wernerfelt, 1984;
Barney, 1991; Barney & Arikan, 2001; Molloy et al., 2011). Without these investments, the firms would have continued to struggle on international markets, neither being able to devote the time needed to the market, nor successfully communicating the true value of the products. It is clear that these investments were essential for growing firms to make, to grow in the way they planned, while meeting the requirements along the expansion path.

The firms also hired additional personnel with specific knowledge. As the production capacity increased, the firms invested in employees to operate the production. In numbers of employees, this was the largest investment for the firms, and the amount of employees in production increased extensively. This confirms that internal changes are connected to each other, as the increased sales that came from the internal change of hiring an export manager in turn implied internal changes in expansion of production facilities and increasing number of production personnel (c.f. Nummela et al., 2006). Other roles that were hired include, for example, quality control managers and persons responsible for product development. These helped the firms to create value in the international markets, by securing the production processes and high quality products that were demanded from the market (c.f. Wernerfelt, 1984; Barney, 1991; Barney & Arikan, 2001; Molloy et al., 2011). All these resources were invested in as a response to the changing external environments the firms encountered on the path of international growth, and brought value to the firms in terms of a potential for continued growth on international markets (c.f. Barney, 1991).

Effective financing of the investments was needed to be able to acquire the resources deemed necessary for the international growth (c.f. Penrose, 1995; Teece, 2007). Once again, this exemplifies how internal changes can be connected to each other, as the acquiring of resources led to a necessity of financial investments (c.f. Nummela et al., 2006). It seems that the case firms believe that internal funds should finance investments in the highest possible degree before considering external funding, in line with previous research (c.f. Nummela 2004). The founders valued the ability to exercise control over the firms and were thus reluctant toward bringing in external capital. The reasons behind the reluctance can be argued to be twofold. Firstly, four of the five firms are family firms, founded by entrepreneurs with a vision of the firms’ future, who do not want their vision to be compromised by an external owner. Secondly, there was in general
no need to bring in external capital because the firms managed to finance the investments with personal funds. Here, Firm 2 differs from the others. They brought in external ownership capital to finance their expensive research and development processes, which was a focus the other firms did not need to have in the same extent. However, some of the firms needed to take in external capital when certain investments were too expensive, but they did not go as far as bringing in ownership capital, but instead relied on bank loans.

The majority of the firms continuously invested in educating the employees and making sure that knowledge and competences were kept at a high level. The firms with in-house production also continuously invested in small adjustments in the production facilities to avoid abrasion and to secure that product quality was always on top. This can be argued to be a way of accumulating existing resources (c.f. Sirmon et al., 2007). The case firms produced niche products and relied on sophisticated production processes. Because of this, it is clear that the right skills and equipment to achieve the expected level of product quality can be hard to acquire externally. The resources must therefore be internally developed instead, in line with what Sirmon et al. (2007) argue. Moreover, the case firms developed the knowledge of the employees by learning from past mistakes and experience. This can be seen as a way of accumulating resources, but perhaps not in the way that current theory describes it. Sirmon et al. (2007) describes accumulating as a conscious investment. The internal development of knowledge that emerges with learning by doing is not a conscious and explicit investment, but it can be argued that the firms learn from their mistakes and thereby indirectly accumulated intangible resources.

Lastly, it is not possible to find any proof of the case firms divesting any resources (c.f. Sirmon & Hitt, 2003; Sirmon et al., 2007). This is probably because the case firms still are fairly small, and need every resource they can get their hands on to support the international growth and the internal change that comes with it. For these small firms, all available resources seem to support rather than inhibit value creation (c.f. Sirmon et al., 2007).
5.2.2. Bundling Resources

As the firms expanded, they documented role descriptions and processes to facilitate continuous growth. This is a sign of stabilizing capabilities (c.f. Sirmon et al., 2007), since the documentation secured the long-term sustainability of capabilities on how to perform daily operations. A reason to stabilize capabilities was that the firms were no longer dependent on the knowledge of single key employees, since they had documented this knowledge. This way, the firms did not have to suffer if a key employee left the firm. This created clear routines for the firms, which is an important feature of capabilities (c.f. Helfat & Peteraf, 2003; Winter, 2003).

Additionally, the international growth demanded the founders to develop a distinct leadership approach. This forced the firms to also stabilize managerial skills (c.f. Sirmon et al., 2007). Stabilizing these was, similar to the indirect accumulation of resources, mainly facilitated by the experiential learning of the role as managers, which many of the informants had little experience of prior to the international growth process. It is thus clear that the development of leadership was key in managing a growing organization.

The export resource, acquired through the hiring of export managers, facilitated the development of capabilities connected to engaging with foreign markets. The relationships with distributing partners improved greatly once the firms had an export manager who worked toward building and developing these relationships and securing international sales. The export managers also created the ability of being able to plan an international expansion. The firms learned how to conduct this over time, and it was thus a capability that was highly improved once the export managers got on board. Adding the export resource helped the firms in international business, and is thus an example of enriching capabilities (c.f. Sirmon et al., 2007). The export managers described how they developed this capability better and better the longer they worked, showing that growing experience is an important factor of enriching capabilities (c.f. Helfat & Peteraf, 2003).

When the firms grew internationally and gained experience, they realized that solving problems ad hoc was not sufficient for further growth into new markets. They learned that it was vital to develop a proactive behavior to plan for future growth. This capability was neither possessed nor practiced by the firms at the time of the first international expansion, but rather learned over time, showing proof of pioneering as described by Sirmon et al. (2007). Out of the stories the
informants shared, it is possible to depict a number of resources and capabilities that together
formed a possibility to develop the proactive behavior over time. First, the ability to learn from
mistakes and experience and take them into account in later international activities was vital to
develop a capability that fostered proactivity and the ability to plan for the future. Second, the
firms expanded the production capacity not only to meet today’s demand, but also to be able to
grow in the future, without having to expand the facilities over and over again. This was key in
facilitating the development of a proactive behavior. Third, the informants along the way
understood and learned that the firms should act and behave in a way that their current size and
influence allowed for, instead of trying to for example control an entire market. The firms thus
developed a capability to only seize reachable opportunities, also important in developing the
proactive behavior. These examples show that the development of employees’ knowledge and
the understanding of how to operate as an international firm were crucial pieces in developing
pioneering capabilities in the form of proactive behavior (c.f. Mahoney, 1995; Sirmon & Hitt,
2003). The development of a proactive behavior was important in planning a new international
expansion. It was also important in figuring out what resources and capabilities that were needed
in the new market before entering it, making it possible to avoid solving problems on an ad hoc
basis. This can be argued to make the international expansion more efficient, as the firms will
know what to focus on beforehand and are able to quickly establish on a market. This allows for
creating value immediately when entering the market, with the required resources and
capabilities already possessed.

It is possible to depict two types of proactive behavior. One is the ability to proactively plan for a
new international expansion. The firms did this by setting up checklists and routines for how to
engage with a new international market. The routines were based on previous experience, from
which the firms learned how to engage with foreign markets and what things that needed to be
addressed when expanding. The second type of proactive behavior is the ability to proactively
prepare for the new market launch by investing in resources and capabilities needed in a future
market launch that the firm has prepared for. For instance, the firms increased their investments
in production capacity and implemented new business ERP systems to ease and facilitate for
future international expansion. It is reasonable to believe that the firms knew what resources and
capabilities to invest in because they had beforehand proactively planned for the growth and thereby realizing a change in the external environment (c.f. Helfat et al., 2007; Teece, 2007).

In conclusion, the case firms used their newly developed and acquired resource base to both extend the value of existing capabilities and create new capabilities, exemplified by stabilizing, enriching and pioneering above. This confirms the close tie between resources and capabilities (c.f. Barney & Arikan, 2001).

5.3. Leveraging and Taking Action
All case firms agree that they performed better on international markets once the new resources and capabilities had been developed. This points toward that the firms managed to take action in response to the new external environments they were facing (c.f. Baretto, 2010). The actions the firms took, in other words the strategies that were implemented, also seem to be in line with the resources and capabilities the firms possessed. This proves that a fit between the resources and capabilities and the external environments was achieved (c.f. Helfat et al., 2007). It is however challenging to evaluate whether the strategy implementation decisions were taken at the correct time (c.f. Baretto, 2010), but it is reasonable to claim that the sooner the decisions were taken the better, once the change in the external environment was identified. The case firms are rather small, which can be argued helped them in taking fast decisions and speeding up the internal change process.

Moreover, the fact that the case firms performed better after the new resources and capabilities were in place shows that the firms successfully mobilized, coordinated and deployed capabilities the way Sirmon et al. (2007) described. In terms of mobilization, the identification of capabilities seemed fairly easy for the firms, as the majority of the capabilities used in the international markets came from newly acquired and accumulated resources that were acquired especially for the international growth to generate value. The firms showed proof of coordination in the way they bundled their capability to engage in international markets with all other firm capabilities (c.f. Sirmon et al., 2007). This formed a streamlined value chain able to serve both the domestic as well as international markets with high quality products. The firms had in previous steps of the resource management process integrated and shared knowledge between different parts and
departments of the firm, which fostered the ability to coordinate capabilities as well (c.f. Sirmon et al., 2007). The mobilization and coordination made the capabilities ready to be used in value creating strategies on international markets, which was facilitated by the deploying sub process (c.f. Helfat et al., 2007; Sirmon et al., 2007).

The case firms’ success points toward that the important dynamic capabilities are possessed by each case firm (c.f. Teece et al., 1997; Helfat et al., 2007; McKelvie & Davidsson, 2009; Baretto, 2010). It is evident that the internal change process led to the firms being able to adapt and consequently perform on an international market where the environment is different, and that dynamic capabilities thus are an integral part of the internal change process (c.f. Teece et al., 1997). What is important to emphasize here is that it is the internal change process in its totality, not one separate component of the process in isolation, which shows that the firms possess dynamic capabilities. Thus, it is not sufficient to, for example, only acquire the resources deemed necessary to succeed (c.f. Sirmon et al., 2007). The resources need to be bundled into capabilities, and the capabilities must be integrated throughout the whole firm for it to be able to create value on an international market (c.f. Sirmon et al., 2007). Therefore, it can be argued that it is not possible to point at one specific event or action that proves the possession of dynamic capabilities, but it is rather the complete picture of the internal change process and its components that is required to acknowledge the dynamic capabilities.

5.4. Summary and Revision of the Conceptual Model
For the case firms, the internal change process started with the discovery of challenges, formed by changing external environments. This in turn influenced the remaining part of the model of the internal change process, where the firms pursued internal changes by activating the resource management process. Lastly, the firms took action by implementing strategies where a fit between the resources and capabilities and the new external environment was achieved.

One important finding that was not captured by the conceptual model was the proactive behavior that was developed in the pioneering sub process of the bundling process. The proactive behavior facilitated future change in the bundling component where firms combined resources to create capabilities, which supported the internal change process (c.f. Sirmon et al, 2007). Within the
pioneering process, existing capabilities were managed and newly acquired resources integrated with each other or existing resources, to create new capabilities (c.f. Sirmon et al., 2007), and the proactive behavior can be considered as a new capability that the firms developed along the international growth. The development of the proactive behavior was highly dependent on the knowledge of the personnel, since they were the ones integrating previous experience into routines and clear process on how to go about to facilitate for future growth. This is in line with Mahoney (1995) and Sirmon and Hitt (2003) who state that the human capital is a crucial mediator in the pioneering process.

Instead of getting involved in the discovery process once again, the firms could proactively prepare for further growth and in a conscious manner meet the challenges associated with growth. All firms agree that the proactive behavior helped in planning for new markets in a better way. In a broader sense this means that they could prepare and facilitate for the international growth by structuring resources and bundle capabilities that they considered important for future growth. Thus, instead of discovering changes in the external environment and consequently reacting to the changes, the firms could instead proactively plan for a new market by utilizing on previous experience. The firms could then prepare for the market by investing in developing resources and capabilities that were identified as necessary in the new environment. Depending on market, it is reasonable to argue that the firms could either be able to proactively plan and prepare, or be forced to discover and react in the way that the initial conceptual model describes it. If a new market is similar to markets where the firms already are established, the firms can use the experience on that market to understand the market dynamics on the new market and consequently plan and prepare for the market proactively. But if the market is significantly different from those that the firms already are established on, it is reasonable to believe that the firms need to discover the changes in the external environment and consequently make changes when already being established on the market. It is evident that the firms learned to engage with new market in a proactive way in. Since the proactive behavior involved large internal changes in terms of routines, processes, personnel and equipment on how to enter new markets, it can be argued that the proactive behavior thus should be highlighted in the internal change process. Thus, we revise the conceptual model by adding the proactive behavior as an additional way of engaging with international markets and start the internal
change process by proactively plan and prepare for structuring, bundling and leveraging instead of doing this as a consequent step of discovering changes in the external environment.

The revised conceptual model is presented below in ‘Figure 4’. It contains all parts and the same logic as the conceptual model developed in the theoretical framework, but where the proactive behavior is added in steps of proactively planning and preparing. When firms start their international growth, the internal change process is initiated in discovery and ends in action-taking and leveraging as before. When entering new markets, firms can either discover changes in the external environment, the new market, as they did the first time, or they can use previous experience and newly set up routines and processes to proactively take on the new market.

![Figure 4: “Revised Conceptual Model: The Internal Change Process in International Growth”](Image)

6. Conclusions

6.1. Concluding Remarks
The purpose of this study was to explore how the process of internal changes unfolds as firms grow to international markets. It was evident that as the firms grew, they encountered challenges in the changing external environments. This instigated the internal change process. The challenges were addressed by investing in internal resources, such as personnel, production equipment and in the development of routines and organizational structure. The investments were made both in response to the challenges encountered in the external environment, and to
facilitate for further growth. For the firms to be able to facilitate for future growth, they developed a proactive behavior, which enabled them to go through the internal change process in a different way, by proactively planning and preparing an internal change, structuring resources and bundling capabilities to be used in future market launches. This in turn meant that the firms could deal with internal changes necessary for the international growth in a more effective way and implement value creating strategies faster, allowing to establish substantial growth more quickly, when entering a new market. The above pattern was found in all case firms, and summarizes the internal change process the case firms went through during their international growth.

Additionally, it can be concluded that the discovery of changing external environments, which influences the internal change process, can be made in two ways. The theory describes discovery as an active environmental search. However, it is possible to conclude that before firms realizes that active scanning of the environment is necessary, they discover the changing external environments through active presence in the international markets. In accordance with theory, firms respond to the changing external environment by activating the resource management process. The firm structures resources by acquiring new resources and accumulating existing resources. However, no support was found for the divestment of resources, which is argued to be a consequence of the case firms being rather small, and in need of all resources available. However, no further conclusions can be drawn from this. Next, the firms bundle capabilities by stabilizing, enriching and pioneering. Finally, the firms leverage on previous steps in the internal change process by implementing value-creating strategies that create value for the firm on international markets.

It is possible to conclude that firms change in the way they are organized. This includes, among other things, personnel base, processes and routines. The firms change into more complex organizations where organizational structures and the way business is carried out improve significantly due to the internal changes. Moreover, the resources and capabilities firms hold change. Not only are new resources and capabilities integrated into the firms, but existing ones are refined and developed along the growth process as well. In summary, we conclude that firms before engaging with international markets are quite unorganized firms, where tasks are
performed ad hoc and the level of supervision and management is low. After undergoing internal change processes, the firms become international organizations with a clear mindset on how to operate as such.

6.2. Contributions
The study’s contribution is twofold. First, the study contributes to the academia by proposing a model of the internal change process, underbuilt by a rigorous theoretical framework and supported by a rich empirical study. This model can be used in future research on firms’ internal change processes and be further tested. In the internal change process, definitions on resources, capabilities and dynamic capabilities have been developed, contributing to the resource management literature. Additionally, we contribute with multiple theoretical findings. One finding is that the discovery of changing external environments can happen in two ways. Both by realizing the change first when acting on the market, and by actively scanning the external environment and looking for expected changes. Only the latter way previously mentioned in research. Moreover, the development of a proactive behavior was found to be an important part of the internal change process. As firms go through the internal change process multiple times, they can use the proactive behavior and plan future growth, thereby achieving high performance on the international markets faster.

Second, the practical contribution is that firms, by reading the study, can gain a rich understanding of how organizations change internally during international growth. This is important, as firms can learn what to expect from international growth. Thus, a firm can more easily prepare for what to come when planning to expand to international markets, learning what resources and capabilities that are necessary to obtain for internationally growing firms.

6.3. Limitations
The study’s findings have some limitations important to emphasize, in relation to the generalizability of the findings. Since the study is performed on SMEs in the same industry, it is hard to make any conclusion on how the internal change process might unfold in for firms, larger in size and acting in a different industry. Moreover, the case firms only relied on export as an internationalization strategy. It is likely that the internal change process looks different for firms
who go from being a domestic firm to being an international firm by directly establishing sales and production subsidiaries, or for firms evolving from exporting firms to having sales and production subsidiaries. These international strategies do without question imply more radical change, which consequently might have an effect on how the internal change process unfolds.

6.4. Propositions for Future Research
As the study evolved, interesting segments within in the research area were noticed, which this study did not have a possibility to touch upon. This is where future research could follow with similar studies on internal changes. First, it would be of interest to perform a study that focuses on both downstream and upstream internationalization, to obtain a wider picture of the phenomenon and be able to potentially highlight similarities and differences in how the internal change process unfolds between the two types of internationalization. Second, the research approach could be applied on firms that have chosen to enter the international markets in other way than through export, and consequently establish an understanding if the choice of entry mode has an effect on how the internal change process unfolds. Third, it would be of interest to investigate if the proposed framework is possible to generalize to other industries than food and beverage, and to firms with different size. As studies on internal changes in international growth are few, we highly recommend future research to follow these suggested paths, and hope that similar and complementary research findings will emerge in the near future.
7. Literature List


# Appendix

## Appendix 1 - Definition and Operationalization of Key Concepts and Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Operationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources</strong></td>
<td><em>The tangible and intangible assets that firms use to create value in response to changing external environments.</em></td>
<td>Tangible and intangible resources as defined in the theoretical framework, i.e. plant, equipment, raw material, capital, employees, knowledge, technology, etc.</td>
</tr>
<tr>
<td><strong>Capabilities</strong></td>
<td><em>The bundles of resources that create routines and enable the performing of tasks that in turn create value for the firm.</em></td>
<td>Skills and attributes that support and build on resources, with a close tie to the bundling process of resource management.</td>
</tr>
<tr>
<td><strong>Dynamic Capabilities</strong></td>
<td><em>The firm attributes that continuously enable the internal change process of discovering, reacting, and taking action against changing external environments.</em></td>
<td>See discovery, reaction, and action-taking below.</td>
</tr>
<tr>
<td><strong>Structuring</strong></td>
<td><em>Acquiring new resources by internal development or external acquisition, and divesting unimportant resources.</em></td>
<td>What was identified as missing to go through with the change. What changed and in what way. How the organization and personnel base changed. How finance was affected.</td>
</tr>
<tr>
<td><strong>Bundling</strong></td>
<td><em>Bundling resources into capabilities by learning, acquiring experience and knowledge and integrating resources.</em></td>
<td>Preparation of internal change. Development of resources. Improvement of skills and processes. New skills and knowledge. Integration of domestic and foreign operations.</td>
</tr>
<tr>
<td><strong>Leveraging</strong></td>
<td><em>Implementing strategies based on the new resource base and capabilities that fit the external environment.</em></td>
<td>International strategy. Performance after the internal change. Difference from before the change. Evaluation of the change.</td>
</tr>
<tr>
<td><strong>Discovery</strong></td>
<td><em>The ability to sense a change in the external environment that needs to be attended to.</em></td>
<td>When and how the firm realized the change. The context and effect of the change.</td>
</tr>
<tr>
<td><strong>Reaction</strong></td>
<td><em>The ability to react to the change demand, by activating the resource management process.</em></td>
<td>Activation of the resource management process. See structuring, bundling and leveraging.</td>
</tr>
<tr>
<td><strong>Action-Taking</strong></td>
<td><em>The ability to implement value creating strategies where a fit between the new external environment and the internal resource base is achieved.</em></td>
<td>International strategy. Performance after the internal change. Difference from before the change. Evaluation of the change.</td>
</tr>
</tbody>
</table>
Appendix 2 - Interview Guide Case Study Firm Informants

1. The informant’s role and background
2. Firm’s background and expansion path
3. Discovery of need for change
4. Decisions that were made when the need for change was discovered
5. Missing assets to go through with the international expansion
6. Changes and improvements in processes
7. Investments in resources
8. Organizational structure and personnel base
9. Change of informants role in the firm
10. Financing the expansion
11. Preparation of the internal organization for international expansion
12. New skills and competences
13. Managing relationships with international sales agents and distributors
14. Integrating and managing the domestic and international parts of the firm
15. International strategies
16. Performance on the international markets historically and today
17. Differences in international business operations compared to the domestic operations
Appendix 3 - Interview Guide Business Sweden

1. The informant’s role at Business Sweden and general background
2. Swedish food and beverage firms’ preparation of international expansion
3. Challenges and opportunities Swedish food and beverage firms encounter
4. Key success factors
5. Discovery that the international business is different from that in Sweden
6. How firms make decisions on how to react
7. Internal developments of Swedish food and beverage firms to succeed with the internationalization
8. Investments in resources
9. Relationships with suppliers, customers, agents and distributors
10. International growth pressures on employees and organization
11. Financing of internationalization
12. Capabilities and skills important for the founders to possess
13. Challenges in handling and integrating local and foreign parts of the firm