

BUSINESS IN THE CLOUD : INTERNATIONALISATION OF SMALL ENTERPRISE IN THE AGE OF CLOUD SERVICE

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Abstract

During the past decade, advances in information technology have facilitated the rapid international expansion of small and medium-sized enterprises (SMEs). Cloud computing has enabled a new wave of firms to offer services on the web regardless of geographic distances. The aim of this study is to explore how cloud computing affect the external variables network and culture in the internationalization process of an SME. In order to explore the impact on these external variables, a qualitative case study is carried out on a business-to-business SME offering cloud services within small and open economies. The findings explain why closeness was important and why the cloud service firm was limited to a gradual internationalization process although the technology has the potential to break this pattern or accelerate it. The results from this study are valuable for scholars since the internationalization process of cloud service firms is an under-researched area. It is also useful for cloud service SMEs when making strategic decisions in the internationalization process.

Keywords: Internationalization process, Uppsala Model, Born globals, Cloud computing, Network, Culture

Introduction

The internationalization process of small and medium-sized enterprises (SMEs) is currently discussed because of changing conditions in the business environment such as the liberalization of world trade, the increasingly globalized economy and technological progress (Gabrielsson & Kirpalani, 2012). The traditional internationalization process is described by the Uppsala Model (UM) and is the most cited internationalization model (Palgrave Macmillan, 2012). UM describes how firms gradually intensify their activities in foreign markets, based on cultural closeness and knowledge accumulation (Johanson & Vahlne, 1977). Despite its wide acceptance UM has been criticized by several scholars, mostly on its sequential process-based view and its emphasis on the liability of foreignness (Johanson & Vahlne, 1990; Barkema, Bell & Pennings, 1996; Moen & Servais, 2002; Forsgren & Hagström, 2007). As a reaction to this critique, Johanson and Vahlne revisited their model in 2009. The revisited Uppsala Model (RUM) is less country-specific and more network-specific due to technological progress and changes in business practices since 1977 (Johanson & Vahlne, 2009). However, since RUM is based on deductive reasoning on a conceptual-abstract level and lacks primary empirical sources, it is open for interpretation. The model is descriptive

meaning that it is intended to answer the question “how” rather than “why”. Contrary to the traditional UM, research has indicated that so called *Born Globals* (BGs) deviate from the traditional internationalization process by undertaking alternative entry modes and pursuing rapid internationalization from inception or shortly thereafter (Rennie, 1993; Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Madsen & Servais, 1997). BGs can be defined as entrepreneurial SMEs offering innovative products/services or other specialized competencies in multiple countries (Oviatt & McDougall, 1994; Chetty & Campbell-Hunt, 2004; Gabrielsson & Kirpalani 2004). Research on this phenomenon has primarily been focused on the definition of BGs and their internal capabilities such as entrepreneurship or marketing strategies (Knight & Cavusgil, 2004; Laanti, Gabrielsson & Gabrielsson, 2007). By comparison, relatively little is known about external variables that interact with and impact on the internationalization process of BGs (Gabrielsson & Kirpalani, 2012). There are several external variables that need further research. Two of these variables, culture and network, are also primary components in RUM. However, research so far indicates differences between BG theory and RUM on these variables. RUM describes how SMEs gradually intensify their internationalization by building networks from perceived cultural closeness. On the other hand, BG theory suggests that the product and strategy determines network engagement rather than cultural closeness (Pedersen & Petersen, 2004; Laanti et al., 2007).

One of the underlying reasons behind the deviating internationalization process is the development of information technology during the past decade which has facilitated the rapid international expansion of SMEs (Loane, 2005; Arenius, Sasi & Gabrielsson, 2006). These SMEs have emerged as a new wave of firms and have a renewed vision about the web and its opportunities (Bell & Loane, 2010). They view the web as a platform that is characterized by user participation, rather than locally installed software where the information flow is one-way (O’Reilly, 2005). This renewed vision of the web is known as Web 2.0 and cloud computing is the central service model. Cloud computing means that Internet users can gain access to services and applications from anywhere at any time through devices connected to the Internet (Bughin, Chui & Manyika, 2010). The benefits for SMEs include increased information sharing, more effective marketing and reduced communication costs (Bughin, Chui & Miller, 2009). Because cloud computing allows services to be consumed over the web, regardless of geographic distance or time, the boundaries of the firm have become more fuzzy (Bell & Loane, 2010). The way SMEs interact with their environment has therefore undergone change.

Geographic distances tend to be less important with cloud computing and since national cultures are embedded within geographic boundaries (Hofstede, 1983), it could be of interest to investigate how cloud services affect the cultural variable in the internationalization process of an SME. Furthermore, networking and relationship-building have become increasingly important since cloud services involve co-creation with customers (Bughin et al., 2010). Thus, it could also be of interest to investigate how cloud services affect the network variable in the internationalization process of an SME. This will shed further light on the differences between BG theory and RUM on the external variables culture and network. It will be of interest

for scholars since the interaction of external variables on BGs is an under-researched area (Gabrielsson & Kirpalani, 2012), especially the emergence of cloud computing and the new wave of firms associated with this phenomenon (Bell & Loane, 2010). It will also be useful for cloud service SMEs when making future strategic decisions in the internationalization process.

	Network			Culture		
	Network position	Trust & commitment	Learning & knowledge	Foreignness	Closeness	Cultural knowledge
Revisited Uppsala Model	Outsidership negative	Gradually increasing	Gradually increasing	Decreased relevance	Less risky	Gradually by experience
Born Globals	Flexible	Risk-taking and flexible	Prior and superior	Irrelevant	Risk of shock effect	Prior or alternative entry modes
Cloud service firms	High importance?	High importance?	Continuous co-creation?	Irrelevant?	Irrelevant?	Prior and continuously?
Case company	Important, customer driven	Gradually increasing	Prior, superior and gradual	Relevant in service aspect	Less risky and path dependent	Prior and alternative entry modes

Table 2. Summary of analysis: cloud service impact on internationalization case

1. Conclusion

The cloud service offering affects the external variables network and culture in the internationalization process in many ways. The outsidership in the network was negative for the case company since it forced them into alternative entry modes which delayed the internationalization. The flexibility in the network position was of less importance due to the stable demand from their customers. Gradual trust-building and commitment was important in this case since the customers are risk averse, the service is customized for a business-to-business market, and the data security concerns require a high level of trust.

Regarding the learning process, the product knowledge was prior and superior, the market knowledge was prior but required some learning and the institutional knowledge was gained through external help. The liability of foreignness was still relevant in this case since the cloud service is based on customer interaction where it demands communication in the native language and cultural understanding. However, the closeness to Sweden was relevant in terms of resource constraints, customer behavior and cloud service characteristics rather than cultural closeness. Nevertheless, physical presence was still important for the customers when offering the service. Lastly, the cultural

knowledge barrier was noticeable but less relevant since the barrier was overcome relatively fast by hiring

local people and the fact that the cloud service enjoyed a superior position on the Swedish market.

The cloud service firm in this case follows patterns from BG theory when it comes to the superior product knowledge, the prior market knowledge as well as the fast and flexible entry modes. However, much of the internationalization process is in line with RUM when it comes to the sequential approach, the liability of outsidership and foreignness, the gradual trust building and the closeness. Even though the cloud computing technology has the potential to change the sequential internationalization behavior and accelerate the process, the gradual approach was determined by the type of customers, the industry characteristics and the nature of the service.

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