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CAPABILITY DEVELOPMENT IN AN INTERNATIONALIZING SME

Master Thesis
International Business and Management
Oct 2017
ABSTRACT OF THE MASTER'S THESIS

Oulu Business School

Title: Capability Development in an Internationalizing SME

Subject: International Business and Management

Type of the degree: M.Sc. (Econ.&Bus. Adm)

Time of publication: Oct 2017

Number of pages: 56

Abstract

Internationalizing small and medium sized enterprises (SMEs) are often struggling with limited resources. These resources might also set the limits for the opportunities to grow. Capabilities and resources have been studied within context of MNCs, but, SMEs have been left with less attention. Capability development gives a good perspective for the internationalizing SME, and it might give answer for the question of why some internationalizing SMEs perform better than others.

Capability development process starts from understanding resources and capabilities of the SME. Resource-Based View and Dynamic Capability Perspective gives a good grounding for understanding capability development. After the theoretical part, case study has been used for finding more sharpen perspective for finding answers to the research questions. Case study from Finnish firm Gravity has been included for scoping the subject through lenses of real-life SME. Questionnaire was used in a case study for collecting empirical data from the case firm.

This master thesis is aiming to find answer to research question: How an internationalizing SME have to develop their capabilities? In addition, as an additional research question, this master thesis is aiming for finding the answer the following question: How internationalizing SME have to adapt their capabilities in growing stage? In this study, the objective is focusing on the perspective scope through a case firm. By using a case firm, it is excepted to find the concrete suggestions, the key factors the capability development for an internationalizing SME.

The results showed that within RBV perspective, firm must know it resources including processes and products before developing capabilities. Internal factors work as a trigger for developing process. DCP emphasizes firm-specific managerial skill as critical aspect, with creating, extending and modifying the resource base for adapting changes in external environment. Both perspectives agree that capability development is much dependent on managerial skills and on perspective of how managers see those resources and capabilities. Resources might set limitations to grow, but these limitations can be stretch a little, e.g. by relationship building. The results give concrete proposition to develop capabilities for the case firm and general findings can be drawn giving answers to the research questions.

The case study strengthens and supported the findings found from the strategic management theories. The study itself offered a fresh perspective for the subject of capability development by bringing the internationalizing of the SME along. Further studies by utilizing bigger sample of internationalizing SMEs could bring more reliable results.

Keywords: Capability Development, dynamic capabilities, resources, internationalizing SM

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1 INTRODUCTION

In rapidly changing business environments and in the world where globalization is effecting to competition almost everywhere in the world, the importance of controlling firm’s resources and capabilities in the most efficient way, has becoming one important way for enhancing competitiveness. Internationalization of a firm offers interesting perspective for scoping the subject of capability development. Sustainable vs. unsustainable growth, allocating limited resources and choosing the right development paths offers many critical points to make right or wrong strategical decisions on the way of the internationalization. Capability development can be seen as one of the key perspectives for keeping the focus on right track.

The term capability development has been studied from many different perspectives e.g. through dynamic capabilities (e.g. Teece, Pisano & Shuen 1997), through resource-based view (e.g. Helfat & Peteraf 2003) or through case studies (e.g. Montealegre 2002), but it still offers unresolved issue between causality of capabilities and performance. Resource-based view (RBV) observe capability development from the perspective of internal triggers, where firm-specific assets and organizational processes have the biggest weight (Kilpinen 2013). Dynamic Capability Perspective (DCP) emphasize the development for gaining sustainable competitive advantage through adapting capabilities to external changes (e.g. Peteraf, Di Stefano & Verona; Prange 2013 & Verdier 2011). It is also still somewhat unclear of how to define the line between dynamic capabilities and ordinary operational capabilities (Helfat & Winter 2011). Most of the studies linked to capability development, are concentrated on large multinational enterprises (MNEs). In this Master Thesis, the perspective of capability development has been scoped through small and medium sized enterprises (SMEs).

The focus has been on finding out the capability development in an internationalizing SME. There are only little studies (if any?), focusing on the internationalizing SME together with capability development. Welsh and White (1981) have argued that SMEs are not just smaller versions of large multination corporations, they have their own characteristics. In this study, the focus has been to find out that how internationalizing SME can develop their capabilities. Internationalizing SME has to face lot of changes
in their business environment, and with limited amount of resources. It sets the boundaries for available paths. The concept of capabilities can be seen as a set of routines that help firm in its performance, but the question is, how to focus on develop the right capabilities and how to cope with limited resources during internationalization?

1.1 Research background

Investments made by Finnish companies has been far away from the time before financial crisis starting in 2008. Finnish companies and government has been extremely careful with investments in recent years, which is worrisome says Head Economist of the Finnish Entrepreneurs, Mika Kuismanen (Kauppalehti 14.2.2017). Kuismanen (Kauppalehti 14.2.2017) is also confident that Finland’s economy would benefit from more courageous investments by public and private sector. Professor of Sociology of Economics from Turku University, Pekka Räsänen says (Talouselämä 28.8.2016) that it is contradictory that Finland invest so little with the amount of competence we have. On the same wavelength are Nobel winner economist Bengt Holmström, with economists Sixten Korkman and Vesa Vihriälä, in their release made to Finland’s Department of Treasury (Valtiovarainministeriö 25.8.2016). They sum up in their release that Finland is still one of the most competitive countries in the world, but for some reason Finland economy underachieve comparing to the potential. They add that generally Finnish firms do not have the capability to adopt global changes, these changes should be seen as an opportunity instead of threat.

Rapid changes in technology drives changes to global business environment. This require alertness to make strategical changes matching with the available firm-specific resources and capabilities. This study is an attempt to clarify the required capability development in an internationalizing SME in a constantly changing business environment. Continuous development is a basic necessity for keeping the business in sustainable level, and capability development offers a perspective for building long-run competitive advantage (e.g. Teece et al., 1997; Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter 2007).
Internationalization process of SME is driven by combination of active management including knowledge development, continuous innovation and adaption to market changes and expanding business networks, which gives the foundation of international competitiveness (Löfgren 2014). Today’s business environment is seen as web of relationships, where trust building is above all, rather than just suppliers and customers working independently (Johanson, Valhne 2009). Payne and Pennia (2005) also argue that shareholder value is enhanced most effectively when creating long-term relationships with key customers and customer segments. Trust building with shared values, honesty and organizational commitment for serving customer needs has remarkably positive effects to turnover. (Brashear, Boles, Bellenger and Brooks 2003). The powerful network, trustful image and reliable partners are key factors also in internationalization process in today’s world (Freeman, Edwards and Schroder, 2006). But how these key factors should be seen when scoping through capability development?

Theoretical background, which is used in this study, support the perspective of capability development in an internationalizing SME. Theories are built in a linear way starting from available resources, and continuing with capabilities of the firm. In this study, the concentration is to find the key issues of the capability development for responding to the demands of the global markets. The main theories in this study are RBV and DCP) which both support the idea of capability development for enhancing the competitiveness.

Case study has been included to this study for getting another concrete perspective from the internationalizing SME. The purpose is the build conclusions to my study through already existing studies and through the case study. Eisenhardt (1989) suggest using case studies for finding more evidence when watching case patterns through multiple lenses. Also, Eisenhardt remind that within case analysis, the researcher may find confirmation to existing hypothesis or sharpens generalized theories. For these reasons, the case study method has been used in this study.
1.2 Research objectives and questions

In internationalizing phase, several major variables affect to firm’s performance. Firm resources, capabilities, environmental factors and strategic features as timing, scope of the expansion and competitiveness of the strategy are all linked to performance (Rialp A., Rialp, J. and Knight, 2005). It is challenging for the firm management of the firm to keep focus on the most relevant and timely development targets. This study is an attempt to simplify the perspective of capability development in an internationalizing SME.

The research questions clarify the objective. This study is attempt to find answers for the following research question: How an internationalizing SME have to develop their capabilities? In addition, as a supporting research question, How internationalizing SME have to adapt their capabilities in a growing stage? Many previous studies focus on finding generalizing theories about harnessing dynamic capabilities (e.g. Teece et al., 1997; Helfat & Peteraf, 2003; Eisenhardt & Martin, 2000), but in this study the objective is more precise and elaborate, focusing on the perspective scoped through a case firm. By using a case firm, it is excepted to find the concrete suggestions, the key factors of the capability development for an internationalizing SME.

1.3 Research Process

According to Yin (2009), research starts from the identifying the research questions, designing the study methods and understanding strengths and limitations of the study plan. The research process is aiming for finding the answers to the research questions. The structure of the study starts from building theoretical framework. Strategic management theories related to capability development, such as RBV and DCP forms a major part of the theoretical framework. The perspective is in capability development, so understanding RBV and DCP is essential for dealing with the subject of capability development in an internationalizing SME.

After the theoretical part, case study has been used for finding more sharpen perspective for finding answers to the research questions. Questionnaire was used in a case study for collecting empirical data together with narrative data collected by
interviewing firm representative. By using interviews together with questionnaire, it assures that the results from the questionnaire has been analysed expediently and the focus has stayed in the case firm’s capabilities.

The questionnaire of the case study has been used for collecting empirical data and as a final source, the interviews has been used for refraining from the wrong conclusions. The data of the case study has been analysed together with previously published strategic management theories. At the end, the results give concrete propositions to develop capabilities for the case firm and general findings can be drawn giving answers to the research questions.

1.4 Key definitions

The key definitions in this study are resources, capabilities and dynamic capabilities. The main objective of the study is in capability development in an internationalizing SME, and it is essential to understand the key definitions before dealing with the subject

1.4.1 Resources

Firm resources are heterogeneous including all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. that can be controlled by the firm (Barney 1999). Teece, Pisano and Shuen (1997) see resources also as a firm-specific asset, but they emphasize that many resources, such as engineering knowledge or production facilities are difficult to imitate.

1.4.2 Capabilities

Term ‘capabilities’ refers to the organizational processes which transform resources to strategic outcomes. (Teece et al., 1997.) Capabilities can be seen as function of knowledge and experience that the firm has acquired over-time (Teece 2009).
1.4.3 Dynamic capabilities

Dynamic capabilities differ from capabilities in a way that dynamic capabilities use resources, specifically the processes which integrate, reconfigure, gain and release resources for achieving competitive advantage and for adapting to changes in business environment (Teece et al., 1997; Eisenhardt & Martin 2000)
2 THEORETICAL FRAMEWORK

Theoretical framework starts from the firm’s resources, where RBV gives a good perspective considering the characteristic of this study. DCP gives another perspective which underline the importance of the effective use of the current resources and taking account the possibility of developing existing resources even further or divesting unnecessary resources, which do not yield. At the end, the theories and perspectives are bind together in a form of capability development process.

The theory is built focusing on capability development, as it’s the main perspective used in this study. The organizational capability theories suggest (Helfat & Peteraf 2003) to start with RBV, as the firm-specific resources gives the bottom on capability development. RBV and DCP both focus on understanding sustainable competitive advantage, which can be achieved through successful managerial strategy planning and decisions within capability development. Wang and Ahmed (2007) have suggested that at the end, firm can achieve competitive advantage when implementing value-creating strategy, which requires dynamic use of existing capabilities. Kilpinen (2013) see capability development in consistence of dynamic capabilities as an outcome of path-dependency of the managerial exercise.

Theoretical framework continues with DCP, which underlines the capacity of an organization to purposefully create, extend or modify its resource base. The resource base includes tangible and intangible assets, which can be controlled by the firm, e.g. human capability (Helfat et al., 2007.) Dynamic capabilities are often characterized as unique and idiosyncratic processes that are emerged through firm-specific paths and unique histories of the firms (Teece 2009). In addition, dynamic capabilities are often seen from the resource-based perspective, which emphasizes firm-specific capabilities and assets affecting to performance (Teece et al., 1997.) Therefore, RBV gives the good starting point for understanding the dynamic capabilities and the development of capabilities. At the end, capability development process binds together the completely theoretical part.
2.1 Resource-Based View (RBV)

Resource-based view (RBV) is offers a perspective for understanding internal sources of competitive advantage, drawing on its two central ideas of path dependency and resource heterogeneity. RBV has been in dominant position for the last 25 years for explaining the nature of the firms (Lockett & Wild 2013.)

RBV should be seen as a bundle of resources and capabilities, which includes tangible, intangible assets, which constructs the core capabilities of the firm (Montealegre 2002). RBV refers (Helfat & Peteraf 2003) to resources firm has available to use, but also it refers to its organizational capabilities. Organizational capabilities give the ability to perform by utilizing organizational resources for the purpose of maximizing firm’s performance (Helfat & Peteraf, 2003). Kin and Wu (2014) have suggested that RBV is the main framework for explaining differences in performance between the firms among the same industry. However, the lack of understanding were the resources and capabilities comes from, makes it challenging to fully explain how firms should use their resources and capabilities for creating competitive advantage.

It is also notable that firm’s resources and capabilities changes over time as learning, changes in business environment and adaption to changes effects to firm’s advantages and disadvantages. The capability lifecycle gives another perspective and approach to the subject of the RBV. Capability lifecycle reflects the evolution of organizational capability that is ran by resources and carried forward within a team (Helfat & Peteraf 2003). Therefore, capability lifecycle gives very useful perspective from capability point of view, where changes in business environment affects to cost of the development (Runji 2015).

2.1.1 Firm resources

The nature of the path dependency within RBV has brought connection between resources and performance (Lockett & Wild 2013.) RBV underlines the influence of firm-specific knowledge among corporate management. Each individual has human capital, consisting knowledge, skills, experience, social capital and cognition, and some individuals plays a key role in capability development path (Helfat & Peteraf
2003). Resources will be more likely effectively allocated when decisions are made among people who has firm-specific experience. Firm-specific knowledge gives firm a possibility to utilize emerging opportunities dynamically by using firm’s strengths and weaknesses, in other words, capabilities (Kor and Mahoney, 2005.) Study by Lin and Wu (2014) indicates that when firm is able to accumulate RBV together with dynamic capabilities, they can improve their competitive advantage and performance.

2.1.2 Using resources for implementing firm’s strategy

According to Barney (1991) it is important to a firm’s management to understand their resources and link to potential competitive advantage, because if the managers are not able to understand the potential of their resources, it is unlikely to gain competitive advantage. Firm resources set the barriers to opportunities that can be utilized when implementing the strategy. Resources are not perfectly mobile and some of the resources varies during the time. There is a link between firm resources and sustained competitive advantage, affecting to organizational performance. For example, not all firms are able to carry on same strategies, such as same entry mode, as some of the firms have barriers set up by the firm’s resources (Barney 1991.)

Barney (1991) divide resources that affects to competitive advantage under four indicators value, rareness, imitability and sustainability. These indicators of the resources build the potential for gaining the competitive advantage:

(1) The resource must be valuable, in the sense of giving potential to exploit opportunities or neutralizes threats,

(2) rare resource gives opportunities that competitors don’t have,

(3) resource must be imperfectly imitable, and

(4) there cannot be strategically equivalent substitutes for the resource, that are also valuable, rare and imperfectly imitable (Barney 1991, 105-106.)
When firm accumulates their value and resources, competitive advantage can be enhanced (Lin & Wu 2014). Firm obtain the competitive advantage by deploying its internal strengths (Barney 1999). DCP gives a good approach for finding those strengths.

2.2 Dynamic Capability Perspective (DCP)

Capability of the firm refers to operational ability to perform in the market at least minimally satisfactory manner (Helfat et. al., 2007). Capabilities makes it possible to derive services out from the resources and assist firms to achieve desired outcome, for instance, superior performance (Wang & Ahmed 2007). In contrast, dynamic capability refers to capability of the form to purposefully create, extend or modify for utilizing the resource base in maximize level to undertake change (Helfat et al., 2007).

Sometimes term dynamic capabilities refer to generic capacity to cope with the change. Examples of dynamic capabilities include actions like proceeding with new product development, conducting acquisitions or alliances, but altogether dynamic capability implies reliable patterned behaviour (Helfat & Winter 2011.) Teece et al., (1997) defines that dynamic capabilities differs from organizational capabilities by enabling adapting to rapid or discontinuous change. Eisenhardt & Martin (2000) use the term radical change within dynamic capabilities. The fact is that whether discussing about radical, rapid or discontinuous change, is no easily defined (Helfat & Winter 2011).

Internationalizing SME may focus on developing capabilities reflecting to the changes happening in domestic market, but it also can redeploy dynamic capabilities to the new markets. Helfat & Peteraf (2003) suggest that it can be done, if it requires a similar capabilities and knowledge base that have been already used. DCP in this study is shared to four relevant perspectives, which all support building the view for the capability development in an internationalizing SME. The different perspectives helps to understand the meaning of the term as dynamic capabilities occurs in very different forms. In this study, the four perspectives follows in outline the theory presented by Helfat et al., (2007), as they offer comprehensive understanding of the theory. The four perspectives of the dynamic capabilities are:
• Dynamic capabilities and organizational processes
• Dynamic capabilities and strategic change
• Firm growth
• Future paths and possibilities

It is essential to understand that while some of the dynamic capabilities gives firms possibility to create new businesses or extend the old ones through internal growth or through strategic alliances, the other capabilities assist firms to develop new products or production processes (Helfat et al., 2007). These four perspectives are also utilized in the analyse part of the study as it gives a good approach for evaluating capability development in an internationalizing SME, where business environment is expected to change rapidly.

2.2.1 Dynamic Capabilities and Organizational Processes

There is a relationship between dynamic capabilities and organizational process of asset orchestration. As mentioned before, dynamic capability is a capacity to modify the resource base of an organization. For reaching the benefits of the dynamic capabilities, it requires understanding of organizational and managerial processes that are invoked. In addition, these processes are used for developing dynamic capabilities. (Helfat et al., 2007)

Strategy process have essential role when reaching the benefits of dynamic capabilities. Process perspective of the strategy should be linked to dynamic capabilities in the way that processes together would bring synergy benefits and would propose effective resource allocation. It is also important to understand that strategy process should be naturally dynamic, and it does not always concern change. The focus in the relationship between dynamic capabilities and organizational process should be the perspective, which maximizes the value of organizational performance (Helfat et al., 2007.)
2.2.2 Dynamic Capabilities and Strategic Change

Starting point for understanding relation between dynamic capabilities and strategic change is the recognition that processes affecting to dynamic capabilities comes through creation, extension and modification of a firm’s resource base. Therefore corporate management should be encouraged to execute strategical or organizational changes for supporting the competitive advantage of the firm (Helfat et al., 2007). For example, Khalid & Larimo (2012) found out that in developed markets competitive advantage consequent on learning and product development explained the survival of the firm more than growth itself. They also noticed that knowledge transfer with the local partners assisted firms to entry to new markets more successfully than entering to the new markets without external assistance (Khalid & Larimo 2012). The key factors in successful market entry was based on market knowledge and innovative firm-specific capabilities (Khalid & Larimo 2012).

Szalavetz (2015) noticed in his multiple case study, which was focused on five Hungarian high-growth firms, that changes in strategy eventually worked as a trigger for making changes in organizational structure. At the end, these changes helped firms to cope with changing business environment and with constantly growing firm-specific resource base. It gives noteworthy signal that strategical changes are linked with organizational structure.

Firm-specific managerial knowledge is a critical resource as it increases the possibility of utilizing opportunities that fit the firm capabilities. (Kor and Mahoney 2005). Firms have tendency to learn from their history, which is a good thing as primarily the business environment change constantly. Firm-specific advantage reflects the uniqueness of every firm, where history, people and organization shape firm’s asset position and the available paths to follow (Forsgren 2008).

Helfat et al., (2007) emphasize that creating, extending and modifying a firm-specific resource base is much dependent on managerial skills and on perspective of how managers see those resources and capabilities. It is important to understand the history of the organizational resources and capabilities, but on the other hand, it is important to understand that competitive dynamics are only partly related to historical resource
base (Helfat et al., 2007). Discovery path introduced by Miller (2003) relies for understanding the history of the organizational resources and capabilities as it is all about experimenting and discovering processes, technologies, partnerships, products and the right people for finding the most value adding combinations (Miller 2003). Organization design is the key for finding these best combinations effectively. The way an organization controls and motivates its resources to perform together with appropriate corporate structure, role definitions and planning systems, helps firms to develop their capabilities (Miller 2003).

2.2.3 Firm Growth

Growth in firm revenue is strong performance measurement tool. If there is no growth, the firm’s performance can be enhanced only by reducing costs or by raising prices. Even more important measure of firm performance than growth itself is growth persistence. Mostly firms seek profitable growth, as unprofitable growth is difficult to digest in a long run. Therefore, a measure of persistence of growth in firm revenue provides appropriate tool for analysing firm performance (Helfat et al., 2007.)

The growth usually includes problems with increasing size of the firm and organizational complexity associated with financing, international reputation development and market knowledge building (Szalavetz, 2015). Dynamic capabilities, firm size and growth goes hand in hand when reaching persistence for growth (Helfat et al., 2007). Empirical evidence shows (e.g. Helfat et al., 2007; Khalid & Larimo 2012) that cost reduction or higher prices does not explain growth patterns over time, but dynamic capabilities might be the answer. It is just challenging to demonstrate unequivocally, as some sort of changes is happening all the time and we cannot always separate organizational capabilities from the dynamic ones (Helfat & Winter 2011).

Helfat et al., (2007) suggest that dynamic capabilities would explain experience-based cost declines over time, which support the growth. Szalavetz (2015) found out in his study that growth stage required rebuilding of the team and concentration to employee selection, because of increasingly complex organization, increasing control of transaction costs and decentralization of the management through increasing delegation. Helfat et al., (2007) emphasize that growth itself brings own challenges
and often works as a trigger for developing dynamic capabilities. That has been illustrated by Helfat et al., (2007) in FIGURE 1.

![Figure 1 Dynamic capabilities, firm size, and growth (Helfat et al., 2007).](image)

Figure 1 demonstrates the process from resource-base to persistence growth by utilizing dynamic capabilities of the firm. Effective use of capabilities combined with learning-by-doing in organizational culture, support growth persistence or at least maintenance of firm size. It’s good to remind that some dynamic capabilities help firm to maintain its size, rather than providing growth, it is remarkable to understand especially in changing business environment (Helfat et al., 2007.)

It seems clear that growth persistence over time requires effective use of capabilities, but it is still difficult to find unambiguous research results from it. There are still some perspectives on dynamic capabilities that are not fully understood, like the difference between dynamic and ordinary capability (Helfat & Winter 2011), before it can be utilized in strategic decisions. The direct link between dynamic capabilities and fitness of the firm in terms of persistence growth are not academically fully proved. There is anyway consensus among scholars that dynamic capabilities have substantial role in profitable growth. (Cohen & Levinthal 1990; Helfat et al., 2007; Lin & Wu 2014).

Capability development in the consistence of dynamic capability approach (Helfat et al., 2007) sees evolutionary fitness as a key role in sustainable growth. Helfat et al., suggest that evolutionary fitness of the firm is relying on capability performing and firm’s ability to perform well in a changing environment. It means that firm’s
growth depends on the level of the evolutionary fitness, which includes reconfiguration and divesting unnecessary resources over time for keeping the fitness.

2.2.4 Future Paths and Possibilities

Managers of growing firms will face many difficulties as much as many opportunities, but how to know that which path to choose? Bingham, Furr and Eisenhardt (2014) call that “The Opportunity paradox”. Managers, who are flexible in their opportunity selection, tend to be less flexible when executing their opportunities. Conversely, managers who are selective in the opportunities they decide to execute, tend to be more flexible in executing those opportunities. Their studies (Bingham et., al 2014) showed that managers counting on flexible opportunity selection lead to lower-performing results. The results indicated that managers who execute opportunities based on emerging customer demand, do count too much on immediate reward, instead of keeping discipline in seeking opportunities that they fully understand and which are linked to firm’s resources and realistic capabilities (Bingham et al., 2014).

Here DCP give a good approach, as it’s rely on managerial processes, where resource base provides the starting point and external changes works as a trigger for development. Implementation of the strategy can deploy dynamic capabilities for finding competitive advantage through asset orchestration (Helfat et al., 2007). In addition, some situations may force firm to decline its capabilities for finding a more dynamic level later (Helfat & Peteraf 2003). How these dynamic capabilities should be developed? More precisely about implementation paths and possibilities of dynamic capabilities in this chapter.

Starting point is a firm-specific resource base as firm must know its resource base, before developing dynamic capabilities. Effective use of resource base and constant product and process development seems to give an easy answer. Yes, but however, there is limitations on dynamic capability, which also sets limits to opportunities. (Helfat et al., 2007.) These limitations on dynamic capabilities, should give a signal, which emphasizes the importance of developing dynamic capabilities and creating fit organization.
In the context of dynamic capabilities, several variables affect and change over time. Managers themselves forms probably the biggest threat and opportunity for creating fit organization. By fit organization within the context of capability development, it determines how well capabilities perform in the selection environments of the firm, and eventually capabilities work as a driver of the development (Helfat & Peteraf 2003). Helfat et al., (2007) reminds that decision-making process is vulnerable for cognitive biases and managers rarely lead organizational strategy perfectly in their foresight. The nature of dynamic capabilities constrains ongoing changes as well where timing of utilizing the opportunity plays a big part (Helfat et al., 2007). In addition, it is good to keep in mind that single firm usually does not own all the required capabilities. When firm is going to the new markets, it is often required to reach for new capabilities from outside of the firm (Forsgren 2008). Helfat et al., 2007 reminds that dynamic capabilities that boosts competitive advantage, is difficult to obtain from the market directly. Those dynamic capabilities, which can be acquired directly, such as high technology or human capital, tend to have high sunk cost. This narrows the future paths and possibilities for reaching fit organization and profitable growth, but when succeeding in it, there may have much larger payoff at the end (Helfat et al., 2007.)

2.3 Capability Development

Capability development can be seen from different perspectives. For example RBV emphasize the development in the contrast of internal routines and firm-specific resources, whereas DCP emphasizes the relationships between firm capabilities that are enable to change and adapt to changes in external environment (Kilpinen 2013).

Capability development refers to processes, which are likely to be improved over time, as learning-by-doing and capability improvements inside the firm improve the development (Helfat and Peteraf 2003). The development process can involve capability building on already existing capabilities or building totally new capabilities. (Eriksson, Ketolainen and Kriz 2015). For understanding the meaning of the capability development, it is essential to understand that capability building is a gradual process where cumulative development and firm-specific resources gives a framework for the implementation of the strategy (Montealegre 2002).
Capability development is gained from the firm’s past experiences; it is directly related to firm-specific resource-base and advantages, thus capabilities of the firm are inimitable (Montealegre 2002). In a growing phase, the way of adapting capabilities become indispensable, as the organization is turning more complex (Szalavetz 2015). What does this complexity mean in practice? Szalavetz (2015) found out in his study that complexity of the new capabilities displays in many ways; Increasingly complex organizations were adapted to strong growth by team building, increasing internal functional specialization and decentralizing the organization.

Capability development can be lengthy and complex process influenced as the concept has multiple dimensions and influenced by many variables, such as leadership, organizational culture, information technology, community networks and long-term view (Montealegre 2002). Lin and Wu (2013) sees capability development itself and dynamic capabilities more precisely as a tool for converting firm resources into improved performance. They see capability development inevitable part of the strategy building. In the next chapters, more precise information about the development process itself. RBV and DCP together constructs the perspectives for capability development process of the firm and together gives a good approach for dealing the subject from the perspective of the internationalization of the firm.

Helfat and Peteraf (2003) see development of the capabilities happening through internal and external selection environment. They suggest that internal selection environment consist mainly managerial decisions, while external selection environment consist changes in markets. These internal and external selection environments finally determine the development paths of the capabilities (Helfat & Peteraf 2003).

2.3.1 Capability Development Process

It is obvious that firms need to develop their capabilities non-stop. Seems justified to say that it is becoming harder to retain a competitive advantage worldwide when globalization, deregulation and market liberalization makes it easier for competitors to imitate. Capabilities, such as leadership, organizational culture, information
technology and social networks must be developed constantly for keeping or developing the advantage (Montealegre 2002; Luo 2000).

Helfat et al., (2007) underline the term ‘fit’ within organisational capabilities, it determines how well capabilities perform in the selection environments of the firm, eventually driving the development. Helfat and Peteraf (2003) see development happening through lifecycle frame, meaning that capability development is part of the life-cycle, including several stages, such as the founding, the development, maturity as the capability evolves over time.

Why some firms in the same industry perform better than others? How firms should develop their capabilities? Building capabilities from the perspective of RBV and concentrating on organizational learning give a good starting point for allocating resources and upgrading the level of business (Luo 2000). Many studies indicate that developing capabilities effects on firm performance in a positive way (e.g. Lin & Wu 2014; Barney, 1991; Khalid et al., 2012; Kor & Mahoney 2005). What type of capabilities firm managers should develop for enhancing competitiveness?

Prange & Verdier (2011) have studied performance through the development within two different type of learning activities: exploration and exploitation. Exploration refers to development characterized by searching, discovering, experimenting, risk taking and innovating, while exploitation refers development characterized by implementing, producing and selecting (He & Wong 2004). Dynamic capabilities give a good perspective as its emphasizes the importance of adapting, integrating and reconfiguring capabilities for matching the requirements of changing business environment. Prange and Verdier (2011) introduce four types of dynamic capabilities that are likely to impact international performance (see FIGURE 2).
Prange and Verdier (2011) divided capabilities under exploitation and exploration. Exploitation includes capabilities that work as drivers in the internationalizing phase. It refers to capabilities that are learned from one's own experiences and development that is based on the knowledge that already exists inside the firm. Exploitation consolidates existing capabilities, where threshold capabilities create necessary conditions before it is possible to implement internationalization strategy.

By exploration Prange and Verdier (2011) refers to development of new capabilities. When implementing internationalization, all exploitation-based capabilities are important, but firms need to develop new capabilities as well. Those new capabilities can be divided under the themes of value-adding capabilities and disruption capabilities. Firms that rely on exploration-based capabilities usually already have some competitive advantage that can be translated to new markets. When going to new markets the value-adding capabilities are based on competitive advantage, whereas disruption capabilities may lead to a strategic reconfiguration by questioning existing operational routine. Growth rates are usually higher for firms relying on explorative internationalization, but it requires more risk taking as well e.g. enhancing existing
capabilities through foreign market presence (Prange & Verdier 2011). Lin and Wu (2014) found out that valuable, rare, inimitable and non-substitutable resources have positive effects to firm performance, which can be linked to exploration based capabilities. Helfat et al., (2007) also reminds that some firms perform well by just taking advantage of external innovations before their competitors.

When firm has achieved competitive advantage in a market, it is natural that international expansion becoming strategic response to dynamic tension between multiple forces, such as geographic, product, market and technological advancement. Dynamic capability development process gives firm possibility to create assets that are difficult to imitate, so called distinctive resources, which might generate higher rate of invested capital (Luo 2000.)

After expanding to new market, firm’s resource base has most likely changed in a response for changing business environment. Increasing resource base and organizational learning are both crucial for the growth in a complex foreign market. (Luo 2000). After the market entry, networking with local businesses, relationship building with buyers, suppliers, wholesalers and governmental authorities are fundamentally crucial ways to create more value to firm’s resource base. (Luo 2000). In addition to the resource base, analytical results indicate that by dynamic capabilities developed through integration, learning and reconfiguration from business practices can enhance firm’s performance (Cohen & Levinthal 1990; Lin and Wu 2012).

2.3.2 Capability development and performance

RBV is a good starting point for the discussion of competitiveness and performance of the firm, but DCP gives a better explanation for firm competitiveness linked to performance (Lin & Wu 2014). Performance is related to competitive advantage, as it will give opportunities that does not exist for competitors. Therefor competitive advantage gives also a good perspective to this subject. According to Barney (1991) firm is said to have a competitive advantage when it can implement value creating strategy without being imitated by its competitors. Competitiveness of the firm depends on their resources and their capabilities, but what are the key factors for enhancing the performance?
Prange & Verdier (2011) suggest that firms must choose between exploitative and explorative internationalization strategies and those should be seen as a trade-off, because they compete from scarce resources. Some scholars (e.g. Eisenhardt & Martin 2000; He & Wong 2004) believe in ambidextrous model (“juggler”-metaphor) as firms which can operate simultaneously exploitative and explorative way, are more likely to achieve superior performance, than the firms focusing only one, with the cost of other. Still Prange and Verdier admit (2011) that all firms face challenges on their internationalizing path, and it is important to adjust capabilities over their internationalizing life cycle, which might require juggling between exploitative and explorative strategy. For firms internationalizing in early stage, they need strong consolidation capabilities for surviving and for keeping the profitability, but later they have to unlearn constraining routines and build disruption capabilities (Prange & Verdier 2011).

The perspective of the analysing is on capability development, from the perspective of the internationalizing SME. The results were drawn out from the IB theories and from the case study. According to Eisenhardt (1989, 548) most empirical studies are lead from theory to data. This research follows the same principle. The focus was on four elements of developing dynamic capabilities; Organizational processes, strategic change, firm growth and future paths and possibilities. These categories proposed by Helfat and Peteraf (2003) gives the perspective for approaching the subject of capability development in an internationalizing SME.
3 CASE STUDY APPROACH AND METHODS

In this study, the process of building theory from existing researches and from the case study follows the principles of Eisenhardt’s “Building Theories from Case Study Research” (1989) and Yin’s “Case Study Research” (2009). The main idea for taking case study approach has been strengthening the theories and finding new perspectives for answering the research questions.

In general, Yin (2009) recommend using case study if the research questions starts with “How” or “Why”. All research questions - How internationalizing SME have to develop their capabilities? How internationalizing SME have to adapt their capabilities in a growing stage? - starts with “How”, so it is acceptable to use case study method.

3.1 Research design

The research design structure follows largely the steps of Eisenhardt (1989). The study begun from definition of the study and by constructing the research questions of the study. First background theory has been collected from existing strategic management theories and articles for strengthening the groundings, before proceeding with collecting data from the case.

When designing the case study, it starts from designing the unit of analyses and case(s) to be studied. Developing theories and propositions or just issues underlying the anticipated study, is another step before identifying the case study design and defining procedures for maintaining case study quality. Then the data and method must be prepared and finally collect by creating case study database. The final part is about analysing quantitative or qualitative data or both in a technique that will rely on theoretical propositions (Yin 2009). Eisenhardt (1989) sees case study as a research strategy that focus on understanding the dynamics present within single settings.

3.2 Case study

The case study helps to see the evidence through different lenses, thus it offers extra view to the study only focusing on academic literature (Eisenhardt 1989; Yin 2009).
The case study is a research strategy, which typically combine data collection methods from multiple sources, such as archives, interviews, questionnaires and observation (Eisenhardt 1989). In this study, the focus has been on interviews and questionnaires.

The case study in this research brought both qualitative evidence through interviews, and empirical data through questionnaire. In this case-study there is just one case-firm, Eisenhardt (1989) recommends to have several samples in case study, but he says that, it does not matter how small the sample is, if the focus of the case research is well defined. And with more cases, it can quickly become difficult to cope with the complexity and volume of the data (Eisenhardt 1989). In this research, the plan is to find first generalized theories from existing researches, and then tries to find concrete answers to the research questions by using the case study method.

3.2.1 Firm selection process

Selection process of the cases plays an important part when building theories form case studies. The cases should be chosen in the way that they would replicate the emergent theory (Eisenhardt 1989). The required aspects fulfilled within this case firm, as it is already multinational corporation (MNC), but still formalizing its capabilities and resources for the required level of the strong internationalizing. Yin (2009) underlies that sometimes the selection of the cases can be straightforward, especially if the chosen case identifies properly the required data and it is likely yielding the best data. In this research, the chosen case-firm really identify the required data.

The chosen case-firm is Gravity (GVT-Group). Gravity is registered in Finland, but they have also subsidiary and Sweden. The firm is growing and they are looking for new markets to entry in the near future. Gravity suits perfectly for this study as it is still a small firm with under 10 employees, but has already subsidiary abroad, in Stockholm. Even this case-study consist only one firm, it will still help for finding more sharp perspective than just relying on strategic management theories.

Gravity is planning new market entries soon, so capability development on market entries cannot being ignored. In this study, the concentration is on the near-future of the Gravity, to find out the capability development required for the firm to access new
international markets. The analysing method has been chosen for analysing capability
development of this specific firm from the perspective of the internationalization.
strategic management theories, such as RBV and DCP give good perspective for
capability development, but this case study brings the perspective for the
internationalizing SME.

This case study can strengthen the findings from the previous studies, which have been
summarized in theoretical part. In most of the related studies, the perspective has been
from the view of big MNCs. Here the perspective is different, Gravity is better
characterized as a SME with under 10 employees. The purpose is to compare the
results of the case study to the theoretical findings from the area of capability
development within internationalization context.

3.2.2 Introduction of the case firm: Gravity (GVT-Group)

In this research, a case study plays an important role. Gravity is Helsinki based SME.
They have had subsidiary office also in Stockholm for couple of years. The firm have
been founded in 2011, and their controls approx. 1.5 million revenue (EUR) according
to Marko Heino (16.5.2017). Their revenue has grown over 30% per year and gains
7.9 % from the revenue in 2015, which is their latest available accounting period
(Suomen asiakastieto 2017).

Gravity works in marketing and advertising industry. Their core service is to provide
production services in marketing. Gravity’s service promise states that they can
execute marketing campaigns and marketing partnerships in a responsible way, which
leaves their customers more time to concentrate on their business operations (Gravity
2017).

Gravity already have remarkable collection of references, which has been listed on
their webpage (Gravity 2017). Betsson, Danfoss, Wennerco, Gröna Lund,
Koskenkorva, Picnic, Viking Line and Suunto, just to name few. According to Heino
(16.5.2017), the customers are mainly big companies, which have demand for big
marketing production; they can find savings through Gravity’s service.
Gravity is still relatively small firm with under 10 personnel, but it has short-term plans to expand its businesses overseas to several other countries. Gravity’s success bends on their business model and to good reputation. Traditionally companies execute their marketing production together with advertisement agency, which requires lot of communication and competitive bidding among producers of the marketing material, such as print materials, labelled products or digital printing. Instead Gravity do it all by using their trusted partners around the world, which allows them to offer competitive prices and time saving method of executing marketing production for the clients (Gravity 2017).

CEO and Founder of the Gravity, Marko Heino lives in Stockholm and he has managed to pull Stockholm based office to profitable level under two years. Heino is confident that the business model of Gravity would work also in other countries; the business model had been already tested successfully in Finland and Sweden (26.2.2017).

Gravity was chosen for this thesis because it is good example for all small or medium size company, which is planning to expand to the new markets. Gravity fits perfectly to our subject as well, for being a SME, still taking the first steps of internationalizing. Case study brings the focus to internationalizing SME, it gives eligible perspective for comparing the results for existing studies from capability development.

“PK-yritysbarometri” barometer for the expectation of the small and medium sized firms in Finland shows that only 39% of the companies are planning to grow. (Kauppalehti 2017). Head economist of the Finnish Entrepreneurs, Mika Kuismanen says (Kauppalehti 2017) that he is extremely worried about the lame investment plans among Finnish SMEs. The case study from the capability development of the Gravity, could bring some encouraging results for the Finnish companies which are still considering for expanding abroad.

3.2.3 Empirical data collection

Yin (2009) recommends following three principles of data collection, which are: 1) Use multiple sources of evidence, 2) create case study database and 3) maintain a chain of evidence. The data of the case study has been collected from the questionnaire,
where took part four responders from the case-firm Gravity. In addition, interviews of CEO of the case firm Gravity, Marko Heino (Interviews (26.2.2017: 16.5.2017) has been used as an extra source for avoiding any wrong interpretations from the data. Case study database have been created, which gives a convenient tool for seeing the overall picture from the all answers.

By developing capabilities often gives opportunities to grow. Growth can be reached in many ways; mergers and acquisitions, joint ventures, strategic alliances or internal growth, which all provides alternatives for reaching growth of the businesses. Our case firm, Gravity has so far expanded through internal growth, and it will be the primary strategy also for the future (16.5.2017). Therefore, in this paper, it is not expedient to deal with joint ventures or with mergers and acquisitions. The focus will be on internal growth by developing capabilities reflecting to challenges within internationalizing.

The Empirical quantitative data was collected with a survey that contained 480 yes or no statements, where four key-personnel of the case firm answered. From the answers, the key factors for developing capabilities where pointed out, together with interviewing (16.5.2017). At the end, the results were analysed within the limits set by RBV and DCP.

The empirical data collection process started from the choosing the key personnel of the firm, whom going to take part for the questionnaire. The chosen respondents got direct link to their email where they can get access to the questionnaire. In this study, the respondents had four-week time to answer, in March-April 2017. Respondents had chance to choose questions in English or Finnish. Gravity chose four key-personnel whom took part for the questionnaire.

After the all respondents had answered, the results were sent to Gravity. I had a meeting (16.5.2017) with Heino, where we discussed about the findings, concentrating on the strengths, weaknesses and disagreements within the respondents. The focus was to find firm-specific advantages and disadvantages, but also all the questions, where key-personnel has disagreements. The interview helped to analyse quantitative data for minimizing biases and wrong conclusions.
The questions were simple ones, with possibility to choose “yes” or “no” answers. All the answers were put together in one summary. The percentage (%) after the question tells the fraction of the respondents answering “yes”. In the perspective of the capability development, the answers where respondents disagree with the statement offers potential development targets.

E.g. Sample of the questions in “Markets” part:

“Key personnel have recognized the direct and indirect competitor operating in targeted foreign markets” (50%). In this one, the answers were split evenly 50/50.

“The price of the company’s product/service is competitive in the domestic market’ (100%). All the responders had answered “yes”.

“Key personnel have an estimate of the size of the domestic market” (25%) Only one out from four has answered “yes”, mostly respondents disagree with this statement.

These answers represent the real data from the case study. This-analyse helps firm to recognize their strengths and weaknesses among markets, customers, strategy and resources. In addition, it gives perspective of where the firm has space to develop their capabilities and where to allocate resources in the future.

3.2.4 Empirical data analysis

Capability Development matrix of the firm in internationalizing stage (TABLE 1) helps to analyse data, and to find firm-specific capabilities to improve. TABLE 1 has been used for drawing the line from case study data to the theory, and for drawing the concrete firm-specific development suggestion for the case firm.
Results from the questionnaire gave the empirical data for this research. Empirical data sets the main areas of capability development from the firm-specific perspective in internationalizing stage. The discussions with the CEO of the Gravity, gives better focus and crop of ideas, which has stand out from the questionnaire. At the end, strategic management theories related to capability development draws the line from questionnaire, discussion towards concrete suggestions of how to develop firm-specific capabilities in an internationalizing SME.

<table>
<thead>
<tr>
<th>ARE OF CAPABILITY DEVELOPMENT</th>
<th>EMPIRICAL DATA</th>
<th>DISCUSSION</th>
<th>SUGGESTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORGANIZATIONAL PROCESSES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STRATEGIC CHANGE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FIRM GROWTH</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FUTURE PATH AND POSSIBILITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 1 Capability Development Matrix of Internationalizing SME
3.3 Findings

The focus was on capability development in an internationalizing SME. First started by studying the most reliable researches on the field of capability development. RBV and DCP sets the approach angle for the capability development. Then the case study was used for getting more sharpen results, especially from the perspective of the internationalizing SME. Empirical data was collected through questionnaire from the case study. This empirical data, together with interviews and existing strategic management theories formed answers to our research questions.

The research questions where:

1) How internationalizing SME have to develop their capabilities?

2) How internationalizing SME have to adapt their capabilities in a growing stage?

The results of the case study are divided under four perspectives: 1) organizational processes, 2) strategic change, 3) firm growth and 4) future possibilities and paths. These perspectives assist to analyse answers collectively. Previous researches together with the case study’s data assist for summarizing the main findings or this thesis.

The questionnaire contained 480 yes or no statements related to capability development, where four key persons of case firm, Gravity, took part. The questions were divided under four main themes: markets, customer, strategy and resources. Also, the questions are divided under 5 different levels. Level 1 contains questions related to basic requirements of running business. Questions like “Company’s product/service is clearly defined and priced” or “Company has registered its name” can be found under the level 1. In levels 2 have still basic questions related to capability development in domestic markets, whereas in level 3 some questions are already related to internationalizing and foreign markets or in more advance level related to domestic markets. In level 3 are questions like: “Key personnel have chosen the foreign customer segments the company wants to serve” or “Company has appointed responsible person for managing international sales”. In levels 4 and 5 the questions are targeted to advanced level of internationalizing, those questions are more relevant.
to MNCn than SMEs, but in this study, those offers some nice-to-know information and long-term capability development targets for the case firm itself. The percentages tell about the percentage of “yes” answers among participants. The idea is that if all the figures are 100% the firm has excellent preconditions to succeed in international business, but as of Gravity is still young and small firm, it is not expected to find many sections with figure 100% Below is the summary of the results, level by level.

<table>
<thead>
<tr>
<th>Markets</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
<th>Level 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets</td>
<td>62.5%</td>
<td>45.8%</td>
<td>20.8%</td>
<td>27.5%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Segments</td>
<td>75.0%</td>
<td>37.5%</td>
<td>62.5%</td>
<td>37.5%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Competition</td>
<td>91.7%</td>
<td>58.3%</td>
<td>33.3%</td>
<td>8.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Networks</td>
<td>75.0%</td>
<td>70.8%</td>
<td>83.3%</td>
<td>50.0%</td>
<td>54.2%</td>
</tr>
<tr>
<td>Customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification</td>
<td>83.3%</td>
<td>87.5%</td>
<td>37.5%</td>
<td>16.7%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Marketing</td>
<td>83.3%</td>
<td>33.3%</td>
<td>20.8%</td>
<td>16.7%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Closing deals</td>
<td>95.8%</td>
<td>79.2%</td>
<td>37.5%</td>
<td>20.8%</td>
<td>37.5%</td>
</tr>
<tr>
<td>Customer retention</td>
<td>79.2%</td>
<td>48.3%</td>
<td>54.2%</td>
<td>20.8%</td>
<td>29.2%</td>
</tr>
<tr>
<td>Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>83.3%</td>
<td>87.5%</td>
<td>66.7%</td>
<td>16.7%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Products and services</td>
<td>79.2%</td>
<td>79.2%</td>
<td>25.0%</td>
<td>66.7%</td>
<td>83.3%</td>
</tr>
<tr>
<td>Order - Delivery process</td>
<td>95.8%</td>
<td>66.7%</td>
<td>37.5%</td>
<td>50.0%</td>
<td>79.2%</td>
</tr>
<tr>
<td>Operations</td>
<td>45.8%</td>
<td>37.5%</td>
<td>70.8%</td>
<td>50.0%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resources</td>
<td>100 %</td>
<td>79.2%</td>
<td>50.0%</td>
<td>66.7%</td>
<td>66.7%</td>
</tr>
<tr>
<td>Finance</td>
<td>100 %</td>
<td>79.2%</td>
<td>29.2%</td>
<td>37.5%</td>
<td>29.2%</td>
</tr>
<tr>
<td>Systems and processes</td>
<td>87.5%</td>
<td>87.5%</td>
<td>20.8%</td>
<td>8.3%</td>
<td>45.8%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>79.2%</td>
<td>41.7%</td>
<td>20.8%</td>
<td>25.0%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
<th>Level 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>82.3%</td>
<td>64.3%</td>
<td>41.9%</td>
<td>32.0%</td>
<td>38.3%</td>
</tr>
</tbody>
</table>

TABLE 2 Questionnaire results by level

From the summary of the results can be seen that Gravity has basic capabilities related on domestic markets in order, except there are room for development in the segments of operations, marketing and markets. On the other hand, capabilities related to networks, strategy and human resources seems to be in a good level. There will be anyway lot of development areas for getting better results to level three, which refers to internationalizing phase. Those development areas will be handled through the four analysing perspectives: organizational processes, strategic change, firm growth and paths and possibilities.
3.3.1 Organizational processes

When firms growing fast it is inevitable to face some challenges to keep up with the process. Already decades ago, in 1959 Penrose (2009) explained how growth should be seen as a cumulative process, which involves understanding of effective management of firm resources, the collective knowledge of the external business environment and constant development of administration tasks e.g. human resources for reaching the competitive advantage. These all are related in or another to organizational processes.

The case study showed that Gravity had some space for development among organizational processes, which can be pointed out from the following answers in questionnaire. Here are some of the questions which are related organizational processes level by level until the internationalizing phase, level 3.

Level 1:

“Key personnel know in which phase of the lifecycle the company’s product/service is” (75%).

“Company has repeated sales to its current customers” (100%).

“Key personnel have been in contact with users of the company’s product/service” (100%)

Level 2:

“Company has the required human resources to grow and internationalize the business” (25%).

“Company can implement target-oriented projects” (100%).
“Company invest in developing the resources, capabilities and strengths required by international business” (75%).

“Company has an operating procedure for handling over orders into delivery and invoicing” (75%).

Level 3:

“Company’s human resource management practices are defined and documented” (0%).

“Company product documentation is up to date and comprehensive” (25%).

“Company has a CRM system” 0%.

“Company has a documented order-delivery process” (75%)

Only one respondent sees that Gravity has the required human resources to grow and none of the respondents agrees for the statement that company has human resource practices defined and documented. One respondent has agreed that company product documentation is up to date and comprehensive and it seems the be clear that Gravity has no CRM system as all answered “no”. There was also deviation (50% answered no) about the question related to company’s sales know-how.

In the discussion with Heino (16.5.2017), he admits that as Gravity’s still a small firm, and that they have managed so far without CRM system or without documented processes, but the key personnel are aware that some process and product documentation together CRM system would be needed in the near future.

3.3.2 Strategic change

The case study supported the importance of the systematic capability development for keeping the competence level with the growth. The following questions has been picked up from the case study’s questionnaire part of strategic change.
Level 1:

“Key personnel are committed to growing and internationalizing the company” (100%).

“Key personnel have an understanding of the global megatrends having impact on domestic market development” (75%).

“Key personnel have evaluated the advantages and disadvantages of using direct sales, own sales subsidiaries and distributors” (25%)

“Company has a board that supports the operative management” (0%).

Level 2:

“Company is actively marketing its products/services to its target customers” (0%).

“Company has recognized the development needs for its product/service required by the international business” (50%)

“Key personnel have an understanding of the cost of developing the product/service for international markets” (75%)

Level 3:

“Company has a plan on how to market the products/services to foreign customers“ (0%).

“Company has recognized the change factors related to business environment or technology of its foreign target markets” (25%).

“Key personnel understand that growth requires systematic competence development” (100%)
“Company’s key functions are not dependent on one person” (50%).

Positive thing is that all the key personnel has common understanding that growth requires systematic competence development. Also, all respondents have agreed that Gravity is not actively marketing its services to target customers and that company has no board that supports the operative management. Nevertheless, 75% of the respondents agreed that Gravity has an up-to-date documented plan to develop the business.

From the discussion with Heino (16.5.2017) it become clear that the key personnel of the Gravity understand the capability requirements for international grow, but it is unclear of how to do it with limited financing and time. For example, Gravity do only little marketing, if any, as they sales and customer relations are heavily relying on personal relationships and networks. Heino (16.5.2017) also understand that the firm needs more knowledge about international business; therefore they are building new board, with some of the board members invited outside from the firm.

RBV and DCP theories supports in outline the results got from the questionnaire and from the interview. First, everyone has a human capital, consisting knowledge, personal skills, experience and cognition, which means that some of the individuals plays a key role in capability development path (Helfat and Peteraf. 2003; Helfat et al., 2007). Secondly, Prange and Verdier (2011) suggest that growth rates are higher for firms relying on explorative internationalization, e.g. enhancing existing capabilities through foreign market presence. Explorative internationalizing requires strategic skills from the management. Altogether, by going abroad, the firm can enhance their capabilities, but it requires more risk taking and some of the individual persons play a key role whether succeeding or not with the capability development. Thirdly, organization design, which includes corporate structure, employee roles and planning systems, should control and motivate its resources to perform for achieving the desired outcome (Miller 2003).
3.3.3 Firm growth

With the sustainable growth, the firm can increase profitability, otherwise only options are cutting the costs or increasing prices. The growth easily brings own challenges. Increasing size of the firm brings complexity associated with financing, international reputation development and market knowledge building (Szalavetz 2015). Wang and Ahmed (2007) outlines that dynamic capabilities makes it possible to improve long-term firm performance, when deriving services out from the resources, in line with the firm’s strategy.

The whole case study was focusing on finding the firm-specific capabilities to develop. All the capabilities are linked to growth, as the growth itself does not happen without required capabilities. Growth requires invocation of the new markets and resources, but also strategy. Below are few chosen of examples from the questionnaire, which outlines the strengths of the firm, but also the biggest challenges of Gravity’s internationalization path.

Level 1:

“Key personnel understand the difference between the foreign markets compared to the domestic markets” (25%).

“Key personnel understand that developing international business requires additional qualitative and quantitative resources” (100%).

Level 2:

“Company has the required human resources to grow and internationalize the business” (25%).

“The financial needs required by international growth have been evaluated and the possible sources of finance have been investigated” (50%).
“Key personnel have a clear picture of the geographic areas in which it has growth potential” (75%)

Level 3:

“Company has taken actions to grow its business in new customer segments” (50%).

“Company has a budget for international sales and marketing” (0%).

Company has recognized the growth opportunities created by serving other potential customer segments” (100%)

Only 25% of the respondents has agreed that Gravity has the required human resources to grow and internationalize the business. In addition, only 25% has agreed that key personnel understand the difference between the foreign markets compared to domestic markets, which sounds at first a bit worrisome, but this questions is open to interpretations as foreign market is a not defined in the question. Half of the respondents agrees that financial needs required by international growth have been evaluated and the possible sources of finance have been investigated. All respondents agreed that key personnel understand that developing international business requires additional qualitative and quantitative resources, which is a good signal.

In the discussion with Heino (16.5.2017) emerged same challenges what came up from the questionnaire. Gravity knows domestic markets; they have noticed that markets abroad (e.g. in Sweden) are remarkably different and now they are doing a market research for the next market entry together with public funding authorities (16.5.2017). Gravity has recognized the potential markets to entry and they are doing investment strategy together with public financing authorities (16.5.2017). Gravity have a need for better market knowledge and resources, such as financing and human skills, where exactly the major development parts related to growth, which emerged from the case-study data.
3.3.4 Future paths and possibilities

The last phase of analysing the results was about future paths and possibilities. Montealegre (2002) underlined that capability development can be lengthy and complex process where many variables, such as leadership, organizational culture, information technology, community networks and long-term view have their own influence on firm development. The following questions have picked up from the case-study’s data related to future paths and possibilities.

Level 1:

“Key personnel know where to get advice and support to develop the company” (100%).

“Key personnel have evaluated opportunity to start a foreign joint venture” (25%).

Level 2:

“Key personnel know what are the most important international exhibitions in its field of business and target markets” (0%).

“Key personnel have a clear understanding of the customer segments in its targeted foreign markets” (0%).

“Company actively uses social media as part of its marketing activities” (0%).

Level 3:

“Company has an up-to-date documented plan to develop the business” (75%).

“Company has compared the opportunities and disadvantages of licencing, exporting, setting up its own subsidiaries and joint ventures” (50%).
“Company monitors the business risks (50%)

Gravity’s key personnel recognize the need for finding effective way to market their services to new markets, but they haven’t made any plans yet (16.5.2017). Gravity has not been present in any international exhibitions, because they haven’t found that necessary so far. Heino admits (16.5.2017) that it could be effective way to find customers from new markets. Heino says that social media marketing is one thing which is already taken are and it is starting soon.

Future paths and possibilities are wide open for Gravity, even some specific markets are under consideration (16.5.2017). The problem is that Gravity does not know the markets, it will also restrict the possibilities and increase business risk in internationalizing path.

Gravity is internationalizing, and they must consider different entry modes. Gravity’s advantages rely on organizational capacity rather than product advantage (26.2.2017), which support Gravity to rely on wholly owned subsidiaries as their main entry strategy.

This simplified rule was stated by Luo (2000), who emphasizes that FDI gives the highest returns for the firms with organizational capacity e.g. superior knowledge, when leveraging businesses to new markets rather than using licensing. On the other hand, the data collected from the various IB theories (e.g. Brashears et al., 2003; Freeman et al., 2006) suggested that Gravity should focus on building international network, incl. international partnerships for gaining more market knowledge.

International exhibitions would offer effective channel for finding reliable partners and/or potential customers. There is also one unused capability: marketing, that would assist Gravity to enhance their visibility among target customers. Potential path for deploying that capability comes by bringing social media marketing alive. In the next page (TABLE 3) is the firm-specific capability development matrix of Gravity in internationalization phase.
3.3.5 Summary of the results

This capability development matrix is designed for the assisting Gravity in their internationalizing process. It helps to focus on development of the most relevant capabilities. The suggestions are coming from the perspective of RBV and DCP within capability development, from the case-study analyse, and from the interview.

TABLE 3 Capability Development Matrix of Gravity

<table>
<thead>
<tr>
<th>Area of the capability development</th>
<th>Questionnaire, level 3 (internationalizing perspective)</th>
<th>Discussion</th>
<th>Suggestions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational processes</strong></td>
<td>Human resource management practices are defined and documented (0%). Product documentation is up to date and comprehensive (25%). Company has a CRM system (0%). Company has a documented order-delivery process (75%).</td>
<td>Gravity is still a small company (under 10 employees) and they have so far managed without documented processes. Gravity’s key persons know that some CRM system should be build up for managing the customer relations.</td>
<td>Documented processes for product management and production process, incl. product documentation it will help new employees in the future. Gravity bring into use some CRM system, which supports current customer relations and help to build new ones.</td>
</tr>
<tr>
<td><strong>Strategic change</strong></td>
<td>Company has a plan on how to market the products/services to foreign customers (0%). Company has recognized the change factors related to business environment or technology of its foreign target markets (25%). Company has an up-to-date documented plan to develop the business (75%). Company’s key functions are not</td>
<td>Gravity do only little marketing if all as they sales are heavily relying on personal relationships, on personal networking and reliable references Gravity is building a board of directors for decreasing the dependency on one person and for</td>
<td>Developing marketing strategy for target customer segments, e.g. adding social media marketing and taking part of the exhibitions abroad. Acquire firm board members whom have experience of internationalizing SMEs and international networks.</td>
</tr>
<tr>
<td><strong>Firm growth</strong></td>
<td>Company has taken actions to grow its business in new customer segments (50%). Company has a budget for international sales and marketing (0%). Company has a clear understanding of the development trends and growth pace of its targeted markets (25%).</td>
<td>Gravity knows domestic markets; they have noticed that markets in Sweden are remarkably different. Market research in Germany is process. Gravity is doing investment strategy together with public funding authorities</td>
<td>Market research or consultancy before entering new markets. Investment strategy required before expanding business, carefully made plans enables firm to seek private or public funding.</td>
</tr>
<tr>
<td><strong>Future path and possibilities</strong></td>
<td>Company has an up-to-date documented plan to develop the business (75%). Company has compared opportunities and disadvantages of licensing, exporting, setting up its own subsidiaries and joint ventures (50%). Company monitors the business risk (50%).</td>
<td>Gravity has some formal documented plans to develop their business. They have not yet recognized the most important exhibitions for them to be present Gravity has plans to start using social media marketing Lack of market knowledge increase the business risk</td>
<td>International exhibitions are great places for networking and for increasing the awareness of the Gravity among potential customer segments. E.g. International hotel investment exhibitions might open opportunities to sell services to new hotels, which have high demand for marketing production services. Only in Gulf area there are nearly 100 hotel projects now under construction, the UAE’s hospitality and leisure market has been on a rapid expansion mode and hotel supply will continue to expand as the World Expo 2020 in Dubai draws closer (<a href="http://gulfnews.com/business/sectors/tourism/number-of-uae-hotels-under-construction-close-to-100-1.1973553">http://gulfnews.com/business/sectors/tourism/number-of-uae-hotels-under-construction-close-to-100-1.1973553</a>) Bringing social media marketing alive.</td>
</tr>
</tbody>
</table>
In organizational processes, it is suggested for Gravity to start documenting processes, because documentations will help to cope with growth. Also, it is suggested to invest to CRM-system as it will help to manage with international customer relationships. Gravity is still a small firm with under 10 employees, but the firm has plans to grow and it is better to prepare for the growth.

In strategic change, the suggestions were to develop marketing strategy for target customer segments and to acquire necessary knowledge outside from the firm by setting up board of directors. Gravity is already planning to start social media activities for supporting their image developing their reputation.

Gravity has plans to grow and plans to increase their overseas sales. The main plan is to establish own sales subsidiaries (16.5.2017). The biggest business risks within the grow comes from the lack of market knowledge. Market research and investment strategies suggested for Gravity, nevertheless they have already taking steps for covering these areas together with public founding authorities.

Gravity’s future paths and possibilities are not clear. Gravity want to go forward with internationalizing strategy, and they have at least in some level compared opportunities and disadvantages of different entry modes. They have also some formal documented plans to develop their business. So far Gravity’s sales have mainly grounded on networking and business relationships. That networking capability could be still utilized by taking part of some international exhibitions where Gravity could create new contacts, and increase awareness of their service in the new markets. Exhibitions could work as a trigger for launching a new subsidiary abroad or international joint venture with reliable partner.
4 CONCLUSION

The focus of the research was finding ways of how to develop capabilities in an internationalizing SME. In short, capability development should be seen as a process starting from understanding firm-specific resources and capabilities. Capability development is gained from the firm’s experiences and its directly related to firm-specific resource-base and advantages (Montealegre 2002). Resources and capabilities together makes it possible to create competitive advantage (Wang & Ahmed, 2007).

The first research questions were: How internationalizing SME have to develop their capabilities? The firm should focus on understanding their resource base, and develop their capabilities through understanding the processes, products and available human skills throughout. Kor and Mahoney (2003) showed that understanding the effective management of firm resources, collective knowledge of external business environment and constant development of administration tasks can enhance the performance of the firm. It is all about the sensitivity of focusing to the relevant issues and allocating resources in the most efficient way. Internationalizing SME is dependent on the management skills of their key personnel. Dependency can be decreased by emerging more human skills.

The supporting research question was: How internationalizing SME have to adapt their capabilities in a growing stage? Helfat et al., (2007) underlines the importance of growth persistence as unprofitable growth is difficult to digest, but on the other hand, limitations on capabilities sets limits to opportunities. Khalid and Larimo (2012) underlines that successful international growth requires market knowledge and innovative firm-specific advantages, which are dependent on dynamical way of adapting the changing capabilities. Relationship building is another way to decrease limitations of growth (Luo 2000). In internationalizing stage, the firm management have to find sensitivity to react all the changes in their business environment as all those changes reflect to their performance.

Good starting point is to understand that all the focus should be for maximizing the value of organizational performance (Helfat et al., 2007). The organizational performance can be improved by deriving services out from the resources in a dynamic
way. All the answers for the research questions goes hand-in-hand, it requires understanding of organizational and managerial processes as much as knowing the resource base and current capabilities, and then focusing on constant learning and development for maximizing the organizational performance. When the focus is on learning and in effective use of the resources, the process of deploying dynamic capabilities comes automatically.

From the case-study it could be learned that firm with innovative firm-specific advantages, it is possible to go to the new markets, even with the limited amount of resources. Gravity is still a small firm, but it is in the stage of internationalization, and international growth will bring own challenges. Gravity should keep their agility for adapting new business environment, but they also need extra resources and new capabilities for enhancing the growth persistence. Helfat et al., (2007) outlined the importance of growth persistence and dynamic use of available capabilities. Unprofitable growth is difficult to digest in a long run and limitations on dynamic capabilities sets limits to opportunities. Khalid and Larimo (2012) found out that successful market entry requires market knowledge and innovative firm-specific advantages. Szalavetz (2015) suggested that dynamical way of adapting the changing capabilities is essential as the complexity of the firm enhance with growth.

Analyse suggest Gravity for allocating it resources effectively to the right development targets, such as market research, CRM system, social marketing and HR management. These development targets together with making appearances in international exhibitions will be in line with the Gravity’s internationalization strategy and firm-specific advantages, where personal networks and references forms remarkable part of the competitive advantage. It is good to remind that there is no one-size fits all method.

Developing firm-specific resource base and capabilities is much dependent on managerial skills and on perspective of how managers see the available resources and capabilities (Helfat et al., 2007). Miller (2003) keeps the same line, except he is emphasizing the term of organizational design, where the way organization controls and motivates its resources to perform better with appropriate corporate structure, role definitions and planning systems, helps firms to develop their capabilities.
Freeman et al., (2006) found out in their cross-case analysis that powerful network, trustful image and reliable partners are key factors also in internationalization process. The network itself is not enough, the firms needs competitive product or service. Capabilities makes it possible to derive services out from the resources and through development of the processes, eventually to reach higher competitive level and superior performance (Wang and Ahmed 2007,32; Lin and Wu 2013). Brashear et al., (2003) found out that trust building, honesty and organizational commitment for serving customer needs has remarkably positive effect to firm’s performance.

The results from the analyse of case-study’s data and the strategic management theories related to capability development in internationalization stage of the firm were put together for making the conclusion of the findings. The findings were categorized under four main categories: 1) organizational processes, 2) strategic change, 3) firm growth 4) future paths and possibilities. In the questionnaire, the focus has been finding the most relevant firm-specific objectives to improve by concentrating on the answers less than 50% “yes” answers. The questions from the level 3 offers the most topical findings as those are mostly related to early stage of the internationalizing. This way the capability development objectives can be harvested out from the empirical data. The overall results give only outlines for the whole picture, the real findings are found from the answers for individual questions and from the interviews after the results were on our hands.
5 SUMMARY AND DISCUSSION

Finnish companies have been careful with their investments research background, research questions and with their growth planning in the recent years. Capability development gives a good perspective for the firms in their internationalizing plans. Capability development process starts from understanding RBV and DCP, as those views go hand-in-hand with maximizing the performance with limited amount resources. Capability development has been studied for decades, but there is still some unclarity between dynamic capabilities and ordinary capabilities.

This research utilized existing strategic management theories, and case-study, which combined questionnaire and interviews. In the analyse part, all the collected data were deal with together for getting the best overall picture. The analyse focused to find answers through four perspectives: 1) organizational processes, 2) strategic change, 3) firm growth 4) future paths and possibilities. All these perspectives gave support for finding answers to the research questions: How internationalizing SME have to develop their capabilities? How internationalizing SME have to adapt their capabilities in a growing stage?

The results showed that firm must know it resources and capabilities incl. processes and available human skills before developing those. Firm-specific managerial skill is critical as creating, extending and modifying the resource base is much dependent on managerial skills and on perspective of how managers see those resources and capabilities (Helfat et. al 2007; Mahoney 2005). Organization design is another key for finding the effective and performance driven organization, which support the success in internationalizing stage. Miller (2003) noticed that by controlling and motivating firm’s resources, with appropriate corporate structure, role definitions and planning systems, the capabilities can be developed.

Resources sets limitations to grow, but these limitations can be stretch a little, e.g. by relationship building. The case study strengthens and supported the findings found from the strategic management theories. The case study results showed that the key issues are resources allocation, focusing on market knowledge, emerging more human
skills matching for the requirement of the internationalizing stage and enhancing market presence.

Strategic change and strategical sensitivity to act help firms for strengthen and maintain their competitiveness. Helfat et al., (2007) noticed that corporate management should be encouraged to execute strategical changes for supporting the competitive advantage of the firm. Khalid and Larimo (2012) found out that in developed markets constant learning and product development explained success of the firm better than growth itself. This learning and developing process included knowledge transfer with the local partners and deploying innovative firm-specific capabilities (Khalid and Larimo 2012). Szalavetz (2015) found out in his multiple case study that the effective implementation of the changes in the strategy helped firms to cope with changing business environment and firms’ growing resource base. Briefly, capability development highlights the importance of continuous development and firm growth for keeping the business in sustainable level (Helfat et al, 2007).

5.1 Limitations of the study and further research opportunities

As mentioned earlier, the difference between dynamic and ordinary capability is unavoidably blurry (e.g. Helfat & Winter 2011), but in this research the focus has been on capability development, where the essence of the subject is in development, not in the characteristic of the capability itself. The study itself offers a fresh perspective for the subject of capability development by bringing the internationalizing of the SME along.

The quality of the results can be tested through four judgement criteria (Yin 2009).

1) Construct validity identifies correct operational measures for the concept being studied. 2) Internal validity test the causal relationship, whereby certain conditions are believed to lead to other conditions. 3) External validity defines that how well the study’s findings can be generalized. 4) Reliability demonstrate that how perfectly the results of the study can be repeated for achieving the same results.
When testing the results through this judgement criteria, it can be recognized that some limitations exist in the results. Operational measures used in questionnaire - included 480 questions, answered by four key-personnel of the firm -, which was designed for measuring capability development of the single firm. It has often criticized (Yin 2009) that case study investigators fail to fulfil these criteria, but as four key informants took part to this case study, supported by generalized theories, it is acceptable to say that the results have enough construct validity for finding reliable answers to research questions.

The study characteristic is explanatory so internal validity of the research must be analysed. The causal relationship from capability development to enhance firm’s performance can be drawn from the theory, and case study’s data works as an pattern matching and explanation building. Instead, it must be recognized that case study involves an inference every time and observations can have some flaws.

How well these results can be generalized? Typically, single cases offer a poor basis for generalizing (Yin 2009). In this research, the case study is anyway only the other study method beside finding the answers through existing theories. The research relies on analytic generalizing instead of statistical, so this single research is not enough for drawing any generalized theories. It will anyway give a good starting point for further research by replicating the findings with another firm. The case firm offered great perspective for the capability development from the firm living their internationalizing stage. Nevertheless, more cases need to be study for making any reliable generalizations.

The reliability in this study rely on minimizing the errors and biases. All the conclusions drawn out from the theories were picked from multiple reliable sources, and the assumptions were sharpening with the case study. The questionnaire used in case study minimize the errors as there were four participants, which was followed by interview for making sure that no wrong deductions made from the answers. These procedures together with the documentation make these results reliable.

The characteristic of the case study lines some limitations. The results of the case study can be very rich in detail, but gives only narrow perspective and poor justification for
generalizing the results (Eisenhardt 1989). The narrow perspective can be seen in a way that in this research, the focus has been in capability development in an internationalizing SME, which leaves domestic firms outside. In addition, the focus has been on internal growth, which means that acquisitions and mergers has not been under consideration. There are space for further studies by utilizing bigger sample of internationalizing SMEs.
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INTERVIEWS

Marko Heino, CEO & Founder of Gravity, 26.2.2017, Stockholm, Sweden

Marko Heino, CEO & founder of Gravity, 16.5.2017, Helsinki, Finland