Abstract

The internationalization process of companies has been the topic of widespread research efforts over the past 40 years, during which several theoretical approaches have emerged. New empirical studies of the internationalization process have challenged many findings in the traditional literature. The Uppsala model, for example, demonstrates that firms internationalize in incremental stages. More recent theories (i.e. Born global, International new ventures, Global startups, International firms, and Committed internationalist) assert that firms engage in international activities soon after their establishment.

This paper is the first empirical study that addresses the outward foreign direct investment of Icelandic firms. The purpose is to demonstrate how Icelandic companies have invested abroad through foreign direct investments. The overall objective of this paper is to describe the key characteristics of Icelandic multinational corporations (MNCs) and to gain a deeper understanding of the internationalization processes of firms from a small domestic base.

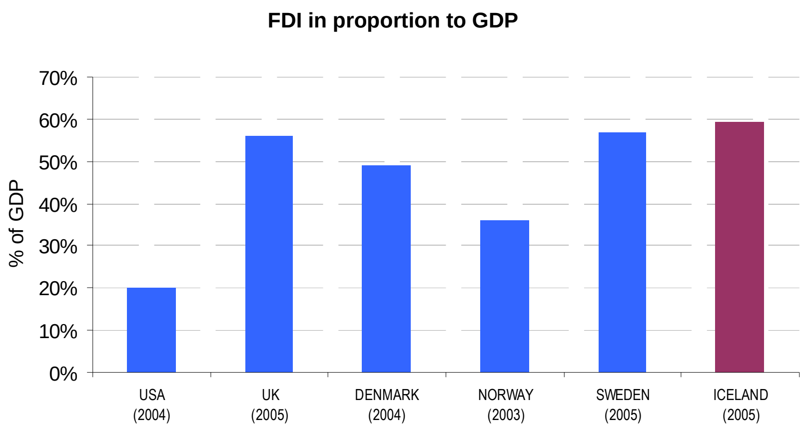
***KEYWORDS*: Internationalization process, stage models, born globals, FDI, small economies and Iceland.**

1. Introduction

The internationalization process has traditionally been understood as an incremental and gradual process. More recent International Business (IB) research has shown, however, that internationalization of firms is often a swift process—one in which firms skip several entry modes and enter remote markets soon after their establishment. This paper aims to discuss the internationalization of firms from a small domestic base, with special emphasis on the experience of the internationalization of Icelandic firms an almost unknown phenomenon until the late 1990's.

The internationalization of Icelandic firms is an interesting subject to study because Iceland is one of the smallest economies in the world. Despite its relatively small GDP (in fact, Iceland has the smallest economy within the OECD nations), however, Iceland has made proportionately significant foreign direct investments since 2000. Figure 1 highlights that Iceland invests almost 60% of its GDP in foreign direct investments (FDI): a higher proportion than any other OECD nations.

Figure 1: Foreign direct investments in proportion to GDP

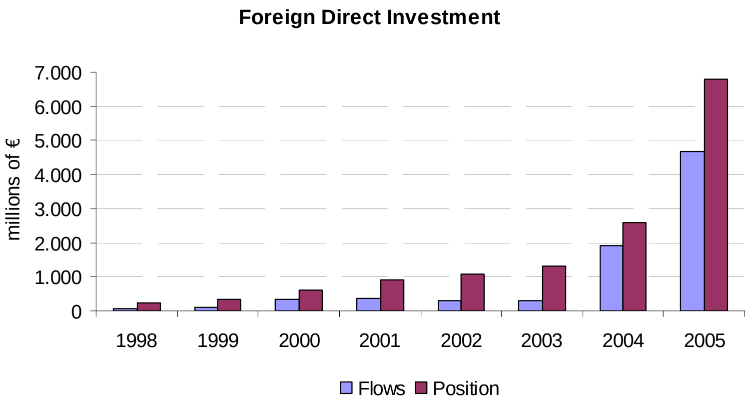


(Source: OECD, 2006)

According to the Central Bank of Iceland, the flow of foreign direct investment between 1998 and 2005 increased from 55.2 million Euros to 4.669.2 million Euros. This is nearly an 85-fold increase in just 7 years and a remarkable annual outward FDI flow in 2005, over 43% of GDP, accounting for 6.783.7 million Euros[1]. See figure 2 below. The increasing advance of Icelandic firms into foreign markets is attributable to several factors. It is safe to say that the economy has undergone more changes in past decades than ever before in the country's history. In addition to internal structural changes and financial liberalization, a favorable global and domestic business environment has led Icelandic companies toward a broad-minded global perspective rather than a myopic, inward-looking one.

[1] Source: Central Bank of Iceland, July 17th, 2006. The used exchange rate of the Euro/IKR is 94,1

Figure 2: Outflow and position of FDI in Iceland 1998 – 2005



(Source: The Central bank of Iceland, 2006)

In 2005 approximately 75% of the revenue of companies listed on the Iceland Stock Exchange was generated abroad. This development has left quite many puzzled outside Iceland, especially since it was not until quite recently that any outsiders took an active interest in the affairs of this tiny economy, which had based its growth mainly on its export of fish and fish products.

This paper is the first systematic empirical study on the outflow of FDI by Icelandic Multinational Corporations (MNCs). To shed a light on the scope and the pattern of the internationalization of Icelandic firms an empirical study of 21 Icelandic firms is presented. Those firms represent more than 89% of the total Icelandic outward FDI.

In order to understand the Internationalization pattern of Icelandic MNCs it is appropriate to ask the following two research questions (RQ):
RQ1: What is the degree of internationalization of Icelandic MNCs?
RQ2: Which model of internationalization explains the Internationalization process of Icelandic firms?

The rest of the paper is organized as follows: In section 2 the theoretical framework is analysed based on the theories of internationalization, including the literature on internationalization that takes place incrementally or the stages models and the opposing theories of international new ventures or the theories of the born global. Section 3 describes the research focus and approach. In section 4 the empirical findings follow, and in the last section we conclude and raise issues for further discussion.

2. Theoretical framework

There are two traditional approaches to internationalization; the innovation model (Cavusgil 1980) and the Uppsala model (Johanson and Vahlne, 1977; Johanson and Widersheim-Paul 1975). Both models are referred to as the “stages models” because they propose that the internationalization occurs in incremental steps. Earlier studies concerning the internationalization from a Nordic perspective are mainly based ont the stage models or the Uppsala internationalization model. According to the Uppsala model, firm internationalization has long been regarded as an incremental process, wherein firms gradually internationalize through a series of evolutionary stages. They enter “psychically close markets” and increase their commitment on international markets step by step. The learning and commitment stages that a firm gradually progresses through as it internationalizes are as follows: no regular export; export through agents; grounding of an overseas sales subsidiary or overseas production (Johanson and Wiedersheim-Paul 1975). In this traditional view, firms make their export debut when they have a strong domestic market base. The choice of market also occurs in stages; firms begin to export to a market that has a close psychic distance. Then they expand the export sales into markets that have increasingly greater psychic distance.
According to Bell (1995) the concept of pshycic distance can be trace back to Burenstam-Linder, Staffan´s oberservations that trade is favoured between countries of roughly the same level of economic development and which have similar cultures. Today the concept of pshycic distance relates to differences from the home country in terms of language, culture, political systems, information flow, business practice, industrial development and educational systems (Johanson and Vahlne 1977, 1990). The firm chooses an incremental approach to internationalization because it lacks experiential knowledge and because the decision to internationalize is risky. Johanson and Vahlne´s (1977) central argument is that as the firm gains more knowledge about a market, it will commit more resources to that market. Newly established firms tend to start their internationalization on close by markets, and with increasing commitment and with better understanding of markets abroad, firms enter into markets that are increasingly dissimilar to their home market. It has been argued that firms have surplus resources, they can be expected to take larger steps toward internationalization (Johanson and Vahlne, 1990).

Once market conditions are stable and homogeneous, important market knowledge can be acquired by the firms in other ways than through their own experience. A firm may have considerable experience from markets that have similar characteristics and in a situation like this it may be possible to generalize this experience to the specific market. (Johanson & Vahlne 1990). Another important aspect is the claim by several authors (Porter 1980; Levitt 1983) that the world generally has moved towards homogenization. Levitt (1983) claims that especially technology is the contributing factor to a more homogenous business world since development within the field of information technology has “made” the distances between countries smaller, and thus the communication flows faster.

An underlying assumption of stage models including the Uppsala model is that firms are well-established in the domestic market before venturing abroad. Criticisms that such conceptualisations wrongly assume step-wise progression and forward motion pay insufficient attention to industry, company, or people contexts and are generally too deterministic emanated as long ago as the late 1970s (Cannon and Willis, 1981; Rosson, 1984). Buckley et al (1979) argued that firms do not neccessarily adopt consistent organizational approaches to internationalization. Turnbull (1987) also found little empirical support for incremental internationalization as firms often omitted stages in the process.

Firms may choose different entry modes and internationalization patterns in different countries. Entry modes and internationalization processes also tend to differ by industry. Despite criticism of the Uppsala model, there is empirical evidence that many firms have internationalized in incremental stages and that others continue to do so. Several streams of research in the 1990s have served to seriously challenge stage process models. Although challenged, the importance of the stage model is that it makes clear the importance of cautious and incremental steps in the internationalization process. The model is valid for any firm size and it analyzes the whole internationalization process.

The model's limitations, however, are that it overemphasizes the role of the market-specific knowledge, it does not include all (hybrid) entry modes, it does not explain the leapfrogging[2] behavior and decreasing foreign commitment and finally it is less suitable to explain the internationalization of service companies (Andersen, 2000; Autio et al, 2000; Björkman and Eklund, 1996; Forsgren, 1989; Knight and Cavusgil, 1996; Turnbull, 1987).

In the recent literature, there has been clear evidence of rapid and dedicated internationalization by so-called Born Global firms. This view holds that firms do not internationalize incrementally but rather enter international markets soon after the firm's inception. This contradicts the stages model, which posits that firms begin to export from a strong domestic market base.

In the literature these firms have been termed ***"international new ventures"*** (McDougall, Shane & Oviatt, 1994), ***"Born Globals"*** (Knight & Cavusgil, 1996; Knight, 1997; Madsen & Servais, 1997; Harveston, Kedia & Davis, 2000, ***"Global startups"*** (Oviatt & McDougall, 1994) ***"Born International firms"*** (Majkgård & Sharma, 1999) and ***"committed internationalists"*** (Bonaccorsi,1992; Jolly et al, 1992). Here the term Born Globals is used.

Born globals are thought to be smaller entrepreneurial firms that internationalize from inception or shortly thereafter, targeting small, highly-specialized global niches and which implement a global strategy from inception (Bell et al, 1993; McDougall, Oviatt and Shrader, 2003). Born global firms perceive international markets as providing opportunities rather than obstacles (Madsen and Servais, 1997). Such firms may not even have sales in their domestic market (Jolly, Alahuhta, and Jeannet 1992; Knight and Cavusgil 1996; McKinsey and Co. 1993; Oviatt and McDougall 1994). An increasing number of smaller firms behave in a manner that is contradictory to the stages models. Jolly et al. (1992, p.71) focus on the ability of entrepreneurially inclined start-up companies to pursue global strategies: "*...by leapfrogging some of the traditional intermediate stages of internationalization (to become) significant global players... in a relatively short time*".They indentify sets of entrepreneurial competences as drivers of competitive advantage, such as having a global vision, a focused approach to doing business, the ability to recognise technological opportunities and to capitalise on them, together with the insight of the founder of the organisation. The resultant internationalisation behavior experienced by these hi-tech firm is described as a functionally specialised global network which needs careful management. Knight and Cavusgil (1996) see this born global phenomenon as a challange to accepted internationalization theories where "small technology oriented companies are operating in international markets from the earliest days of their establishment... and tend to be managed by entrepreneurial visionaries who view the world as a single, boarderless

[2] The term "leapfrogging" describes the rapid change made by a company to a higher level of development without going through the intermediate stages observed in other cases.

marketplace from the tie of the firms founding." Some companies do internationalize rapidly by developing international networks, offering adapted and customised products and generally being much more flexible and faster in their approach to business than their larger competitors. By operating in niche markets and utilising their distinct sets of competencies the smaller firm can compete with larger organizations, despite reource limitations (Madsen and Servais, 1997). The same can be said for firms from small economies, they tend to be competitive in a few niche sectors, as they have limited resources and prefer to engage in activities in selected sectors, rather than spreading the available resources thinly across several industries (Benito et al., 2002)
In addition they also draw on the work of Oviatt and McDougall (1994) who indentify International new inventure as an organization which may initially have one or a few employees but has a proactive international strategy from inception of the business. It is also important according to Madsen and Servais to understand the background characteristics of the founder of the organization in shaping internationalization behavior.

There are several different definitions of born globals, and so it is not clearly determined how many markets such a firm should enter in a certain period of time, how soon since its establishment a company should expand to foreign markets, or which countries it should prefer.
Oviatt and McDougall (1994, p. 49) define born global as *" a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries."* They are global from inception or internationalize within two years from their establishment. Knight and Cavusgil (1996, p. 11) define born global as " *small, technology oriented companies that operate in international markets from the earliest days of their establishment."* And they define them further and say that born globals: are small firms; have fewer than 500 employees; have an annual turnover of approximately US $ 100 million; have leading-edge technology; manufacture high-technology products for a particular niche in international markets. (Knight and Cavusgil, 1996, p.11). The literature reveals a considerable difference of opinion about how quickly and how widely a firm must internationalize for it to be recognized as a born-global. To be considered a born-global, the maximum time for the firm´s internationalization debut ranges from within two years (McKinsey and Co. 1993), to six years (Zahra, Ireland, and Hitt 2000), to seven years (McDougall, Shane and Oviatt 1994).

In conclusion**,** in the past years, the phenomenon of Born Globals has inspired several empirical studies which deal with initiating forces and success factors of a rapid internationalization. Summing up their results, market conditions and firm resources can be identified as important initiating forces of Born Globals. Particularly relevant are international experiences of the founders or top management team as well as their integration in worldwide networks with suppliers, customers and cooperation partners. Despite the different definitions of Born Global Firms in the literature, two central characteristics can be observed which allow distinguishing between Born Global Firms and traditional internationalizers, namely the speed of internationalization (born) and the geographic scope (global) of internationalization.

3. Research focus and approach

This paper is based on new data on the overseas activities of 21 Icelandic companies which were collected in the period from January 2005 until July 2006. The underlying companies make up the majority of companies enlisted in the Icelandic stock exchange (ICEX), as well as a few others that are not listed, but which have been investing considerably abroad. In the year end 2004, those 21 companies represented 88,9% of the total outward FDI stockand represented 89,2% of total outward FDI flow.

Information was gathered from the websites of the relevant companies, from the website of the Icelandic stock exchange as well as from databases of Icelandic and foreign newspapers. The information collected about each company included: the year of establishment: investments undertaken: investment year, country and industry: and finally the overall purpose of these investments.

The factors that motivated those companies to internationalize was also investigated. The data about each company was then sent to the CEOs-in most cases- of the companies under investigation who were asked to confirm the information about the internationalization of their companies. The CEO's were also asked to provide additional information about the financing of their operations abroad. This process resulted in the creation of a unique firm –level database of the leading Icelandic MNCs. Finally, data from the Central Bank of Iceland about the outward FDI (flows and stocks) from 1998 – 2005 is also used.

4. Empirical findings: Analysis of the key characteristics of Icelandic MNCs

As already discussed**,** the main purpose of this section is to show the degree to which the firms in this study became international and to understand their internationalsiation model.

Icelandinc MNCs were initially grouped into manaufacturing and services which in turn divided into 4 final industrial categories. High-technology manufacturing firms which included 4 firms, medium-technology manufacturing firms which inluded 5 companies. The service sector as also divided into two categories; financial services which included 5 companies and then other services which inclued 7 companies . The MNCs included in this study and are presented in table 1.

Table 1: The year of establishment by industry

Industry	Established	Industry	Established
High technology manufacturing firms	1956	Financial services firms	1886
	1971		1982
	1983		1990
	1994		2002
			2005
Medium technology manufacturing firms		Other services firms	1914
	1932		1942
	1934		1962
	1957		1988
	1984		1989
	1986		1990
			2005

Manufacturing firms N =9
Services firms N =12

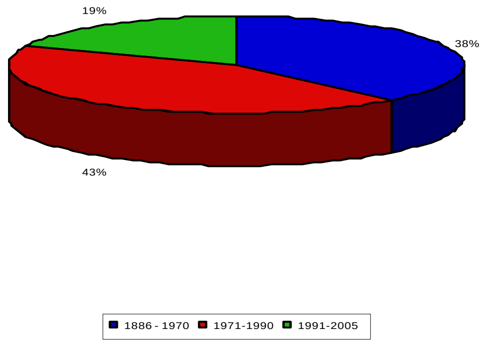
N= 21

4.1 The establishment years from an historical point of view

As table 1 shows there is a variance in the number of firms established between 1885 and 2006, with a clear dominance of firms established since the 1980s. Although the data cannot directly link the historical elements from the business environment it would be useful to relate the date of establishment with corresponding developments in the Icelandic economy. In this spirit, it was, in fact, in the 1990s when the Icelandic economy opened up. Around 19% of the companies were established after 1991, as can be seen in figure 3. Until approximately 1956 the Icelandic economy was highly regulated and there was a trade protectionism from 1946-1955. Foreign currency was in such short supply that a variety of restrictions were imposed on trade and commerce. In an attempt to cope with the difficult economic situation, the currency was devalued, but correcting the persistent current account deficit proved difficult. Five of the companies were established in that period. During the latter part of the 1960s, the Icelandic economy suffered a series of setbacks. The herring stocks collapsed in 1967-1968 and prices for other principal seafood exports fell sharply. Once more the authorities tried to put the economy back on an even keel through devaluation, which fanned inflation.

Nine of the companies in this study were established in 1960 – 1985 when inflation was extremely high in Iceland. From 1986 until around 1995 the entrenched inflation subsided so rapidly that it had reached a level on par with that in neighbouring countries.

Figure 3: The time period of establishment



Deposit institutions were indirectly involved and contributed to restraining price levels by agreeing, as part of this consensus, to accelerate cut backs in their interest rates. At last a long sought era of stability had dawned. Business dealings were altered to confirm with more modern practices and electronic communications began to change the face of banking. It is not only the electronic communication but also the privatization of the Icelandic banks that triggered this wave of foreign direct investment that started around the year 2000.

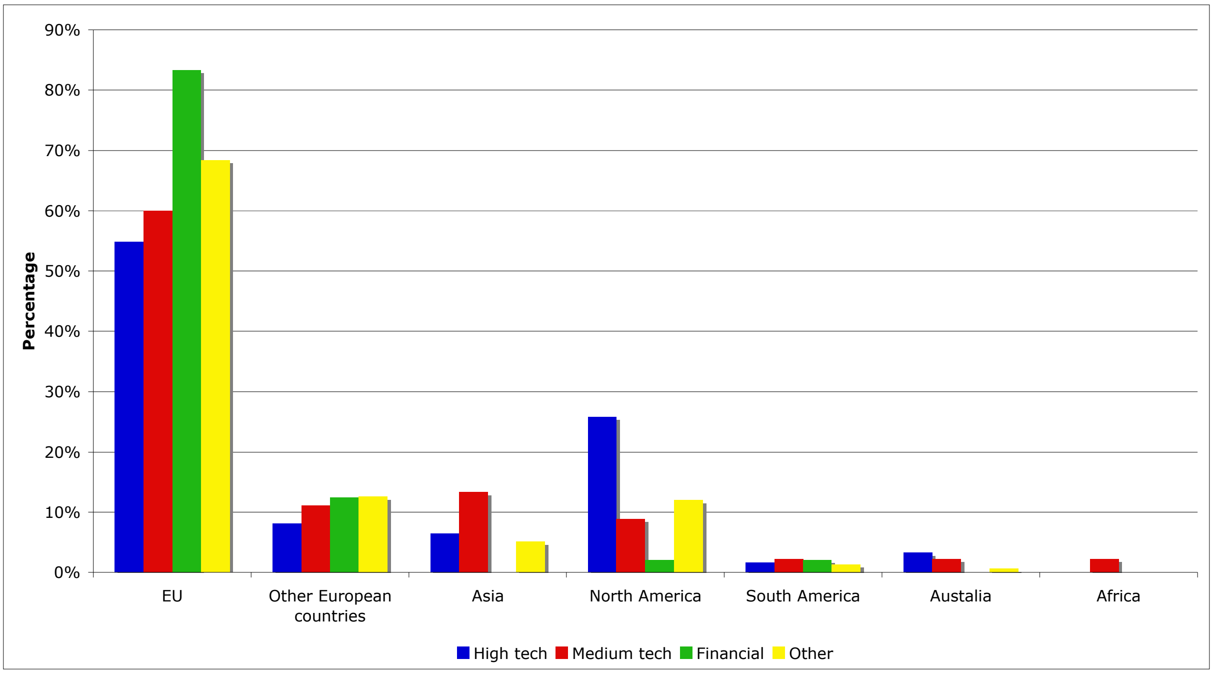
In 1997-2002 the government in Iceland went through the privatization of many firms, first by changing them into limited liability companies, then by selling to private investors. That along with the EEA agreement in 1994 has triggered all foreign acquisitions of the Icelandic firms. The banks had been privatized and started their internationalization. They became a stronger supporter to other Icelandic firms and access to financial resources opened.

As figure 3 summarizes, most of those Icelandic MNEs were established before the changes were made in the Icelandic economy around 1992. To reiterate, Iceland's participation in the European Economic Area in 1994 along with the many other changes mentioned above have altered the legal and financial environment of Icelandic business in recent years and thus, have greatly influenced the internationalization of the Icelandic firm.

4.2 Elapsed time from company establishment until internationalization

Before analysing the characterisitcs of the expansion process of Icelandic MNCs it is important to see which countries are the main recipients of Icelandic outward FDI.

Figure 4: Host countries receiving Icelandic FDI



As figure 4 shows, most of the FDIs are in the EU countries, were the financial service firms have invested the most. Other service firms follow with 68% of their investments in the EU countries. The countries that Icelandic firms have invested the most are UK and Denmark, which are countries that could be catagorised as closest to Iceland in many sense, even though the language for example is different. In recent years Icelandic firms have also invested further away, like in North America and in Asia. Asia and Eastern Europe are growing investment countries for Icelandic firms.

In order to understand the internationalization process of Icelandic firms, we first estimated the elapsed time since their establishment until their first outward FDI project by mode of entry i.e.greenfield or acquisition.

The very first greenfield investment of an Icelandic company took place in 1915, when a shipping company opened their first sales office in Denmark. Forty years would elapse before the first Icelandic foreign acquisition took place in the UK. From 1955 until 1999 very few foreign acquisitions took place. This long period of elapsed time seems common for the Icelandic business environment.

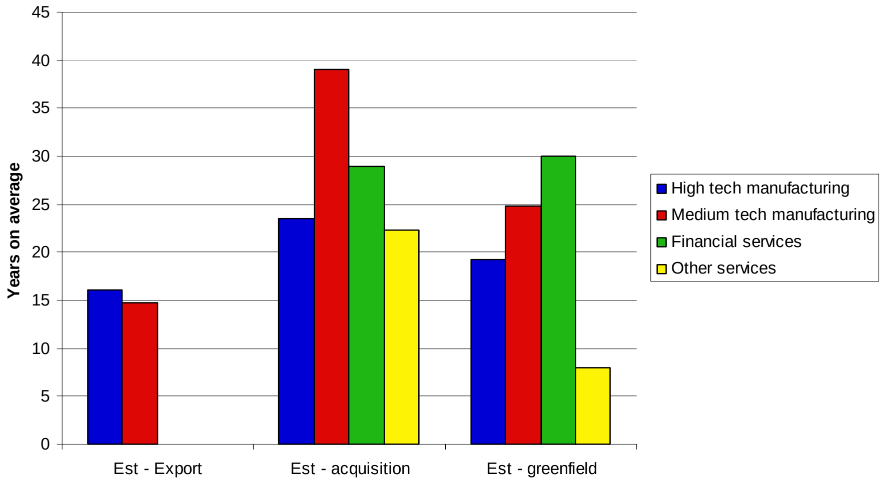
Table 2: Time elapsed from the establishment of the firms until their first FDI

Time spread	Same year	1-5 years	6-10 years	11-20 years	x> 21 years
Acquisitions / # of firms	2	2	3	6	8
Greenfield / # of firms	1	6	1	4	6

As can be seen in table 2, this study sample shows that more than 21 years elapsed from the time of establishment until the first acquisition took place for 38% of the firms studied. More than 21 years elapsed from the time of establishment until the first greenfield investment was made for 28% of the firms studied. It would seem, therefore, that approximately one third of the Icelandic firms studied fit into the Uppsala model.

It is also quite interesting to see the elapsed time from the industry point of view.

Figure 5: Years on average by industries from establishment until first export and first FDIs.

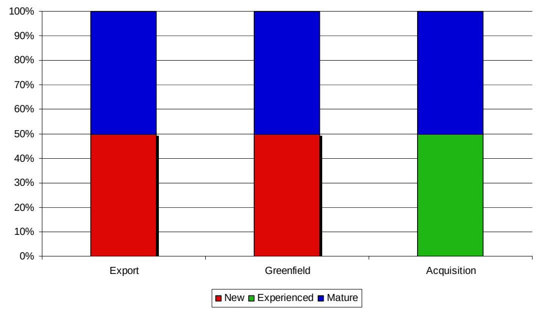


Though the average years represented in figure 5 indicate that Icelandic firms are late movers to international markets it can be seen in table 3 that services companies enter new markets by acquisitions or by greenfield relatively early after establishment. One financial firm served the domestic market for 114 years befored it entered foreign markets through an acquisitions and 119 years passed before it established a company abroad.

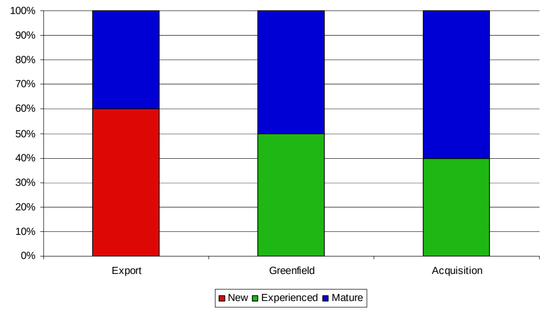
As can be seen in figure 6 where the investments are divided by industries it can be seen that companies that enter foreign markets within five years after establishments are categorized as new. Firms that invests abroad or start exporting 6-20 years after establishment are categorized as experienced firms. If more than 21 year elapse from establishment until FDI or an export, the companies are called matured companies.

Figure 6: Internationalization by industries

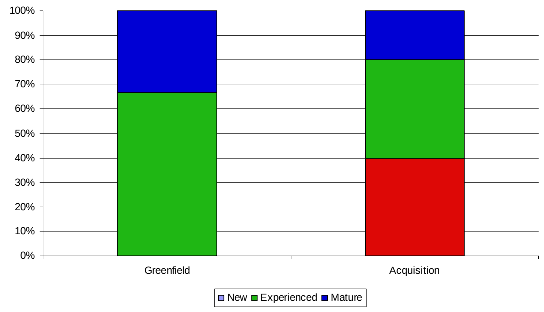
High technology manufacturing firms



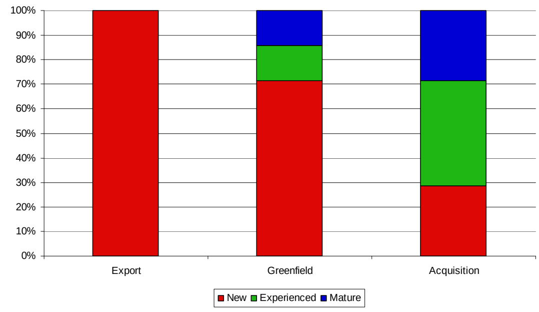
Medium technology manufacturing firms



Financial services firms



Other services firms



It is also interesting to see the number of years that elapsed, both minimum years and maximum years by industries by export, acquisition and Greenfield investments. As can be seen in table 3, minimum 2 year elapsed from establishment until the firms started exporting in the high technology industry. Medium technology firms started the same year. For one medium technology firm, 38 years elapsed from the establishment until the firm started exporting. One high technology firm didn't start exporting until 36 years after its establishment. The financial service firms conducts FDIs very soon after their establishment. Only one firm didn't enter foreign markets until 114 years after its establishment. Then it acquired few firms in a row and 4 years later, or 119 years after its establishment.

Table 3: Breakdown between industries of minimum and maximum years

Industry		Export	Acquistion	Greenfield
High tech manufacturing	**Min**	2	8	2
	Max	36	43	47
Medium tech manufacturing	**Min**	0	13	0
	Max	38	63	56
Financial services	**Min**	n/a	0	0
	Max	n/a	114	119
Other services	**Min**	0	0	0
	Max	n/a	77	31

4.3 Industrial composition and mode of expansion

Significant shifts in Iceland's business environment greatly influenced the internationalization of the Icelandic firms. According to the data, industrial classification also seems to be related to the internationalization process.. In figure 7 outward FDIs by industry can be seen.

Figure 7: Outward FDI by industry

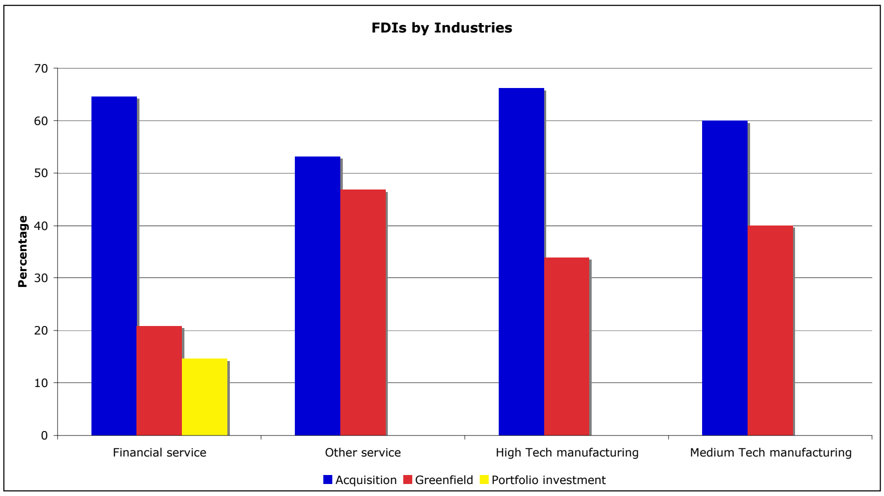


Figure 7 demonstrates that Icelandic firms enter foreign markets through acquisitions which can also be seen in figure 8. Greenfield investments were more popular from 1915 and until around 1998 but then Icelandic firms started acquiring companies abroad. As can be seen, all industries use acquisitions more then Greenfield investments when investing abroad.

Figure 8: Outward FDI by time periods

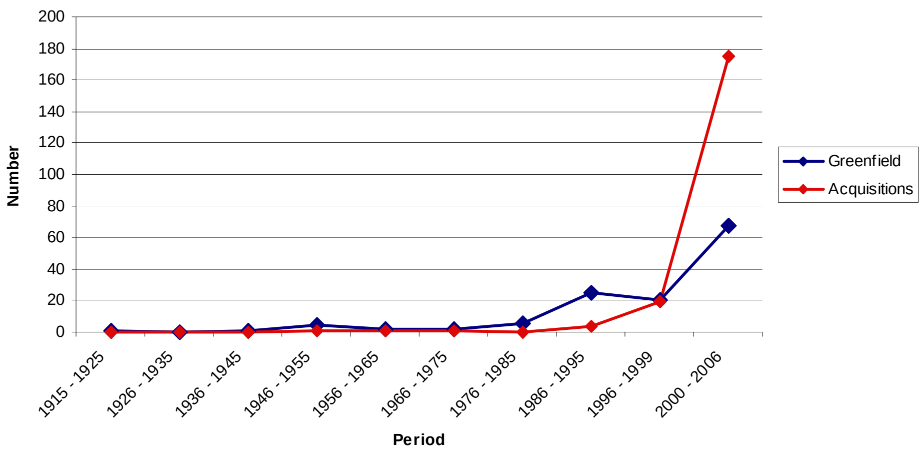
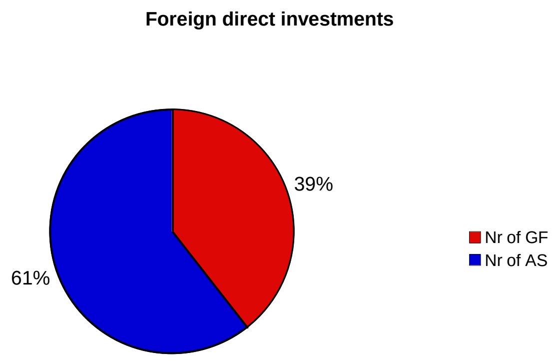


Figure 9: Breakdown between Greenfield- investment and acquisitions



As can be seen in figure 8 and 9 Icelandic firms have invested more abroad through acquisitions. This is especially true for the time period from 1999-2006 were acquisitions are the dominant entry mode for Icelandic firms into new markets (Tómasdóttir, et al , 2007).

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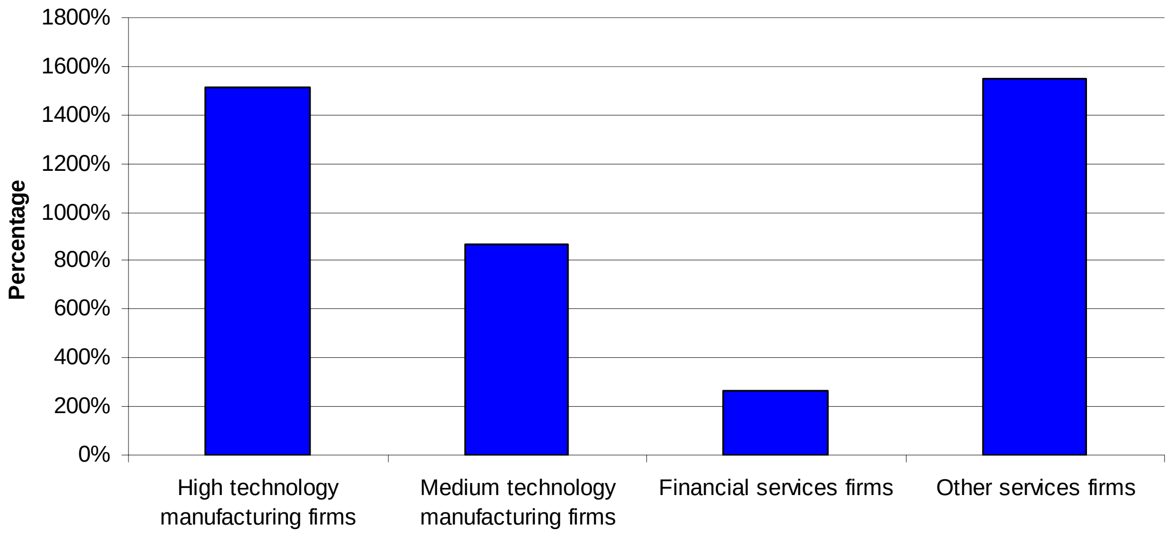
4.4 Degree of internationalisation in terms of foreign employment

In order to measure the degree of internationalsiation of Icelandic MNCs we applied two measures, i.e foreign employment and overseas turnover. A factor limiting the largest companies' domestic growth is the small size of the workforce. Despite the fact that labor participation in Iceland is among the highest in the world and the country has one of the highest retirement ages in Europe, the total labor force amounts to 160.000 people. Nevertheless it is interesting to see how the Icelandic companies, included in this research have penetrated foreign markets in terms of foreign employment. If the growth in number of employees is compared between January 2000 and July 2006 it can be seen that many of them have grown significantly as outlined in figure 10. Many companies start international operations when they are comparatively small. Most of the Icelandic firms were rather small in the beginning but have grown through acquisitions. To give examples, one of the high technology firm had in the year 2000 146 employees but after acquiring companies abroad the number of employees increased to around 10.000 employees. The firm has increased in size 68 fold in terms of employees

Figure 10: Average increase in employees by industry



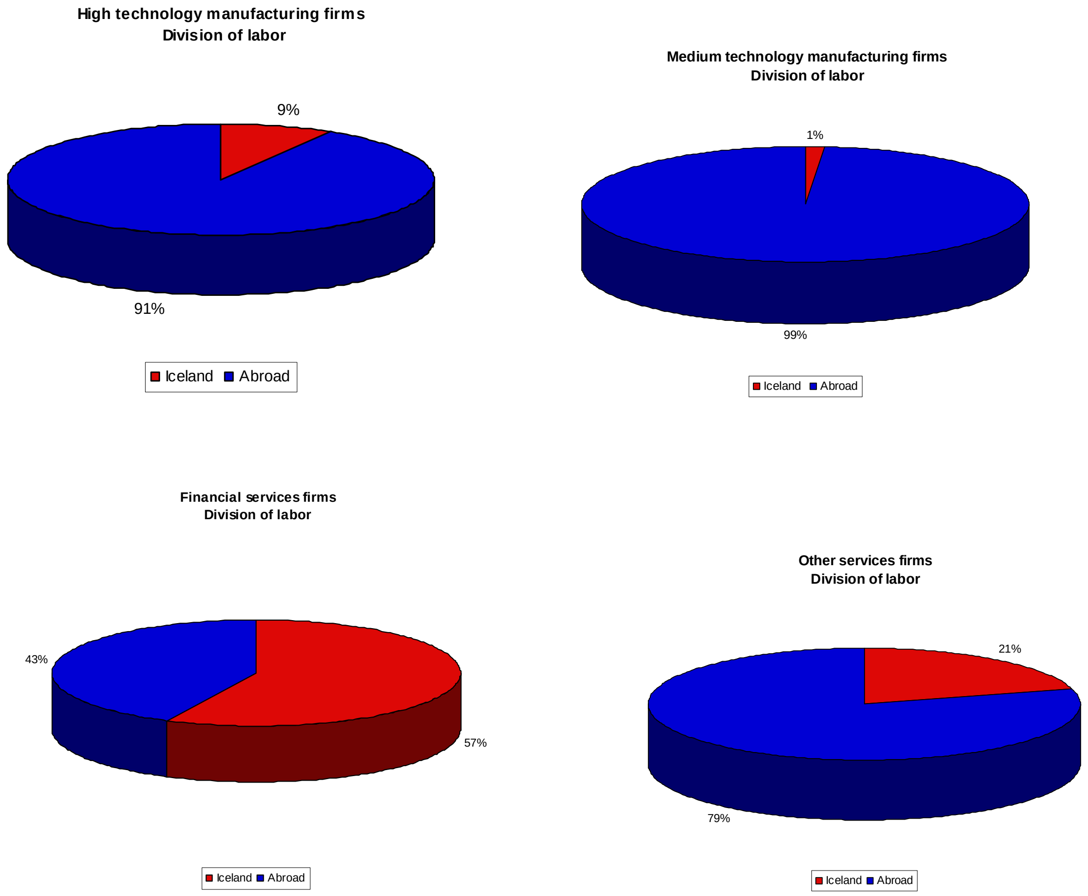
As figure 10 shows, these Icelandic companies have increased their size in terms of number of employees. The most extreme cases are one high technology manufacturing firm which has been mentioned. It has increased its size by 68 fold and one of the services firms which has 50 folded its size.[3]. To give more examples, one of the medium technology manufacturing firm previously a small family owned export company with few employees at the time of its establishment in 1986 has grown to large size status with approximately 16.000 employees. This is a significant change in 20 years. This company used to be a seafood manufacturer but let go of its seafood business and replaced it with a focus on chilled convenience food. As figure 10 shows, acquiring firms has allowed companies with a high demand for labor to grow much faster than they could have in Iceland. The aggregate growth in these companies number of employees is almost equal to the total labor force in Iceland. If the growth in number of employees is classified by industries it can be seen from figure 6 that the high technology firms have been growing the most between the years 2000 until 2006.

Medium technology firms and other services have been growing quite similar in terms of number of employees but firms in financial service have not been growing that fast in terms of employees. But it is not only interesting to see how much growth there has been in number of employees, it is also interesting to see how many employees are located in Iceland and how many are abroad.

A perusal of the structure of the Icelandic companies that are investing abroad indicates a rather international structure where more than half of the employees are located abroad. This is detailed in figure 11.

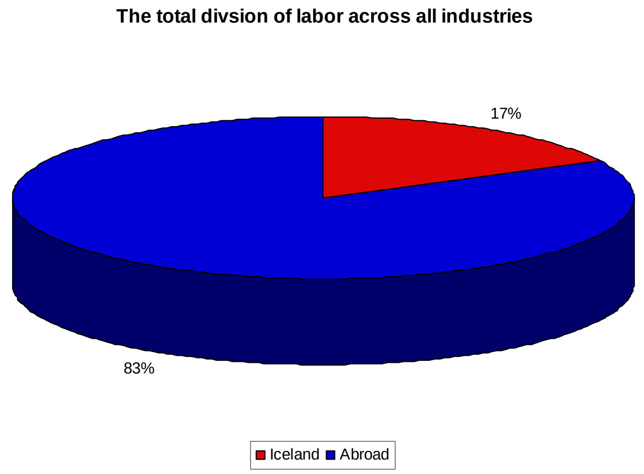
[3] Employee numbers include both parent companies and their subsidiaries

Figure 11: Employees in Iceland and abroad



As can be seen in figure 11 manufacturing firms, both high technology and medium technology firms have most of their employees abroad. Other services have financial service firms have more than half of their employees in Iceland or 57%. Other services firms have almost 80% of their employees abroad. Most of the growth of the Icelandic firms have been abroad, through acquisitions and Greenfield investments which explains this high number of employees located abroad.

Figure 12: The total division of labor across all industries

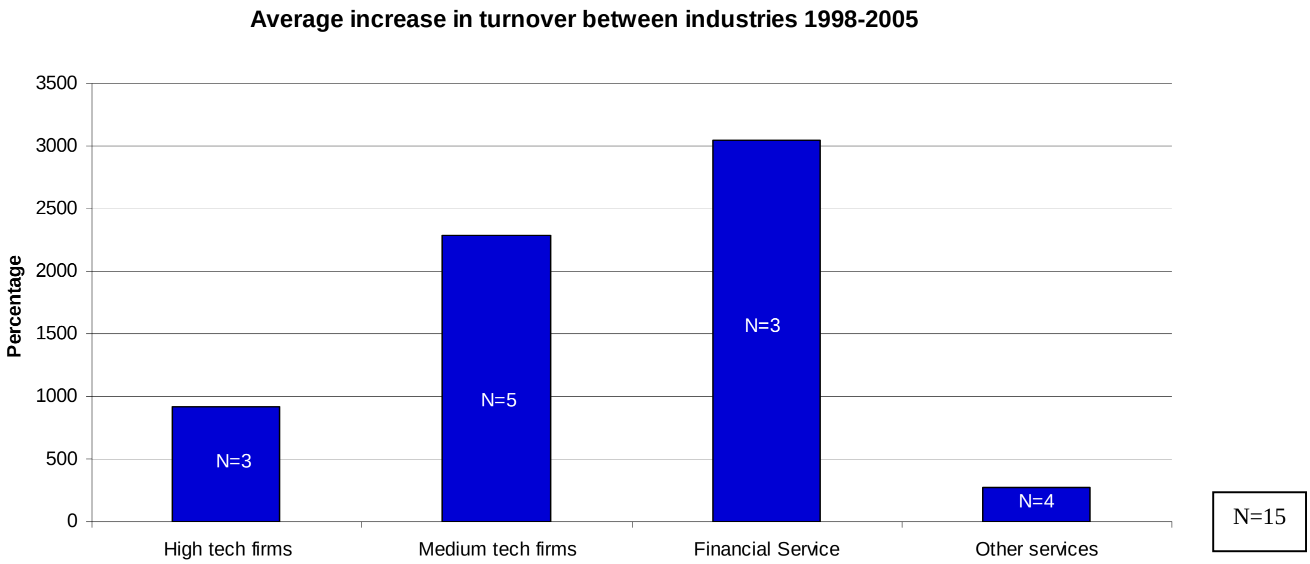


As figure 12 demonstrates, more than 80% of the total labor in those 21 Icelandic firms is located abroad. To be more specific, fourteen companies have more than half of their employees abroad. There are examples in this study of firms that have more than 99% of their employees abroad. Only five of the companies have more employees in Iceland than abroad.

4.5 Degree of internationalisation in terms of overseas turnover

For small firms, internationalization represent a higher risk than for larger companies (Vahlne et al., 1996). This is because of a lack of information as has been mentioned, but also on account of the relatively high negative impact that taking the wrong decision in international business can have on the very existence of the whole firm. It has also been stated that firms will only begin to internationalize when they have become relatively large. It does not matter which measurement is used, the increase in number of employees between 2000 and 2006 or the increase in turnover between 1998 and 2005. Both measurement show an enormous increase and as shown below, most of the turnover of the Icelandic firms are originated abroad and many of the companies have more than half of their employees abroad. Even though many of the Icelandic companies could not be categorized as large companies they were very small when they started their internationalization process. They have as said before grown a lot through their FDIs and did not have a very established market before they started internationalizing, counter to what was mentioned above.

Figure 13: Average increase in turnover by industries from 1998 -2005

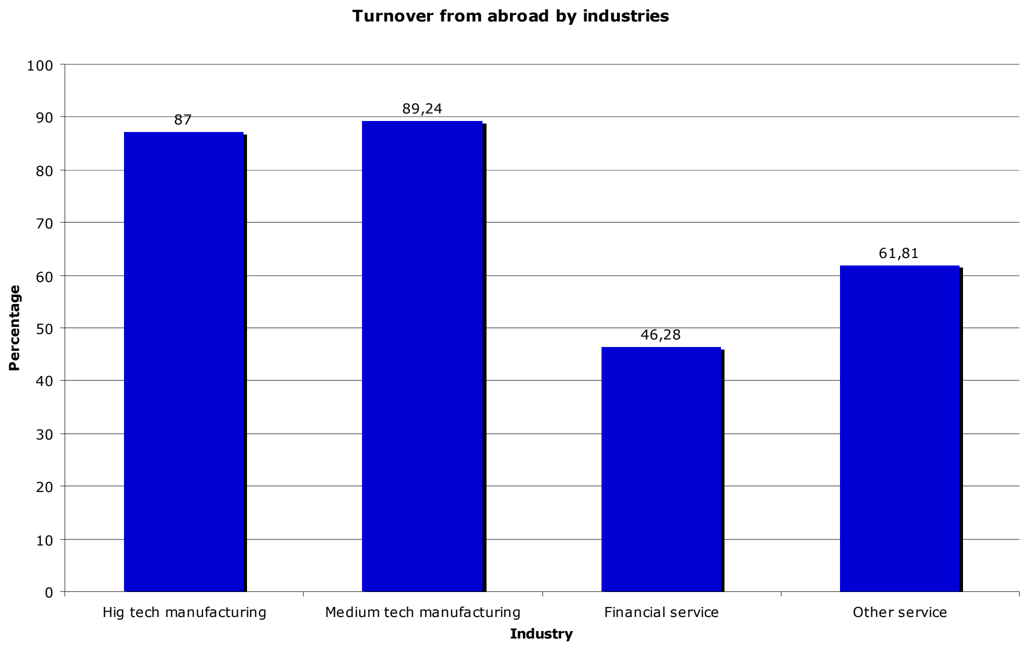


Source: Frjáls verslun 1999 and 2006.

As can be seen on figure 13 one medium technology firm that has the mostly increase in turnover between 1998 and 2005. But it is also interesting to see that the companies have not only increased their turnover but what is more interesting is that most of their turnover, except for the financial service, today comes from abroad as can be seen in figure 13. There are cases were up to 99.9% of the turnover comes from abroad.

As can be seen in figure 14 the average increase in turnover from 1998-2005 is in financial services. Medium technology firms have the second most increase in turnover or on average around 2.300%. But even though the most increase in turnover has been in the financial services, the highest turnover from abroad comes from manufacturing firms. A slightly more from medium technology manufacturing firms or around 90% of their total turnover and 87% of the turnover in the high technology manufacturing firms. Around 46% of the total turnover for the financial service firms comes from abroad and almost 62% of other services, as can be seen in figure 14.

Figure 14: Percentage of turnover originating outside Iceland.



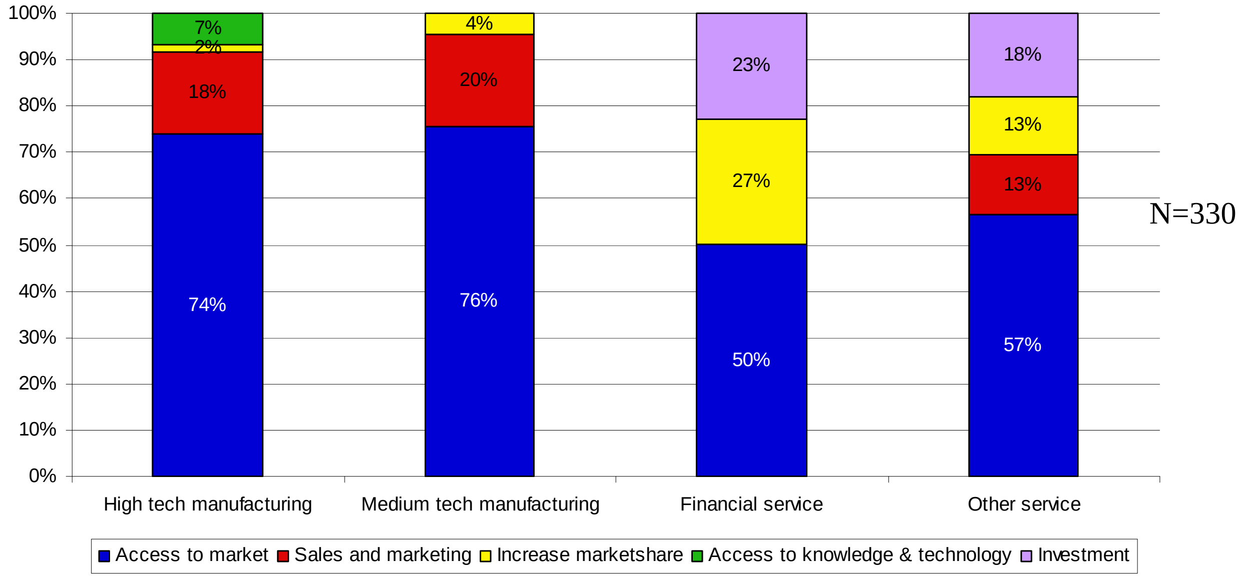
N= 21, November 2006

4.6 Motitves and driving forces for internationalization

A firm´s decision to initiate global market involvement often arises for a variety of reasons. Many of these motivational factors have been identified in previous international models (Albaum, 1983; Bilkey and Tesar, 1977; Malhotra et al 1998). A review of the literature reveals that firms may be influenced in their internationalization by more than one motive.

The firms´motivational factors could be due to success in the domestic market, due to a saturated domestic market, due to a geographical location advantage, due to some technological improvements or due to any other motive. Initially, most firms invest outside their home countries to acquire natural resources or gain access to markets. As they become increasingly multinationalised, they use their activities abroad to improve their global market condition by raising their efficiency or acquiring new sources of competitive advantage (Dunning, 1993, p.57) The motives can vary from firm to firm based on past experience, current market, circumstances and future market trends. The motives list could be endless. Therefore, in this research the key motives will be indentified in figure 15, according to a survey conducted in February 2006. Of 497 participating managers in the survey, almost 65% answered that the main motive for investing abroad is access to new markets (Óladóttir, 2006).

Figure 15: Motivation behind FDIs by industry



This outcome agrees with Hollenstein (2005) who shows that market seeking strategies are more prevalent than cost-oriented strategies, which, however, are quite important of SMEs. Another factor that is likely to have motivated the Icelandic firms to expand their operations abroad is to diversify risk. It is a well-known maxim that investors should not keep all their eggs in the same basket. The same applies to companies; in order to diversify their income streams, acquisitions in foreign markets are an optimal strategy. A prime example of this is the banks, which have expanded their markets through strategic acquisitions. Some companies have evolved even further to become multinational companies with Icelandic owners.

5. Conclusion and Discussion

The market in Iceland, like in the other Nordic countries, are in general small in terms of growth potential and sales possibilities. This fact has forced Icelandic companies to engage in international trade, i.e., export or FDIs. The purpose of this paper was present the main characteristics of the major Icelandic MNCs and to investigate their internationalization pattern.

With the changes in the economy in 1992—particularly the changes in the financial sector—and with the participation in multilateral trade organizations like the EEA in 1994, new markets opened up for Icelandic companies which gave them an opportunity to invest heavily abroad as some of them have been doing since 1998.

From 1915 until July 2006 those 21 Icelandic firms that are investigated in this study, have acquired over 200 firms overseas and established around 130 new units. Looking at the foreign direct investment behavior, the Icelandic firms in general start up their international commitments with foreign acquisitions and greenfield investments. Most of the acquisitions have taken place after the changes was made in the economy.

As has been stated in the theory of the Uppsala internationalization model, it is mainly build on research on manufacturing firms. Only very few of the Icelandic firms have internationalized according to the Uppsala model, starting with focus on the home market, then they start exporting and soon thereafter increased their commitment in overseas markets through greenfield or by an acquisition. This mainly fits with some of the medium tech manufacturing firms in this study.

Due to the above mention changes in the economy the incline in Icelandic FDIs seems to be more toward the theory of the Born global. Even though some of the companies didn't start their FDIs within given timeframe put forth in the literature about Born globals, it was not possible for them because of the structure of the economy. As soon as the structure changed all of them started investing abroad.

As previously mentioned, Born global's perceive the world to be one market and thus do not confine themselves to a single country. This is what many Icelandic companies have been doing lately. They do not confine themselves to Iceland. As already shown, most of those 21 Icelandic companies have more than half of their employees abroad. All of the firms studied generate more than 25% of their turnover from abroad. Out of those 21 firms, 7 generate more than 95% of their turnover abroad. Four companies generate 75 – 95% of their turnover abroad. Ten companies generate 25-75 % of their turnover from abroad.

Another characteristic of born globals according to the literature that they target small, highly specialized global niches and they implement a global strategy from inception. The growth of the Icelandic economy's internationalization is strongly based on the international competitiveness of some of its firms doing business in specific industries. Examples which support this part of the theory are two high technology manufacturing firms which operate within highly-specialized global niches. One, an orthopedic design firm, was named by the World Economic Forum as a "technology pioneer" for the year 2006. The other one develops and markets high-tech processing equipment for the food industry. Both companies are among industry leaders within their fields. Among the firms in this study is also a high technology firm which could also be categorized as a leading company because it is the fifth largest generic pharmaceutical company in the world. Yet another example is the largest rotational-molding plastics group in the world.

From the literature of born globals' it can be concluded that a critical incidents, for example a change in the ownership may trigger a firm's internationalization. This has been the case in several firms in this study. Among firms in all industries, new owners, new structure and strategy, and even new products or service can be seen. A new name for the firms also follows those dramatic changes. There has been some kind of changes in almost all of the companies and almost half of them have also gone through the name changing process. In some cases it happened because new owners acquired the companies. This has been the case for both high technology and for "other services" firms The generic pharmaceutical company, mentioned above is yet another example. It was originally established in 1956 under a different name, with the sole purpose to import and later to manufacture drugs for the domestic market. In 1999, new owners and management team who had much experience of internationalization by working abroad came along. Immediately the strategy was to create an international pharmaceutical company.

Today, the company has subsidiaries in 32 countries and generates almost all its turnover abroad with 95% of its employees located abroad.

The internationalization of this firm can to some degree be explained by the Uppsala model. It started on the domestic market and then it started exporting. No existing theory can however explain the boom that has been in its investments in the last couple of years.

It is safe to say that at least some of the Icelandic companies have been investing heavily abroad over the last six years. Some have acquired companies that are relatively larger than themselves at least if one studies the increase in number of employees. The main motive for this increase in foreign direct investments is access to a new market. The Icelandic market is simply not large enough for companies to be categorized as medium and large companies in the global environment.

What could be interesting for other small economies is to see the main characteristics of the Icelandic FDIs. When conducting the study three main characteristics came to light which other small economies could keep in mind when investing abroad. It does not matter that the economy is small or that the firms are small in the beginning. If they focus on those three things they might have a more efficient external growth through FDIs. Those three things are: investment scope; speed and specificity. Scope, Icelandic firms seem to follow a investment pattern, or perhaps investment strategy, where they grow significantly in size through single investments. As such, they seem to aim for relatively large, well known and established companies with a strong customer-base instead of buying small and unknown companies as a stepping stone into the foreign market. Secondly, speed is something that seems to characterize the FDI of those Icelandic firms. Investment execution, from target screening to deal-making and purchase, of Icelandic companies seems to be very fast. As an example, the fastest growing Icelandic companies have a record of purchasing close to 30 foreign companies over a period of six years, from 2000 – 2006. In may 2007, according to a new research done by Deloitte International, Baugur Group (retail company) is the company that has grown the most of all retails companies in the whole world or about 106% per year for the last five years. Norvik, another company in this study is also on the list of the fastest growing companies in Scandinavia. Finally specificity – Investment focus seems to be very narrow, i.e. Icelandic companies seem to follow a investment pattern (or strategy) of obtaining a leading position and size in a given market niche. Firms in prosthetics, food processing industry, plastic moulding and generic pharmaceuticals, to name some, would evidently fall under this category. These characteristics of the Icelandic firms needs to be tested among firms from other small economies, to see if this could help firms to grow faster and in more efficient way through FDIs. It is clear that the Icelandic firms have not follow either theories mentioned above, the Uppsala internationalization theory or the theory of Born Globals. But the main characteristics of the FDIs of Icelandic firms could be beneficial to other small economies.

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