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Building capabilities for internationalisation

in

Danish production SMEs

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Introduction

A survey conducted in 2016 showed that the region of Zealand in Denmark was falling behind all other regions in the country when it came to economic development (Oxford, 2014). While the report had a broad spectrum of different points on which the region could focus in order to facilitate a positive future development, one category, namely internationalisation and export, stood out as particularly poor. In the region, around 8% of the companies engage in some form of export, which is a significantly lower number compared to other regions in Denmark, especially when looking at the adjacent capital region centred in Copenhagen, which has an export performance that is sustained at a significantly higher percentage level. This is interesting, because the Zealand regions closeness to the capital would be thought to drive companies to benefit from the activities in the capital and also that several of the largest companies in Denmark are already located in the region. The central position of the region could facilitate a process where suppliers benefit from the geographically close relationship and thereby engage in their own internationalisation process. It would seem that the small- and medium-sized enterprises (SMEs) in this part of Denmark were unable to explore this competitive advantage compared to other parts of the country. However, SMEs engaged in knowledge-intensive production seem to contradict this trend by being extensively committed to working with export and international partnerships and even engaging their resources into foreign direct investments (FDI), either in the form where the individual company acquires a lasting interest in another country (outward FDI) or because foreign companies acquire lasting interests in some of the Danish companies (inward FDI) (Collison et al., 2017, p. 602). However, little is know about how this process unfolds and how these SMEs were able to develop their unique ownership advantages, explore specific markets, and finally, engage in FDI by internalising these unique capabilities that enable them to compete in foreign markets.

This paper investigates how knowledge-intensive manufacturing SMEs in the region of Zealand, Denmark engage in internationalisation processes and how these companies exploit their capabilities to take advantage of their ownership, location, and internalisation (OLI) advantages and thereby engage in international activities. By exploring how these SMEs internationalise, it is sought to understand the process in which these companies have engaged by answering the research question – How do knowledge-intensive production SMEs in the region of Zealand exploit their ownership advantages by creating capabilities that enable them to internalise FDI?

Growth in the region of Zealand

The region of Zealand is characterised by a low rate of new businesses being established and an old cluster of well-established existing SMEs that were primarily founded in the 70s and 80s. In total, there are 101 SMEs that engage in different forms of knowledge-intensive production work ranging from relatively large operations within food production or medico to small-scale laboratory-sized operations. A small group (Approximately 10) of larger companies primarily within the food or medico industry is also present in the region. The region of Zealand has, in their strategy for 2015-2018, identified export and internationalisation as part of the region's vision for how it will nurture growth in the coming years (Region Sjælland, 2015). Among the performance indicators for this strategy is the number of exporting companies, which is to grow by 3.5 percentage points, and this growth is to be realised in corporations in other regions, mainly the capital of Copenhagen, but also in corporations in the nearby markets of Sweden and northern Germany. Within food production, the focus is on improving and creating more efficient processes and product and organisational development, while the pharma- or bio-industry is going to be supported by creating linkages to research environments and by focusing on high-value medical products as well as biofuels, ingredients for foods that can be produced in environmentally sustainable ways.

A second focus area for the region is access to capital, which will enable companies to increase their production output and create more innovative products (Oxford, 2014; Region Sjælland, 2015). The focus has been on access to venture capital in the form of guarantees against loss, which will enable entrepreneurs to take on more risk in their projects and take on building competencies in the region's companies that will enable them to internationalise. While there has been a growth in venture capital investments, the region continues to fall far behind all other regions in the country and by a considerable margin (Oxford, 2014). In terms of developing competencies for internationalisation, a significant part of the SMVs in the region has been through different forms of continued education focused on export and innovation; however, the result of these efforts will only be evident in the coming years.

Theory

Theories on internationalisation argue that firms choose to explore foreign markets, where the overall transaction costs are minimised, and they can exploit imperfections in the market (Buckley, 1988; Buckley & Casson, 1993; Hennart, 1993; Rugman, 1981), hereby claiming that the multinational enterprise utilises its already-established position in the national market to effectively produce and distribute products and services in situations where a foreign market has failed to develop efficient processes that could provide them with a distinct advantage (Rugman, 1981; Rugman & Verbeke, 2003). The theory ascribes that firms that are able to offer knowledge-intensive products, like the ones described in this paper, will favour high-control modes of foreign market entry by establishing a hierarchically structured organisation that enables more control and thereby reduces the risk to the knowledge advantage it has accumulated (Lejpras, 2015). It would therefore be expected that knowledge-intensive firms take longer to internationalise and that the process would be closely connected to the technical capabilities they have accumulated over time.

In the internationalisation literature, there are two opposite approaches discussed, namely gradual internationalisation, as presented in the Uppsala model, and radical internationalisation, as discussed in the born-global literature, and each, through the use of technology, internationalises at a very early stage of the life-cycle (Bell et al., 2003). In the original Uppsala model by Johansson and Vahlne (1977), the local company would increasingly position itself to engage in international activities, as it gained knowledge about nearby markets and was able to internalise this knowledge. Only by learning how the firm could compete in foreign markets was the company increasingly in a position to do business that is geographically more distant. The model was, at a later stage, refined with a network perspective, arguing that knowledge did not have to be concentrated in the company but could be dispersed among partners and business contacts and that these could be the source used to internationalise (Johanson and Vahlne, 2009). While the model addresses the challenge of knowledge, it refers to the knowledge of the internationalisation process and not to the other capabilities that the firm has developed, which enabled it to seek foreign markets with which to start, as would be the case with the knowledge-intensive companies in this paper. In the other side of the spectrum of theories on internationalisation is the 'born global'-enterprise (Knight & Cavusgil, 2004). Firm that within the first years of operating internationalise and have a substantial part or all of their business activities abroad (Oviatt & McDougall, 1994; Sharna & Blomstermo, 2003). These types of firms can have an international outlook, because the technology on which they are founded makes it possible to communicate and reach customers far beyond their national context, or alternatively, because the firm has an organisational design that makes it possible to have a global presence, often enabled by technology – for example, in the form of multiple entities that benefit from the presence of localised competencies or technologies that are location specific, like information technology companies that have a headquarters in Europe while production and product development is situated in India or Bangladesh. For firms that base their competitive advantage on their technical capabilities, like within knowledge-intensive production, it could be a benefit to engage in foreign markets early in their lifecycle, thereby engaging in a born-global strategy. The reason for this is that the advantages they have developed can only be protected for a limited time through patents, or even if the company were able to keep its “secrets”, competitors would be able to copy these within a relatively short timeframe. The knowledge-intensive company could, through a relatively fast internationalisation process, exploit the knowledge gap, at least for a short while, by either protecting their capabilities through legal or technical barriers, leaving competitors in a position where they would need to develop capabilities on their own or to acquire them through acquisitions.

Both of these perspectives entail that companies with knowledge and international networks will be in a position to become actors in the international market through exports and will eventually engage in FDI. Dunning (1981, 2000) contributed to this discussion by introducing the OLI framework, or the eclectic framework, which claimed that foreign direct investments were reliant on three interdependent advantage variables, namely ownership, location, and internalisation, where ownership advantages are related to the capabilities the company has that will make it competitive relative to other firms, for example, through the development of innovative technologies or processes that provide the company with a relative competitive advantage on a given foreign market. Location refers to the degree the capabilities of the company are immobile, natural, or created within the company, which it can use to build its own competitive advantages. Ownership advantages would, in this way, favour a presence in a foreign rather than a domestic location, as its knowledgebase is superior to that of foreign competitors. The final sub-paradigm, internalisation, offers an alternative way in which companies are able to organise, through a series of non-equity agreements, ranging from buying and selling goods and services on the open market, through a series of inter-firm agreements to the integration of product markets, or through outright purchases of foreign corporations. In this way, the eclectic paradigm is related to internalisation theory, which asserts that the greater the net benefits of internalising cross-border product markets, the more likely a firm will prefer to engage in a foreign production itself rather than giving licence or agency to a foreign firm. The company is, in this sense, seen as an entity that collects and retains different forms of resources that it can use to build capabilities that enable it to operationalise its strategic decisions. For example, if the company has a strategy of internationalisation, it will need to evaluate the resources that it has internalised over time and whether these are suitable when doing business abroad. If there is a need to acquire these special competencies, the company either needs to develop them, using the existing staff or by recruiting specialists and managers. This perspective entails that the company will build ownership advantages that enable it to take the first steps towards identifying regions or countries (location) where it can exploit its superior competencies and capabilities. Ultimately, this will lead to a decision where the company will either focus its efforts in the direction of licencing or on other forms of strategic partnerships, or it will internalise and hence engage in FDI. According to Dunning (2000), there are four types that motivate firms to engage in FDI activities. These can be market seeking, where it is the market or demand that motivates the internationalisation process. Companies can be motivated to internationalise, because it will give them access to resources, which are not available in the area where they are currently located. Efficiency can also be a reason why these firms engage in activities outside their home country, and finally, firms can internationalise when they seek strategic assets, such as knowledge that will increase their already-existing ownership advantages.

The resource-based view on internationalisation focuses on the ability of the firm to develop unique capabilities that firms in foreign markets would find costly to copy (Ruzzie, 2006). In this way, the resource-based view provides insights into how it is possible for organisations to develop intangibles knowledge and internalise and use this to gain competitive advantages. In order for the national domestic firm to engage in international activities or even FDI, it needs to develop capabilities that will facilitate such a process. Westney and Zaheer (2009) called these capabilities "the incremental development of managerial skills and knowledge and of organizational routines and processes that enabled a firm to diversify geographically." Taking a resource-based view, these capabilities are specific competencies that are 'sticky' or institutionalised within the organisation, on which management can draw when engaging or making decisions beyond the organisation's current geographical place of operations (Teece et al., 1997). Companies that, in this way, want to exploit their OLI advantages thus need to develop specific competencies and internalise these as capabilities, which they in turn can use when they engage in foreign trade. These capabilities have less to do with the specific context but rather are related to internationalisation itself and the ability of the firm to identify the unique ownership advantages that can be exploited in foreign markets (inline with the Uppsala model perspective). As time progresses, the company will need to renew these capabilities on a continuous basis to be able to compete in the foreign market by focusing on firm-specific assets that are difficult, if not impossible, for competitors to imitate (Ahokangas, 1998; Ruzzie, 2006; Teece et al., 1997). This can, for example, be in the form of patents or other technical barriers but can also be through specialised processes, which often contain tacit knowledge. It is possible to develop these capabilities internally by developing already-existing employees (developing internal ownership advantages) or by recruiting staff who will enable the company to renew its competences (competence development that will lead to ownership advantages). But the company can also engage in capability development by engaging with other firms through partnerships, licencing, or inward FDI (network development). These firm-specific advantages are independent from other factors and are inherent to the individual firm and the routines that are accustomed behaviours inside a firm. Network development can be facilitated through the recombination of capability, referring to whether a firm is able to link extant internal knowledge with new external resources in order to improve their resource base (Verbeke, 2009), by this, enabling the national-orientated firm to engage in international activities through the creation of linkages to already-existing export-orientated or multinational enterprises (MNEs). Drawing on knowledge from other, already-internationalised firms, these linkages enhance the ability of local national companies to procure services or products to internationalise. This would then enable these firms to increase their ownership advantages and, in this way, start them on a trajectory that would lead to increased international orientation and finally engaging in FDI (internalisation advantages). Developing capabilities can thus originate both internally within the firm itself and externally through the commitment of resources, where the firm acquires needed competencies and capabilities from the external environment (inward FDI). In this perspective, resources can be utilised to strengthen the internal processes of the firm by further developing its ownership advantages or by sharing these capabilities within the network of which the firm is a part. The advantage of capabilities or resource-based views on the internationalisation process is that it opens up for the firm for developing more than one strategy for its international activities. Hence, it can focus on building ownership advantages at one point, when it is required to build internal capabilities, while at another point in the process, there is a need to engage with the external network to develop partnerships and develop shared capabilities with other firms. Table 1 illustrates the relationship between internal and external resource commitment and internal and external capabilities development.

Table 1. Relationship between resource commitment and development of capabilities

		Resource commitment	
		Internal	External
Development of capabilities	Internal	Developing ownership advantages	Competence development
	External	Developing internalisation advantages	Network development

When analysing reasons why some companies are able to exploit their OLI advantages while others are not, it is the identification capabilities for internationalisation based on current and past experiences that will determine to what degree a specific company will invest abroad, such as if it is able to exploit its ownership advantage and identify locations that will be soothed for corporate operations and if the company should internalise or licence out. By identifying the different forms of international engagement and the linkages that knowledge-intensive companies have to other MNEs located inside or outside the Zealand region, it is possible to identify the mechanisms that are instrumental for these companies' internationalisation processes. Figure 1 illustrates the connection between SME internationalisation, building capabilities, and seeking market opportunities. First, if the SME is unable to develop capabilities that make it possible to compete on the international market, it will focus on servicing the domestic market or as a supplier to other firms that can refine its product to a degree to which it can compete internationally. Second, if the SME is able to develop ownership advantages, it will engage in export activities, where it can use its firm-specific capabilities to compete internationally. Third, the SME will not internalise and engage in FDI, if these capabilities are exclusively centred on the core activities, e.g., refinement of its product rather than on developing managerial internationalisation-based capabilities. Fourth, the SME will engage in inbound or outbound FDI, if it can develop managerial capabilities, which makes it possible to control international relationships, either through subsidiaries controlled by the SME or by successfully relating to foreign owners.

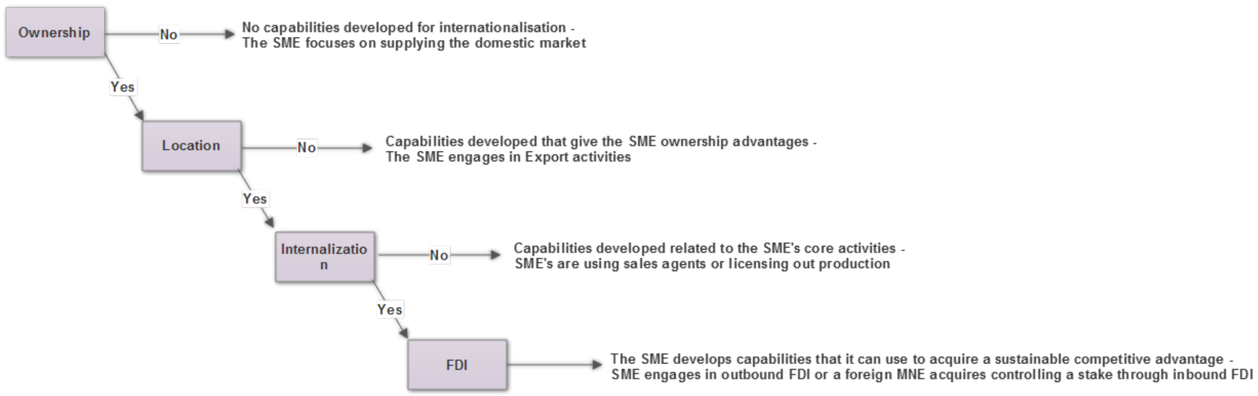

Figure 1. SMEs and ownership, location, and internalisation advantages

Method

Based on employee data provided by the companies themselves, it was possible to identify 119 companies in the region engaging in knowledge-intensive manufacturing or laboratory activities. Of these, 101 were considered SMEs (reported to have 250 or fewer employees) who were engaged in a wide range of different production activities (see Table 2).

Table 2. SMEs by industry

Industry	**Number of companies**
Production of plastic or glass fibre (for Medico or other)	16
Food production	17
Chemistry – Medico – Pharma	27
Testing and laboratories	17
Other forms of production	6
Other	18
Total	**101**

Of the 101 SMEs, 16 were interviewed using a structured interview guide based on questions related to international activities, process improvement, innovation, expansion of activities, and the development of capabilities. The interviews were supplemented with company information disclosed in annual reports from the SMEs and were used in order to identify the level of international activities in the form of export, licencing, inbound or outward FDI, and information about relationships with other companies in the region (linkages).

Table 3. Sample SMEs by industry

Industry	**Number of companies**
Production of plastic or glass fibre	6
Food production	5
Chemistry – Medico – Pharma	4
Testing and laboratories	3
Other forms of production	3
Total	**21**

The interviews and company information were constructed so that respondents were asked to which degree, on a likert-scale, their company engaged in certain types of activities. The questions in the interviews ranged from subjects on internationalisation to capabilities development supplemented with disclosed personal information about the managing director of the SME. The aim was to identify to which degree the individual companies related to the three OLI dimensions and causal factors that contributed to their realisation through capabilities identification. The information obtained through interviews was also combined with the available company reporting, which made it possible to identify themes related to the development of capabilities that were related to both the SMEs' core production and the managerial competencies related to the internationalisation process in itself. A resource-based view approach was applied, as it enabled the identification of capabilities and how these SMEs maintained and upgraded these advantages, their ability to coordinate and develop innovative processes, and finally, the ability to locate value-adding activities in foreign markets offering the optimum portfolio of competences, thereby creating or acquiring new ownership-specific advantages and exploiting existing advantages.

Ownership advantages were investigated by identifying how the companies were developing capabilities that provide the SME with unique and sustainable competitive advantages (or a set of advantages), relative to that (or those) possessed by their foreign competitors (Dunning, 2000).

Ownership advantages were positively identified when the SME engaged in exporting their products and other forms of activities in one or more foreign markets. Location advantages were investigated through the identification of SMEs, which was either licencing out production or using sales agents to promote their products on foreign markets. These types of activities were thought to be evidence that the companies had both ownership advantages that they had developed and that they also had identified markets where their products could be sold. However, these advantages were not big enough, or the company did not have the necessary resources to internalise the process and, in this way, engage in FDI. Last is the decision to internalise investigation, e.g., to engage in FDI by investigating in what types of international activities these companies engaged and thereby looking beyond export activities. These could be establishment of production facilities or other forms of outward FDI or in the form of inward FDI, where a foreign company acquires a lasting share of the SME.

In line with the resource-based perspective, it is possible for a company to grow capabilities by either developing these internally by investing in its employees or through inward FDI. Internally developed dynamic capabilities were identified by asking questions related to internationalisation, process optimisation, and to what degree it was thought that the firm would engage in innovation and product development within the next two years. Furthermore, a survey of the managing directors background was conducted with the aim of establishing if they had international experience, either with export out of Denmark or through management positions abroad. The answers to questions related to resources commitment and capabilities were compared to information about the company related to ownership structure to identify in what way the company was able to exploit its OLI advantages using the capabilities that the SME possessed through the internalisation of outward FDI or inward FDI.

Analysis

The following section is dedicated, first, to mapping each of the SMEs, according how they have been able to exploit their OLI advantages and, second, by identifying firm-specific capabilities that SMEs have developed, either through refinement of their product(s) or by managerial competencies for internationalisation. Finally, it was possible for these companies to engage in either outbound or inward FDI and thereby either become MNEs or be part of a foreign MNE’s subsidiary portfolio. See Table 3 below for an overview of findings.

Ownership

Ownership advantages arise when companies develop capabilities that place them at an advantage relative to companies in other geographical locations. All but one the 21 SMEs had developed capabilities that have given them these ownership advantages that enabled them either to export or engage in other forms of internationalisation activities. One company, BNN, did not work with international activities or exports at all. BNN is a subsidiary of a Dutch MNE that has also specialised in food production in several countries, and the company focuses on supplying the Danish market. Around half (11) of the SMEs answered that they expected to experience difficulties in recruiting qualified employees in the future, which could influence their ability to sustain their ownership advantages, risking that the individual companies that developed over time would disappear. The companies expected to recruit employees with specialised knowledge within production optimisation and research and development (R&D), which would indicate a focus on improving efficiency and, hence, technical capabilities. The SMEs interviewed were, in this way, developing competencies within the more specialised skills areas that would provide them with strategic assets (knowledge). Despite this, most (19) of the companies did not seem to invest in innovation and product development but rather in optimising and refining their production. Ownership advantages, which enable internationalisation, are linked to the ability to sustain and upgrade capabilities that enable them to explore foreign markets and not necessarily just the technical knowledge that the company has accumulated over time. Hence, the SMEs need to develop sustainable and complementary managerial as well as technical skills, which enable them to efficiently coordinate their competencies among employees, possibly leading to identification of immobile assets in foreign markets, e.g., resources, markets, etc. The responses from the interviews and survey of company information would indicate that the ability of the SMEs to further develop these capabilities is hampered by a lack of access to specialised managerial knowledge and a strategic focus on process optimisation rather than on business development.

Location

The 20 remaining SMEs had all acquired ownership advantages that enabled them to internationalise, including engagement in export as a significant part of their overall activities. This could be in the form of direct export from Denmark to distributors or as part of other companies' supply chains. Four of the SMEs (ARD, BRN, SPE, ASI) had not been able to develop these advantages to a degree, which prompted them to engage in exports as one of their main activities, claiming that export activities were only a small element of their overall business, and the majority of their activities focused on supplying the Danish market or on being a supplier to other Danish companies' supply chains. Most of the companies (17) expected to develop capabilities focusing on improving their production or specialised facilities rather than on developing new markets or focusing on acquiring competencies in language skills beyond English or German. That being said, 13 of the SMEs expected to increase their international activities within the next two years, either in the form of exports or in other international activities. These activities also included outsourcing of production, where the company continued to have a significant influence on the production process, showing that at least some of the SMEs were focused on technical rather than strategic managerial control. Location advantages come from the ability of the SME to identify where it will be able to benefit from its ownership and possible internalisation variables (Dunning, 2000). In order for the knowledge-intensive SMEs to explore these location advantages, they need incentive to do so, either motivated by possibly seeking efficiency gains, market opportunities, the unique resources available aboard, or because there are certain immobile strategic assets that are located there, such as firm-specific capabilities. The choice of location varies significantly across the SMEs, where 12 out of the 21 subsidiaries of foreign MNEs have engaged in inward FDI and thereby acquired lasting interest in existing Danish companies. As the production costs are relatively high in Denmark, compared to other countries, it is believed that the motive for these investments can either be the Danish market, which could be true for BNN, who has no international outlook themselves, or because the foreign MNEs sought strategic assets in the country. An indication that foreign MNEs are engaged in strategic assets seeking FDI is that CLS, BRN, CME, HOS, and JPH engaged in laboratory, pharma-medico, or high-tech production are all subsidiaries of foreign MNEs and are engaged in knowledge-intensive types of production and product development. INT, a United Kingdom laboratory SME, specialised in oil analysis and sought to be the product of inward FDI, where market seeking was the main motive. Location advantages for outward FDI were motivated by both efficiency and market-seeking needs. DBI (founded in 1938) thus had production facilities in Eastern Europe (efficiency seeking) and warehouses located in Europe, China, and the United States (market seeking). However, the main activity of the SMEs (16) was situated around the export of goods from Denmark to foreign markets, and according to the majority of them, this was also an area they would investigate in the coming two years.

Internalisation

A resource-based view on internalisation entails that companies will seek advantages that come with the optimisation of learning processes and innovation (Rugman, 2010). The firm is able to internalise its ownership advantages on a foreign market in contrast to licencing out or transferring knowledge to a foreign company through partnerships or joint ventures. By internalising the business processes, the SME will be able to control and reap all the benefits that potentially can be harvested from an ownership rather than an arm's-length approach in the form of partnerships. The benefits come in many different forms and provide the SMEs with control over the capabilities that have been institutionalised in the firm over time, for example, how the SME markets its unique products in foreign markets or how it handles major projects efficiently. The connection between ownership and internalisation is that ownership advantages are specific to the individual company, such as the internalisation process (Rugman, 2010). The OLI framework, as originally conceptualised by Dunning (2000), focused on outward FDI of the MNEs, who were simultaneously internalising as well as exerting their ownership control over the use of scarce, firm-specific, knowledge-based advantages in a foreign location. This was done either by acquiring a controlling stake in a foreign company or by engaging in Greenfield projects where the company needed to build both physical and managerial capabilities on its own. There is, in this way, a close connection between ownership advantage and the way in which firms internalise. The entry mode can provide the SME with advantages but also increases risks. Doing a Greenfield entry would, in this way, reduce the risk that possible competitors can copy firm-specific capabilities but also increase possible costs, while partnering would reduce costs but, at the same time, increase the risks that partners gain access to the capabilities that the SME could have taken years to build.

Of the 21 SMEs that were interviewed, 11 had engaged in either outbound or inward FDI. Two (CLS and DBI) had invested abroad. CLS had, through a recent merger between several different laboratories in France, Canada, Denmark, and Hungary, created what it describes as a major global player on the preclinical outsourcing market. DBI engaged in more traditional outbound FDI by investing in production facilities in Eastern Europe and remote warehousing close to its markets in China and the United States. The nine remaining SMEs were all engaged in inward FDI and had thereby become subsidiaries of foreign firms that sought strategic assets, in the form of knowledge and efficiency benefits through the production technology advances that these companies had made over time. The lack of outward FDI shows that the SMEs might have been able to develop ownership advantages, as shown earlier by engaging in exports in foreign markets, but that they had been unable or utilise these advantages by investing abroad. Rather, these companies were bought by foreign MNEs who had identified the unique resources that the SME possessed and were able to exploit these by applying their own unique internalised capabilities (ownership), either by introducing managerial competencies or by providing the necessary capital. Table 3 provides an overview of the degree to which the individual SMEs have to engage in international activities, taking an OLI perspective on the process.

Table 3. Sample SME internationalisation according to the OLI framework

Abbreviation	**Founded**	**Type of product**	**Nature of internationalisation**	**OLI advantages**		
				Ownership	**Location**	**Internalisation**
CLS	1977	Laboratory	Partner with firms in France, Canada, and Hungary	Y	Y	Y
ARD	2000	Food	Subsidiary of Belgian MNE	Y	Y	Y
OMA	1977	Machinery	Some export, suppler for several MNEs	Y	N	N
INT	2010	Laboratory	Subsidiary of Canadian MNE	Y	N	N
CFI	1983	Food	Bought by Danish food conglomerate KOFF in 2007	Y	Y	N
BRN	1988	Chemistry – Pharma - Medico	Subsidiary of German MNE	Y	Y	Y
SPE	1966	Plastic	Subsidiary of German MNE	Y	Y	Y
DBI	1938	Plastic	FDI Europe, China, and US (warehouses) production in Eastern Europe	Y	Y	Y
ASI	1947	Plastic	Subsidiary of Danish MNE	Y	Y	Y
ALG	1982	Food	Some export	Y	N	N
BNN	1984	Food	Subsidiary of Dutch MNE	N	Y	Y

CME	1974	Machinery	Subsidiary of German MNE	Y	Y	Y
CCC	1976	Food	Russian adventure in 1988	Y	N	N
DAT	2012	Machinery	Local production. Suppler for several MNEs	Y	Y	N
FOR	1976	Food	Sales agents all over the world	Y	Y	N
HOS	1978	Chemistry – Pharma - Medico	Subsidiary of Swedish MNE	Y	Y	Y
JPH	1986	Chemistry – Pharma - Medico	Subsidiary of Danish MNE 60% export	Y	N	N
KIS	1971	Plastic	Have been Swiss owned but is now in Danish hands	Y	N	N
PRB	1971	Plastic	Subsidiary of United Kingdom MNE	Y	Y	Y
SGE	1981	Plastic	Subsidiary of French MNE	Y	Y	Y
TEC	2011	Laboratory	Danish-owned export (supplier)	Y	N	N

Developing capabilities for internationalisation

Dunnings' (1981) original OLI-framework focused on outward FDI, using the orthodoxy that internationalisation was a process where firms developed their ownership advantages and utilised these increasingly to commit their resources in foreign markets. However, in the Danish region of Zealand, this does not seem to be the process, despite that knowledge-intensive SMEs have developed ownership advantages that enable them to compete in foreign markets. It is possible for the SME to develop capabilities by applying organisational resources that will facilitate such a process facilitated by developing internal capabilities through the increase of specific competences or by having these capabilities brought into the firm from the outside (see Table 3). Of the 21, there were six who had managing directors who have acquired international competencies by either taking up a position in Denmark from abroad (CLS, ARD, ASI, and SGE) or by employing a Dane who has experience from foreign firms (CFI and KIS). Of the SMEs with a director from abroad, three out of the four were subsidiaries of foreign MNEs, while the two companies with Danes in charge were both purchased back after having been in foreign hands for some years. Of the managing directors, 11 had either no international experience or only experience with export operations. For the last five SMEs, it was not possible to obtain CV data on the managing director, as this information was not publically available. The interviews did not establish a causal connection between the SME, being a subsidiary of a foreign MNE, and the managing director's experience with the process of internationalisation. Hence, the competencies varied significantly, based on the history, age of the company, and the process that had happened before when the subsidiary was obtained. The SMEs' capabilities, hence, fall within two categories – one that has created ownership advantages but is unable to exploit these because they lacked capabilities for internationalisation, beyond export, and a relatively small group of SMEs that had developed capabilities for internationalisation, either by hiring external competencies from abroad or by hiring Danes with international experience facilitating a process where the firm was returned to Danish ownership.

Discussion

Capabilities are important when companies internationalise, as they are connected to the ownership advantages that are required to start the process of transforming from a local, national firm to becoming an MNE. The relatively small sample of SMEs in this paper illustrates some important points when it comes to engaging in FDI, namely that ownership advantages are not only a premise for outward FDI but also make the SME attractive as a investments subject. The firms in the sample had, for the most part, been active for more than 30 years and had, in that sense, plenty of time to develop capabilities or to invest in competencies that would enable them to engage in outward FDI. However, with a few exceptions, they did not commit to international activities outside export, either because they did not have the resources available to them, or they were unable to attract the right competencies that would have transformed the company into an MNE. As time progressed, they continued to develop their ownership advantages further, acquiring technical and process skills, which, over time, made the individual firms attractive for inward FDI. The survey done in 2014 identified a series of key areas where the region and, hence, the SMEs could support their growth strategies (Oxford, 2014). Among the key points made was that it was important that regional projects were carried out in close cooperation with the region's companies – that they created measurable results, focused on the need to create jobs, were cross-disciplinary in the sense that they focus on building links to education and other regional actors, as well as that these projects should concentrate on the few large companies in the region. While these factors are important for growth, they will do little to alleviate the challenge of developing capabilities that will enable the

SMEs to internationalise and engage in outward FDI. On the contrary, they focus on the continued development and expansion of technical and process ownership advantages within the region, which will, in turn, facilitate a process where SMEs are acquired by foreign MNEs because of their R&D capabilities. The foreign MNEs can utilise these capabilities in other parts of their value chain and not on further necessarily developing the SMEs' internationalisation capabilities that can enable them to engage in licencing in foreign markets or, for that matter, outward FDI. The regions' SMEs can, hence, reach a certain level of growth and internationalisation, where they can utilize their distinct ownership advantages and possibly have a significant part of their activities focused on export. But because of the lack of management competencies and organisational capabilities, the SMEs will be unable to internationalise further, and while they will continue to develop ownership advantages and engage in possible export, they will eventually be acquired by companies that have the necessary international management competencies.

Conclusion

This paper sought to investigate how knowledge-intensive production SMEs in the region of Zealand exploit their ownership advantages by creating capabilities that enable them to internalise FDI. It was found that the OLI framework provided an excellent platform from which to explain how the knowledge SME intensive-production companies in the regions of Zealand were able to develop ownership advantages that enabled them to engage in international activities, first, by export and, later, in FDI. While it was initially thought that the internalisation of FDI meant that these companies would start to engage in outward FDI, this did not seem to be the case. Rather, it was foreign MNEs that internalised their feedback in the region through inbound FDI, taking advantage of the R&D and process optimisation capabilities that the Danish SMEs had developed over a number of years but had been slow to utilise abroad. Answering the research question, the results show that the knowledge-intensive production SMEs in the region of Zealand exploit their ownership advantages by creating capabilities that enable them to be attractive to inward FDI.

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