

Combining local and international embeddedness in a rural context

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Abstract

The aim of this chapter is to explore the distinctiveness of international entrepreneurship in a rural context. Based on theory about international entrepreneurship, rural entrepreneurship and embeddedness, the study explores how international small and medium sized enterprises (SMEs) are embedded in their local and international contexts and how these two forms of embeddedness are combined. A case study of six SMEs that started their internationalization by crossing the border from rural North-Norway to the northwest parts of Russia is adopted. The book chapter offers a detailed description of how the case companies are embedded across the border and identifies three distinct ways of how they have combined local and international embeddedness. The first way is related to taking advantages of being dis-embedded, the second to balancing local and international embeddedness and the third to using embeddedness to reinforce further internationalization. This book chapter contributes to the international entrepreneurship literature by contextualizing international opportunity development to a rural context and to the rural entrepreneurship literature by demonstrating distinct ways of how local embeddedness can be combined with other forms of embeddedness.

Keywords: International entrepreneurship, SME internationalization, rural entrepreneurship, embeddedness, Norway, Russia

Introduction

Ideas about internationalization lie at heart of the economic development of many rural regions, whether in the KwaZulu-Natal province in South Africa (Lekhanya, 2014), in rural Cumbria in England (Kalantaridis and Bika, 2006a) or in the borderland between Norway and Russia (Jørgensen, 2014). Internationalization of small and medium sized enterprises (SMEs), or what I in this chapter also refer to as international entrepreneurship, can be a powerful tool for economic development in these regions. International entrepreneurship takes place across diverse national contexts and it has been argued in the international entrepreneurship literature that it is critical to account for the context in which the firms operate (Zahra and George, 2002). For example, it has been quite common to consider specific country cultures (Terjesen et al., 2016) and institutions (Szyliowicz and Galvin, 2010) or distinguish between developed and emerging economies (Kiss et al., 2012). However, previous studies have not made a distinction between rural and urban international SMEs (Westhead et al., 2004) , so the distinctiveness of international entrepreneurship in a rural setting has been rather underexplored.

Researchers in the field of entrepreneurship have emphasized the topic of embeddedness to consider the context in which the entrepreneurial process takes place (Pato and Teixeira, 2016, Wigren-Kristofersen et al., 2019). International SMEs in rural regions are both locally and internationally embedded. This study is inspired by the ideas of dual embeddedness from international business (Figueiredo, 2011) and translocal embeddedness from rural geography (Dubois, 2016). The interesting question is not whether they are locally or internationally embedded, but how these firms are able to combine these two forms of embeddedness. The research question addressed in this study is therefore: how are international SMEs in a rural context locally and internationally embedded, and how do they combine these forms of embeddedness?

To answer this research question, the rest of this book chapter is organized as follows. First, I present the theoretical perspectives related to international entrepreneurship, rural entrepreneurship and embeddedness that forms the background for this study. Then, the

methodology is presented. In this study, I adopt a case study approach of six Norwegian SMEs that are developing international opportunities across the border to Russia. The following section presents the findings. Finally, the contributions of this study and its limitations are discussed, along with potential future research.

Theoretical background

International entrepreneurship in rural areas

International SMEs in rural areas are both international and rural. Central to the understanding of the international aspects are perspectives from international entrepreneurship. In this literature, the characteristics of speed, scale and scope creates certain patterns of internationalization for young and small firms (Kuivalainen et al., 2012a, Kuivalainen et al., 2012b, Zahra and George, 2002). Today, there are multiple definitions and perspectives in the field, but much focus is on firms that are involved in rapid internationalization (they internationalize from start-up) and with a global geographical scope of their activities, also labelled as new international ventures (Oviatt and McDougall, 1994) or 'born globals' (Knight and Cavusgil, 2004). In this chapter, I will use the concept of international SMEs and build on an understanding of international entrepreneurship as 'the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services' (Oviatt and McDougall, 2005). This definition represents an opportunity-based perspective, which treats the processes of developing international opportunities as central. (Di Gregorio et al., 2008, Mainela et al., 2014).

International entrepreneurship is a fundamentally contextualized phenomenon that manifests differently in different contexts (Wigren-Kristofersen et al., 2019). Towards better understanding the rural aspect, I build on insight from perspectives in rural entrepreneurship. In the literature on this topic, entrepreneurship is connected to all forms of entrepreneurial activities that take place in areas characterized by large open spaces and small population relative to the national level (Kalantaridis and Bika, 2006b). Further, rural entrepreneurship is perceived as spatially bound,

thus involving the creation of new value by recombining resources from a given environment (Korsgaard et al., 2015b, Anderson, 2000). However, while rural entrepreneurship often is seen as connected to one spatial context, a central characteristic of international entrepreneurship is that by definition it involves two or more spatial contexts. Based on this, international entrepreneurship in a rural area is perceived as a process of developing international opportunities that are spatially bound to one local (national) context and one (or more) international contexts and that combine resources from these contexts.

Local and international embeddedness

To explore the distinctiveness of international entrepreneurship in a rural context, I will use theoretical perspectives on embeddedness. Understanding of embeddedness is grounded in the idea that economic actions are embedded in structures of social relationships (Granovetter, 1985). In this study, embeddedness is broadly perceived as the nature, depth and extent of the firm's network ties in and across the involved national contexts. In rural entrepreneurship research, embeddedness is identified as a main sub-topic and refers to the nature, depth and extent of entrepreneurs' ties to a rural location (Pato and Teixeira, 2016) and is centred on the importance of understanding how these ties enable or constrain entrepreneurial activities (Stathopoulou et al., 2004). Existing research has demonstrated that being embedded can help SMEs to develop unique opportunities (Korsgaard et al., 2015a) and to make use of specific resources available in the local area (Muller and Korsgaard, 2018). Embeddedness can also help firms in rural regions to overcome distance-related obstacles (Greenberg et al., 2018). Embeddedness is about creating and maintaining relationships in space and place, and is the mechanism whereby an SME becomes part of the context (Jack and Anderson, 2002). In this study, the focus is on how the SMEs are embedded in the structural contexts (McKeever et al., 2014) in combination with a territorial or spatial view (Hess, 2004, Jørgensen, 2014). Hence, embeddedness at each level – local and international – is perceived as the structure and extent of external network relationships and how these relationships are manifested in space.

Further, from an international business perspective, prior research has demonstrated that firms also are internally embedded across the border through relationships with parent or sister companies (Ciabuschi et al., 2011, Garcia-Pont et al., 2009, Yamin and Andersson, 2011, Asakawa et al., 2018). The concept of dual embeddedness has also been introduced, which concerns balancing simultaneous external and internal embeddedness (Figueiredo, 2011, Ciabuschi et al., 2014). Through dual embeddedness, which also is very similar to translocal embeddedness (Dubois, 2016) or double-layered network embeddedness (Greenberg et al., 2018), resources from local and international external ties are combined and transferred across borders. However, we still have limited knowledge of how local and international embeddedness are combined. One possibility is that international SMEs in rural areas are either mostly locally or mostly internationally embedded and that internationalization is a threat to rural entrepreneurs' local embeddedness. Another possibility is that local and international embeddedness is combined in different ways as cohesive processes, leading to reconfiguration of local interactions rather than as a disruptive force dismantling them (Dubois, 2016).

Methodology

Research design

This study adopts a theory-building case study design (Eisenhardt, 1989, Eisenhardt and Graebner, 2007). The selected cases are six Norwegian SMEs starting their internationalization by crossing only one national border – the border between Norway and Russia. This design was chosen because a limited number of cases makes it possible to collect rich data from multiple sources and because multiple cases permit a replication logic in which explanations from one case can be compared to explanation from the others (Yin, 2003). The selection of cases was based on theoretical reasoning (Eisenhardt, 1989, Glaser and Strauss, 1967) rather than random or representative sampling. The selection was based on three criteria. First, the firms must have started their internationalization only by crossing the border between Norway and Russia. Second, more than 50%

of their total activity had to be related to internationalization. Third, the firms had to be SMEs according to the EU standard, i.e., have less than 250 employees (European Commission, 2020). A survey identified nearly 80 Norwegian firms engaged in activity across the border to Russia (Stålsett, 2006). When conducting multiple-case studies, researchers are advised to select from four to ten cases (Eisenhardt, 1989). Based on the selection criteria and information from this survey, six cases were selected.

Research setting

During the Cold War, the border between Norway and Russia was the only northern border between the old Soviet Union and a NATO country, and it was effectively sealed and heavily guarded. In that period, there was practically no contact between business partners across the border. When the border reopened around 1992, it provided some new entrepreneurial opportunities, and in the following years many firms particularly on the Norwegian side, were created to exploit these opportunities. In recent years, however, sanctions and a cold political climate between Norway and Russia have shaped the situation, and business activity across the border has decreased. And now, due to the recent Covid-19 pandemic, the border crossings have again stopped. This setting was attractive for the study of how international SMEs in a rural context are embedded because the firms had to build all of their international activities and cross-border linkages from the ground up. Hence, the setting provides a unique opportunity to study how firms are locally and internationally embedded.

Presentation of cases, data sources and analysis of data

Table 1 presents basic start-up information concerning the case companies and the data sources employed in the study.

Table 1. Case companies and data sources

Firm	A	B	C	D	E	F
Basic information						
Industry segment	Ship agency services	International business support	Manufacturing of concrete	Fish trade	Consulting	Manufacturing of electronic equipment
Employees	5	14	220	10	15	57

Start-up year	1998	2002	1974	1998	1993	1993
First international activity	1998	2002	2006	1998	1993	1999
Degree of international activity	55% of total sales	80% of total sales	More than 50% of total investments	100% of total sales	More than 80% of total sales	100% of total production
Data sources						
Case interviews	3	2	2	2	4	4
Informants (time of interview in parenthesis)	The key entrepreneur (2008, 2010) The key entrepreneur + a Russian employee (2012)	The Norwegian entrepreneur (2008, 2010)	The key entrepreneur (2010, 2012)	The entrepreneur (2009, 2012)	The key entrepreneur (2012) Russian general director (2010, 2012) Norwegian regional director (2010)	The founding entrepreneur (2012) Norwegian general director (2010, 2012) A Russian employee (2012)
Company visits (time of visit in parenthesis)	Norway (2008, 2012)	Russia (2008, 2010)	Russia (2010, 2012)	Norway (2009, 2012), Russia (2012)	Norway (2010), Russia(2010, 2012)	Norway (2010, 2012), Russia (2010)
Status in 2020	The share of Russian customer has declined but still many international customers.	In 2016 the Norwegian entrepreneur passed away and Firm B has become a local Russian firm.	Growth in Russia (from 20 to 33 employees)	Firm D closed down in 2015 due to export/import sanctions.	The activity in Norway, Russia and Finland has continued.	Firm F still has many international customers and the production in Norway and Russia has continued.
Other sources: - homepages - economic info - presentations - newspaper articles	X X X X	X X X X	X X X X	X	X X X X	X X X X

Data were collected from three different sources. First, the main data source comprised 20 in-depth interviews with key informants from the firms. The interviews were conducted over a period of four years, from November 2008 to December 2012. The interviews, which ranged from around one to two hours in length, were all recorded and transcribed. Second, the companies were visited both in Norway and in Russia, some of them several times. Short memos were written after each visit. Third, data were also collected from other sources, such as home pages, a database holding economic information, presentations and newspaper articles. The firms' homepages and results of Google searches have been used to update information about the status of the case companies in 2020.

Analysis of data

A project was created in QSR's NVivo and all the data were uploaded within this software. To get a first overview of the case companies, chronological case histories were written. Then the interviews were coded in NVivo. The following codes were used: 'local embeddedness in Northern Norway', 'international embeddedness in Northwest Russia' and 'combinations of local and international embeddedness'. Building on Jørgensen (2014), both local and international embeddedness were coded along three dimensions: external business ties, employee relationships and the entrepreneurs' engagement in the local/international society. When coding combinations of embeddedness the focus was on internal cross-border linkages between business units and the balance of local and international resources. Following Leppäaho et al. (2018), the type, locality, strength, and importance of the ties were considered. To identify patterns within and across cases, the data were displayed and summarized in a table (Miles et al., 2014). This ensured a focus on similar information to be compared between all cases (Shane, 2000).

Findings

The analysis demonstrates that it is possible to identify three main ways in which the SMEs were combining local and international embeddedness. An overview is given in Table 2 and these ways are described in more detail below.

Table 2. Combining local and international embeddedness

Firm	Location	Local embeddedness in Northern Norway	International embeddedness in Northwest Russia	Combining local and international embeddedness
A	Norway	<i>Strong embeddedness</i> Many local and national suppliers All employees (5) are on the Norwegian side Ties to many regional and national actors, but the entrepreneurs are particularly engaged in a local cluster of international SMEs with activities in Russia	<i>Weak embeddedness</i> Close social ties to a few large Russian customers Member of a Norwegian-Russian business association	<i>Dis-embeddedness in Russia</i> No internal ties between Norway and Russia
B	Russia	<i>Weak embeddedness</i> Norwegian business customers, close relationships to some of them	<i>Strong embeddedness</i> Many local suppliers and 25 employees The Norwegian key entrepreneur lived in Russia until 2016	<i>Dis-embeddedness in Norway</i> No internal ties between Norway and Russia

			He was engaged in the international business milieu and the local cultural life	
C	Norway and Russia	<i>Strong embeddedness</i> Headquarter in Norway with around 200 employees	<i>Strong embeddedness</i> Many local Russian customers and suppliers Plant in Russia with 20 employees The entrepreneur moved temporarily to Russia but his local engagement here was limited	<i>Balancing embeddedness</i> Strong internal tie between the Norwegian headquarters and the Russian subsidiary which has combined international market opportunities with a solid base of knowledge and financial resources
D	Norway and Russia	<i>Strong embeddedness</i> Suppliers	<i>Strong embeddedness</i> Customers, logistic providers and custom authorities Main sales office with 10 employees The Norwegian entrepreneur speaks Russian fluently and knows the culture	<i>Balancing embeddedness</i> Internal ties between the Norwegian and the two Russian business units The entrepreneur has a central role in combining the supplies from Norway with Russian customers
E	Russia and Finland	<i>Weak embeddedness</i> Ties to a few Norwegian customers in public and private sector	<i>Strong embeddedness</i> Headquarter with around 12 employees Customers and other external business relationships	<i>Reinforcing further internationalization</i> Used the internal ties between business units in Norway and Russia to reinforce the establishment of new international relationships in Finland
F	Norway, Russia and Brazil	<i>Strong embeddedness</i> Customers and suppliers Test and logistic centre with around 20 employees Belongs to a local cluster of international SMEs with activities in Russia	<i>Strong embeddedness</i> A plant with around 50 employees Close ties to Russian customs authorities The entrepreneur has a large personal network here	<i>Reinforcing further internationalization</i> Used the internal tie between Norway and Russia to reinforce the establishment of new international relationships in Germany, South Korea and Brazil

Taking advantage of being dis-embedded

It can be extremely demanding for a rural SME to embed entrepreneurial activities in two (or more) national contexts, and the first distinct way of coping with this challenge is about being more or less dis-embedded from one of the contexts. This means that the firm base has external network ties, whether local or international, mainly in the context of one country. It has no internal cross-border ties and is to a very limited extent combining local and international resources. This was the case for both firm A and for firm B. Firm A was established in northern Norway in 1998, in a small town not far from the Russian border. Since the beginning, firm A has provided port agency services related to freight, customs, warehouse and crew-changes to Russian customers coming to northern Norway in their vessels. By the end of the data collection in 2012, the firm had five employees, three of whom spoke Russian fluently. Firm A has been strongly locally embedded in the northern Norwegian context since start-up. In addition to being located close to the border and having many linkages to regional and national actors, the key entrepreneur emphasised the value of belonging to

a local cluster of rural SMEs engaged in international activity with Russia. This is an informal group, which together has rather extensive experience with and knowledge of doing business in Russia. The SMEs supported each other and recognized very early on when something was not right. However, firm A has been, and still is, rather weakly embedded in Russia. The key entrepreneur has close relationships to a few Russian customers, large shipping companies located on the other side of the border. He has occasionally visited these customers in Russia. Firm A had no internal linkages to Russia.

Firm B has also taken advantage of being embedded in only one context. However, in contrast to firm A, it was dis-embedded on the Norwegian side. The main idea behind firm B was to sell support services to Norwegian business customers in Russia, such as interpretation, translation, arrangement, accounting and juridical services. Firm B was created on the Russian side of the border in 2002 as a spin-off from a Norwegian company. At the same time, the key entrepreneur migrated to Russia. He searched for and found a Russian partner and together they acquired an existing Russian firm. In 2016, the key entrepreneur passed away and the Russian partner took over. Firm B has since become more and more like a local Russian travel agency. In terms of embeddedness, firm B was strongly embedded internationally and rather weakly embedded in the local Norwegian context at the time of data collection. In the Russian context, firm B was established with around 25 employees and many local suppliers. The entrepreneur said that it was better to be located on the Russian side than on the Norwegian side so that he could more easily meet with customers in person. In addition, the key entrepreneur had many connections to actors in the international business and cultural milieu. The local embeddedness on the Norwegian side weakened as Norwegian customers were replaced with other international or Russian customers. Firm B had no internal linkages to Norway.

Balancing local and international embeddedness

Two of the case companies, Firms C and D, are strongly embedded in both their local environment in Norway and the international context in Russia. They both have internal linkages

across the border and combine local and international embeddedness to develop international opportunities. Firm C is a family firm and was founded in 1974 in a rural community on the west coast of Norway. The firm produces and sells diverse concrete products. Until 2006, firm C had only domestic operations and was strongly embedded in Norway. Over the years, its activities have gradually been moved from south western to northern Norway. In 2006, the entrepreneur crossed the border to Russia for the first time. Since then, the firm has undertaken quite heavy investments in building a new plant in Murmansk and has built up a base of Russian customers, suppliers and other important partners. By the end of the data collection, Firm C had 20 employees in Russia and by 2020 the number of employees had increased to 33. The key entrepreneur said that it has been a tedious process to become internationally embedded in Russia. The firm has experienced both slowness and problems related to corruption when trying to build new relationships and gain access to the resources that they need. Until 2016, the key entrepreneur lived in Russia for approximately 70% of his time. His local engagement in the Russian context has been limited, as he said that he needed to spend his time working within the company. The activity on the Norwegian side has continued as before, with around 200 employees, and has been rather unaffected by the establishment in Russia. The strong internal linkage between the headquarters in Norway has provided the subsidiary in Russia with knowledge and financial resources, which, in combination with the entrepreneur's authority, has made it possible for them to grow and to develop new international opportunities.

Firm D is also an example of an international SME that balances local and international embeddedness. Since its start-up in 1998, firm D was organized with a Norwegian and Russian business unit. Firm D also had a subsidiary in Moscow, owned by the business unit in Murmansk. The business idea was to buy fish on the Norwegian side of the border and sell it on the Russian market. Due to heavy sanctions related to export/import between Norway and Russia, this activity closed down in 2016. The core point related to combining embeddedness is that Firm D combined a network of suppliers in Norway with a network of customers, logistics providers and customs

authorities in Russia. On the Russian side, where most of the activity took place, the firm had 10 employees. For firm D, the entrepreneur had a central role in combining embeddedness. He lives in Norway but lived and worked in Russia for many years before he started the firm. He spent 2–3 working days in Russia each week. He speaks Russian fluently and has good knowledge of Russia and Russian business culture. He said in one of the interviews that his Russian employees no longer consider him a Norwegian.

Reinforcing further internationalization

Finally, for the two last firms in this study, Firms E and F, the central issue is that they have used their local and international embeddedness to reinforce new international activity. Firm E was established in Norway in 1993 as a business consulting company, and has since then assisted many Norwegian business establishments and project developments in northwest Russia. Firm E has a chequered history, with shifting Norwegian owners. At the end of the data collection, one Norwegian solo entrepreneur – who also was strongly involved in the start-up and first period – is the main owner and the key entrepreneur. According to their web pages, this is still the situation in 2020. The headquarters is located in Russia and by the end of the data collection had 12 employees. The key entrepreneur and two partners live in Finland and together they have large personal networks there. Gradually, the firm has gained more Finnish customers, whom the firm has helped to establish border-crossing business activity in Russia. This new international market is connected to the knowledge and resources they have acquired by supporting Norwegian business establishments in Russia. Until 2011, firm E was strongly embedded in the Norwegian context. However, the development of their new activities in Finland seems to have been at the expense of their local embeddedness in northern Norway, having resulted in a declining number of customers there. In contrast to the other entrepreneurs in this study, the key entrepreneur in firm E has an extensive international background with working experience from the US, UK, Norway, Russia and Finland. However, he said that his working ‘place’ has been in Russia ever since the start-up of the firm.

Firm F has been developing and manufacturing electronics for customers in the market for lighting and heating since 1993. The firm has since developed into a globally embedded company with strong external linkages to business partners in such dispersed countries as Norway, Russia, Germany, South Korea and Brazil. A solo entrepreneur founded the firm in Norway, and after about six years, it had its first activity in Russia, after which the company started production of electronic equipment there. Firm F has about 50 employees in Russia. The Russian business unit has close cooperation with the Russian customs authorities and the founding entrepreneur says that he has a personal network with contacts able to help if something goes wrong. Firm F has its headquarters, as well as both customers and suppliers, in Norway and a test and logistics centre with around 20 employees. Similar to Firm A, Firm F was embedded in the local cluster of international SMEs with Russia-related activities. The entrepreneur and his team live and have their main residencies in Norway. Firm F has recently entered markets in Germany and South Korea and has established activities in Brazil. In Germany, it has a close relationship with one large customer, covering two different contracts. The linkage to the market in South Korea is through a local agent. In Brazil, the demand by authorities for 'local content' has resulted in the establishment of a business unit there. So far, there is only one employee in Brazil and no production. The internal linkage, which combines the local and international embeddedness, has reinforced more international activity.

Discussion and conclusion

In this chapter, I have posed a research question about how international SMEs in rural areas are embedded in their local and international contexts, and how they combine these forms of embeddedness. A detailed description of how these firms are embedded across the Norwegian-Russian border is offered and three distinct ways of combining embeddedness is identified. This study thereby contributes to the literatures on both international and rural entrepreneurship. The contribution to the literature on international entrepreneurship mainly relates to contextualizing international opportunity development to a rural context. The study offers a definition of rural

international entrepreneurship in rural areas, and addresses the demand for more knowledge about this issue (Westhead et al., 2004). The findings clearly demonstrate that SME internationalization in a rural is also about being locally embedded at home, and that this embeddedness provides important resources for establishing relationships abroad. When it comes to contributions to the rural entrepreneurship literature, the study identifies some distinct ways of how local and international embeddedness can be combined. As such, it gives some content to the concepts of dual, translocal or double embeddedness (Figueiredo, 2011, Dubois, 2016, Greenberg et al., 2018), as well as some new ideas about the interactions that is going on within them.

The findings may have some practical implications for both entrepreneurs and policymakers. To establish and maintain relationships where knowledge and other resources can flow in and across diverse country contexts seems to be of crucial importance for the development of international opportunities. However, for SMEs with limited resources, it is costly to create and maintain these relationships. It seems to be important for these firms to find the right combination of local and international embeddedness, and the various ways of doing this identified in this study can perhaps guide and inspire international entrepreneurs. Moreover, while internationalization lies in the hearth of economic development of rural regions, the findings demonstrate that many SMEs struggle to embed activities abroad and to combine international activity across national borders. Regional and national policymakers must therefore secure safe and smooth flows of people, goods and other resources across borders.

Finally, I will point to some limitations of this study and possibilities for further research. One limitation is related to the use of a structural perspective on embeddedness. To understand more about how SMEs in rural contexts can combine local and international embeddedness, further research is needed with a relationally-oriented perspective on embeddedness (Gulati, 1998, Rowley et al., 2000). Alternatively, further research could view embeddedness as a process or investigating the performance implications of being embedded (McKeever et al., 2014). Another limitation of this study is related the selection of only six cases; therefore, other designs and samples may provide

more insight on these topics. Possibilities for research on SMEs that are both rural and international stretch beyond the limitations of this study. For example, from an international entrepreneurship perspective we still have limited knowledge of the internationalization of SMEs in rural regions and what make these processes similar or different compared to internationalization of SMEs in urban regions.

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