

# **Becoming an insider: the internationalization of firms' in the health care sector**

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## **Abstract**

During the past decades, a number of countries have reformed their health care systems, allowing private actors to become health care providers. Accordingly, health care markets are rapidly emerging all over the world, constituting important opportunities for SMEs to expand their operations internationally. Since the health care sector is characterized by high complexity - being highly regulated, highly professionalized and to a high extent localized - entering such markets are greatly influenced by the institutional context and the SME's relationships to political, legal, professional and business actors. The business network in which the SME is embedded is of significant importance in gaining access to new markets and to local market knowledge. The purpose of this paper is to enhance our knowledge of health care SMEs' means to build and use network relationships in order to contribute to both the IMP research tradition as well as the internationalization process literature.

## **Introduction**

During the past decades, a number of countries have reformed their health care systems, allowing private actors to become health care providers. Accordingly, health care markets are rapidly emerging all over the world, constituting important opportunities for SMEs to expand their operations internationally. Since the health care sector is characterized by high complexity - being highly regulated, highly professionalized and to a high extent localized - entering such markets are greatly influenced by the institutional context and the SME's relationships to political, legal, professional and business actors (e.g. Hadjikhani et al., 2008; Kostava and Zaheer, 1999; Welch and Wilkinson, 2004). The business network in which the SME is embedded is of significant importance to gain access to new markets and to local market knowledge and thereby internationalize (e.g. Gebert-Persson and Káptalan-Nagy, 2009, Hadjikhani, 1998; 1991). The lack of such business network relationships constitutes the liability of outsidership (Johnson and Vahlne, 2009).

The complexity of health care markets in general, and foreign health care markets in particular, results in SMEs being significantly dependent on being perceived as legitimate and accepted in different phases during market entry (Oliver, 1990, 1997). The purpose of this paper is to enhance our knowledge of health care SMEs' means to build and use network relationships in order to contribute to both the IMP research tradition as well as the internationalization process literature.

The empirical data consists primarily of 23 interviews with respondents representing eight SMEs who have established their operations in different foreign markets, ranging from Europe, USA, Russia, Africa and Asia. In addition to the interviews, the paper relies on newspaper articles and other media data. The media material was collected with the explicit purpose to increase our understanding of the process over time.

## **Conceptual framework**

Firm market entry or internationalization has in International Business research been regarded as a process of increasing involvement in international markets (Welch and Loustarinen, 1988), and the trend of firm internationalization is spreading to new industries and new distant markets. One industry in which fast internationalization is notable as a result of privatization is health care (Venkatesh and Jayachandran, 2008) leading to a rapid development of global health care markets for both medical technology and medical providers (Holden, 2005; Outreville, 2007). Thus, SMEs in health care have just begun to cease the opportunities of expanding operations internationally, but they are as any other SME confronted with issues such as liability of newness, smallness and outsidership (Eriksson, Nummela and Saarenketo, 2014, Johanson and Vahlne, 2009; Schweizer, 2013) as well as resource and managerial constraints and operational challenges (Coviello and McAuley, 1999; Coviello and Munro, 1997), but also challenges particular to the industry such as strict regulations and legislations. Whereas traditional theories have emphasized entry modes and strategic planning (Buckely and Casson, 1976, Hennart, 1991; Melin, 1992; Rugman, 1981) the network approach focus on the

interactions and processes and acknowledges the temporal context of the firms (Halinen and Törnroos, 1995, 1998; Gebert-Persson, 2006).

The network approach emphasizes firms' network relationships as sources of information, knowledge generation as well as recognition of new opportunities and therefore the advancement of firms' internationalization (Johanson and Vahlne, 2003; Sharma and Johanson, 1987). The relationships can be of both formal cooperation and informal everyday character (Coviello and Munro, 1995, 1997; Coviello and Martin, 1999) as well as direct and indirect (Johanson and Mattsson, 1988), but can all be crucial for developing business networks in new foreign markets. Some of these relationships can become of particular importance as to function as 'bridgehead relationships' into new markets (Blankenburg Holm and Eriksson, 2000).

Building relationships is a costly, time-consuming and uncertain process (Johanson and Vahlne, 2006). In 2009 Johanson and Vahlne introduced the term "liability of outsidership" referring to a firm's lack of relevant network position that in turn hinders it to become an insider and consequently build relationships abroad. This means that the concept of "liability of outsidership" captures the uncertainty and difficulties associated with being an outsider in relation to a certain network (Vahlne, Schweizer and Johanson, 2012) Overcoming "liability of outsidership" requires a gradual development and maintenance of relationships over time through activities as learning, trust and legitimacy building as well as creating knowledge related to the identification and development of business opportunities in the new network (Johanson and Vahlne, 2009; Schweizer, 2013). The firm's network position is strengthened and it takes a step from outsidership to insidership (Holm, Johanson and Kao, 2015).

Liability of foreignness further complicates the process taken by firm to become an insider, because the more institutionally and culturally different are countries the more difficult it is to build trust and hence develop relationships abroad (Johanson and Vahlne, 2009) and eventually a position within a network. The position in a network is given by the firms' possibilities to access external resources through direct and indirect relationships, and the better the position the more resources it can access. Legitimacy is argued to be one of, if not the most important, resource for creating and upholding relationships because legitimacy is perceived to be a prerequisite for a firm wanting to get its foot into a network which in turn requires it to be seen as legitimate by other network members (DiMaggio 1992). In line with a study by Gebert-Persson (2006) we argue that legitimacy has an immediate effect on the firm's network position.

## **Research method**

This paper utilizes a multiple-case methodology (Eisenhardt, 1989) in a nested case study (Gibbert and Ruigrok 2010). This allows for an in-depth study of the importance of business network relationships and the need to become an insider for in health care SMEs internationalization by mapping activities and the role of different actors as the process unfolds over time. The design is thus a good fit with the aim to contribute to an understanding of the phenomena empirically (Yin, 2009) as well as to add to existing theories (Eisenhardt, 1989).

The health care industry is characterized as being knowledge-intensive, with high degree of innovativeness and a high proportion of SMEs that emerge as spin-offs from universities or research institutes. Within health care, the medical technology industry is a cornerstone, improving and saving lives by providing innovative solutions for diagnosis, prevention and treatment (European Commission, 2010), which is also the industry targeted in this paper. The selection criteria for the case firms were: 1. firm size, i.e., a small or medium-sized company according to the European Commission's definition (2005), 2. location, i.e., headquarters in Sweden as to minimize the potential for country specific biases, and 3. internationalization, i.e., ongoing internationalization. The application of these criteria resulted in the elimination of many firms from the study, but a meaningful number of firms still qualified for inclusion and finally eight SMEs were selected after they expressed a willingness to participate in the study.

In total 23 interviews are used in this paper with key informants (founders, COO, CEO, VPs of Marketing and Sales) involved in different phases of the case firms' internationalization. The interviews lasted for approximately 40 minutes to two hours. A pre-prepared interview guide with the following themes were used: (1) motives, process and challenges during internationalization, (2) prior understanding of targeted markets, (3) impact of awareness and familiarity about institutional and regulatory conditions, and (4) role and importance of business- and personal networks.

In addition, interviews were made with two representatives from business associations and export agencies in Sweden in order to gain a deeper understanding of the health care market. Secondary data, such as media articles and annual reports, concerning the firms and the medical technology sector was collected to complement the interview data.

In the analysis of the data in this paper was made in relation to responses to the challenges of internationalizing and the importance of different actors in different stages of the process. The qualitative data analysis software Atlas TI was used to sort and organize the data in a way that directs attention towards the important issues derived from the interviews. Our emphasis was thus on the process, the actors and the activities that were necessary for building business network relationships to eventually entering into new markets, rather than on the antecedents that explain variation in the occurrence of the outcome (e.g. Elsbach and Sutton 1992; Van de Ven 2007). The systematization is helpful in the analysis of qualitative data, but systematization in itself cannot replace the interpretation, imagination and creativity that take place throughout the research process and which constitute a precondition for developing new models and theories.

In this study validity is supported by a few measures taken as part of the analysis process. First, primary data has been collected through interviews with key informants guided by the authors, and has been triangulated within each case, and with the informants at the SMEs. Second, the interview material confirmed and confronted with secondary data from newspaper articles from the firms' inception and thereby reducing the risk of retrospective sense-making and impression management (Eisenhardt and Graebner, 2007; Gibbert et al., 2008; Yin, 2009). Interviewing managers, but also other key informants allowed for triangulating the answers and therefore the construct validity is improved (Gibbert et al., 2008; Yin, 2009). Third, the coding process has discussed with peer researchers who are not associated with this paper, yet who have the methodological experience. Finally, the findings have in the paper been linked to relevant research that has found similar patterns and results (Eisenhardt 1989).

## **Findings**

The study shows that the process of entering healthcare markets is divided into three distinct phases. The initial phase, not further discussed in this paper, involves getting the product or method approved by the licensing authority. The approval is a prerequisite for entering the market and the respondents describe this phase as formal and sometimes rather time consuming. During the approval process, the SME is highly dependent on, first and foremost, legal expertise, i.e. companies or individuals who work solely as legal advisors.

### **Phase two – funding and cost-efficiency**

The second phase is characterized by the SME's efforts to get the product funded within each country's healthcare system. The SMEs in the study have mainly, although not exclusively, entered into healthcare markets in countries where healthcare is politically governed and publicly financed, which means that the SME has to approach politicians and civil servants in control of healthcare funding and the national or regional compensation systems. The respondents express experiences of different types of political systems, more or less developed, but that the common denominator is that the argumentation is founded in the health economics area. The most crucial and convincing argument is that the product or method will increase cost-efficiency in the country or the region. Furthermore, the interviews show that relationships with key actors - individuals and/or companies are important and that these relationships can be divided into two categories: a) relationships with individuals and/or companies specialized in the rapidly growing 'market access industry' and b) relationships with larger and more resourceful companies where the SME's product becomes part of the other company's product.

### ***Entering a healthcare market by using market access agents***

The interviews show that the SMEs approach the intended markets in different ways depending on the country's political and public system. Some countries, like the UK, with particularly well developed public healthcare system, have established agencies and authorities to assess the potential cost-efficiency of product launches and the big challenge for the SME is to be considered for such a trial. In order to achieve this, the SME is working with market access agents with the explicit assignment to

approach these authorities. The relationships between the SMEs and the market access agent are then used for access to similar markets and are described as very valuable by respondents.

In countries, where the cost-efficiency assessment methods are not as developed and well structured, relationships with individual agents become more important. Respondents representing one of the SMEs describe how they cooperated with a professor of economics who argued for the financial benefits of using the product. Respondents representing another SME describes how a previous personal acquaintance between a researcher representing the SME and the health minister in a European country resulted in the product being almost immediately established within the healthcare compensation system – a situation described as a particularly successful exception. In the field of market access, legitimacy plays an important role as resource and access is created through the use of agents and/or other companies' relationships with key actors in the public sector funding system.

### ***Entering a healthcare market in partnership with a larger company***

Entering a publicly funded market requires entering a public procurement process, a process described by the respondents as extremely long and costly. In addition, participating in such a process requires extensive legal and country specific knowledge. These legal processes are described as major obstacles to SMEs, due to lack of skills and resources. However, an easier way of gaining access to the markets is to unite with a larger company and become part of their procurement process. At best, SMEs are able to get their product as a requirement in the procurement documentation, which ensures them access to the new market without engaging themselves in the public procurement process. A similar situation is created if the SME is able to sell its product to the larger, privately owned company which means a much simpler and less formal procurement process. The SME is then able to access the foreign market as part of the other company's product portfolio. Arguments for such a solution discussed in the study are economic benefits for the larger company, for example, if the SME product offers more cost-efficient analytical methods.

Summing up the second phase, legitimacy is gained by using the main argument *cost efficiency* and the SMEs action during this phase depends on the structure of the politically governed healthcare system.

### **Phase three – launching the product in a highly professionalized setting**

The third and final phase aims at getting the medical staff, mainly medical doctors, to actually use the product in their daily practice. Healthcare is highly professionalized and several respondents describe the sector as 'conservative'. The medical staff prefers to use products from suppliers they recognize and trust and the challenge for the SMEs is to create an identity as trustworthy and legitimate. In this process, the use of Key Opinion Leaders (KOL) – highly respected medical professionals and researchers – is an extremely important mean. The legitimacy of the KOL becomes a key resource for the SMEs and several respondents use the term 'ambassadors' to describe the role and importance of KOL.

During this phase, legitimacy is gained by getting the product to be accepted as 'scientific' and/or 'evidence-based'. The actors considered as KOL are generally scientists with a high scientific reputation. The SMEs are actively involved in building networks including KOL, which among other activities, means arranging meetings with different advisory boards connected to the product and the SME. In connection to this activity, respondents express the importance of not getting too close to KOL as this may be delegitimizing. If the medical staff perceives the SME as too closely linked to the experts, the KOL may be considered as governed by the company, which means that statements from the KOL are considered to be commercial rather than scientific. Another, and related risk expressed by respondents, is that one KOL is 'over used' by representing too many products. Even in such a case, the KOL seems too commercial to the potential users of the product which is delegitimizing.

While respondents emphasize the importance of KOL to create legitimacy, they also express the need to actually have access to expertise skills and competence within the company. One of the respondents means that the KOL's main function is to act as a discussion partner, for example, to develop the current product. However, several respondents discuss the risk of becoming too dependent on the KOL relationship and the negative effects that arise if the relationship between the SME and the KOL is interrupted. This is particularly evident when the KOL is working in the SME and gets another offer

from a competing company. In one case referred in the study, this meant that the SME had to leave the target market and approach the healthcare market in another country.

When it comes to legitimacy creating activities, the study shows the importance of organizing and participating in scientific studies and, above all, publish the results of such studies. The importance of country-specific studies is discussed as a mean to convince potential users that the product is suitable for local conditions. Another activity that creates legitimacy is to apply for research funding, especially acting on calls from the European Union. Being able to attract research resources underlines the SME's status as scientific.

Finally, being able to educate the users of the product is discussed as means to get the healthcare staff to use the product. One respondent describes how the SME arrange follow-up meetings where they check that the product is being used in daily activities. The use of a product is discussed as significant in the process of creating legitimacy and the respondent describes how the SME avoid selling the product to small hospitals due to the risk of the product being left on the shelves. The fact that products sold by the SME remains unused are considered as delegitimizing, meaning that small buyers sometimes are avoided.

From the discussion above, it appears that being considered as 'scientific' is a strong legitimizing factor. At the same time, respondents emphasize that the argument 'cost efficiency' is crucial in the third phase as well. Regardless of the scientific status of a product, several respondents consider it impossible to sell a product if the use of the product means that the medical doctors or the hospital are losing money.

### **Concluding discussion**

The study shows that entering into a market is divided into distinctive phases in which legitimacy as a resource is achieved and used in different ways. The initial phase aims at being legally approved in the foreign market by compliance to regulations. During the following phase, the SMEs aim at gaining funding by being approved within national or regional compensation system. This part of the process is characterized by interacting and bargaining with a wide range of actors, including politicians and civil servants, and legitimacy is gained by implying that the product or service is cost efficient and contributes to a more efficient use of health care resources. The final phase aims at convincing highly professionalized actors, i. e. medical doctors, to use the product or service. During this part of the process, the SMEs rely heavily on relations with highly ranked professionals – “key opinion leaders” – and the opportunity to be part of research studies and publications. Legitimacy is gained by being perceived as “scientific” and “evidence based”.

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