# BUSINESS NETWORK RELATIONSHIPS AND LEARNING IN THE INTERNATIONALIZATION PROCESS OF FIRMS: THE CASE OF AUSTRIAN SMEs

Alexandra Kaar[1]
Department of International Management, Johannes Kepler University

*Key words: network relationships, learning, internationalization, knowledge acquisition*

**Abstract**

This paper studies learning and foreign market knowledge acquisition by small and medium-sized enterprises (SMEs) in the internationalization process through their business network relationships. It challenges the assumption that firms can develop relevant international knowledge only through their own ongoing international business activities. Based on multiple-case studies conducted with six internationally active Austrian SMEs, this study shows that apart from experiential learning, firms also draw on their business network to acquire knowledge that is relevant to their internationalization process. In addition, the findings point at the role of the firm's domestic and international business relationships as an extended knowledge base complementing internal knowledge.

[1] Alexandra Kaar, Johannes Kepler University, Department of International Management, Altenberger Straße 69, 4040 Linz, Austria, Tel.: ++43 732 2468 9447, Fax: ++43 732 2468 9135, Alexandra.Kaar@jku.at

## Introduction

The concepts of learning and knowledge are of great interest to management sciences, including the areas of organization studies, strategic management and entrepreneurship. In the field of international business, knowledge and learning are at the heart of the behavioral models explaining the internationalization process of the firm (e.g. Johanson & Vahlne, 1977; McDougall, Shane, & Oviatt, 1994). A number of studies have demonstrated the positive effects of foreign market and internationalization knowledge on the perceived cost of internationalization, the speed and effectiveness of international expansion, as well as international market performance and competitive positioning not only for large multinationals, but also for small and medium-sized enterprises (SMEs) (e.g. Eriksson, Johanson, Måjkgard, & Sharma, 1997; Petersen, Pedersen, & Sharma, 2003; Zahra, Ireland, & Hitt, 2000).

However, there has been only little research regarding what is considered relevant knowledge in the internationalization of the firm as well as how this knowledge is developed by the individual firm and the processes supporting it (Chetty, Eriksson, & Lindbergh, 2006; Forsgren, 2002). As indicated by Liesch et al. (2002), it remains unclear what the processes are that drive the transfer of knowledge and information from external network actors to the entrant firm. Similarly, Welch, Benito, Silsetz and Karlsen (2002:216) find that *"many questions remain as to how, and through whom, relevant information enters the firm, is transferred within, and becomes available in a form that managers know about and are able to use in order to take action in the international arena."* Forsgren (2002) contends that the understanding of how foreign market knowledge is acquired, retained, transformed and transmitted by organizations is still only limited.

This paper aims at closing the gap by examining foreign market and internationalization knowledge acquisition processes by SMEs. More specifically, this paper draws attention to business relationships and examines, through an exploratory multiple-case study design, their role as conduits for international knowledge acquisition by entrant firms. This is based on the assumption that when going international, firms establish formal and informal business relationships, both with domestic as well as international actors. As many of these firms already dispose of knowledge pertaining to specific local business contexts and procedural aspects of internationalization, the question arises to what extent and under what circumstances it is possible for the entrant firm to draw on this knowledge and learn from the experiences. An actor-network perspective is pursued (Halinen & Törnroos, 1998) which uses the multiplicity of network relationships of a focal firm as the unit of analysis. The business relationships are assessed in terms of their substance which refers to what is affected. Three layers have been identified in this respect: actor bonds, resource ties and activity links (Håkansson & Snehota, 1995). These characteristics are suggested to determine the flow of relevant internationalization knowledge between the actors.

The remainder of this paper is organized as follows. We proceed with a short review of the literature on the internationalization process, particularly of SMEs, the role of business network relationships in this process as well as the concepts of learning and knowledge as they are applied therein. This review forms the basis for the research questions. Next, we present the research design which is followed by the case study data and analysis. The article ends by drawing implications for further theory development in this area as well as highlighting the limitations and potential avenues for future research.

## Literature Review

### *SMEs and the internationalization process*

Recently, more and more SMEs are expanding their businesses abroad. Among the most important factors driving the internationalization of SMEs are decreased trade barriers, saturated home markets, a desire to grow, severe competition in local markets as well as the need for high R&D investments paired with shorter life cycles (e.g. Andersson, Gabrielsson, & Wictor, 2004; McGaughey, 2007; Ruzzier, Antoncic, & Hisrich, 2007). While internationalization provides a number of opportunities for SMEs such as enhanced competitiveness through learning and innovation (e.g. Zahra et al., 2000), a number of internal and external barriers to internationalization have been identified (Leonidou, 2004; OECD, 2006). Many of these barriers are related to the constraints that these firms are facing with regard to managerial, financial, human and informational resources. These constraints are intensified when international markets are served (e.g. Coviello & Munro, 1997). Especially in the early stages of internationalization, SMEs lack the necessary resources for information and knowledge acquisition pertaining to international markets making it the number one barrier to internationalization (e.g. Li, Li, & Dalgic, 2004). The lack of foreign market and internationalization knowledge increases perceived market uncertainty and risk. This leads to higher perceived costs of internationalization, slows down international growth and has a negative impact on international market performance (e.g. Belso-Martinez, 2006; Coviello & Munro, 1997; Eriksson et al., 1997; Petersen et al., 2003; Saarenketo, Puumalainen, Kuivalainen, & Kyläheiko, 2004; Zahra et al., 2000).

### *Knowledge and learning in the internationalization process of the firm*

The role of market knowledge as an explanatory factor of firm internationalization and performance has been stressed in different behavioral approaches to internationalization, including the internationalization process model (Johanson & Vahlne, 1977), new venture theory (McDougall et al., 1994) and studies on managerial determinants of internationalization. Johanson for instance suggests that, *"it is the lack of market knowledge that is the biggest obstacle when first going abroad and it is such knowledge that makes it possible for internationally experienced firms to systematically build up operations in foreign markets."* (Johanson, 1972, as cited in Johanson & Vahlne, 2003:7). Their model views internationalization as a dynamic process of growth and learning, and thus focuses on experiential learning as the sole determinant of internationalization decisions.

Despite this centrality, the concepts of knowledge and learning have not been clearly defined by individual researchers in international business. Eriksson et al. (1997) are a notable exception to this. They conceptualized and operationalized the types of knowledge considered relevant to the internationalization process of the firm. Apart from procedural knowledge about internationalization in general, more specific market knowledge is required. The latter can be divided into institutional knowledge pertaining to the rules of the game in the respective society and business knowledge representing knowledge about specific business practices, the structure of the industry and market conditions (Chetty et al., 2006; Eriksson et al., 1997; Sharma, 2003). The relevant knowledge is again regarded as experiential in nature (Eriksson, Johanson, Måjkgard, & Sharma, 2000; Madhok, 1997; Zahra et al., 2000). This means that it is acquired through ongoing international activities by the individual firm. Other possibilities for learning are not considered, mainly because the model considers the firm as a stand-alone actor. With more firms being active on an international scale these days, the question arises to what extent firms can benefit from the knowledge acquired by other firms in their business network without having to go through the same experiences themselves. This seems to be of special relevance to SMEs as the assumption of "learning-by-doing" implies a time consuming and resource intensive process.

Organizational research has long distinguished different forms of learning that drive the development of a firm's knowledge base (e.g. Levitt & March, 1988). Researchers have examined possibilities of imitative learning, pro-active search for new information, the hiring of people with the required knowledge, as well as learning from business relationships as possible ways of accelerated learning (e.g. Bandura, 1973; DiMaggio & Powell, 1983; Eriksson, Hohenthal, & Johanson, 1999; Haunschild & Miner, 1997; Huber, 1991; Kraatz, 1998; Lane & Lubatkin, 1998). Admittedly, learning from the experience of others is a complex process. Factors such as the nature of the knowledge, relationship strength, absorptive capacity, learning orientation and organizational embeddedness affect knowledge transfer (e.g. Argote, Ingram, Levine, & Moreland, 2000). In an international context, the process can be expected to be further complicated by the fact that the individual actors do not share the same context. However, Forsgren (2002) suggests that recent developments in research regarding knowledge transfer between organizations have not yet found their way into internationalization research. By taking a network perspective on the internationalization of small and medium-sized firms, this paper thus examines possibilities for learning from the international experience of other actors in the network.

***The network model of internationalization and the industrial network approach***

The network model of internationalization (Johanson & Mattsson, 1988) suggests that internationalization of the firm is the consequence of the position of the individual firm within the network. The focus is on the role that the individual firm plays for other focal firms, its importance to the other firms, and the strength of the relationship between the different firms. Among the most important network partners are suppliers, customers, distributors, competitors, governments and other institutions (e.g. business support agencies). More recently, venture capitalists have also been included as they frequently dispose of a vast network of business relationships themselves. From this perspective, it is the firm's network that explains the internationalization path of the individual firm rather than the degree of international knowledge possessed by the firm.

As firms maintain network linkages and positions within networks that are unique and idiosyncratic they are exposed to different knowledge, ideas and opportunities (e.g. Gulati, 1999; McEvily & Zaheer, 1999). When going international, firms establish relationships with various actors on a domestic and international level. These relationships represent important sources of knowledge pertaining to specific local business contexts or to internationalization in general. The benefits of international network relationships identified in prior research include technological learning, opportunity recognition, access to foreign markets, the possibility of drawing on resources to overcome resource constraints, as well as developing competitive advantage (Bonaccorsi, 1992; Coviello & McAuley, 1999; Yeoh, 2004; Zahra et al., 2000; Zain & Ng, 2006).

Different definitions and understandings of networks prevail in literature. Research on international joint ventures and strategic alliances for instance considers common goals among actors as a determining characteristic of networks, and assumes that individual actors organize themselves into networks in order to reach the goals (Gulati, 1998). However, formal cooperations make up only a small part of all intercorporate cooperations. Many possibilities for cooperation and knowledge transfer arise from the everyday informal activities within ongoing business relationships (Axelsson, 1992; Håkansson & Johanson, 2001). Hence, this paper views networks as composed of individual organizations that are loosely connected through different types of bonds and social relationships. The relationships emerge through exchange processes between the actors (e.g. Johanson & Mattsson, 1988).

Based on this understanding of networks and business relationships, and the need to focus on knowledge flows between firms, the approach to studying networks taken within this paper is based on industrial network theory. In its original form, this approach uses the dyadic relationship between buyers and sellers of industrial goods as its unit of analysis and examines these dyadic relationships in the context of other relationships that a focal firm may have (Anderson, Håkansson, & Johanson, 1994; Axelsson & Easton, 1992; Easton, 1992; Håkansson, 1982; Håkansson & Snehota, 1995). The industrial network approach treats industrial systems as networks of relationships among firms that are involved and connected by exchange processes. The interaction approach proposed by the IMP group is in contrast to market governance and the SOR paradigm and focuses on informational episodes, product episodes, financial episodes, and social exchange episodes (Backhaus & Büschken, 1997; Håkansson, 1982). Four different metaphors have been suggested to describe different avenues within this tradition: networks as structures, networks as processes, networks as positions, networks as relationships (Easton, 1992). In order to capture the knowledge flows between the individual firms, the latter view is of interest in this paper.

In their discussion of interfirm relationships, Johanson and Mattsson (1987) distinguish between relationships and interactions. While relationships are frequently long-term in nature, interactions represent the "dynamic aspects of relationships" comprising (a) exchange processes (e.g. business, social and informational exchanges between firms) and (b) adaptation processes (e.g. adjusting products, production and routines). Relationships vary in terms of the mutual orientation of the actors involved (i.e. willingness to cooperate and complementarity of objectives), the perceived direct and indirect dependence, the kind of bonds that exist between the actors, and the relationship-specific investments each actor has made in the relationship. With regard to bonds, the industrial network approach distinguishes between economic, technological, logistical, knowledge and informational, social, administrative, legal and time-based bonds (e.g. Håkansson & Snehota, 1995; Johanson & Mattsson, 1987). While economic bonds are frequently considered to be the raison d'être for the relationships found in industrial systems, other noneconomic exchange aspects of relationships also have to be considered. A number of relevant relationships set up in networks for instance do not dispose of any direct economic exchange, but are informational or social in nature (Easton, 1992). The bonds both facilitate and constrain a company in developing its position within the network. It is these activity links, resource ties and actor bonds (Håkansson & Snehota, 1995) that characterize the substance of a relationship and are thus of interest in this project.

## Research aims and research questions

From the previous discussion it becomes clear that the assumption of experiential learning has dominated internationalization process research so far (e.g. Eriksson, Måjkgard, & Sharma, 2000). The effects of network actors and business relationships on foreign market and internationalization knowledge accumulation and learning have hardly been investigated. Thus, the paper examines the local and international network relationships that firms develop in the process of internationalization, their characteristics with regard to activity links, resource ties and actor bonds, as well as the internationalization and foreign market knowledge acquired through them. The two guiding questions are:

1. What are the activity links, resource ties and actor bonds that the firm has developed over the course of internationalization?

2. How do firms acquire the different components of knowledge relevant in the internationalization process?

## Methodology

### *Research design and research instrument*

In order to capture the business relationships as well as the flows of internationalization and foreign market knowledge between different actors, an exploratory multiple-case study design is adopted (Eisenhardt, 1989; Yin, 2003). As indicated by Yin (2003), case study research allows for an in-depth exploration of the phenomenon of interest within its real-life context. Hence, a rich description is derived of when, why and how firms draw on their business relationships to access relevant internationalization knowledge. The unit of analysis is the actor-network. The individual organization is conceptualized as a collective actor (Emerson, 1976). A single case thus has one focal organization as its actor. As suggested by Eisenhardt and Graebner (2007), the use of multiple cases permits a broader exploration of the research question and should enhance the quality of emerging theory.

In the design of the research instrument, different measures were taken to ensure validity and reliability of the research (Yin, 2003). First, multiple sources of evidence were used to ensure construct validity. Specifically, the primary source of evidence was semi-structured interviews based on an interview guide. This approach allowed for comparability of the different interviews while at the same time allowing for openness to idiosyncratic practices (Miles & Huberman, 1994). They were conducted with at least one individual at the focal firm who was responsible for international activities of the firm and had been actively involved from the start of international operations. Although the focus is on the organization, its business relationships and the international learning taking place within them, such an approach is legitimate as the firm's point of view is thought to "*consist in reality of the personal views of human beings, of the way they see and perceive business*" (Halinen & Törnroos, 1998:193).

The design involved three personal face-to-face encounters with each interviewee. The first interview represented a rather informal conversation where the topic and aims of the study were explained to the interested firms. This also provided an opportunity to assess the suitability of the firms for participating in the study while at the same time paving the way for an open atmosphere.

Throughout the second of the three interviews, network maps were developed showing the business relationships and how they evolved along with the internationalization of the firm. As indicated by different authors, networks are both stable and changing (Gadde & Mattsson, 1987; Johanson & Mattsson, 1987). While day-to-day exchanges largely take place within the established framework of relationships, new relationships are formed and old ones abandoned from time to time. Also, the individual relationships develop and change through the interactions that are taking place between the actors. In order to get established in a new market, it is assumed that the organization has to build new relationships both domestically and abroad, and develop its position in a network it is new to. As has been indicated earlier, the relationships may be economic, social, or informational in nature. The framework depicted in Fig. 1 shows the individual elements that were assessed during the interview and partially in the form of network maps.

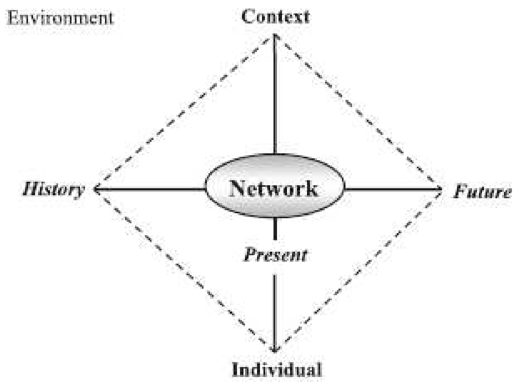


*Figure 1:* Framework for the analysis of business networks in a contextual time-space (Halinen & Törnroos, 2005:1290)

The relationships between the network actors are largely invisible and fluid, and can thus only be fully comprehended by actors that are part of the network (Johanson & Vahlne, 1990). In fact, actors have a fairly clear view of their own relations with and dependencies on other actors, as well as of some of the relations these actors may have with other third actors. However, giving an accurate account of a firm's current business relationships and their relevance, as well as reconstructing the evolution of all relevant relationships over time is a difficult and unmanageable endeavor. In order to ensure that the individual interviewees recalled the business relationships and critical developments to the best of their knowledge, techniques of narrative interviewing were employed apart from asking specifically for key events within particular business relationships and throughout the internationalization process.

The third round of interviews serves as an opportunity for the interviewee to review the case study draft and possibly complement the network maps. In addition, the emerging topics and interpretations put forward by the author were discussed.

Apart from this rather extensive approach to semi-structured interviewing, documents including the development of turnover, international sales, company histories, organizational charts and their evolution, hiring statistics, and agreements with network actors were collected. A case study protocol was developed right at the start of the research process, and a case study database was set up where all the documents (e.g. company documents, memos) obtained and developed throughout the research process were collected and stored. This is to allow a reconstruction of the findings and interpretations by other researchers (Yin, 2003).

In data analysis, we drew on a variety of analytical tools proposed for within-case and cross-case analysis such as pattern coding, memoing, conceptually-ordered displays as well as case-ordered displays (Miles & Huberman, 1994). Interview transcripts were content analyzed, interpreted and coded, and labels attached to direct quotes from informants. The individual cases are compared with each other as well as with theory in an attempt to identify patterns related to international market learning and the influence of networks and relationships on this process. In addition, we engage in explanation-building based on new insights provided by the different cases (Yin, 2003).

*Research setting*

In a first round, six Austrian SMEs were identified based on practical sampling (Henry, 1990). The sample firms are all Austrian manufacturing firms from different industries that satisfied the following criteria:

- They should be small and medium-sized enterprises as defined by the European Commission.
- They should have a largely standardized product portfolio with only minor adaptations required to different markets.
- They should have been internationally activity for at least 5 years.
- They should be active in more than five markets other than Austria.
- They should be active in both psychically close (e.g. Germany, Switzerland) and more distant markets (e.g. Czech Republic, Rumania).

The dominant motive for international activity was market-seeking as all the firms were in a market niche for which the Austrian market would have been too small. The dominant form of foreign market activity for all case firms was indirect export. However, all of the firms also had either direct sales or a sales subsidiary in at least one of the markets they served. Individual markets were always only served in one of the ways at a particular point in time. Within the firms, decision-makers as well as other people engaged in the internationalization activities of the firm were identified. They needed to dispose of a great willingness to contribute. Within each focal case, there was a need to include at least one interviewee who had been involved in the internationalization process of the firm from the beginning. This was relevant for mapping in detail the steps taken throughout the internationalization process as well as describing how the business relationships evolved.

## Findings

Table 1 provides the descriptives of the participating firms. With the exception of one company, all were founded after 1979. The number of employees ranged from 39 to 170, and turnover ranged from € 7.5 million to € 18 million. A closer look at the turnover of the companies revealed that all the firms had Europe as their core market. However, all were selling their products to other parts of the world as well, mainly the United States, Russia and Asia. The explanation provided for this was geographical reach and ease of intervention in case something goes wrong. All of the case firms were niche players and enjoyed a unique selling proposition with their products, either because of technological or qualitative leadership. This also meant that the companies did not have many direct competitors as the niches were too small even on a world-wide scale. At the same time, the companies were all producing largely standardized products that required only minor adaptations to the different markets they served. Markets where major adaptations would have been required were explicitly left out from any international expansion plans.

To address the aforementioned research questions, this section presents the findings regarding the business network relationships that were identified by the individual case firms as playing a role in their internationalization process and the substance of these relationships with regard

**Table 1: Descriptives of participating firms**

| Firm | Key informant | Established | Number of employees | Foreign markets | Turnover (2007/08) | institutional factors[2] | industrial factors | organizational factors | Market development[3] |
|---|---|---|---|---|---|---|---|---|---|
| Alpha | BI | 1989 | 39 | world | 7,5 mio € | low | niche | standardized | passive |
| Beta | GO | 1988 | 74 | world | 12 mio € | low | niche | standardized, minor adapt. | passive |
| Gamma[4] | GU | 1979 | 170 | world | 20 mio € | low | niche | standardized | mixed |
| Delta[5] | HO | 1996 | 50 | world | 16 mio € | low | niche | standardized | active |
| Epsilon[6] | HA | 1990 | 70 | Europe, US | 18 mio € | low | niche | standardized, minor adaptations | active |
| Zeta | WI | 1955 | 102 | Europe, Russia, US | 9,2 mio € | low | niche | half-standardized, niche | active |

[2] subject to governmental regulations and competition policies
[3] determining foreign business opportunities can occur through: the network (passive), own search (active), search by partner (mediated)
[4] Management buy-out
[5] Spin-off
[6] Management buy-out

to activity links, resource ties and actor bonds[7]. In addition, this section draws out to what extent the different relationships were helpful in acquiring internationalization and foreign market knowledge. The last part identifies possible influencing variables including resource constraints and the degree of active international market development. Because of space limits, not all findings are illustrated with quotes.

**Business network relationships and internationalization**

When firms go international, their networks tend to change. While not all existing relationships were affected by the internationalization of the case firm, there was a need to abandon certain old relationships, intensify existing ones and form new ones as a result of the international efforts. Relationships that were affected encompassed service providers, suppliers and importers.

Because of the internationalization of the individual firm, the demands changed especially regarding service providers such as tax advisors, lawyers and banks. The individual firms thus abandoned even long-standing and personal relationships to establish new ones with more internationally experienced firms.

> *„Originally, our tax advisor was someone we knew privately. But then, relatively early on, it turned out that with the challenges regarding international patenting rights and balance sheet valuations, we needed someone with real international experience, possibly also with an international network in the back, so that even if they did not know themselves , they could draw on their company network to find out. This is why we then ended up with PwC." (BI[8])*

In contrast, all the case firms intensified their relationships with suppliers as a result of their international efforts. In fact, suppliers were among the most important network partners when it came to internationalization as both parties are part of the same value chain. Because of the resulting activity links both sides felt a certain degree of interdependence. With increasing sales volumes of the individual firms, all of them had to ensure that their suppliers would be able to satisfy the orders while maintaining the high quality requirements. Changing suppliers was not an option for any of the firms as only one or a few potential suppliers existed that could deliver the complex and specific parts and components. Also, while all the companies sold standardized products, minor adaptations were frequently necessary. Hence, good social relationships were also useful in getting the suppliers to produce small batches of parts and components needed to satisfy this demand. At the same time, this willingness on the part of the manufacturers was returned by the case firms as they held on to their suppliers even as they were growing bigger.

> *"When we started out, we only found small suppliers because our orders were too small for the bigger companies. And many of them grew with us. So this was important for us, that these firms also developed in terms of quality. And as we've been working together for such a long time, it is easier to get them to customize certain parts. Especially if one is developing a new product it is important that they are able, and willing to make even*

[7] Håkansson and Snehota (1995:26) define activity links as technical, administrative, commercial and other activities of a company that are connected in different ways to those of another company as a relationship develops. Resource ties connect different tangible and intangible resources of two companies. Actor bonds connect actors and influence how they perceive each other. They encompass economic, technological, legal, knowledge and social bonds.

[8] Initials of key informants at the case companies

*small series. And then it is up to you to be fair and not turn your back on them when orders are growing." (BI)*

The relationships with the suppliers changed as a result of internationalization and became more interdependent. At the same time, the relationships became more intense which was reflected in greater assistance and closer co-ordination.

Importers and dealers emerged as the most important relationships in the course of internationalization of the case firms. All the firms opted for an indirect sales model in foreign country markets, with usually a single importer serving a particular country market. The importers acted as a vehicle for market entry as the firms themselves were faced with resource constraints in terms of human and financial resources. In addition, the firms had to concentrate on operations and product development at home.

As the relationships with importers had to be formed anew the firms were faced with the challenge of identifying suitable partners. All the firms took advantage of international trade fairs within their particular industry. They served as an important vehicle to monitor new trends within the industry, receive market information, present own products and test their appeal with other markets. In addition, they provided an opportunity to meet up with other international players in the field, as well as with potential customers and traders.

*"It is of course the case that we participate in these trade fairs in order to make other companies aware of our products, competitors. And this should also get the attention of representatives, potential sales partners active in another country." (HO)*

A major criterion in selecting local dealers and importers was their prior industry experience selling similar or related products. This ensured that they already possess the required knowledge to sell the product and allowed for synergies in cases where the distribution was not exclusive. In addition, the case firms could benefit from an already established customer base which provides immediate access to potential customers. In addition, as these sellers were locals, they had a better understanding of dealing with local customers. It was also easier for them to oversee the activities of competitors within the particular local markets.

*"Of course, a German with many years of experience selling to German customers, they just have more experience and knowledge of dealing with German customers than Austrians." (GU)*

Overall, the case companies seemed to rely on their dealers when it comes to market specific knowledge. As most of the firms were entering a great variety of international markets within a short period of time, they did not have the resources internally to develop this knowledge.

*"If you don't speak the language, if you don't know local legislation, then you would have to employ lawyers and people like that. Well, this may work with big companies, but with a small company like ours with only a few million € turnover, that's not possible. So I very much prefer having a partner there, with whom one can develop programs and strategies for the market. This is something one can control: yes, we have agreed on this, this is what has been accomplished, this is what is missing. What do we need to do, how can we do things differently. So this is what helps us the most." (WI)*

The relationships with the importers certainly took time to develop. Most of them started out as arm's length relationships. In some instances, the relationships even remained at this level. Sales figures then served as the major determinant regarding the continuation of the relationship. Different explanations emerged for such weak relationships. First, as will be outlined later, firms that took a passive stance to internationalization were less willing to invest in intensifying the relationships. Second, firms sought closer relationships in markets that were relevant for them either because of market size, because of the strong position of a competitor within the market, or because the market was the home market of a major competitor.

Interestingly, the firms attached more importance to personal relationships than to strategic considerations regarding particular markets. The argument was that if they did not get along well on a personal basis, doing business together would not work out. This can be explained by the close activity links between the firms. In all the case firms, there was a clear task separation between the two parties. Firms that developed closer relationships over time also perceived a higher dependence on their dealers.

> *"This has only developed over time, a certain personal basis has evolved, which is important now, but this has not been like that from the beginning." (HA)*

Because of the interdependence between the case firms and their importers the firms looked for signs of commitment on the part of their importers. The case firms themselves upheld and intensified the social relationships through visits and meetings.

> *"Our biggest 20 importers … within the past 2 years, we have visited almost all of them. In February, he's going to the States, that's the only one missing. He has met them on the trade fairs already, but in order to know where they work, how they work, also from the spatial conditions. One simply gets a better feel if one has been to them." (BI)*

Apart from these vertical relationships, firms actively seeking international markets also pointed at business support agencies, most importantly the Austrian Federal Economic Chamber with its initiatives. These services were particularly useful in preparation of a new foreign market entry.

> *"The Austrian Federal Economic Chamber is of ongoing relevance for us in the context of internationalization. If we go to new markets, we seek out, which possibilities do we have, and try to … what are the habits, what's going on. This whole issue of getting relevant data of a country, of an industry in that country, this is where they are involved." (HO)*

Surprisingly, competitors and other home-country firms engaged in the target market were not considered to provide important support for international activities. Occasional meetings at different events served as a platform to also discuss issues related to the international activities of the firms and hence benefit from the experiences of others. Again, time constraints were a major factor keeping entrepreneurs from making more frequent use of such opportunities.

> *"But in this case, it was two other companies that are also exporting, where we talked informally, so how did you deal with the issue of hedging international receivables." (BI)*

**Internationalization and foreign market knowledge development**

The activity links and task sharing resulting from internationalization has important implications for internationalization and foreign market knowledge that is entering the firm, as has the intensity of the relationship.

With regard to service providers, specific knowledge largely stayed with the service providers although the firms had to adapt some of their practices to the new international environment regarding accounting and financing issues. One reason for this is the fact that this knowledge is not related to the core business of the individual firms.

Although an increased intensity of relationships with suppliers was observed, these relationships did not serve as a source of internationalization or foreign market knowledge. Yet, the suppliers themselves at times received market information and had to come up with new technical solutions. Overall, these relationships were characterized by an intense exchange of technological know-how which helped the firms to maintain their competitive edge in international markets.

In contrast, all firms drew heavily on importers and their knowledge regarding their respective local markets. Importers have the advantage of sharing the local context while at the same time being knowledgeable about the product. Different forms of learning and knowledge acquisition were observed.

First, because of their resource constraints, many companies considered the importers as an extended knowledge base. They were explicitly not interested in internalizing knowledge pertaining to specific legal requirements, red tape, customs, and certification requirements.

> *"Red tape, this is terrible for entrepreneurs. This is why we said that in markets like the Czech Republic or Russia, with all the certificates, import certification etc. – I don't care about that. You get everything you need from Austria – and then it is your turn. Because what am I as an Austrian supposed to do with the Russian customs? The'll laugh at you. So this is the task of the local importer to take care of these things. They are local people, they know how things go, they know, what they have to do in order to get things." (WI)*

Similarly, specific societal norms were not deemed important as such by the case firms except when they had a direct impact on the appeal or design of their product. Hence, the more market specific the knowledge was, the less interested the individual firms were in it. In addition, the firms recognized that with regard to foreign business knowledge, it would be difficult to develop a real understanding of the conditions if one was not on the spot. However, because they had well-established relationships with the importers and could rely on them, this lack of knowledge did not endanger their success. Quite on the contrary, it allowed the firms to save resources when treating their distributors as an extended knowledge base.

Importers also passed on important market knowledge to companies that were open to their feedback. It seems that this openness was determined by relationship strength, although openness in itself also led to more intense relationships. Frequent exchanges allowed the firms to get a sense of the local market and provided possibilities for exchanging ideas and experiences. A lot of ideas regarding new product developments or adaptations entered the firm this way.

> *"We had intense contact with the dealers. We knew which problems they had, the reasoning of the local customers." (HA)*

Similarly, the firms regularly exchanged information regarding transportation issues. Overall, this learning-through-networking proved useful and important for the success of the individual firms.

Trade fairs and visits to different countries organized by the Austrian business agency provided opportunities for informal information and experience exchange. The knowledge transferred largely pertained to local markets and business conduct. This seemed to be of special relevance in those instances where firms were screening particular markets but not yet operating in them, as well as in those cases where firms had already tried to set up a business but had failed.

> *"We had been to trade fairs in the Emirates, where things looked promising and where we thought … We already had a partner there and had the impression, that he's the right guy, and we're going to do business now. And in reality, we didn't get a single order. Only when one of our people participated in one of these organized journeys where Austrian entrepreneurs travel to the different markets, this was revealed to him. I don't know whether this is some sort of a secret, probably not, but we did not know. But if you are new to the market, how could you know?" (GU)*

This instance is also characteristic for the way in which the individual firms approached different foreign markets. Most of them stayed with established and proven patterns of market entry without questioning the suitability of the approach. Only one company indicated that prior to market entry they explicitly invested human resources for identifying local sales conditions rather than leaving this up to their partner.

However, firms could develop an understanding of societal norms in different countries through observation of the practices of their local dealers as well as through direct interaction with them. Comparing the collaboration with different partners, they recognized particularities in their behaviour which they attributed to different cultural backgrounds. At the same time, some relationships dissolved as the individual firms frequently failed to recognize different expectations of local dealers. To what extent the firm reflected such a failure was again a matter of resources and market importance.

> *"The problem what we have is that we had a partner who, relative to the size of India, was not successful enough. And so we decided to have a second one in India. And, yes, they then became extreme rivals, and then one of them no longer wanted to work together with us. He said he was fed up."(GU)*

Imitating direct competitors when it comes to entering foreign markets did not play a role, neither in terms of foreign market selection nor in terms of entry mode. Rather, the firms relied on their own experiences and used the vehicle of trade fairs.

**Active versus passive networking behaviour and consequences for learning**

Interestingly, the firms could be divided roughly into two different types. First, one group of firms did not have to bother about actively developing international markets. This was for one of two reasons. First, one of the case companies did not actively pursue an international growth strategy and did not perceive a dependence on international sales. Consequently, they were not willing to invest resources in planning market entry or adapting their products.

> *"That one enters a market, this is more or less by chance, when interested dealers get in touch with us. … Up to this point, we were always in a situation, where we said either you take what we have or it does not fit and then … We were never really dependent on a specific business, or that we thought we had to conquer a specific country, or that we had to break into a market." (GO)*

As evident in this statement, such a passive stance may have important implications for the perceived usefulness of foreign market knowledge. *Beta* did not show an interest in getting much knowledge in from their distributors. Hence, also the relationships with their importers were arm’s length, and specific market knowledge was largely missing within the organization.

Other companies that also took more of a passive stance were contacted by customers and dealers because of their good international reputation. Such an approach to market entry and penetration became easier for the individual firms over time as they had already established an international network. This has also important implications with regard to the motivation of the individual dealers to perform. However, in contrast to the aforementioned company, this case firm welcomed information and ideas coming in once they were active in the different international markets, mainly because they were highly innovation oriented.

Three of the case firms took an active approach to international extension and penetration. Getting a foothold in the different markets was more resource intensive for these firms, both in preparing their market entry as well as in later stages when it came to penetrating them. These firms were also more likely to draw on the services provided by business agencies especially for gathering basic market information.

> *“For instance in the US, we contacted the Federal Economic Chamber, told them which criteria we have, that we need dealers in this field. Then we got address material that we sorted through. So we have the first contacts now, and we meet up with the people, talk things over, look to what extent cooperation may be possible. And in Poland, in the Czech Republic and in Slovenia we did it similarly.” (HO)*

## Conclusion

This paper contributes to the internationalization literature by examining the networks of internationally active SMEs and the learning that is taking place within them. Specifically, this paper employed a relational perspective to understand, explain and describe international knowledge acquisition by SMEs. The specific value lies in paying attention to alternative forms of learning that occur throughout the internationalization process of the firm, and linking it to characteristics of the business relationships.

The case studies showed that as firms internationalize, their networks also change. The most important network relationships are those along the value chain pointing at the importance of activity links and resource ties. Within the individual relationships, the parties develop knowledge concerning efficient work flow integration. This at times also requires an understanding of local market requirements. Hence, while the case firms themselves received valuable information and knowledge from their distributors, the suppliers could also benefit from the international activities.

Prior literature has identified three different knowledge domains when it comes to internationalization. However, it did not distinguish different development processes or differences regarding their importance in the internationalization process. In this study, a number of factors emerged that determine learning processes in the course of internationalization.

Resource constraints provide a major limitation on accumulating knowledge inside the firm. The study showed that a lack of foreign market knowledge is not perceived as an obstacle in carrying out international business activities. Rather, importers serve as an extended knowledge base and are responsible for market development. The individual firms rely on the importers to pass on any relevant information. This is because the firms themselves perceive a lack of familiarity with the local markets and hence do not feel capable of adequately assessing the specifics of the market. At the same time, the individual firms do not attribute much importance to very specific market knowledge as they do not see a possibility to apply it to other operations.

This reliance and perceived interdependence with importers is mirrored in relationship strength. At the same time, these more intense relationships between the importers and the exporting firms allow for more foreign market and sales knowledge entering the firm, leading to a greater awareness of market peculiarities. One mechanism driving this is that in more intense relationships, individual firms seem to recognize the value of new and external information. All this seems to be contingent, however, on the perceived importance of selling on international markets. Only if firms attach importance to the international growth of their firm they are interested in learning about international markets. Similarly, firms may take a differentiated approach and strive for more intense relationships and market knowledge in bigger markets with key customers.

Future research is required to provide more conclusive proof of learning and knowledge development in the internationalization process of the firm. As the case studies were only exploratory in nature, no generalizations should be made from the results. However, further cases might be selected based on theoretical sampling considerations in order to increase the robustness of the findings (Glaser & Straus, 1967). In addition, it is still unclear to what extent a thorough qualitative network analysis can be carried out by drawing on the standard methods of qualitative research (Straus, 2006). This study used qualitative interviews to assess the important relationships, explicitly asking for the individual's perception of the network. The verbal description was complemented by the development of visual network maps throughout the interview situation, allowing the interviewee to describe relationships, their structure and their relevance.

## References


Anderson, J. C., Håkansson, H., & Johanson, J. (1994). Dyadic relationships within a business network context. *Journal of Marketing, 58*(4), 1-15.

Andersson, S., Gabrielsson, J., & Wictor, I. (2004). International actitivities in small firms: examining factors influencing the internationalization and export growth of small firms. *Canadian Journal of Administrative Sciences, 21*(1), 22-34.

Argote, L., Ingram, P., Levine, J. M., & Moreland, R. L. (2000). Knowledge transfer in organizations: Learning from the experience of others. *Organizational Behavior and Human Decision Processes, 82*(1), 1-8.

Axelsson, B. (1992). Corporate strategy models and networks - diverging perspectives. In B. Axelsson & G. Easton (Eds.), *Industrial Networks: A New View of Reality* (pp. 184-204). New York: Routledge.

Axelsson, B., & Easton, G. (Eds.). (1992). *Industrial Networks: A New View of Reality*. New York: Routledge.

Backhaus, K., & Büschken, J. (1997). What do we know about business-to-business interactions? - A synopsis of empirical research on buyer-seller interactions. In H. G. Gemünden, T. Ritter & A. Walter (Eds.), *Relationships and networks in international markets* (pp. 13-36). Oxford: Elsevier Science.

Bandura, A. (1973). *Social Learning Theory*. Englewood Cliffs: Prentice-Hall.

Belso-Martinez, J. A. (2006). Why are some Spanish manufacturing firms internationalizing rapidly? The role of business and institutional international networks. *Entrepreneurship and Regional Development, 18*(3), 207-226.

Bonaccorsi, A. (1992). On the relationship between firm size and export intensity. *Journal of International Business Studies, 23*, 605-635.

Chetty, S., Eriksson, K., & Lindbergh, J. (2006). The effect of specificity of experience on a firm's perceived importance of institutional knowledge in an ongoing business. *Journal of International Business Studies, 37*(5), 699-712.

Coviello, N. E., & McAuley, A. (1999). Internationalisation and the smaller firm: A review of contemporary empirical research. *Management International Review, 39*(3), 223-256.

Coviello, N. E., & Munro, H. (1997). Network relationships and the internationalisation process of small software firms. *International Business Review, 6*(4), 361-386.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review, 48*(2), 147-160.

Easton, G. (1992). Industrial networks: a review. In B. Axelsson & G. Easton (Eds.), *Industrial Networks: A New View of Reality* (pp. 3-27). New York: Routledge.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review, 14*(4), 532-550.

Eisenhardt, K. M., & Graebner, M. E. (2007). Theory Building from Cases: Opportunities and Challenges. *Academy of Management Journal, 50*(1), 25-32.

Emerson, R. M. (1976). Social exchange theory. *Annual Review of Sociology, 2*, 335-362.

Eriksson, K., Hohenthal, J., & Johanson, J. (1999). A model of learning in international business networks. In H. Albach, M. Dierkes, A. B. Antal & K. Vaillant (Eds.), *Organisationslernen: institutionelle und kulturelle Dimenionen* (2 ed., pp. 337-353). Berlin: Wissenschaftszentrum Berlin für Sozialforschung.

Eriksson, K., Johanson, J., Måjkgard, A., & Sharma, D. D. (1997). Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies, 28*(2), 337-360.

Eriksson, K., Johanson, J., Måjkgard, A., & Sharma, D. D. (2000). Effect of variation on knowledge accumulation in the internationalization process. *International Studies of Management and Organization, 30*(1), 26-44.

Eriksson, K., Måjkgard, A., & Sharma, D. D. (2000). Path dependence and knowledge development in the internationalization process. *Management International Review, 40*(4), 307-328.

Forsgren, M. (2002). The concept of learning in the Uppsala internationalization process model: a critical review. *International Business Review, 11*(3), 257-277.

Gadde, L.-E., & Mattsson, L.-G. (1987). Stability and change in network relationships. *International Journal of Research in Marketing, 4*(1), 29-41.

Gulati, R. (1998). Alliances and networks. *Strategic Management Journal, 19*, 293-317.

Gulati, R. (1999). Network location and learning: the influence of network resources and firm capabilities on alliance formation. *Strategic Management Journal, 20*(5), 397-494.

Håkansson, H. (1982). *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*. Chichester: Wiley.

Håkansson, H., & Johanson, J. (2001). Business network learning - Basic considerations. In H. Hakansson & J. Johanson (Eds.), *Business Network Learning* (pp. 1-13). London: Pergamon.

Håkansson, H., & Snehota, I. (1995). *Developing relationships in business networks*. London: Routledge.

Halinen, A., & Törnroos, J.-A. (1998). The role of embeddedness in the evolution of business networks. *Scandinavian Journal of Management, 14*(3), 187-205.

Halinen, A., & Törnroos, J.-A. (2005). Using case methods in the study of contemporary business networks. *Journal of Business Research, 58*(9), 1285-1297.

Haunschild, P. R., & Miner, A. S. (1997). Modes of interorganisational imitation: the effects of outcome salience and uncertainty. *Administrative Science Quarterly, 42*, 472-500.

Henry, G. T. (1990). *Practical Sampling*. Newbury Park: Sage.

Huber, G. P. (1991). Organizational Learning: The contributing processes and the literatures. *Organization Science, 2*(1), 88-115.

Johanson, J., & Mattsson, L.-G. (1987). Interorganizational relations in industrial systems: a network approach compared with the transaction-cost approach. *International Studies of Management and Organization, 17*(1), 34-48.

Johanson, J., & Mattsson, L.-G. (1988). Internationalisation in industrial systems - A network approach. In N. Hood & J. E. Vahlne (Eds.), *Strategies in global competition: Selected papers from the Prince Bertil Symposium at the Institute of International Business, Stockholm School of Economics* (pp. 287-314). London: Croom Helm.

Johanson, J., & Vahlne, J.-E. (1977). The internationalization process of the firm - A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies, 8*(1), 23-32.

Johanson, J., & Vahlne, J.-E. (2003). Building a Model of Firm Internationalisation. In A. Blomstermo & D. D. Sharma (Eds.), *Learning in the Internationalisation Process of Firms* (pp. 3-15). Cheltenham: Edward Elgar.

Johanson, J., & Vahlne, J. E. (1990). The mechanism of internationalisation. *International Marketing Review, 7*(4), 11-24.

Kraatz, M. S. (1998). Learning by association? Interorganizational networks and adaptation to environmental change. *Academy of Management Journal, 41*(6), 621-643.

Lane, P. J., & Lubatkin, M. (1998). Relative absorptive capacity and interorganizational learning. *Strategic Management Journal, 19*(5), 461-477.

Leonidou, L. C. (2004). An analysis of the barriers hindering small business export development. *Journal of Small Business Management, 42*(3), 279-302.

Levitt, B., & March, J. G. (1988). Organizational Learning. *Annual Review of Sociology, 14*, 319-340.
Li, L., Li, D., & Dalgic, T. (2004). Internationalization process of small and medium-sized enterprises: Toward a hybrid model of experiential learning and planning. *Management International Review, 44*(1), 93-116.
Liesch, P. W., Welch, L. S., Welch, D. E., McGaughey, S. L., Petersen, B., & Lamb, P. (2002). Evolving strands of research on firm internationalization: An Australian-Nordic Perspective. *International Studies of Management and Organization*, *32*(1), 16-35.
Madhok, A. (1997). Cost, value and foreign market entry mode: The transaction and the firm. *Strategic Management Journal, 18*(1), 39-61.
McDougall, P. P., Shane, S., & Oviatt, B. M. (1994). Explaining the formation of international new ventures: the limits of theories from international business research. *Journal of Business Venturing, 9*, 469-487.
McEvily, B., & Zaheer, A. (1999). Bridging ties: A source of firm heterogeneity in competitive capabilities. *Strategic Management Journal*, *20*(12), 1133-1156.
McGaughey, S. L. (2007). *Narratives of Internationalisation: Legitimacy, standards and portfolio entrepreneurs*. Cheltenham: Edward Elgar.
Miles, M. B., & Huberman, M. A. (1994). *Qualitative Data Analysis: An Expanded Sourcebook* (Second ed.). Thousand Oaks: Sage.
OECD. (2006). *Removing barriers to SME acces to international markets*. Athens: OECD.
Petersen, B., Pedersen, T., & Sharma, D. D. (2003). The Role of knowledge in firms' internationalisation process: Wherefrom and whereto? In A. Blomstermo & D. D. Sharma (Eds.), *Learning in the Internationalisation Process of Firms* (pp. 36-55). Cheltenham: Edward Elgar.
Ruzzier, M., Antoncic, B., & Hisrich, R. D. (2007). The internationalization of SMEs: developing and testing a multi-dimensional measure of Slovenian firms. *Entrepreneurship and Regional Development*, *19*(2), 161-183.
Saarenketo, S., Puumalainen, K., Kuivalainen, O., & Kyläheiko, K. (2004). Dynamic knowledge-related learning processes in internationlizing high-tech SMEs. *International Journal of Production Economics, 89*, 363-378.
Sharma, D. D. (2003). Introduction to special issue on learning in international business networks. *International Business Review, 12*, 657-658.
Straus, F. (2006). Entwicklungslabor qualitativer Netzwerkforschung. In B. Hollstein & F. Straus (Eds.), *Qualitative Netzwerkanalyse: Konzepte, Methoden, Anwendungen*. Wiesbaden: Verlag für Sozialwissenschaften.
Welch, L. S., Benito, G. R. G., Silsetz, P. R., & Karlsen, T. (2002). Exploring inward-outward linkages in firms' internationalization: a knowledge and network perspective. In S. M. Lundan (Ed.), *Network Knowledge in International Business* (pp. 216-231). Cheltenham: Edward Elgar
Yeoh, P.-L. (2004). International learning: antecedents and performance implications among newly internationalizing companies in an exporting context. *International Marketing Review*, *21*(4/5), 511-535.
Yin, R. K. (2003). *Case Study Research: Design and Methods* (3rd ed.). Thousand Oaks: Sage.
Zahra, S. A., Ireland, D. R., & Hitt, M. A. (2000). International expansion by new venture firms: international diversity, mode of market entry, technological learning, and performance. *Academy of Management Journal, 43*(5), 925-950.
Zain, M., & Ng, S. I. (2006). The impacts of network relationships on SMEs' internationalization process. *Thunderbird International Business Review, 48*(2), 183-205.