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SME Internationalisation from a Network Perspective

Empirical Study on a Finnish-Greek Business Network





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SME INTERNATIONALISATION FROM A NETWORK
PERSPECTIVE

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An Empirical Study on a Finnish-Greek
Business Network

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Foreword

The internationalisation process of contemporary SMEs is not only theoretically interesting. It is based on interconnected and complex combination of actors, resources and activities. In order to develop our understanding of an SME internationalisation process, we need dive into the complex field of international business and observe our research target from a closer perspective. Through my work within the business network itself and not just as an observer, I gained a richer and deeper view to what is really important for the SMEs in this context.

It is not easy to perceive and comprehend the entry of a small Finnish SME to the Greek market and how it is influenced by its business network configurations. There are critical events that make plans and objectives invalid. Still, analysing a real-life process is both interesting and rewarding. This research has been a long process, one in which the needs of the business have influenced the research interest. The expectations of the SME managers have provided a good impetus towards finding aspects of research that are of true interest to the businesses. I collected material for a number of years before drawing the final conclusions. The research process provided concepts and the framework for organising and analysing the complex development process. Hopefully this learning process may assist other researchers, entrepreneurs and SME businesspeople in examining and managing internationalisation processes.

The role of the focal firm and the other firms in the business network has been vital. The efficient cooperation and vivid interest has made it possible for me to become highly involved with my material. The persons who have supported me in these firms deserve to be thanked for their valuable time and effort. I am proud that I have been part of this business network. Additionally, I would like to thank them for allowing me to carry on a dual role of as an agent and a researcher. I would like to thank particularly the sales manager in the focal firm for his patience of being one key informant in this long process. I would also like to thank the managing director in the focal firm for investing his time and giving his support to the project.

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The critical events in starting a research project have been considerably facilitated by the Ambassador of Finland Ralf Friberg, professor Gunnar af Hällström, professor Sten-Olof Hansén, also my supervisor, and professor Niina Nummela. The difficult part of the research project was in developing it all the way through the achievement phase. Professor Jan-Åke Törnroos carried out the most demanding job of supervising this process. He supported in focusing and polishing the process towards a final assessment of the research results. I would like to thank him cordially for this critically important guidance and support. Without the flexibility of the supervisor I would not have been able to accomplish this research project successfully. In particular, I would like to recognise the positive and fruitful atmosphere at Åbo Akademi, which made it possible to finish the study in Germany.

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great support in this long process. Other critically important persons that must be thanked during this process are Rita Nordström, the library team and Erik Hieta, who increased the quality of language in a record time.

The financing institutions have created the positive influence factors contributing to the completion of the study. I would like to thank Liikesivistysrahasto, Harald Silvon rahasto, Sinivalkoinen rahasto, Juho Kuosmasen rahasto, Huonekalusäätiö, Marcus Wallenbergin säätiö, Dagmar och Ferdinand Jacobsons Fond, Pienyrityskeskus, Turun Kauppakilta, ValueNet research programme and my family for supporting the project financially. This research project is a part of the ValueNet research programme funded by the Academy of Finland.

Finally, I would like to wholeheartedly thank my core net, my family. Without this fantastic learning and support platform, my degree of internationalisation would not be what it is today. I would like to express my love and gratitude to my daughters, Aurora and Amanda, who have accepted the restrictions this process has set to the family. Their energy and capability to learn makes my learning process look very unimportant in comparison.

I would like to emphasise to contribution of my husband Fotios Katsardis, who has been a patient and solid support in every aspect. He has been a source of inspiration and curiosity offering me the opportunity to explore a foreign market that is no longer foreign. His respect to my interests has kept the process running. I am not able to thank him enough for such a rare commitment.

My dear parents Kristiina and Pertti Elo have done a great job in supporting the whole process. The activities they carried out to enable the studies cannot be easily listed. If only the SME firms had such network members! There is no way to thank everyone adequately enough.

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ABSTRACT

The study examines the internationalisation process of a contemporary SME firm and explores the impact of its business network on this development. The objective of the study is to understand SME internationalisation and its dynamics from a network perspective. The purpose of this research project is to describe and explore the development process of a firm and its business network by identifying the changes, critical events and influence factors that form this development. It is a qualitative case study, which focuses on a Finnish focal firm and its respective business network as it expands into the Greek market. It is a longitudinal research process, which covers a period of time from 1994 to 2004. The empirical study concentrates on the paper trading and converting business.

The study builds on the network theory and the framework provided by Johanson and Mattsson's (1988) model on network internationalisation. The incremental internationalisation theories and network theories form the theoretical focus. The research project is organised according to a process view. The focal firm evolves from a domestically-oriented small subsidiary into an internationally experienced company, which has activities in several market areas and numerous business networks in various market segments and product categories. The findings illustrate the importance of both the domestic and foreign business network context in a firm's internationalisation process.

The results of the study suggest theoretical modifications on a firm's internationalisation process by broadening the perspective and incorporating the strategic context of a firm. The findings suggest that internationalisation process is a non-linear process, which does not have a deterministic order in its development. The findings emphasise the significance of relational networks, both managerial and entrepreneurial, for establishing position in foreign markets. It implies that a firm's evolution is significantly influenced by its business network and by critical events. Business networks gain coherence due to common goals and they use accumulated capabilities to exploit market opportunities. The business network sets constraints and provides opportunities, which makes the related decision making strategically important. The firm co-evolves with its business network.

The research project provides an instrumental case study with a description of an SME internationalisation process. It contributes to existing knowledge by illustrating dynamics in an international business network and by pinpointing the importance of suppliers, customers, partners, ownerships and competition to the internationalisation process.

SME INTERNATIONALISATION FROM A NETWORK
PERSPECTIVE- AN EMPIRICAL STUDY ON A FINNISH-GREEK
BUSINESS NETWORK

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1. INTRODUCTION TO THE STUDY

1.1. Background

Internationalisation, an increase in international operations and international linkages between firms in various geographical areas has become an everyday reality for contemporary firms. The interconnectedness between customers and marketing partners has increased due to major advances in information, communication, and transportation technologies (Keegan 2002). According to Leonidou (2004, p.281), the changes have led to the emergence of a business environment that has never been so global, interdependent, and connected, widening in this way both the scope and scale of the opportunities open to sellers.

In industrial firms the process of globalisation and further internationalisation is an acknowledged phenomenon. This trend affects all firms regardless of size or orientation, either directly or indirectly (see Nummela ed. 2002, p.7,13,31). The progress has been so rapid that the theoretical development has not been able to systematically follow it. It is generally assumed that internationalisation is a part of deliberate strategy formation, but there is only scarce empirical evidence about the validity of this assumption (Agndal and Axelsson 2002, p.437). Therefore it is of great interest to examine how a contemporary small- and medium-sized company (SME) deals with its international activities and operations. It might not be fully understood what sort of processes take place when a firm internationalises and how they take place or who manages the development of an SME in the international arena.

There are several studies that have examined different aspects of modern internationalisation, searching for the reasons, paths, processes and barriers. It is noteworthy that there are not many studies examining what influences a firm's internationalisation once the process has started and the direction from which this influence comes. The export barriers, both internal and external, seem to provide the constraining element for the SME internationalisation process. Leonidou (2004, p.283) divides these into the following categories:

1. Internal: *functional, informational, and marketing*
2. External barriers: *procedural, governmental, task, and environmental*

In Leonidou's (2004, p.220) study, internal barriers found within the country-base of the exporting firm are more controllable and easier to manage, as opposed to external

problems occurring abroad. The analysis implied that the frequency, intensity, or importance of export barriers can vary according to different time, spatial, and industry contexts. Also, Leonidou (2004, p.220) highlights the fact that the impact of barriers on exporting is situation-specific, largely dependant on the idiosyncratic managerial, organisational, and environmental background of the firm.

If these barriers¹ form the hindering elements for internationalisation, the business network approach developed by the Industrial Marketing and Purchasing Group, the IMP Group (Håkansson 1982; Axelsson and Easton 1992; Håkansson and Johanson 1992; Håkansson and Johanson 1994; Håkansson and Snehota 1995; Turnbull, Ford and Cunningham 1996; Ford (ed.) 2002), provides another view, which searches for the enabling elements, such as access to resources, co-development and knowledge-pools. SME firms do manage to enter new market areas, and how this is carried out needs to be better understood. A broader view on the internal and external opportunities of a firm may describe the facilitating elements. The IMP Group examines a firm from a perspective that views the firm is seen as a part of a larger business network. This embeddedness has both a theoretical and practical dimension of interest.

1.1.1. The interest area

The international activities of SMEs and the rapid increase in the importance of the international and global setting deserve more attention. The core area of research includes the process of internationalisation of an SME and the role of the business environment, particularly the business network context. The study attempts to explore how a small- and medium-sized enterprise establishes and extends activities abroad as a member of an industrial manufacturing/sales network and the extent to which the relational and network structures have an effect on the internationalisation process.

Today many SMEs work parallel in several business networks locally, regionally and even internationally. In the study the term business network refers to the overall loose configuration of interconnected companies around a firm, whereas a business net is a clearly defined group of companies having a perceptible connection with each other.

The contemporary SME internationalisation process looks more complex and is more entangled into activities with other companies than classical models² on internationalisation suggest (cf. Törnroos 2002b, p.23). Embeddedness within a business environment and within business networks, as well as the different forms of cooperation, has a great impact on the

¹ Leonidou 2004

² Classical internationalisation models here refer to Penrose 1959, Hymer 1960, Johanson and Vahlne 1977, Dunning 1979, see Törnroos 2002b, p.23

development of SMEs into internationally-oriented companies. The impact of embeddedness and interconnectedness reduces the autonomy of a firm and create problems of different nature for the firms.

The way international operations and activities are carried out is becoming an issue for each firm in today's business society, not just for exporters, importers or multinational firms. The operative environment has become more international and even smaller firms are forced to do business with various players not having a local or domestic-orientation. Imports and exports have become everyday business for many firms that have not really invested in international strategy building; still they have become part of an international business network.

The growth of a firm as well as its international operations has been intensively studied, but the impact of the business network on a firm's internationalisation process is to a large extent ignored (cf. Coviello and Munro 1997; Ghauri et al. 2003; Nummela 2002). Meyer and Skak (2002, p.179) highlight the impact of the business network on the firm and argue that the ability of an SME is limited in planning and controlling its internationalisation process.

Today a single industrial company comprises a set of resources, activities and knowledge that is linked with its suppliers and customers and often a set of partners, subcontractors and other actors. These connections have a direct and indirect impact on the company (e.g. Nieminen 1999; Salmi 2000; Sharma and Blomstermo 2003). The interesting question is: who actually internationalises - a firm as an entity, its connections and personnel or the overall business environment?

The interest in understanding the development and configurations of business networks has grown rapidly and the nature of contemporary business relationships requires more research from an internationalisation perspective. The theoretical development seems to require more dynamic views, which incorporate the firm, its network and environment into the internationalisation process. The recent research on the network approach and processes provide very relevant and valuable views. Nummela (2001a,b) assumes that it is possible to identify a sequence of events in a firm's internationalisation that most of the firms follow.

The role of geographical context is relevant in understanding SME internationalisation. Why should Finland and Greece be interesting as choices for the geographical context? The choice involves two trading partners with a large business distance and "psychic distance" (Johanson and Vahlne 1977), which constitute a greater problem potential in business relations. The role of the cultural and industrial context that is related to

a certain market creates the overall setting in which the business network functions and this setting has its own impact on the firms and their interaction (cf. Goodenough 1971; Usunier 1996; Trompenaars and Hampden-Turner 1997; Möller and Svahn 2002; Elo 2003). The choice also represents a combination of countries whose export/import or commercial relationships with each other have not been researched earlier. Therefore the choice of these two small European countries generates new information and provides an interesting viewpoint for readers from other SMOPEC countries (Small and medium-sized open economy, see Kirpalani and Luostarinen, 1999).

1.2. Research problem

The motivation for the study stems from the existing cooperation between Finnish and Greek firms. For many SMEs the connections to other firms, businesspeople and their activities and the utilisation of connections, play a significant role in the development of business activities, but there is little clarity on which strategy leads to positive results and which does not. While observing Finnish–Greek business (both in the field and at the Commercial department of the Finnish Embassy in Athens), and examining the reported activities of small and medium sized enterprises (SME), it became apparent that a number of them did not follow the kind of strategy or development pattern that is described in classical growth and internationalisation theory (see Penrose 1959; Hymer 1976; Vernon 1966, 1979; Luostarinen 1970, 1979; Dunning 1980). Business and social relationships, as well as luck and timing, are not seen as elements in the internationalisation process.

The research started inductively, searching for a suitable logic. Which approach could clarify the type of development? Behavioural views on internationalisation seemed to be more applicable, such as the Uppsala Model by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977, 1990). The role of business context, time, serendipity and connections was not incorporated into previous theoretical models. Only Johanson and Mattsson (1988) differed in their approach and view. They describe dynamics in four situations. Nummela (2000, 2001a, 2001b), Coviello and Munro (1997), Blankenburg Holm (1995) and Meyer and Skak (2002) emphasise the complex role of the business network in a firm's internationalisation process.

A study concentrating on traditional success or failure factors, removed from their context, would not necessarily assist in understanding the way companies internationalise in a

business network context or the way they become involved in the relationships that introduce and integrate firms into a foreign business network³.

What should be studied to understand contemporary SME internationalisation and the development of respective international business activity? There are numerous aspects and questions directing the selection of the research perspective. Restricting the study to a certain existing internationalisation model (Hymer 1976; Vernon 1966, 1979; Luostarinen 1970, 1979; Dunning 1980; Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Johanson and Mattsson 1988) or to a resource and growth-based view (Penrose 1959) would not reveal the nature of the multifaceted process of a firm's internationalisation through its network.

A holistic picture is required to understand significant events in the internationalisation process and their context-relatedness. Therefore, a network view (see Johansson and Mattsson 1988, Ford ed. 2002) is chosen. Using a "markets-as-networks" view (Hertz and Mattsson, 1998, p.1) implies an emphasis on activities in the network structure and the processes among actors (see also Hertz and Mattson 2001). The role of the network in internationalisation is recognised through the connections that evolve further (see e.g. Törnroos 2002) and on the embedded nature of an SME firm (Hertz and Mattsson, 1998, p.1-5).

The problem setting of the study is multifaceted. The setting includes country-, industrial-, and firm-related differences, which have significant internal variation within the categories. The setting suffers from complexity: it incorporates individual firms, their interaction, relationships, processes and activities as well as resources.

In order to avoid focusing on micro-processes of less importance a "change-critical event-influence factor" categorisation was selected. To limit and sort out essential material from trivial material requires judgement and interpretation. The problem is that the perception concerning the "criticality" of an event or a change is based on the judgement and interpretation of the individual managers interviewed and the researcher's own view.

The selected theoretical constructs and definitions have an impact on the view and substance of the study since they limit the focus, scope and depth of the research⁴. The complexity needs to be simplified and restricted, which leads to a sort of reductionism. However, for research purposes it was necessary to go into more depth on fewer aspects.

³ This research project is a part of the ValueNet research programme funded by the Academy of Finland. The project has guided the choice of focus.

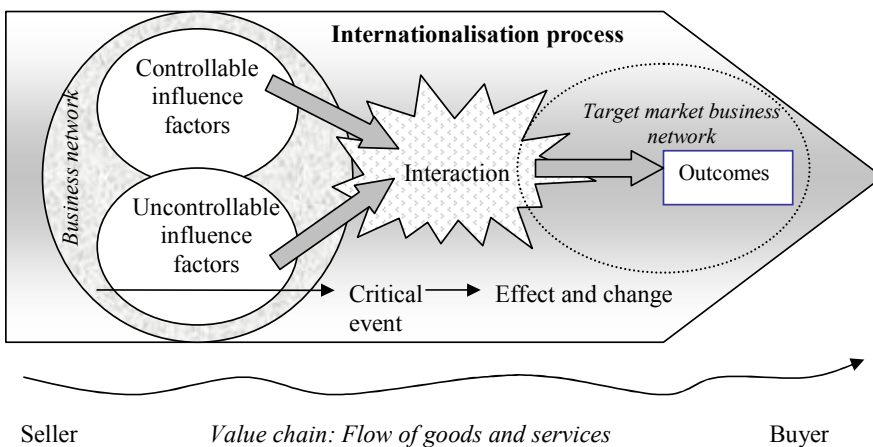
⁴ The key concepts and terms concerning theory are briefly introduced in section 1.5 and Chapter 2 and 3. The vocabulary follows original wording.

Based on the pilot phase and pre-knowledge, a number of key interest areas were chosen whereas less relevant aspects were excluded.

In Chapter 2 the complexity of business networks and industrial networks *per se* is discussed. The question of which level of analysis would generate the most beneficial results is another problem. The selection of a focal firm in a focal net-study found support by Halinen and Törnroos (2005).

It is difficult to formulate complex multi-process study in a logical and systematic manner. A combination of system and process view is taken as an underlying logic for this study (cf. Wilson et al. 1992). This logic assists in analysing what happens in an internationalisation process, see Figure 1.1:

Figure 1.1. The logic applied



1.3. Research objectives, perspective and limitations

The purpose of the study is to analyse how a Finnish SME firm⁵ internationalises by using a business network approach and to analyse how a firm's business network influences the internationalisation process. An implicit objective is to understand whether the key influence stems from the domestic business network or the foreign business network or both.

The research questions stemming from the main research objective are the following:

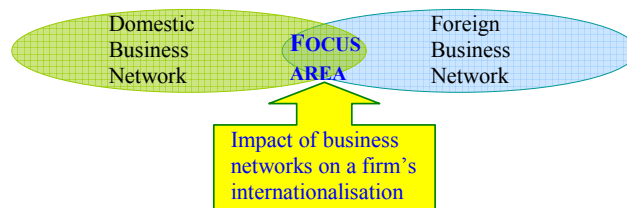
- 1) *To understand SME internationalisation by analysing how the focal firm internationalises in relation to the Greek market.*

⁵ The focal firm has used in its internationalisation an approach that can be considered as a network approach building on network partners. Seller 1b grows as a spin-off of a larger trading organisation, therefore its method to expand internationally differs from a traditional manufacturing-oriented approach. Also, in the later phase of the research process the network approach has been applied as a research perspective in the analysis.

- 2) *To empirically describe the evolution of this Finnish SME and its business network during its internationalisation process in the Greek paper business market. What changes in terms of the firm itself and its relationships during this process?*
- 3) *To analyse which critical events had a decisive impact on the firm's internationalisation process and its connectedness to the network. To describe what aspects lay behind the critical events in the case, including the identification of important influence factors.*
- 4) *To provide managerial implications concerning the internationalisation strategy and management of SME companies*

By applying a business network view the study attempts to understand the collective, interdependent nature of the phenomenon called “*a firm's internationalisation*”. It aims to provide alternative perspectives on a firm's internationalisation process, which incorporate events and the notion of direction: “inward-backward-outward” (e.g. Luostarinen and Welch 1988; Welch and Luostarinen 1993; Kirpalani and Luostarinen 1999). A firm is expected to expand and enlarge its activities towards other markets, i.e. countries. The limitation of scope based on previous research gives theoretical emphasis to the business network of the firm, see Figure 1.2. A firm has two overlapping business networks⁶ when entering a new market.

Figure 1.2. *Internationalisation process of SME network: Focus area of the study*



The study explores the event flows and development processes (cf. Hedaa and Törnroos 1997, Ring and Van de Ven 1994) of the focal firm regarding its Greek business nets, how the firm obtains its first contacts, how these evolve into business activities, how the exports start to develop on an organised basis and how the business network of the focal firm has been changing. The business net development illuminates the process of internationalisation in a buyer-seller context between two different countries, Finland and Greece, from the stage of pre-entry to the stage where a regular sales network is established.

⁶ Business networks may also have an extended meaning, see 2.7.

The configurations that are hidden in the internationalisation process in terms of business relationships and the impact of the surrounding business network are important aspects to understand from a firm's point of view. Critical events and the influence factors that shape the evolution process are explored and identified in the research part (cf. Hedaa and Tömroos 1997, Mainela 2002).

The strategy of the research is descriptive and exploratory. It attempts to provide a pragmatic description of the internationalisation process. One decisive factor for the selection of the perspective was my opportunity to research the business network in which I have been personally involved. As my role as a researcher and participant has a dual character, I refer to myself as "the researcher" which indicates the research aspect and as "the agent" when my role has been titled according to my position in the development of the focal net. Since there was the opportunity to follow a development process of a few contacts into a functioning business net, particularly when the context represents a difficult combination of countries with remarkable business distance, an active, participant-researcher approach was chosen. This approach allows longitudinal involvement, direct observations and good access, which assist in investigating the dynamics of the internationalisation process within the selected business network.

Relationships have strategic importance. But are there particular relationships which are guiding the internationalisation process of a firm or a business net? Some scholars support the importance of the relational structure as a platform for interaction and internationalisation, particularly in the form of personal contacts and entrepreneurial/managerial networks (Johannisson 1994; Gulati, 1998; Mainela 2002). Previous findings by Holmlund and Kock (1998) and Nummela (1997) highlight the importance of the entrepreneurs' social network and the role of actors in general in the internationalisation process.

Inter-organisational relationships in a business network function not only as a platform for interaction but as a stimulator and facilitator for the internationalisation process. The embedded nature of an SME is both an opportunity and restriction (Hertz and Mattsson 1998, p.1.). Madsen and Servais (1997) argue that the internationalisation process partly depends on the network in which a firm is embedded. They state that, in an industry with a high degree of internationalisation, the process is also situation specific and may take place more rapidly than presented in incremental internationalisation theory. Nummela (2001a,b) draws the conclusion that a reciprocal relationship between the internationalisation of the company and its network seems to exist. She assumes that a company and its internationalisation are dependent on the environment in which it operates.

The assumption that internationalisation is a gradually developing process is valid for most SME's (Nummela 2001a,b). Both experience and learning, to the extent they are transferable, may be shared and accumulated in a business network via inter-organisational relationships. According to Nummela (2001a,b), the network offers various links and it can be exploited in numerous ways. The effective usage of networks facilitates SME internationalisation.

What are the relationships that guide the internationalisation process of a firm? When it is assumed that a firm is not alone but embedded in a wider, interconnected network context, where the firms' strategic actions initiate changes in the network structure (cf. Hertz and Mattson 2001) then the actions of other network members may affect any firm in the net depending on the strategic action in question. A business network's configuration of relationships is dynamic; the relationships emerge, develop, turn into a dormant stage and are terminated according to their "reason d'être".

It is assumed that close, collaborative relationships with selected suppliers, customers and value-added resellers enhance prosperity. Based on the assumption that collaboration enhances prosperity, it is deduced that the strategic key relationships with suppliers and customers as well as the sales net form the most influential relationships. Also ownership may have a dimension, which guides the development of a firm. If the situational nature of competition is included, then the key competitors are also related to the development. Strong collaborative relationships enhance the utilisation of market specific/experiential knowledge, experience and learning. The more transactional relationships remain influential only on the operational level and are easily terminated or changed.

In a more mature stage of the study two key assumptions guiding the research process are induced. It is assumed that there are specific mechanisms and channels of influence which are:

1. *Strategically important collaborative relationships in a business net directly guide a firm's internationalisation process to the extent that it is dependent on these relationships.*
2. *Collusive⁷ or competitive relationships indirectly influence the same process.*

The first type forms an endogenous influence and the latter an exogenous influence. The question of whether these guiding relationships are identifiable is very much context-related. Perhaps a concept such as "relationscape" can assist a firm in identifying its own relationship configurations (Strandvik & Törnroos 1997). In addition to less visible

⁷ Relationships which involve strong conflicting interests attempting to exclude the other from an activity or an opportunity, see more in Bengtsson and Kock 1999

relationships or weak bonds (Granovetter 1973; Sharma and Blomstermo 2003), many relationships have such a temporal and geographical overlap that it becomes increasingly impossible for SME's to perceive all actors in their globalising business environment.

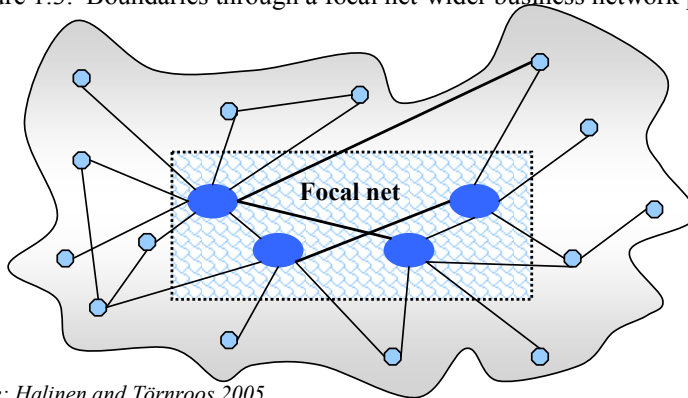
Small- and medium-sized enterprises seem to consciously use the network's resources and capabilities to further expand their activities to new areas. A kind of "domino-effect" of internationalisation know-how exists accumulating from the knowledge-pools (Meyer and Skak 2002, p.179), particularly in the SME firms that are actively seeking new opportunities. For more reactive types of firms (often owner-manager emphasis) this engagement in net-driven internationalisation evolution does not apply (Johannisson 1994, p.3). The crucial role of the inter-organisational relationships in triggering and initiating international activities and in maintaining and developing internationalisation puts temporal emphasis on the early stages of internationalisation (see Nummela 2001a,b).

Theoretically the study is limited to the interactive network paradigm by the Industrial Marketing and Purchasing Group IMP (Håkansson 1982; Håkansson and Johanson 1992; Håkansson and Snehota, 2000; Ford (ed.) 2002) and the incremental and network perspective on internationalisation (Johanson and Widersheim-Paul 1975; Johanson and Vahlne 1977, 1992; Luostarinen 1977; Håkansson 1982; Johanson and Mattsson 1988; Easton 1992) and their variants (Nummela 2000, 2001a, 2001b; Coviello and Munro 1997; Blankenburg Holm 1995; Meyer and Skak 2002)

Empirically the study is carefully restricted to the research and analysis of business network evolution from a focal firm point of view. The study is temporally limited to the time period of 1994-2004. During that period the evolution of the focal firm, its first-level business relationships related to the new market area and the focal business net are followed in real time. Data and research material has been collected during 1993-2004. The geographical focus area consists of Finland and Greece. The companies examined have been selected as representatives of the forest industry's sub-industries, which include trading, the paper converting industry and the packaging industry.

Research requires clarity. Therefore the theoretical tool describing and exploring a firm's development process uses a case analysis of focal firm in a focal net. The focal net here refers to a theoretical construct that is based on the focal actor and first-level contacts and the linkages between them in a wider business network environment in which the central actors are embedded (Halinen and Törnroos 2005), see Fig 1.3.

Figure 1.3. Boundaries through a focal net-wider business network perspective



Source: Halinen and Törnroos 2005

The study describes the network structure during the research period and draws conclusions concerning the development and network effects on focal firm in the network. The focal net of the study is constructed on the seller-buyer frame to obtain the essence of this business net, which is based on industrial cooperation and export activities. The wider business network is introduced in Chapter 5 to improve the contextual understanding.

A combination of firm- and network-level perspective is applied and the focus remains on the central relationships, dyads, within a focal net (see Halinen and Törnroos 2005). A focal firm in a focal net perspective has been selected to make the data manageable and to simplify the complex structure and multiple parallel development patterns involved. The setting of boundaries in network studies is essential (cf. Hedaa and Törnroos 1997). The dyads involve firm-level, i.e. micro-processes, whereas the macro-level events are examined only in relation to their impact on the progress of the business net. The core of the network is constructed around the Finnish seller and the Greek buyer company. This setting is followed during the research process. The seller-buyer interface forms the epicentre of the study within the focal net. The selected perspective makes it possible to understand also those aspects, which are not visible when using an economic perspective alone.

1.4. Research approach and method

There is no a priori theory guiding this research process. The participant-researcher role and the richness and depth of the research case and its material give a rather different perspective on the phenomenon “focal firm’s internationalisation process in the Greek market”. The inductive type of research approach, pre-knowledge, experiential knowledge and previous research set the following reasoning for the research perspective:

- 1) *A holistic type of theoretical approach is needed that includes a firm's business network*
- 2) *The geographical location, environment and type of industry as well as firm characteristics need to be understood as influencing elements*
- 3) *To understand internationalisation a dynamic process view is necessary, since time and activity are key elements in understanding a firm's internationalisation effort*

It seems essential to apply a combination of the above elements to better understand the internationalisation process of any firm embedded into a business network. A combined perspective makes it possible to contribute to discussions concerning SME internationalisation theory and Finnish-Greek trade and subtract managerial implications. A snapshot-like analysis would not create such usable results, not for scholars or for managers. Möller and Halinen-Kaila (1997, p.11) note that the nature of network-related research goals is to understand how nets of relationships between actors evolve, to understand how markets functions and evolve from a network perspective and to gain a more valid view of reality through network theory.

An interactive network approach was selected as the general framework since its basic goals and views coincide with the research topic and the respective world-view. Most importantly it acknowledges the structure and process nature inherent in industrial nets and the context-relatedness of each activity. The context is highly relevant when examining dynamics and mechanisms. The “evolutionary” dimension is valuable when analysing change and the evolution of a firm in an international context. The impact of the network effect on an individual firm is relevant for internationalisation (cf. Ritter 1999). It is not enough to emphasise the characteristics of an individual exchange relationship, it is crucial to acknowledge the impact of the context in which such exchange takes place (Möller and Halinen-Kaila 1997, p.14; Mattsson 1997).

The network perspective is dynamic, focusing on both structure (content) and processes (how dyads, nets and networks evolve). Time is inherent. Möller and Halinen-Kaila (1997, p.11-15) identify the following as units of analysis: the actor (organisation, person), the dyadic relationship and the net of relationships. They see transactions as episodes in the long-term relationships and emphasise the embeddedness of relationships in nets and networks as well as the role of the past for understanding the present.

This study provides a network-oriented viewpoint to SME internationalisation, analysing export development and relationship building and how the focal firm establishes its sales network in a new area. Success in the early stages seems to draw heavily on the

relational structure. The study identifies the connections, i.e. relationships, since they are the means by which firms are interconnected. As a theoretical construct, a relationship may be referred to as a *dyad*. The importance of relationships and “*actors*”, firms and individual managers, is emphasised. Relationships are seen as vehicles for accessing and controlling resources and creating new resources (Möller and Halinen-Kaila 1997).

There are some basic assumptions that have influenced the views of this study. Möller and Halinen-Kaila (1997) refer to Mattsson (1997) and Möller (1992, 1994) in constructing some key propositions⁸ that apply for this study:

- Heterogeneity in resources leads to mutual interdependence, which forces cooperation
- Relationships are embedded in networks and channel systems
- History is essential for understanding episodes and relationships
- There are several levels of network relationships
- Competition and cooperation shape relationships
- Relationships shape networks, network dynamism is relevant

1.4.1. The case study and the research model

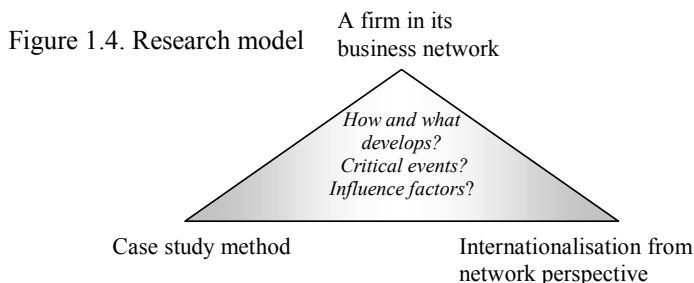
Qualitative research is considered appropriate to study complex phenomena and to understand a unique case (Stake 1995). Easton (1995) argues that case research is perhaps the most appropriate methodology for research in industrial networks since it takes into account the embedded character of network relationships and allows for identification of the causal forces influencing the actors’ behaviour and network creation (see also Dubois - Gadde 1999). Halinen and Törnroos (2004) further discuss the case study method and its characteristics as a tool for studies on contemporary business networks.

The study explores a firm’s development as a part of the evolution of a particular business net. It does this through critical events and influence factor analysis, using a longitudinal case study (Alasuutari 1995; Eisenhardt 1991; Yin 1984; Van de Ven and Poole 1995). The case is an instrumental case study: the focal firm in its business network provides insight into the research questions and assists in a general understanding (Stake 1995, p.3). The research problems are approached by carrying out several issue-focused, theme research sessions, in order to grasp the richness and the dynamics of time. The researcher’s role follows the idea of interactive research (Gummesson 2001), where the participant and action

⁸ The list here is not complete. It refers to the assumptions that are shared by the author. See more in Möller & Halinen-Kaila, 1997, p.14-15

research perspective may alternate (Alasuutari 1994). Experiential material supports data collection and analysis⁹.

The case, the theoretical framework and the method need to be in harmony with the research questions, see Figure 1.4.



The data collection methods used here are qualitative in nature; interviews, observations, analysis of archives, correspondence and other written data (Silverman 2001; Stake 1995). Observations are documented as field notes. Observations and supporting questionnaires are collected through participating in meetings, exhibitions and other business activities. Personal interviews are used, which have an in-depth and a semi-structured character (Alasuutari 1995). Some supportive data is quantitative, which is considered appropriate in case study research (Perry 1998). Data gathering has been continuous during 1994-2004.

The structure of the case study has certain phases. It follows the internationalisation process, which is explored, and then an event follow-up takes place identifying changes and analysing events. After this a historical reconstruction of the key changes is made, followed by a description of the internationalisation process (see e.g. Mainela 2002; Ring and Van de Ven 1994). A critical event analysis, which identifies the key events that created changes related to internationalisation, is used and the influence factors triggering these events are explored.

The case study data collection and analysis followed this system: the observations are in real time and the follow-up of events and changes is based on active observations and retrospective analysis. The final analysis and the research constructs are created retrospectively as a historical reconstruction. A research model for the study is built as a combination of elements to fit the case study's character (see more in Figure.4.2.1. Case study research model, in Chapter 4)

⁹ The data has provided the terms and the vocabulary used in the empirical section. They are used in original form.

1.4.2. Understanding critical events

The evolution of business networks can be seen as a flow of interconnected events interrelated through some causality, as Johanson and Vahlne (1977, 1990) explain in a form of change and events. Hedaa and Törnroos (1997) discuss event networks, which may appear as streams of interconnected events (event trajectories). Trajectories of connected events can be seen as the key cohesive determinant in the change of business networks (cf. Hedaa and Törnroos 1997).

The business net evolution is examined from the perspective of critical events and enacted reality (Halinen, Salmi and Havila 1999). The critical events incorporate both change forces that arise from interaction in the dyad and events generated by the business context and environment are included.

Firms experience and manage the development of relationships as a series of exchange episodes. The exchange episode is composed of four sequentially related events that are described as critical incidents when parties engage in actions related to the development of their relationship (see Ring & Van de Ven 1994). The events include: defining purpose, setting relationship boundaries, creating value, and evaluating exchange outcomes. A firm evaluates the outcomes from the exchange episode against its expectations and against outcomes it perceived it could have obtained by collaborating with others instead.

Critical events may arise from the dyad, which include personnel changes, changes in organisational structure or changes in business, marketing or purchasing strategies as well as acquisitions, bankruptcies or partner-switching. They may also arise from the overall business environment and include changes in technology, industrial structure and economic recession (Mainela 2002). The critical events may be divided into endogenous and exogenous events according to the triggering factor and its origin (Elo and Törmänen 2003, p.10-15).

Within the case study a version of critical incident technique (Flanagan 1954; Voima 2000) is used as a method of analysis, since it allows an approach where the outcome of an incident or event is perceived in a broader time frame and setting. Voima (2000) defines in her study three elements: source, process and outcome. With this method the study attempts to systematically record events that are observed and which lead to a distinguishable outcome. The critical events have a negative or a positive nature. The focus expands on the process and the outcome, not only on the characteristics of the event itself. Olsen's Critical Incident Technique (1992), with a process-oriented view that stresses the critical episodes in addition to critical acts, focuses on the triggering factor. The processes of interest are the long-term relational development processes.

1.5. Key concepts and definitions

The concepts examine the firm's internationalisation process within a focal net and its context in a complex business setting and environment. Actors, resources and activities guide the focus. Internationalisation is seen as the overall development and progress of the firm towards increasing interaction with foreign markets, not just in economic and numeric terms. It is examined in terms of increasing learning, capability and strategic importance. This section presents the conceptual overview of the study.

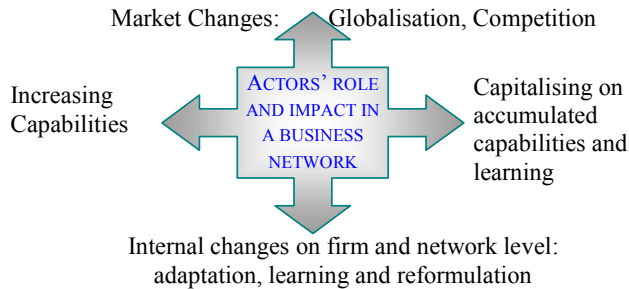
1.5.1. Selection of concepts

Internationalisation, its direction and embeddedness into a wider contextual setting form key concepts in the study. Industrial and business networks, network effect, autonomy, interconnectedness and interdependency represent a firm's contextual elements. Trajectories of connected events (here focus on critical events) relate to the concepts, describing the process and its temporal dimension.

It is assumed that a small- and medium-sized firm is able to learn. It accumulates knowledge, building on previous experiences and efforts in international activities. This knowledge can be exploited when needed and it is used as a tool to overcome problems. The knowledge-pool is one resource, which may be shared in a business network (cf. Meyer and Skak 2002).

The SMEs that form the research material in this study seem to increase their level of internationalisation when acting on market changes and opportunities by sharing existing resources and cooperating. The managerial and business relationships represent the key channel of interaction. But what is it that guides the internationalisation process of a firm? The actor attempts to manage the development, but often actors may be identified as individual managers in SMEs. However, in a complex business network an actor is not able to function autonomously. The firm has to cope with the network environment and the market environment. Already, by forming opportunity- or threat-based temporary business nets, firms may accumulate their capabilities to face the market changes and increase their level of internationalisation. They may organise their net structure to be more competitive as an entity, and to be able to face the market changes even more efficiently, see Figure 1.5. When firms act together they accumulate knowledge, which constitutes a form of synergy.

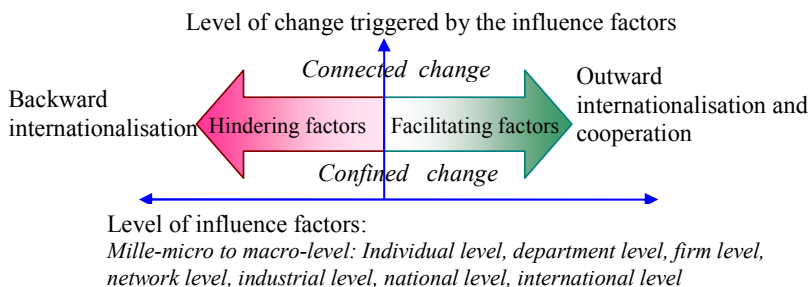
Figure 1.5. Accumulation-Network effect on internationalisation.



The domino effect and the degree of internationalisation of the business network as parts of the firm's internationalisation process are not fully explored. The type of inherent dynamics, opportunity structure and "direction" are conceptualised in Figure 1.6. There is a goal, a certain strategic direction towards which a firm attempts to proceed. Reaching that goal involves a dynamic process in which several factors influence the outcome. Those factors may be understood as influence factors, which trigger events and change. They may be divided into hindering (negative) factors and facilitating (positive) factors.

A dichotomy of facilitating factors and hindering factors is created to simplify the connection between events and the internationalisation process of a firm. Internationalisation is based on the underlying assumption of increasing outward activity, whereas de-internationalisation is seen as a step backwards¹⁰. When there are factors decreasing the international activities of the firm, these factors are considered to create "backward internationalisation". The firm is less active in the particular market or may be partially retreating from it, but its learning and experiences have not disappeared. This study explores the arrows in Figure 1.6.

Figure 1.6. Change through Events in Internationalisation Process.



¹⁰ A step backwards does not imply inward internationalisation, which as such increases the degree of international activity of a firm. The notion of de-internationalisation by Luostarinen and Welch (1990) has a more "terminated" nature than backward internationalisation.

1.5.2. Definitions

The key definitions based on the study's viewpoint and focus are selected and shortly introduced here. More analytical views on concepts and definitions are presented in Chapters 2 and 3.

Internationalisation: “the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries” (Beamish 1990). According to Johansson and Mattsson (1988) in Meyer and Skak (2002, p.181), it can be defined as the process whereby firms aim:

- a) *to establish positions in new networks*
- b) *to develop existing positions and increase resource commitments in profitable nets*
- c) *to increase the coordination between positions in different national nets*

The internationalisation of a firm is thus an evolutionary process of a developing business network, with a changing role of the firms within the network. Meyer and Skak (2002, p.180) claim that the internationalisation of SMEs is co-evolving with the internationalisation of their national business environment.

Direction of internationalisation refers to cross-border direction and the increase or decrease of the degree of internationalisation in operative terms. It is built on the concept of domestic-inward-outward-cooperation operations by Luostarinen and Welch (e.g. Luostarinen 1979; Welch and Luostarinen 1988; Luostarinen and Welch 1990).

Embeddedness refers to relations and dependencies among companies in various types of networks (cf. Halinen and Törnroos 1998) and their contextual setting. Business actors are not only interdependent at a company-level but also on a broader contextual setting, which is specific to a company and time in question, i.e. past, present, future, (Halinen and Törnroos 1998, see more in Chapter 2).

A business network is a set of two or more connected business relationships (Emerson 1981). In a business network each exchange relation is between business firms, which are conceptualised as collective actors. According to Meyer and Skak (2002, p.181), business networks are long-standing relationships between legally independent firms that exploit mutual complementarities and exchange information. Some networks are tightly structured with a high degree of interdependence and strong bonds. Other are loosely structured networks where bonds are weak and considerable “networking”, i.e. the exchange of valuable information, occurs informally. In this study the term business network has more the character of a theoretical construct than the term *business net*, which that refers to a particular limited group of firms.

Position in a business net is defined by the characteristics of the company's relationships and the benefits and commitments that arise from them (Ford et al. 2002, p.48).

Network effect is an impact. Ritter (1999, 2000) analyses network effect and its forms (see Chapter 2). Ford and Mc Dowell (1999) have analysed the effects and value of different actions in the context of business relationship portfolios. They included: Effects in the relationship, effects on the relationship, effects on a portfolio and effects on a network (see more in Ford ed. 2002 p.320-334).

Interconnectedness in business context emphasises that each firm is dependent on resources controlled by other firms. Ritter's (2000) analysis on neutral, positive and negative effects¹¹ distinguishes ten different cases of interconnectedness, see section 2.6.4.

Autonomy -A legally independent firm in a business network is influenced by the interconnectedness and embeddedness, which may reduce its autonomy (see Hedaa 1999).

Interdependency influences the activities and decision making of industrial firms through functional interdependence, product complexity, buyer-seller interdependence and buying process complexity (Webster 1991).

Other key terms are briefly introduced (more in Chapter 2 and 3). Focal net is the group of firms that form the focus of the study. Business net is a perceived group of firms, whereas business network has a broader meaning as a configuration of actors. Industrial net and network refer to industrial actors. Entrepreneurial networks consist of entrepreneurs who form a group of individuals sharing entrepreneurial concerns. Managerial networks consist of managers who exchange information. Social network consist of individuals exchanging information. Vertical and horizontal networks are presented in section 2.8.1.

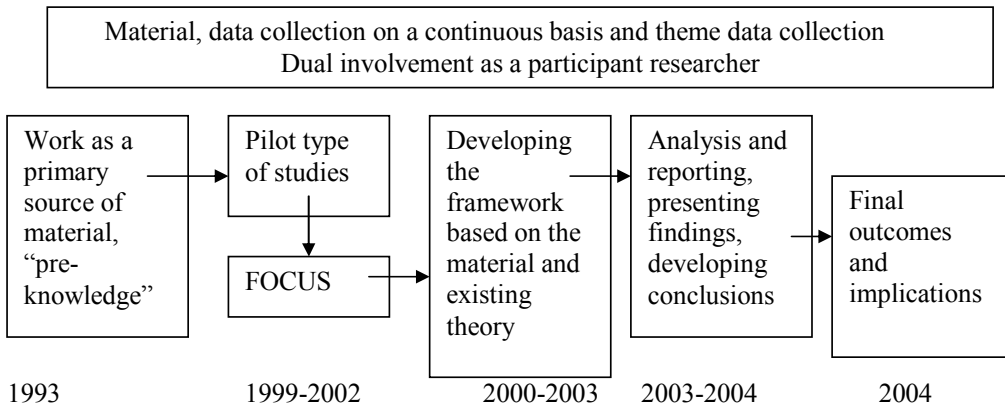
1.6. Outline of the study

The outline of the study briefly describes how the study is organised. The study preparations began already in the early 90's by collecting material and discussing the research area (Finnish-Greek business) and the number of problems encountered. The research process has followed a rather inductive path: at first getting deeply involved in the empirical "material", then establishing the focus of the research and, finally, constructing theoretical conclusions and findings from the empirical material. On the other hand it is clear that the existing theoretical models and previous research have influenced the research process, particularly in the later stages.

If put in a visual form, the research process has followed the structure in Figure 1.7.:

¹¹ When referring to network effect this study uses Ritter's research as a point of reference.

Figure 1.7. Research process



To make sense of the seemingly complex, inductive-abductive type of study, the structure of the report is constructed to have a clearer organisation. The early parts discuss the research topic and review the respective theoretical approaches and selected concepts. After which, it is easier for the reader to understand the logic that is applied to the empirical part.

Chapter 1 introduces the research background, its objectives, perspective and limitations. It presents the research approach and method and briefly describes the key concepts and definitions.

Chapter 2 concentrates on reviewing context, embeddedness and development processes in international business relationships. It discusses buyer-seller relationships, international relationships and industrial networks in theory. Different aspects, such as the physical environment, temporal attributes and cultural impacts on business networks, are reviewed.

Chapter 3 reviews theoretical approaches to internationalisation and business networks. Incremental internationalisation, the Uppsala model, and its variants are discussed. Research on SME internationalisation and on the network view of internationalisation is discussed. Previous research and literature is reviewed.

Chapter 4 presents the chosen research approach and the selected methods. The research perspective is clarified and the selection of the case study method is explained. The selection of the case, its procedure and research protocol, the data collection and the methods of analysis are described.

Chapter 5 provides an overview on Finnish-Greek trade and business and its background. It illustrates some characteristics of the paper industry and its sub-industries in

converting and packaging. The Greek business context in paper trading, converting and packaging is introduced.

Chapter 6 includes a description of the case evolution; the focal firm in its focal net. It analyses the issues being studied: firm and network internationalisation, business net development, evolution of actor bonds, critical events and influence factors and the network effect. The case description and analysis is organised as a chronological development process. The issue analysis is presented with a mapping of the development that captures a more holistic view of the process.

Chapter 7 discusses the empirical and theoretical aspects of the study and the analysis. It presents the research findings and relates them to the research questions. It clarifies the limitations of the study.

Chapter 8 provides the conclusions and implications derived from the study. It includes criticism on existing theory and views. It incorporates theoretical, policy and managerial implications. In the end it suggests new research avenues.

1.7. Summary

The study concentrates on understanding a firm's internationalisation process from a network perspective by following the development of a Finnish SME firm in the paper business as it initiates its activities in the Greek market and becomes involved in a new foreign business network. The objective of the study is to analyse how an SME firm internationalises by using a business network approach, and to examine a firm's business network influence on its internationalisation process. An implicit objective is to understand whether the influence stems from the domestic business network or the foreign business network or both.

To make the study manageable it was decided to concentrate on the business net development of the focal firm in a particular market context that, as such, describes a part of its internationalisation process. Internationalisation is therefore seen from a network perspective, through interaction and an activity-relationship structure.

2. EVOLUTION, EMBEDDEDNESS AND CONTEXT IN INTERNATIONAL BUSINESS RELATIONSHIPS

A firm's international development is not an independent phenomenon, which can be studied by extracting it from its context. Chapter 2 discusses the network view and relates it to the study and its topic. It assesses why embeddedness and business networks are essential theoretical constructs in researching and understanding a firm's internationalisation process in a new market area. It examines key concepts: industrial relationships and networks, and their evolution, and a firm's position, embeddedness and contextual setting. This chapter presents and reviews previous research on how industrial relationships and network connections influence a firm's strategic decision making and its activities, particularly concerning internationalisation and international operations.

2.1. Selection of perspective

Why should a firm's development in the international arena be examined in connection with its business network and environment? First, the reasoning for a firm's internationalisation strategy and operations does not stem only from the firm itself (cf. Blankenburg Holm 1995). Second, the development of a firm's activities in internationalisation is determined and influenced also by its business network and environment (Meyer and Skak 2002, p.179).

Therefore it is important to analyse the influence mechanisms or drivers that *form* the internationalisation process of a firm, in addition to the original stimuli and driving force that initiate international activities. The influence, which shapes a firm's internationalisation process, may originate outside the firm itself. Therefore, the analysis requires a network perspective.

It is necessary to agree on a vocabulary to discuss the network dimension. The embeddedness of a firm can be discussed from various aspects; here the empirical case study has set the limitations and selections of the concepts. The discussion concentrates on theoretical views and terms provided by strategic marketing, industrial marketing, industrial networks, social network and organisational behaviour literature.

2.2. Development of international business relationships and networks

Industrial buyer-seller relationships in international business networks represent one key interest area for research when looking at any development processes, whether from the

supplier's or from the buyer's perspective. The focus on industrial marketing and internationalisation literature emphasises often buyer-seller relationships (cf. Johanson and Mattsson 1988; Webster 1991; Anderson and Narus 1999). In this study the establishment of a buyer-seller relationship triggers the connection with a foreign market, therefore it is useful to understand the development of a business relationship as a part of a whole.

First, the relationship itself has a role; between two firms or organisations it is the essential construct through which the activities take place. Second, buyer-seller relationships may influence a firm and its activities in many ways: performance, resource allocation, profitability, etc (e.g. Turnbull 1990; Turnbull and Zolkiewski 1995). According to Anderson and Narus (1999), a firm's success in business markets depends directly on its working relationships.

The working relationships themselves are embedded in business networks that consist of connected relationships. A continuum of working relationships varies from purely transactional relationships to partnering¹². A collaborative relationship between two firms forms a kind of strategic alliance in which the parties work together in mutually defined ways according to a commercial agreement (Anderson and Narus 1999).

Turnbull et al. (1996) suggest that relationships follow a five-stage evolution process: Pre-relationship, early, development, long-term and final stage relationship. The development of supplier-customer relationships can also be seen as an evolutionary process in terms of:

- *The increasing experience of both partners;*
- *The reduction in their uncertainty and all kinds of distance in the relationship;*
- *The growth of both actual and perceived commitment;*
- *The formal and informal adaptations, and investment and savings involved in both sides' organisations (Ford 1980, p.339-354)*

Ford (1980, p. 339-354) analyses the process of the establishment and development of the supplier-customer relationship over time according to the variables of experience, uncertainty, distance (including aspects of social, geographical, cultural, technical and temporal distance), commitment and adaptation. Ring and Van de Ven (1994) discuss the dynamics of a business relationship. Cross-border buyer-seller relationships often have a more complex meaning for a SME firm; they may represent pilot customers pulling the SME firm into a new market. They are indicators of the market potential. But these relationships may not be easily evaluated in their actual context if the firm is not well established in the market.

¹² A transactional relationship focuses on the timely exchange of basic goods for highly competitive prices. Collaborative relationships and partnering involves a process where a customer and a supplier firm form strong and extensive social, economic, service, and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit.

Episodes in the context of internationalisation may have a stronger impact on the buyer-seller relationship since the context is more complex. A financial problem of a key customer may trigger a partial de-internationalisation process. Each exchange episode is followed by a decision to continue the relationship, to broaden it or to end it. Broadening the collaboration takes place through expansion of scale or scope (Ring and Van de Ven 1994). The concept of “relationscape” has been developed by Strandvik and Törnroos (1997) to examine the complex nature of relationship development. According to them, there may be a number of parallel concurrent exchange episodes and some episodes that lack common coordination. One underlying problem is the identification and perception of the various relationships that either directly or indirectly have an impact on a firm. In a new market, it may be almost impossible for an SME to clearly perceive its possibilities and alternatives. Using market specific knowledge from local consultants or businesspeople may be out of reach for smaller firms.

There is a mixture of common and distinct actors engaged across the set of exchange episodes at a particular point of time. The utilisation of partner knowledge and connections is commonly considered useful, but creates dependencies. Partner firms and repeated social interaction link the various business strands together through mutual strategy. The maintenance stage represents the continuation of collaborative exchange episodes. Relationship dissolution is seen as the ultimate conclusion or termination of the relationship maintenance stage (cf. Anderson and Narus 1999, Tähtinen 2001). A termination of the relationship may lead to a domino effect on problematic relationships if the buyer-seller relationships are closely connected.

Partnerships in industrial networks are strategic choices to organise a mutually beneficial relationship. Partnering is a process where a customer firm and supplier form strong and extensive social, economic, service and technical ties over time (see Anderson and Narus 1999). The intent of partnering is to lower total costs or increase value, thereby achieving mutual benefit. Anderson and Narus (1999) build the criteria for partnering on the philosophy of business, the type of dependence, mutual or relative, and technological contributions.

The industrial network approach by the IMP Group stresses the longitudinal nature of industrial relationships. Still, not all buyer-seller relationships are intended to be long-term business relationships. For example, in the stock lot business the nature of the relationships

may be purposefully more transactional. Stock lot business¹³ does not allow the creation of normal supplier relationships due to the limited and sporadic nature of trading. Despite the nature of business, many business relationships develop additional dimensions, which have a more long-term nature (Mainela 2002, p.148). Business networks function as evolving platforms of relationships, resources and activities through which business actors can get access to resources and transform resources into activities.

2.3. Business networks-Why firms get involved in networks?

The reason why firms get involved in business networks¹⁴ is based on some benefit or advantage, either economic or non-economic. Business networks are built around some marketplace opportunity or they are formed together with other business actors more efficiently overcome obstacles or threats.

Inter-organisational networks, i.e. business networks, include supplier, marketing and distribution networks, technological–innovation and product–development networks, and different competitive coalitions used, for example, for establishing standards and for competing against other networks or a specific dominant player (Möller and Svahn 2003). The relationship between two firms is a multiplex relation since the firms may be potential suppliers, customers, and competitors with one another for the same marketplace opportunity (Anderson et.al. 1999). Firms may have versatile positions in business networks in terms of their competitive situation. Despite this, they may still cooperate (Bengtsson & Kock 1999). For SMEs, particularly in paper product manufacturing and converting activities, networks provide a significant alternative way of functioning through the sharing of opportunities and resources.

Business networks provide opportunities to their members, but they also function as constraints (cf. Hertz and Mattsson 1998, p.1). Management of contemporary companies faces a complicated optimisation challenge concerning which business networks to operate and through what kinds of roles and strategies¹⁵ (Möller and Svahn 2003). A wrong decision may have dramatic consequences for an SME. Specialisation that allows firms to economise increases their level of interdependency (Möller and Svahn 2003). Resource-related

¹³ Stock lot business refers here to trading on such goods or quantities, which are warehouse qualities, remaining items, second quality or somehow limited versions of normal prime quality regular goods. Stock lot business excludes the possibility of direct re-buy or regular supply; next stock lot may be significantly different from the current lot if there is any.

¹⁴ There are also underlying assumptions that each firm is from its establishment onward somehow interconnected to some kind of a wider business network, even though the nature of that network might be very fluid or invisible.

¹⁵ See more of the strategic management aspects in business networks in Ritter 1999, Möller and Halinen 1999, Ford (ed.) 2002 and in Möller and Svahn 2003

constraints on SME firms push them to specialise and concentrate on their specific expertise, which requires the creation of partnerships in supporting business activities (for example, research, finance, logistics and distribution). When machinery is a strategic investment and over-proportionally significant in comparison to firm's financial resources, these manufacturing firms have to seek partnerships or subcontract the parts of production that can not be internalised.

Single sourcing, strategic partnerships, collaborative relationships and other more integrated systems of exchange have obtained a lot of interest as strategic systems to improve results and profits and invest in development through more long-term relationships (Anderson and Narus 1999). Ritter (2000 p.318-319) discusses the logic from a network perspective, examining aspects such as systems selling, combination advantages, exclusive rights, mediation and lobbyism, surety and competition. Industrial networks seem to emerge as a new form of organisation: a "hollow organisation" is becoming an acknowledged organisational form (Törnroos 2002b).

2.3.1. Uncertainty, trust and commitment

Turbulence and uncertainty need to be tackled with trust and commitment, which can be facilitated by using business networks. The type of uncertainty in the market (Anderson and Narus 1999) faced by the buyers influences the relationship. For example, in the paper converting and packaging industry many SME buyers face both need uncertainty and market uncertainty. One way to reduce uncertainty is to "network" and use trust and commitment as a tool (cf. Mainela 2002; Anderson and Narus 1999).

Gulati (1998) states that the cohesion provided by the networks refers to the capacity of social ties to carry information that diminishes uncertainty and promotes trust. The role of information, access to information and the flow of information are significant factors. Shared understanding is vital in an exchange process, as perceptions may vary, particularly in a cross-cultural business context. Knowledge-based trust (informal personal connections) and deterrence-based trust (potential sanctions) as well as other self-enforcing safeguards may substitute for the role of contractual safeguards when the partners become increasingly embedded in the social network (Gulati 1998, Gulati and Singh 1998). Commitment has positive effects in SME cooperation and internationalisation, whereas trust may be seen as a prerequisite for international activities (Nummela 2000; Elo 2003a).

2.3.2. What are business networks?

There are a plethora of terms describing business networks. In this section selected business network literature is reviewed. The review describes and defines the key terms and concepts. The purpose of this chapter is to give an overview to the network theory.

A business network, its basic form, is a set of two or more connected business relationships (Emerson, 1981). Connectedness refers to contingencies. Two connected relationships of interest can themselves be both directly and indirectly connected with other relationships that have some bearing on them, as part of a larger business network (Anderson, Håkansson and Johanson 1994).

Except the three essential elements of business networks; *activities, resources and actors*, Anderson, Håkansson and Johanson (Håkansson and Johanson 1994) distinguish functions in business relationships. These functions are divided into primary functions (positive and negative effects on the partner firms in their interaction in a focal dyadic relationship) and secondary functions (i.e. network functions, which capture the indirect positive or negative effects of a relationship because it is directly or indirectly connected to other relationships)¹⁶. Ritter (2000) has analysed the function further through a network effect (see section 2.6.4). Network effect takes place also through the international activities of the firm and therefore influences the development, e.g. firms having international sales agreements or participating in strategic alliances or such configurations are directly influenced by any change initiated by the partners.

The industrial networks consist of relationships. Relationships in theory are also called dyads; the existence of the secondary functions means that they also are parts of networks (Anderson, Håkansson and Johanson 1994). Many changes in a dyad accumulate further in the business network.

Relationships may be interpreted as containing different kinds of bonds. The approach by Håkansson and Snehota (1995) breaks the relationships between companies into a profile of activity links, resource ties and actor bonds. There are several studies that have explained the types of bonds and ties that different actors in networks share (cf. Granovetter 1973; Halinen and Törnroos 1998; Bengtsson and Kock 1999; Ghauri, Lutz and Tesform 2003). The types of networks categorised by bonds are technological networks, regional networks, social networks and business network (Halinen and Törnroos 1998).

Different types of networks exist in theory; two major categories are social and industrial. Networks can be seen as markets, groupings of firms or organisations. Business

¹⁶ See more in Ford (ed.) 2002 p. 216-217.

networks can be categorised into vertical or horizontal networks, but they may overlap with criteria having a mixed character. The dichotomy needs to be seen critically, since many contemporary business networks, for example in the packaging industry, have purchasing and co-manufacturing and sales and marketing dimensions.

Vertical networks are cooperative relationships between suppliers, producers and buyers, which aim at a solution for marketing problems, improved production efficiency and the exploitation of market opportunities. Vertical relationships represent the more common traditional system, i.e. the manufacturing network. Subcontracting relationships are also considered networks. Vertical networks may be called marketing channel networks that efficiently promote, modify and move goods to markets (Ghauri et al.2003 p.731).

Horizontal networks often include cooperation among competitors. They may be partially competitive and partially cooperative, i.e. co-opetitive networks which are common in the automotive and furniture industry. Bengtsson and Kock (1999)¹⁷ used a categorisation according to the level of competition and cooperation between firms: co-existence, cooperation, competition and co-opetition. Cooperation and co-opetition stimuli stem also from the market configurations, not only from the firm's strategic plans. Ghauri et al. (2003 p.731) define a horizontal network as cooperative network relationships between manufactures who want to solve common marketing problems, improve production efficiency or exploit a market opportunity through resource mobilisation and sharing. Export groupings are a good example of such networks.

Business nets may also have a diffuse character of supply nets, channel nets, customer service nets, subcontracting nets, manufacturing nets, project nets, research & development nets and strategic alliances. Industrial SME networks are often parallel manufacturing and export, marketing and distribution networks, i.e. complex business networks. Hybrid channel arrangements are network-like engagements in which a supplier and its reseller divide up the channel functions (Anderson and Narus 1999).

There are also different forms of networks from an ontological point of view¹⁸. According to Axelsson and Easton (1992) and Håkansson and Snehota (1995, any market can be described as a kind of macro network. A network of organisations refers to any group of organisations or actors that are interconnected in relationships (Möller and Svahn 2003

¹⁷ They excluded collusive relationships in their study

¹⁸ In the study the term business network is used for a group of actors that are interconnected. The term business net refers to a clearly defined and perceived group of actors which are interconnected and to a certain degree interdependent.

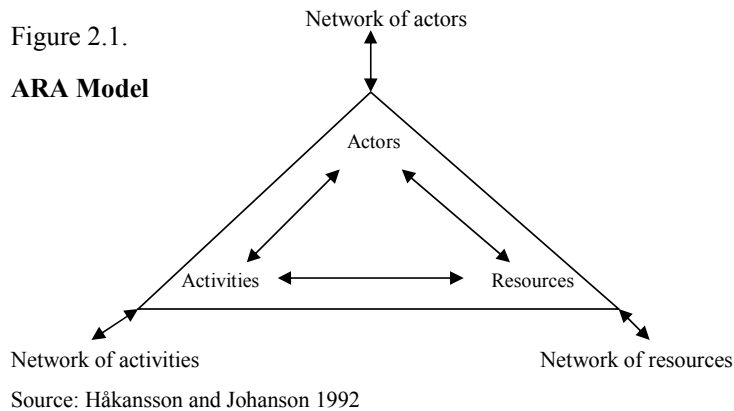
p.204). Möller and Halinen (1999) categorise networks to four interrelated levels: macro networks, strategic nets, net and relationship portfolios and strategic relationships.

2.4. Network approach by the Industrial Marketing and Purchasing Group

The network view is chosen to match the research case. The elements of relationships and networks are introduced in the previous part. The key remaining question is how industrial networks can be perceived, understood and analysed, and what are the tools and concepts available. The key models of network approach are briefly presented.

The Industrial Marketing and Purchasing Group, IMP approach is built on the assumption of “markets-as-networks approach” in which a firm is seen as a part of a larger network (Håkansson 1982, Johansson and Mattsson 1992, Håkansson and Snehota 2000, Ford 2002). Industrial markets consist of interconnected exchange relationships between multiple organisations, while the development of industrial networks is a consequence of interaction (Håkansson and Johanson 1992).

Håkansson and Johanson (1992) presented a model of industrial networks called *Actors-Resources-Activities model* (ARA), which was created to make possible an integrated analysis of stability and development in industry (see e.g. Håkansson 1982; Anderson, Håkansson and Johanson 1994; Ford 2002), see Figure 2.1. ARA Model.



The ARA model (see Ford, 2002, p.162-181) concentrates on the configurations of a business relationship: activity links, resource ties and actor bonds. Actors are firms or individuals that perform activities and control resources. Actors perform activities, transactions and create value via the transformation of resources.

The ARA model suggests that the function of any business relationship can be characterised by those three essential components. An important function in the business relationship being part of a network is to interlink activities to combine heterogeneous

resources between actors and, through this combination, facilitate the creation, utilisation and transfer of knowledge, innovations and internationalisation process know-how. Change in the handling of resources may break existing activity cycles and transfer chains. It may also trigger development and change in the industrial network (Håkansson and Johanson 1992, p.148).

Actors control resources and perform activities: control may be either direct (ownership) or indirect. Individuals, groups of individuals, parts of firms, firms, and groups of firms can be seen as actors according to Håkansson and Johanson (1992). Through exchange processes actors develop relationships with each other and get access to other actors' resources. Actors are goal oriented (cf. Ford ed. 2002, p.145-146). Features influencing the actors are, for example, constraints, knowledge, the allocation of resources and different views and opinions.

According to Håkansson and Johanson (1992), activities occur when one or several actors combine, develop, exchange or create resources by utilising other resources. There are two types of activities: transformation activities and transfer activities. Through transformation activities resources are changed in some way and they are directly controlled by one actor. Transfer activities transfer direct control over a resource from one actor to another. Transfer activities link the transformation activities of different actors to each other. They are never controlled by only one actor and they affect and are affected by the relationship between the actors involved (Håkansson and Johanson 1992, p.147).

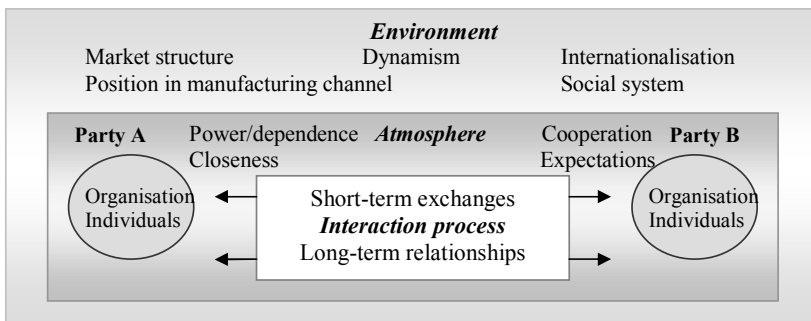
Activities are linked to each other and constitute parts of more or less repetitive activity cycles, in which a number of interdependent activities are repeated. Experiential learning creates routines and informal rules which give the activities a certain institutionalised form that enables the creation of basic stability (see Håkansson and Johanson 1992; Ford 2002).

The position and the role of an actor characterise a network. Besides focal relationships, networks can be characterized by their level of structuredness, density, connectivity, and hierarchy and by the existence of clusters of actors and relationships (see e.g. Håkansson 1987, 1989, Möller & Wilson 1995). According to Johanson and Mattsson (1992), network positions describe how the individual actors in the network are related to each other in the network structure. The position is the result of investments in exchange relationships and characterises the actor's current links to the business environment and forms the basis for its future strategic actions. In international industrial markets the uncertainty

concerns dependence on other actors to gain access resources, create markets and keep up with the accelerating pace of technological development (Mainela 2002).

The interaction model (Håkansson 1982) is constructed on three elements: the parties involved, the environment and the atmosphere of the interaction, see Figure 2.2. The changes in the relationships and in the network are due to interaction (see e.g. Möller & Wilson 1995, Mainela 2002). According to Easton (1992), the process aspects (such as the evolving degree of dependence and partner changing) make industrial networks stable but not static. Evolution is the main mode of change; revolution is possible but unusual (Easton *ibid*).

Figure 2.2. The core elements of the interaction model by Håkansson 1982



From the network perspective, single activities of specific actors are almost never indispensable. Even when a specific activity disappears the network can remain functionally intact because the surrounding activities are adjusted so that they take over the performance of the absent activity. It is always possible to conceive of changes in the performance of single activities as well as in the couplings between them, which would not affect the functioning of the network (see e.g. Håkansson and Johanson 1992; Ford 2002).

A notion concerning the imperfect character of the activity network implies that new activities, changes in old activities or the rearrangement of activities can make it more efficient (Håkansson and Johanson 1992). According to Håkansson and Johanson (1992), performing transformation and transfer activities requires resources that are controlled by single actors or jointly by several actors. Resources are heterogeneous and have attributes in an unlimited number of dimensions. Therefore the combination of resources may always be elaborated. Transfer and transformation resources are mutually dependant on each other (Håkansson and Johanson 1992). They argue that those dimensions of a resource that are utilised and the value that is given a resource are dependent on the activity cycles in which it is utilised and on their functions in various transfer chains as well as their functions in the network (in Ford ed. 2002, p.147-148).

Knowledge and experience with resources are important since joint performance increases experiential learning and adaptation and because new knowledge emerges, creating new possibilities (Håkansson and Johanson 1992). In other words change induces further change. Resources are characterised by the actors controlling them and by their availability. Standardisation, uniqueness and versatility are dimensions of resources.

Håkansson and Johanson (1992) see these three types¹⁹ of networks being bound together by forces, which assist in total network analysis. They identified the following important forces (in Ford ed. 2002, p.149):

1. *Functional interdependence: actors, activities and resources together form a system (i.e. functional relatedness) where heterogeneous demands are satisfied by heterogeneous resources.*
2. *Power structure: on the basis of control of activities and resources there exist power relations according to which a part of the performance of activities is organised.*
3. *Knowledge structure: knowledge and experience of present and earlier actors bind together the design of activities and the use of resources.*
4. *Inter-temporal dependence: a network is linked to its history and changes must be accepted by large parts of the network, therefore all changes are marginal and closely related to the past.*

The IMP view on business networks has common characteristics with social sciences in terms of the social aspect of networks. Structural analysis in social science refers to linked social relations, where ties represent flows of resources, symmetrical friendships, transfers or structured relationships between nodes²⁰ (Wellman and Berkowitz 1988).

2.4.1. Network dynamics and position

Markets and networks are dynamic. There are several levels of processes incorporated in business networks which clearly indicate the existence of dynamics. Snehota (1990) discusses the dynamics in his dissertation. He refers to the existence of endogenously-induced changes and to the endogenous change in the preferences and goals of the participants. The character of change varies from incremental to radical, from confined to connected (Halinen, Salmi, Havila 1999). Exogenously-induced change in markets differs from endogenous change (Snehota 1990). In network analysis both types of reasoning (endogenous and exogenous) needs to be endorsed to better understand network dynamics.

Network position as a concept incorporates the dynamic nature of networks. Henders (1992) has provided an extended discussion on the concept of position in which she debates

¹⁹ actor, activity and resource

²⁰ Nodes are individual people, but also groups, corporations, households, nation-states or other collectivities.

the impact of processes in networks. According to Turnbull, Ford and Cunningham (1996), network position is seen as a description of a company's portfolio of relationships and the rights and obligations that go with it. Network position is both an outcome of relationship strategy and a resource for future strategy. Relationships, rights and obligations are the results of the resources, which the company initially brought to the network and the experience and the investments in its relationships.

Turnbull, Ford and Cunningham (1996) categorised the elements of network position analysis as follows:

- 1. Access: to the resources of other network members (financial, transform/transfer abilities, knowledge)*
- 2. Reputation: a function of other network members' experience (belief, expectations of supposed expertise)*
- 3. Expectations: can both facilitate and restrict the freedom of action of a company.*

The way position is used depends on the considerations of connectedness. Henders (1992) view that an activity-wise bounded or defined network, such as the supply of newsprint, requires the multiplex view for a description of a network sets very high standards for network analysis concerning positions²¹. Henders (1992) highlights important dimensions of position by analysing the paper business. Taking a systems perspective she argues that there are connections between the micro- (individual units) and macro-level (network level) that must be considered. Her Newsprint/Newspaper cases explicitly consider the relation of the individual to the network as part of a reformulation of the dimensions of position.

Network position reflects a present position and a future position. Network position is the outcome of a process (cf. Henders 1992). She sees position as a constantly changing re-orientation of individuals. Position as a process-view is dialectic between the interrelated activities of the individual (network-influenced) and the activities of the other actors (network-influenced) working together to continuously reorganise the network that fostered them (Henders 1992). Therefore, changes in activities affect the network position.

2.5. Concepts of business networks

In this section the main network-related concepts, particularly those concepts that have influenced the analysis and framework of this study, are discussed.

²¹ Henders (1992) compares atomistic networks, stratified networks and multiplex networks and emphasises the increasing complexity of ties that influences the type of analysis. See more in Henders (1992), Chapter 7.

Network is a theoretical concept. Theoretically, networks of exchange relationships are endless (cf. Snehota 1990). The network setting extends without any limits through connected relationships, making any business network boundary arbitrary (Snehota 1990; Anderson, Håkansson and Johanson 1994). Still, if the network view is applied to business studies, a limitation is necessary. Limiting concepts used in the analysis of business networks are network horizon, network context and network identity.

Network horizon is a construct established for analysis, which explains an actor's view of the network. Factors influencing the view are experience, structural network features and connectedness²² (Ford 2002, p.217). Such network structures are extremely difficult to define and analyse, since actors locked together do not necessarily have symmetrical perceptions of the context or of the status and positions they assume they possess in relation to each other. Perceptions of the opportunities to establish exchange relationships vary among the actors and so do the exchange relationships actually enacted by the actors (Snehota 1990).

Håkansson and Snehota (1989) argue that the part of the network within the horizon that the actors consider relevant is the actor's *network context*. The network context is structured in three dimensions: actors, activities and resources, which are partially shared by the network actors at least by actors that are close to each other. In other words, network context determines who the actors are and how they are related to each other. It determines the activities and what activities are performed and the ways in which they are linked together. Finally, it determines the resources and what resources are used and the pattern of adaptation between them (Ford ed. 2002 p.217).

Context is a complex concept. The context of a business enterprise can be considered as the portion of the market network perceived as relevant for its activities (Snehota 1990, p. 145). Concerning the question of whether or not the notion of context could be restricted to those actors with whom the enterprise maintains exchange relationships, Snehota (1990, p.145-147) argues that it cannot, due to the connectedness of exchange relationships²³. Rather than existing somehow "out there", context is enacted. Therefore context does not exist, except in relation to an actor who is also an integral part of it (Snehota 1990 p.147). Snehota (1990 p.151) discusses the features characterising the context of the business enterprise and emphasises evolutionary dynamics. A firm is subject to continuous change with an undetermined outcome.

²² This concept demonstrates how arbitrary the business network boundary is and how it depends on the perspective

²³ According to his view relevant is a relative concept. What is the relevant portion of the market network depends entirely on how the context is perceived and interpreted by an actor and how it translates into its behaviour.

The perception of the actors is one key aspect. It is important partially for internationalising SMEs with often limited perception due to a lack of market specific knowledge and a global view²⁴. A small firm may understand its context easier in the domestic setting than in other markets, which creates constraints for internationalising SMEs.

According to Håkansson and Johanson (1988) firms develop *network identities* which are based on the relations between firms. Network identities refer to how the firms see themselves in the network and how they are seen by the other actors. Network identity is meant to capture the perceived attractiveness or repulsiveness of a firm as an exchange partner due to its unique set of connected relations with other firms, links to their activities and ties with their resources (Håkansson and Johanson 1988).

2.5.1. The firm, its environment and the boundaries

According to the network approach, the boundary between the firm and its environment is very diffuse. The firm represents a legal entity with an internal independent decision making process²⁵. It suggests that it is not meaningful to draw a clear boundary between the firm and its environment, but that much of the uniqueness of a firm lies in how and with whom it is connected (Håkansson and Snehota 1989). The environment also seems to have different levels or dimensions; outsourcing, subcontracting and manufacturing cooperation, which extend the firm's relationships. Accumulating relationships, such as relationships with customer's customers, represent connections with less control and more distance. Still, this view needs to be theoretically and practically limited when researching firms in a real context.

The network environment is discussed from various viewpoints by several scholars (Snehota 1990, Ford ed. 2002, p.215). Achrol, Reve and Stern (1983) have distinguished between *primary task environment*, *secondary task environment* and *macro environment*. Primary tasks environment is composed of a focal dyad's immediate suppliers and customers, in which any impact can be traced back to specific firms - to the direct "exchange network". The primary task environment is assumed to be affected by the secondary task environment, which comprises actors that are indirectly connected to the focal dyad through exchange relations with actors in the primary task environment. The relatively amorphous effects of the

²⁴ If a firm does not perceive the broader network horizon it has, but only the visible close relationships, this means that the network horizon concept is more limited than the network context, which is what the actor considers relevant or visible (see Strandvik & Törnroos 1997).

²⁵ Independency relates here to the legal decision making system being based on the owners and management, independency in reality may be very limited due to ownership or other strategic configurations.

macro-level environment are manifested through their impact on the qualitative dimensions of the secondary task environment (Ford ed. 2002 p.218-219).

2.5.2. Evolution and driving force in business networks

Based on the previous discussion, this section considers that business networks are to a significant extent a construct created for organisation and analysis²⁶, since they are continuously evolving and changing entities (cf. Henders 1992; Snehota 1990). On the other hand, in business these entities are created, developed and terminated according to the driving forces that have a notable impact on them (Ghauri et al. 2003). A firm seeks profits and forms of benefit; being a part of a business network shares the same objectives. These mechanisms may relate back to the theoretical approaches on economic exchange. The inherent levels of evolution are the firm-level, the relationship level and network level.

A firm's relationships have proven their impact in internationalisation studies (see Chapter 3). Ford (1980) argues that supplier-customer relationships in business-to-business markets evolve over time and he suggests that careful management can obtain the best possible value from these relationships. Business networks are evolving constellations, which impact the firms that are a part of them. Easton (1992) emphasises the process nature of industrial networks. To a great extent evolution is context-driven, but some patterns have been identified (Håkansson and Henders 1995; Håkansson and Lundgren 1995; Uusitalo and Möller 1997). Håkansson and Lundgren (1995) argue that network patterns jointly form the "coalescence" (strengthening of network structures and works through specialisation, structuring and hierarchisation) and "dissemination" (breaking up of network structure, relating to radical change) tendencies describing the "macro" evolution of networks (cf. Uusitalo and Möller 1997). In this study it is noted that these patterns may exist parallel to each other in different parts of the business network, as a large business network may consist of several smaller entities that evolve in a different manner.

Uusitalo and Möller (1997) examined macro-level network dynamics and pointed out the role of significant changes in technology and innovation in the development of the networks. Christensen and Lindmark (1991) argue that network evolution process has different phases that aim at a gradual deepening of the relationships. This argument is not applicable for network relationships, which are based on transactional or stock lot business characteristics.

²⁶ Both researchers and business actors need to have constructs for analysis although the reasoning may differ.

Ghauri, Lutz and Tesform (2003) studied networks based on export groupings and established three stages: the emergence of a network, the network development process and the achievement of the network. Ghauri et al. (2003) identified the potential driving force for export related networks; anticipating jointly threats or market opportunities. This reflects also a strong context-dependency and endogenously-generated cohesion that a business network shares.

2.5.3. Performance and management in business networks

A business network has an impact on the firm. A firm's performance is influenced by the network and its management has another, extended dimension (see e.g. Ritter 1999; Ford, Gadde, Håkansson and Snehota 2002).

The management of a firm that is part of a business network no longer has the same level of independency as before. Particularly for SMEs this management issue is critical. It raises the question is the firm able to decide on its strategy or is it guided by the network. Are the dominant actors in the business network setting the strategy not only for their firms, but also for others? SMEs tend to be more dependent on external resources and therefore their performance can be significantly influenced by the business network.

For analysis the perspective needs to be realistic. Networks, which are seen as vast never-ending organisms are not manageable in the classic sense, since they do not have an owner or a centre (Ford, Gadde, Håkansson and Snehota 2002) and they are often difficult to comprehend. Each company possesses limited knowledge and operates on the basis of an evolving, but subjective network view. However, for a firm with a defined net of partners, e.g. a sales and distribution net, it is necessary to attempt to manage and coordinate the activities. According to Ritter (1999, p.468) *"It is both sensible and useful to discuss a company's ability to manage its network"*.

Previous studies on the relationship level indicate that relationships are manageable and, therefore, it may be assumed that to some extent it is possible for a firm to manage its role in business networks through the incorporated relationships. There are activities and resources that are under the control of the firm, but the business network has an indirect, even direct impact on the firm on multiple levels. Strong actors or hub firms may tend to guide the network's development (Törmänen and Elo 2003).

A firm performs independently but also as a part of its business network in an interconnected system. The network is seen as part of the opportunity structure of a firm. Therefore the improvement of performance is linked to the available network structure and

the potential obtained from a change in it. The performance concept is adopted from Hedaa (1999). The performance (P), i. e. $P=f(c,m,o,l)$, is a function of four variables: the actor's capabilities(c), motivation (m), the opportunity structure (o) and luck (l) as a random circumstantial factor.

If network's performance needs to be changed there are three variables that can be influenced: the actor's capabilities, motivation and the opportunity structure. Luck or serendipity can not be managed. The above performance concept is interpreted that an actor's capability may be changed within the actor (firm investing in capability development; machinery, know-how, etc.) or within the network by changing the actor (more capable actor integrated into the network). Motivation stems from psychological and economic factors that may originate both internally and externally. The opportunity structure remains a problem area, since here the influence of the overall context is great. To what extent a business net can influence its operational environment in terms of function, time and space depends very much on the situation and the context.

Management in a business network has multiple levels. Ford, Gadde, Håkansson and Snehota (2002) discuss the concept of management and strategy in networks. They remind the reader about the dangers and illusions of conceptual constructs in the sense that there is no single, objective network and different companies and the individuals within them will each have a different picture of the extent, content and characteristics of the network. Since there is no centre, and no owner, it can be deduced that there is no central management hierarchy either. Instead, there are self-organising structures of influence²⁷ based on roles, functions and power.

Ford, Gadde, Håkansson and Snehota (2002) highlight the importance of examining the network views of others, which may be different and may not coincide at all with the assumptions of the company. They point out the significance of the fact that these pictures are the reality on which other companies act and react. To change these perceptions time and a systematic approach is needed. The problem with this model of managing networks is that it introduces network picture as one element for management (together with networking and network outcomes). Since the network picture is not a concept on which consensus could be found, it is nor easily applicable. It is unrealistic to expect all actors to perceive their business network and partners in a cohesive manner, particular in international SME networks.

Ford, Gadde, Håkansson and Snehota (2002) discuss strategic management in networks. Different individuals in different functional areas in a company hold different

²⁷ The empirical part supports this view; the studied business net has a self-organising nature, it is not based on any organised hierarchy or agreement.

network horizons. Therefore strategy involves building horizons and seeking consensus based on the collective wisdom of the individuals. A company has to choose to enhance particular issue as a basis for its networking. Companies need to decide whether to conform or confront the current relationship norm, whether to consolidate the existing position or to rearrange or change the existing relationships, and whether to attempt to coerce counterparts or accede to their wishes.

Also Ritter (1999) supports the importance of actors as individuals and their respective relationships. He analyses the organisational preconditions of network competence from the point of view, which considers how the organisational characteristics of the company affect its network competence and how the companies can positively stimulate the development of network competences. He argues that inter-organisational relationships are built around interpersonal exchanges, and are based on economic and technological objectives. In other words, both social qualifications and specialist qualifications are required. Ritter (1999, p.470) identifies four cross-relational tasks:

1. *Planning activities: definition of a desirable state in the future, internal analysis, network analysis and environmental analysis.*
2. *Organising activities: realisation of plans, management contribution, specification and resource allocation, and communication.*
3. *Staffing activities: Allocation of personnel and responsibilities*
4. *Controlling activities: control of the output of the network, including the quality of the partner and the employees involved.*

2.6. Embeddedness, dependency and interconnectedness

A firm is embedded in its wider business network and environment; it is both influencing and being influenced. This is a core difference in the network approach: a firm operates according to its strategy and plans, but also adapts to and evolves with its business network and its environment.

Problems are created since a business actor may not automatically conceive the origin or channel of influence. There are multiple dimensions and channels of change and influence affecting a firm's autonomy in strategic decision making and its activities. Halinen, Salmi and Havila (1999) provide an analytical framework for understanding the mechanisms and channels of change and influence in business networks. These concerns are discussed here to present the theoretical reasons for selecting a network approach as a means of analysing the internationalisation of an SME. The assumption that a firm is a fully independent, autonomous actor is becoming questionable among many contemporary SMEs, which further

reinforces the match between the theoretical view and empirical research part of this research project.

2.6.1. Embeddedness in time

Time itself has attracted amazingly little interest in internationalisation studies. Its importance may be self-evident for businesspeople, but the study of time and its relation to the internationalisation process is still in an infant stage theoretically (cf. Hurmerinta-Peltomäki 2001). When a firm starts its activities in a new market, its operations and activities are greatly influenced by the existing market conditions at that location and by the activities that the other actors have already established (cf. Johanson and Mattsson 1988). The degree of maturity of the market and the “pioneer-late follower” strategy continuum of the firm need to be understood in relation to the concept of time.

As Halinen and Törnroos (1998) argue, business actors are not only interdependent at the company-level but also in a broader contextual setting, which is specific to a company and time in question (i.e. past, present, future). Previous experiences, the current situation and assessments as well as future expectations all affect an actor’s perceptions and behaviour.

Business actors are embedded into a complex structure that has numerous dimensions. One of those dimensions is time. Time itself can be perceived in different ways (Hurmerinta-Peltomäki 2001 p.27-36). When discussing time in an international industrial context, it is necessary to take into consideration that there are several views and notions on time as well as its impact on the business market. Mietttilä and Törnroos (1993) have discussed time in the buyer-seller context and introduce a relational notion of time. Time incorporates more than one point of view; it can be seen vertically in relation to specific organisational, economic and individual time.

Hedaa and Törnroos (1997, 2003) have further discussed time in the sense of timing and connected events in business networks. Hedaa (1999) introduced the notion of black holes as unfavourable situations in time that affect the functions and activities of business actors.

2.6.2. Embeddedness in social and actor networks

In international activities a firm selects partners. This decision connects it to the partners’ networks and may be a facilitating or constraining decision that is not easily

changed²⁸. A firm is embedded in the actor network. It develops a visible degree of dependency, particularly when some of its core activities, such as sales, marketing and logistics in the market, are handled by a third actor, for example an agent.

Another issue in which the network approach has similar concerns with social sciences is the full range of actors as semi-autonomous decision making units (cf. Henders 1992). Henders (1992) discusses the concept of connection between individual units. If a network of companies is considered, they can be connected through material flow, financial flow, social flow, information flow, technical information flow, ownership ties or a connected boards of directors (see e.g. Henders 1992, Gulati 1998).

Henders (1992) emphasises the richness in content of the ties and the extent of the different connections. Relational embeddedness or social embeddedness refers to the proximate ties of a firm (Gulati 1998). Halinen and Törnroos (1998) used the term embeddedness to refer to relations and dependencies with companies in various types of networks. Since actors are performing activities and controlling resources, their importance as a part of a network is central. Actors as firms or managers are embedded in several types of networks, some of them being of a social nature.

A widely acknowledged phenomenon of networking in business concerns the behaviour of actors (here persons, managers or groups of individuals) in a business setting: people seem to form unofficial groupings and personal networks, like managerial or entrepreneurial networks (cf. Thorelli 1986; Turnbull 1979; Mainela 2002). These networking connections, and ties, are utilised in various settings. Luostarinen (1979 p.23) emphasises the manager's role and importance since he considers a small firm to be a system in which the managerial behaviour is one key element. Therefore it may be assumed that social ties also have an impact on the business and the way it is done, particularly in the industrial context, where long-term relationships are relatively common. Feld (1981) argues that social structures²⁹ create relatively homogenous foci within which most individuals choose their dyadic partners.

Wellman and Berkowitz (1988) describe the nature of the ties:

- *Ties are usually asymmetrically reciprocal, differing in content and intensity*
- *Ties link network members indirectly as well as directly. Hence, they must be defined within the context of larger network structures.*

²⁸ This is valid for domestic activities too. But for many SMEs the international decision is based on more limited information and fewer alternatives in comparison to the domestic one. The social network may not be available in a foreign market to support decision making.

²⁹ The population is not understood through groups. Rather, it is composed of networks.

- *The structuring of social ties creates non-random networks, hence clusters, boundaries and cross-linkages.*
- *Cross-linkages connect clusters as well as individuals.*
- *Asymmetric ties and complex networks differentially distribute scarce resources.*
- *Network structures collaborative and competitive activities in order to secure scarce resources.*

The network approach to industrial marketing and purchasing draws attention to similar aspects: direct and indirect linkages among firms, asymmetrical relationships, reciprocity in ties, complexity, network formation and collaboration (cf. Ford 2002).

In the industrial setting, firms have a certain position in the market as well as in the value chain, both of which are often visible to other firms. A change in the position or in a certain tie between two actors may accumulate and affect other firms in the wider network and the business environment (cf. Hertz 1998). Changes in social networks may have a significant impact on the business dimension, particularly on cross-cultural business networks. The social element may not be a classical driving force, but its impact on SME internationalisation and business networks needs to be considered. A local representative of a firm is not just one contact, but represents the company, its products and reputation. He/she forms a part of the firm's opportunity and resource structure. Therefore the related capabilities and trust have a personalised character.

Social, managerial and entrepreneurial networks are particularly relevant in industrial networks where the actors are limited and they are to a large extent known to each other, at least on a national basis. The role of significant actors and key persons is perceivable and their activities often function as reference points for others. Another, less acknowledged, concept in industrial networks is the emotional dimension of actors. Actors, even firms, often prefer to act often according to "personal chemistry", i.e. they select partners and do business with persons that they trust and with whom they share common views and understand each other rather than with other businesspeople. The rationality of this view stems from the belief that, with a priori known and trusted partners, the results of the interaction are better and are achieved in a smoother manner (cf. Gulati 1998). Wellman and Berkowitz (1988) see the market as a tangible clique of producing firms, which observe one another in the context of an aggregate set of buyers:

1. *Market actors are known to one other as well as to potential entrants*
2. *They take the perceived actions of others into account when formulating market strategies and when acting.*
3. *Market actors are keenly interested in one another and in how each producing firm relates to the buyers' side.*

4. *They normally share a great deal of information about the style of behaviour each firm adopts vis-à-vis the others, that is, the social context in which they operate.*

2.6.3. Embeddedness in value creation

A firm in an international business network, which is based on manufacturing activities and vertical flows, has a strong pragmatic relationship to value creation. When a supplier is unable to meet the requirements set by its network partners, it is excluded from the business net and another supplier is integrated into that business net.

Embeddedness in a wider setting, as part of a functional system - flow of activities that produces value in the form of products or services, is one core element of business networks³⁰. In this dimension the functions are “located”. Value creation activities and transformation are seen as a chain (cf. Porter 1985; Young 2001; Håkansson and Johanson 1992), as a net (Jarillo 1993; Parolini, 1999) and as a system (Parolini 1999; Möller and Svahn 2003). Håkansson and Johanson (1992, p.148) present a model of activity cycles and transfer chains in which the actor performs transformation of heterogeneous resources. The value chain is used as a method to analyse activities and interaction (e.g. Porter 1985).

A holistic view is often neglected (cf. Rohweder 1993 p.215). Firms fail to understand the value configurations, investing only in certain links in the value chain, rather than in a fully integrated set of value creation and extraction processes (Young 2001, p.2). The integration and effectiveness of the value chain, as well as enterprise’s capabilities, competencies and cultural attributes, are critical aspects in achieving competitive advantages (Young 2001).

Value can be understood as the interlinking element in a value net (Jarillo 1993; Parolini 1999), in which each product or service requires a set of activities performed by a number of actors, forming a value-creating system (Parolini 1999; Möller and Svahn 2003). Möller and Svahn (2003) analyse the value system as a continuum, which has stable, well-defined value systems on one end and emerging value systems with radical changes on the other end.

The value chain logic is emphasised more in this study, which includes vertical activities in the industrial manufacturing (i.e. transformation) and trading (i.e. transfer) network. The value chain logic is applicable on a certain activity and it illustrates the flow of the process in a simple manner. The value net-approach (cf. Möller and Rajala and Svahn

³⁰ cf. Alderson Wroe 1965, Ford 2002

2002) needs development in its application criteria, since many industrial SMEs have several types of activities and businesses that match more than one category of value systems.

In addition to producing value, industrial relationships incorporate another type of value in intangible assets. They have *relationship value*, which is the customer's perceived value of the supplier relationship (cf. Walter, Hölzle and Ritter 2002). A customer's relationship value is one major determinant in business markets, which contributes to the stability and further development of the customer-supplier relationships (e.g. Gemünder, Helfert and Walter 1996; Walter, Hölzle and Ritter 2002). Another significant question is value sharing in a network. Value creation and sharing are difficult to control and organise in an international context, these aspects represent a problem area for many SMEs.

Walter, Hölzle and Ritter (2002) examine relationship value and network functions. According to them, the functions of a supplier relationship are defined as the supplier's contribution to the value increase in the customer's organisation and in the whole network. Functions are divided into direct functions, i.e. purchasing functions, and indirect functions, i.e. network functions (Walter, Ritter and Gemünder 2001; Walter, Hölzle and Ritter 2002). When integrated with the industrial setting, particularly manufacturing activities, the value chain concept may assist in understanding many of the dependent and interconnected relationships and their functions.

2.6.4. Interconnectedness-who is governing whom?

Interconnectedness, whether visible or invisible, is both a dimension and an implication of embeddedness. Interconnectedness constitutes a channel for events. For business actors it is necessary to understand how to better perceive and organise their set of relationships, since relationships comprise the aspect of interconnectedness and the inherent influence. The unforeseeable nature of events that are transmitted through interconnectedness creates management problems, particularly in the international business activities of SMEs. There is no managerial model available for understanding or anticipating the effects of interconnectedness (Törmänen and Elo 2004).

Connectedness indicates the extent to which exchange in one relation is contingent upon exchange in another relation. Relationships of interest can be directly or indirectly connected to other relationships or affect them as a part of a larger network. An industrial relationship is connected to several different relationships maintained by either the supplier or the customer, some of which are with the same third parties (e.g. Anderson, Håkansson and Johanson 1994).

Interconnectedness is a dimension that encloses the structure of dependencies and power on activities and resources being controlled by the actors. It has become one of the strategy problems for firms, e.g. which are affected by a change in the sales system. When the large merchants are forming strategic alliances, the independent merchants may be suddenly excluded by their suppliers (without undertaking any activity themselves, without changing anything in their supplier relationship)³¹. Industrial processes and supply chain management stretch far beyond the boundaries of the individual firm. Ritter (2000) analysed the role of interconnectedness in the business context and emphasises that each firm is dependent on resources controlled by other firms.

Ritter (2000) provides practical examples of the interconnectedness of relationships and created a framework for its analysis. He criticises the network-related research for being interested in the outcome of interconnectedness but not in interconnectedness itself, which serves as the mechanism. His concern is relevant for the strategic planning and management of internationalising SMEs. His analysis on neutral, positive and negative effects³² distinguishes ten different cases of interconnectedness (see more in Ritter 2000, p.320-322):

1. *Neutrality effect: No interconnectedness between two relationships exists when two relationships are totally independent from each other.*
2. *Assistance effect: A one-sided positive effect between two relationships can occur when experiences made in one relationship can be used in the other.*
3. *Hindrance effect: If one relationship is hindering the other and there is no impact in the opposite direction, there is a one-sided negative effect.*
4. *Synergy effect: A two-way positive effect means that both relationships support or even necessitate or presuppose each other.*
5. *Lack effect: Between two relationships a positive and a negative impact can coexist. It is the lack of alternatives that sustains the relationship.*
6. *Competition effect: Two relationships can also weaken or even exclude each other.*
7. *Unitary neutrality effect: Three relationships (triad is the basis for analysis) coexist with no impact on each other.*
8. *Initiation effect: One relationship causes other relationships to become interconnected.*
9. *By-pass effect: It is also possible that one relationship supports the third relationship whereas the other relationship weakens it.*
10. *Hierarchy effect: Two relationships in a triad can have a negative impact on a triad relationship.*

Connectedness refers to the different types of effects and it can be analysed from various points of views. Anderson, Håkansson and Johanson (1994) offer two constructs on dynamics that capture a relationship's connectedness:

³¹ See development of strategic alliances in European paper distribution and their growing role, e.g. Igepa, Papyrus, Paperlinx and Scheidersöhne

³² When referring to network effect this study uses Ritter's research as a frame.

1. *Anticipated constructive effects on network identity, which can be defined as the extent to which a firm perceives that engaging in an exchange relation episode with its partner firm has, in addition to effects on outcomes within the relation, a strengthening, supportive, or otherwise advantageous effect on its network identity.*
2. *Anticipated deleterious effects on network identity, which can be defined as the extent to which a firm perceives that engaging in an exchange episode with the partner firm has, in some way, negative, damaging or otherwise harmful effects on its network identity.*

Ford and Mc Dowell (1999) analysed the effects and value of different actions in the context of business relationship portfolios. They identify four levels of effect from the perspective of a single participant: Effects in the relationship, effects on the relationship, effects on a portfolio, and effects on a network (see more in Ford ed. 2002 p.320-334). Connectedness, embeddedness and interdependencies all examine the contingencies in a business net. These contingencies incorporate effects that may elucidate changes in a net (see more in Ritter 2000).

According to Ritter (2000), changes in a relationship accumulate step-by-step into a wider network, which is called *the domino effect* when the connected impact is spreading across actors and areas (cf. Hertz 1998). He suggests that manipulation of interconnectedness between relationships becomes an element of strategic network management and points out the shortcomings of the approaches based on relationship portfolios (Ritter 2000, p.324).

When comparing alliances and industrial business networks, it is difficult to draw a clear dividing line, since the contractual or ownership structure is often considered to be a defining factor. However, Gulati (1998) argues that strategic alliances may be defined as voluntary agreements between firms, involving exchange, sharing or co-development of products, technologies or services. It seems that, except for clearly defined alliances and subcontracting networks, more loosely connected industrial networks are also highly interconnected in terms of their activity structure and relational structure. This is due to the fact that their operations are based on the allocation and utilisation of available resources. Therefore it is of interest to analyse industrial networks not only from the point of view of legal or organisational constructs but from the point of view of activities. It seems that the processes³³ themselves are gaining importance in the industrial setting. They connect the actors to an interdependent network of participants, in which the governance and coordination of the processes is very context-dependent.

³³ processes here refer to the supply-production-distribution type of tangible and observable processes

Connectedness has a strong social dimension when looking at network development from a more behavioural viewpoint. Returning to the original unit of analysis, dyads have been extensively studied from various perspectives both in the social science and in business studies. Relationships are analysed as dyads, ties and bonds. Relationships are based on economic, legal, technical, social and/or administrative bonds (Hammarkvist et al. 1982). The actors are connected by ties that have either a weak or a strong character (Granovetter 1973). The intensity or content of a tie between two firms in international industrial networks has indicated its importance: weaker ties may also have a significant impact on a certain activity or development (see Nieminen 1999; Salmi 2000; Sharma and Blomstermo 2003).

2.6.5. Dependency and autonomy

Dependencies are related to interconnectedness, they represent its connotations. One type of core dependency is dependency on primary resources. Gulati (1998) uses the term “structural embeddedness” to describe resource interdependence and dyadic attachments that may be increased by the depth of the social structure. In industrial markets the dependencies are diverse and usually significant (cf. Webster 1991). They may be direct and immediate in their impact on the firm or indirect and diffuse (Törmänen and Elo 2004).

The firm-level dependencies vary. Webster (1991) describes international marketing in industrial markets as a general management responsibility, since an industrial company is very dependent on its existing structure and resources. For example, changes in marketing strategy are more likely to involve capital commitments for new equipment, shifts in development activities, or departures from traditional engineering and manufacturing approached, any one of these changes would have company-wide implications (Webster 1991). Therefore a decision concerning change in industrial purchasing and marketing may have a wider strategic impact. Webster (1991) describes the types of interdependencies influencing the activities and decision making of industrial firms:

1. *Functional interdependence: Industrial marketing effectiveness depends to a greater degree on other business functions, especially manufacturing, research and development(R&D), inventory control and engineering (Ames 1968)*

2. *Product complexity: One dimension is technical product complexity, which causes an industrial firm to remain more product-, engineering-, manufacturing-, and technical-oriented. Webster (1991 p.15) defines the product in an industrial setting as an array of economic, technical and personal relationships between buyer and seller. The*

definition points to a third dimension of uniqueness in industrial marketing - the high degree of interdependence between buyer and seller.

3. Buyer-seller interdependence: Interdependence is particularly high with operations-related products. The buyer becomes crucially dependent on suppliers for an assured supply of raw materials, components, or subassemblies, as well as for the continued supply of maintenance and repair parts and skilled repair service for capital equipment, efficient order handling, delivery and, usually, extension of credit terms and the like. On the other hand, strategic partnerships with customers may require substantial investments in supporting services and systems, such as electronic data interchange. These investments must be evaluated in the context of overall marketing strategy.

4. Buying process complexity: The complexity in industrial buying behaviour is high in terms of the type of buying decision (straight rebuy, routine purchase, modified rebuy, new buy) as well as in terms of the influence of the formal organisation itself, the number of the people involved, the technical and economic factors, the operational environment, the large sums of money (Webster 1991).

Industrial relationships, especially in material supply, manufacturing and distribution, have a very essential role in the value chain. Those functions within a firm are highly dependent on the others for their effectiveness. Therefore, the autonomy of the actors is reduced. Webster (1984) emphasises the complexity of the organisational buying process itself. Product complexity extends to all economic, technical and personal relationships between the industrial buyer and seller. There is a high degree of buyer-seller interdependence, which extends well beyond the transaction itself and impacts the network in which the firm is involved.

Interdependence between firms and within industries is significant and gaining increasing attention in research, both on a national and an international level (e.g. Ritter 1999, 2000; Johanson and Mattsson 1988, Hertz 1998). On a business network level, dependencies may have a cumulative character. A manufacturing process in an industrial market is highly interconnected and each part of the process is dependent on the respective actors, their resources and activities. It is often assumed that a legally independent firm functions as an autonomous unit, making its own decisions, controlling its own resources and performing its own activities. However, in a business network the interconnectedness and embeddedness influences and often reduces the autonomy of an actor. Hedaa (1999) discusses the dependent nature of an actor and presents a continuum: autonomy-honomy-heteronomy.

2.6.6. Asymmetry and trust

Interdependencies and the level of autonomy relate to the power differences and asymmetry in the decision making processes. Anderson and Narus (1999) see power as the ability to get the partner to undertake activities that the partner firm would not do on its own. Influence strategies like information exchange, recommendations, promises, threats, legalistic pleas and requests are utilised. A weaker firm influences the stronger firm through dependence-balancing operations that strive to equalise the importance of the actor (Anderson & Narus 1999).

Anderson and Narus (1999) determine conflict according to disagreement's frequency, intensity and duration. There are two types of conflict, pathological and functional conflict. The three primary sources of conflict are goal incompatibility, the domain dissensus of the working relationships and differing perceptions of reality (Anderson & Narus, 1999, p.374-395). According to Gulati (1998), the social structure limits perceptions of likely opportunistic behaviour and increases the willingness to make non-recoverable investments that enhance performance.

A social network is one tool for enhancing trust and confidence between firms. Gulati (1998) emphasises the role of dyadic ties, particularly prior ties that may facilitate development. Webster (1984) notes that in industrial setting social networks or connections may be used as kind of marketing channel: effective referral networks emphasise the role of the social network as an information channel that creates awareness of a potential partner's existence. A dyadic tie may have a strong meaning or be of a weaker nature (cf. Granovetter 1973). It may also be activated when needed. A triad represents the smallest net of three interconnected dyadic ties.

Interdependency requires cooperation, which entails similar or complementary actions to achieve multiple outcomes or singular outcomes with the expectation of reciprocity over time. Norms are created for how to work together and for how to jointly create value and share benefits (e.g. Anderson and Narus 1999). Bachmann (2001) discusses the mechanisms of trust and power as a means of coordinating and controlling interorganisational relationships.

2.7. A firm's context in international business networks

The review of theory and previous research shows that a firm is embedded in a particular context, which incorporates its business network and the wider environment. These business networks are complex evolving constellations. The firm evolves together with its business network. Industrial networks are gaining more managerial importance due to the

increasing level of interconnectedness and dependencies. In internationalisation processes, previous research makes clear the impact of a firm's context in relation to business networks (see Chapter 3).

The single firm perspective needs to be enlarged when considering strategic decision making and internationalisation. A problem is that the firm's context or setting is only partially observable, with limited possibilities for truly objective observations. Also, a large part of the respective concepts deal with subjective and cognitive perceptions. The context has several dimensions or levels, which can be simplified as follows:

1. *The wider external environment: macro-level environment, such as market area, that can not be directly influenced by the firm³⁴. This may be interpreted as a country or a target market.*
2. *Business network environment: secondary task environment that consists of supportive or indirect linkages, but does not belong to the most intense or visible connections of the firm. This environment may have a direct impact on the firm in the form of competition or cooperation and the firm may have a direct impact on the network environment. This could be seen as the overall industrial and market configurations in a country.*
3. *Business network: primary task environment that consists of the visible direct exchange partners being of importance for the firm. Business net is a defined part of a business network. Two-way exchange and interdependences characterise the members of a business net structure. This could be considered as the primary constellation of suppliers, partners and customers of a firm.*

Functional and physical elements are inherent in all dimensions of business networks and defined business nets. Anderson, Håkansson and Johanson (1994) refer to functional and spatial aspects: the network context determines the actors, the activities and the resources, and the linkages and patterns among them. The physical structure relates to the questions of who, what and where, which need to be simplified according to the observable elements³⁵. Håkansson's model (1982) consists of three levels: environment, atmosphere and interaction. These different levels of the operational environment of a firm may have different geographical or market-related dimensions. The defined business net structure represents the most visible and clear connections that are more or less shared by the firms participating in the net, i.e. the "observable" network picture (see Ford, Gadde, Håkansson and Snehota 2002).

The concept of context has a spatial and a geographical form. The business network environment represents the portion of the market network perceived as relevant for its activities (cf. Snehota 1990). The wider external environment explicates the role of countries, locations and institutional and physical factors.

³⁴ at least to a significant extent or only as an exception, since trade organisations, lobbying and other indirect connections have influence possibilities.

³⁵ the interdependences between different levels of environment are not analysed here, see Achrol, Reve and Stern 1983; Snehota 1990; Ford ed. 2002

The type of industry and technological environment has a remarkable impact on the way a firm functions and the kind of network within which it is embedded. The environment characteristics of an internet-based trading company look different and develop differently than those of a local paper bag producer. Market related legislation, norms and preferences set constraints.

The application of the concepts of the industrial network approach may be very simple for a small industrial company that functions as a single supplier for another larger firm. But if it is a question of a full-range wholesaler, it becomes increasingly difficult to apply the concepts for analysis. Still, the concepts assist in understanding aspects of importance. Dicken³⁶ (1998) and Törnroos (2002b) argue that economic globalisation has functional and geographical entities, which refers to the need for “mapping” and “sub-mapping” of the network structure as a whole. This type of mapping capability may be very restricted in an SME firm, which is not an experienced international actor.

2.7.1. The social and cultural aspects of a firm’s context

The internationalisation process as a part of a wider business network provides not only the related context, but also additional cultural dimensions to be understood. Matching processes (Ghauri & Holstius 1996) within business networks are not limited to geographical areas, but could be seen from several aspects and structural viewpoints. The intangible, abstract structure between business actors in a network forms the more complex and multifaceted side of research. There are numerous aspects - social, cultural, emotional, temporal and other tacit dimensions - that influence the firm’s development in the network.

*Social structure*³⁷ as a concept in an industrial context has several levels of personal and inter-organisational relationships. Salmi (2000), Mainela (2002) and Madureira (2004) emphasise and illuminate the role of managerial and entrepreneurial networks in the international context. The interaction model by Håkansson (1982) can also be applied in the inter-organisational context: at the individual level interaction is affected by the personalities, experience and attitudes of the persons involved. The atmosphere in the relationship is seen as a result of the interaction, simultaneously, it also conditions the interaction. The atmosphere incorporates social dimensions of exchange: trust and commitment, power/dependence, conflict/cooperation, and expectations (Håkansson 1982).

³⁶ According to Dicken, globalisation means a shift in traditional patterns of international production, investment and trade. Each of the activities has a location, which is becoming increasingly global.

³⁷ Note that most social concepts are to some extent observable, but rather subjective. Some parts may be seen more objectively, being “widely accepted as representing reality”. But still, a majority of the terms are built on perceptions that are subjective.

2.7.1.1. Culture-related aspects

Cultural dimensions need to be examined to exclude erroneous assumptions about the internationalisation-related process. Not only macro-economic factors and trade barriers hinder the internationalisation efforts of firms, but also the incompatibility of the social and cultural dimension. Business distance and psychic distance (Johanson and Vahlne 1977, 1990) are used in internationalisation literature to explicate the perceived distance between the trading partners. The increasing interdependence of the global economy is heightening the need to understand how business relationships develop between company managers from different cultures (Marshall 2000). There are numerous studies on cultural issues, but the extent to which culture influences SME internationalisation processes has not been very intensively studied (cf. Fenwick and Edwards and Buckley 2003).

Culture and its impact are deceiving elements in internationalisation. Culture is actually a complex and interrelated set of elements, comprising knowledge, beliefs, values, arts, law, manners and morals, and all other kind of skills and habits acquired by a human being as a member of a particular society (Usunier 1996). The sources of culture have been divided into the following categories: language, nationality, education, profession, ethnic group, religion, family, sex, social class and corporate or organisational culture (Usunier 1996, p.12).

In business networks culture is perceived and enacted in a rather subjective individual manner. The key social and behavioural dimensions reflecting the internationalisation context are: communication and language, culture and business norms, and a willingness to adapt and learn. The focus in the study is on the interaction between companies from culturally different countries with a large “psychic distance” from one another (Johanson and Vahlne 1977). Törnroos (2002b) argues that culture is embedded in different types of cultural settings and contexts.

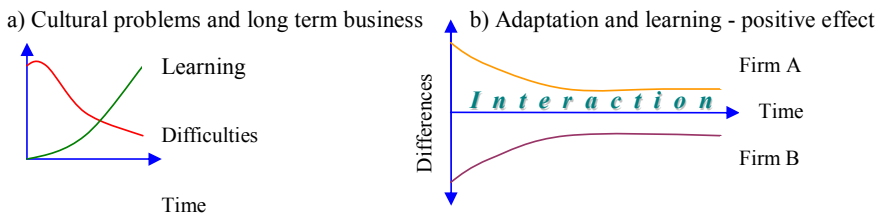
Cultural differences or similarities may mislead managerial decisions concerning network entry (cf. Fenwick and Edwards and Buckley 2003), and its development. Key areas of interest for business networks are how to negotiate, manage organisations, market products and services and how to adequately perceive the influential network connections and handle business relationships (Törnroos 2002b).

A previous study on the cultural and co-operational aspects of business network in the Finnish-Greek context resulted in the following findings (see Elo, 2003a):

Culturally-generated problems hinder the operations and activities between Greek and Finnish firms, but are not considered to be the main problems or invisible trade barriers. The culturally-related problems in creating a long-term business relationship are emphasised in the

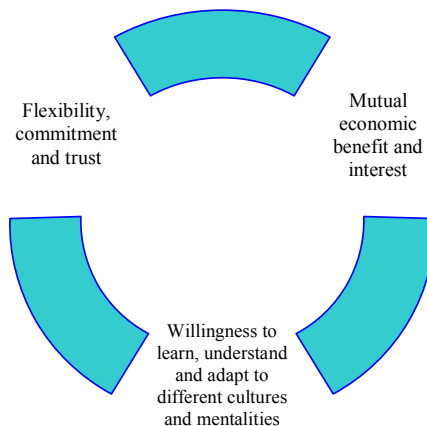
beginning of a business relationship. After that, they diminish, see Figure 2.3. part a). The dynamic procedure of doing business enhances the understanding of the partner and forms the further development of the business relationship, see Figure 2.3. part b). With time, business networks develop their own system of norms, which enhances the development of trust and cultural understanding. Or they tend to fail in the beginning. It seems that similarities in industry, production and the type of business enhance mutual understanding. Motivation, mutual benefits and economic interest seem to be essential factors that influence the evolution of the exchange.

Figure 2.3. Learning effect



Based on the relationships that have been studied, it seems that a cyclical pattern, consisting of economic interest-learning/adaptation-trust and commitment, forms the basic configuration for a positive or “development-capable” business relationship. These elements were identified as necessary for the business relationship in the Finnish-Greek network to function properly, see Appendix 2 and Figure 2.4.

Figure 2.4. Positive dynamics in a cross-cultural business relationship



The findings imply that most of the problems on the managerial level are not so much sensitive cultural details as related to practical questions concerning organisation, management, payments and communication. The managers do not perceive the cultural differences³⁸ as a trade barrier or as an obstacle in the creation of trust. They emphasise instead the role of committed efforts to increase mutual benefit and a willingness to adapt and learn as crucial aspects. Large psychic distance seems to hinder interest and cause unwillingness to adapt to the circumstances. After the first stages have been established trust does not seem to be significantly affected by differences in national culture. These findings imply that the impact of trust and culture should be seen as a dynamic process inherent in business relationships (Elo 2003a).

Those findings supported Marshall's (2000) conclusions that culture gradually becomes less important and individual preferences regarding relationship-building actions and relationship-specific history become more important in determining a respondent's perceptions of and the actions taken in the relationship. Marshall's (2000) study indicates that forbearance, in and of itself, does not lead to on-going cooperative exchange. In terms of the nature and timing of forbearance, the matching expectations and actions is more relevant than general forbearance (Marshall 2000).

Many scholars pinpoint the importance of the contact person (i.e. the managers who link to two firms together) and "chemistry" between the actors. Möller and Svahn (2002) imply that a tolerance of ambiguity; cultural sensitivity and empathy are facilitating characteristics and suggest that boundary spanners should match their counterpart in terms of authority, age and gender. The main culture-related difference (Hall 1960; Hofstede 1980; Usunier 1996; Trompenaars and Hampden-Turner 1997) in this context is in the way culture influences the way of doing business; that is, the diffuse-specific contradiction described as "philosophical versus technocrat" way of doing business (Trompenaars and Hampden-Turner 1997 p.89). The findings indicate that after the business related aspects cultural understanding, especially communication, is the critical capability to develop business activities (Elo 2003a). Trompenaars and Hampden-Turner (1997, p.76) argue that at least 75% of all communication is non-verbal, which means that the majority of communication between people and firms occurs on an intangible level that is difficult to observe.

³⁸ Note that this study (Elo 2003) refers to national culture

2.7.1.2. Temporal aspects in international business networks

A firm's development is a process that takes place in time. The current activities of business actors are linked to past experiences and future expectations in the overall development process (Halinen and Törnroos 1995, 1998; Hedaa and Törnroos 1997, 2003; Hedaa 1999). It could be argued that a long-term memory exists on several levels in an organisation, i.e. an impact accumulates in time and in the organisation. Hurmerinta-Peltomäki (2001), Hedaa and Törnroos (1997) and Hedaa (1999) discuss time and timing in business networks and their activities.

Timing is a complex issue, which is seemingly underestimated in importance. The sense of timing is strategic in the internationalisation process. It is not only essential to know the location and type of network to join, but also the time at which to join it. In internationalisation process of a firm, in particular, the aspect of timing may be among the key strategic elements that sets the basis for the development of the process.

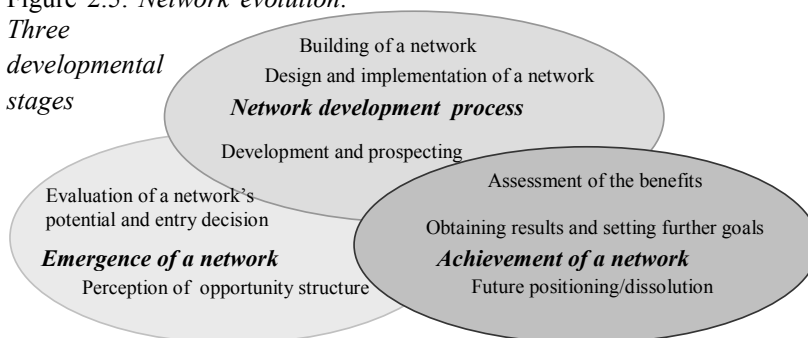
Business nets have often a certain life-cycle (project nets, R&D nets, product-related nets), which may depend on a number of factors. After passing up the opportunity to join an international distribution network, it may be impossible to enter those markets afterwards due to a congested distribution situation. It may be of crucial importance for the firm to know the right time to get involved in a business net, since the role the firm may be dependent on the stage at which the net finds itself (if a metaphor of a rowing boat is used, it could be said that a firm is getting into a boat with a big hole in it that does not show yet). Still, it seems that the widely recognised time and life-cycle aspect in business has received less attention in network-related research.

2.8. Stages in business networks

Business networks³⁹ progress, expand and internationalise. They may also affect a single firm through network level strategic decisions both in international activities and in the domestic market. There is only limited research available on business network internationalisation and no specific model on the aspect of internationalisation at a network level (cf. Fletcher and Barret 2001). Here two general stage models for business network evolution are presented. Ghauri et al (2003) identify three main stages: The emergence of a network, the network development process and the achievement of the network. The process is evolutionary, see Figure 2.5.

³⁹ Business networks here refer to a group of definable actors

Figure 2.5. *Network evolution: Three developmental stages*



Source: Ghauri and Lutz and Tesform 2003

Another synthesis model for inter-firm networks has five phases: searching, starting, development, maintenance and termination (Batonda and Perry 2003). Ghauri and Lutz and Tesform (2003) distinguish three prerequisites for the emergence of a network (export marketing cooperative net):

- *Common problem or opportunity*
- *Companies should prefer to respond jointly*
- *Content of the cooperation should be important for the income formation of the firms*

They also identify some key concerns, which determinate whether a network evolves towards cohesion, solidarity and commitment. The influence factors are: the number of companies involved and the group's cohesiveness, the composition of the group and the ability to substitute the products/firms and, in exports, the independence of the exporting party, and the ability of the various firms to work together. Another determinant for success is the positive evolution of foreign market penetration-related activities. The business network should acquire foreign marketing experience and market knowledge. Social networks in transition economies assist a firm in obtaining country- and region-specific knowledge and expertise, partially also experiential knowledge essential for market entry (Meyer and Skak 2002, p.186). A firm should build a strong network relationship before it starts to penetrate foreign markets (Ghauri and Lutz and Tesform 2003 p.732). Mutual interest and the active participation of group members are preconditions for network success (Ghauri et al. *ibid*). Other critical variables for network success are: trust, learning, personal relationships and backward and forward linkages (Ghauri et al. *ibid*).

The evolution of the business network is driven by the interplay of stability and change, which have either exogenous or endogenous roots. According to Batonda and Perry (2003, p.1476) networking firms are frequently changing their direction and so a dormant state followed by the re-activation of these networks are common in most business situations.

A dormant stage in network relationships can be created by: a change in the business focus or the completion of projects, the failure to meet a partner's requirements or changes in business cycles.

In a business network the firm attempts to create access channels to sources of recourse, competence and capabilities and to manage these access channels in pursuit of competitive goals (Cunningham and Culligan 1988). There are focal companies or hubs that often lead the development and other organizations that follow that direction according to their capabilities (cf. Törmänen and Elo 2003). The issues of dynamic capabilities in business networks and nets have been discussed by Möller and Svahn (2003).

In SMEs the strategy of intentionally following a significant customer or a supplier in its development is popular, since the SME management often believes that in this way they may get their share of the growth potential and general progress. For example, small paper converters are dependent on the strategy development of their suppliers. But they are also dependent on their customers, since innovations, product changes and technological changes are usually generated through these relationships. In an industrial network of vertical nature the integration of processes and congruent strategies gives the powerful actors more potential to orchestrate the configurations of their network.

2.8.1. Types of business networks

Business networks represent arenas of networking. The complex nature of business networks makes it difficult to classify and compare them. There are differing viewpoints on the different types of networks. The main separation is between social and industrial networks (e.g. Mainela 2002). Networks can be seen as markets, groupings of firms or organisations (cf. Wellman and Berkowitz 1988). Networks can be of a diffuse character, representing new forms of organisation, and they can be categorised as vertical or horizontal business networks (cf. Ford 2002, p.427-428). Business networks are of an increasingly non-domestic character, since they often transcend borders and regions.

In this study the interest focuses on fairly loose business networks in an industrial setting; the type of network which Gadde and Håkansson (2002, p.427) describe as dynamic networks consisting of loose coalitions that are interconnected by brokers responsible for the integration of various functions. The business network in the paper, converting and packaging industry has vertical characteristics due to manufacturing activities and it also has horizontal characteristics due to trading and organisational activities. A supply network has similar characteristics.

The levels of matching (cf. Ghauri and Holstius 1996) among the actors guide the composition and the establishment of cross cultural business networks. The atmosphere and circumstances are elements, which influence the internationalisation processes within a business network (e.g. Fletcher 2001, Fletcher and Barret 2001). A lot of research has been done concerning the networks of large corporations, multinational companies (MNE) and alliances (Gulati 1998). The asymmetry in the network relationships of SMEs with MNEs has been a less researched topic.

Networking is an individual-level process that refers to the interaction between people. Networking creates, develops and terminates linkages and relationships (Turnbull 1979; Mainela 2002). In very small firms the manager-owner may be considered identical to the firm. With small business activities, in particular, the inter-organisational networks often include two types of networks: entrepreneurial and managerial networks and combinations of them⁴⁰. Madureira (2004) pinpointed the co-existence of formal and informal mechanisms of coordination and the role of private and business contacts.

2.9. The collective character of business networks - a potential forming power for processes such as internationalisation

Business networks and defined nets of actors, such as strategic alliances, share a kind of cohesive, collective element that binds them together (see e.g. Hertz and Mattsson 2003 p.1-33). This element is represented by interconnectedness and dependencies. Collective characteristics may evolve during a project or co-producing phase or it may be part of a long-term constellation of business interests. This collective feature represents the primary arena for a domino effect (Hertz 1998). It does not necessarily represent the primary arena for radically connected effects (Halinen, Salmi and Havila 1999).

Business constellations may have system characteristics and they have a multifaceted nature. The interconnectedness and the task environment set the basis for this *collective element*. This collective element characterises the intensity and depth of the business network explicating the perceivable influence power and channel. It includes synergies.

There are some studies that specify the role of collective element (Rosenbröijer 1999) or discuss its influence on a firm (Hertz 1998; Ritter 2000). Rosenbröijer (1999) studied the fine paper sector in the United Kingdom, with a focus on cut size paper (copier paper). The business network consisted of a focal firm, a paper producer, and four very different

⁴⁰ Cf. Mainela 2002

distributors. His study suggests that *a focal firm's capability development*⁴¹ *is not an isolated phenomenon*; instead it is highly dependent on the capabilities of the other firms with which the focal firm has a relationship. The findings of this study propose that the analysis of a firm's capability development has to be conducted both on different analytical levels as well as within different analytical structures. The analytical levels used in his study are the firm-, the relationship and the network level (Rosenbröijer 1999). This gives impetus to the view that a firm's development in a foreign market is also dependent on numerous other actors such as partners, producers, distributors and resellers. There are co-evolving processes of significance.

Möller and Svahn (2003) use a net-portfolio concept to suggest that the involvement of the firm in different type of business networks should be analysed holistically, since the roles that each firm holds are interrelated and actions in one net may support or jeopardise actions in other nets. Rosenbröijer's (1999) findings suggest that every relationship and network structure has to be analysed separately and indicate that firms access and use very different resources depending on the distributors with whom they have a relationship. A holistic view, or another more extended view on a firm in a business network, facilitates an understanding of the collective character.

An open-minded view on the firm, its context and the respective development dynamics is needed, particularly in terms of internationalisation. A firm does not function alone. The significant impact of other actors and inter-organisational relationships on a firm's internationalisation process requires more research (cf. Axelsson and Easton 1992). Törmänen and Elo (2004) summarised previous research and created a synthesis, which illuminates the nature of a firm's autonomy. When emphasising a single actor's view on its environment, the following mapping of concepts and terms is suggested, see Figure 2.6.:

Embeddedness is used to describe the overall context and configurations of a firm.

Interconnectedness is used to describe the structural nature of a firm and its position.

Dependency is used to describe the actor, resource and activity-related nature of the firm.

Actor is an organisation, a grouping, a firm, a part of an organization or an individual.

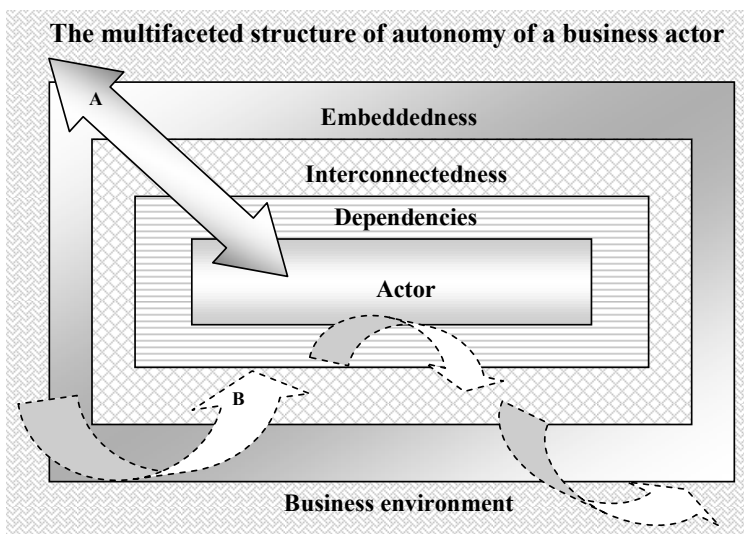
Arrow A describes the network effect (Ritter 2000, p.320-322). Network effect takes place primarily between two actors in a wider business network. It is basically a dyadic effect, which may take place in a triad. Network effect does not have to accumulate; it may be a confined effect (cf. Halinen, Salmi and Havila 1999, p.237-239). For example, without any dyad-internal change in the

⁴¹ exogenous influence and events are also implicitly present in Hansén's research (1981)

relationship between a supplier of paper bags and a super market, the supplier may suddenly have the possibility to supply wrapping paper for the supermarket if the third relationship between the supermarket and the existing wrapping paper supplier runs into problems.

Arrows B describes a connected network effect, a domino effect that accumulates further to the business network (cf. Halinen, Salmi and Havila 1999, p.237-239, Hertz 1998 p.3-29). A domino effect shows how changes in one relationship may explain sequential, consecutive changes in other relationships. Domino effects are more likely to develop where a high degree of integration and complexity among actors exists (Hertz 1998, p.3-7). Hertz describes domino effect as sequences of changes, which are the process where connectedness is a prerequisite and speed is the contributing factor to the development. The development is triggered by the initial change (Hertz *ibid*).

But domino effect may also be a more general phenomenon relating to product, price, distribution and technological changes as well. When a new packaging material innovation, such as polyethylene coating (PE), is introduced its impact will sooner or later be tangible in related manufacturing units; the producers must adapt to revised customer preferences and modify their aluminium film-coated products to the PE-coated products or counteract with another innovation. This kind of innovation-triggered change creates a domino effect that stretches across actors and markets.



The Figure 2.6. **The multifaceted structure of autonomy of an actor.**

(Source: Törmänen and Elo 2004)

A map assists in locating concepts in relation to a firm. The interest here lies not in change *per se* but in the network effect and the domino effect. Events and changes often have a broader impact. When a firm carries out international activities it becomes involved in new business networks and platforms of change. These powers and driving forces may be less perceivable and less manageable for SMEs than the changes in the domestic environment.

Building on the previous research, it is claimed here that the business network of the firm represent a platform of interaction, but also one of change and driving force. The changes affect the firm directly and visibly, but they also accumulate and may develop in an invisible manner. Changes have both negative and positive connotations. Changes may give a calculated boost to international operations, but they may also suddenly paralyse a firm's foreign distribution net. Radical types of accumulative changes and industry-wide domino effects influence the collective element of a business network as they mould the cohesion and alter the dynamics of that network (cf. Halinen, Salmi and Havila 1999, p.236).

The international activities of SMEs and their entry into new market areas are parts of a process, which is highly interconnected with other business actors. From the perspective of a firm these phases are particularly sensitive to particular endogenous and exogenous impacts. For example, a group of industrial companies develop and produce a product for export markets. Some of the companies take over the exporting of the product, after which the other co-producers start become more and more involved in export-related activities. If the cooperation continues successfully the level of internationalisation of this net as a whole has increased and, in particular, the previously domestically-oriented firms have evolved in the direction of the other more international firms. If one central actor in this export-net drops out, it has a radical impact on the development of the remaining firms. This development is not always traceable to a clear push or pull effect, but to the collective character of the business network in which a firm is embedded and which has a direct and indirect impact on the firm.

Development includes a multitude of events. Therefore, an event-based analysis may contribute to understanding internationalisation (cf. Hansén 1981, p.16). Events as part of research method are discussed in Chapter 4, see 4.2.

2.10. Summary

Based on the review of previous research and theoretical models, it becomes clear that an industrial firm is integrated into a wider network of suppliers, customers, partners and external actors, which influences its activities and resources. Whether this network is seen as an extensive constellation or as a defined net of actors does not change the fact that the firm is embedded in various parallel networks (social, technical, etc.) and connected to other actors with which it has interdependent relationships. There is a complex setting of direct and indirect ties and linkages, which impact a firm's development process. A firm as an entity is becoming less autonomous and more dependent on other actors in a business network. These relationships to a great extent form the opportunity structure and working environment of the

firm. The macro-level environment also has a temporal, social and a spatial aspect, which includes culture, technology, clusters and the respective “megatrends”.

There are reasons why firms choose to get involved in business networks, such as an opportunity that can be better utilised or achieved as a part of a network or a threat that can be better anticipated or avoided as a part of a network. The reasoning is linked to the type of network characteristics and circumstances. The overall context plays a major role in defining the network type and its relationships and bonds as well as the structure of the network.

SMEs need management tools to overcome complexity in their international activities and understand dynamics. The industrial network approach acknowledges the dynamic nature of business networks, but the dynamics have received relatively little interest. While forms of change *per se* have been studied, the mechanisms of dynamics and their management would need additional research for SMEs. By starting with buyer-seller relationships and proceeding to networks and their embeddedness, dependencies and interconnectedness, it becomes clear that change and evolution are inherent at each level of the network.

Actors, as well as their activities and their resources, evolve. The development of a network is constructed on the development of its parts and vice versa. Therefore, it is concluded that the core constructs of industrial networks - actors, activities and resources - form processes. These processes represent the network’s existence and determine to a significant extent the development of that network.

To conclude, this research project uses the concepts, descriptions and explanations provided by the previously mentioned scholars. It builds on underlying assumptions about the embeddedness of the business actor, its connectedness, limited autonomy and network effect. The importance of dynamics, processes and context is emphasised and taken as a view to understand and analyse the internationalisation of a firm as a part of an industrial network.

Chapter 2 introduces the network view as the theoretical lenses through which the phenomenon of SME internationalisation is studied. Chapter 3 examines the development of internationalisation theory by concentrating on approaches relevant to the network view.

3. SME INTERNATIONALISATION PROCESS FROM A NETWORK PERSPECTIVE -A THEORETICAL REVIEW

3.1. Introduction

The chapter focuses on the internationalisation process of small and medium-sized companies (SME) and the impact of business network environment on them. It discusses the theoretical views and models that have been applied in recent studies on SME internationalisation and concludes with a synthesis of these views and models.

The purpose of the theoretical review is to combine two elements: internationalisation and the networks illuminating a business network's role in the internationalisation process of a firm. The review is limited to a firm-level perspective. The early stages of internationalisation are the main concern.

The globalisation and increasing competition point out the significance of understanding how SMEs internationalise and how their network environment influences the internationalisation process. There are various definitions of internationalisation. Here the definition by Beamish (1990) is used: *“the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries”*. This definition is selected since it represents the logic of SME strategy in internationalisation and can be widely understood⁴².

3.2. Internationalisation of small and medium sized companies

Why in particular is SME internationalisation interesting? First, it is interesting because of the economic and political importance of SMEs: SMEs are the largest source of employment⁴³. They also play a significant regional role and enhance specialisation and innovativeness. SMEs act differently than large companies; they are vulnerable and often restricted regionally and their ability to absorb information is more limited (Julien, Joyal and Deshaies 2001).

The tendency towards increasing outsourcing and subcontracting networks emphasises the significance of their resources and role in the economy. Many multinational enterprises are applying an outsourcing strategy, increasing the proportion of SME partners. This shift embodies the rising strategic importance of SMEs. Since SME companies form an

⁴² Beamish's (1990) definition has the advantage that it does not bind internationalisation to outward activities or growth orientation or any phases or situations.

⁴³ SMEs below 50 persons employed 74% of the private sector work force in Greece in 2003

increasingly significant percentage of SMOPEC⁴⁴ country exporters, their opportunity structure and their potential deserves more attention (cf. Luostarinen 1979; Coviello and Munro 1997).

Second, the mechanisms for describing why and how contemporary SMEs⁴⁵ internationalise are still partially unknown (e.g. Nummela 2002). The dynamic impact of the external business environment and network may change and even manipulate a firm's international activities. Meyer and Skak (2002, p.179) note that events in a business network are generally beyond the control of the smaller firms and therefore their strategies are subject to high degrees of serendipity, i.e. fortunate and unexpected discoveries made by chance. While SMEs may have a reactive strategy, they are also at times proactive. Many highly competent SMEs apply active strategies when they introduce their new products or enter new markets.

Third, the pace of change in international business has increased. The internet and advanced technology have provided new methods for working. A large proportion of work is in electronic format. Selling and buying is possible within a few minutes and more information is generally available. This development influences the way SMEs internationalise. If it does not reduce it at least diminishes the applicability of the older internationalisation theories in the sense of a contextual setting (Fletcher 2001). The internet era has created a new borderless dimension also for SMEs (Hamill and Gregory 1997). Nummela et al. (2003) discuss globalisation and its effects, indicating the following aspects: the driving forces of globalisation influence SME internationalisation, barriers preventing SME internationalisation are diminishing, the speed of business operations is becoming faster and the ability of small firms to control their own development paths has been constrained.

3.3. Internationalisation theories

There is a plethora of theories and models explaining and describing internationalisation, the foreign operations and the foreign entry modes of firms. The comparison of internationalisation is often based on the categorisation of why theories, how theories and why & how theories (Kjellman et al. 2004, p.64). Three main basic approaches for understanding why firms internationalise are constructed on the basis of the economic theory on internationalisation: the *theory of the growth of the firm* (Penrose 1959), the *internationalisation theory* (Casson et al. 1986), *market power theory of a firm* (Hymer 1976) and

⁴⁴ SMOPEC, Small and medium sized open economy, see Kirpalani and Luostarinen, 1999

⁴⁵ SME criteria set by EU Official Journal 1996. The qualitative criteria of SME is not discussed here.

the *PLC-product life cycle* approach (Vernon 1966, 1979). Economic theories have generated a vast amount of research and have been rather dominating (e.g. Anderson and Gatignon 1986; Caves 1982; Hennart 1982; Rugman 1982; Dunning 1988).

Corporate growth, new market opportunities, internalisation and vertical integration were seen as being main driving forces for internationalisation by these theories. The foreign operations of a firm are often explained with the *OLI –eclectic model* (Dunning 1988), which links the firm’s decision to enter a foreign market and its choice of the entry form with the ownership-specific advantages, location-specific advantages and internalisation-specific advantages. Another group of scholars has concentrated on the *transaction cost explanation*. They examine the choice of entry modes from the perspective of choosing the degree of vertical integration of international business (Anderson and Gatignon 1986; Caves 1982; Hennart 1982; Rugman 1982). This covers the range from contractual entry modes to full integration.

The internationalisation process of a firm can be examined from two main perspectives: economic or behavioural perspectives. Behavioural-related theories refer to the organisational and social side, like the decision process model by Aharoni (1966, p13), who argues that: “*Foreign direct investment is seen as a complicated social process. Many different attitudes and opinions, social relationships both inside and outside the firm and the way such attitudes, opinions and social relations are changing*”. Theoretical approaches differ in their focus. Some concentrate on the factors causing internationalisation, some concentrate on the internationalisation process itself, and others take a more holistic view.

In the study the review⁴⁶ of theories focuses on incremental internationalisation theories, the Uppsala model (U-model), holistic approaches (Luostarinen 1970, 1979; Fletcher 2001) and network-based theories (Johanson and Mattsson 1988; Blankenburg Holm 1995). A common feature of most theories is an emphasis on the gradual pattern in internationalisation, which is attributed to two main reasons (cf. Johanson and Vahlne 1977, Andersen 1993, p.212): the lack of knowledge by the firm, especially *experiential knowledge*, and the *uncertainty* associated with the decision to internationalise.

3.3.1. Incremental Internationalisation

The main differences in the incremental models are in the description of the stages and their number. The stimulus to start exporting is seen in one of two ways: either being caused by a push mechanism (external change force), or by a pull mechanism (internal change force).

⁴⁶ Here the review is limited to behavioural-related theories; economic theories are excluded

Learning is a key element for a firm moving from one stage to another. Table 3.1. highlights the different internationalisation approaches based on an incremental process view are reviewed and the main differences in stages⁴⁷. These internationalisation theories are often treated as stage-pattern theories in literature, although some of the stages are more situations or pieces of processes than step-by-step stages. Johanson's and Mattsson's model discusses processes within stages, not between stages.

Table 3.1. Review of the development stages in internationalisation models:

Uppsala Internationalisation model and other process and holistic models

| Johanson and Wiedersheim-Paul (Uppsala Model) | and Luostarinen 1970, 1979, Luostarinen & Welch, 1990 & Luostarinen 1988, 1993 | Johanson and Mattsson 1988 | Blankenburg and Holm 1995 | Coviello and Munro 1997 | Fletcher 2001 ⁴⁸ |
|--|--|---|---|---|--|
| Stage 1 No regular export activities | Stage 1 Domestic operations | Stage 1 The Early international | Stage 1 Develop foreign network knowledge | Stage 1 Intentions to internationalise | Stage 1 Inward and/or outward activities |
| Stage 2 Export via independent representatives (agents) | Stage 2 Inward internationalisation | Stage 2 The lonely international | Stage 2 Identification of internal/external forces | Stage 2 Actively involved in first foreign market and evaluation | Stage 2 Linkage development between inward and outward activities |
| Stage 3 Establishment of an overseas sales subsidiary | Stage 3 Outward internationalisation | Stage 3 The late starter | Stage 3 Establish linkages to the foreign network | Stage 3 Committed involvement across numerous markets | Stage 3 Further development of linked international activities |
| Stage 4 Overseas production/manufacturing units | Stage 4 Cooperative internationalisation | Stage 4 The international among others | Stage 4 Realised foreign market entry | - | |

The Uppsala Internationalisation Model (U-model) by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) represents a behavioural perspective, which explains internationalisation as a process and emphasises learning theory. Their work distinguishes four different modes of entering an international market with successive stages that represent higher degrees of international involvement, see Table 3.1. They emphasised

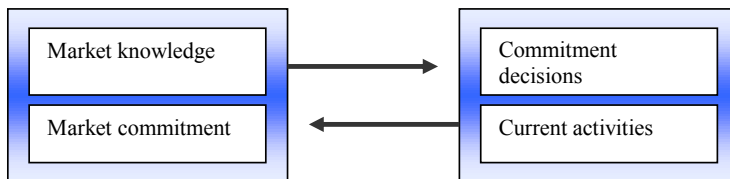
⁴⁷ Luostarinen has presented several models of stages according to the level of analysis (country, industry, firm, type of firm). Therefore it should be noted that the model indicated on Table 1 is not the only model.

⁴⁸ The interpretation of stages is from the author; as such it does not exist in Fletcher's article. His findings see the development as a dynamic interlinked process of various types of activities in both directions being of mixed character, not specified stages. This contrasts with the view of clear stages.

the role of *psychic distance*, defining its as factors preventing or disturbing the flow of information between the firm and the market, including factors such as differences in language, culture, political systems, level of education or level of industrial development (Johanson and Vahlne 1977, p.24).

Johanson and Vahlne (1977, 1990) formulated a model explaining the dynamic character of internationalisation by incorporating change and the cycle of events into one mechanism. The model is constructed on two elements: the amount of resources committed and the degree of commitment, see Figure 3.2.

Figure 3.2. The Internationalisation Process of the Firm



Source: Johanson and Vahlne 1990, p.12

The Uppsala Internationalisation Model (U-model) distinguishes general knowledge from market-specific knowledge. Market-specific knowledge is gained by experience in the market whereas general knowledge is transferable and assists in lateral growth. It seems that the better the knowledge about a market, the more valuable are the resources and the stronger the commitment to the market, especially concerning the experiential knowledge.

It is expected instead that “the internationalisation process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not”⁴⁹. The U-model also implies that internationalisation happens through small incremental steps. However, there are three exceptions:

- 1. Larger firms may take larger steps than small firms due to the resource difference.*
- 2. When market conditions are stable and homogenous, relevant market knowledge can be gained in other than experience.*
- 3. When a firm has considerable experience from markets with similar conditions it may be able to generalize this experience to any specific market.*

SMEs may have other process characteristics due to their resource and capability limitations. Therefore they may take other steps than the gradual development steps offered by the Uppsala model. Leonidou (1995, 2004) highlights the failures and barriers that obstruct the international development of SMEs.

⁴⁹ Johanson and Vahlne 1990, p. 12. See discussion in Andersen 1993.

In discussing the SME internationalisation process Coviello and Munro (1997) present results which indicate that SMEs show a pattern of externalising their activities during the internationalisation process, often relying on network relationships for market selection as well as mode of entry. They suggest that a rapid internationalisation process can be driven by existing network relationships, particularly by international networks and major partners, which not only drive the process but also influence the pattern of market investment. They claim that network relationships facilitate the international growth of the firm. But these relationships not only enhance activities, they also constrained other opportunities, which leads to fears of total dependence (Coviello and Munro 1997, p.377).

Coviello and Munro (1997) presented three main differences in their model: that the internationalisation process is very rapid, that it has only three stages and lacks a trial phase, and that it shows small firms making simultaneous use of multiple and different modes of entry, applying mechanisms as part of a larger firm's international network.

The Innovation-Related Internationalisation Models (I-Models) offer another view on incremental development. The models consider the decision to internationalise as an innovation for the firm. The decision to begin activities and the incentives to start exporting are interpreted differently in the models of Bilkey and Tesar (1977) and Czinkota (1982) than in the models of Cavusgil (1980) and Reid (1981), see Table 3.3. The decision is affected by push or by pull forces according to the different emphasis between the models. Push mechanisms, or an external change, initiates the export decision. Pull mechanisms, or an internal change force, explains the shift from one stage to another.

Table 3.3. Review of the development stages in internationalisation models:

Innovation-related internationalisation models

| Bilkey & Tesar 1977 | Cavusgil 1977, 1980 | Czinkota 1982 | Reid 1981 |
|---|---|---|--|
| Stage 1 Management has no interest in exporting | Stage 1 Domestic marketing: The firm sells only to the home market | Stage 1 The completely uninterested firm | Stage 1 Export awareness: Problem of opportunity recognition, arousal of need |
| Stage 2 Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting | Stage 2 Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting | Stage 2 The partially interested firm | Stage 2 Export intention: Motivation, attitude, beliefs and expectancy about export |
| Stage 3 Management actively explores the feasibility of exporting | Stage 3 Experimental involvement: The firm starts exporting on a limited basis to some psychologically close countries | Stage 3 The exploring firm | Stage 3 Export trial: Personal experience from limited exporting |

| | | | |
|--|--|---|--|
| Stage 4 The firm exports on an experimental basis to a country with close psychological distance | Stage 4 Active involvement: Exporting to more new countries-direct exporting-increase in sales volume | Stage 4 The experimental firm | Stage 4 Export evaluation: Results from engaging in exporting |
| Stage 5 The firm becomes an experienced exporter | Stage 5 Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets | Stage 5 The experienced small exporter | Stage 5 Export acceptance: Adoption of exporting/rejection of exporting |
| Stage 6 Management explores the feasibility of exporting to countries with large psychological distance | | Stage 6 The experienced large exporter | |

The Innovation based models (I-Models) suffer from a narrow perspective. The models assume that the firm is able to manage its operations independently moving from one stage to another. The dependencies of a business actor are not considered, which may be criticised. The I-Models also seem to build on a one-way pattern of development and a firm-based view. Still, many SMEs attempt to export a specific product, and not the whole line of products. This makes the categorisation criteria difficult. Is an SME exporting one product regularly to a distant market really an internationally-experienced firm? Market multiplicity and a wide scope of activities create more solid capabilities in international business, whereas the single market-oriented view emphasises the experience from one source only.

3.3.2. Holistic models on internationalisation

Luostarinen (1979) constructs a holistic approach to the internationalisation of a firm. He considers the growth obtained through internationalisation as one main reason for the internationalisation of the firm. This view has been emphasised in small and open economies (SMOPEC) where the markets are largely abroad (e.g. Kirpalani and Luostarinen 1999, Fletcher 2001). According to Luostarinen (1979), the internationalisation process is a multi-dimensional concept. Major components of a firm’s internationalisation strategy involve a product, operation and market concept (POM).

Welch & Luostarinen (1988) assume that a “pre-phase” of inward operations, such as imports, increase learning and experience and therefore evolve step by step, enhancing outward operations such as exports (cf. Luostarinen and Welch 1990, p.186). Their approach is among the first internationalisation models to explicate a kind of business network view. Although, it does this indirectly as a last stage of development, as cooperation. Luostarinen

and Welch (1990) use terms such as international cooperative operations or international cooperation forms or modes⁵⁰.

Welch and Luostarinen (1988) discuss the notion of direction, referring to inward and outward operations. They claim that inward operations are a good possibility to learn foreign trade techniques, operations characteristics and ways of using different operation modes. They also examine the aspect of decline in internationalisation, going “backwards” (Luostarinen and Welch 1990). Luostarinen (1979) examine the dynamics of de- and re-internationalisation: the original internationalisation process may be followed by temporary, partial or full de-internationalisation in a certain target country followed by re-internationalisation within the same target country or region. Hadjikhani (1997) refers to a sleeping strategy, whereby a firm maintains some presence or relationships in a market from which it has pulled out to use it for easier re-entry later. Chetty and Campbell-Hunt (2003, p.798) review the direction-related forms of internationalisation.

Luostarinen’s study (1979) supports the role of distance and step-wise development of internationalisation. Markets with a short business distance (i.e. geographically, culturally and economically close) are penetrated first and thereafter the firm penetrates more distant markets. The stages of internationalisation for a firm in the overall pattern are: *Starting, development, growth and maturity* (cf. Luostarinen and Welch 1990) This input-output based model was later revised to include those stages in close and simultaneous interaction, not in a determining order (Welch and Luostarinen 1993, Korhonen 1999).

Luostarinen and Welch (1990, p.190-191) discuss the objectives, problems and constraints of the cooperation mode. They identified the following problem areas: a danger in cooperative arrangements is of course that one partner will merely be using the arrangement as a strategic blocking, to cause difficulties or delay for the other partner, thereby weakening the partner’s overall competitiveness, or in specific areas of technology or marketing effectiveness. Partners might also enter into cooperative arrangements without fully understanding each other’s objectives. Only later does the inconsistency emerge, with all the associated problems. To counteract such possibilities, there is a clear need for a thorough investigation to identify the basic reasons for and objectives of cooperation.

The objectives for cooperation vary. Through collaboration, partners usually strive towards a rationalisation of activities, the utilisation of synergy advantages or the creation of

⁵⁰ In order to be included as a cooperation mode the relationship between the participants should not be of a buyer seller nature but of a partnership nature. They do something together in either of the participants’ countries or in third countries or exchange goods, services, know-how or systems with each other, with or without monetary flows (Luostarinen and Welch 1990).

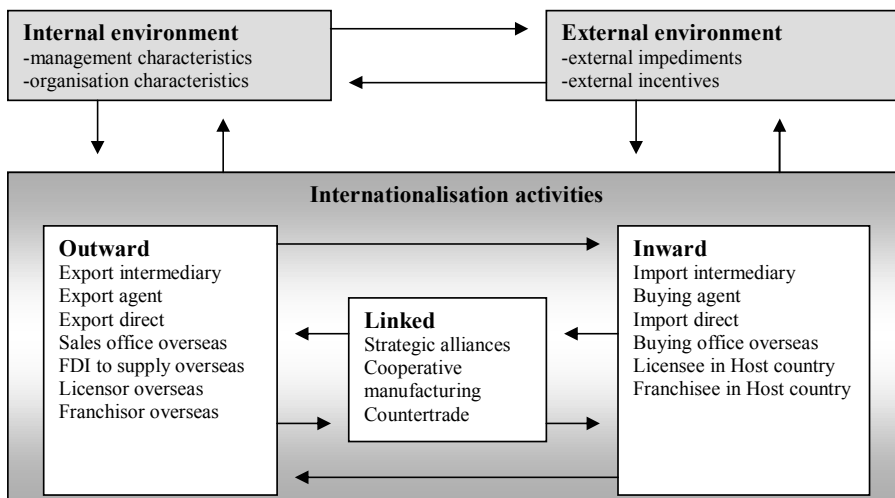
synergy advantages. Cooperation agreements that aim at the abolition of overlapping competing production between the firms through centralisation and specialisation also belong to international rationalisation agreements (Luostarinen and Welch 1990).

Assets utilisation and synergy development are relevant aspects in the internationalisation process of industrial networks. According to Luostarinen and Welch (1990) another objective of inter-firm cooperation may also be to utilise the existing strengths and competitive abilities of the partners by combining their strong skills and assets (synergy utilisation cooperation agreements). A further objective is often to develop and create such new excellences and competitive edges which were beyond the scope of one company (synergy creation cooperation agreements).

Also Fletcher (2001, p.28-29) emphasises the interlinked process nature of development in international activities. He criticises the “stages, learning and contingency approaches” due to a lack of dynamics and also their age. He considers them less relevant in contemporary international business. His holistic model incorporates and emphasises the inward-driven activities, franchising, and outward activities that are leading to inward activities, more complex forms of internationalisation linking both inward and outward activities, such as strategic alliances and countertrade, see Figure 3.4. The model contributes by emphasising the inter-relatedness of the elements of internationalisation.

Fletcher (2001) criticises the viewpoints in previous research and suggests that internationalisation should be viewed as a global activity rather than concentrating on a firm’s activity in a specific overseas country. He considers context as a relevant factor influencing the internationalisation process. Fletcher (2001, p.45) emphasises the importance of a holistic approach for SME internationalisation.

Figure 3.4. A Holistic Approach to Internationalisation by Fletcher (2001 p. 30)



3.3.3. The Network Internationalisation Approach

Johanson and Mattsson (1988) established a network-based internationalisation approach, which presents a change in perspective and describes why and how firms internationalise by taking into account the immediate business environment in the form of the business network and market. According to them, a firm is embedded in a network and its internationalisation process is linked to that of its networks, both domestic and foreign. They explicate the impact of business networks theoretically.

The authors define internationalisation as the process of firms aiming 1) *to establish positions in new networks* 2) *to develop existing positions and increase resource commitments in profitable nets*, and 3) *to increase coordination between positions in different national nets*. They see it as an evolutionary process, where relationships form the bridges to foreign markets. Using a “market as networks” view the definition of international market entry is: *“the way in which existing relationships in the domestic and in third markets as well as those in the entry market are utilised in the entry process”* (Axelsson and Johanson, 1992, p.219)

Johanson and Mattsson (1988, p.297-306) assume that a firm’s position in the network is a key factor to maintain and develop. Both the degree of internationalisation of the firm as well as the internationalisation of the market influences the process. They have identified four types of firms and situations as categories:

1. *The Early Starter* has limited relations with foreign firms. The same applies to other firms in the production net. The firm has very limited knowledge about international business, therefore the firm uses local agents or trading houses or other firms who have international

experience in order to be able to start international operations and to learn from them. It takes advantage of the existing positions in the market occupied by other firms (Johanson & Mattsson 1988, p. 298).

The stimulus to internationalise is often taken by other actors than the firm itself. Investing in foreign operations is limited. When the degree of internationalisation increases it may move to the next phase, the lonely international.

2. *The Lonely International* is a case where the firm is highly internationalised but the market environment is not. The firm has previous experience and knowledge, therefore it may adjust to differences in international markets and it may enter into new nets abroad and extend its operations. It may use its network in order to expand. The firm is more autonomous concerning expansion to new markets when compared to other actors in the network. It is more likely that the role of this firm will develop to that of a promoter for international expansion of its counterparts in the network.

3. *The Late Starter* uses its domestic network as a learning platform for starting international operations. Relationships in the home market may be driving forces to enter foreign markets. The firm can be 'pulled out' by customers or suppliers and, in particular, by complementary suppliers, e.g. in big projects. Market investments in the domestic market may function as driving forces and can be seen as assets that can be utilised when a firm internationalises.

4. *The International Among Others*. At this level the firm and its environment (or networks of business relationships) are highly internationalised. International extension or penetration means only a gradual change in the position of the company in relation to its existing level of internationalisation. The firm may use its international net in order to connect to other nets.

Coordination is essential since a firm has to take into consideration shifts in production costs across the markets in which it operates and the impact of competitors' moves. In terms of manufacturing activities, a firm may use diverse suppliers across different countries/regions, instead of producing these themselves (i.e. outsourcing). The possibility to coordinate operations due to changes in the business environment is inherent in The International Among Others phase. When a firm has existing international business contacts it can utilise these links to familiarise itself with the changes and how to take advantage of the changes (Johanson & Mattsson 1988, p. 305-306).

The processes that occur within each of these categories represent one key contribution within this model. It is not a stage model in the sense that a firm should shift to another category.

Hadley and Wilson (2003) operationalised the network model of internationalisation by Johanson and Mattsson and claim that internationalisation knowledge is significantly related to the firm's *market diversity*. A firm's exposure to culturally dissimilar markets facilitates its ability to conduct international operations. They suggest that a firm's inadequate ability to accumulate important procedural knowledge may be a preventing factor for pursuing international strategies. They do not consider the size of the firm to be a preventing factor in pursuing international activities. This also supports the view of Coviello and McAuley (1999). Despite the size and resource limitations, SMEs may internationalise by using different strategies and by behaving differently than the larger enterprises. The diversity of the markets in which the firm operates seemed to be more important than the number of the markets (Hadley and Wilson 2003, p.712). Hadley and Wilson (2003, p.713) question whether a focus on other sources of internationalisation knowledge, such as internalisation knowledge and foreign business knowledge, could be more useful to the internationalising firm than foreign institutional knowledge.

Fletcher and Barret (2001, p.571) build on Johanson's and Mattsson's work and examine embeddedness and the evolution of global networks using the network view. They point out the types of internationalisation that takes place using business networks: international extension, international penetration and international integration. Their case showed the importance of the managerial atmosphere and the impact of the environment in which the networks of relationships were embedded. According to them, the environment was influential in the internationalisation process of the case firms.

The shortcomings of Johanson and Mattsson's model, identified by Chetty and Blankenburg Holm (2000, p.89), are related to the differentiation criteria of firms and categories and their overlap. They criticise the model for not having the decision-maker and firm characteristics integrated in it. They discuss the utilisation of network relationships in problem solving and the external uncontrollable factors, which are excluded in the model. Chetty and Blankenburg Holm (ibid) consider it unfavourable that the position shifting of a firm from one category to another, the forming of "hard business networks" and respective relationships, as well as the other dimensions of the business network in the form of customers and the government, are not included in the model.

3.4. Business networks-an essential part of SME internationalisation

Business networks consist of long-standing relationships between legally independent firms that exploit mutual complementarities and exchange information. There are also loosely structured networks where the bonds are weak and networking occurs informally. Business networks are coordinated through interaction between actors in the network, being generally based on trust and/or common long-term interests (Johanson and Mattsson 1988; Meyer and Skak 2002).

The main contribution of business networks to internationalisation comes from the shift towards a more dynamic view and from the change in the viewpoint; instead of examining a single firm's international development pattern a wider context is taken into account. Many scholars have examined the internationalisation and inter-organisational relationships, particularly on cooperation and SME internationalisation (Blankenburg Holm 1995; Bengtsson and Kock 1999; Korhonen 1999; Nummela 2000; Hurmerinta-Peltomäki 2001; Fletcher 2001; Fletcher and Barret 2001; Mainela 2002, Törnroos 2002, Meyer and Skak 2002, Nummela et al. 2003). Firms evolve in a business network, but also a business network evolves (cf. Törnroos 2002) and may develop towards an entity, forming its own competitive advantages based on a sort of organisational cohesion and accumulation of capabilities.

3.5. The impact of business networks on a firm's internationalisation

A key difference in network approaches to internationalisation is the character of the firm and its degree of independency and interdependency (cf. Johanson and Mattsson 1992, Johanson and Mattsson 1988). Business communities follow a joint path of gradual internationalisation that resembles the internationalisation process of firms (Meyer and Skak 2002). The co-evolution of the firm and its network implies that firms can plan and control their internationalisation path to a limited degree only (Meyer and Skak 2002, p.179).

Learning, knowledge, close relationships, variation in target markets, experience and the use of entrepreneurial and business networks are identified as endogenously⁵¹ generated issues influencing SME internationalisation. The exogenous issues vary from trade barriers (cf. Leonidou 2004) to strategic actions of third partners, which have an immediate impact on the firm. The domino effect occurring within business networks or coming from outside them may stretch its impact across borders and be one type of triggering signal for

⁵¹ having the firm as the unit of analysis and focus, endogenous factors can be managed or influenced by the firm, exogenous factors can not be significantly influenced by the firm .

internationalisation or a factor which influences the internationalisation process otherwise (cf. Hertz 1998, 2002).

According to Sharma and Blomstermo (2003) the selection of foreign market entry mode is based on the existing knowledge of the firm and the knowledge supplied by its network ties. They emphasise the importance of learning through networks and the significance of weak ties in the internationalisation process of firms.

Eriksson and Chetty (2003) suggest that a firm's perceived lack of foreign market knowledge involves not only the business between domestic supplier and a foreign customer, but also their perspective networks. The network perceived seems to be inseparable from the partners that do business with each other. According to Eriksson and Chetty (2003 p.689), the absorptive capacity within networks is developed more easily when a firm has more in-depth experience with one customer. Their results show that managers need to focus on the context of collaboration rather than the dyadic relationship, the need to realise the importance of the network context in which the international business assignment is taking place (Eriksson and Chetty 2003, p.690).

In the early phase there are numerous conditions and motivations for SMEs to grow, internationalise and globalise, which can be analysed by examining "pull" or "push" factors: these include home country-specific, host country-specific, industry-specific and small firm size-specific determinants. The way in which the internationalisation as a process is thereafter influenced by the business network is an interesting, less researched topic.

3.5.1. Triggering signals and antecedents for early phases of internationalisation

The precondition of internationalisation is a firm's willingness to internationalise and grow. This is the first requirement to consider international activities, however, it is not always the case with SMEs (cf. Chetty and Campbell-Hunt 2003).

International entry requires not only knowledge of international business, but also accurate country-specific knowledge (Barkema et al. 1996, Meyer and Skak 2002). Business opportunities can be capitalised on with information, experience and support from local partners, which Meyer and Skak (2002, p.179) call *the knowledge-pool*. Many scholars see knowledge as one of the main stimulants, regulators and antecedents in the internationalisation process (Autio et al.2000; Nummela et al. 2003). The process starts often as a combination of several motivating forces, not just one or two triggering signals (Törnroos 2002a). Aharoni's (1966) triggering signals are of relevance also for SME internationalisation:

1. *An outside proposal*
2. *Fear of losing a market*
3. *The 'band-wagon' effect: the successful activities abroad of a competing firm in the same line of business, or a general belief that investment in some area/activity is a 'must'*
4. *Strong competition from abroad in the home market*

The contemporary nature of internationalisation processes may look different; many SMEs today are forced to follow their partners and customers abroad. This is a kind of “come along or stay out” effect that stems from the network environment of the firm, creating a different type of internationalisation process. The customer remains the same, but the market environment changes. Wright and Etemad (2001, p.151) claim: “*local markets are becoming integral parts of broader global market*”. This implies the necessity to adapt. Growth through internationalisation may not be the key strategy. Another strategy is adaptation to survive in the radically changing market environment.

The situation with classical characteristics of internationalisation, “new customers in new market area”, creates numerous problems for SMEs. Törnroos (2002a) argues that in SMEs previous experience is in many cases lacking, as well as needed skills concerning the command of foreign languages, cultural experiences, and foreign markets and marketing as well as institutional management.

In some type of businesses the “multi-market character” of business sets very high requirements. For example, in the paper trading business the activities are often inherently international, being based on a global network of trading partners. This means that the firm is based on a qualified specialist organisation, which, since its beginning shares similar characteristics with born globals. This type of an enterprise has a different starting point than the one assumed in most internationalisation approaches.

Sharma and Blomstermo (2003) emphasise the importance of learning through networks and the significance of weak ties in the internationalisation process of firms. Kjellman et al (2004) emphasise the significance of the SME manager and his/her degree of internationalisation in the SME internationalisation process. Dhingra (1991) suggests that the strategic alliances of equity joint ventures and non-equity contractual arrangements with offshore partners provide the necessary framework through which SMEs can convert their unique firm-specific advantages into productive resources.

Eriksson and Chetty (2003) analyse the differences in the dyadic absorptive capacity and the customer network absorptive capacity and the increasing and decreasing lack of foreign market knowledge in an ongoing business context, using aspects related to U-model. The findings suggest that a firm's perceived lack of foreign market knowledge involves not only the business between the domestic supplier and a foreign customer, but also their perspective networks. In an ongoing context the network perceived to be inseparable from the partners that do business with each other.

There is a plethora of driving forces for SME internationalisation. The source of driving force has various origins, not all driving forces stem from the firm itself but from its business environment (Håkansson 1982; Turnbull and Valla 1986). Blankenburg Holm (1995) describes internal and external entry forces that affect the entry process. Hertz and Mattsson (2001) refer to strategic alliances as an aspect of "collective competition". This may be interpreted that informal strategic alliances such as business networks may act collectively in internationalisation, particularly when it is part of their overall strategy to increase competitiveness. The internationalisation trigger for a SME and its network may be a common threat or a common opportunity (see Ghauri, Lutz and Tesform 2003).

3.5.2. Ties and relationships

Ties represent a channel of influence. Business networks are built on relationships and respective ties, both strong and weak (see Granovetter 1973). According to Sharma and Blomstermo (2003 p. 750), the process by which weak ties change into strong ties and indirect ties into direct ties is gradual; the process is neither planned, nor linear. They argue that each (direct) tie abroad automatically gives the firms access to numerous other (indirect) ties.

Similarities in importance of weak ties have been discovered in international operations in transition economies and in turbulent markets (Salmi 2000; Meyer and Skak 2002; Nieminen 1999). The temporal context in interaction and expectations as well as the network relationships constitute important aspects of the opportunity structure, particularly in turbulent markets (Salmi 2000). Therefore the extensive business network environment of a firm, both in its domestic market and in the target market, can be seen as a significant part of the firm's opportunity structure.

Business networks provide an appropriate concept for studying a firm's success in internationalisation in a real-world context. By forming business networks SMEs expedite their internationalisation efforts and improve their success potential (Coviello and McAuley 1999; Ghauri et al. 2003). Export is shown to be conditioned by the nature of the product

offering, foreign channel linkages and export promotion and pricing strategy (Cavusgil 1983). These linkages are part of the network structure (cf. Ford 2002).

3.5.3. Opportunity structure and strategy

Chetty and Campbell-Hunt (2003, p.797) argue for understanding the distinctive nature of SME internationalisation by putting it in the context of the evolution of the firm's overall configuration of strategy. Their findings support the claim that there are two distinct SME internationalisation paths: one of global and the other of regional scope. This categorisation of paths supports the view of applying different strategies, which are based on different reasons to internationalise. The accelerated pace and the mediating variables - *resources, organisation, strategy and environment* -, influence and change the way firms internationalise (Chetty and Campbell-Hunt 2003, p.796). The perspective supports previous views on the linkages between a firm and its partners' development in the international arena.

Wright and Etemad (2001, p.152-154) emphasise how the international entrepreneurial orientation of the firm impacts the success of the SME and the methods of internationalisation using innovation as the means of expansion. They argue that the term "born global" also applies to firms that have long been focusing on domestic markets but are able to go through a sudden and rapid internationalisation process. SMEs may use the distribution system of the more established MNEs to internationally market their innovations and grow through profit sharing.

Porter's (1990) pre-emptive entry strategy into a foreign market might be difficult for a small firm to apply. SMEs alone are rarely in the position to generate positive mobility barriers, which prevent subsequent entry by competitors and ultimately render positive performance returns abroad. Hertz and Mattsson (1998, p.11) compare strategies and outline the advantages of the active alliance strategy where SMEs may "piggy back" on the international networks of other companies. Hertz and Mattsson (2001) discuss the strategic aspect in alliances and internationalisation. According to their study, as both the internationalisation of the firm and of the market have reached a high level of international interdependency strategic actions by individual firms are to a great extent conditioned by such interdependencies. This re-emphasises the collective characteristics of internationalisation processes.

The *degree of internationalisation of a firm* and its domestic competitive strategy and export marketing strategy are essential elements, which explicate a firm's foreign operations (Stewart 1997). According to Stewart (1997) the degree of internationalisation of the firm is

influenced by its export marketing strategy, the level of support offered to the foreign distributor and the pricing strategy adopted for the chosen export market. On the other hand, certain aspects of the domestic competitive strategy employed by a SME are shown to have a significant effect upon the chosen export marketing strategy. He discusses the linkages between performance, success and strategy and pinpoints the importance of the degree of internationalisation of the firm as a performance appraisal instead of financial return realised from an export venture.

O’Gorman and McTiernan (2000) and Dhingra (1991) point out the difference in the opportunity structure of SMEs in the internationalisation process when compared to large multinational corporations. Coviello and Munro (1997) examined the internationalisation process of New Zealand based software firms and provide empirical findings on the external influences on SME internationalisation. The *resource and size limitation* of SMEs is clearly present in Chetty and Campbell-Hunt’s study (2003), where it influenced the nature of the path the firms followed in their internationalisation process. They argue that growth is not always the key driving force for SMEs and imply that the mentality and mindset of management⁵² are among main barriers to internationalisation. Nummela et al. (2004, p.60-61) found that managerial experience and market characteristics are important drivers on the global mindset, which, in turn, is one of the key parameters for international performance.

A small or medium sized firm has limitations that affect the resources of the firm and its behaviour. Although size creates internal constraints to international growth (Buckley 1989), it is not necessarily a barrier to internationalisation since SMEs act in a different manner to overcome their small size (cf. Coviello and McAuley 1999).

If large firms seem to internationalise rationally and systematically, following a certain path (Buckley et al. 1979; Luostarinen 1980) this is not always the case with smaller firms. According to Papadopoulos and Denis (1988), SMEs do not approach the international market selection systematically in the early stages of internationalisation. Reid (1981) claims that a distinction is to be made between small and large firms in the foreign entry expansion process. According to Reid, the export behaviour is influenced by the individual decision-maker in small firms whereas in large firms the entry behaviour is more structurally determined.

O’Gorman and McTiernan (2000) argue that the resource deficiencies that characterise SMEs impact the internationalisation choices made by management. Their study suggests that SMEs lack ownership advantage and the organisational capacity to support an

⁵² Luostarinen (1979) presents similar views using the term “lateral rigidity”

internationalisation strategy. *Internationalisation strategy is not a stand-alone strategy*, but part of the firm's overall strategic umbrella (e.g. O'Gorman and McTiernan 2000; Melin 1992).

The velocity, reactivity and flexibility seem to counterbalance the limitations and resource shortcomings of SMEs and allow them to capitalise on internationalisation-related opportunities. In summarising previous research, it becomes clear that there is a considerable difference in the strategy and manner in which the SMEs internationalise in comparison to larger firms and MNEs. In some cases the assumption that an SME has an explicit internationalisation strategy may not be valid; the strategy may be left "floating", following that of the key partners.

3.5.4. The role of environment and context of a firm

There is limited research available on the role of environment in a geographical sense concerning the facilitating or limiting resources, which may directly impact a firm's internationalisation potential and process.

Mariotti and Piscitello (2001) analysed the role of the local context on the internationalisation choices of SMEs. They discuss the inherent constraints on SMEs for international growth and the presence of qualified localised capabilities which strengthen and complement the competitive/ownership advantages thus favouring internationalisation. They also discuss the impact of negative context-specific characteristics that reduce openness to internationalisation. In contrast, positive externalities favour innovation and learning (Camagni 1991) and network relationships (e.g. Coviello and Munro 1995, Holmlund and Kock 1998), which become the bridges to foreign markets since they complement the firms' advantages and provide them with the opportunities and motivations to internationalise (Mariotti and Piscitello 2001).

The importance of the domestic environment for international performance and entrepreneurship has been studied by drawing upon a sample of international Greek firms. It is suggested that uncertainty within the domestic country plays significant role, positively moderating the entrepreneurship-international performance relationship (see Dimitratos et al 2004). They argue that the alignment of entrepreneurship with domestic environmental conditions enhances international performance.

3.5.5. SME-related problems restricting exports and internationalisation

The SME faces various barriers when internationalising (O'Gorman and McTiernan 2000). According to Leonidou (1995), export marketing problems provoke failures in foreign

business operations, bringing financial losses along with negative attitudes toward international activities among both current and would-be exporters (cf. Leonidou 2004).

Leonidou (2004, p.283) has analysed the internal and external problems and barriers that constrain a firm's internationalisation process. Ghauri, Lutz and Tesform (2003 p.730) have also divided the *export marketing problems* of SMEs into two categories: internal and external. Internal problems include: insufficient organisational resources for export marketing, problems related to quality standards, image and design, the poor organisation of export departments, a lack of competent personnel, an inability to finance exports, insufficient information about overseas markets, and the improper identification of appropriate distributors and communication. External export problems are related to the industry, the export market, the macro environment, technology and intensive price competition. Other external problems on the macro-level involve the lack of proper trade institutions, unfavourable exchange rates, and the absence of a stimulating national export policy and internal agreements⁵³.

Export problems have been extensively studied in terms of their specific nature. But it is also noted that SME export problems have similarities in developed and developing countries (see Ghauri et al. *ibid*). SME firms have a limited character in terms of autonomy due to their size and resources. This stimulates creation of vertical and horizontal networks. Networks are expected to enlarge the restricted capacity of individual companies to invest in the sunk costs involved in conquering markets (see Ghauri et al. *ibid*).

3.5.6. SME internationalisation - a dynamic non-linear process

A firm cannot be separated from the context within which it operates. The role of the wider business network in SME internationalisation needs to be included as a part of its initiation. Business networks are extended also across national borders and become internationalised (Törnroos 2002a). These connections 'float away' firms into international markets through both intentional as well as through more "evolutionary" and unplanned manners (Törnroos 2002a). "Markets-as-networks" view indicates that a firm is embedded in a wider, dynamic, interconnected network context, where strategic actions by firms initiate changes in the network structure (Hertz and Mattsson 2001).

According to Meyer and Skak (2002, p.179), business networks facilitate the exchange of country-specific expertise and knowledge. The dynamics of the network in turn influence

⁵³ It is to be noted that Ghauri, Lutz and Tesform (2003) have focused on developing and developed countries and their SMEs with emphasis on developing countries. Therefore these identified problems may be affected by the choice of focus.

the firm's internationalisation behaviour. The SME internationalisation process within a business network structure is facilitated by the accumulated effect of pull-push forces, learning, capabilities, tacit knowledge and social contacts (e.g. Madhok 1997; Fletcher 2001; Freeman 2002; Chetty and Campbell-Hunt 2003).

This research project argues that an ordinary SME network internationalisation process is different, more complex, than the Uppsala model (Johanson & Vahlne 1977) and more closely linked, though not similar, to the process of born globals (Madhok 1997; Johanson and Mattsson 1988; Madsen and Servais 1997; Nummela, 2001a). The internationalisation of SMEs is *co-evolving* with the internationalisation of their national business environment, due to embeddedness and dependencies (Meyer and Skak 2002, p.179). The impact of the increased level of internationalisation or network competence is a form of network effect⁵⁴ on an individual firm. Likewise, the network sets the framework for *the constraints and opportunities* of a firm in terms of internationalisation (Hertz 2002).

According to Coviello and Munro (1997), the internationalisation process of small software firms reflects an accelerated version of the stage model perspective and is driven, facilitated, and inhibited by the set of formal and informal network relationships, which impact the mode of entry and foreign market selection. Their study successfully combines the stage and network view, distinguishing the characteristics of SME internationalisation process. Since the resource and capability structure of SMEs differs from that found in larger companies, it is misleading to expect them to be able to internationalise in a similar manner.

3.6. Critical perspectives on internationalisation approaches

If summarised, there are few main points of disagreement among scholars. Criticism of the theoretical approaches concerns mainly the incremental stages; SMEs do not have a determining non-reversible stage pattern (Andersen 1993, Coviello and Munro 1997). Coviello and McAuley (1996) have identified several studies both criticising and supporting stage models, which have different perspectives and indicate partially conclusive results.

The focus of analysis should be expanded beyond that of a single firm. The internationalisation strategy and outcomes in SMEs are greatly influenced by their partners, suppliers, customers and the business environment. Therefore contemporary SME internationalisation patterns are strongly connected to those of their partners. The lack of interconnectedness-dependency (cf. Ritter 1999, 2000) is criticised in stage and incremental models, as it seems to function as one key element affecting SME internationalisation. The

⁵⁴ See Ritter 1999

interaction between firms and actors needs to be included when examining the internationalisation processes (cf. Coviello and Munro 1997).

In many theoretical approaches the way in which SMEs get involved and develop their international activities is too predetermined and does not include the dynamic and multifaceted character of business. Hohenthal et al (2003) discuss the role of market discovery and the pre-phase in the process of entering a new foreign market. They criticise the misleading theoretical assumption of linear development, which, according to them, is interrupted by discoveries leading the firm into new paths. Market discovery is a result of both exploration and exploitation activities, but to exploit market discovery a firm must have the handling capability for the discovered opportunity (Hohenthal et al 2003 p.659-668). The learning obtained through daily activities can lead to changes in pace, orientation and extension of the international expansion of the firm (Hohenthal et al 2003).

The viewpoint that builds on an output-outward emphasis is criticised due to its severe limitations. Many internationalisation theories take the viewpoint of “output”, which includes exports, licensing, manufacturing activities etc. This creates a limited perspective. The role of the overall network context, both in terms of input and output channels, is of great importance for SME internationalisation activities. Meyer and Skak (2002 p.186) argue that firms accumulate knowledge interactively within their business networks, both domestically and internationally, which forms the basis for a gradual commitment to foreign markets. This leads to a gradual deepening of the international business as firms make decisions over entry based on knowledge and the contacts that they or their partners possess.

Luostarinen and Welch (1988) argue that a firm can get gradually involved in international business operations through its input channels, through purchasing and logistical operations. Interconnectedness and access to knowledge nurture organisational change and development (e.g. Kulkki and Kosonen 2001). Interconnectedness may form the stimuli and events that serve as a platform for internationalisation. The order of inward-outward development is questioned. The development takes place both ways as Korhonen (1999) found out. Hyvärinen's (1994) study confirms the gradual nature of internationalisation, but not the prevalence of inward investment that precedes outward investment and foreign market entry.

The classical internationalisation theories are not pragmatic since they miss contemporary elements of business, such as relationships, which are embedded in business networks and new arenas of interaction based on technological applications like internet. Lindqvist (1988) argues that close relationships with customers and partners influence the

pace and pattern of international market growth and choice of entry mode for small firms. Likewise, Bell (1995) states that interfirm relationships appear to have an impact on both market selection and the mode of entry form for small firms. Kogut (1984, p.164) considers the role of various stakeholders, such as governments and labour unions, as a critical dimension affecting the entry and exit strategies of firms. Madsen and Servais (1997) argue that the internationalisation process partly depends on the network in which a firm is embedded and partly on the industry's respective degree of internationalisation. The process is situation specific and may take place more rapidly than presented in the incremental internationalisation theory. Serendipity may profoundly alter a firm's internationalisation and growth path; firms have to react when networks evolve (Meyer and Skak 2002 p.186). Nummela (2001b) draws the conclusion that a reciprocal relationship seems to exist between the internationalisation of the company and its network, pointing to a firm's dependency on the environment in which it operates. Nummela (2001b) presented a synthesis of a process perspective and a network perspective on contemporary SME internationalisation. She sets up the following assumptions:

Process perspective:

- *Internationalisation is a gradually developing process*
- *It is possible to identify a sequence of events in the internationalisation of a company which most of the companies follow.*
- *Experience and learning are important elements in the process.*

Network perspective:

- *A company and its internationalisation are dependent on the environment in which it operates.*
- *The network offers various links and it can be exploited in numerous ways.*
- *Effective usage of networks facilitates SME internationalisation.*

New views are also needed due to the influence of electronic commerce and the internet (cf. Fletcher 2001). Hamill and Gregory (1997) take up the new view to internationalisation and its context and question the role of internet marketing in the internationalisation process. They suggest that the different barriers to internationalisation faced by SMEs, the importance of overseas agents and distributors to export success, country screening, market concentration versus market spreading etc, take on an entirely new perspective when viewed from "cyberspace". Hamill and Gregory (1997) see a fundamental change in the environment in which internationalisation takes place and question the validity of the mainstream academic literature, which does not describe the reality of international business in the new environment.

3.7. Discussion and synthesis

If a small or medium-sized firm's internationalisation process is to be profoundly understood, it seems almost compulsory to take a network view. When studying contemporary SME internationalisation, there are too many factors influencing the firm's development, which stem not from the firm itself, but from its wider network environment. Contemporary international business can not be fully understood using theoretical tools developed thirty years ago (e.g. Fletcher 2001).

The reasoning and the context of a firm's internationalisation should be understood first, before trying to apply any theoretical model. It is equally important to acknowledge the impact of target markets as different geographical and cultural areas. Additionally, it is most important to examine how and with whom the firm internationalises. Is it functioning independently or is it part of a business network where the other partners may be MNEs or experienced highly internationalised SMEs? This dimension of internationalisation process affects to a significant degree the way the SME in question carries out its own internationalisation process.

Findings from previous research lead to the conclusion that a firm's existing (domestic/local) business networks not only influence, but in part have a stronger impact on forming and guiding the internationalisation process (e.g. Johanson and Mattsson 1988; Coviello and Munro 1997; Meyer and Skak 2002; Chetty and Campbell-Hunt 2003). Since the degree of internationalisation of the firm and its respective target market is a crucial variable (as argued by Johanson and Mattsson, 1988), the degree of internationalisation of the firm's business network and strategic cohesion are also essential variables, which necessitate more theoretical and managerial interest.

One way to judge a firm's degree of qualitative internationalisation is to assess the number of markets, the experience, the intensity of international activities, the integration of the firm into its foreign activities and other such aspects. One needs to assess the respective aspects in a firm's domestic network and its foreign network, and compare them. If there are significant imbalances, it is likely that the different roles and positions of the firms will generate variations in the results of activities. In the negative case, small inexperienced firms may not benefit from the cooperation, whereas the more dominant actors may profit more by manipulating the business network. In the positive case, the less experienced SMEs may gain in knowledge and learning and build on such resources, which assist the SME in becoming a more experienced and capable international actor profiting from the cooperation while the dominant actors benefit also.

A synthesis of the internationalisation context is induced from the empirical research and presented in a theoretical form, building on Johanson's and Mattsson's model (1988).

If simplified into two polarities:

High degree of internationalisation-firm = F+

Low degree of internationalisation-firm = F-

High degree of internationalisation-domestic network = DN+

Low degree of internationalisation-domestic network = DN-

High degree of internationalisation-foreign network = FN+

Low degree of internationalisation-foreign network = FN-

The extreme combinations need theoretical and particularly managerial attention. When F- is working with DN- and FN- it is extraordinary demanding to realise the expectation since none of the parties are particularly competent in international activities. When F- is working with DN+ and FN+ it is increasing its learning and experience and may indeed get a kick start, but it should be aware of manipulation potential.

When F+ is working with DN- and FN- it is also demanding since F+ has to share its resources and invest in cooperation, which might suffer from numerous problems and a slow pace. For the F+ to profit from this type of cooperation might require more effort than in more balanced combinations. When F+ is working with DN+ and FN+ it may be an efficient platform for cooperation, benefiting all parties relatively quickly.

Perhaps some likelihood of problems, manipulation, and time-effort ratios could be expected, although the internal dynamics and goal complementarities may assist in harmonising the differences.

An accumulated overall degree of international experience and learning in business networks (see above F&DN&FN) is one feature of interest connected to internationalisation processes. The firm's degree of internationalisation is another vital element in its internationalisation process. The SME management-related degree of internationalisation has already proven its impact (cf. Nummela et al. 2004).

If the degree of internationalisation of the firm is considered as the point of interest, then a holistic process view is needed that incorporates various accumulated activities in the international arena and the geographical market diversity of the firm. Putting together all the international processes, it is possible to estimate the content of the firm's internationalisation and its degree of internationalisation. See the table 3.6. The table starts with the firm-level strategic context and continues with the degree of internationalisation on the relationship level

and then on the network level⁵⁵. A firm on the left side is in the elementary phase of its learning, whereas a firm on the right side is already highly internationalised.

Table 3.5. Types and degrees of SME internationalisation

| Firm-level Strategy | Passive internationalisation strategy | Reactive internationalisation strategy | Active internationalisation strategy | Proactive internationalisation strategy |
|--------------------------------------|---|--|---|--|
| Degree of independency in initiation | “Come along or stay out”-type of pressure stemming from existing partners | Following general patterns/pressures and requests coming from outside the firm | Following general patterns and acting on network generated opportunities | Actively seeking market opportunities and trends, even initiating them |
| Degree of relationship development | Operations with several foreign firms | Operations with several foreign firms in several foreign markets | Operations with several foreign firms in several foreign markets in several types of businesses | Several types of operations with several foreign firms in several foreign markets in several types of businesses |
| Degree of network embeddedness | Operations within one foreign business network | Operations within several foreign business networks in one foreign market | Operations within several foreign business networks in several foreign markets | Several types of operations within several foreign business networks in several foreign markets |

The results of previous studies pinpoint the role of the business network, the relationships and ties of a firm in influencing its internationalisation activities and choices (Turnbull 1979; Blankenburg 1995; Coviello and Munro 1997; Coviello and McAuley 1999; Nummela 2000; Hertz and Mattsson 1998, 2001; Meyer and Skak 2002). When studying a firm in an industrial network context, it seems that the relationships with strategic suppliers, distributors and customers have a significant impact on the firm’s internationalisation process, to the extent that a firm reduces its independency and increases its dependency in order to evolve and develop parallel to its business network (cf. Elo 2003b).

The market power and availability of goods set the basis for the interaction and relationship between seller and buyer, influencing the atmosphere for doing business. In particular smaller firms often develop business relationships that have single sourcing characteristics, where they concentrate on a certain supplier to obtain a more beneficial cooperation while retaining some alternative suppliers only for emergencies. When the product or service in question is not easily replaceable or its supplier has a monopolistic

⁵⁵ Note that the table does not interrelate different levels or strategic situations in any deterministic order, nor does it imply linear development. It only categorises the development of a firm’s internationalisation into phases.

power on that market, the SME might face a lack of serious alternatives, which in turn binds it to a specific business relationship to secure availability and the smooth flow of activities. When these more powerful actors in the business network have an interest in keeping the SME out of the export business, they are in the position to limit the supply accordingly to hinder the activities of the SME. On the other hand, when these actors expand their activities to include exports, they might take the SME as a partner into the core of the network to supply the foreign customers with additional alternatives.

Since most SMEs have some significant supplier and customer relationships, these configurations set both opportunities and constraints. SME has to take the strategy of those actors very carefully into account due to the configurations.. The asymmetry in dependencies and power differences may constrain an SME notably, and to a visible extent define the possibilities for current and future activities in the international context. Therefore the foundation of the SME's internationalisation strategy might be partially created and guided by those other actors. A third actor group of key strategic importance is the competition, which indirectly constraints and forms a firm's opportunity structure.

Strong collaborative relationships based on matching goals and expectations assist companies to cooperate and share their resources, which enhances information transfer and the utilisation of market specific and experiential knowledge. The actors accumulate experience and learning in both the network's internal and external aspects. Successful collaboration creates synergies. The more transactional relationships remain influential only on the operational level and are easily terminated or changed (Elo 2003b). Building on the previous discussion and the empirical research it is argued here that: *1) the strategically important collaborative relationships in a business net directly and/or indirectly guide a firm's internationalisation process to the extent that it is dependent on these relationships. 2) Collusive or competitive relationships indirectly influence the same process.*

To specify these arguments, it must be noted that in a closely interconnected business net, based on interdependent processes and functions, all actors have the possibility to directly and indirectly affect the other actors of the net by changing some element of the whole system. When these dependencies suffer from lack of alternatives or high switching costs, the collaborative relationships indeed have a strategic impact on the development of the other firms, i.e. the more powerful actors guide the development by setting the constraints and opportunities. The same kind of impact is generated by competition, but in an indirect manner, when competition is seen more as a part of the external environment than as part of the business network.

The contributions of the network perspective to internationalisation theory development comprise: dynamics, the firm's embeddedness, interconnectedness, dependency and level of autonomy. The network perspective does not exclude the use of generic models. Rather it enriches the view on generic models. It is assumed that the accumulation of capabilities, experiential knowledge, learning and social bonds in a business network enhance the interest and development process of the participant firms. The domino effect and the degree of internationalisation of the business network as parts of the overall internationalisation process have not been studied extensively and more empirical support is needed.

SME internationalisation is profoundly different and complex in its mechanisms building on all dimensions of business. Instead of studying the factors *causing* internationalisation or its outcomes, the perspective prioritises more the factors *forming* internationalisation. What are the factors and mechanisms that really cause SMEs to evolve into international actors? Can we assume that there are universal mechanisms or are they context-related? What guides a firm's internationalisation process? I suggest that the firm-level internationalisation process needs to be studied in detail, particularly for managerial implications. It should be studied preferably as a longitudinal process study to find out what actually happens when a firm internationalises.

Marshall (2003) suggests that the initial stages in an international export-import relationship present the decision-makers with a myriad of uncertainties. Uncertainty is the key word. Using the metaphor of a rowing boat to describe SME internationalisation, it seems that we may know why the boat is pushed into the sea, we can identify the boat, the sea, the rowers and their visible roles, we may even know where they would like to row, but we do not know where the boat is going to finally end up, if it ends up anywhere at all. Is there an authoritarian captain or is the decision making based on democratic procedures? Is the group able to navigate together? Are they able to identify the dangers; weather changes, storms and underwater surprises? We do not know who is still going to be onboard, or why the boat ends up in another place with only some rowers still onboard.

To synthesise, the study uses a network perspective on SME internationalisation, which includes a gradual development and learning process, managed and coordinated by the firm, but guided by its wider business network environment. Context is a relevant aspect, since it plays a major role in this development pattern. The development pattern does not have to be linear; it may be a very turbulent pattern showing little logic. Situation assessments of the international development of the firm provide one tool for analysis (cf. Table 3.6.). I believe that it not feasible to expect a certain order or pattern to have a nomothetical

character; only an indicative character. The internationalisation process is to a large extent a theoretical construct. A firm is continuously developing and interacting with its environment and separating internationalisation from other activities is difficult.

3.8. Summary

The internationalisation theory of a firm and its foreign operations has evolved towards more holistic approaches, offering an ever-increasing understanding of the process. From specific static models the development has turned to more dynamic process theories. Internationalisation is studied from various viewpoints: understanding the reasons causing internationalisation, assessing the outcomes of internationalisation as well as examining the process itself and identifying paths.

The network perspective has become noticeable also in internationalisation theory with its numerous concepts and aspects. There are several theoretical models and research applying a network perspective on SMEs and internationalisation (Johanson and Mattsson 1988; Nummela 2000; Blankenburg Holm 1995; Hertz and Mattsson 2001; Fletcher 2001, Fletcher and Barrett 2001; Meyer and Skak 2002; Mainela 2002; Ghauri et al. 2003).

An SME firm internationalises either gradually or in an accelerated manner, like born globals. But growth is not the only the driving force. Instead, the business network and relationships, the mental framework of management, the knowledge-pool and the opportunity structure often function as stimuli in the development of the internationalisation process.

How the network in which a firm is embedded influences the internationalisation process has still been researched relatively little (cf. Mainela 2002). Still, it seems that there should be more “customised approaches” for the various situations in the internationalisation of SMEs. It is apparently not feasible to create a model that applies to all processes and situations in the internationalisation of SME firms, since the reasoning behind SME internationalisation varies greatly.

A firm internationalises as a part of a wider business network, but it does not mean that the firm and its business networks develop in similar ways or in a parallel manner. Key elements for understanding a firm’s business nets as evolutionary strategic entities in terms of internationalisation include: the configurations of the net, its overall structure and environment, its internal-external relationships, the composition of firms, the inherent and evolving dynamics, the coherence, the driving forces and goals, the endogenous and exogenous critical events in a net evolution, and the life cycle of the business network.

4. RESEARCH APPROACH AND METHODS

This study represents a qualitative process-based research, which has both inductive and abductive characteristics. It uses a longitudinal case study as a research design to examine the internationalisation process. The strategy of the study is descriptive and explorative. Interviews, observations and analysis of text and documents form the basis for the research material.

The setting of a single embedded case study (Yin 1984, p.41) is chosen, where the main emphasis is on one case firm and its internationalisation process. However, the relationships of this firm to its business network are also taken into account.

The role of participant-researcher provides rich material and data and assists in applying a more holistic view on the firm's internationalisation process.

4.1. Research perspective

I have worked for more than ten years with Greek-Finnish business, which has provided an insight to many aspects of this business context. The fact that many aspects of the business environment did not coincide with classical theory stimulated my curiosity. Business does not always conform to the rules of a particular theory; this may imply that the theory is not valid or the selected view is not valid. The exploratory perspective of the study is affected by my need to understand what is going on in the broader context of this business network development, where the development of one particular business relationship occurs.

The research questions require a view that acknowledges the shortcoming of the research process, which is unable to reach a level of "truth", but goes behind the numerical analysis. The study is influenced by critical realism (Hunt 1991), systems views and functionalist approach (Sheth, Gartner and Garrett 1988; Alderson 1965). The thoughts of marketing schools on social exchange and systems as well as micro-functional market exchange (Alderson 1965)⁵⁶ have an impact on the study's views.

The evolution of the firm and business network is examined from the perspective of critical events and enacted reality (Halinen, Salmi and Havila 1999). Johannisson's (1994, p.9) approach, in which there is an intentional character within the role of the business network, which is used to reduce uncertainty by managing information and guaranteeing

⁵⁶ in Sheth, Jagdish N. & Gardner, David M. & Garrett, Dennis E., *Marketing Theory: Evolution and Evaluation*, John Wiley & Sons, 1988

access to limited resources, has influenced the study. Therefore the network related features that a firm has are considered to be perceived and enacted upon to some extent by the firm.

Empirically the study is focused to research and analysis of one focal firm and its evolution as a part of a Finnish-Greek business network. The industrial focus is in paper trading, converting and packaging industry. The evolution is studied through selected focal dyads in a focal net. A comparable research design has been used by Rosenbröijer (1998), who has used a similar type of network view in analysing fine paper distribution. But his research has concentrated on capability development whereas here the development of a firm and its international business net is analysed. Also Vincze's (2004) study has similarities in its organization and supports the selection of the overall structure in this study.

There was no a priori model or theory as a starting point for this study. I did not wish to develop such a theoretical bias that would perhaps exclude significant forces of influence on the SME internationalisation process. Inductive approach offers a fruitful starting point, which compels a researcher to observe in a much wider and deeper manner the research case and forbids the easy choice of testing a ready made theoretical model. In this research process the final focus and theoretical framework were developed relatively late after following several leads. The synthesis and frame of this study are empirically driven.

Webster (1991) discusses the problems of management science in industrial marketing in terms of developing useful models. He writes "*Even if good models meet the criteria of realism, relevance, and understandability, they are little use, either for theory construction or practical problem solving application, if they do not permit measurement of key variables. Good theories demand empirical verification, and application requires parameterization*" (Webster, 1991, p.17-18). He emphasises the role of analysis and planning and, particularly, an adequate understanding of functional interdependencies. I do not agree with the measurement aspect being of relevance for this study; it is not applied, since the objectives of this study are qualitative. I argue instead, that there are several elements in internationalisation that need to be examined with qualitative tools and without numeric parameterisation⁵⁷. We can measure the weight of apples and watermelons, but they are by no means comparable fruits. This is often the problem when examining SME internationalisation; the theory is made for large and multinational enterprises. Therefore the problem is not the measurable weight, but the way in which to cultivate good apples.

The theoretical objectives may vary significantly when comparing them with the managerial interests. Here the internationalisation process of SMEs in the industrial context

⁵⁷ when a qualitative model has been built, then on the second stage, there is a possibility to develop it further and test it empirically with some specific parameters in numeric terms, but this is not the purpose of this study.

serves as the key interest area; the researched firms also expect to learn and deduce managerial conclusions of importance from the study. SME managers have theoretical interests; they require pragmatic but innovative models that enhance their work by increasing their understanding and offering new perspectives.

Tsoukas (1989, p.551) argues that even idiographic studies may generate explanations that are externally valid; idiographic research conceptualises the causal capability of structures, while it illuminates the contingent manner through which a set of postulated causal powers interact and give rise to the flux within the phenomena studied. Eisenhardt (1989, p.532) considers framebreaking insights, the test of good theory, and convincing grounding in the evidence as the key criteria in evaluating inductive theory. This study does not aim to develop new theories or provide radically novel models, but rather to derive from the empirical material new concepts and findings and synthesise them with existing theory and models into a revised, modified version. While the study engages partial and generic theories as well as models that match the findings as parts of the whole, but it does not employ deductive hypothesis or theory testing. Only in the later phase of the abductive research process does the researcher evaluate the findings and material as analysed data in relation to existing theoretical views.

The logic in this study is built on a frame that incorporates:

- *The core construct of the study is based on the buyer-seller relationship following development from the seller's perspective. This core view contains the primary interaction that is part of the internationalisation process. It also coincides with the physical flow of production in the value chain, mainly concentrating on the vertical type of flow stretching across borders. The strategic aspect in designing activities along and between value-added chains to compete in different strategic groups across countries and build a global strategy is of major importance for contemporary firms (Kogut 1984 ,p. 151)⁵⁸.*
- *The core units of analyses are the firms and their relationships. The analytical levels of the study include the business network level, the relationship level and the firm level. The focal firm represents the deepest level of analysis. The structure is important in understanding the development of a business net that*

⁵⁸ To include a value network as a view would create problems of limitation, therefore the view here is decreased more towards value chain thinking.

is formed from individual firms and their relationships. The processes that take place between firms involved in multiple markets are analysed as part of the internationalisation process.

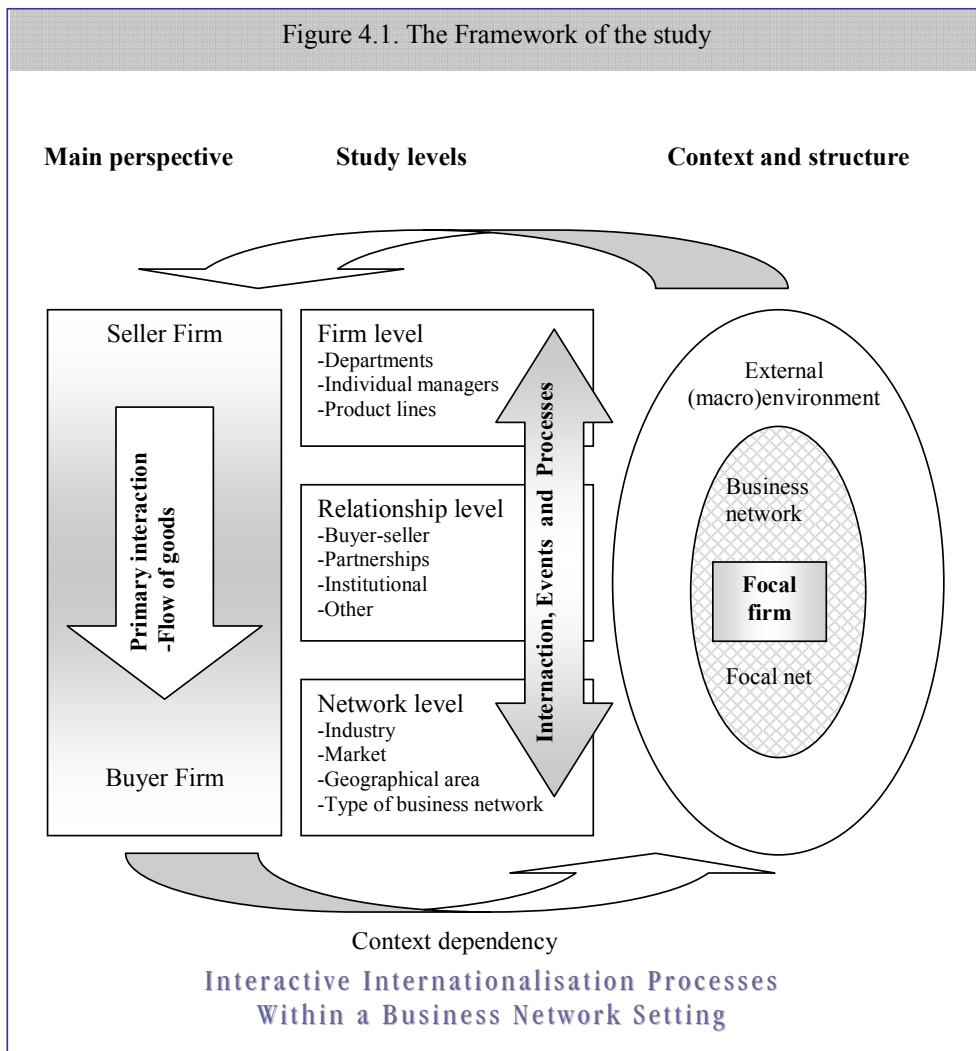
- *Following Yin (1984, p.41) on embedded case study, the focus of the study follows the development of a focal firm, the Seller, but its context dependency requires some analysis of the surrounding context and the impact of the focal net. The relationships between the Seller and the actors of the business network form the dyads of importance, which form the secondary focus of the study. The development of these relationships explicates the international development. The dyads play a significant role reflecting the embeddedness of the focal firm.*

The study could have a business network as a focus, but limiting the focus allows for more in-depth research and makes the research process more manageable. A firm as focal actor makes it easier to draw the separating boundaries for methodological reasons and is comparable to the focus of analysis in previous internationalisation theories. The limited focus does not necessarily decrease the quality of the research material or isolate the focal net from the environment.

To understand embeddedness, it is not enough to only focus on one firm; it is necessary to focus on its connections with other firms as well. I consider the network view appropriate due to the complex setting and the business configurations. Previous research supports this argument (cf. Rosenbröijer 1998, Mainela 2002). As a firm's interconnected nature functions as a channel of influence for internationalisation, it must be taken into account when selecting the research perspective, design, and methods.

The research material and the research setting are simplified into a framework, see

Figure 4.1.



Time is important methodologically when processes are examined. Vincze (2004, p.90-92) criticises Nordic scholars for using cross-sectional data once the outcome is evident, providing snapshots. She argues that the stages described do not fully capture the process realised by an operating company. Time is related to access in a methodological sense; it is hard to find real time research processes that investigate events on the spot and not retrospectively with the knowledge of the outcome limiting further consideration.

The research approach is deeply influenced by my dual role. As there was the possibility to follow and study a phenomenon in real time, the opportunity influenced the

overall research process⁵⁹. My personal involvement in the development of this business network supported the use of inductive and abductive ways of researching (cf. Vincze 2004 p.99-107). Several scholars see advantages and suggest that longitudinal process research provides a different more in-depth dimension in the research, inserting the research into a rich temporal setting (e.g. Perry 1998, Mainela 2002, Vincze 2004). The process-based analysis is the only method that allows a continuous research process to run in real time and monitors the overall evolution of the business network. Still, the focal elements of interest must be assessed and studied systematically; which leads to a vast data collection where a large part of the data is secondary, in a supportive role only. However, this supportive data increases the reliability of the core research data and its analyses as the researcher analyses all material to be able to identify possible hidden influences or reasons.

4.2. The research model-A combination of process research, historical construction/follow up and critical event analysis

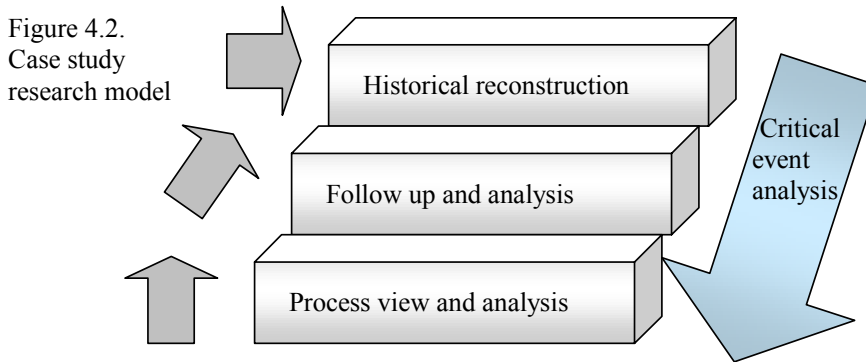
How is this case study organised? It starts as an inductive process with a business insight into data collecting and analysing, and continues more abductively following the leads that were clearly identified from the data; the findings are being sorted and analysed. The development of dyads and their content function as key construct to structure the study. In the final stage the system of emergence of a new foreign market network i.e. internationalisation becomes visible and understandable; a network oriented internationalisation process emerges. The study did not follow any theoretical framework in the beginning. In the more mature stage the literature review and theoretical framework was built selecting the approaches relevant to the empirical data and the development of the final focus of the study. In the final stage of the study a theoretical-empirical analysis is prepared.

The research model is based on two types of strategies. First, descriptive strategy describes and analyses the development of a firm into a new geographical market and the internationalisation process relating to this market. Second, explorative strategy is applied to discover the critical events during this internationalisation process. Critical events are explored and analysed through changes in the relationships and the inherent activities. The triggering signals of critical events (if identifiable) are examined to understand the reasoning of the changes; the influence factors, and where they stem from.

With a combined research approach it becomes possible to understand a complex process in its setting. The time aspect sets the backbone for the research design; most research

⁵⁹ see involvement of the researcher in e.g. Glaser and Strauss 1967, Alasuutari 1995

is in real time, consisting of some follow up analysis, examined retrospectively, of critical events. The narrative description and analysis is organised chronologically in the form of historical reconstruction, see the figure 4.2.



According to Gulati (1998) social, behavioural and competitive dynamics that occur across organisational boundaries among groups of firms in alliances and the emergence and development of a social network form the key interest area in studying the evolution of alliances and networks. Internationalisation as a process is dependent on similar dynamics. Therefore, a process view analysing the evolution of the firm in its business network is considered appropriate⁶⁰; it is dynamic, not static.

The structure of the study follows a process view, combining historical reconstruction and event follow-up with critical incident technique (cf. Mainela 2002; Ring and Van de Ven 1994; Flanagan 1954; Halinen and Törnroos 1995). The process view in this research has both a retrospective character, as some data is collected after the event has already taken place, but also a real-time character. Real time character is represented by my assessments, identifications, observations and interpretations of events which have taken place simultaneously as part of the fieldwork. The documentation of this is also found as written field notes and it is reflected in the inter-firm communication. It is important to note that the memories and interpretations reflect time and depend also on the person's opportunity to observe, as well as his/her subjective perception and interpretation of the event (Van Maanen 1979, Halinen 1994). The position of the informant and his/her real access to the research information are significant factors for ensuring a reliable, accurate and realistic view of the events. My dual role as a participant-researcher gave me the opportunity to assess and insert

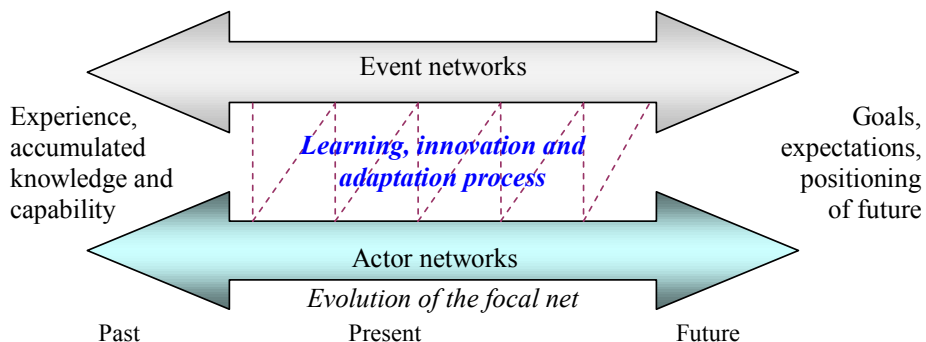
⁶⁰ see also Mainela 2002 and Vinzce 2004 for discussion on the dynamic approach selection

the informants' views and perceptions into a context, which enhances the overall quality of the research material and data analysis.

Combination, a kind of event flow analysis, allows a more holistic approach where the outcome of an incident is perceived in a broader time frame and setting. Johanson and Vahlne (1977, 1990) formulated a dynamic model describing the dynamic character of internationalisation by incorporating change and the cycle of events into one mechanism. In this study the hindering or facilitating factors are examined according to the influence factor, criticality of an event and the respective level of change (see Nummela 2002a, 2002b). The process of internationalisation can be seen as a flow of events, an event network (Hedaa and Törnroos 1997, p.2-6). Hedaa and Törnroos define event networks as time based connected event relationships. They represent a temporal-theoretical perspective of networks in business (Hedaa and Törnroos 1997, p.5).

In this web of event flows the internationalisation process of one firm represents one flow of events embedded in a larger event network when the firm level process is limited to one specific market area or product (cf. Hedaa and Törnroos 1997, p.3). In this study the concept of event network is applied to insert a firm's development process into its context, interlinking it to the forces that have formed the process. This method of analysing events assists in understanding such aspects as the finding of a foreign partner, reasons for why exports to certain markets collapse, why sales stagnate, etc. The actors are the managers or firms. They are the reactors on stimuli, whereas the events are pieces of processes, acts. The interaction forms the arena of activities. See Figure 4.3.

Figure 4.3. Events and actors - key elements forming the development



Source: Adapted from Hedaa and Törnroos (1997) Event and actor network-relationships over/in time.

Event networks may appear as streams of interconnected events i.e. event trajectories (Hedaa and Törnroos 1997, p.9). Trajectories of connected events can be seen as the key cohesive determinant for the change of business networks (Hedaa and Törnroos *ibid.*). This study concentrates on the critical events and focuses on the internationalisation related role of events. It divides them into exogenous and endogenous events. For example, the exogenous events are seen as given events which the actors can not directly influence.

The events consist of critical events incorporating change, forces arising from interaction in the dyad (Halinen, Salmi and Havila 1999). The critical events have a negative or positive nature concerning international development. This study concentrates on the process and the outcome, not on the characteristics of an event itself. Not all events are critical events and some critical events may be less significant as such, but due to the contextual setting they may take disproportionate dimensions. Flanagan (1954, p.327) describes the nature of a critical event: “*an incident must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effect*”. Olsen’s Critical Incident Technique (Olsen 1992), with a process-oriented view stressing the critical episodes in addition to the critical acts, focuses on the triggering factor. Here the triggering factor has two dimensions; it refers to both a visible and an invisible influence factor. Visible factors can be perceived and anticipated by management but invisible factors are hidden and unexpected implying reduced manageability. Voima (2000) defines in her study three elements: source, process and outcome. Here they are applied as *influence factor, critical event and change*. These three concepts build the basis for the analysis logic, the constructs used for this process research.

The study applies a research perspective based on an analysis of change, critical events and influence factors. The analysis concentrates on the development that is considered relevant, involving the notion of direction in internationalisation (Inward-Outward-Cooperative). It focuses on foreign operations; the creation of relationships in the target market, the development of those relationships and the possible termination of relationships, as well as the respective activities, export and marketing operations and the respective resources. An event flow view in paper industry related process research has advantages due to the nature of industry and its systems (cf. Rohweder 1993, Rosenbröijer 1999). Rohweder (1993 p.215) advocates a process view as it became clear in his study that paper industry managers do not consciously treat an entire product reorientation project- from early initiation to an established product- as a set of sequential activity stages.

To limit the material to a manageable level the research focuses on changes in relationships and the focal net (see Rosenbröijer 1999) that have some importance⁶¹ for the internationalisation process. Hence, not all changes are relevant. Whether or not the linkage of change and the internationalisation process can be interpreted as causality depends on the context of a certain change. Instead of searching for causalities, here the scope of the linkages is of interest; it seems that change is more a result of several causes rather than just one factor.

The critical events analysis follows the same logic. Since there are several levels of critical events, it is the impact of this critical event that counts as selection criteria (see more on the change dynamics in Halinen, Salmi and Havila 1999), regardless of whether they take place on the macro environment or on a micro-process between two individuals.

Implicitly the study incorporates the issue of time and embeddedness when it applies a process view. Business networks change in time, they go through a plethora of processes. Process consists of change and dynamics in relation to time (see more in Halinen & Törnroos 1995). In the study a time period is chosen and the overall development processes of a focal firm and its development processes within a specific geographically defined business network are analysed. Therefore the past and future-related processes are only included when they are relevant to the research period. Time is not evaluated as such, but in the sense of timing it is one of the invisible elements (Hedaa and Törnroos 1997).

The network evolution refers here to the interplay of stability and change forming a development having intentional direction. Position and the role of an actor characterise a network; they set the configuration against which change can be judged. The changes may originate from inside the focal organisation, from a dyadic relationship, or from the environment perceived as relevant by the focal actor (cf. Mainela 2002), but some surprising changes may stem from unexpected origins (cf. Hedaa and Törnroos 1997; Meyer and Skak 2002). Therefore change originates from exogenous or endogenous stimuli depending on the definitions.

Change can be characterised as incremental or radical (Halinen, Salmi and Havila 1999). Nummela (2002) refers to alpha and beta level changes as first-order changes having incremental and some fundamental character and gamma changes as second-order changes having a revolutionary character and involving the system as a whole (see Chapman 2002). Incremental change influences the nature and content of a single relationship it is counterbalanced by the forces that maintain stability in the network structure. The radical change is caused by critical incidents that create changes leading to the dissolving of

⁶¹ The importance is based on the judgement of the researcher together with the informants. It may be seen as only partially objective.

relationships or the building of new relationships (Mainela 2002). Change is either confined or connected; confined change remains within the dyad but connected change refers to change that is received and acted upon by other actors in the network (Halinen, Salmi and Havila 1999).

Critical events may arise from the dyad including personnel changes, changes in organisational structure or changes in business, marketing or purchasing strategies as well as acquisitions, bankruptcies or partner-switching. They may also arise from the overall business environment and include changes in technology, industrial structure and economic recession (e.g. Mainela 2002). Hedaa and Törnroos (1997) add another kind of change stimulus coming from nature. Indeed, nature plays an important role in the paper industry providing the raw material. However, in this study the role of nature in creating change is limited. Some minor changes in operations take place due earthquakes and floods, but nature as such does not influence the internationalisation processes. Still, it creates the business setting. Greece with its limited forests must import most of the pulp and paper material from abroad; it is an import-dependent market.

4.2.1. The role of the researcher

There are several aspects that concern the role of the researcher. The researcher's role follows the idea of interactive research (Gummeson 2001). A participant and action research perspective (Alasuutari 1994; Gummeson 2001) is applied as I have been actively involved during the research period in various roles (consultant, agent, partner, researcher) in this business net and I have been integrated into the local society as a whole⁶² (1993-1999) and to the business network in particular (1993-2004). Therefore my activities can not form the focus of the research. Instead, the focus is given to the "seller" company's perspective and its interconnected activities. This provides an insider view on the business net level where my research is independent. It also includes information on the focal firm that renders it comparable to an insider perspective. This system may obtain rich information, but with less subjective and biased researcher position. In that sense my ability to understand and interpret the research case is more versatile than if I had been an external researcher having no knowledge about the local industry configurations. Experience and pre-knowledge may

⁶² I (a Finnish researcher) have been working and living in Greece/with Greeks since 1993. I studied Greek language and culture in Athens 1993-1995 and my ability to communicate in the Greek language has been rated Excellent (University of Helsinki, 1997). My second language is Greek. I can be considered a participant observer and researcher in a Greek environment; my ability to translate and interpret is adequate.

enhance the reliability and quality of the research and assist particularly in assessing managerial implications (cf. Gummesson 2000).

Gans (1968) and Van Maanen (1978) differentiated between the roles of participant researcher according to the active or passive nature of the participation and the engagement and distance. They specified the differences between full participants, the researcher-participant and the full researcher. Though action research (Gummesson 2000; Cook 2001) could be applied as such, the purpose of the study is not to *make* any change in the researched case. The study does not intend to make guinea pigs out of its informants or to influence any firm's processes or activities with the research (cf. Cook 2001, p 6). Instead, a kind of participant researcher role is applied, where all the participating firms are aware of my dual role (both researcher and Agent, see Figure 6.1.). My position includes a managerial relationship to most of the firms in the focal net and in many cases also entrepreneurial or social relationship. The type of the relationship varies according to firms, some relationships are purely trading oriented, some more advisory or partner-oriented.

Trust and transparency have created a certain normality in the relationships, where research activity is not considered as something different from ordinary business activities, but part of them. Naturally occurring data (Silverman 2001, p.159) is therefore freely available in the interaction among actors.

4.2.2. Confidentiality and ethical considerations

Confidentiality is requested and guaranteed for the informants and participating firms. The research process and its targets and goals are planned in a manner to avoid any negative influence on the firms' activities, without influencing the validity or credibility of the study (cf. Cook 2001). The participants have adequate information concerning the researcher's person and targets, but they are not aware of the purposes of individual research sessions (interview rounds etc). A satisfactory level of confidence is maintained during the research process; the interviews and other data collection have been modified in such a way that the firms do not consider the study as a threat to their activities⁶³.

On the contrary, it is evident that in some cases the firms have been pleased to participate and would like to be in the study not as anonymous firms, but to use it as an information channel, both outwards and inwards. Therefore the amount of information and data collected is not negatively influenced by the dual role of the researcher.

⁶³ Many firms, particularly SMEs are not willing to indicate their suppliers, customers or partners if they feel that this information can be used against them. The companies in the business network need to secure their position, therefore their fear for external studies needs to be understood and respected.

The informants have approved in each case the tape-recording of interviews, and in some cases where the informant has not felt comfortable with tape-recording, field notes are used instead and thereafter the major points have been double-checked to clarify that there were no misunderstanding.

The management of the focal firm “Seller” has validated the study empirical research part as an informant. The managing director (also informant) has read the manuscript and amended all details that could have created misunderstandings, particularly in ownership configurations. The managing director evaluated the chapters of the manuscript by searching for mistakes or problem areas. He also validated the empirical process part by testing the flow and the details. All corrections he suggested have been carried out. In this manner not only the purpose of the study, but also its outcome is in line with the cooperation between researcher and focal firm. Ethical problems are avoided by planning the study and the research process so that the goals and the methods do not create mismatches or competitive situations. The shared information here might bring advantages in synergy and assist in theoretical and business development. The researcher’s role has included the active management of the research process and its initiatives, whereas the firms in the study have been more reactive subjects.

The participant firms chose anonymity. This choice provides more freedom to operate. In the paper business the atmosphere is often not very informative for outsiders and the significant economic fluctuations in this business further support the risk-avoiding information policy.

4.2.3. The quality of data

In participant-research it may be asked if the research is too contaminated by the researcher’s view, creating notable bias and subjective outcomes. This study aims at a high level of trustworthiness and accuracy. It attempts to provide information on the development process using verified and multiple sources and data collection methods to increase impartiality. Although the interpretation of the researcher has subjective characteristics, it does not mean that another researcher would not have come to the same conclusion by having the same access to material. The use of the business focused pragmatic approach to assists in counterbalancing the dual role of the researcher is necessary in action related research (cf. Gummesson 2000).

The study applies Alasuutari’s (1995, p.45-62) factist perspective in the sense that the research material is sorted according to its truthfulness and it is analysed according to the information (“the facts”) it provides on the internationalisation process. As such, the study

does not represent the “reality”. Both indicator and testimony approaches are used according to the data type (Alasuutari, 1995, p. 51). The international process is generally interesting at the managerial level, when it concerns facts, business related critical events and outcomes. Merely studying perceptions and meanings would limit the interest of management and have a different kind of contribution.

Concerning interviews and other data, the assumption that the informants are part of the “market”, where people know each other, has led to the conclusion that most of the information received does not suffer from reactivity, since that kind of information is very easily excluded based on other stories on the same topic. The concept of triangulation functions also in data collection as an accumulated form of *source triangulation*, when the informants are aware of the situation (cf. Silverman 2001, p.233).

Malinowski (1961) stresses the type of participant observer who stays in the field long enough to become invisible and affects the quality of the observation. A similar effect-reduction of reactivity is possible when the researcher has a position or a function in the “market”. Reactivity diminishes the quality of information; it refers to the role of informant who reacts while answering thus manipulation the content or nature of the information. It is therefore normal to assist one another and to discuss interesting topics without colouring them according to one’s current interests. Also, the longitudinal nature of the research process enhances the trustworthiness of the findings; it is not based on extraordinary situational factors, but rather as a part of the larger development process.

4.3. Case study design for business network evolution

Easton (1995) argues that case research is perhaps the most appropriate methodology for research in industrial networks since it takes into account the embedded character of network relationships and allows identification of the causal forces influencing the behaviour of the actors and the creation of networks. Here the case-the firm in its business network-provides insight into the research questions and assists in general understanding: it is an instrumental case study (Stake 1995).

A case study approach has been used in several studies having a similar research interest, which indicates its applicability (Nummela 2000; Mainela 2002; Vissak 2003; Gabrielsson 2004, Habiyakare 2004, Vincze 2004). A case study design with a qualitative character, including multiple material sources such as documents, archives, interviews, observations, field notes and physical objects or artefacts, enables the study of process, function and department, and flow of events or history (Yin 1984).

Valdelin (1974) values the intense observation made in case studies, which gives opportunities to study different aspects and put these in relation to each other, it puts objects in relation to the environment where they operate and use the abilities of *Verstehen* of the researcher. Case study can be applied to a contemporary phenomenon within a real-life context when the boundaries between the phenomenon and the context are not evident (Yin 1994, p.13). Perry (1998, p.786) suggests that case study methodology is based on the realism paradigm being inductive, objective and commensurable.

The methodological choices of the study are formed to:

- Study the evolution of the internationalisation of a small and medium sized firm
- Study the role and importance of a business network and the network environment
- Examine how the net's relationships affect the internationalisation process
- Investigate the network dynamics and critical events of SME companies
- Identify the critical events and changes and the linkages to influence factors

Case study analysis is selected as a research method because it is suitable for real, complex situations (cf. Christensen and Hansen 1987). It is typical for case study research that when a certain phenomenon or case is researched the research focuses on a unit, group or an organisation and as well as on the processes. The case is analysed as a part of its environment and research material is collected by using several methods and the study aims at describing the phenomenon (Hirsjärvi, Remes & Sajavaara 1997).

This research project is a case study, which has idiographic characteristics. Despite this it is assumed that the research findings may assist in understanding respective cases (cf. Tsoukas 1989, Eisenhard 1989) since many behavioural and situational factors/events have universal characteristics and many SME's face similar problems, particularly in the early stages of internationalisation (see Ghauri, Lutz and Tesform 2003). The generalisation concerning qualitative case study is limited but, according to Alasuutari (1994), the capacity to make generalisations based on specific research results is not improved by the number of cases, but by a higher abstraction level in the study.

The study does not aim to explain, but rather to describe and explore business net evolution through critical events analysis using a longitudinal case study (Alasuutari 1995; Eisenhardt 1991; Yin 1984; Bonoma 1985; Van de Ven and Poole 1995). Van de Ven (1992, p.169) considers process as a logic to explain a causal relationship in variance theory, as a category of concepts referring to activities of individuals and organisations and as a sequence of events that describe how things change over time. Here the process view of Pettigrew

(1997, p.338) is suitable since it does not concentrate on examining causalities but events instead. He defines a process as: “*a sequence of individual and collective events, actions, and activities unfolding over time in context*” (ibid).

4.3.1. The advantages of applying qualitative case study approach

A qualitative research approach is well suited to the research area and the research questions (see Eskola and Suoranta 2000). The qualitative approach matches the research topic due to its methodological appropriateness and for two other reasons: it is much easier to get managers to talk than to get them to answer questionnaires, and it is also a way to get a lot of rich information including narratives, stories, explanations, viewpoints and other aspects that the researcher would not have even asked for in a questionnaire. It makes the research process interactive and not glued to the original mind-set of the researcher, which enriches the quality of the research (Alasuutari 1995, p.142-148). The element of surprise is present and leaves the possibility to investigate new clues. The inductive character remains vital throughout the study.

To carry out case research means often that the researcher and the research target have an interactive relationship and the research develops as a process from stage to stage (Aaltio-Marjosola 2001). The qualitative case study approach matches with process research since it allows the incorporation of the element of time; it is suitable for researching evolution and process. Case study research may be continuous or proceed in phases to analyse changes, processes and development. The negative aspect of case study when using longitudinal study is its time-consuming nature and the costs.

Case study enables the selection of cases not on statistical criteria, but on their suitability and willingness to cooperate, which in the business context is an advantage. The key issues are the selection of the cases, securing access to them, organising the theoretical framework for research, collecting and administering data and analysing and completing the collection of data (cf. Aaltio-Marjosola 2001)⁶⁴.

4.3.2. Triangulation

Triangulation is the application and combination of several research methods to study one phenomenon. (Denzin 1978; Alasuutari 1995; Silverman 2001). Triangulation is used to increase validity, applying it as a tool to minimise the researcher bias in data collection and

⁶⁴ Original source: Hartley J. (1997) Case studies in organizational research. In *Qualitative methods in organizational research*, C. Cassell & G. Symon. (eds.) SAGE, 207-229.

analysis. Denzin (1978) identifies four modes of triangulation: sources, methods, investigators and theories. Triangulation is carried out both at a source level, using several types and sources of data, as well as in theory, which combines two overlapping theoretical views. Network and internationalisation theory are combined to avoid theoretical restrictions and restricted views and also to use the theoretical framework, which emerged during the collection of the empirical data.

Triangulation of data, i.e. source triangulation, is not only possible but, due to the structure of the case, it is incorporated in the way case selection and data collection is carried out. Triangulation assists in avoiding erroneous conclusions concerning the processes at work in the study (Stake 1995). Unfortunately there were no such resources that could have enabled researcher triangulation, which would have facilitated the commensurability of the study.

The study applies several methods of data collection and analyses for triangulation (see 4.6. Methods of data collection). Triangulation in sources of data is used too. To identify changes in the development and the reasoning, several informants have been interviewed providing multiple perspectives, also several supportive data sources in the form of written information, reports and listings as well as the websites of firms are used. Industry-related information and official data are also used when possible, see Appendix 1. Types of data also vary from verbal data to written data and observations. Also, both naturally occurring data and researcher stimulated data⁶⁵ are used and cross-examined.

Due to the business dimension, continuous monitoring of the development is carried out and numerous informal discussions (in addition to transcribed interviews) are used to support and cross-examine the information. Selected informants have assisted in the form of respondent validation by reading preliminary research results, papers and reports, providing comments and pinpointing topics that require more research.

4.4. Criteria for case selection

The original idea was to study several firms operating in the Finnish-Greek axis and particularly their failures and the reasons behind the failures. This was changed as it became clear that the approach would not bring the value expected in terms of the results. During the first research phase it seemed that the explanations of Finnish firms were often built on standardised “garbage can explanations” of cultural differences, economic fluctuations and changing internationalisation strategies when they failed to enter the Greek market. The same process was explained totally differently by the counter partner, which led to the decision to

⁶⁵ See more on data characteristics in Silverman 2001

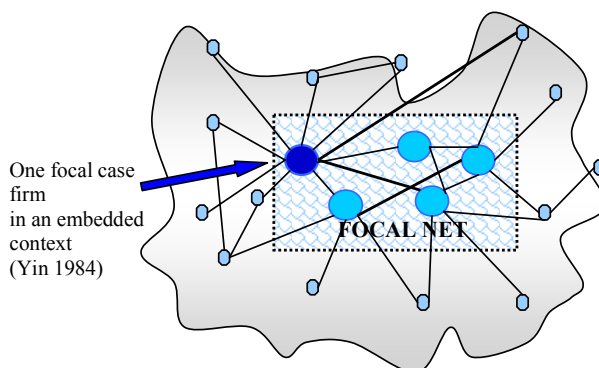
concentrate on on-going business relationships. Many firms no longer actively involved had no motivation to participate in a research project. A multiple case study concentrating on three different industries was the first choice, but due to its complexity and costs, it was later changed into a single embedded case study. The case represents a SME firm that has been able to penetrate the Greek market, unlike most other SMEs.

In case-analysis it is important to have in-depth analysis to counterbalance the small number of cases selected. Here the research basis provides partial cross-analysis for the data in the form of documents and reports. Ease of access, richness of data and pre-knowledge of the network environment have guided the choice of dyads. They also diminish problems concerning the validity of the research material and findings.

4.4.1. One in-depth case study-an embedded case

This is an embedded case study (Yin 1984). The research part involves one main case company; the “*seller*”, which is the firm who internationalises. “*Seller*” is the focal firm. This firm has the position of a supplier i.e. seller, and it is named accordingly. The larger case; the focal net, constitutes the first degree of interconnectedness of the seller in the particular setting. This business net includes a defined set of secondary cases; firms with direct relationship to the seller, which are analysed using their relationships - the dyads. It represents an embedded single case analysis, but is constructed to the business net examining the internationalisation process of the firm and the net evolution from several sources, see Figure 4.4.

Figure 4.4. Boundaries in the perspective- Focal net



Source: Modified from Halinen and Törnroos 2005

Axelsson and Johanson (1992) suggest that it is vital to research the actors in the network, the relations between these actors and position in the network as well as the resources that can be mobilized for entry into a market. Also social relationships play an

important role in international business (Björkman & Kock 1995; Mainela 2002; Madureira 2004), therefore the social dimension is incorporated into “actors” and the element of atmosphere.

To be able to establish convincing empirical grounding the number of secondary cases is decided according to the suggestion of Eisenhardt (1989) i.e. between four and ten, but the amount evolves according to the development and the main criteria is the importance of a certain business relationship on the overall development, not an exact number. (However, the relationships linking the agent are examined only through documents and other naturally occurring objective data due to the research limitations of participant research). In data collection and analysis there are two main viewpoints, which have been integrated: a Finnish supplier and trading firm and a Greek converting and wholesale company. Together they create a Seller-Buyer interface. Both “sides” of the relationship are approached as mutually important actors.

4.4.2. Unit of analysis

The structural focus of analysis consists of the focal firm in a focal net and its focal dyads. The units of analysis are: the firm *Seller*, its immediate business net and the relationships between them. This implies that the internationalisation process is interpreted from the structural perspective of the Seller. The analysis is Seller-connected and does not change its central structural focus, see the Figure 4.4.3. This assists in systematic research.

The focal net is constructed applying similar a logic as the ARA model (Håkansson and Johanson 1992). The constellation of this focal net is defined by the researcher according to the actors - the firms - and their activities - selling, buying, manufacturing, converting and other - and according to their resources - supply potential, know-how, manufacturing capacity, customer base etc.

4.4.3. Focal net and dyads: Description

“A theoretical map” of the business network is used as a plan to navigate through the evolution of these firms and their relationships, see Figure 4.5.

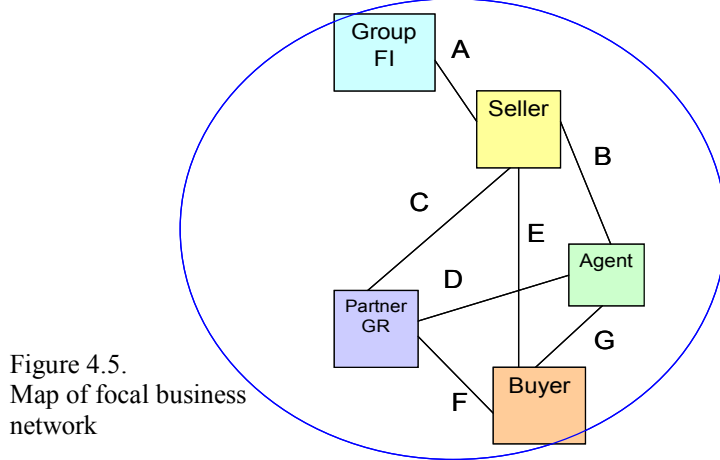


Figure 4.5.
Map of focal business
network

This map represents the core of the focal net during the study: the seller is the focal actor who internationalises and its business network context is included using firms of direct relationship as supportive cases illuminating the interconnectedness in a new market (cf. Halinen and Törnroos 2004). These relationships, dyads, evolve during the study period and therefore they are named according to their role and position in the business network. The dyads do not represent the whole variety of business relationships; instead they are selected on the basis of their importance for activities concerning the Greek market. The development process is seen from a focal firm perspective; therefore the analysis is influenced by this restriction. The study represents two levels: the primary level being that of the firm and the secondary level that of a focal net level analysis.

4.4.4. Selection of the case, the business net and dyads

The criteria for the focal firm used in the case selection are:

- It represents Finnish SME firms already in the process of internationalisation
- It should be embedded in a wider business network
- The firm should be in industrial business
- It should be actively involved in this geographically and culturally different area
- The firm has a function, a position, in a value chain stretching all the way to Greece.
- The firm should be consciously present in Greek market, not just making a single attempt or an exception to an otherwise different market pattern
- It has other export markets, which are parallel to this one

The selection of the *seller* within the paper trading, converting and packaging business network fulfils all the above basic criteria and provides a rich example of an industrial net, although loosely structured, concentrating more on the supplier-customer interface than on

innovation or technology. Other companies and other business nets in this business context did not offer theoretically interesting possibilities.

4.5. Case study procedures and research protocol

The case study is carried out during the time period of 1994-2004. Material has been collected on a continuous basis following an inductive type of research process. During the early years the research questions were not specified, which requested for general documentation. The research follows the empirical data and preliminary findings and reorients its focus and analysis by following these clues. There was no a priori theory or hypothesis, but rather the unfolding events during the research process provided the empirical evidence. After having collected enough information and knowledge concerning the internationalisation process of the focal firm and its business network that the research questions could be met, the final data analysis began.

Research protocol is kept for interview data collection and in-depth discussion. Other material is organised into files according to “industry, markets, groups, firms, topics, newspaper and other public articles, internal firm documents, laws and regulations, export organisation documents, and other”. Internal research protocol includes the interviewed persons, the time and place, the length and type of interview and the themes. In semi-structured interviews the questionnaire is included. However, due to anonymity the internal research protocol is not publicly available, but an anonym version has been included, see Appendix 1. (Research Protocol and Data Sources) and Appendix 2. (Supporting questionnaires for semi-structured interviews).

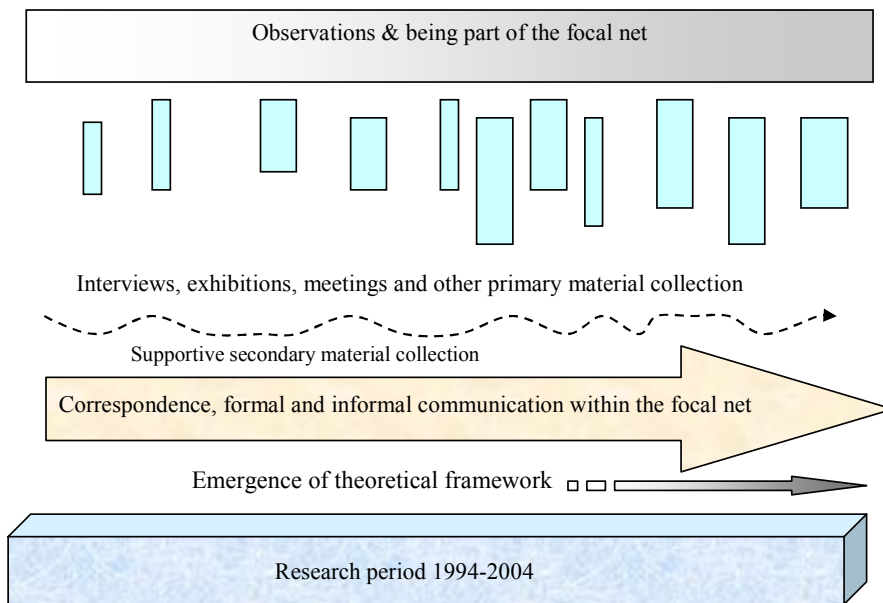
The analysis is built on a process view using both a historical reconstruction of “situational settings” and a follow-up of events. The written data of 1994-2004 is analysed and rewritten into a world file describing a chronological event flow and exploring changes and their possible reasons in a condensed manner. This is a first level interpretation by the researcher.

After the identification of the chronological development backbone and its description, the changes, critical events and influence factors are analysed using the follow-up method, interviews and naturally occurring data, which incorporate material concerning these aspects. This level of analysis either confirms or rejects the preliminary interpretation on changes, critical events and influence factors. The analysis results are built on the empirical material and, in those instances where there is doubt about the degree and truthfulness of perception the results are re-analysed using respondent validation or its variations. This represents the second level of interpretation.

4.5.1. Overall Chronological description

The research process may be illustrated briefly as parallel processes of business, data collection and analysis. In the beginning the search for information represents more general than explicit research. In the last part of the research process the research methods attempt to capture the whole research period by using interviews to verify previous data. See Figure 4.6.

Figure 4.6. The research process itself



4.5.2. Description of the documentation and research audit system

The research audit system is made to increase the quality of the study. The researcher's direct contacts with the informants and the focus on the reliability of the quality of information have provided a good base. Respondent validation, cross-checking and triangulation are used if there is any doubt about the accuracy of information. The existence of this cross-checking possibility, which is well-known for all the participants in such a well-connected industry, is a self-enhancing quality assurance.

The data is mainly of a primary nature and is sorted accordingly (see Appendix 1. Research protocol and data sources). Secondary data is accompanied with its source and date and organised and filed. The data is traceable to its roots either by coding, sorting or both.

Most of the written material consists of business documents and interfirm communication, which is organised chronologically. It is further divided into subfields of business, internal communication and external communication. Internal communication refers

to communication among the sales personnel and the agency. External communication refers to communication with customers, partners and other connections in the Greek and international market.

There is a large amount of supporting information for the study providing data on the events, business environment, general trends, industry news, paper distribution and packaging business and so on, which is organised into topics and sources. Seller firm internal documents are kept as a separate entity. Data in electronic form is filed under forest industry subcategories according to particular subjects, e.g. statistics, sales, exports, distribution, actors, etc.

Written material is coded when necessary and the research protocol controls the interview data. A coding system (running numbers or titles) is developed to ensure the privacy and anonymity of the participants in firms when questionnaires or other written material with interviews have been used. Confidentiality assists in receiving “less filtered” responses and information when employees are asked the same questions as the management.

The audit system assists in finding the documents or notes that lead to a certain statement or conclusion. When non-confidential material is in question, its source is directly quoted in the study, such as website pages. The material in original form consists of 14 folders and four folders of collections of listings and artefacts, i.e. samples and products. Due to the extensive nature of the material, after the first round of analysis some of the material was transferred to relevant and less relevant files. Each document is kept filed, but the most relevant documentation is collected in separate files, according to their role in the development analysis.

There are two categories of verbal data: interviews of primary importance and other secondary material collected for triangulation and verification purposes, or as naturally occurring data, which might reveal new clues. All verbal data is collected on numbered tapes. Verbal material is documented as written transcripts. However, particular parts of the data or some verbal material serving in only a supportive role is used as tape-recorded verbal data, to verify pre-findings or support other data (see more in 4.6.1). Early verbal material and interviews, which are not fully transcribed, are used as supportive data. They are treated as observations and field note material. They are not listed together with key interviews due to the difference in documentation system.

4.6. Methods of data collection

Data collection methods are qualitative: interviews, observations, review and analysis of archives, correspondence and other written data (Silverman 2001; Stake 1995). Data is

collected from all key persons in the focal seller company, all key persons in the other focal net firms and additional persons who represent industry specialists in other significant forces, which possibly influence the development of the focal firm and the focal net.

Some supportive data is quantitative, which is considered appropriate in case study research (Perry 1998). Data displaying quantitative characteristics is needed to verify the accuracy of the verbal data and detect possible misunderstandings or errors. Data collection follows the suggestions of Yin (1984), abstracting interpretations from several sources.

4.6.1. Interviews and observations

Personal interviews are used, which have either an in-depth or a semi-structured character (Alasuutari 1995). Interviews are used as a significant tool. The first pilot interviews took place in 1999 and since then there are several rounds of semi-structured and in-depth interviews, each of them focusing on some theme.

The material includes both semi-structured, i.e. open-ended questions with a general framework and in-depth more profound understanding-seeking interviews (45 minutes-2 hours), long discussions concerning the net and the respective firms (1,5-3,5 hours) and personal visits at the firms, telephone interviews and , in the key cases, intensive communication via phone, fax or e-mail. Key interviews, mainly semi-structured theme-discussions, are tape-recorded if the partner agreed⁶⁶. Other interviews, verifications and verbal communication are written down according to their importance and content as observations and field notes. When the informants have accepted it, informant validation has been used in such interviews that were not tape-recorded.

Most of the interviews are multiple interviews with new themes or aspects, so that from the same informant several business aspects and situations become included. The interviews are carried out in Greek in Greece and in Finnish in Finland, according to the informant's language (see e.g. Easton & Araujo 1991).

Interviews are collected from the managing directors, sales and export managers, financial managers, other relevant personnel, consultants, market specialists and end customers, but due to the extensive research material only the key interviews⁶⁷ are listed in Appendix 1.(Research Protocol and List of Data Sources). In very small firms the owner-managers are the main informants.

⁶⁶ It is very usual in Greece that the informants who are not the owners of the company prefer a non-tape-recorded interview.

⁶⁷ The type of interview documentation has changed during the years. That is why the app. 7 pages list of meetings and interviews is not fully listed here. Only the key wrap-up interviews of similar documentation system have been listed for reasons of efficiency.

The key interviews are transcribed and translated into Finnish or partially into English (when in Greek, Finnish are transcribed as Finnish), if it was considered to be potentially interesting for other researchers. The transcription follows a logic of transcribing carefully word-to-word all those sections of communication that are relevant. Casual conversations, unrelated philosophical discussions on cooperation with third countries, or interrupting telephone calls are generally excluded. The transcription level is careful, but kept to a reasonable level to match the purpose of the study. All interviews and other tape-recorded verbal material in an unreduced form are used as verbal material to facilitate an understanding of the actors' views and opinions.

First hand observations are made 1993-2004 using interviews and other suitable situations such as participation in meetings, exhibitions and other business activities. Most observations are made originally for business purposes, with written details, notes or comments included either on the documents directly or on the researcher's agenda. These observations are treated as field notes. Most of the interview material is "researcher provoked" (Silverman 2001).

4.6.2. Naturally occurring data: documents, memos, e-mails and other data

The primary written material consists of all the business communication that is in written form between the trading partners⁶⁸ concerning activities in the Greek market: business correspondence (request for offers, offers, orders, order confirmations, invoices, shipping documents, reclamations, responses to reclamations), mail, faxes, memos, e-mails, price lists, promotion and advertising material, samples, different topic-related reports, annual reports, financial reports, business contracts, etc. Some of these, such as product samples, may be considered as artefacts and, as such, a useful source for analysis. Listings and product and material samples are analysed as indications of the content of business relationships. They indicate the entry and termination of certain product types or materials that have represented the commercial content of the business relationships. They also indicate the change in technology and trends. Additionally, the number of samples implies the dynamics in the constellation of business partners.

Secondary written material is collected from various sources such as newspapers, the website pages of firms, organisations, research institutions, consulting firms, ministries and

⁶⁸ All documented communication between the following positions: Seller-Agent 1, Agent 1-Greek partner, Agent 1-Buyer

customs. Also previous studies in the paper and the converting industry provide useful information, (see Chapter 5 and the References and Other sources).

Also “researcher provoked” written material is collected (Silverman 2001). Written material is used as a supporting system for verbal interviews (also due to lower costs). It is used to obtain descriptions and further information from the informants in the firms. Key informants are asked to draw pictures or explain in writing some parts of the internationalisation process. They are also asked to make written corrections or comments on preliminary findings and interpretations. The two key informants within the Seller (the Managing Director and the Sales Manager) have commented on numerous drafts during the research process.

4.6.3. Secondary information

Statistical information and laws and regulations are collected to support the context-related research part. Questionnaires have been used to collect data on some particular aspects such as culture and cooperation and the role of institutional actors, see Appendix 2. (Supporting questionnaires for semi-structured interviews).

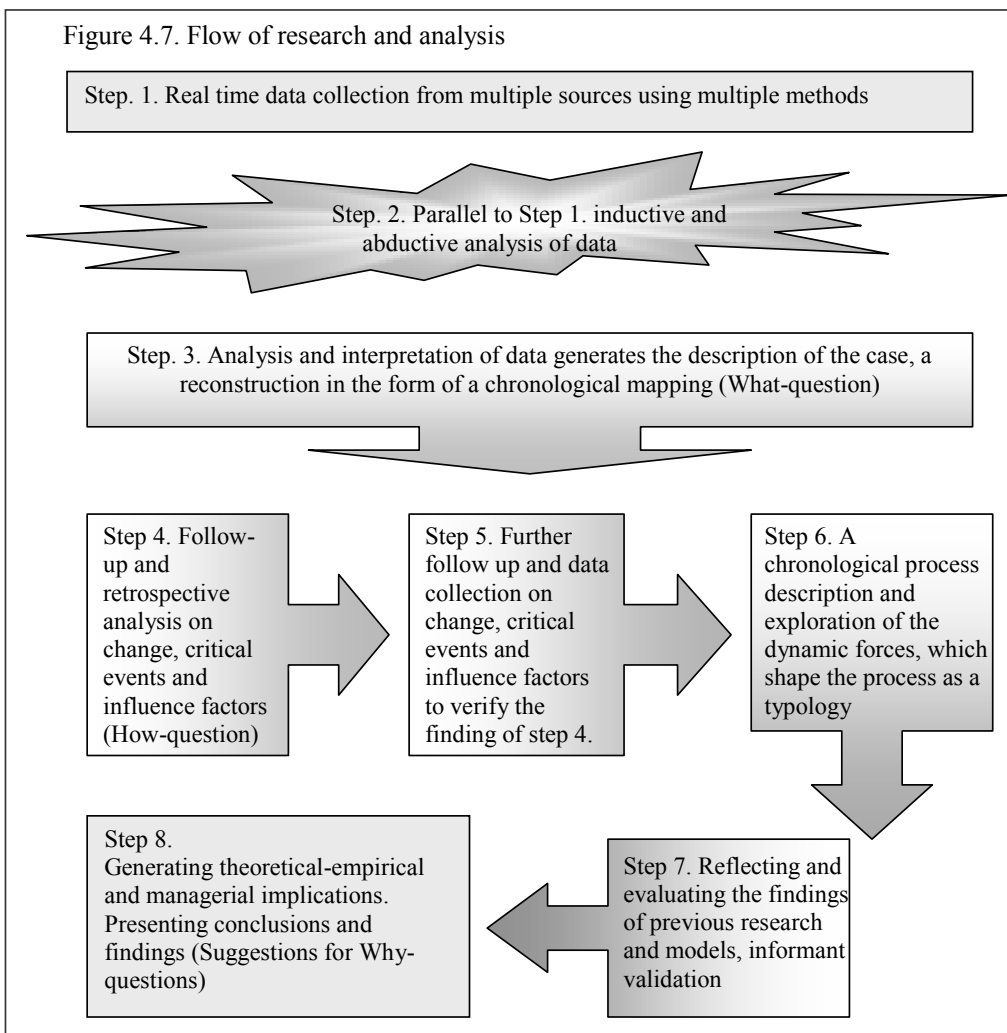
Sources of information and data are listed to the extent they are allowed to be published, see Appendix 1 (Research Protocol and List of data sources and References, section Other sources).

4.7. Methods of data analysis

The data analysis methods are qualitative: analysis of observations, texts and documents, verbal data, interviews and transcripts. The research material is analysed using the guidelines of the model (cf. Silverman 2001 p.2-4), an interactive network approach (Håkansson 1982; Håkansson and Johanson 1992; Håkansson and Snehota 2000) and the concepts and framework provided by internationalisation theories (Johanson and Mattsson 1988; Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977; Luostarinen and Welch 1990; Blankenburg Holm 1995 etc). The material is analysed in numerous phases of the inductive-abductive research process. In the last phase the researcher re-organises, analyses and maps in chronological order the emergence, development and achievement of the business net (see Ghauri, Lutz and Tesform 2003) and the respective context. The analysis follows a process view, which has a progressive logic (cf. Pettigrew 1997).

4.7.1. Logic of analysis

There is a continuous real-time analysis during the research period on the business level. This is complemented with analyses of topics studied more in depth with follow-up theme interviews or other suitable methods. The theoretical analysis is completed in the last phase by applying the theoretical concepts and framework to the development as a whole, presenting it as a form of a process. This has the character of retrospective analysis. There are two dimensions of analyses: the continuous business-related analysis and the complementary theoretical analysis. The steps of data collection, interpretation and analysis are organised according to a process logic (cf. Tsoukas 1989, Pettigrew 1997), see Figure 4.7.



How the firm internationalises, what happens and the changes within the firm and its business network is analysed in combination with both dimensions and presented with a description of the evolution, *the process*. This description attempts to create a reconstruction of the firm and its focal net at different chronological stages using mapping. Follow-up analysis is used to examine the changes (Nummela 2002a, 2002b) that are illustrated as simplified pictures.

After describing the process the variables forming this process are analysed in the form of critical events and influence factors. Analysis of critical events follows the changes “backwards” going to the events that created and were part of the change. This part of the study has a retrospective character. The analysis identifies and establishes a typology of critical events. (Due to the vast amount of data the critical events have to be limited to the events triggering change. Not all micro-process events are relevant to the overall development.) This part answers the questions what caused the changes in the internationalisation process.

The study attempts to analyse critical events in a way that allows identification of the reasons behind the events; the influence factors, which caused that event or directly or indirectly had a significant impact on it. It tries to explore the reasons for this, giving plausible answers to the why-question. The influence factors are categorised according to their importance.

Since the separating lines between change, critical event and influence factor may be ambiguous, they are defined according to their order of appearance and overall importance, which is connected to the context. Here change represents the character of an outcome, critical event embodies the process leading to this outcome, and influence factor represents the triggering force. The research process tries to link in a contingent manner changes to critical events and influence factors and the particular relationships between them in the focal net. It explores the impact of the business network on the firm’s internationalisation process.

Although the research strategy is mainly descriptive, the event-based logic of research is in line with Tsoukas’ (1989, p.559) two levels view on idiographic research, which requires concrete empirical research. Tsoukas claims (ibid): “*To produce explanatory knowledge the researchers re-describe their object of explanation in a theory-important way, postulation the existence of multiple generative mechanisms that are potentially responsible for the occurrence of the events under study...The researchers look for the contingent ways in which the postulated mechanisms are intertwined, which will generate the flow of experienced events.*”

4.8. Summary

The inductive and abductive qualitative research approach was selected to create an empirically-generated research process. No a priori theory exists; instead a kind of iterative process is applied. The research is based on an instrumental case study. Qualitative research and the embedded case study provide an appropriate research method for understanding and analysing such a complex multifaceted research topic as the internationalisation of a firm through business networks.

A process view is applied in research. Data collection and analysis is based on observations, text and documents, verbal data, interviews and transcripts. The data collection and analysis has both a real-time and a retrospective nature. The research process explores the observable and identifiable changes, critical events and influence factors from the focal net and its relationships using a focal firm's perspective. The availability of material, good access and pre-knowledge influenced the selection of cases and methods.

5. THE CONTEXT: THE FINNISH-GREEK PAPER TRADING AND CONVERTING BUSINESS

5.1. Introduction-An overview of Finnish-Greek trade relations

The first part of the chapter attempts to provide a brief overview to the type of macro-economic and overall network-level circumstances in which the focal net is embedded. It is relevant for the reader to have some contextual information to better understand the economic circumstances, business context and atmosphere, which may have impacted the evolution of the focal net.

This chapter briefly introduces some aspects of Finnish-Greek business in general and then presents some basic information about the type of business, the target market and its particularities. The atmosphere (cf. Håkansson 1982) represents the context, including the social dimension, which influences the activities and decisions of the focal net. Although the context dependency has a significant impact on the focal net, only a limited description of it can be included due to its complexity.

A short overview on trade history introduces Finnish-Greek trade relations, which began first with the paper business. Finland and Greece do not have particularly strong history of business relations with each other. Finnish-Greek business relations have started after the Second World War with Finnish paper exports and have developed slowly but steadily. The business between the two countries was and still is largely dependent on very classical export products and goods (see Finnish Customs reports, Greek Foreign Ministry, Finnish Embassy, Athens).

However, despite the significant psychic and business distance from one another, the two countries share some common characteristics that assist business activities: both have a fairly “peripheral location” in Europe and relatively small population, in both countries there exists a population having Greek orthodox religion, both countries have problems using the domestic language in international business and are forced to learn and adapt to foreign ways of doing business, also both countries have similar negative events in history (civil war, a subsequent polarisation of the population, heavy burdens and losses resulting from the Second World War, direct foreign interests and influence, etc).

5.1.1. The Finnish perspective

To start it is important to briefly review the Finnish perspective on trade: In the beginning of the 90’s there were some 250 Finnish companies having some activities in Greece, mostly exports on an irregular or regular basis. There were only a few foreign direct

investments. Four companies invested in Greece, from which only one was a SME: Wärtsilä had a sales subsidiary, Finnair had a sales office, the Metsä-Serla Group (today M-Real) had manufacturing plants and one small transportation company had a sales office in Greece (source: FFTA). A majority of the activities (still some 80-85%⁶⁹) were initiated by local businesspeople and were carried out by importers, agents, representatives and other dealers.

Most of the initiatives for new businesses and business contacts have traditionally come from the Greeks⁷⁰; the way Finns deal with Greek business is more reactive than active or proactive. In Finland the reputation of Greece as a target market has been negative; it has been seen as a very difficult market. The number of Finnish companies actively searching for contacts has been low and particularly within the SME there has been a lot of caution.

The Greek businesspeople were expecting a significant change in the level of business between the two countries when Finland joined the EU in 1995. However, no dramatic change in trading figures resulted. The first significant change in the trading figures was established thanks to the shipping company Attica Enterprises; which ordered ships from Finland. These orders received a lot of publicity and increased the interest in trade on a general level.

In the beginning of the 2000, there are still a relatively small number of Finnish companies active in the Greek market and there are only four FDI (source: Finnish Embassy). However, Finland's exports have increased steadily and have more than doubled during the research period (National Board of Customs, Tullihallitus 1994-2003). The market has become more developed and diversified as the scope of business has changed. The share of the traditional paper, pulp and wood business remains steady, whereas other trade has diversified from consumer products to industrial applications.

Despite this increase Greece is still not considered as a focus area for the foreign trade policy, which concentrates on other growth areas. Since the institutional sector has not invested in promoting Finnish trade relations with Greece⁷¹, it seems that the development has been generated by the firms themselves. There is no indication that any of the export circles (see www.finnpro.fi) would have any operation with the Greek market during the research period. Greece has remained as a secondary trading partner, the largest trading partners for Finland are: Germany, the UK, the USA, Sweden and Russia (2002, source <http://virtual.finland.fi>).

⁶⁹ Finpro, maakansio

⁷⁰ According to consultants the estimated share of Greek initiative is about 80% of all initiatives for business.

⁷¹ on the contrary, the trade section⁷¹ (part of former Finnish Foreign Trade Association) of the Finnish Embassy in Athens was closed down in 1996 and until recently the embassy has had only some basic information services

While the impact of leading companies such as Nokia investing in Greece may have an indirect influence on general level, most of the SMEs doing business with Greece are not directly pulled there by their customers or partners. Rather the SMEs are stimulated by them and pushed by the necessity to internationalise further. The kind of industrial clusters existing in Greece do not represent an important type of initiating power for expansion when the Finnish SME companies are considered.

In general Greek business differs from Finnish business most significantly in terms of payment conditions, business policies and norms as well as in terms of some distribution systems. In many ways, however, these differences are decreasing. How Finnish SMEs cope with the notoriously difficult market area of Greece has not been researched, although its importance has been explicated in many contexts by Finnish ambassadors and the business community. There are only a very limited number of publications available on Greek business that would assist in understanding the business climate, particularly from the Finnish perspective⁷². Most of the information available is very general or quantitative statistical information and is more relevant for larger enterprises or internationally experienced firms.

The most significant Finnish exporters to Greece consist of large companies that have until today functioned as the backbone for Finnish exports in general. The role of exporting SMEs is changing and membership in the EU since 1995 has diminished the problems encountered due to customs and other procedures. Still, EU membership of Finland did not change the paper business in Greece to the extent the Greek buyers and representatives were expecting. The number of SMEs seeking and establishing export activities within the Greek market seems to be increasing in general.

5.1.2. The Greek perspective

It is now important to briefly review the Greek perspective: The Greek export trade figures concerning Finland remain relatively low and encounter only small incremental increases. Greek foreign trade support policy has included information, networking, and assistance in partner selection, and seminars and other services for SME firms (source: Foreign Ministry, EOMMEX, Hellenic Foreign Trade Board). Towards Finland Greece has an active trade policy investing in the promotion of the Greek tourism industry, with sales office in Finland. The commercial department of the Greek Embassy assists with the trading activities of Greek companies. The Greek businesspeople doing business with Finns share the

⁷² see more Vientiopas Kreikkaan

Finns' concern for the lack of suitable qualitative information that would facilitate mutual understanding and assist in developing business.

In Finland there are firms importing Greek products in textiles, food and other consumer products, and some direct investments in the retail trade. The industrial goods follow a traditional line of trade, and consist mainly of petroleum and minerals, chemical and metal products, raw materials and other semi-finished products.

The number of firms involved with Greek exports to Finland is relatively low and the entrepreneurial networks active in Finnish business are very limited. Myhrberg Club established in Greece as a business club promoting Finnish-Greek trade relations was turned into a Finnish-Hellenic Chamber of Commerce in the mid 1990's, but still the amount of business people actively involved in Finnish-Greek business has remained small. Many Greek organisations (HEPO, EOMMEX, Chamber of Commerce and Industry) have created different types of networks to support businesses.

It is noteworthy to remember that neither of the two countries sees the other as a vital export market or trading partner. Greek foreign trade operations have proportionally less Intra-EU trade relations and often focus on other neighbouring areas like Turkey, Bulgaria, Russia, and Rumania. The largest trading partners for Greece are: Germany, Italy, the UK, the USA and France (source: Foreign Ministry, 1998-2000).

In the Greek market the quickly developing business nets are continuously increasing and the impact of international networks in sales and distribution is rapidly growing, particularly in import and distribution activities. The Greek Diaspora has facilitated in emergence of international Greek business networks.

As a short summary, it can be stated that the macro-economic environment of the case consists of two countries that are of secondary importance to each other, they have more differences than similarities and they have more of a complementary than a competitive industrial structure.

When examining the industry-level differences, the combination of these markets seems to offer already more incentives than before. The Greek economy has shown an impressive growth rates of GDP +4.08 in 2001, +3.48 in 2002, +4.23 in 2003 (estimation, source: Greek Foreign Ministry) that reflects also the dynamic growth orientation of the firms. Firms are investing in foreign operations and both formal and informal business networks are rapidly developing both in Balkan area as well as in the South-East Mediterranean Area (Greece is striving to become the business centre in the area, similar to Finland's attempt to become the gateway to the East).

Additionally, the type of industrial infrastructure that is export-oriented in Greece is considerably different from the Finnish export industries; their products are to a large extent complementary. The industrial level (competence, technology, machinery) in Greece is rapidly achieving a comparable level; even the amount of SME firms obtaining ISO certifications is continuously increasing. The operational infrastructure, such as telecommunication, transportation and services, has improved remarkably during the research period.

The largest problem areas on an industry level include the trading patterns, business ethics and norms. Differences in planning, social and managerial networking and industrial purchasing create the need for adaptation to the Nordic firms. In particular the different payment policy, based on different methods of payment and very long payment terms (3-7 months⁷³) in SME and wholesale business, creates problems for foreign firms. Another problem particular to Greece is the low level of internet usage. In 2003 only 3% of Greek firms traded through internet and only 7% used internet as a tool for marketing⁷⁴. This is a limitation for methods of cooperation.

5.2. The business environment: Cultural and industrial differences in the paper industry

The business environment is one key factor determining the strategies of paper companies. There are several reasons why the production capacity needs to have good access to the market in the paper industry. The Finnish forest and paper industry has internationalised and will continue to internationalise further, which has meant acquisitions of production capacity from abroad and green-field and brown-field investments (Laurila & Ropponen 2003), see also Appendix 6. (Structure of the Finnish Forest Industry Exports 1960-2003). In Europe there are strong indications of a trend towards more vertical investment and integration towards sales and marketing; market shares are divided among strategic groups where international suppliers play a major role, see Appendix 4. (The market players in paper sales: Strategic alliances in Europe). The reasons for this strategy include some of the key dependencies of this industry to location:

- Shorter distance to market
- Lower transportation costs
- Improved service
- Faster deliveries
- Better access to recycled fibre

(Source: Metsäteollisuus ry, 25.11..2003 <http://www.forestindustries.fi/talous/vienti/>)

⁷³ Long payment terms are commonly accepted and demanded in some fields of business in Greece.

⁷⁴ source: www.finnpro.fi 30.1.2003

The Greek paper industry has major structural differences in relation to the Finnish paper industry: there are no significant forests, no pulp industry, and imports of raw material play a crucial role. The Greek industry is still related to family ownership or local groupings, and its focus is more on supplying the domestic and immediate markets. The manufacturing industry is more concentrated on tissue, recycled, corrugated board and lower printing paper qualities. The last few years have witnessed a change in concentration and some foreign companies are developing a stronger presence in the market, like SCA and Mondi, see also Appendix 5. (Finnish Forest Industry Acquisitions). According to an industry specialist this trend is expected to continue and acquisitions of local producers might be expected. New smaller actors are emerging in the Greek market importing paper from all over the world and saturating the previously “under-delivered”⁷⁵ market.

Resource dependency within the Greek market is noticeable. There are macro-economic and industrial structure-related aspects that create the overall economic circumstances for firms in the paper business. Also at the business level, locally driven aspects may include strong dependencies and connectedness to aspects that are not necessarily visible for outsiders, such as informal groupings. The differences between the target market’s business environment and the seller’s business environment cannot be neglected when aiming at an increased understanding of how to enter the Greek market.

The determining factors for a market entry may not arise from the content of this research problem only, but also from its context. Due to the limitations of the study only some vital viewpoints for a better understanding of the Finnish-Greek business are selected here to highlight some of the key differences.

In addition to these structural and production-related dependencies there are some other differences that may create obstacles. For example, in the paper and converting industry machinery has a central role. Machinery may be a businesses opportunity but also a limiting factor; this limitation is often valid in this business. Many of the Greek SMEs use locally-



produced or locally-adapted machinery or used machinery that has been purchased from Central-Europe, which means that the specifications for the material needs of these customers may not be in harmony with the current industrial standards or trends in the paper producing area. In that sense, in Greece, there is a strong dichotomy according to the size of the firm and the level of the technology used. For example in the printing and publication industry larger

⁷⁵ Greek importers have often encountered problems in supply. When the Greek market would have absorbed more paper it has not been available due to the suppliers’ planning in product allocation.

units follow the latest development, but smaller unit lag behind. This creates double standards and leaves the market open for strong domestic competition in replying to the SME customers' needs.

The role of the packaging industry and the food industry in Greece is crucial in many aspects. These forerunners of tendencies drive many product innovation and incremental change processes that affect the paper business.



In addition to the differences in machinery some industry related patterns also diverge, such as payment terms and quality preferences. The emphasis on various product and production-related aspects varies too. Variations in corporate behaviour are also notable. Additionally, the more diffuse way of doing business and strong emphasis on personalised customer relationships in Greece differs from the more Nordic orientation of the of these Finnish corporations (see more in Elo 2003a, b).

Culturally-based differences are numerous. Still, it seems that the similarities in industry, its processes and the common concerns of SMEs assist the two sides in understanding each other and finding common ground for business. Some of the major differences in relation to national culture and issues of emphasis were discussed and analysed in a previous study⁷⁶ (see Elo 2003a, p.10-12). In this partial study, where the mini-survey sample (14 open-ended questionnaire responses) and the interviews (10 interviews, 16 meeting-observations) were carried out with Finnish and Greek managers being part of the same business network environment, the role of national culture as a trade barrier was taken as a focus to understand its role in this network interaction, see Table 5.1. Behavioural differences in communication, social aspects and business mentality related aspects create the most difficult differences.

⁷⁶ In this partial study the cultural dimensions of individualism, power distance, masculinity and uncertainty avoidance were based on Hofstede's (see Hofstede, Geert 1980, *Culture's consequences: international differences in work-related values*, CA: Sage) research, other differences were derived from the empirical data.

Table 5.1. Cultural differences between Finland and Greece

Cultural differences
between Finland and
Greece

| | F=Finland | G=Greece | |
|-------------------------|-----------------|----------|--------------|
| Language | common | | uncommon |
| Religion | Greek orthodox | | other |
| Business | specific | | diffuse |
| Individualism | individualistic | | collectivist |
| Power distance | high | | low |
| Masculinity | masculine | | feminine |
| Uncertainty avoidance | high | | low |
| Flexibility | high | | low |
| Communication | high | | low |
| Planning & organisation | high | | low |
| Education | high | | low |
| Social skills | high | | low |
| Personal relationships | valued | | low |

5.3. Significance of SMEs and market dominance of few large companies

Greece is a country with a strong economic dependence on SMEs. Although in the 80's the number of medium sized firms increased rapidly due to a beneficial economic policy and the political system (Model Medium-Sized Firm), still the majority of all firms are SME. More specifically; in 2003 enterprises employing 50 persons and less form about 99.55% of the total number of enterprises and they employ 74% of the work force in the private sector. The main business model in Greece remains the micro enterprise with less than 10 employees⁷⁷. 92% of firms are very small, family-oriented businesses, 6% are medium sized and the remaining 2% are large companies⁷⁸. This means that the Greek trading partners most probably consist of SMEs, regardless of the sector. Private industry in Greece is dominated by small and medium sized family owned companies⁷⁹. Although Greece has experienced a surge in the number of international acquisitions, foreign direct investments are often going either to larger companies or to firms with a highly specific position i.e. the foreign firm's local

⁷⁷ The data indicates 733000 SMEs, 53,7% of them do not employ any salaried workers, the average number of employees is 11 persons of which many are self-employed people with family members as employees.

⁷⁸ The data on the Greek SME sector differs from the Finnish numbers, since the data is calculated with a definition of an SME that employs up to 100 people in the last three years and have an average turnover up to 2,4 million Euro, unless the SME's are capital intensive in which case the maximum number of employees is limited to 50. Source: www.eommex.gr 27.11.2003

⁷⁹ see more SCA Investor Report 4/00

distributors or strategic partner. In Finland the role of SMEs is equally important; 99.7% of Finnish firms employ less than 250 persons⁸⁰ (Turun Sanomat 31.10.04).

When the overall business network in paper industry is considered, it can be concluded that there is considerable asymmetry in the size of firms and the types of resources. Large international groups are in the position to influence and organise market segments and direct smaller business actors to match their strategic goals. The market power of the small business actors in a fragmented market like Greece is insignificant; the local SMEs have not developed international partnerships to the extent that exists in other European markets. In Greece the dichotomy between domestic and multinational business is noteworthy. Small firms are still very local and there are only a few large firms in the paper and packaging business that could be considered as multinational. The similarities in customer service and the qualitative factor of cultural differences, such as language, substantiate the need for a local partner or a supplier (Poesche 1995, p.13.). The criteria for matching and partner selection represent a key strategic decision that is not easy to change. Many SMEs lack international experience. As Thomas Sefertzis, managing director of Cartonpack⁸¹, puts it:

”Supported by our former affiliation with Metsä-Serla, we are also the industry’s only player with experience in a multinational business environment” (SCA Investor Report 4/00).

It is worth noting that there is no accurate statistical information available on a country-by-country basis regarding the exact figures of SME companies that are in the paper trading, converting, printing or packaging business, as most of the industry ratings are relatively overlapping or fragmented and do not provide a comprehensive picture of these smaller players. According to Birkner catalogue 1997, there were 31 paper trading firms and 9 converters and factories in Greece. The numbers for 2004 vary. Some local industry specialists speak about hundreds of converters. Since internet-based information calculates firms according to categories, the same firm may be present in several listings resulting in over 200 trading firms, etc. All businesspeople in the Greek paper industry seem to agree that it is a turbulent industry where a continuous change is a more the rule than the exception.

The world paper market is dominated by few large corporations, but here the focus is limited to the Finnish-Greek perspective. The Finnish paper industry began its ever continuing concentration and restructuring basically in 1994. By the year 2000 there were three main players: Stora Enso, UPM-Kymmene and Metsäliitto Group. After a period of intense

⁸⁰ Interview of Kirsi-Marja Kajander in Turun Sanomat in 31.10.04, www.turunsanomat.fi

⁸¹ Cartonpack was acquired by Metsä-Serla Group, therefore it had a unique manufacturing position of a Finnish Group in Greece, later it was sold to SCA.

international acquisition; the Finnish paper industry had reached a very international level (see more in Siitonen 2003). In 2004 the three groups are mainly the same, but Metsäliitto competes through a different organisational structure. M-Real and Myllykoski, whose relation has changed, have reformulated their sales channels into more separate entities⁸². Strategic alliances have been developing fast, not only in production, but also in distribution on the European level (see Appendix 4. The market players in paper sales: Strategic alliances in Europe). Paper merchants and distributors are becoming increasingly linked to some of the strategic alliances such as Paperlinx, Igepa and Papyrus.

The largest Finnish paper manufacturers, which are selling in Greece are shortly introduced here (data from company web-sites 2003-2004):

UPM-Kymmene has three major product groups: Paper Products, Converted Products and Wood Products. The company has production facilities in 17 countries and an extensive sales network comprising over 170 sales and distribution companies. Its key paper qualities are magazine paper, newsprint paper, fine paper, specialty paper and it also produces converted products. Magazine paper is used to produce magazines, newspaper supplements, printed advertising and sales catalogues. UPM-Kymmene is the largest manufacturer of magazine paper worldwide, which corresponds to about a fifth of the global market for magazine papers. Newsprint paper is utilized by publishers and printers, as well as for other respective end-products such as telephone directories and mail order catalogues. UPM-Kymmene's newsprint is sold mostly in the Western European market, of which it has a twenty percent share. Fine paper is supplied mainly to paper merchants, office supply wholesalers, printers and converters. Uses for fine paper include copying and non-impact printing, direct mail advertising and specialty magazines. UPM-Kymmene is one of the leading suppliers of fine paper worldwide. Specialty papers consist of face and release papers for self-adhesive labels, white and brown sack and kraft papers, and white and tinted envelope papers. Self-adhesive labelstock is produced from face and release papers and envelope papers are sold to converters. UPM-Kymmene is the world's largest label paper producer and Europe's leading producer of envelope papers. UPM-Kymmene's converting industry manufactures self-adhesive labelstock, siliconised papers and industrial wrappings.

The former Metsä-Serla was a significant player in the Greek market through Metsä-Corrugated, being at the time the only Finnish paper producer with production capacity in Greece in the form of Cartonpack's three factories. In its market segment it had a market

⁸² "Key to the Finnish Forest Industry", Finnish Forest Industries Federation, Helsinki, 2000, also in several newspaper articles

share of 50 % (SCA Investor Report 4/00). The sale of Metsä-Corrugated to SCA Packaging ceased the Finnish-owned manufacturing era in Greece. The renamed group, M-real, is one of Europe's leading suppliers of paper, paperboard and packaging solutions. Its most important product ranges are coated and uncoated fine papers and high-quality magazine papers, as well as packaging boards for consumer products. M-real is currently ranked as Europe's largest producer of fine paper (www.m-real.com 26.1.2004). It has grown to become the European market leader in both coated and uncoated fine papers, and at the same time has become one of Europe's largest paper merchants. M-real's main customers are printers, publishers and paper merchants as well as manufacturers of well-known brand products.

MD Lang Papier, Myllykoski North America and Myllykoski Paper make up the Myllykoski Group, which has mills in Germany, Finland, Switzerland and the United States. The group products - wood-containing and recycled fibrebased uncoated, and coated printing papers, as well as newsprint - are trusted worldwide by printers, publishers and mail order companies. The Myllykoski Group is highly focused and ranks number three in the production of SC in the world. In the production of LWC paper the Myllykoski Group is in the top four.

These Finnish Groups⁸³ are all selling in Greece either by using local representatives or a corporate sales office. Paper product related information is found in Appendix 7. (Paper Industry: Product related information.)



5.4. The industrial setting: The paper trading, converting and packaging industry

The industrial setting of this study differs from the setting that applies to the paper and board industry. The trading and packaging industry is not so capital-intensive, the unit size is considerably smaller and the position of these sub-industries in the overall value chain is different (see more in Siitonen, 2003 p. 43-45). The industrial setting of the paper trading, converting and packaging industry that forms the context to this study is a highly complex and integrated system. It includes several interlinked processes and production networks that function both vertically and horizontally.

Technology and the interlinked processes play an important role in this industrial setting (Rohweder, 1993). Paper and board-making is a process industry, with a product manufactured from chemical pulp, mechanical wood fibres and/or recovered paper. The development process for the paper industry products is divided into phases, from which the

⁸³ Finnish refers to origin in this study, not to ownership structure or head quarters' location

market introduction covers the process from the start-up of commercial production to the point of time at which the new product has established itself technically (Rohweder1993, p. 55-56). This applies also to the converting industry due to a similar emphasis on technical requirements.

The reasons for the rapid growth (partially in newsprint in the last century) in the industry are considered to be the influence of printing press technology, wider education and the increased demand for news (<http://www.paperonline.org/> 26.1.2004). The increase in industrial goods fuelled packaging needs for products such as protective cardboard, tough cartons and printed wrapping papers.

As an industry, the paper industry is growing faster than many other industries. Particularly in Greece the growth of advertising, communications, personal care and international trade all contribute to growth in the paper industry sectors. Despite estimates that the information industry will reduce the amount of paper, particularly in the office and printing sector, paper consumption has grown. It seems that the trend towards a paperless office or e-publication has not been realised to the extent some expected. In fact, the electronic age has brought with it the need for more, not less, graphic paper⁸⁴. Rigid, lightweight and printable paper board materials have seen an increase in their proportion of the packaging industry. In packaging, issues such as environmental and health factors have gained in importance. In many market areas consumer and environmental groups have influenced environmental issues in packaging and printing industry, although the paper industry itself has upgraded its environmental responsibility remarkably during the last decades (see more Key to the Finnish Forest Industry 1995, 2000; Papernews, Nachrichten und Meinungen zum Thema Papier, Angabe 2003 p.6-15).

The paper and board industry is a sizeable industry dominated by large regional and multinational firms. The paper industry comprises a diversity of companies, differing in ownership, scale and type of activity (see more in Siitonen 2003). The larger units may own forests and therefore control their raw material. They are often highly integrated vertically. But such units do not exist in Greece.

Paper industries have an extended employment effect through its direct and indirect production, converting and sales networks. They stretch from forestry to the retail trade and subsequent recovery for recycling. Sub-industries within the paper industry are developing into innovative and highly interesting industries, such as the food packaging industry, where the image of a low degree of technology is out-dated.

⁸⁴ source:<http://www.paperonline.org/> 26.1.2004

Another developing sub-industry is engaged in the collection and trading of recovered paper and recycling business. The recycled paper is earmarked for particular uses, such as printing paper and packaging, in accordance with the respective specifications. The collection system in operation must be cost-effective and efficiently organised in such a way that the necessary volumes and qualities of recovered paper can be obtained and appropriately recycled. Some paper mills have paper qualities that depend on recovered paper, which makes them dependent on the assurance of a regular supply. In Europe, an average of 50% used paper is recovered⁸⁵. The recovery rate for recycling paper and paperboard in 1999 in Finland was 64.6% of total consumption and in Greece 31.1% of total consumption (see more in Key to the Finnish Forest Industry, 2000).

Some large players also trade pulp and many operate integrated pulp and paper mills. Downstream and supporting activities such as trading, packaging and tissue conversion are carried out by paper and board companies and their extensive network of business partners. In Greece warehousing and inventories counterbalance the perceived uncertainty and serve the needs of the SME customers. The inventory cost factor throughout the paper business is still an issue. In many cases the companies need to warehouse considerable quantities of several different paper grades (Poesche 1995). Poesche (1995) studied the strategic choices in the fine paper industry and was able to foresee, to the extent that is possible, the development trend in paper industry. The trend during the last decades shows a tendency of the large firms to concentrate on their core competence in the highly resource dependent R& D and production activities and outsource less strategic activities to their partners. Performance and globalisation have been significant driving forces (Siitonen 2003 p.215-235, Poesche 1995). The size of the company has changed and large groups of companies have been developed to face the competitive environment. Also related industries such as paper trading and conversion are increasing their unit size and developing cooperative systems.



⁸⁵ source:<http://www.paperonline.org/> 26.1.2004

5.5. The converting industry

The converting industry is not homogenous. Instead it is a collection of various industries that have some common aspects, but the internal processes and context may vary greatly. The converting industry has a mixed character, which exists between a vertical and a horizontal integration of industries. It may link, for example, a paper producer and a milk producer. The converting and packing industry are to a large extent overlapping industries (see more in Olsmats 2002)⁸⁶. Olsmats (2002, p.104) defines the packaging sector as consisting of three major types of companies:

1. *packaging material suppliers*
2. *converters (converting packaging material into packaging)*
3. *Packaging machinery suppliers*

His study is in line with the opinions of many industry experts that the organisational structure of the firms in the converting sector is developing from material and production-oriented structure to a customer and service oriented organisational structure. The process coordination issue in converting is also discussed in his dissertation.

Firms in packaging and converting often have several roles and activities. They take care of a part of a process in the overall value chain. The customer base defines to a large extent the strategy and opportunity structure of converters. Therefore converters are highly dependent on their business partners and the systematic flow of goods. Many of them encounter problems in employing their overcapacity with some temporary orders or exports. The dependent and interconnected nature with the current partners creates constraints. The development in larger manufacturing companies is shifting towards internalising parts of the packaging process rather than using a supplier. The demand for faster, hygienic and more efficient production processes has terminated many business relationships among manufacturers and semi-finished packaging producers. See Figure 5.2., which indicates the position of these industries in the overall industrial setting.

⁸⁶ Note: the process coordination issue in converting is also discussed in his dissertation.

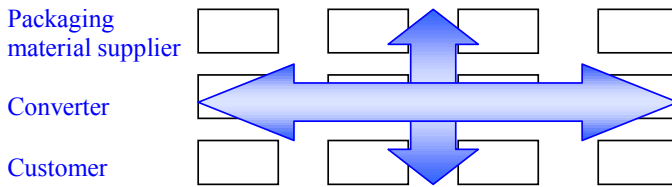


Figure 5.2. Horizontal and vertical integration

(Adapted from Olsmats, 2002, p. 107)

Olsmats (2002) has provided a thorough study on the structure and prospects of the converting industry, which reflects needs and development within the consumer packaging. He takes up issues such as intelligent materials, and new processing technologies and discusses their impact on the industry structure.

The Greek packaging sector is still highly fragmented but with sustained growth expected over the coming years⁸⁷. It seems that many converters and packaging firms follow their partners and customers in terms of technological innovation and seek to modernise their machinery and processes to reach ISO standardisation. Quality systems and standardisation have a strong effect across the value chain, particularly in food packaging and respective highly regulated areas of business.

Quality assurance, product development and innovations have assisted the Finns. Due to Polarpack/Polarcup the image of Finnish food packaging solutions is very positive in Greece. In paper products, for example, UPM-Kymmene is a strong player in labelling and packaging materials within the European area and provides global leadership in several product lines. This progress improves the attractiveness of cooperation in the rapidly evolving market.

A packaging industry specialist, Agent 2, describes the evolution:

“There is no more cellulose manufacturing in Greece, we used to have own manufacturing. That has assisted large companies to enter Greece. On the other hand, the amount of those firms which produced corrugated boxes has risen remarkably. Some time ago we had 7 machines, now there are 17! Without saying that, despite all that, the pie has grown significantly. We used to have a lot of manufacturing (in conversion), of course the use... as we say the per capita use of paper had definitely grown, it is no longer that what is used to be some years ago. Simple things, look at newspapers, corrugated boxes...the whole consumption has grown. It has increased. Of course the most rapid growth period was between 2000 and 20001, the last couple of years there have not been any great changes. Together with this development very many foreign companies have entered Greece. (Interview 2004)”

⁸⁷ more market related information in Syskevasia 97, 6th International Packaging, Machines, Printings & Storage Exhibition, Under the Auspices of the Hellenic Institute of Packaging and the Piraeus Chamber of Commerce & Industry

5.6. Product specifications and characteristics

The specifications with paper usage in manufacturing and packaging, particularly in the food and cigarette industry, are set by the FDA, the EU and national regulations and laws. In that sense the product is highly regulated all the way from its raw material composition until the chemical substances of the end product. The usage of the paper sets the first frame of selection.

Other product specifications are also context-dependent, that is the specifications depend on whether the paper is in sheets or reels. The reel or sheet must satisfy many requirements in the production process, such as the requirements of machinery, process related specifications and end-market regulations. The typical characteristics that affect the choice of material are grammage, size, thickness, opacity, brightness, strength and other such technical characteristics. Printability, runnability and product related guarantees are other essential matters.

There are many categories of paper, not only in terms of the product, but also in terms of the quality. Prime quality paper is sold with brand names through official channels, but there are also second grade paper, side-run paper and various left-over warehouse qualities that are often sold through secondary channels. Warehouse business, as well as stock-lot and job-lot business is used as methods to distribute non-prime paper lots. Though globalisation and the internet have facilitated these alternative business methods, the backbone of the paper industry is still constructed on normal prime quality paper.

Paper products are dependent on their context, since they are produced to suit a certain purpose. The product and in its surrounding setting may have determining characteristics, which relate to the development of the particular product in a particular market or situation. This means that the experience and knowledge collected from one product may not necessarily be fully transferable to another product (Rohweder 1993). The structure and activity position of a particular firm in the industry influences the requirements for resources and capabilities (Rosenbröijer 1998). Rosenbröijer (1993) has emphasised the role of resources that differ especially on the buyer and end-user levels.

The legislation concerning the paper converting industry is extensive and depends on the usage and type of product in question (see Key to the Finnish Forest Industry, 1995, 2000, <http://finlex1.edita.fi>, N:o 268/1992, N:o 143/1993 N:o 855/1994, Helsingin sanomat 29.1.2004).

5.7. Market-related characteristics, opportunities and constraints in Greece

The target market of the study, the Greek paper market, has some particular characteristics of its own. It has local production units, numerous converters, printers and resellers. Except for the local tissue paper industry and some large groups, it is a very fragmented market, with numerous SMEs functioning as actors in the market. The role of the foreign representative offices and agents has always been significant. They have provided the channel for the distribution of the imported paper that has served to a large extent as the backbone for the regular supply of the different types of paper.

Karsaba's study in 1997 states that, in Greece, there were 16 companies operating in the paper and cardboard industry (producing paper and cardboard) and they owned 20 factories with a capacity of approximately 500 thousand tons in Greece. They employed from 5000 to 5100 people. There were also 3-4 small non-processed paper factories in operation and a large number of final product producers. Moreover, there were a large number of companies importing paper, cardboard and final products (Karsaba 1997). In the packaging business as a whole there were some 270 companies active in the Greek market in processing, export and trade in 1997 (Syskevasia 97). In 2003 there are 49 paper merchants having 420 employees.

The market is not considered as an easy one to compete in and it has overcome several changes during the period 1994-2004 due to the structural changes and concentration in the paper industry as a whole. Additionally, the foreign actors have had to adapt to the local business setting, which has been realised by using the know-how, connectedness and contacts of local representatives and personnel.

The most important problems concerning the Greek paper industry have been identified as: the lack of domestically-produced pulp, the complete lack of a regulatory context for the after-use of packaging, the high level of imports in sanitary and household paper products, the limited capacity utilisation for the corrugated cardboard boxes sector, the high instability of prices, the high energy costs and the lack of skilled labour (e.g. Karsaba 1997)

The demand of paper-packaging products depends on the level of general economic activity and the economic situation, prevailing prices, their competitive position in relation to substitute products and their friendliness to the environment. Still, in many products the environmental issues lag behind, either due to the lack of demand for such product characteristics or due to the constraints set by the available machinery (see also SCA Investor

Report 4/00). According to Karsaba (1997), the most important determinant in the demand for sanitary-household and printing paper products is the standard of living of the consumer.

Karsaba's study published in 1997 indicates an estimated annual apparent consumption of the final packaging products at approximately 340 thousands tons. The annual apparent consumption of the sanitary and household paper products amounts to 125 thousand tons. The apparent consumption of the printing products accounts for 220 thousand tons. According to statistics, the paper consumption per capita is 28,6 kg in 2003⁸⁸. Due to the limited product range of the local industry, the Greek market has offered good opportunities for paper importers. Import penetration is considered to be sizeable in all three sub-sectors of the paper industry: packaging, sanitary and household paper products and printing products. Imported raw materials and wastepaper cover 30%-35% of the needs of Greek producers (Karsaba 1997).

Since there are very limited domestic sources for raw materials, paper-related business in Greece has dependent heavily on imports. Therefore paper manufacturers either purchase pulp abroad or use domestic recycled paper for pulp. This has affected the opportunities for development in the Greek paper industry. According to Karsaba (1997) the packaging sub-sector imports account for 42%-43% of the total in paper and cardboard. It is, however, limited for finished products, since it does not exceed 7%-8%, mainly due to high transport costs. Exports of packaging paper products account for 1% of the total annual production, whereas non-processed paper exports account for 4%-5% respectively. Imports of sanitary and household paper products account for 27% of the apparent consumption and concern mainly finished goods from Germany and Italy. Exports of sanitary and household paper products are sizeable, accounting for 22%-26% of total production. The main importing countries for these products are Cyprus, the United Kingdom, Syria, Jordan and Israel. Imports of printing paper cover 71%-73% of the needs of the domestic industry. Finally, exports account for 2% of the total production.

Another study by Pulpanpaper.net several years later, in 2002, shows some proportional growth in the export figures. The Greek total annual paper and board consumption in 2002 is estimated at 494,700 tons, of which 61% is locally produced (Note, that the figures in these studies differ in terms of definitions and data, and are not directly comparable). The producers are few, but they are large in size and the majority of the local production is concentrated on corrugated boards, recycled materials and tissue paper.

⁸⁸ http://www.eugropa.com/teksten/tekst_greece.htm 10.3.2005

The Greek paper production sector has been turbulent. Ownership configurations have changed and some factories have gone into industrial decline, whereas others have become part of internationalising groups. However, production has increased by an average of 8% a year since 1993. At the same time, imports showed an average annual growth rate of 5.5% and exports a growth rate of 17.5%. Still, the Greek paper producing industry is not particularly export oriented since the product structure of the paper production sector is more adapted to supplying domestic and neighbouring markets. (Note that the transportation costs of tissue paper, recycled uncoated paper and other less advanced paper qualities are often economically unfavourable due to the ratio of distance-price-amount-weight). Exports account for 7.6% of local production, with 64% of exports from just one company, Mel S.A.⁸⁹.

The corrugated case sector is deeply linked to the needs of Greek industry. The production of corrugated case material in 2002 came to 150,000 tons, with a total consumption of 256,000 tons and the difference being covered by imports. In this sector, the main producers are: Pako (35%), Fthiotida Papermill SA (15%), Athenian Papermill SA (15%), Vis SA (13%), Technohart SA (9%), Komotini Papermill SA (7%), and Patra Papermill SA (6%)⁹⁰.

The production of board for solid boxes more than doubled between 1993 and 2002, rising from 42,000 tons to 107,000 tons. The trend is the same for total consumption which rose from 68,100 tons to 122,000 tons over the same period. There are three leading producers in this sector: Mel SA (64%), Fthiotida Papermill SA (26%) and Veka SA (10%)⁹¹.

The Greek packaging market is locally oriented. Local production covers the basic material needs, whereas imports are needed to cover special needs or other quality-wise demanding products not produced in the local industry. Greek domestic production covers 92% of the country's packaging needs, with an estimated market in 2002 of 430,000 tons. Between 1993 and 2002 the average annual increase in production was 3.4%, while exports were up 7.5% a year and imports up 8.4% a year. The imports were principally for liquid product packaging (Tetra Pak, Elopak, Vario Pak, etc.), packaging for tobacco (Amcors Rentsch, Alfred Wall, ...) and multi-packaging (Mead Westvaco, Riverwood, ...).

The exports for packaging market in Greece are insignificant. Only 1.2% of local production is exported, with 38% from one company, Paperpack Tsoukaridis⁹².

⁸⁹ See <http://www.pulpandpaper.net/NetLetter/EU/oct10-30-03Feature.asp>.

⁹⁰ Source: <http://www.pulpandpaper.net/NetLetter/EU/oct10-30-03Feature.asp>.

⁹¹ Source: <http://www.pulpandpaper.net/NetLetter/EU/oct10-30-03Feature.asp>.

⁹² Source: <http://www.pulpandpaper.net/NetLetter/EU/oct10-30-03Feature.asp>

The Greek market has two types of packaging and converting producers: large companies with the know-how and the capacity to invest in high tech machines, and a multitude of small companies specializing in specific packaging. The corrugated case material market is dominated by a small number of large-scale producers, while the situation is reversed for the much more fragmented solid boxes market. Also paper bag producers, sack manufacturers and wrapping paper manufacturers are often small units. The packaging sector consists of five main market segments: corrugated board boxes (56%), solid boxes (25%), paper bags (9%), large paper sacks (5%), and wrapping papers (5%).

The consumption of corrugated case material has been growing regularly since 1993 and reached 238,500 tons in 2002. The leading producers are: SCA Packaging Hellas SA (23%), Vis SA (14%), El-Pack SA (13%), Agropack SA (12%), Pako SA (8%), and Hartel SA (8%). For solid boxes, the output also rose regularly from 1993 and totalled 93,000 tons in 2002. Consumption followed the same trend and amounted to 108,500 tons in 2002. The leading producers in the solid boxes market are: Paperpack Group (10%), Koskinidis (5.7%), Fim (4.5%), Daniel (2.45%), Nanos (2.4%), Antoniou (2.3%), and others (72.6%)⁹³.

The Greek paper market has some particular characteristics in terms of competition. It has an extensive network of sales offices operated by foreign paper corporations, some foreign owned plants (3 units by SCA), joint-ventures, a domestically-owned production capacity and numerous importers and traders. Five main paper merchants hold 75% of the market. The Greek paper market has suppliers from all over the world and its market is highly competitive and very price conscious. The Spanish, Italian and other suppliers often use the Greek market for dumping their second quality paper, warehouse qualities and various spots⁹⁴. The fragmented converter structure provides a good channel for such activities and leads to fierce price competition, often resulting in questionable pricing policies.

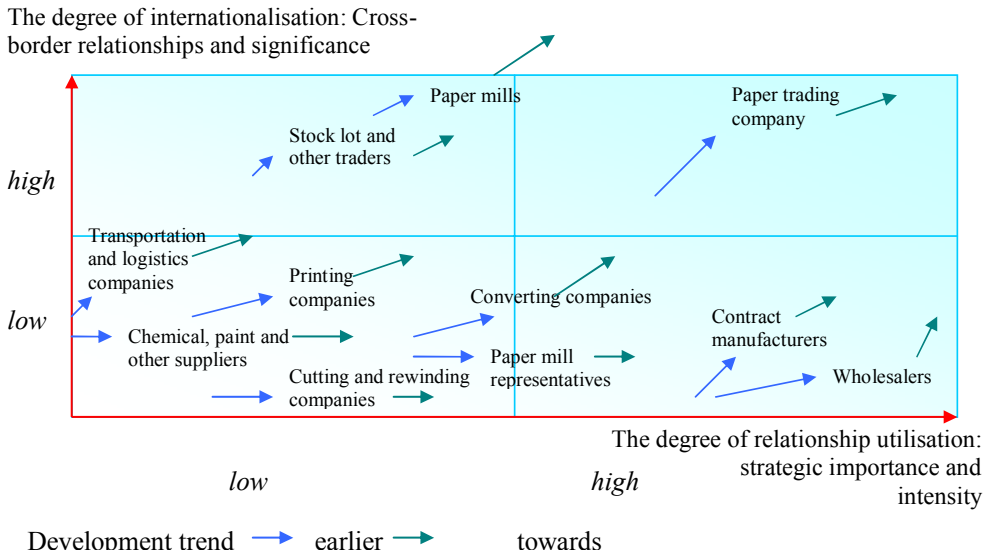
In a previous paper an illustration of the development in terms of the utilisation of relationships (relations of strategic importance and intensity as well as of a cross-border nature) was created and interpreted based on the discussions with Greek informants and their perceptions, see Figure 5.3 (see Elo 2003b). The overall trend seems more towards increasing international activity, both inwards and outwards. Business relationships gain in importance. The enhanced role of the business relationships constitutes one channel of international activities across the firms functioning in the paper business network. The period of

⁹³ Source: <http://www.pulpandpaper.net/NetLetter/EU/oct10-30-03Feature.asp> 26.11.2003

⁹⁴ Warehouse qualities refer to paper products, which are not produced on customer's order. They do not need to have a quality difference to normal produced-on-order prime quality paper products. Spots are all kinds of paper qualities and types. They represent irregular spot lot business.

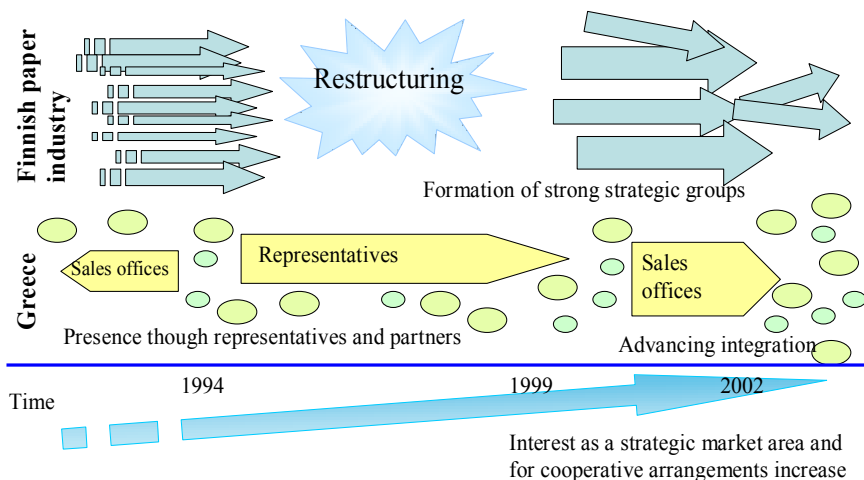
monopolistic market power and product orientation has come to an end and the competition has grown rapidly. The enlargement of the EU is expected to enhance the role of those players in the Greek paper market who will no longer be restricted by trade barriers. Also the demand from new areas will have its influence on the Greek converting and packaging industry.

Figure 5.3. Business Relationships and International activities



In Greece, there are numerous actors in the paper, packaging and converting industry. The transformation of sales offices to local representations was one type of strategic change. The latest trend in the late 1990's and the beginning of the millennium is to convert the local representations into corporate sales offices, see Figure 5.4.

Figure 5.4. Actor Structure: Finnish paper industry and the Greek market



The Finnish paper industry is traditionally well represented in Greece. In Greece Finnish paper industries had a functioning sales network, often own sales offices very early in comparison to other industries. These representations have a long history and some of them used to be family-owned firms concentrating on the representation of the particular paper company for generations.

From the representatives the former Valmar Co is Stora Enso Hellas A.E. Stora Enso Hellas A.E. began operations in Greece in February, 1999, following the merger of Stora Hellas A.E. and Valmar Co. (ENSO Oy's representative). The representative of UPM Kymmene Group in Greece is Panos Antonopoulos Ltd in Athens. UPM Kymmene plans to open a new corporate sales office in Athens in 2005⁹⁵. The representative of M-Real group in Greece is its sales office M-real Hellas Ltd. and Mr Costas Chryssostomou in Thessaloniki (2004). Myllykoski Group is represented by Mr Costas Lazarakis in Athens (2004). Other smaller firms in the paper business do not have sales offices in Greece, but rather concentrate on direct customer relationships or agencies. The packaging sector uses mainly agents or representative offices.

The Greek market overall has a strong domestic orientation. Firms concentrate on supplying and serving mainly domestic customers, who in their turn, are often exporters. In that sense the paper and packaging industry has a strong orientation towards indirect exports through their customers and simply examining the direct transaction does not give a correct idea of the degree of internationalisation of the Greek paper business.

The personal networks and the complex nature⁹⁶ of paper converting and trading business has a great impact on the way firms function and adapt their activities. Marshall (2003 p. 439) suggests that managers, regardless of their cultural and personal characteristics, involved in value-added industries rely on personal, affectively charged relationships relatively less often than managers involved in commodity product-based trading. In the Greek paper business the argument is relevant, particularly in supply of paper. The investments in partnerships vary according to the particular industrial context. Marshall (2003 p.440) actually considers cooperation across industry distribution channels, for example between packaging suppliers and food companies, as an interesting avenue for future research.

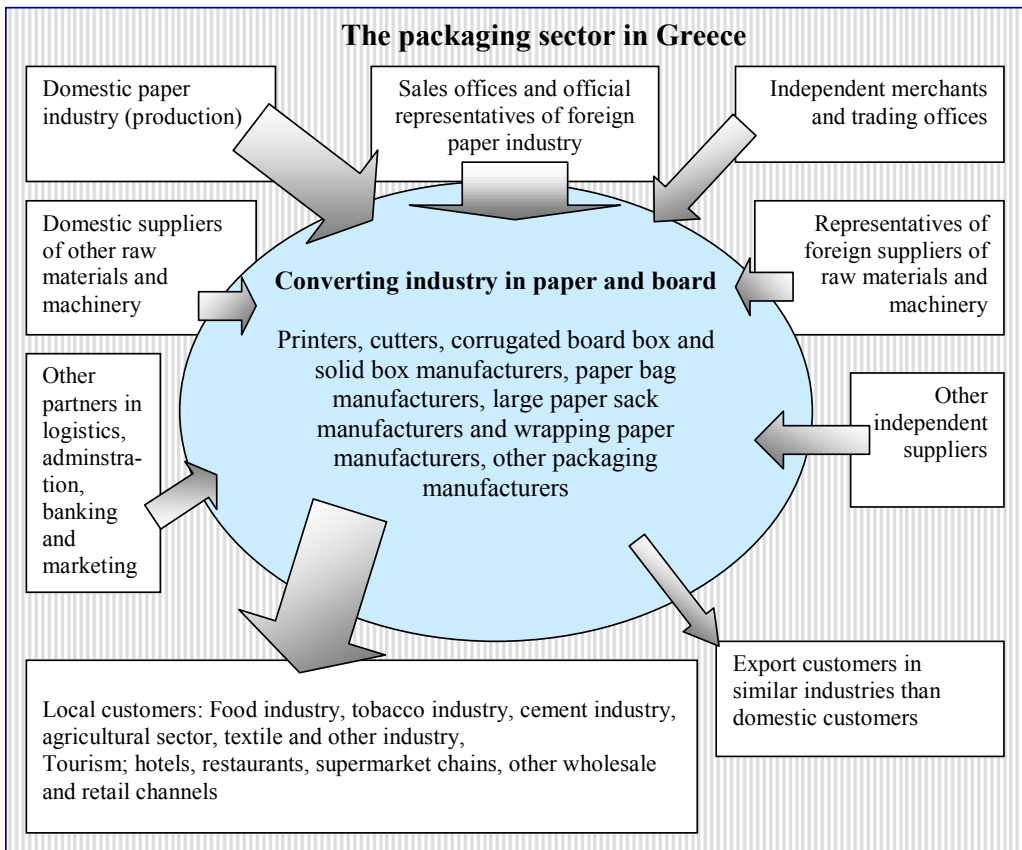
If simplified, the Greek paper business serves mainly domestic customers with foreign customers representing the second level. The industrial customers' customers form one

⁹⁵ UPM Kymmene's sales office in Athens starts in January 2005.

⁹⁶ Complex nature refers to the activities and functions of the converting and trading business, which stretch across various other industries and sectors.

service focus. The paper trading activity is vivid and versatile, but the proportion of export trading is less significant. The printing sector in Greece shares similar characteristics with other European printing sectors, but the packaging sector has more country and market-related features. See Figure 5.5. The packaging sector in Greece (Note: the thickness of arrows symbolises the importance of the relationships for converters).

Figure 5.5. The packaging sector in Greece



5.8. Summary

As a summary of the trading context it can be noted that Greece and Finland are not vital trading partners for each other, they have a limited trade history and the trading is concentrated on a few categories of goods and services.

The paper business is one key category in the history of Finnish-Greek trade relations, which stems from the import orientation of Greece and the well-established sales network of Finnish paper companies. The Greek paper-related industry is rather dependent on foreign raw material and foreign supplier relationships.

The increasing competition and emerging groups of new business actors has forced the locally active actors to redefine their strategies. The development in the packaging and printing industry shows the growth potential that is being exploited increasingly by foreign firms and groups. Despite the significance of foreign suppliers, the paper business in Greece has retained its Greek character. Patterns of business and business relationships have local characteristics.

The forces originating from globalisation and pressures for further internationalisation have pushed the Greek SMEs to anticipate the new challenges. The proportion of SMEs in both countries forms one main source for growth and development. Still, despite their number, the direct business relationships within this SME sector are still in a rather introductory phase concerning the level of international activity and most business is carried out by the well-established, experienced actors.

6. THE DEVELOPMENT OF THE FINNISH-GREEK BUSINESS NETWORK

The focal firm, a paper trading company, is studied analysing its internationalisation process in terms of its entry, further development and integration into the Greek market. This is clearly defined as a market area⁹⁷ representing countries of greater psychic distance from one another. The focal firm (paper merchant company) has already existing operations in other European countries, therefore this focus exemplifies the “second wave” of its internationalisation process illustrating aspects of both international expansion and integration. It is interesting to see how the focal firm increases its degree of international expansion, and also its degree of international integration by using its business network.

This analysis follows the focal firm (called Seller 1, Seller 1a and Seller 1b in progressive stages) and the development of its core relationship with its Greek business partners as a part of this specific internationalisation process. Due to the complexity of the process, the overall internationalisation process of the focal firm⁹⁸ is not included, only a geographically purposeful view of it. Still, this does not diminish the importance of such market-focused studies since the overall internationalisation of this firm can be understood by studying the sum of its parts.

6.1. Description of the case network: An industrial SME network in the paper trading and converting business

This chapter presents an empirical case, the evolution of a firm’s internationalisation process within a new market area through an industrial business network. The focal firm is Finnish, and the focal business net stretches across Finland and Greece being involved in the manufacturing process in the paper and packaging industry. The focal net consists of Finnish and Greek independent⁹⁹ companies, which are connected to an industrial manufacturing network as suppliers, manufacturers and traders. The focal net consists of SMEs, although in the larger business network there are large firms and MNEs. Here the business network has two dimensions: it represents actors having a more stable presence in the network (intentional partnerships and collaborative relationships searching together for opportunities) and it represents a continuously changing and evolving group of actors (self-emerging and -

⁹⁷ Market area here refers to the arena of activities, the focus. Naturally the Greek development is intertwined with other areas and therefore not an isolated phenomenon.

⁹⁸ Secondly, the operations of the focal firm in other markets may vary and be differently organised, therefore they *per se* are not comparable.

⁹⁹ Independent here suggests that the firms have independent decision making procedures. It has the meaning of not being strongly limited in activities due to any alliance or ownership configuration.

organising nets of actors based on anticipated opportunities, which attract a group of actors that join together to exploit the opportunity).

There are both strong and weak ties among actors, which in this business network have mainly loose connections (through business relationships, not through strategic alliances or contractual agreements) to each other. Some firms may have interlinked agency and consultancy agreements. The firms therefore represent theoretically independent companies.

The driving force for the existence of the cooperation and trade configurations, i.e. the reasoning, stems from the activity structure that exploits business opportunities. Many of these firms have complementary activities and functions. Here the firms may perform a necessary activity in their value chain by using the resources of the business net, i.e. they may transfer and transform resources. In an industrial sense, most of the firms in this business net are unable to exploit opportunities alone since they are too small or have limited resources. Due to a lack of alternatives, some connections between actors involve notable, but fairly invisible activity-related dependencies.

The research case has a dual emphasis; it examines the development of the firm and the business net by examining it through two perspectives, Finnish and Greek¹⁰⁰. There are two actor groupings, which are selected as the focus of analysis: the Finnish Group around the focal firm and their Greek counterparts.

The Finnish focal company evolves internationally, it changes its legal form and ownership, but the core individuals remain the same. The Greek focal companies change more during the research period. The study is structured on the business relationships, the focal dyads, which the firms have between them, focusing particularly on the buyer-seller relationship and those relationships that have a visible and significant impact on the development of the firm.

A focal Seller-Buyer dyad - the Finnish export unit for paper and board and the converter partner in the Greek target market - functions as the descriptive backbone. This is the original key relationship linking the two geographically distant and separate business networks together. However, to understand the development process of the focal firm in this market, other related relationships need to be included.

Already the first initiating connection is not of a direct transactional nature, but rather an intermediary one. Therefore a dyadic approach is not adequate for this research problem. A network approach offers more suitable tools to study and analyse the complex

¹⁰⁰ This has methodological implications as the research does not present one view only on the development process, despite the fact that the focal firm's view serves as a tool for limiting the research context, not its content.

interconnections, which generate business and form the channel of activities. The relational structure and the evolution of activities are strongly intertwined in this case study.

6.1.1. Model of analysis

Here the *Seller* comes into focus in terms of the internationalisation of the firm, it forms the backbone for the study. The focal net selected consists of the firms having central roles in the internationalisation development. The firms studied are:

- The Finnish Group of companies (Group FI)
- The Finnish paper and board trading company (Seller)
- The Consulting company (Agent)
- The Greek partner (Partner GR)
- The Greek paper converting company (Buyer)

This introduction to the empirical focus of the study provides the basic simplification of the focal net. The main criteria for the selection of the firms are: *the firms' roles and positions*. The structural definition of the focal net evolves as changes happen. Other criteria for the firms are their *long-term approach* for doing business together and *their importance for the network*. Since the business has to a significant extent the nature of non-standard business¹⁰¹, it automatically reduces the possibilities for steady long-term supplier-customer relationships.

Each secondary focal dyad has its own importance for the business net development, in the form of a relationship, activity content and the ability to control or possess resources. The focal relationships, the focal dyads (A, B, C, D, E, F, G) are marked with a line, see Figure 6.1.:

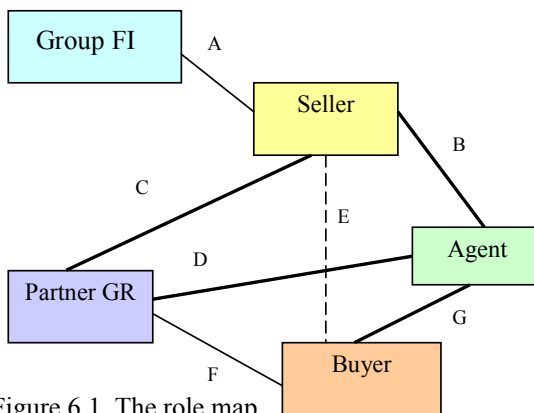


Figure 6.1. The role map

¹⁰¹ Non-standard business includes stock lots, warehouse qualities, side-runs, second quality papers etc.

The focal net is defined on the basis of the functions and roles of the firms and named accordingly: Group, Seller, Agent, Buyer and Partner. The specified “roles” describe the activity, the function and position (cf. Henders 1992) of the firms in the focal net. The roles may vary and some firms may have multiple roles and functions. In this case the categorisation is made having the specific business net as a guideline¹⁰².

The dyads represent different tasks and functions; therefore it is difficult to determine if some of them are more crucial than other, only more strategic¹⁰³ (see the thickness of the line in Figure 6.1.). It can be considered that dyads A and E are more structural and typical in content than the other. The dyads B, D and C connect a strategic team of actors, and the more transaction related dyads G and F represent the industrial and manufacturing related connection. The importance of each dyad evolves during the research period, for example, dyad A was relatively insignificant in the beginning, but the connection of the Seller towards its owners increased in importance after 2002.

The relationships between the firms change and modify their content as the context changes (cf. Henders 1992, Snehota 1990). A simplification of these relationships assists in following the flow of changes. The analysis of the focal net is based on these dyads, where elements of key importance are identified:

Dyad A: the relationship between the mother company and the trading firm (direct ownership features). This relationship denotes the strategic dependence of the Seller on its owners and the asymmetry in resources. Key importance: ownership and control, financial and information-related resource base, link to the “mother net”.

Dyad B: the relationship between the Seller and Agent. Notable degree of interconnectedness and interdependency colours the relationship which has a strong market related business character limiting it to its context. The relationship involves numerous tasks and functions. Key importance: sales and marketing activities, customer care, process coordination, customers as assets, information resource base, connections to the opportunity structure.

Dyad C: the relationship between Seller and Partner. Partner has a particular strategic position in the net, which influences the focal net development. Key importance: Control, process management and planning, ownership of resources, connecting the two sides of the net.

¹⁰² Note, that the net evolves and the Buyer in 1995 is not the same firm as the Buyer in 2004

¹⁰³ strategic here refers to the role of the relationship in the development of the focal net. It refers to the relationships that share plans and concerns for the net as such, not only on the level of the firm.

Dyad D: the relationship between Agent and Partner. Key importance: The business functions, communication, coordination and management of the activities, products and sales processes. It is the resources allocation link as well as communication, interpretation and information channel.

Dyad E: the relationship between Seller and Buyer. This is the “theoretical focal dyad” as the broken line depicts. As in this case the dyad E does not have an active role except the transaction documentation and payment. The relationship connects trading with manufacturing and represents industrial purchasing in all its complexity. Intermediary roles have a strong impact when involved in this type of relationship. Here the opportunities are process dependent. Key importance: Physical products and processes, flow of material and possession of production related resources. It is the purchasing, manufacturing and material process link.

Dyad F: the relationship between Partner and Buyer. This dyad includes control over sales, material and part of processes. Key importance: Ownership, co-production and sales knowledge possession. The link represents the level at which primary tasks - warehousing, production and material info - take place.

Dyad G: the relationship between Agent and Buyer. The relationship represents the possession of the customer-related knowledge and processes in connection with end-users, such as retail chains. The middleman, Agent, connects Seller and Buyer. Key importance: Sales, material and process flow control. The handling of process- and machinery-related issues and limitations are aspects of this primary task relationship.

6.1.2. An introduction to the industrial setting and activity structure

An analysis of the overall setting, which includes the wider external environment (macro environment), the business network environment (secondary task environment), and the business net structure (primary task environment), is limited to some basic descriptions.

The macro environment as a geographical, cultural and industrial dimension is briefly introduced in Chapter 5. The business network environment is briefly described here, emphasising some industrial characteristics, such as paper trading, packaging and the converting business. Each of the business areas has its own overall setting and characteristics. It is too superficial just to label the case by merely defining the role of the paper industry in an international business network. On the other hand a detailed description of these business fields would exceed the limits of this research project. Therefore some aspects are included here for those not familiar with these industries.

Paper trading can be divided into three main categories: Standard business with a primary source, i.e. paper mills, standard business with the secondary suppliers, such as representatives, wholesalers, etc, and finally non-standard business, which includes job lot business, stock lot business and warehouse business (see more in Siitonen 2003; Håkansson and Waluszewski, 1997). The study concentrates on the secondary level of supply and non-standard business (such as warehouse qualities, stock lots, starting-run qualities, side-run qualities, semi-finished/finished products and other).

In this study converters are firms involved in the manufacturing of finished or semi-finished products for the industrial or business-to-business customer (see more in Olsmats, 2002). The range of activities is large: some converters cut and rewind reels into smaller reels and sheets for manufacturers, while others produce end-products, such as PE-coated paper bags. Some aspects of the business particular to the Greek paper sector are that relationships are highly valued and trust plays a very significant role. In many cases, the supply channel appears as a choice with only very few realistic alternatives. For these SME manufacturers the relationship with a supplier represents a commitment made as an exchange of trustworthy cooperation. Also larger customers in other aspects of paper conversion, such as printing, share this concern with supply relationships. The switching of suppliers is not only a financial topic. Firms which have transactional relationships with suppliers may easier change a supplier than firms which are tightly connected to their suppliers.

The paper and board conversion business is a complex network of suppliers, partners and customers all functioning in a business environment where some aspects of business, like production methods and materials, are highly regulated. The chemical substances of paper and usage, consumer packaging and, especially food and cigarette packaging, are controlled and regulated by external forces such as laws, directives, regulations by health and consumer organisations and ministries (see Chapter 5). Many converters (Buyers) are tightly connected with food packaging business in this study, which makes their processes dependent on the regulatory system and its changes.

The network context where these paper converters are embedded is highly differentiated in terms of technology and capacity. Some paper converters are large resourceful actors involved in wholesale or printing and using technologically-advanced machinery, while others are small family businesses mainly based on particular skills and using relatively old low-tech machinery and methods, without the capacity to utilise modern technology. Resources are both tangible (such as material, machinery and facilities) and tacit (such as knowledge, customer relationships and indirect connections) assets. The market

includes a variety of separate field of businesses and firms that have parallel competitive, cooperative and co-opetitive relationships. It is easier to base the categorisation of companies on the activity and resource structure than on the level or type of technology.

Paper conversion is by definition a sort of business sector that has characteristics of both vertical and horizontal networks (see Chapter 5). The actors must be integrated not only with their suppliers and customers, but also with their subcontractors and co-producers. Otherwise they will not function efficiently. The converters here are embedded in a web of relationships that greatly determine their function and opportunities.

There is a multitude of different functional and relational interdependencies in this business environment, which indicates that the effects of third relationships are indirect and direct. Often the structure of relationships in the wider network environment is very asymmetrical in terms of power and influence. The development of the paper industry into large groupings and the small size and diversity of the converters has an inherent imbalance due to the enormous difference in their resource and opportunity structure. The on-going development of strategic groupings both in paper production and distribution implies that the large groups have the possibility to form and guide the market-related aspects to which the SMEs have to adapt.

In this network environment the pace of change and development, especially in machinery and other technology-related aspects, is considerably slower in the converting business than in the paper and printing business. The small unit size, the ownership formation, the financial and other resource structure and topical/domestic nature of the business is causing a profound change in the strategic orientation of the converting industry along the same lines as in the paper industry - internationalisation, networking, growing by acquisitions, specialisation. All the other players in the paper industry have had to adapt to the fundamental reorganisation of resources that has taken place in international paper producers, i.e. the mills.

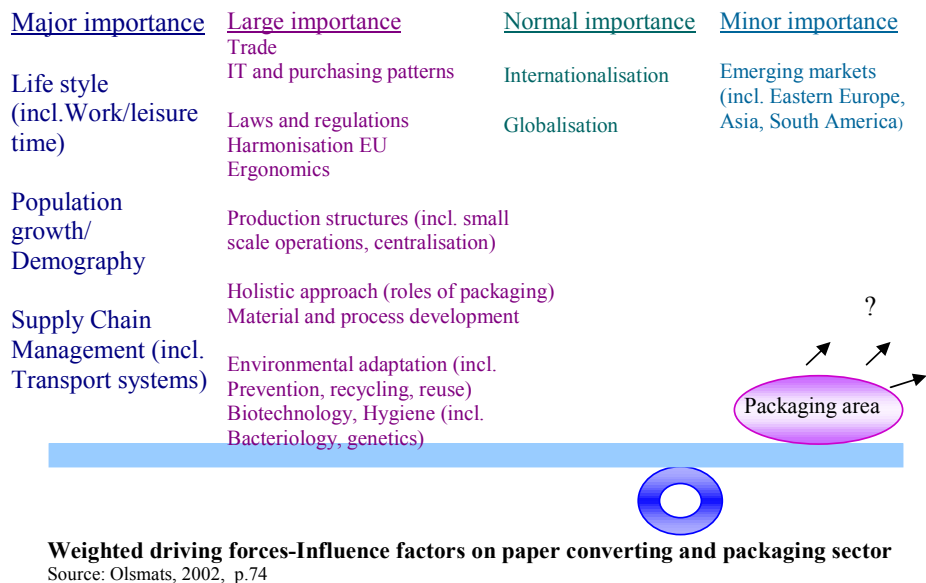
This focal net is not producing paper, it is only trading and converting paper further into products, such as wrapping paper and magazines. Still, the types of activities that the actors carry out are numerous. The primary types of activities are various manufacturing activities, transportation and warehousing activities as well as sales and marketing and other process-related activities. Secondary activities are the ones that have only a supporting role.

In the highly competitive environment of paper business companies are forced to identify and obtain growth opportunities by developing both their existing markets and new market areas for their existing products and by developing new types of product solutions (cf. Kotler & Armstrong 1991). When examining the flow of products in the industrial value chain

it seems that there are some common elements: for different products/material or services different competitive factors determine the customer's choice of product (Olsmats 2002). Olsmats (2002, p.54) discusses the role of criteria that makes the customer consider an offer (paper, raw material, etc) in the paper converting and packaging business. There are two types of criteria: "qualifier"-criteria, which makes the offer into a possible alternative in terms of specifications and suitability (they are the necessary characteristic, for example, ISO 9000) and "order winners"-criteria (better than the competition in some aspect), which includes those competitive factors that make the customer choose a certain alternative. He highlights the important point that both criteria vary according to the customer and product.

In this focal net the limitations of machinery often reduce the qualifier-alternatives and exclude trading opportunities. A Buyer's change in qualifier-criteria may have drastic impact on the activities of the other firms in that business network. But on the other hand, due to the accumulated dependency and interconnectedness, a minor change in the order winner-criteria may be ignored temporarily. Understanding firm's position in the value chain is an essential factor in analysing the focal net. The value chain provides a systematic way for analysing activities and interaction between companies from a two-dimensional perspective (e.g. Porter 1985). Porter's model consists of activities which are performed to design, produce, market, deliver and support an offering or a product and to create margin. Olsmats' study (2002) argues that in the paper converting and packaging industry the network development, specialisation and concentration on core activities will result in fewer closed-company constellations owning an entire value chain. He sees that there will be demand for open platforms, e.g. reuse systems, but that this development will also mean increased demands for the control and administration of reuse systems. Public tender-related activities as well as other occasional project-type activities are often open platforms that lack continuity and future prospects. Particularly in printing and packaging digital-printing technology has enabled the consumer packaging to be highly local with customer requested adaptations while the raw-material is distributed in bulk. Olsmats (2002) identifies the key driving forces affecting the converting and packaging business, see Figure 6.2.

Figure 6.2. Driving forces



While the driving forces illustration presented by Olsmats (2002, p.74) shows important influence forces, it stimulates further questions. The applicability of the illustrated model is focused on very different markets¹⁰⁴, unlike Greece, where the market is strongly influenced by internationalisation and emerging possibilities and less by the life style or demographic aspects. The fact that environmental trends and enforcement of regulation lag somewhat behind also has an impact. The multiplicity of forces having an impact on the focal net is significant. There are many types of forces having different origins and different influences on the development of activities. The position of the converting industry in a value creation constellation is complex, incorporating various firms, activities and parts of industrial processes.

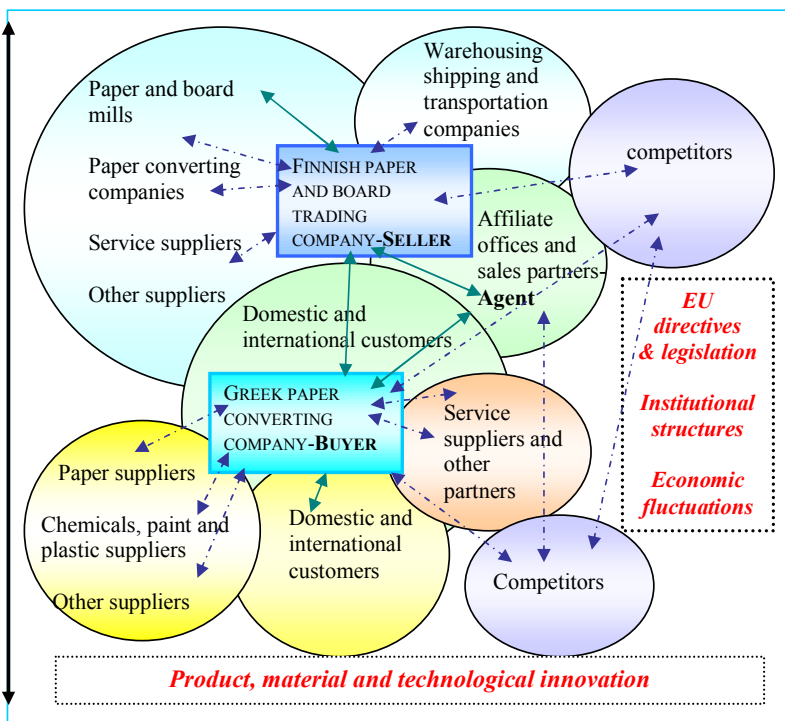
6.1.3. The overall network - A mapping

The network structure of the research case entails an evolving constellation of actors, activities and resources. Despite these evolutionary changes some core elements can be identified. The focal net structure illustration divides the actors into groups according to their roles and positions in the value chain continuum. This may represent a simplification of a general network horizon in a particular phase of the continuum. The Seller and Buyer are seen

¹⁰⁴ Olsmats' study is Scandinavian-based, not built on multi-market basis

as central actors¹⁰⁵ in this business network mapping. The key activity links of the study are represented by non-dotted arrows, see Figure 6.3. Dotted lines illustrate the activity links, which are not the focus of the study but of vital importance for the functions. The arrow on the left symbolises the vertical activity continuum of the focal net. It shows how the goods and transformation proceed. It should be noted that this is not including the complete industrial network, only a piece of its continuum relevant to the study.

Figure 6.3. *The activity continuum of the paper trading and converting network –the position of the focal net and dyads in the form of activity links from this Seller-Buyer perspective*

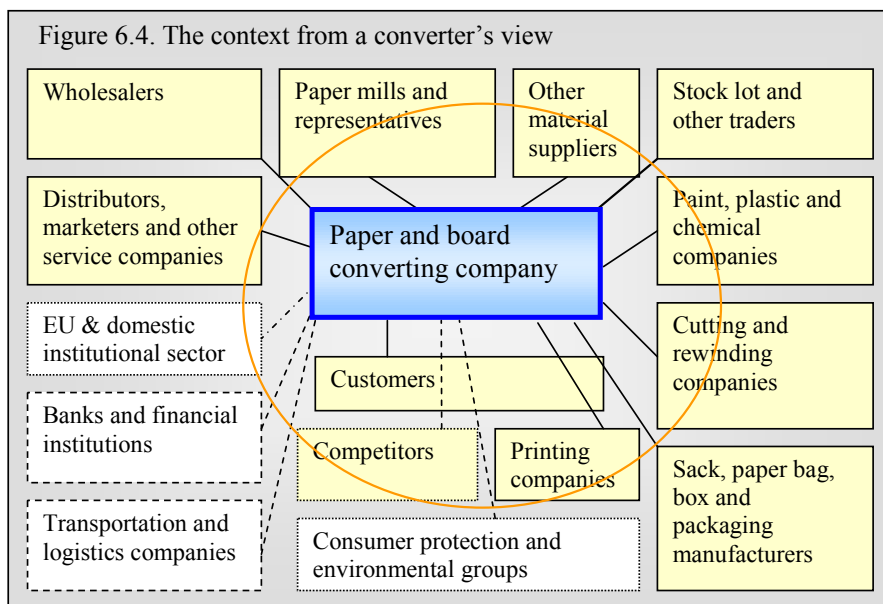


Both actors, the Seller (the Finnish paper and board trading company) and the Buyer (the Greek paper converting company), have their own networks that are complex, multiple and only partially overlapping. The focal net is “located” in an international market for the paper business where borders may have little significance. Customers and suppliers cooperate across markets and geographical areas. The selected business net is the analytical construct that limits the focus of the study. On the other hand it is adequate for describing network

¹⁰⁵ It is acknowledged that there is no real centre in a network (Ford 2002, Ford et al. 2002), but for the purpose of analysis some viewpoint must be chosen.

internationalisation process, which occurs through the growing integration and expansion of activities and the sharing of resources.

The network context illustrates the actors involved at the wider business network-level, in which a paper converter is embedded due to its resource and activity structure, see Figure 6.4. In this illustration the viewpoint of a converter is selected, since as these types of activities play a central role in the research case on both Seller's and Buyer's sides of the network. Figure 6.4. presents the actor context from a converter's point of view according to their role, position, function and activity. It illustrates a scheme for the basic actor configurations of a converting firm in this study.



In a business context each company has a specific network horizon that varies according to the type of business. The converters participating in the research case have identified a narrow horizon both geographically and according to the actors, since they emphasise the primary task environment, not the wider horizon. In Figure 6.4. the circle symbolises the network horizon and concentrates on the core activities, resources and actors, which is more limited than in the overall network context. Lines indicate connections and the dotted lines indicate a different nature of dyad having supportive or indirect characteristics.

The focal net firms are briefly introduced in Appendix 10. Firms in focal net.

6.1.4. Core definitions used

The definitions needed to follow the study describe the various activities, resources and actors in the focal net. In this part the definitions related to the business network are presented. General concepts and definition are introduced already in section 1.5.

Activities consist of trading, sales, marketing, exporting, importing, administrating, logistics, co-producing, subcontracting, and converting, i.e. printing, manufacturing, coating, laminating, cutting, rewinding, etc. Sales and export activities are sorted into general types such as standard trade, where business is carried out in a more consistent way, having regular characteristics and common criteria for products and related aspects. Non-standard business refers to the type of business where the products and material sold are not consistently available; they might originate from side-runs or starting-runs or be of lower quality. This type of stock lot business has its own constraints due to its transactional nature, which limit the possibilities for re-buy or regular supply.

Tangible resources consist of machinery, such as paper-producing machinery, rewinders, splitters, laminating- and waxing machinery, offset-, roto- and flexoprinting machinery. They also include other physical items such as clark trucks, warehouses (temperature and humidity regulated) and other logistic-related solutions.

Intangible resources consist of management, production, technical and marketing skills, foreign languages and education, experience and personal networks as well as knowledge and connections. Other critical intangible resources for firms in this study are their connections and relationships to materials suppliers and service suppliers, who in many cases have exclusive representation and may be controlling a significant supply item in the market.

Products related to this focal net are numerous, involving everything from paper reels to pastry shop packaging. Paper related product definitions are available at the Finnish Forest Federation.

Actors represent traders and converters (see more in Chapter 5).

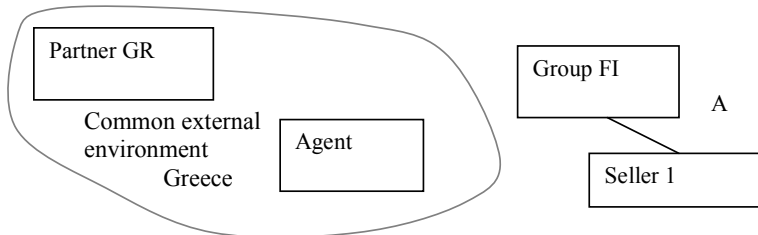
6.2. The development of the firm in the focal net: A narrative description and mapping

First, the evolution of the focal net is analysed. Then the internationalisation development of the focal firm is analysed, which provides a basis for combining the two overlapping processes. In this manner it is feasible to attempt to understand the focal firms, and the Seller's entry, expansion and integration process into the Greek market.

6.2.1. Pre-entry phase

At the starting point in 1994 the focal net looked like this:

Figure 6.5. Year 1994



There is no linkage between the two sides of the focal net and only one dyad (A) exists. Seller 1 is one of the subsidiaries of Group FI that has some complementary (to domestic activities) export activities, but no activities in the Greek market. Group FI is a Finnish group of firms.

The Greek Partner GR was a firm with long experience and an extensive contact network in international business. The owners of the firm had, both directly and indirectly, numerous inward, outward and cooperative activities¹⁰⁶. The Greek Partner GR that initiated the creation of the focal net was a consulting company owned and operated by two well-known Greek industrialists who were looking for alternative ways to increase their involvement with and stimulate development and efficiency in other companies they owned and controlled. Their plan was to diversify their business activities to create new potential and to involve their children as managers in these activities later on.

In the early 90's they had taken over (50% of ownership) a Greek family-owned packaging and converting business that they wanted to re-organise and develop further. This, Buyer 1, now a subsidiary of Partner GR, had mainly domestic operations until it became involved in the focal net and started regular inward activities.

Partner GR, its one owner, increases his investments in the Greek printing and publishing sector. He has a significant share in a daily newspaper, economic newspaper, and four magazines. His investment connections use more than 7000 tons of newspaper annually. His indirect connection to other magazines increases economic interest concerning the supply of paper. Partner GR is well aware of the characteristics of the industry and expects the Greek printing and paper converting sector to grow.

¹⁰⁶ The order of stages is not relevant for this firm since it functioned as a kind of hybrid firm controlling various firms and activities parallel to its consulting activities in business consulting and recruiting. What is relevant is the extraordinarily advanced level of internationalisation in general.

Partner GR and the Agent both do business in Athens, Greece. The Agent and Partner GR got to know each other through a social event, a business dinner, in 1995. In the beginning the link between the Agent and Partner GR was based on common business interests and location. It remained in a dormant stage and the two engaged in no common business activities.

6.2.2. Initiation of the co-operation and active search for a Finnish partner

Partner GR wanted to find a supply partnership that would fit into its subsidiary's (Buyer 1) activity and resource structure and provide strategic advantages for the development of it. The partner should be able to provide paper mainly to Buyer 1, but also it should be able to function as a potential supplier for other types of printing paper and other needs that were present through the connections of the two industrialists.

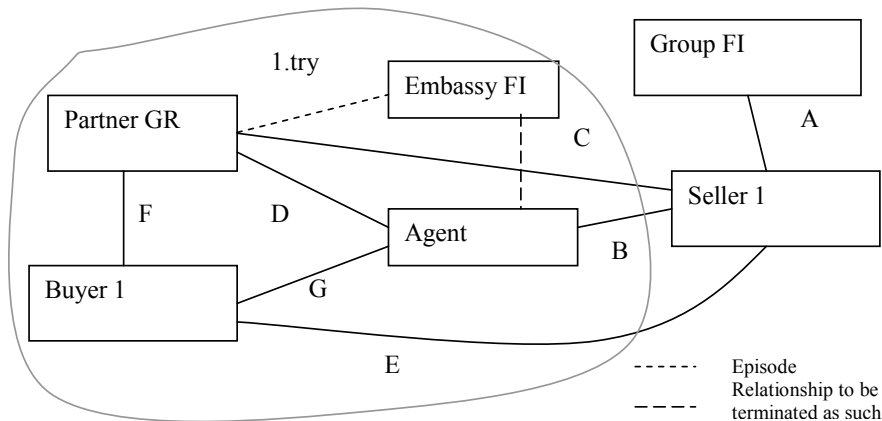
They had tried to find a partner from existing representatives within the paper industry, but had failed to find a satisfactory collaborative relationship. They were unsatisfied with the way their current local partners were treating them. Due to their extensive experience in international business and various other foreign partnerships they considered a foreign partner as an optimal fit for them.

Partner GR tried to find a solution for supply through the Finnish Embassy, but that did not provide any direct solution to their problem directing them back to the same representatives. Existing relationships were constraints for Partner GR. But through the embassy Partner GR gained information about other Finnish suppliers in general.

When the Agent was no longer in a contractual relationship with the Embassy, Partner GR contacted the Agent and contracted her to find a suitable partner, providing a list of products and potential partners of interest. Most of the potential Finnish partners identified were not feasible partners due to their network constraints, such as agreements on exclusive rights, representations etc. One potential partner indicated directly its interest to negotiate further. This partner (Group FI, Seller 1) candidate agreed to begin a business relationship with the Partner GR. The first focal net connections started to emerge in 1995-1996.

6.2.3. Emergence of the focal net

Figure 6.6. Period 1995-1996



The first structure in 1995 was based on a net where Seller 1 was a collaborative supplier supported by Group FI (dyad A), and Buyer 1 was a totally dependent (cf. homonomous in Hedaa 1999) buyer and producer, which implemented the plan of Partner GR (dyad F). However Buyer 1 carried out some parts of activities on production, sales and marketing and finance relatively independently, see Figure 6.6. Partner GR was the actor making decisions and functioning as a buyer in real terms, controlling the flow of material and other outbound activities. Partner GR aimed at becoming the exclusive representative of Group FI in Greece (dyad C). The Agent and Seller 1 coordinated the activities and communicated directly (dyad B). The Agent and Buyer 1 (dyad G) had very limited contact, mainly through control of the physical flow of paper reels and quality, due to the strong involvement of Partner GR.

Partner GR and the Agent (dyad D) undersigned an agreement for cooperation in the joint coordination of activities, such as promotion, sales and material flow control (adequate supply security) and new product and market segment analysis in 1996.

The beginning of the cooperation included heavy negotiations and an evaluation of possible products and alternatives. This first stage was characterised by uncertainties of several kinds. Additional delay in the trial stage was created by the strike of harbour workers, which led to a serious mix up in the delivery time table.

After a successful trial order test during the preliminary stage of cooperation, an agency agreement was established between Agent and Seller 1 in 1996, and continued in 1997. The expectation and duties became rather clear and defined as the partners clarified the complexity of their roles. The new supply system was successfully set in operation. It was important that the second order expectations were met, if not exceeded (cf. Marshall 2003).

The matching of the expectations and the non-economic satisfaction with the new relationship facilitated the creation of trust and the further cooperation of the partners (cf. Geyskens, Steenkamp and Kumar 1999).

The agent coordinated the cooperation and functioned as an agent together with Partner GR in the Greek and Cypriot market area, as agreed by both partners, Partner GR and Seller 1. The triad (Seller 1, Agent, Partner GR) entered the Greek market using the products of Seller 1 and the production, sales and distribution channels of Buyer 1. A further penetration into the converter market was planned and executed by Partner GR and the Agent.

1997 was a significant year of development, although the problems caused by the farmers' demonstrations on the main roads and the strikes at the harbours had a postponing effect. Some technical difficulties with banks (so called *plafon*) restricted the speed of operations and the unprofessional handling of documents in the customer's bank created obstacles. After these problems created by third parties, the payments terms were reformulated to increase customer satisfaction. Later the customer changed its bank.

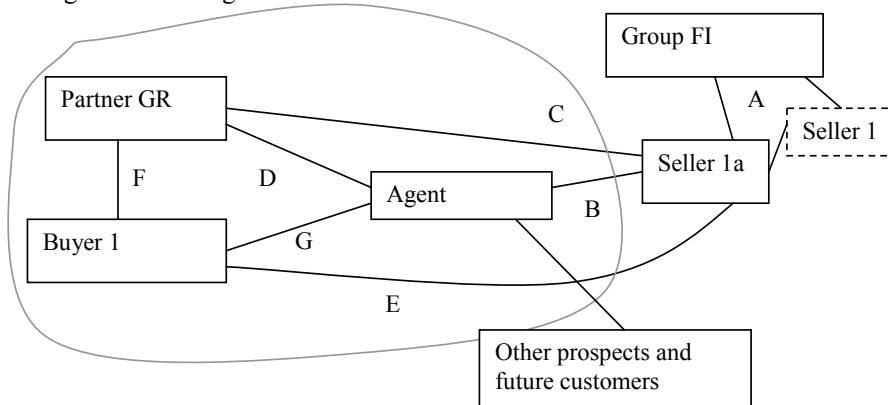
The Agent represented the triad for external customers in other segments of converting, printing and manufacturing. In particular, retail packaging and food products packaging were examined as future opportunities, and two large local supermarket chains were negotiating for the supply of wrapping paper. New products from another supplier part of the Group FI were examined and the firm approached. However, the machinery in Greece was inadequate to support the new technology in flow pack paper bags and this project was put aside for the time being.

Since Partner GR needed an external partner (referring to Agent) to cooperate in local sales and marketing, the plan was to develop trading activities in addition to just supplying Buyer 1. Partner GR did not have the possibility to carry out such activities and Buyer 1 did not have enough resources for sales of that type. Partner GR functioned as a "door-opener"¹⁰⁷ to some more closed market segments, such as the tobacco industry, that needed additional support. Despite the fact that the request and offer matched, cooperation in tobacco industry did not proceed due to conflicting ways of doing business¹⁰⁸. In other fields cooperation ran smoothly, new products were planned and local product modifications were discussed. Due to the market configurations and the fact that Group FI did not have the access to this level of business, the volume items in printing papers were not found, as originally planned

¹⁰⁷ A door-opener (*a meson*) is an actor who assists another actor to get into contact with a third one by using its connections. In market segments characterised by tight industrial relationships a seller may not be able to contact a prospect without a door-opener.

¹⁰⁸ Payment system linked issues were not accepted by the Finns due to their nature.

Figure 6.7. Change in 1997



Group FI started investing in trading and exports. It began redefining its strategy during the emerging and reformulation phases of the Greek market. The original idea of international trading as a supplementary activity was up-dated by forming a separate export unit representing Seller 1 in October 1997, see Figure 6.7. The new strategy emphasised trading, exports and almost all international activities of the original partner Seller 1. The activities continued under the newly established company, here referred to as Seller 1a. The personnel, particularly the export director, did not change; they were transferred to the new firm. They were now made more independent to operate and concentrated on the international trading aspect instead of domestic customers. Seller 1 continued its previous and other domestic operations.

6.2.4. A reformulation of the focal net

During 1997 activities developed further towards closer cooperation with Buyer 1 and increasing prospecting in various sectors of the Greek paper market. Packaging was selected as one key area of interest.

Together with many other prospects Buyer 2 was contacted at trade exhibition in 1997 by the Agent and later visited in May 1997 by both the Agent and Seller 1. Paper prices were increased by 7% in winter 1997/1998. Buyer 1 could not include the price increase as such to the final prices leading to diminishing margins.

On the 15th of March 1998 the focal net firms encountered a new problem as the Greek Drachma was devaluated by approximately 14%. After a few days the Agent was informed by Finland (Seller 1 and Group FI) to stop trading because Buyer 1 had several payments due and an immediate termination of ordered shipments would take place. The purchasing activities for Buyer 1 were carried out in reality by Partner GR, as the two firms very closely

allied with each other. Still, it seemed that Buyer 1 did not deliver accurate and prompt cash flow analysis and financial data to Partner GR.

The Agent informed Partner GR which started investigating the flow of information and the financial matters of Buyer 1. It became clear that the minority share holder of Buyer 1 had misled Partner GR to believe that it was taking proper care of its accounts, when in fact the firm was no longer able to take care of its financial obligations. Now the amount due for Buyer 1 exceeded the company's ability to pay. Due to the nature of the cooperation, the problem was directed to Partner GR. After a period of time Partner GR agreed to take over the debts of Buyer 1 and cover them from personal sources, due to the type of bond Partner GR and Agent had (dyad D), see also Figure 6.8.

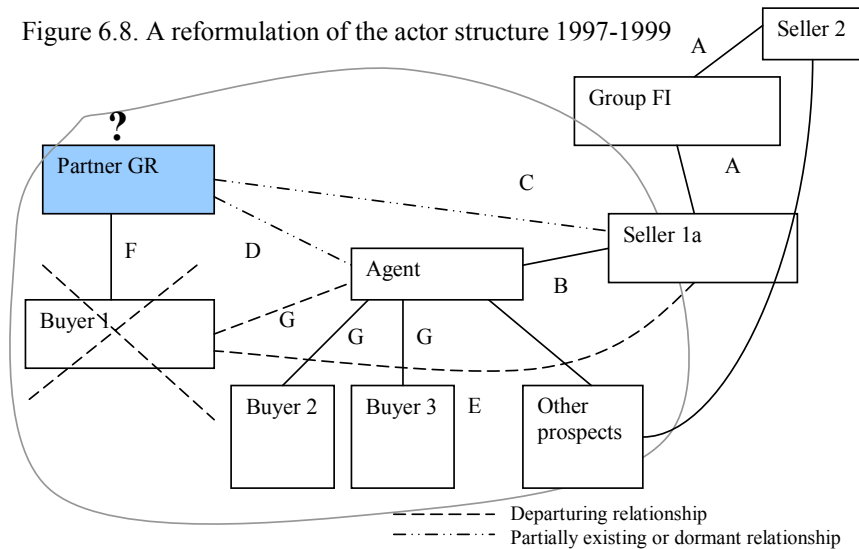
Before the situation looked bad in the spring of 1998 Partner GR, the Agent and Seller 1a had already started discussing the possibilities for enlargement of the business. Partner GR was convinced that a consignment warehouse was the key to success, since it would provide the necessary resources to supply SME firms involved in conversion, manufacturing and printing. This type of strategy was not consistent with the strategy of Seller 1a, and was not accepted.

After a given period of time, during which there were no transactions with Seller1, only with others who did not know the internal financial problems of the firm and continued selling¹⁰⁹, Buyer 1 could not overcome its ever-worsening financial situation and went bankrupt. As a result of the financial problems and the bankruptcy of Buyer 1 (1998-1999), the sales efforts were mainly directed outside the original target group, which was linked to the Partner GR through various ties of ownership or other connections.

During this transition period Partner GR made new efforts to make the Agent and Seller 1a the supplier for another connection, a daily newspaper. But the Norwegian offers were more competitive, making it unfeasible to accept a higher price. Since the Finns requested a bank guarantee, the attempt failed. Partner GR and the Agent endeavoured to introduce new products in other segments but, due to the difficulties, high prices and decreasing interest, the cooperation was slowly leading to a dead end. The cooperation between Partner GR and the Agent deceased slowly as Partner GR did not have direct involvement any more with the sales and production; the reason for the cooperation had disappeared together with Buyer 1. Also, the key owners of Partner GR wanted to invest their time in other, more profitable larger-scale projects. Partner GR's role became a question mark.

¹⁰⁹ As long as a firm has not entered the "black list" of the banks, it has the opportunity to speculate with purchases of 3-7 months, while also knowing that its financial situation is unstable due to the long open payment terms and check payments (2-7 months) usual in Greece, particularly between local partners. After the first payment dispute with the bank often the whole constellation of payments due starts to unveil.

Figure 6.8. A reformulation of the actor structure 1997-1999



The Agent remained with the agency originally planned to be the activity of Partner GR. Partner GR no longer had any significant interest in this activity, but the Agent had already started to widen the scope of the activities during the trading activities and additional contacts had been actively initiated.

In 1997 another firm (see Other prospects in Figure 6.8.) interested in Finnish paper products attempted to find paper products from Seller 2, also a subsidiary of Group FI. Seller 2 did not have those products available in such large quantities for exports and therefore the idea was forwarded to Seller 1a. Seller 1a informed the Agent and a new round of negotiations was carried out between the firm and the Agent. Due to the lack of adequate quantities, in the requested paper qualities, the attempts were terminated. Group FI did not have access to this type of consistent business.

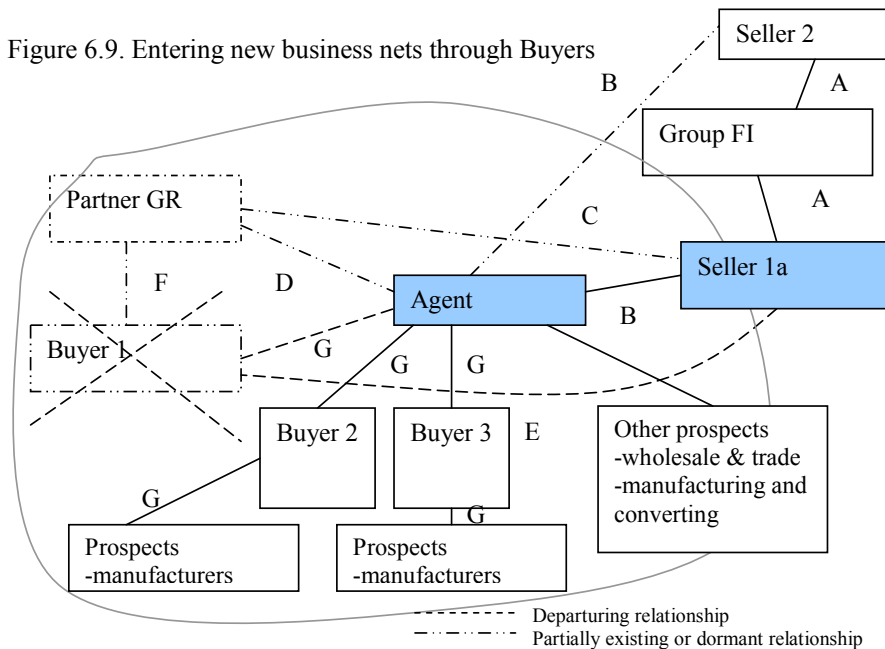
Also in 1997, Buyer 3 was actively seeking new suppliers via Seller 1a, which forwarded the request to the Agent. Numerous other firms discussed the possibility of cooperating with Seller 1a through the agency. Since there were already customers joining the focal net (Buyer 2 and Buyer 3), as well as a number of other prospects, the Agent continued the activities on a more limited basis, concentrating on some segments in the converting, printing and food packaging business.

The sudden lack of available resources caused by the withdrawal of Partner GR forced the Agent and Seller 1a to concentrate on more readily accessible possibilities, such as Buyer 2 and 3. During the transition period the activities were developing according to the strategy

to create close customer relationships and to supply them as directly as possible without, the traditional chain of numerous middlemen.

6.2.5. Strategic structuring within key partners

From 1997 through spring of 1999, there were numerous efforts to establish a network of long-term seller-buyer relationships and, when possible, to function on the basis of a customised stock lot business, supplementing this business with additional temporary solutions to cover customer needs. The requirements of customers and prospects did not easily coincide but the interest for direct imports in Greece was growing. Seller 1a and the Agent were entering local manufacturing and trading networks through their connections to new Buyers. Seller 1a and the Agent provided them with alternative solutions for normal standard business, see Figure 6.9.



After the turbulence created by the withdrawal of Partner GR and Buyer 1 from active business, a business relationship was established with Buyer 2. The firm was growing fast in the food packaging sector and after the trial period it wished to set up a regular supply agreement on a standing order basis. Buyer 2 distributed its new supplier-related information to its partners and the entrepreneurial network and started giving direct recommendations and suggestions to the Agent and Seller 1a.

New customer relationships and relationships with potential customers were examined during 1997-1999. It was not possible to realise many of these prospective relationships were not possible to realise due to the limitations of product characteristics and specific needs as well as the lack of standard business. There were no such export support programs that could have supported Seller 1a's efforts in exploration and exploitation of business opportunities. All subsidiaries of Group FI faced the ownership problem in applying for support, when calculated together the firms of the group became too large.

Buyer 3, a family owned company in the packaging business, already had business relationships with Finns. The firm was keen to enter new product areas. Serious efforts to train and integrate Buyer 3 were made. A manager (the son of the owner) visited the Pactec exhibition¹¹⁰ and Seller 1a and Group FI in Finland. Several categories of products were negotiated and the scope of products already traded with others stimulated interest.

Due to innovations by Seller 2¹¹¹, also a part of Group FI, these novelties were discussed and introduced to some potential customers already in 1997-1998. However, since the technology was not available for reasonable utilisation of the innovation, these product categories could not be marketed at that time. The relationship B (Agent-Seller 2) existed due to previous contacts, but it was in a dormant stage (see double-dotted line in Figure 6.10.). Nonetheless, this product category was receiving increasing interest.

6.2.6. The emergence of a business network on multiple levels

The strategy of Group FI seemed to change and the more established player in this business, Group INT, got interested in Seller 1a. A radical change was introduced with the merger of Seller 1a and Seller 1b, which seemed to be a perfect match for combining converting and warehousing resources with a globally-experienced network of sales offices that were supporting the structure of Seller 1b, see Figure 6.10. The role of ownership configurations was significant and one reason for the merger. It was believed that this merger would bring more resources and synergy for both sales organisations and boost their sales and capabilities. The merger agreement took place in May 1999. It triggered the emergence of a network structure that had multiple activity levels and dimensions combining the two groups.

As a result, the salespeople and customer relationships of Seller 1a were integrated with Seller 1b. The company is now called Seller 1b. This merger changed the nature of the cooperation in the Greek market. The image of a small family-owned company became more

¹¹⁰ Pactec Exhibition was a trade exhibition for paper and packaging business that took place in Finland. Group FI had a stand there and Seller 1a was also actively participating.

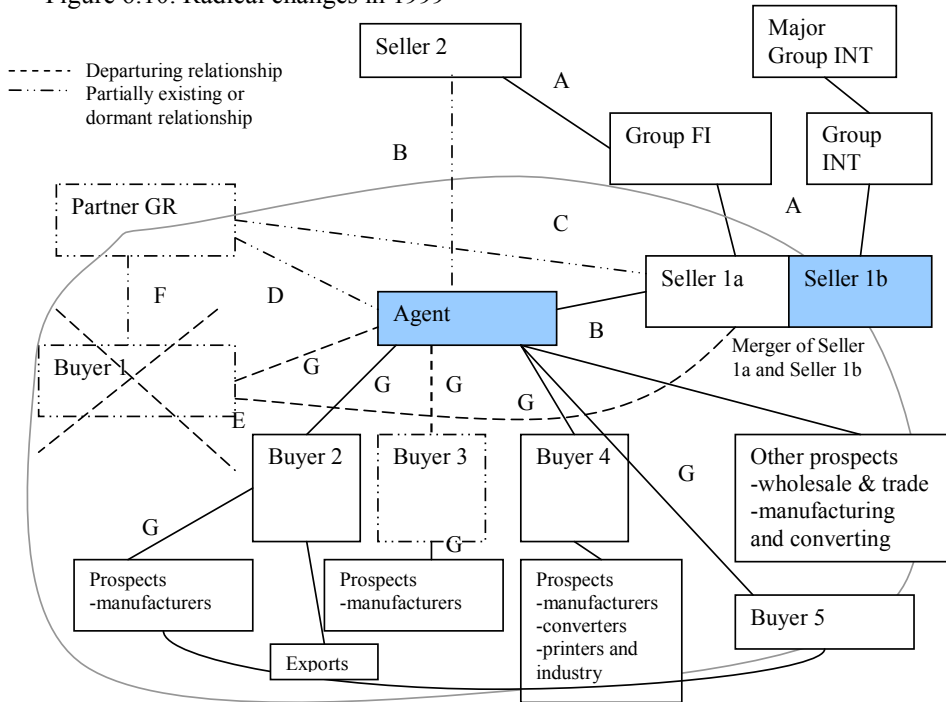
¹¹¹ Seller 2 is not the focal firm, only another subsidiary of Group FI.

faceless and inflexible; customers sensed an increase in the asymmetry of their buyer-seller relationship. Customers in Greece, all SMEs, could no longer be served in such a personalised manner by combining their needs with the offerings of Seller 1b, which led to a diminishing interest for business. Finally, Partner GR shifted its interest in other activities than those of Seller 1b (double-dotted line in Figure 6.10.).

Product categories were the same, but the offerings became more limited. For Buyer 2 the offerings became inadequate and its role developed more as a connecting link than a regular buyer, since it could not be supplied any more. However, despite the lack of products and a previous reclamation, the buyer-seller relationship had additional cooperative dimensions due to an ISO certification process, which assisted in keeping the relationship as an entrepreneurial tie. The transactional aspect of this dyad G disappeared, but entrepreneurial networking continued to identify opportunities or to share information.

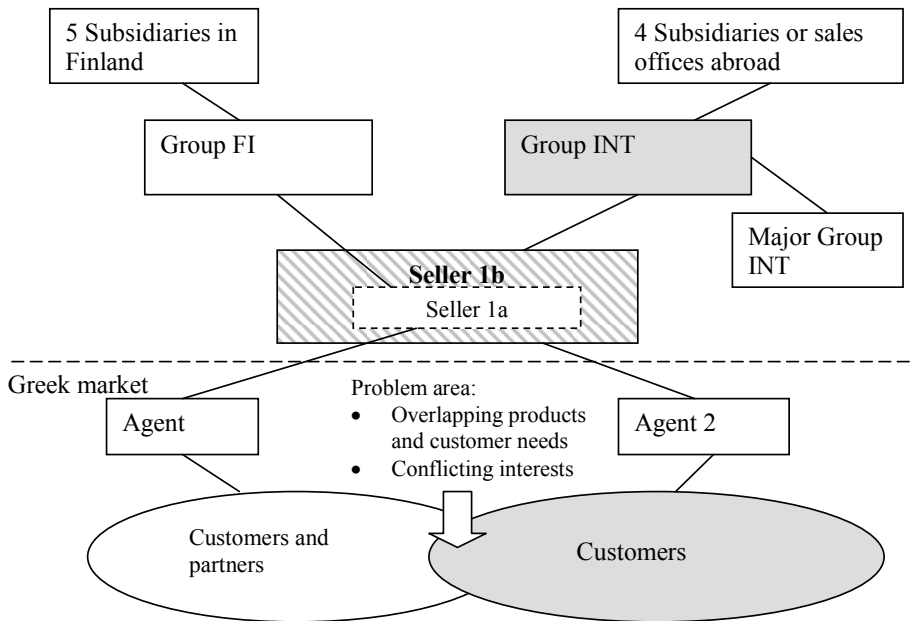
Another radical change occurred in relationship G between Seller 1b/Agent and Buyer 3. The attempt to integrate Buyer 3 as a sales channel-customer with the nature of a distributor to Seller 1a's sales network was terminated (see dotted line in Figure 6.10.). The nature of this type of cooperation could not work properly in the new situation, as there were not enough resources available to take care of the relationship.

Figure 6.10. Radical changes in 1999



The most radical change was explicated by the structure of the business network. For the first time in the history of this business net, there were overlapping interests in sales network activities (see arrow in Figure 6.11.), which created caution and uncertainty among customers, see Figure 6.10. and 6.11. The merger with Group INT brought the previous business configurations into the business network. Therefore there was not just Seller 1b, represented by the Agent, actively present in the Greek market (broken line horizontally), but also the other international sales organisation of Group INT and their previous Agent (Agent 2), with existing customers and activities in Greece in specific product lines partially similar to those of the Agent to Seller 1a. These activities of Agent 2 mainly concerned the standard type of business, where the importance of it to the Group INT and Seller 1b were significant. Therefore its product offering was not changed; instead the products offered by the Agent were adapted to the new situation and diminished. The pure stock lot trading as an activity imposed a serious constraint on serving the customer base in this focal net. The efforts of the Agent and merged Seller 1b in non-standard business became less fruitful.

Figure 6.11. The merger results in structural changes: The impact on the Greek market



The merger resulted in a change in strategy for the distribution channel. The Agent concentrated on the stock lot business and Agent 2 continued focusing on certain product groups for the packaging and printing industry on a standard business basis.

The cooperation and relationships within the focal net were affected, since the policy was directed towards job-lot and trading activities. This job-lot business meant that there was no long-term commitment from the side of the mills. The supply was irregular and highly cyclical. Job-lot business was based on stockholding and one-off business. This meant also neutral no-name business with limited guarantee. For trading partners this meant that also the long-term customer relationships could have only irregular supplies and pre-sold lots with irregular guarantees. Many partners did not accept these changes, since they reduced the special role of collaborative customer closer to that of a transactional level. Customers had the preference of working with a certain person concerning all types of products and activities. Many customers did not fully accept that they should amend their working methods to fit the new system.

Agent 2 had previously been engaged with the prime business division and these activities were maintained. Direct importer representation did not emerge in Greece since agencies typically served such sectors as manufacturing and the converting of paper products.

Agent 2 explained the way representations are obtained and how she got in contact with Group FI:

-Yes I did search actively, but after that, one sent me to another. Well, I started with two representations...Exactly, I was at Company X in France, where one previous director of Company Y had established his new firm. We agreed directly on this representation...they also had one subsidiary in Sweden and I got the representation for the Swedish firm as well...eee...that is the way how they start. The person is directed further. When someone was looking for a representative they said we send you to Mrs Agent 2. ... Or then you search directly for a certain representation.

Despite the limited offering of product categories and the change in the geographical position of the Agent¹¹² since early 1999 new customers were attracted to the focal net. But the prospects and potential varied. Buyer 4 had started its cooperation with Seller 1a and the Agent already before the merger. In the case of Buyer 4, her previous cooperation with Group INT's other sales offices abroad assisted in creating a buyer-seller relationship with the desire for regular imports. Due to Buyer 4's activities as an importer and wholesaler, it was actively searching for suppliers. The Agent obtained the first orders rapidly from Buyer 4 and established a personal relationship with the key decision maker just after the merger in May 1999. In this case, due to the extent of previous operations, the merger boosted expectations, although it also created some practical problems and complaints.

Later in 1999 Buyer 5 got interested in the cooperation as they were forwarded to the Agent by Buyer 2, who recommended the supply source. A process of identification for Buyer 5's needs was established and, since it was a manufacturing and converting company this was a continuously changing system of adapting and readapting to the needs of a customer's customer in the retail and food packaging sector.

The director of Buyer 5 states that the most important reason for the success in foreign business relationships and trading stem from the regularity provided by foreign (here referring to Finnish) trading patterns. He says: *...we aim at the situation, that we could create regular trading. That is important. In Greece you never know what happens... in a week, in a month anything can happen. Abroad it (trading) is different, that brings regularity, enables planning. It is catastrophic if you can not plan. (Interview, Managing director Buyer 5)*

The relationship with Buyer 5 became more interdependent due to its export expansion plans; it was converting Seller 1b's products and was exporting them further. The activities of Seller 1b became more involved in planning and managing the sales of horizontal product-based nets parallel to its involvement in classical vertical supply. New product types

¹¹² The Agent moved to Germany for private reasons, but continued operations concerning Greek market in Germany and Finland despite the distance.

and sales systems were sought out and applied to overcome the practical difficulties of the stock lot business.

6.2.7. Strategic changes in the business network on multiple levels

There were numerous product- and distribution-related changes taking place within the Greek market, but they were influenced by changes in other markets as well. Buyer 2 and the Agent tried to create a regular business relationship with standing orders to cover both specialty paper and paperboard needs of Buyer 2. But the attempts failed. The products were not available as they had been previously. The export manager of Seller 1b clarified: *"the price has risen drastically. But so the prices have risen in greaseproof in general. Many small central-European manufacturers have gawn down lately and the supply is therefore decreased and the price increased"* (quotation from fax. 29.7.2000).

Cooperation developed rapidly with Buyer 4, which imported paper to its own customer base and functioned as a well-established wholesaler in the Greek market. Expectations were positive on both sides. The role of this customer as a strategic partner was emerging, but later, in the early 2000's, the strategy change within this firm changed the situation. The relationship with Buyer 4 became dormant. When Buyer 4 sold part of its paper trading division to another significant wholesaler, it also sold the activity structure that constituted the cooperation with the Agent and Seller 1b. The key contact person was also transferred to the new owner-firm and a personal relationship between her and the previous partner, the Agent, was maintained.

Since 1999 Buyer 5 had developed into an important trading partner with regular purchases and serving as a good reference for other converters and manufacturers. The intense cooperation integrated Seller 1b tightly into its own business network. Its strategic emphasis towards the food packaging industry and speciality products matched the available product line relatively well, which enabled the development of a long-term business relationship on a buyer-seller basis. This relationship evolved further and the mutual exchange of market information and the sharing of business opportunities became common. The Agent assisted the firm in export-related activities and Buyer 5 introduced new customers and a new sub-agent candidate to Agent and Seller 1b. Buyer 5 got the role of the "testing channel" where new ideas and new product applications were developed and tested to differentiate products and to enable cooperation, although this was limited to the stock lot business. In some urgent cases also standard products are purchased through the Agent despite the more competitive

domestic supplier structure. Commitment is two-sided and the business relationship developed into a single supply channel for selected paper qualities.

The sub-agent was a latent player, who had a long background in the paper business and who had previously contacted Seller 1 for the creation of business opportunities, but on behalf of another company. Now the contact was acting as an independent agent and, due to his friendship and cooperation with Buyer 5, new business opportunities in the converting and printing business were being approached. The prospects seemed good and both parties expected the cooperation to grow. The sub-agent described the way business relationships begin and expand in content:

-it was the cooperation with Company E...that LWC paper...we tried to cover market needs and when you know the customer, after that you may cover first one thing, then three and then five things. (Interview Sub-agent)

The cooperation later became inactive due to difficulties that accumulated with one problematic paper delivery. The delivered paper was rejected by the customer since the paper grammage, that is, its weight, had such variations that it was not applicable for his machinery. This destroyed the sensitive balance of trust with the customer. It influenced the relationship with Sub-agent, and it created a practical difficulty since that paper lot did not match most of the available machinery. After the intercession of the Agent, Buyer 5 took an active role and bought the problematic paper lot. Buyer 5 converted what was usable from it in efforts to assist its Finnish partners.

It seemed that this trading system got too complicated to be handled via Finland, as some sensitive relations in the focal net among the Greek players (co-opetitive or concurrent relationships) and their local interests started to conflict. After a period of time the sub-agent-type of relationship between Seller 1b and the Customer/Sub-agent deteriorated due to unmade payments to the Sub-agent and it went into a dormant stage. However, dyad D remains as an entrepreneurial connection. The Agent continued informing and offering paper to the Customer/Sub-agent who in turn exchanged information with the Agent.

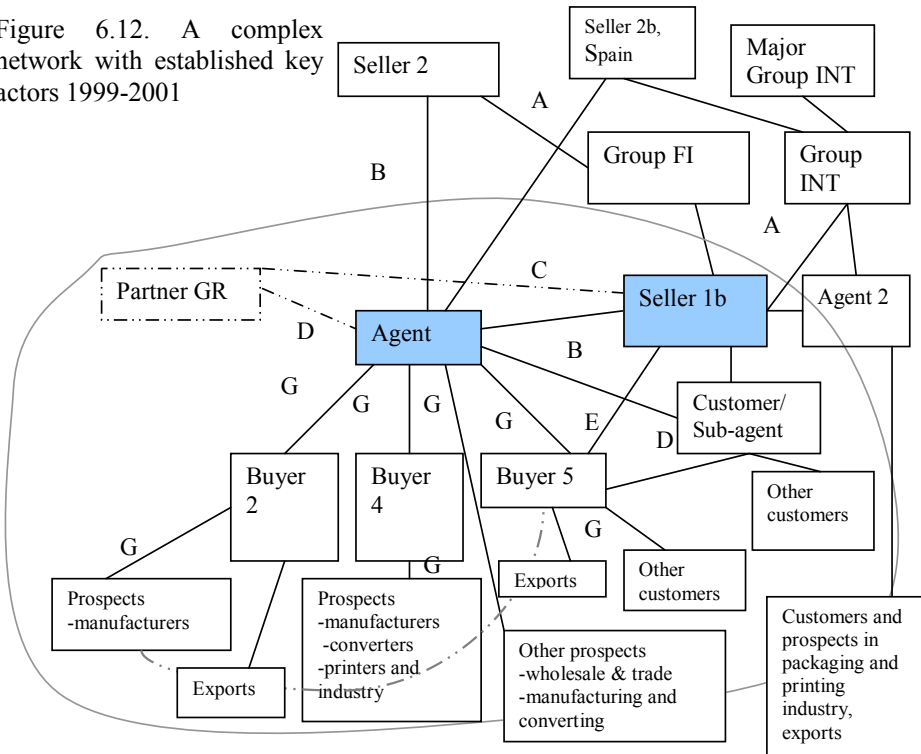
There were numerous changes in the Greek market in the early 2000's. The actor configurations were changing and the groupings increased in general. Agent 2 describes (interview 2004):

-That is visible here too, we had many changes, takeovers and mergers. Of course. That influenced us too. When SCA came, that had a direct impact on our sales, as SCA as a mother company did some sales organisational changes (in policies), which apply for the whole group. A part of my products have been left aside, because there is a central agreement in Sweden...Of course, these influence us.

Stora, which purchased Agropack... I say, that Agropack buys and warehouses only from Stora. It is obliged to do so, because it is its subsidiary. Yes, definitely these influence us. And that... when the stock exchange was booming we had 15 economic newspapers. Then people used to buy five newspapers each time, now it is good if they buy one. They (newspapers) just died. This influences.

The international development, but also the local factors influence definitely.

Figure 6.12. A complex network with established key actors 1999-2001



The unexpected change in Buyer 4 created a strategic gap that was not easy to cover. There were only a few actors in wholesale who had an interest in stock lots and only a few of them had a nation-wide distribution. Buyer 4 had been a key Buyer, see Figure 6.12.

The new wholesale company, which acquired the contact person of Buyer 4, was approached, but despite the efforts, the Agent and Seller 1b could not convince them to change their strategy and accept a non-standard business. On the other hand, the key role in paper sales occupied by the contact person and her basic interest in cooperating functioned as a motive to wait.

In the early 2000's the Agent and Seller 1b suddenly faced the situation of deteriorating sales, diminishing flexibility in product supply and fading customer relationships. The opportunity structure had changed radically. New players were emerging

rapidly in the Greek market and cheap imports from other countries were gaining more and more ground. Italian, Spanish, American, Indonesian and other Asian actors in the paper business competed for the same customers and the relatively limited interest of SME customers started increasing in the market as a whole.

As a counter effort the Agent attempted to cooperate with another Spanish sales office of Group INT, also a part of the same strategic group with Seller 1b. The contact person was previously working with Seller 1a and had been part of the working team with the Agent. The attempt was not successful due to the bad reputation of the original supplier of paper (a non-Finnish paper mill) in the Greek market at that time. The paper mill was not trusted and therefore the quality was not accepted by the customers who were interested in these printing paper lots.

In 2000 the relationship with Seller 2, part of Group FI, was re-established. Seller 2 was approached by the Agent to supply specialty papers for particular needs that were under development with Buyer 5. Buyer 5 penetrated new market segments in food packaging business. The product enlargement in these segments required new materials. The character of the speciality paper business was very limited and difficult, but at the same time potentially important for these firms.

A change in ownership influenced the strategic development further in 2002. Group FI is no longer the influential owner behind the strategy of Seller 1b. The key directors of Group INT decided to purchase the share Group FI had from Seller 1b. The degree of specialisation seemed to increase and the possibilities for general business to support customer needs became more limited. The firm encountered a service gap in relation to its standard business suppliers, which could not be counterbalanced by a price flexibility at the level requested by the Greek market. Spanish, Italian, Indonesian and other suppliers and importers, who concentrated more on aggressive pricing, were increasingly penetrating and gaining market shares in the Greek market.

The expectations of some customers for changes in implementing legislation related to food packaging were creating "black holes" (Hedaa 1999), where firms were just waiting for changes that did not happen¹¹³. Some firms, like Buyer 5, were keen to innovate and produce new types of solutions for the market in accordance with EU regulations. But many of the anticipated modifications in legislation did not take place. The firms could not properly plan

¹¹³ There are transition periods for the harmonisation of differences in EU and Greek regulations that concern consumer goods packaging in the food packaging sector. These differences concern, for example, the grammage of the paper. Therefore the implementation of these regulatory modifications are of major importance for the converters and the respective firms in food packaging.

their activities. One retailer clarified the effect of the legislative changes by noting: "*the laws and regulations are for the drawers in offices*" (Interview, supermarket manager, Peloponnesus). The manager implies that, even if the changes are made, their implication matters more. Uncertainty in the planning operations influences the relationships in the focal net. Most market actors continued operations as before since the expected changes were not implemented by the government.

The structure of the focal net organisation around Seller 1b developed further to a specialist organisation, where both vertical supply characteristics and horizontal co-manufacturing characteristics were combined. Greek customers found the strategic change in sales and distribution in many respects difficult to follow, since they were accustomed to long-term collaborative relationships. Concentrating on specific items in stock instead of flexible customer service conflicted with the sales and marketing methods and policies applied by the local competition. The marginal difference in pricing diminished in many product categories.

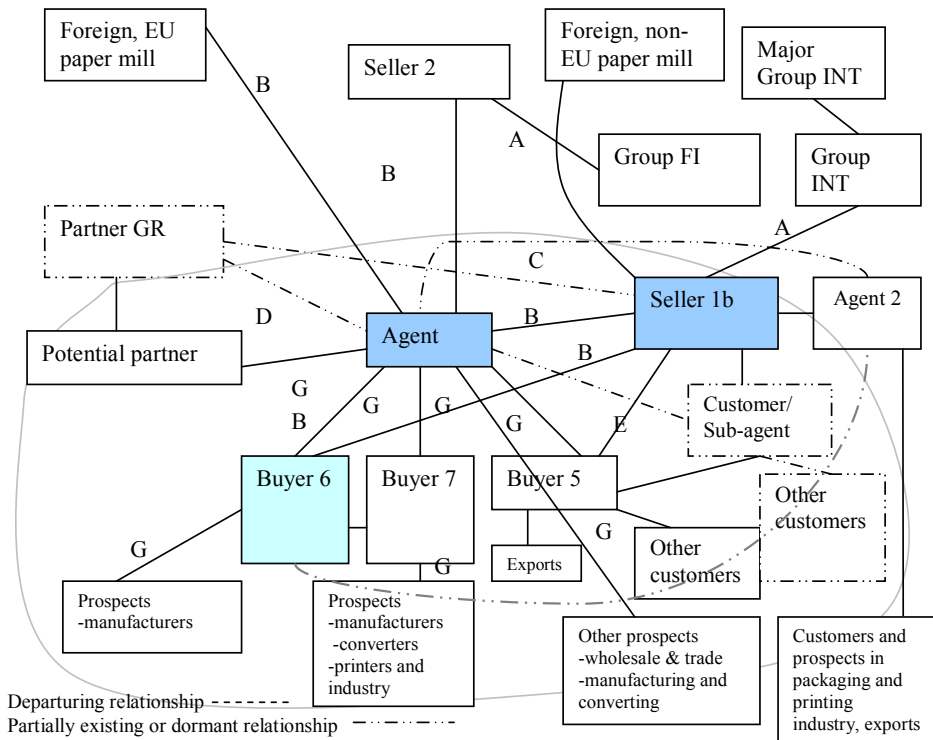
Due to the occurrence of the strategic changes the business opportunities for the connected firms in this business network deteriorated. New opportunities were needed to balance the constraints of being connected and committed to certain partners. Since Buyer 4 did not exist as a trading partner any longer, although the respective interest existed, a long process of fulfilling this gap was initiated by the contact person, who was transferred, and by the Agent. The Agent and contact person set the goal of establishing regular system of cooperation with Seller 1b in 2003.

In 2004 Buyer 6 was being created to supply SME printers, converters and manufacturers. Buyer 6 aimed to become a strategic sales and distribution partner for Seller 1b in Greece. It had a controversial relationship due to the previous activities of Agent 2. However, the Agent and Buyer 6 reconsidered the cooperation possibilities with Agent 2. As a result of the cooperation with Buyer 6, a relationship with Buyer 7 was enabled. Buyer 7 was a major player, which had previously rejected all attempts of Agent and Seller 1b to offer paper.

Seller 1b, together with its other foreign partners (Russian), was considering entering Greek market in 2004 with new products. Due to the existing relationships, it contacted the Agent to facilitate the market entry and establish regular customer relationships for this standard business, see Figure 6.13. This provided an interesting opportunity for the market, since the products in question were not available to the Agent and local production in Greece was not focusing on these types of paper. To support the efforts of Buyer 6, the Agent

followed her suggestion to search for additional suppliers of certain paper materials currently lacking from the product range. The Agent contacted a non-Finnish EU-based paper mill and became a limited representation for the mill in the Greek market. This representation was shared with Buyer 6 and Buyer 5 in terms of activities. A potential partner, a personal friend of Partner GR, discussed with the Agent the possibility for consulting and further cooperation. In autumn 2004 the results of these efforts were still unknown.

Figure 6.13. The focal net growth in 2003-2004



The market environment in the domestic business area (Finland) changed profoundly during 2000-2004; particularly the concentration and European development of wholesale channels influenced the situation. One European sales chain disinvests its part of Seller 1b and Group FI must adapt its sales system through original Seller 1, which functions on a domestic level. One Sales Manager in Group FI describes the development:

The expansion of activities in other product areas is limited due to principal firms; who sells to whom is pretty carefully defined. Wholesale centres restrict the activities; principal firms are having very influential position in terms of activities. The independent actors can be played out of market by chain development, in other words, they can not get adequate suppliers. The suppliers are committed to chains. (Sales manager interview 2004)

The trend has an impact on Seller 1b. Since 2002 strategic adaptations are made to revitalise the cohesion and function of the business network in a way that benefits the customer base and the supplying partners. Seller 1b introduces an advanced IT system to support sales, which enhances the matching of customer needs and available paper. Despite this, the overall development in the Greek market is not beneficial for the Seller 1b and Greek sales indicate a decline, see Appendix 8. (Finnish export and Focal firm sales and export development). Greek paper prices are low and the availability of suitable paper qualities is restricted. 2002-2004 Group FI and Group INT continue their operations as separate Groups where only occasional or secondary activities are carried out together. There are concurrent activities in the wider network structure of the focal net via ownership connections (Group INT and Major Group INT) that partially set the opportunity base of Seller 1b, blocking its possibility to serve customers with large regular volumes.

In the end of the research period it seems that, if the product range and pricing is adapted to the Greek level solving the supply problems of the customer base, most of the previous buyer-seller relationships could be restarted. The existing personal relationships, other long-term attempts and the usage of standing orders to find suitable paper qualities may assist in reactivating cooperation. The cooperation with Buyer 6, which solves an access barrier in the focal net, gives an impetus for re-activating many previously dormant seller-buyer relationships. Exports based on converted products are declining. Buyer 5 has resource problems and is unable to find assistance. There are no such export programs that could be exploited. In autumn 2004 Seller 1b's activities and customer relationships in the Greek market are entering a new phase, where a team of actors (Seller 1b, Agent, Buyer 5 and Buyer 6) is emerging for handling the Greek sales in accordance with the type of business. The role of Buyer 6 is rapidly evolving towards Partner GR 2.

A summary of the focal firm (Seller: Seller 1, Seller 1a, Seller 1b) development in a focal net can be presented as an evolution occurring in several phases:

- 1. Pre-face, in which the Seller 1 is a domestically-oriented firm with a domestically-oriented network*
- 2. An interest develops and the first business relationships emerge (Seller-Agent-Partner GR-Buyer 1)–first business net. Only small parts of the foreign net are internationally-oriented.*
- 3. The business net is reformulated and it develops further - focal firm expands its business net by adapting to changes. Both Finnish and Greek business networks increase their degree of internationalisation.*
- 4. Emergence of a network on multiple levels – the merger gives the focal firm a different, more established actor position in the foreign market. The firm has an international “domestic network” and the foreign network is increasingly international.*

5. *Network on multiple levels with horizontal and vertical activities expands-Strategic changes and complexity increase, and the focal firm's integration and product market expansion increase. The outcome is that Seller 1b has become an international firm with high degree of market expansion and integration. Both Finnish and Greek business networks have significant international activities both inwards and outwards.*

The strategic position of the focal firm changes as the firm evolves, a reactive strategy turns into an active/proactive strategy where the firm starts having similarities with born-globals, see Table 3.6. Indeed, the focal firm has co-evolved with its business networks, both domestic and foreign. It has also affected the international activities of its network partners.

The critical events and network effects, which constitute the evolution process, are analysed and presented in section 6.3.3.

6.3. The internationalisation of the firm in its network

The focal firm, the Seller, naturally evolves as a firm in a global context parallel to its evolution in the Greek market. In the Greek context its position and role evolve together with its network. The type of evolution that the firms in the focal net have in terms of the stages of internationalisation varies, but it is apparent that their internationalisation processes follow to a great extent the processes of their suppliers and customers.

The Finnish group of companies (Group FI), particularly the focal firm, Seller (Seller1, Seller 1a and Seller 1b), is of central interest to the development of this business network. The international activities of the focal net are mainly of a vertical nature. The Seller is the actor coordinating and deciding most of the activities. If it is not completely autonomous in terms of strategy, to a large extent it is independent in terms of ordinary managerial decision making. The Seller's role is instrumental and influences the development of its customers and partners, since it is a significant channel for resources, activities and relationships.

The study clarifies the characteristics of the Seller's internationalisation process. It followed an overall pattern based on an ordered progression of domestic-outward-domestic-inward-outward-cooperation stages (cf. Luostarinen and Welch 1990).

The Finnish focal group of companies (Group FI) started as a small family-owned company in the early 70's. Its operations were of a local nature, although it already had partnerships with many international companies.

The group has three fields of business: packaging products, subcontracting and wholesale operations. The group has grown rapidly and has changed its structure significantly during the past decade through continuous growth via expansion and acquisitions.

International activities have increased significantly in the last twenty years and today one of the focal firm's main business areas is international stock lot business. By 2002 the original group (Group FI) has grown to a medium-sized company with 350 employees and a turnover of 45 million Euros. Group INT is a globally-oriented organisation since its establishment, as a kind of spin off of Major Group INT and previous sales organisations.

After a merger with a competitor Group INT in 1999, the group structure changed. One part of the group (Seller 1a) was integrated with the merger partner's respective unit (Seller 1b). Some spatial and temporal overlapping of activities¹¹⁴ took place during the transition period. The original group structure (Group FI) covered six different units, all being fully-owned independent companies. Many of these subsidiaries and another five cross-owned companies carried out various international activities separately¹¹⁵ and were embedded in their own complex business networks according to the field of expertise (for example: converting, manufacturing, sheeting, wholesale, etc).

Another radical change in 2002 in the ownership structure changed the structure of the linkages of the focal company, as Group FI sold its part. The combined network context and horizon of these groups changed as a result. The core export unit (Seller 1b) continues its activities within the new structure in Greece; but again it suffers from a spatial and temporal overlapping of activities and actors, which appeared in some other markets, like Poland. In 2004 there are two independent groups of companies (Group FI and Group INT) operating in a co-existing manner. It is noteworthy that the key contact person, the export and sales manager, remains the same during the research process.

The consulting company (the Agent) remains independent during the research period. It does not have ownership connections to other firms and its obligations are in the form of agency agreements. The firm is a small family-owned consulting and trading company specialising in the Greek-Finnish business and acting in that field since 1993. The contact person does not change. The Agent's role is a supporting one, due to the limitations on its autonomy in business-related decision making (it acts on the existing supply and terms) and therefore it is not considered to be a main research target. (Also the limitations of the study exclude a focus on the firm "Agent"). This actor has a bicultural character.

The Greek partner (Partner GR) that initiated the creation of the focal business net departed later from the business net as its subsidiary went bankrupt (Buyer 1). Partner GR

¹¹⁴ After the merger the coordination and execution of certain activities were overlapping in the sense that the management and personnel had not a clear perception how to allocate activities and resources to actors. In the same market area there were concurrent activities originating from the Seller 1b itself.

¹¹⁵ refers here to firms being separate legal entities having separate activity structures.

was a highly experienced company on an international level as well. After that, new Buyers, Sub-agents and customers/prospects join the net. Buyer 6 seems to develop into a new core partner of Seller 1b in late 2004.

The summarised analysis on the individual firms indicates that the initiation of the focal net was done by relatively international actors or actors experienced in inward-outward activities. But after the initiation, the development of the firms into a real business net was a more locally-operated phase. After the preliminary achievement of established business relationships was completed, the focal net started to internationalise further to third markets.

The firm and focal net-level analysis is introduced in the next section.

6.3.1. The development of the firm

The internationalisation process of this firm "Seller" is not a process that is easy to define. First, the firm evolves through its activities, resources, connections and ownership configuration. Second, there are multiple overlapping processes both in time and geographical areas. When taking a limited perspective on one market and the entry and development process on that market, it seems evident that the firm's evolution is linked to a wider context.

A description of the development of the Seller and its structure is presented here. The description illustrates the role of its entry into the Greek market as a part of the firm-level development process. Greece was one of the first target countries with great business distance and therefore it has instrumental features.

The firm was originally established in 1973 in Finland as being a purely domestic firm. Channel and customer service net-organised subcontracting and service net for the paper industry functioned as the original business idea. The further development of converting activities and subcontracting made the company a key partner for the paper industry. The company grew rapidly during 1973-1980 and created a domestic net of subsidiaries and partners in a production chain for a number of product lines.

Between 1980 and 1990 this family-owned firm already had various independent units and subsidiaries, which were active mainly on a local or domestic basis. The customer and partner base of the firm consisted to a significant degree of international paper companies and large mills, but also of local SMEs. During the 80's and 90's the firm experimented with exports to its pilot customers. These experiments constituted the early internationalisation phase, during which time exports developed into an additional activity to the existing business, balancing capacity utilisation and fluctuations in the paper business. The internationalisation capacity largely stemmed from the company's experienced and qualified

personnel. The social and entrepreneurial networks of the managers assisted in exploring markets and exploiting opportunities. Despite the early attempts, the international activities did not yet follow an organised form. But they enhanced learning and the company's further evolution, opening new horizons.

In the early 1990's the company had developed into a group of companies having several divisions (subcontracting partnerships, manufacturing and converting and sales). Its strategy stressed domestic expansion into a new market: the paper and board wholesale business. Therefore resources were reduced from international activities, intentionally decreasing the importance of exports. It can be said that the company de-internationalised in terms of its outward activities. The development stemmed from the firm's network environment; its supplier relationships and services, combined with converter know-how, stimulated the strategic turn.

In the mid-1990's the company attracted a major foreign partner. The firm established organised import operations and started exporting again. A strategic partnership emerged with the foreign partner making one unit of the firm a core player in its market segment. This well-known representation further facilitated growth and gave impetus to the wholesale effort. The partnership meant a great deal since it provided access to large product resources and an established status in the market. Significant import operations were now carried out. The change generated a rebirth of exports as the network context expanded and new partnerships in agencies and representations were achieved. The group member companies had independent activities in various market segments crossing national borders. Greece as a market was introduced and tested due to an external initiation.

The mid-1990's and late 1990's is characterised by further business network expansion and incremental product and distribution improvements through agencies and representations both inwards and outwards. After a tentative process of establishment of sales office in Russia the firm returned to a more indirect strategy in exports. A distribution based on strong agent relationships started emerging, building on the established market connections and tacit knowledge of the local agents.

In 1997 the creation of an export unit was the first strategic change towards capitalising on international opportunities and contacts. The establishment of a separate export unit took place to clarify the activity structure and create activity based profit centres in the company. The enlargement of the customer base and volume with current products and services and the creation of a covering international sales net through partners and agents were the key goals for the newly established unit. The export unit also overtook the previous

activities for the Greek market. Lead partners stimulated the sales nets' operations and establishment.

The merger of the export unit with another specialised firm in the paper trading business in May 1999 creates strategic changes where the focal firm enters into a network era. The firm is no longer functioning so independently, but is now embedded into a defined business network. The merger of the export unit (Seller 1a) with a competitor in sales and marketing and distribution (Seller 1b) took place as a result of negotiations and goals concentrating on the advantages of synergy. Two interconnected groups (Group FI and Group INT) are born due to the ownership configurations. One group is clearly a domestic-based service, production and wholesale group, where the other is an international set of trading companies.

The aim of the merger was to *"reinforce the position both companies have acquired in Northern and Central Europe and the Baltic and Russian areas. Until now the Seller 1b has been purely a worldwide paper and board trading company. In the new combined operations, Seller 1b will be enhanced by Group FI's know-how and Seller 1a's production. Through the Group INT, Seller 1b (merged) has well-established and functional access to European paper converters-sheeting, rewinding, job lot business and trading- and comprehensive contacts on the North American market too. Seller 1a on the other hand has a strong foothold on the domestic market."*(Internal announcement 30.4.99)

Both trading companies merged into one. Seller 1a was integrated into Group INT's respective unit. Integration of activities and offices was carried out. The new group, in which Seller 1b was now embedded, was divided into geographical units and its involvement with international business and exports was skyrocketing through the new structure. This merger had a radical impact on the original Seller's level of internationalisation. From a domestic-oriented business environment, Seller 1b transformed itself into a member of a highly international group.

The reorganisation of activities and structure consumed time and effort and created a domino effect of changes on a small scale due to overlap. Seller 1a transferred four persons to the merger company and Seller 1b had a staff of 13 people. Seller 1b's budgeted sales for the year 1999 were 215 million FIM. The supply and customer basis expanded: *"The raw material suppliers and customers of Seller 1b are the paper and board producers in Finland, Scandinavia, Russia and the Balticum, as well as other Central European producers, from which the paper comes mainly through other Group INT companies, but also directly. Seller*

1b has contacts with sources outside of Europe too. The company already has an active marketing and sales organisation.”(Internal announcement 30.4.1999)

Seller 1b's sales to Greece were of importance, although their development was not the primary concern of the management. During the economic downturn in 2002 the top management was not entirely convinced about the market possibilities. The problems in the Greek market had a direct impact on sales, see Table 6.

Table 6. Sales figures in tons of Seller 1b

| Year | Greek sales | Greek share of the sales |
|------|-------------|--------------------------|
| 1997 | 3 024 | 7 % |
| 1998 | 5 597 | 10 % |
| 1999 | 4 781 | 8 % |
| 2000 | 4 531 | 10 % |
| 2001 | 3 390 | 11 % |
| 2002 | 998 | 2 % |
| 2003 | 1 702 | 4 % |

Radical innovation in sales and distribution systems through e-commerce was tested and applied. The system offered new value adding solutions to customers. The development of the purchasing channel through e-commerce was a major Pilot-project receiving valuable resources in 2000-2001. Seller 1b was directly connected to the emerging Holland-based firm, which carried out a part of its activities in Finland. This activity did not match the Greek system of purchasing and it was not used by customers.

The new group structure evolved from a vertical supplier-distributor network towards a horizontal structure and the development of a hollow organisation. Seller 1b had a defined position as a supplier of stock lot paper reels. Other parts of Group INT had other positions. This post-merger evolution resulted in two inter-connected, but not very interdependent groups of companies. Both groups were complex, partially overlapping business nets co-existing, competing and even cooperating according to specific activities.

In 2002 changes in the ownership configurations took place and the ownership connection to Group FI was changed. Group FI gave up its share in Seller 1b and sold it to Group INT, which was also strongly involved in the paper business. The owner behind, Major Group INT, did not have a direct impact on Seller 1b's Finnish-Greek trade on a trading level since it had its own structure in related markets. Seller 1b's activities were mainly complementary.

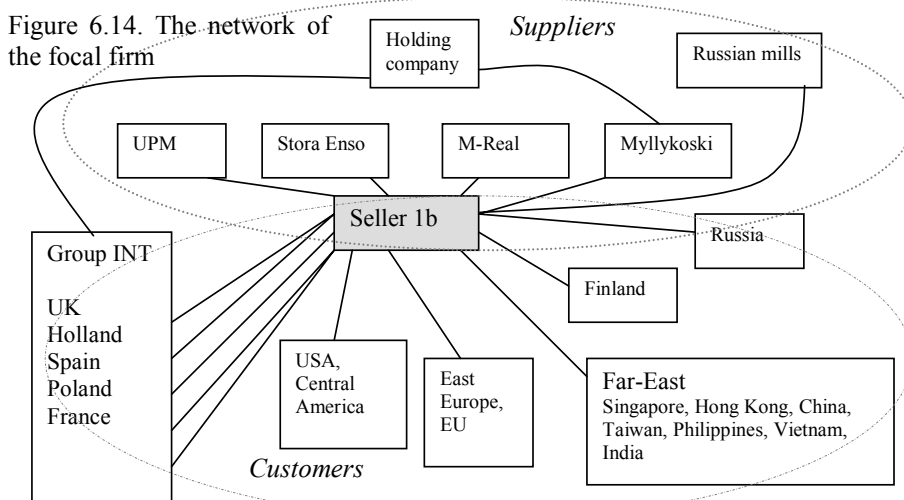
Despite the radical change in ownership, in which both groups continued activities independently, Seller 1b had a partially interconnected structure for some time, particularly in managerial and social networks. The firms may occasionally cross-utilise the resource base

(machinery, facilities, etc), although the new investments in converting machinery are reducing the previous level of interdependency. Some deals are shared to cover customer needs and to solve transportation problems.

Greek activities experienced a decline after the merger mainly due to changes in the opportunity structure, such as a limited possibility to serve the customers' regular needs and emerging suppliers in the Greek markets. Also the trend of the large paper mills re-establishing direct sales offices has reduced the need of the customer to have alternative suppliers. An economic downturn in the printing business in Greece and stock exchange problems reduced the local demand, since fluctuations affect the customers.

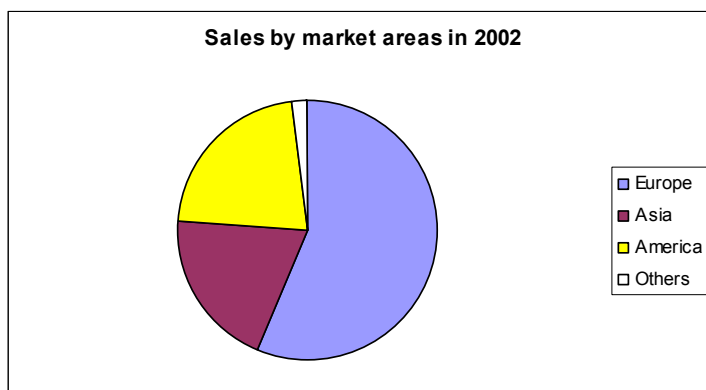
In 2004 the focal company, Seller 1b, participated in three international networks. Both Groups FI and INT are involved through their subsidiaries in numerous specified business networks, also in strategic alliances and distribution networks. Seller 1b is itself a highly internationalised entity doing business mostly in foreign markets having international personnel, extensive international knowledge and experience. Its managers have world-wide personal and managerial networks, both in supply and sales. The geographical position of the firm is no longer connected to the local nature of the business. The firm needed a practical position that could accumulate resources, which are needed to better serve international customers. The same aspects seem to be equally valid for the strategy of the other subsidiaries of Group INT.

The network mapping for the focal firm in 2003, including its global supply and customer connections, has a very international character, see Figure 6.14.



Geographically Europe represents the most significant market area for the focal firm, but the significance of Asian countries is increasing. The role of Poland is emerging and France is gaining importance in the new millennium. Seller 1b penetrated markets in Eastern Europe and the Baltic countries and attempted to exploit their potential. The sales represent output, but the input of the firm is international as well; not all suppliers are Finnish companies. The focal paper trading and converting firm has developed at a satisfactory level also in economic terms. Greek sales have been part of the overall growth process, see Appendix 9. (Focal firm's economic development in a nutshell, Seller 1b). The sales of the focal company by market area in 2002 show the strong international emphasis on sales, see Figure 6.15.:

Figure 6.15. Focal company's market areas



6.3.2. The development of the focal net

The focal net develops in accordance with its opportunity structure. The actors react and enact opportunities in accordance with their market configurations. This opportunity structure is defined by the general economic circumstances and the institutional aspects, but also by the large international players who, to a great extent, form the evolution of small markets.

Partner GR, who is searching for new supplier contacts, initiated the focal net. Despite the reactive type of initiation, the business relationships of Seller 1 expand and it becomes a central element in the loosely connected business net. This business net organises itself on the basis of economic interest and industrial processes and the respective needs. Each part of the business net takes care of a certain activity or level of production. Cooperative or co-opetitive relationships constitute the main types of relationships, some are also co-existing. Competitive relationships exist in the focal net particularly when the customer's customers or the second tier relationships are taken into account. The building of the net follows a logic of

searching for direct and complementary relationships. The actors, as self-organising nets, organise and break their net into industrial segments to manage the dynamics of it. Only functioning nets continue their life cycle; negatively developing nets are put aside.

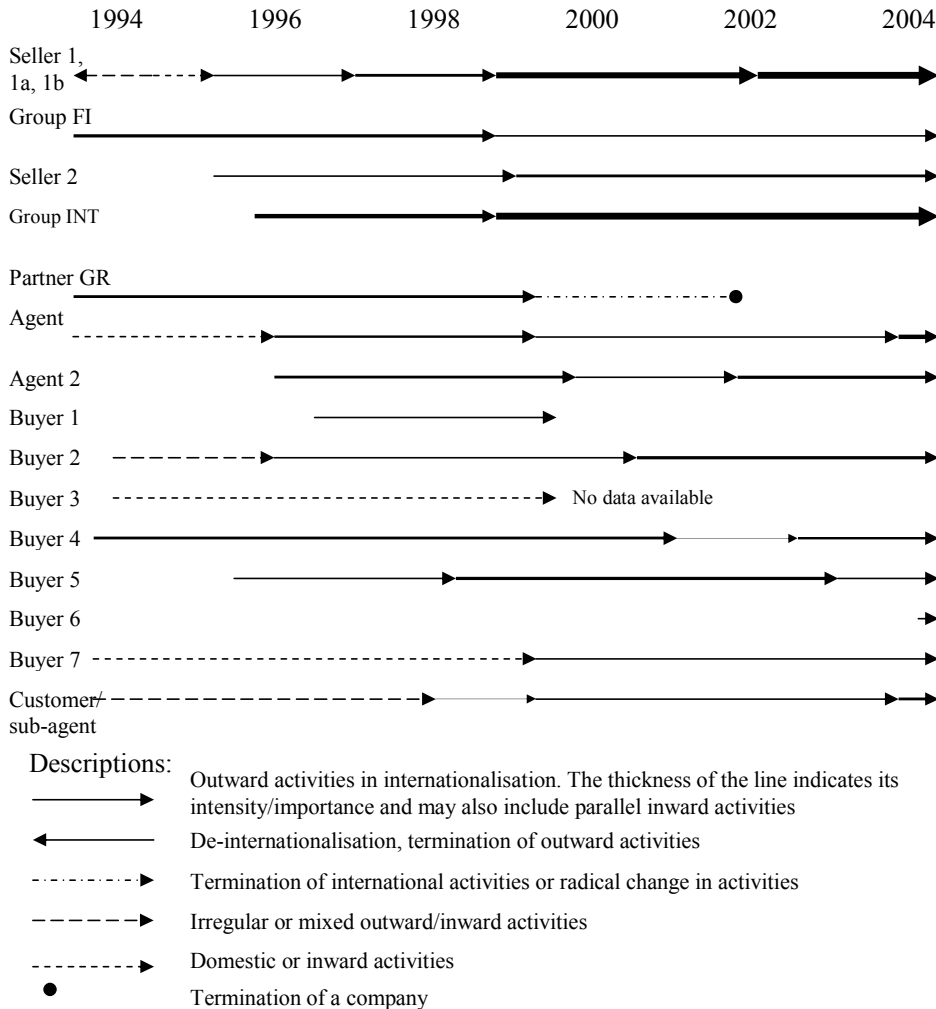
Collusive relationships are avoided, since they disturb the balance in the network. The cooperation aspect functions to a significant degree as the driving force for the evolution of the focal net. The firms assist each other and exchange information, contacts and resources. The entrepreneurial and managerial networks seem to function as the channel of knowledge exchange between the actors, that is, the firms.

The evolution of the focal net is shaped by endogenous factors and the internal dynamics (existing business relationships, capacity, innovation, product changes, various micro-process factors, etc). It is also shaped by many exogenous factors that stem from the wider network environment (market changes, regulative changes, international strategic alliances, packaging trends, etc). The internationalisation of the focal firm, Seller 1 a/b, and other firms in this business network develops partially in connection with other actors, such as owners, suppliers, partners and customers. Seller 1 a/b is only partially able to set a strategy. However, in the case of Seller 1b the previous managing director considered that it does not have any fixed strategy. This is part of the firm's strategy. He describes the firm as consisting of "artists" who compose and orchestrate the possibilities into results. The "artists" build on global network connections and expertise. The firm's development and network positions, which are very much driven by the market, build on this logic. Instead of a clear governance structure the focal net is orchestrated in a fluid manner.

Limitations, which stem from the sharing of resources, such as machinery and knowledge, glue the efforts of the focal net together. This interconnectedness is both an opportunity and a hindrance. For example, the interdependency with actors having low-tech machinery seriously restricts the possibilities of some converters. Competitive business networks can use their market power to put individual actors out of business. One significant prospect firm in the focal net was put out of business when its main supplier terminated operations and the other local suppliers systematically used their hindrance and hierarchy effect.

The overall degree of internationalisation for the firms in the focal net increases and a part of this increase is generated by the activity in the focal net. This link is visible in the empirical material, where a particular activity by Seller 1b leads to the development of another activity at Buyer 5 ultimately causes the accumulation of multiple activities in other markets in other countries (e.g. Australia, Cyprus). Figure 6.16. illustrates the interconnectedness of international activities when compared on the focal net level.

Figure 6.16. The Focal net's degree of internationalisation as an outward activity



6.3.3. Critical events and the network effect

During the internationalisation process of the focal firm, critical events occur on several levels: the product level, the activity level, the relationship level, and the firm and business network level.

Whereas critical macroeconomic events have a wider impact and are often distributed across various actors, the micro-levels occur in a more limited arena. Many of the critical events have had a domino effect or have accumulated slowly within the focal firm's internationalisation process.

Figure 6.17. presents the main critical events identified from the empirical research material¹¹⁶. There are critical events that are of a process nature; their existence is not clearly limited in time. These critical events continue or they emerge several times (no year indicated). Other types of critical events have a clear temporal position (year).

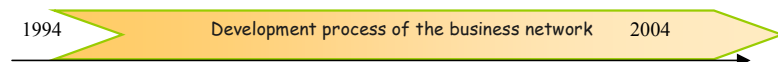
Figure 6.17. Critical events according to origin

EXOGENOUS EVENTS (International and Greek market level)

- Recession of the early 1990's-unstable demand, payment and liquidity problems common
- Dissolution of centralised international sales and marketing organisations, termination of Finnmap and Finnboard sales organisations 1996, concentration of sales channels in Greece
- Reorganisation of paper business operations, 1990's, turbulence in agencies and representations
- Merging business opportunities in Russia and Baltic Countries, early 1990 and onwards, new business
- Formation of three strategic groups (Stora-Enso, UPM-Kymmene and Metsä-Serla Myllykoski)
- Membership in the European Union, 1995
- IT boom, increased speed of business in late 1990s and burst of IT-bubble in early 2000
- Technological progress in machinery and production techniques, offset, digi and other printing development
- Further regulation of usage and end-products, EU packaging and recycling directives
- Structural changes in the Greek paper manufacturing industry (2000-2004), manufacturing and ownership
- Change in the M-Real (former Metsä-Serla)-Myllykoski relationship, dissolution of common sales network
- Enlargement of EU and the respective expectations 2004
- Radical changes in the Greek paper market 2001-, new actors, new type of businesses enter and other disappear
- Formation of distribution groupings and strategic alliances, late 90's onwards

ENDOGENOUS EVENTS (Focal firm level)

- Acquisitions and specialisation; product innovation and development
- Entry into Russia and partial de-internationalisation, 1990's
- New market entry and further establishment of operations in old markets, 1996
- Changes in customer and supply base and in distribution system
- Merger with a main competitor and ownership changes, 1999
- Integration of the sales and distribution nets on international level, 1999-2001
- Entry in the e-commerce, late 1990's
- Unexpected customer preferences and changes in distribution, late 1990's
- Retrieval of the e-commerce and return to the core business, 2002
- Change in ownership structure, 2002
- Expansion in new markets, late 1990's and onwards
- Expansion of customer operations and product range



It is not possible to draw conclusions on the interconnectedness of particular activities in the internationalisation processes in a thorough manner, although the data indicates that the

¹¹⁶ The Figure is based on the researcher's interpretation, but it is validated by the focal firm's managing director, who has been involved in the firm during the whole research period. The term "competitor" is the researcher's selection, since the focal firm considers the "competitor" more as a co-existing than competing entities. The focal firm did not view it as a classical competitor due to complementary characteristics.

network effects have notably shaped the processes of development within individual firms in terms of initiation, development and the termination of international activities.

The network effect is visible in many aspects, both positive and negative. When examining the internationalisation process of Seller 1, 1a, 1b, the network effects that have influenced its overall internationalisation have been numerous. Experiments with pilot customers, internationally active partners and customers, new contacts who have integrated the firm into new business networks, ownership changes pulling the firm again to new arenas and a plethora of other changes in the network environment of the Seller 1 a/b have had a direct impact on its development. The impact is visible in the type of business the firm has entered (suppliers set the product input according to their interests), the market it has chosen to enter (connections through networks and customers), the mode of entry (the impact of domestic and foreign partners) and in the further development of each individual business relationship (it may develop until it disturbs the functional harmony of the wider business network).

Negative effects in this focal net restrict an actor to continue certain international activities, to co-produce and to select other partners. The network effect has caused the termination of international seller-buyer relationships. Particularly strong network effects originate from the main supplier and the partner relationships, which either stimulate, enable or hinder a firm to continue or change its business with its customers, partners and agents. The dynamics in the foreign market comprise the network effects that the firms use to manipulate their business network.

6.3.4. Identification of critical events-A typology

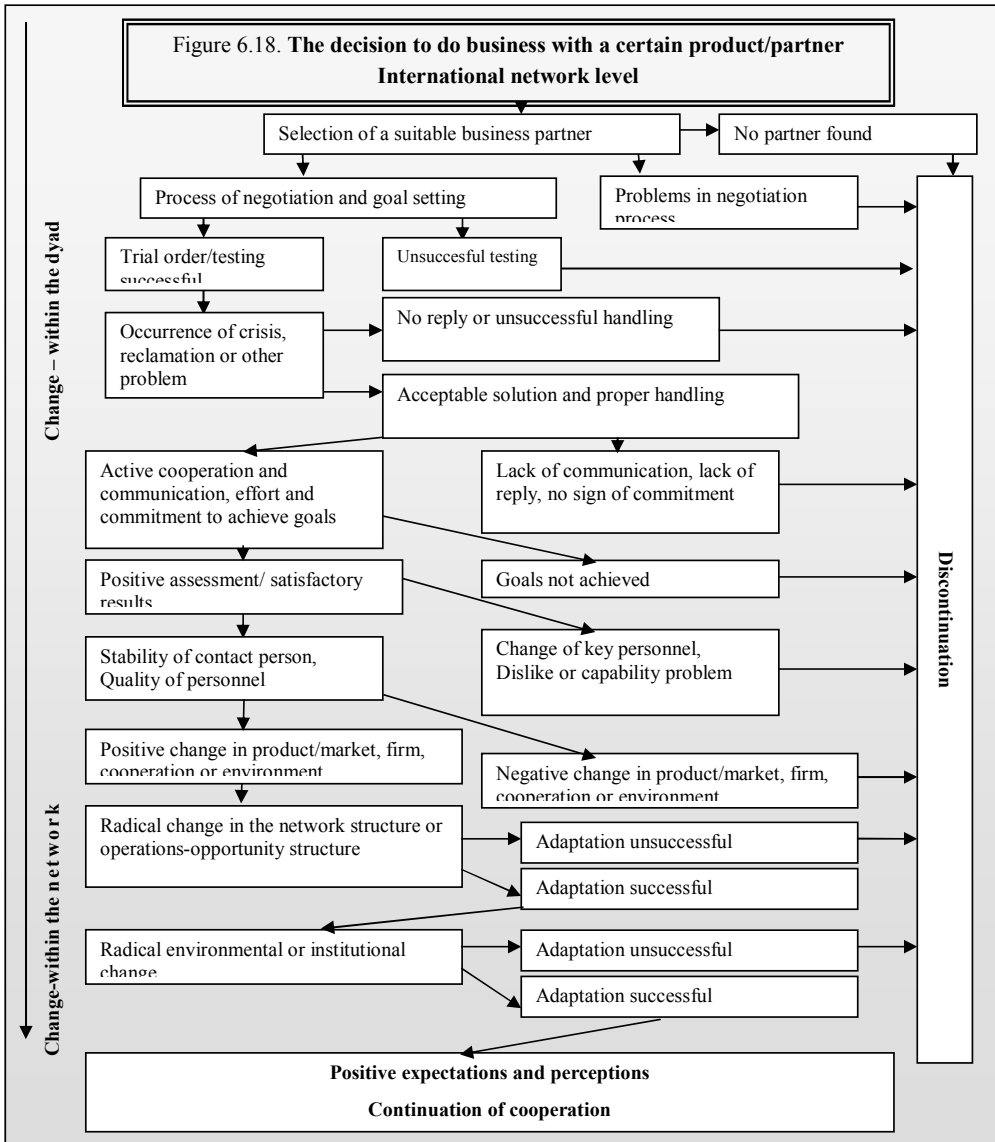
Though the study includes several levels of activities, at this point the critical events are examined on a dyadic level¹¹⁷. The most manageable level consists of activities between two actors - two firms. Also the activities of next level, among the focal net, are within the influence of an actor and have often a direct impact on an actor.

The focal net dyads of the empirical case study are analysed to identify the critical events at this level. The buyer-seller relationships went through processes and carried out activities, which shared significant similarities. Some of the critical events had impact mainly within the dyad - the relationship. Other critical events accumulated further within the business network and had a more radical impact. According to the data, it seems that the nature of the critical event affects its impact. Those exogenous changes, such as general pricing changes or strikes, which influenced the relationship, but influenced in a similar manner also the wider network

¹¹⁷ The empirical material includes both product-and transaction-based critical events and influence factors, but such a detailed analysis is not possible in this qualitative case study.

environment were more understood and created less radical changes, than those that were clearly influencing a certain relationship only. The critical events of the focal dyads and respective relationships are identified starting from the business decision¹¹⁸, see Figure 6.18. When the development did not continue, it either ended up in discontinuation of activities or switched to another modus on the relationship (social, entrepreneurial, dormant).

Critical events at the business network level that may be perceived and managed by the actor include: the strategic changes in the products and offerings, the channel of



¹¹⁸ The Figure is published also in Kjellman et al. 2004.

distribution, the partners and owners and the strategic changes in the constellation of the business network structure and the positions of the firms. Market knowledge on a local level assists in managing activities domestically. But there are also critical events that are not manageable, nor easily perceivable. In particular, more locally-oriented SMEs have problems in understanding the overall (i.e. international) development of their industry. Many firms in the study (Buyers, Sub-agent) suffered from not having adequate information and not being able to anticipate changes in a beneficial way. Many emerging focal net relationships were not able to develop further, see Figure 6.18. right side. The more integrated firms have a more connected change effect on the focal net, but they faced similar difficulties on the dyad level.

6.3.5. Negative & positive network effect on the internationalisation process

When the internationalisation process of a firm having an outward emphasis is examined, the network effects have both a negative and a positive influence on the process. The effects are explored based on the case material (first-level dyads in the focal net and key second-level dyads in the network). There are two types of effects. There are effects hindering and effects facilitating outward activities which are identified in Figure 6.19.

Figure 6.19. Network effects

Positive network effects: Positive accumulation and sharing

Assistance effect

-Experiences firms have are used in other relationships to support international activities

-Contacts and activities are used in other relationships to support internationalisation and exports

Synergy effect

-Firms have common efforts that necessitate or boost both firms' activities, which they could not carry out without each other

Initiation effect

-Firms initiate contacts and business and share information, thereby connecting new actors to the network. Trust facilitates initiation and cooperation

Lack effect

-Firms work together to overcome the lack of alternatives

Negative network effects: Constraints and manipulation

Hindrance effect

-Firms hinder one another from exploiting business opportunities or from internationalising

-Asymmetric relationships and exploitation of power

Lack effect

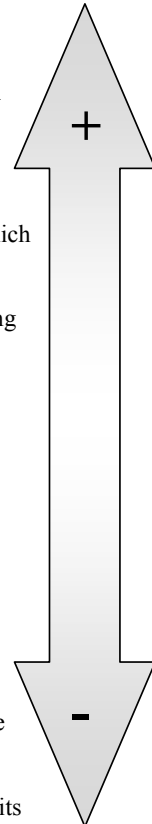
-Firms may put another firm out of business by creating lack of products, materials or other resources

Competition effect

-Firms weaken or exclude another firm from business and keep it out of the market

Hierarchy effect

-Firms create hierarchical structures where they control another firm and limit its activities



6.4. Identification of influence factors

The influence factors are the reasons, which lie behind critical events and changes. Identification of the influence factors is of interest when examining internationalisation as a process consisting of events and development phases. This study does not follow a linear logic of internationalisation. Therefore the critical events and changes themselves represent turning points in the overall development. What triggers these important facets of the process needs to be identified in order to draw conclusions about the origin of the impact¹¹⁹.

6.4.2. Type of influence factors

In this study those stimuli or forces that trigger a certain critical event, change or adaptation process are called influence factors. The types of influence factors are often divided to macro-micro factors or external-internal factors. The influence factors represent the stimuli for a critical event¹²⁰. The intensity of the impact of the influence factor is not easy to categorise, since minor micro-level factors may represent the “last drop” and create a critical event, which changes an existing pattern or relationship. There are influence factors of an immediate character, like a short strike in a harbour, and of a long-term character, like the small size of a market. Influence factors with long-term character (diachronic nature) have similarities with driving force-term used in internationalisation theory.

Another aspect difficult to determine is the character of the influence factor; its origin. It is not always possible to detect the flow of change, event and triggering effect. The identification is based on research material mainly consisting of the managers' views and perceptions and on the researcher's interpretation of archived material, which implies a possible bias. Hedaa and Törnroos (1997 p.3-6) discuss trajectories of connected events, where actors act on stimuli and critical events are created by nature and man. In this study their view is applied differently analysing development in a retrospective manner: change-critical event-influence factor. This does not exclude the possibility that an influence factor is originating from a previous critical event. The point of analysis is the change and the processes and impacts that generated it.

Macroeconomic influence factors expand their effect directly and indirectly in relation to an individual firm. Still, the data indicates that the relationship (i.e. micro)-level influence factors are often having a proportionally stronger impact. To some extent the firms can

¹¹⁹ The purpose is not to find determining causalities, but to be able to describe what happens and how the process evolves in a more holistic manner.

¹²⁰ Influence factors and critical events are defined in according to the viewpoint of their object, the firm. Therefore the differences between them may be vague or vary when another firm reflects them. See more in Hedaa and Törnroos 1997 p.3-9.

manage and control these trigger-processes. The influence factors become tools for affecting other actors and their activities.

The influence factors below are sorted and categorised according to the data. Macro-level influence factors cannot be directly influenced by an individual firm, but meso- and micro-level factors may be influenced to some extent by a firm. Lobbying, strategic alliances and industrial networks and groupings use the concentrated power of the actors¹²¹ to shape macro- and meso-level factors. A categorisation of common influence factors is presented in Figure 6.20.

Figure 6.20. Influence factors

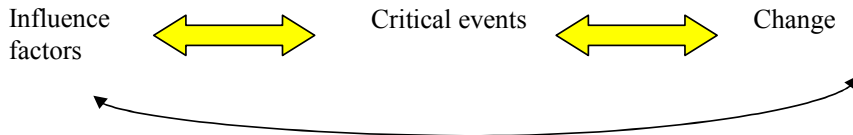
| <u>Macrolevel influence factors</u> | <u>Mesolevel influence factors</u> | <u>Microlevel influence factors</u> |
|--|---|---|
| <ul style="list-style-type: none"> -Economic fluctuations -Devaluation and currency changes -Trade agreements (EU, EFTA) -International pulp and paper price developments -Political and regulative issues -Ecological or ethical issues | <ul style="list-style-type: none"> -Regulations and laws -Domestic economy and investment situation -Strikes und economic unstability -Local preferences and trade systems taken "as given" -Market changes such as changes of major actors in the industry -Market changes related to the product categories, such as introduction of new material types -Market related infrastructure -Strategic alliances -Changes in sales and logistics systems, such as e-commerce and electronic trading systems -Market changes related to local production, supply and demand -Technological development and adaptations | <ul style="list-style-type: none"> -Economic benefit; higher margins and more competitive prices -Product suitability and usability -Matching criteria for business relationship building and maintenance -Long-term interest or adequate difference for spot trading (min. 5-7% cheaper than from current suppliers) -Trust and commitment -Common understanding and ethical use of asymmetric relationship -Efficient handling of transactions, deliveries and reclamations -Active communication and relationship care -Product, price, promotion and distribution related topics |

6.4.2. Categorisation of Changes, Critical events and Influence factors

The purpose of the study is to explore influence factors, critical events and changes that impact internationalisation, and the connections between them. There are clearly complex reasons for the events and changes taking place in this focal network, which are often a sum of many variables. But if set within the context of the importance rating on driving forces, as determined by Olsmats (2002, p.74), the findings of the study indicate more emphasis on relationship and other micro-level or network level driving forces than on lifestyle or demographic factors. Forces at work in industrial and functional settings - on trade, purchasing patterns, laws and regulations as well as production- and process-related aspects - have more visibly influenced the development of the activities of the focal network.

¹²¹ As a collective actor, see Chapter 2., section 2.9.

Changes are outcomes of acts. Since critical events in and of themselves constitute acts or non-acts and missing pieces of processes, they represent the flow of connected events. In this context, influence factors are rated according to their character as the source for a critical event; the triggering stimuli (cf. Hedaa and Törnroos 1997; Voima 2000). The categorisation of the changes, critical events and influence factors in the internationalisation process of the focal firm within the Greek market is simplified as follows:



Main changes:

- *Re-establishment of interest in exports*
- *Establishment of an export unit*
- *Merger with another, experienced internationally-operating firm (including Greece)*
- *Ownership changes, enhancing the international aspects*
- *Changes in sales network*

Critical events:

- *Investing of suitable resources into exports*
- *Involvement of personal and managerial networks*
- *Finding suitable business partners and customers*
- *Successful first- and second-order processes*
- *Daily business operations and problem handling*
- *Product-, price- and logistic-related processes*
- *Modifications in supplier relationships or temporary variations*
- *Restructuring of organisation and adaptation*
- *Harmonising/adapting business patterns and increasing common understanding*
- *Perception of opportunities and strategic adaptations*
- *Management of network structure and activities*
- *Market management and the creation of balance*
- *Resource allocation*

Influence factors:

- *Changing and emerging business opportunities and customers' needs and strategies*
- *Accumulation of capabilities and connections to industry and international players*
- *Lack of resources, perceived threats and initiations for changes, innovations and adaptations from wider business network*
- *International business development and trends in industry*
- *Relationship configurations; constellation of actor networks, resource basis and activity linkages*
- *Activities and strategies of suppliers and customers having direct impact on a firm's activity*

What is noteworthy within the critical events and influence factors is that there are types of invisible or “negative” features, i.e. the lack of something or non-realisation of something, in addition to clearly observable features. Connected changes, such as conflicts stemming from one dyad, may also be “negative” and impact to other relationships.

6.5. Summary

The focal firm Seller 1 (then 1a and 1b) evolves from a small local firm into part of an international group consisting of highly specialised SMEs within a ten year time period. The evolution has been rapid and radical. The plans of the focal firm, Seller 1, have been realised to a notable extent, but in a different context through its changing character in the focal net. Supply and customer partnerships and relationships to agents and owners have partially formed the developed, not just business opportunities. The relational structure within the business network has organised the activities and indicated its importance in the creation of this business net.

The degree of internationalisation of the focal firm has been intensively boosted by its operations and ownerships connections, but the mode of entry has not been changed; agencies remain the strategic choice. The increase of internationalisation in this particular case is therefore not measurable by absolute criteria, such as sales figures or direct investments. Rather it must be assessed in learning, connections and integration with new international and foreign business networks. The internationalisation process of the focal firm involved market expansion to Greece (and indirectly to other markets). More significantly, it involved integration with emerging business net, which developed into loose industrial net.

The internationalisation process that has taken place in the focal company during 1994-2004 has also indirectly supported and initiated the international activities of related firms by sharing valuable knowledge and resources with other members of the focal net.

7. EMPIRICAL AND THEORETICAL DISCUSSION

This chapter discusses the main findings of the empirical study as they relate to the research questions. In this section the case study provides answers to the questions on a general level; most details are embedded in the description and analysis in Chapter 6. Theoretical and managerial implications are introduced in the Chapter 8.

When considering the findings it is good to acknowledge the limitations of the study; this case would look very different if the sales figures, foreign investments or legal configurations were the only focus of the study.

7.1. Using the network perspective

To understand SME internationalisation by using a business network perspective- This case study indicates the importance of the business network for understanding SME internationalisation.

The focal firm is a fine example of a network-driven company. Its roots are partly in paper trading organisation's dissolution and aftermath. It utilises the resources of other firms in production, manufacturing and logistics and concentrates on trading. In 2004 it is a specialist organisation that works with numerous market segments and geographical areas. This role and its position in the value chain have complex characteristics, which indicate that the firm has grown as a part of the whole. The firm has evolved as a part of the paper industry related configurations, very closely linked to evolution of the Finnish paper industry and sales system. It has used an internationalisation approach strongly built on networks.

In response to the research question of whether or not we can understand SME internationalisation by using a business network perspective, the answer is yes, it is well suited for analysing development when combined with a matching research approach. This perspective might be most appropriate for SME internationalisation research exploring less visible business configurations, which can be of vital importance.

It seems that not only the focal firm itself but also its owners, suppliers, customers, agents and other partners in the sales organisation together with the competition influence the firm's strategy and its development. The strategy is adapted to changes, like the withdrawal of Partner GR and the emergence of Buyer 6. The size and position of an SME makes it less resistant to external impact unless it has unique resources or capabilities that increase its importance in the market. This fact reduces the degree of autonomy among the SME actors and suggests the need for the application of more holistic research perspectives.

The opportunity structure of this SME is not only set by the market, but also guided invisibly by the larger players and collective actors, having at the same time a partner and competitor status. The ownership connections direct the firm's operations to fit the strategy set by owners. They may limit the firm to a certain role and they may restrict the firm's activities. When the exploitation of the opportunities is partially concurrent with other business network-related activities of the ownership, the autonomy of the firm concerning activities is restricted using the network effect. The owner sees Seller 1b as a partner for the sales concerning certain activities and products, but also as a customer. Still, the type and content of the cooperation is carefully designed to fit Major Group INT's international strategy, not to fully support Seller 1b's own strategy. Therefore Major Group INT exercises its power through Group INT. It has a direct impact on some activities concerning Seller 1b. This suggests that the role of network effect is significant, it may influence circumstances for the international business concerning Seller 1b. Seller 1b influences its customers in a similar manner; i.e. Buyer 5's efforts to export products from Greece.

Suppliers have their own parallel sales channels and they organise activities primarily to match their own strategic goals. For example, the development in paper industry that led to opening corporate sales offices enhanced the number of end-customers and their satisfaction, and at the same time reduced the sales opportunities of Seller 1b. In this study the role of the key industrial customers has a major impact on the focal firm's integration with a foreign business network. They may boost or paralyse sales outside their own company in markets where actors are known and interrelated, like Partner GR, Buyer 5 and 6 did.

The role of Partner GR, the Agent, Agent 2 and Buyer 6 in this case study linked Seller 1b tightly to the market. They had their own interest for developing activities in a specific area. These interests matched with the focal firm's interest and assisted it creating long-term relationships in Greece, although there are temporary gaps in the economic transactions in many relationships. The influence of the agents and sales contacts is particularly notable in identifying market-specific opportunities and characteristics and also in implementing a sales strategy and exploiting business opportunities that stretch across a particular market area.

Customers and the sales organisation are part of the business monitoring mechanism of the focal firm and play a central role in the progress. This information-funnelling system, which is based on their entrepreneurial and managerial networks, is a vital tool for managing and orchestrating business nets in new markets. It is the source of market-specific experiential

knowledge that is tacit and, with such a large cultural distance, often not understood completely by the trading partners when transferred to them.

How this firm internationalises concerning the Greek market?

The internationalisation at a company level has several dimensions. In the early phases, lasting until 1999, the development followed a classical view on domestic country - new market type of internationalisation, but after that it changes level. After the merger in 1999 the focal firm developed in many markets parallel having as a new basis an experienced international organisation. The focal firm is evolving into a kind of born-global company; a rapidly globalising company where business in 2004 is divided into three main areas: Europe, Asia and America.

When looking at the explicit research question of how this firm internationalises concerning the Greek market, it can be said that it uses the existing business network of Partner GR as a stepping stone and develops its market penetration based on cooperation with local business networks. The initiative comes from Partner GR. The departure of Partner GR is only one set-back in this internationalisation process since the firm already has a certain foothold in the local business networks. The market presence and opportunity exploitation is increased in general through the merged organisation, also the degree of internationalisation increases in the organisation. The phases are clearly proceeding from exports and regular seller-buyer relationships towards network integration with an established position for the focal firm. The sales organisation grows through the local business nets that further sell and export the converted products originating from Seller 1b. Also, the number of customers in the Greek market shows a tendency for growth. The study implies that the network driven internationalisation strategy has succeeded and created a connected effect also on the local level. Through cooperation the degree of internationalisation is on the rise in the various parts of the focal firm's business network.

7.2. Empirical description and changes

To empirically describe the evolution of a Finnish SME and its business network in its internationalisation process within the Greek paper business. Chapter 6 empirically describes the evolution of a Finnish SME and its focal business net. It describes its internationalisation process within the Greek market and how it increasingly becomes involved with the Greek industrial manufacturing and converting networks.

What changes in terms of the firm and its relationships during this process?

When the changes are summarised it becomes clear that the changes in relationships (dyads A-G) illustrate a process of market entry where the focal firm starts with some testing and a single export relationship. Despite turbulent business environment, it develops into a locally active international player in the Greek paper market. Applying ARA as a tool, the actors, activities and resources are analysed briefly:

Changes in the actors are visible and there are connections that enter and leave the focal net¹²². The short period of presence in the focal net that many dyads have, either due to the character of business or economic reasons, is noteworthy. Despite the long-term emphasis in the network approach (IMP Group), this study demonstrates only a limited long-term thinking in the majority of the relationships. Their nature is driven by economic interest and, when the economic benefit is not obtained quickly enough, the relationships either enter into a dormant stage or are terminated.

There are only a few cooperative relationships with social and entrepreneurial connotations that have remained more stable during the research period 1994-2004. The truly long-term relationships that have an active nature are between Seller 1a,b and the Agent, Group INT and Agent 2, the Agent and Buyer 3, the Agent and Buyer 5, the Agent and Buyer 6¹²³. If it is taken into account that, due to research purposes the numerous relationships with the prospects, the customers and customers' customers are limited to only a few examples, it is possible to draw the conclusion that in reality the majority of the business relationships have a rather short life-cycle in this type of business¹²⁴.

Changes in activities are continuous when taking a certain product as an object of focus. But this is natural due to the type of non-standard business. The core trading activity remains the same. It only intensifies and adapts its content to different circumstances. Some product types are reduced due to termination of supplier relationships in Finland. For example, Russian newsprint, which functioned as the original stimulus, was no longer available after the factory started cooperating with a Central-European trading house instead of Seller 1b.

There are numerous changes in activity-related aspects - prices, products, productions, and the content of cooperation and communication. Changes are not always confined, staying at the dyad-level only. The empirical findings included several process-related domino effects

¹²² Only the dyad Seller 1, 1a, 1b – Agent has reached the duration of over 7 years in a time period of 10 years, the other dyads have lasted in active stage 2-4 years on an average

¹²³ The customer relationships or dyads of the Agent 2 are not included on individual level into the study.

¹²⁴ Note, that the industrial character and the nature of stock lot business have a remarkable impact on the study.

and connected changes, such as the end-effect of the cooperation problem with a local bag manufacturer. The end-effect destroyed a co-production net, which produced specialty products for airlines, despite the fact, that the co-production net had started successfully. The material supported the view of inherent processes that are coherent in industrial networks. When the coherence or balance of processes is disturbed, the change accumulates to all those firms which share a position and function in the network.

Activities supplementing trading, such as warehousing, converting, information transfer and customer support, started increasing their importance when the focal firm became more integrated with the Greek networks. Collaborative thinking and committed cooperation requires more than just trading. The Agent and Seller 1b share the role of caretaker for some of the customers' activities, assisting them to develop their exports and expand sales. Product innovation and market exploration is one shared activity that emerges. Information, ideas, suggestions, opinions and testing is shared. Seller 1b and the Agent provide consulting on regulatory matters, supplier relationships and logistics to some customers. Direct co-producing and co-warehousing are topics that often enter into negotiations but are not realised.

Resources have changed at Seller profoundly since its merger. The pooled system of resources in Group INT allows an access to Seller1b that it would not have had in the previous pre-merger phase. Still, the visible resources, facilities and personnel are not changing dramatically. The focal firm grows through subsidiaries and network partners, but it also invests in warehousing and conversion. The most noticeable change is the increase in knowledge- and experience-related resources, which accumulate and transmit themselves throughout the particular business nets. Managerial, human resources are the key intangible resources in this organisation. Supply sources represent the other input-related key resources.

The interconnected and interdependent developments of these focal net actors suggest that indeed the individual firms have benefited from the focal net since their accessible resources have increased due to the cooperation. If the parts are put together the outcome is better than when the individual parts stood alone. The role of the Agent and Seller 1b in combining and coordinating local actors in Greece from a distance may seem strange, but it can be explained due to cultural factors; foreign actors seem to have the tendency to end up in co-ordinating roles within Greek SME nets.

7.3. Changes and critical events

To analyze which critical events had a decisive impact on the internationalisation process of the firm and its connectedness to the network over time- Changes in terms of the focal firm and its relationships during this internationalisation process in Greece have multiple dimensions. In short, the firm matures and grows. Its relationships to Greece emerge and increase, develop and evolve, and then they start to display established connotations. The changes in the dyads between Partner GR and Seller 1, Seller 1a and Group INT, and the triad Seller 1b-Agent- Buyer 6, and the triad Seller 1b-Agent-Buyer 5, and the triad Group INT-Seller 1b-Agent 2 represent the most influential changes (see section 6.4.2.). Changes take place often through the business relationships at the firm level. The evolution of the focal net is impacted by the business environment; both the primary-task environment and the secondary business environment in paper business. The empirical study agrees with the view presented by Batonda and Perry (2003, p.1476) on dynamic changes that are inherent in networking firms (see section 6.4.2.).

There are various critical events, which had a decisive impact on the internationalisation process of the focal firm and its connectedness to the network over time. The most significant critical events within the firm were the decisions that created an export and trading unit and then the merger. The entry and exit of focal net members represented also a sort of critical event, which resulted in a change on the net level. On the environmental level the critical events stemmed from the re-organisation and concentration of the paper industry. They also stemmed from the overall business circumstances creating or hindering opportunities. The critical event analysis on the firm-level processes in the study discovered similar critical events in the firms' processes supporting Nummela's view (2001a,b).

To describe what aspects lay behind the critical events of the case, including the identification of important influence factors. The empirical research indicates that there are often clear reasons for a critical event, such as the devaluation of currency or the bankruptcy of an end-customer. But these influence factors that trigger a critical event can not be seen as features with determining causal characteristics. They are not predictive. For example, not all companies are severely dependent on one customer. The configurations of influence factors are in many SMEs very much dependent on the management of the company and, therefore, of endogenous origin. Another category of influence factors is exogenous, referring to factors such as an economic fluctuation that effects paper prices or the creation of foreign strategic alliances.

Sections 6.4 and 6.4.1. in Chapter 6 describe what aspects lay behind the critical events of the case and identifies important influence factors. The empirical-theoretical comparison points out the disproportionate theoretical emphasis given to influence factors that stem from the macro-economic category, whereas here the material suggests that the micro-level processes contain dominant influence factors for SMEs. The focal net firms adapt. They seem to take critical events and influence factors in macro- and meso-levels as part of the environment in which they function.

The management of this focal network is not formed as a fixed organisation; it evolves as a patchwork system filling in the gaps and market opportunities with co-opetitive and collaborative coalitions of individual firms. The role of owner-managers and particular key managers in SMEs is often most decisive.

To provide managerial implications concerning the internationalisation strategy and the management of SME companies - Managerial implications and normative assumptions are presented in Chapter 8.

7.4. Critical viewpoints concerning the study

The study is stimulated by the need to understand the logic of a firm's internationalisation and how it is carried out using a business network. The market-related experience and pre-knowledge contaminates the concept of pure induction, but it assists in identifying and following the research leads. It results in abduction of higher relevance than what would be possible without the knowledge and experience. The selection of the topic and perspective is made in such a manner that the research is not biased due to economic dependency or direct influence.

7.4.1. Credibility, validity, reliability and relevance

The study is an instrumental case study. Therefore it is important to remember the instrumental character of a case study in generating theory. The findings and implications may not be universally applicable; the industry and cultural context are issues that have a notable impact on the results. The limitation related to the SME character of most focal net firms restricts the focus, but it is assumed that despite the theoretical limitations SME managers may deduce their own interpretations from the empirical findings.

The study presents only a limited part of the research material. The researcher's interpretation analyses the bulk of information at a more specific level. It is impossible to write such a detailed narrative that is would provide the same information for the reader as for

the researcher, but on the other hand the extensive material and experience of the participant-researcher facilitates the credibility and reliability of the study. The focus of the study, which limits the presentation of the results to the research topic, makes it easier to understand. However, the limitations have not reduced the amount of information that has been used for research. The credibility of the study is increased by the quality and scope of data, and also due to the fact that the research project has been a financially independent project.

The internal validity is enhanced by the careful handling of data and attempts to be consistent in the analysis and organisation of the research. The validity of the study is improved with the participants' comments and corrections as well. The method of participant validation (Managing director, Export director, Seller 1b) is also used for the manuscript and for several earlier papers on the topic. The external validity may be tested comparing the results of the study to other studies on SME internationalisation and the paper business that have similar topics. The results do not conflict with those in the other SME studies (cf. Meyer and Skak 2002; Coviello and Munro 1997; Coviello and McAuley 1999). This also increases the external validity.

The research audit system improves the quality of the study. The material and data would generate similar results if studied again, although the role of researcher's market-specific experience and pre-knowledge has remarkably enhanced the planning, analysis and reporting phase. The follow-up research sessions and the longitudinal research design have supported the rich archival data in such a manner that the interpretations and conclusions are not based on an exceptional situation or some mistake in logic.

The integrated business context and the inductive-abductive character, which guide the progress of the study, support the relevance of the study. The validity of the research is supported by the long research period, which did not allow the firms to present data in the light they would possibly have preferred.

7.4.2. The role of the researcher, access, bias and ethical considerations

The researcher's role is that of a participant-researcher (see Chapter 4). This method was chosen since it provided optimal access and the possibility to incorporate multiple sources and views. Naturally the objectivity of the study may be questioned since the researcher has a "position-related" bias through involvement in the focal net during the study period. To decrease the degree of subjectivity the topic of the study has been chosen in a manner that facilitates neutrality and an ethically-acceptable status for the participants. It does

not enhance the position of the researcher nor does it harm the position of the participant firms.

The ethical considerations have already been taken into account when selecting the research questions and designed to avoid ethical conflicts. The focal firms have been aware of the research during the whole period and they were informed when research-related interviews and follow-up studies had been carried out.

Objectivity and bias were also considered when selecting the method, data collection and data analysis. The degree of commensurability is affected by the researcher involvement. It is clear that there are phases in analysis that involve researcher interpretation, which may be influenced by the researcher's dual role. The objectivity of the study is actively secured by managing subjectivity through triangulation. A multiple source system and combination of methods provides an effective system for supporting the study's scientific level.

7.4.3. Quality of information

The search for "what has really happened" in this internationalisation process has influenced the type of data collected. The facts have been explored using multiple sources and types of data. The study is not searching for perceptions and meanings, but rather pieces of a process puzzle, i.e. facts such as cooperation agreements, transactions, termination of relationships, etc. Still, it is to be noted that the study can not fulfil Alasuutari's (1994) criteria for the factist perspective as such, since the analysis and conclusion are naturally affected by researcher's interpretation.

The quality of information collected for the empirical part is improved by using numerous sources and triangulation. Interviews are used as data, which represent the perceived reality of the managers; they have a subjective character. Therefore additional archival data and other written information have been continuously collected to cross-examine development and use triangulation in the analysis. On the other hand, it seems that the industry specialists and managers may have more up-dated and accurate information than the official statistics or reports. The real-time information has a strong degree of accuracy and it is more easily cross-checked.

The personal views of managers are filtered and triangulated in a manner that creates a more objective view on the evolution process of the focal net and the firms embedded in it. There has been an attempt to explore and verify "facts": changes, critical events and triggering influence factors.

7.4.4. Generalisation: Case study characteristics and the idiographic nature of a case

This research project represents a qualitative study, which describes and explores a process. It does not aim at generating a new theory or nomothetical generalisations. This case study has an instrumental character; it may assist in understanding respective topics. Despite its idiographic nature, there are some features that may offer elements for generalisation. The findings from this study are generated from the empirical material and reflect existing theory, which leads to theoretical modifications on previous models (see section 8.1 and 8.2).

The internationalisation processes of the focal firm and the firms in the focal net have created an embedded case study (cf. Yin 1984) with such a large amount of data that only those parts that are relevant to the research focus are reported. The research material covered the firms in the focal net adequately enough to draw an understanding of their individual internationalisation processes in connection to the focal net.

I argue that the dynamics and the kind of evolution processes, which are presented in the empirical research part, represent general patterns of international SME business. The cultural and industrial limitation of the study affects the application of specific parts of the study to a broader context. Although the context limits the applicability, the processes as such indicate that many of the firm-related developments had similar characteristics. The focal firm and its business network firms shared similarities in having both inward and outward activities in an irregular order. They all had several foreign markets and several product groups as exports, they all had problems in continuing their foreign operations and activities in a regular manner, and they were all influenced by common industry and market-related critical events and factors.

I therefore argue that the internationalisation process of this firm entering a new market area shares similarities in dynamics and potential problem areas with another SME firm also in a different market context.

8. CONCLUSIONS AND IMPLICATIONS

8.1. General conclusions on SME internationalisation

The study concentrates on an SME internationalisation process, which is studied in a particular setting. It follows the research patterns of Johanson and Mattsson 1988, Blankenburg Holm 1995, Coviello and Munro 1997, Flechter 2001, Meyer and Skak 2003 and other scholars, who have taken a network perspective on a firm's internationalisation process. The results of the study indicate the significance of the domestic and foreign business network as a guiding and influencing platform in a firm's internationalisation process.

The interconnectedness and interdependencies on various levels join the evolution process of one SME with the overlapping processes of its network environment. Here the relationship level has been relevant, but not only as individual dyads. Rather the relationship level has been relevant as part of a whole. It can be concluded that the impact of global and cross-border developments, which is filtered directly and indirectly to a firm through its business network and wider environment, form to a significant degree the activity development of an SME firm in foreign markets. A part of the development is determined by strategy, which is internal, but also the role of exogenous factors and serendipity govern a part of the development. SME internationalisation is not an isolated phenomenon.

8.1.1. A firm's internationalisation process

The results indicate such a strong influence of the context on the firm's internationalisation process raises the question of whether or not it is feasible to expect a general model of firm level internationalisation to emerge and be applicable for all SME internationalisation situations. The context has structural, geographical, organisational, social, cultural, industrial, technological and temporal dimensions.

The focal firm increased its overall degree of internationalisation by increasing its absolute number of target markets and foreign customers, by remarkably increasing the proportion of sales outside Finland, by notably increasing its tangible and intangible resource structure and experience, and by having more outward and inward rather than local activities. It also developed its position as an actor evolving from a small locally-oriented firm to an export firm with a reactive internationalisation strategy and ultimately into an international group member with an active internationalisation strategy, see Table 3.6. This analysis of the focal firm's evolution in its business network provides illuminating theoretical implications.

The findings support in general the recent studies on a firm's internationalisation process from a network perspective (Johanson and Mattsson 1988, Blankenburg Holm 1995, Coviello and Munro 1997, Coviello and McAuley, 1999; Flechter 2001, Meyer and Skak 2003; Ghauri et al. 2003). It indeed seems that the impact of the firm's business network, both domestic and foreign, is more significant in securing knowledge, capabilities, access and entry power into a new market than I expected in the beginning of the research project. Opportunity exploration, expansion and integration take place utilising the business network configurations. Trust and business net cohesion assist by smoothening difficulties in the internationalisation process. Why is this important? It is important because it leads to the overall conclusion that for an SME the selection of partners and business nets is a multifaceted strategic act that sets the firm's opportunity structure and its activity landscape.

A firm is normally the unit which is internationalising. However, the firm's internationalisation process is not an isolated process, but a development process that occurs very much in connection with the firm's business networks and their development patterns. It can be a part of a larger trend or evolution like the shifting of production to low cost countries. A firm not only co-evolves with its immediate business network, but also with its overall business setting. A firm in an industrial context is influenced by its partners and the business network, in particular by those business relationships which entail dependencies or a high degree of interconnectedness. The findings suggest that the business network of a firm may have effects that either facilitate or hinder the firm's internationalisation process.

The implications suggest that, when perceiving a firm as an actor, we ought to use a wider boundary-crossing view based on activities or other essential core elements in business¹²⁵. A firm as a legal entity may be an inadequate actor. Another modification concerns the part of the process that is selected for analysis. It seems that the initiation or the triggering factors for internationalisation play a relatively restricted role in comparison to the long-term factors that form the opportunity structure and therefore the development path of a firm in its international activities. The way in which a firm carries on and organises its foreign activities is perhaps of more interest than the triggering influence that stems from the macro-economic circumstances. The firm and business network level development provides relevant information for managerial implications.

The increasing interconnectedness and interdependency in inter-organisational relationships boosts the effect of those relationships. They function both as a potential expansion trigger or a constraint for internationalisation. They also function as a *forming*

¹²⁵ I suggest that in some cases it would be appropriate to follow a certain project to analyse a piece of an internationalisation process, even if this is a collaborative project with other actors.

factor channel on a continuous basis. The impact of the network connections and structure constitutes a part of the driving force-system during the whole process of internationalisation.

The impact of competition is remarkable; it is another influencing factor. Competition pushes companies to enter certain business networks or leave networks (see the dynamics of Group FI, Group INT). Competitors as collective actors use their power to organise market configurations by repositioning others to the extent they can (many customers and prospects have been put out of certain market segments, many SMEs form invisible groups to anticipate an opportunity or a threat, but also large firms use their power collectively, like tobacco industry, see Chapter 6). Competition can influence a firm indirectly within the business network, since many firms have multiple roles; cooperating and co-opetiting. This kind of competitive impact, particularly in product and pricing-related aspects, may develop into a domino effect, which can be collusive to company strategy.

A firm strives to keep up and proceed in its evolution by re-positioning itself again and again in its business network configurations. When the business network-related platforms become internationally active, the firm faces the respective challenges and carries out similar efforts. Especially on a local level, the efforts and activities of one SME may function as stimuli for others. Certain contacts or activities may be directly forwarded to cooperative, co-competitive or co-existing firms when not applicable for the firm itself. This type of sharing and accumulation further enhances the development of individual firms and is often based on reciprocal thinking and personal relationships both in managerial and entrepreneurial networks.

It seems that particularly non-collusive, non-competitive activities in non-core business areas are discussed and forwarded to partners also in a loosely-connected business network. In the focal net there were several self-organising, loosely-connected manufacturing arrangements, where firms supported each other to obtain results in exports. Similarities with organised export groupings were noticeable (see Ghauri, Lutz and Tesform 2003).

The study supports the kind of reasoning Johanson and Mattsson (1988) presented on using the foreign business network's level of internationalisation and existing positions; the firms in the focal net tend to utilise the positions of other firms, but not only in the context of foreign market entry and exploration. They also use the positions for imports. The integration takes place through the business net utilising its further linkages and ties. The findings indicate a kind of stepping stone-thinking, in which a firm builds on the experiences and connections of others and capitalises on them in its own business. This kind of process emerges according to market opportunities.

The internationalisation process is rarely a single process emanating from clear circumstances. Rather, it is a continuously evolving relationship-activity-resource development and learning process occurring on multiple levels and dimensions. It is difficult to define which activities or relationships are of a purely international or cross-national nature. Firms do have an internationalisation strategy, but the SMEs studied indicate that this strategy has to adapt and react to the required changes. A turbulent business environment reduces the stability of the development.

8.1.2. Business network internationalisation process

The study confirms that a firm, an SME, internationalises in its own industrial and market setting where it has little influence on its wider network environment (see Skak and Meyer 2002). Business networks, such as the cooperative arrangements of the local converting and packaging industry, influence to a great extent the strategic development of the network and its parts, the firms. These business networks gain in coherence and competitiveness when they strive to obtain their goals¹²⁶, and they seem to have common characteristics in the internationalisation process. This is valid for a limited, defined business net that is built around an existing opportunity, like the emerging cooperative arrangements in this study.

The collective element emerging in business networks implies that the push and pull forces emanating from the immediate business network have more of a governing effect on the firms than the purely exogenous push and pull forces. The character of these endogenous forces makes them more clearly perceived and enacted upon.

However, in this study it was evident that these emerging opportunities and the self-organised business networks had a strong temporal limitation, which was defined by the opportunity. When the situation changed and the firms did not benefit from active network membership, they turned the respective business relationships into a dormant modus. The formation of the business network had a more stable core with few active dyads- business relationships. The horizontal parallel business networks involved in the focal net were rapidly changing constellations having distribution and subcontracting opportunities as their core interest. They also had an impact on the vertical network development, since the local horizontal arrangements in sales, distribution and converting significantly defined the market circumstances.

¹²⁶ Note, that the goals are not only the firms' goals, they represent common interests and are compatible, not concurrent.

The efforts of some firms and hub-firms may directly and indirectly become common efforts regardless of the original strategy chosen by other actors. The firms participating in a business net indirectly receive internationalisation-related and tacit knowledge and they have to encounter some challenges, which force them to learn and experience matters that are generated by the network, not by the firm's own planning. There is a clear accumulation of network effects in the sense that the strategically significant, powerful partners in the network seem to drive the network towards certain activities. The rest of the network structure is modified and changed accordingly to meet the requirements necessary to fulfil these activities; a fluid governance structure emerges. This coherence is not always explicit, nor clearly comprehensible. It is dynamic and it follows the market opportunities and threats. However, the mechanisms and patterns of impact require more attention.

Actors with strong positions use initiation-, synergy- and assistance-effect to manipulate the capability structure of their respective business network to exploit opportunities. They also attempt to hinder their competitors by using lack-, hindrance-, competition- and hierarchy-effect (Ritter 2000). The configuration of this "network management" is not visible; it is similar to a power structure and it does not have an organised form in the focal net.

The structure of a business network therefore has both negative and positive impact on a firm's internationalisation process and the respective business net internationalisation depending on the position and the opportunities encountered. It seems that, while the significant partners or parts of the network proceed towards increasing international activity, the degree of internationalisation is increasing in the network as a whole. This endogenous driving force functions as a platform, as a *Sprungbrett*¹²⁷ for the other firms being linked to the particular network. Even if a main part of the network de-internationalises in relation to a certain market, it seems that the other actors and participating firms continue to hold a part of the network's capabilities. The actors can continue the activities in a modified form.

8.1.3. The ARA model as a tool

The contribution of the ARA model is related to its interactive perspective. In this study it forms the intertwining logic for analysing where development takes place. ARA model (activity-resource-actor, see Chapter 2) is a rather generic model providing the core essence of the interaction dimensions. Still, it can offer three different focuses as theoretical

¹²⁷ A spring board (Das Sprungbrett-ponnahduslauta, myös kuv. , Klemmt et al. (1999) Suomi-Saksa-Suomi Wörterbuch, Gummerus kirjapaino Oy, Jyväskylä,p.1781)

tools for studying internationalisation. Until today a large part of research looking at foreign operations concentrates on investments, manufacturing and sales or searches for the initiating factors and stimuli. Another group of studies examines the paths, the process itself. Some scholars have concentrated on the learning and behavioural aspect.

What many managers and entrepreneurs worry about the extent to which they perceive “the whole picture”, a holistic view on what happens when internationalisation is initiated. This, in my opinion, is the main contribution of this “toolbox” provided by the network view, since it combines the core aspects of business without excluding any vital elements.

As a theoretical viewpoint the ARA model is valuable. However, SME firms need more explicit managerial applications. Decisions concerning partner selection, strategic alliances and contractual agreements need assisting tools. Managerially, the shortcomings of the ARA model for business applications are that it does not include time-dynamics or economic benefit as elements, not does it include any roadmap for managerial purposes.

Particularly in an international context, the multiplicity of the problems and the influence of the business distance require the incorporation of an open view when studying a firm’s activities and its internationalisation process. All three elements keep evolving. Each of them forms a vital part of the development path. Therefore, the ARA model would contribute more when inserted into a process view. The model could be adapted for understanding business dynamics in networks from a firm’s perspective to generate alternative scenarios for strategic decision making.

8.2. Implications for the development of theory

There are some aspects generated by the empirical part of the research that imply the need for changes either in the theoretical view or the phases of existing theories. It needs to be noted that many internationalisation-related studies have a certain contextual emphasis (e.g. Bell, 1995; Chetty & Campbell-Hunt 2003) or they explain only a certain aspect of development, such as the building of export activities (e.g. Bilkey & Tesar 1977; Cavusgil 1983).

This context-dependency when interpreting the findings and results is very relevant in SME internationalisation research. Based on the complex inter-related processes of the study, I tend to argue that only the generic type of explanations may be generally acceptable. Determining nomothetical models may be applicable for some aspects or pieces of the internationalisation process, but I doubt that a universal theory explaining SME

internationalisation is possible. When SMEs are researched, the research objects are so multifaceted that it already provides methodological problems.

The descriptive and explorative nature of this study provides only implications and modifications based on existing theories. It does not attempt to build any new holistic model on internationalisation. The study started inductively and followed abductively the empirical material on SME internationalisation. Therefore those theoretical approaches most related to the findings are selected for discussion and modification.

8.2.1. Process and network view versus incremental internationalisation theory

The theory-related implications suggest some modification potential. The findings here suggest that the step-by-step view and the deterministic incremental way of thinking are not supported. Instead, a process view having both forward and backward elements was supported, but the development did not indicate any determining order (cf. Luostarinen 1979, Korhonen 1999). As a group firms act differently, they learn gradually building on accumulated resources. They act in a non-incremental manner, collecting capabilities to match the requirements of the specific activity. The context dependency seemed to have a notable impact on these forward-backward developments. The findings did not support the idea of interrelatedness between phases, that after the first development phase the firm arrives at the second incremental development phase. The degree of internationalisation may decrease temporarily or permanently and it may be re-established (see Figure 3.6.). Theoretical models need to be flexible enough to be applicable to such multidirectional development patterns, which implies that process based theories are required.

The concept firm has changed characteristics and boundaries. The complexity and richness of the contemporary internationalisation process does not coincide with the “criteria” of the incremental view, unless it is applied for a particular activity as such. On a firm level it might indeed be out-dated; contemporary SMEs often have numerous activities and attempts running parallel in several markets. The empirical research indicates that studying the internationalisation of a firm as a process from a network perspective may provide an in-depth description and increase understanding of the dynamics and factors forming the development of the firm. The utilisation of combined process-network perspective generates usable managerial implications as well as invigorates the character of the firm as an actor.

The closest theoretical models (Johanson and Mattsson 1988, Blankenburg Holm 1995, Coviello and Munro 1997, Flechter 2001) were found to have similar aspects during the abductive research process, but there were compatibility problems when applying the models.

In network internationalisation theory (Johanson and Mattsson 1988) the criteria of the firms (that can be from the point of view of a department, a product or an activity) created definition difficulties because one firm may operate in Late Starter category and in another market the same firm may be an International Among Others with the same products. Also the dynamics were different in the sense that not only did the focal firm (Finnish) entering a new market use the existing positions of its foreign (Greek) partners, but also the local (Greek) firms used the positions of the other network members and the positions of the foreign partners (Finnish) for exploiting inward and outward opportunities. The Greek actors were actively using positions as tools to manage activities. The knowledge of internationalisation process (see Hadley and Wilson 2003, p.713) and foreign business relationships were shared here in a mixed manner, not in a bilateral manner only.

The degree of complexity makes the differences between the four categories difficult to identify, but it points out the value of the categories as assessment tools. I agree with comments presented by Chetty and Blankenburg Holm (2000, p.89) in relation to the applicability of the categories as such, that it is a not easy to use theoretical labels on evolving entities.

The study did not confirm the assumption concerning rational and strategically planned internationalisation process. The internationalisation strategy was not very coherent and rationally planned by the firms in the focal net. There was no clear development plan, which implies that the assumption of incremental planning does not apply for all firms. Naturally the strategy was based on expected economic or other benefits, but how this was to be obtained was largely based on reactive and socially-based interaction and intuition. These firms were using a mixed approach. Some strategic aspects, such as the type of operation were clearly stated, but the selection of export market areas was often left without respective attention. Business managers formed the strategy while working on the development; an a priori internationalisation plan was non-existent. Personal, entrepreneurial and managerial networks and contacts played a significant role in entry decisions and the selection of partners and modes of operations.

The findings supported Meyer and Skak's view (2002) on serendipity; that there were unforeseeable events, such as devaluation, bankruptcies and pure co-incidence. Still, these critical events had a major impact on a firm's international development and they require more theoretical attention.

8.2.2. Incremental thinking meets accumulation and heteronomous actors

Incremental thinking deserves its support in the sense that these SMEs are not all born globals, therefore their steps need to be in line with the resource structure. These steps are enhanced and even bypassed with the business network connections and the accumulated resources, when there are more experienced firms supporting the developing ones in the business network. The accumulation in the knowledge-pool and also the accumulation in social and entrepreneurial contacts seem to function as one very important, but invisible, resource platform (cf. Meyer and Skak 2002; Johanson and Mattsson 1988, p.484).

The gradual nature of learning sets another constraint for many SMEs, although the specialist organisation in the paper trade has many similarities with born globals having a global customer- and supplier-base from its initiation onwards. The pooling of specialists and key persons into a business network, having both strong and weak ties between themselves and with other actors, is significantly facilitating the transfer of learning and information. Sharing implies a degree of interdependency.

The study supports Laurila and Ropponen's (2003) findings that in the Finnish-based paper industry firms the role of ownership configurations had an impact on the firm's internationalisation pattern. It was one source of network effect in this study. They also found that firms in this industry tended to imitate one another in the way how they internationalised further. Also in this study the SMEs seemed to monitor other firms' activities and carry out similar experiments in accordance with their resource structure.

The interconnectedness and dependencies provide both constraints and opportunities for SMEs in their internationalisation process. The role of business networks becomes increasingly important and affects the autonomy of a business actor. The strong ties in a tightly defined business network constrain and affect the firm's behaviour and limit its degree of independence and autonomy in decision making (see also Chapter 2).

8.2.3. Modification of the actor: What is internationalising?

The section on empirical research stimulates the theoretical question which relates to the concept of the actor. In previous research it is normally a firm. Firm-related boundaries and activities are becoming increasingly blurred. The business net, outsourcing and subcontracting constellations are creating complex settings of activities, where one firm may have multiple positions and roles within the processes.

Theory reflects reality, but in internationalisation theory there are aspects that need more discussion. What is actually internationalising? How is it possible to concentrate only on

the perspective of the firm or firm-level aspects when so many important aspects are generated outside the firm? Should the emphasis be different? The data suggests that when searching for the dynamics, driving force and influence factors on the firm's internationalisation process, the firm as an actor needs to be seen as an entity in relation to its network environment.

8.2.4. An evaluation of the synthesis model

This study presents one internationalisation process, which begins with a reactive internationalisation strategy in a domestic network lacking in significant international experience when a market entry through a foreign network takes place. Its foreign network also was only partially experienced in international business. The situation had inherited potential for difficulties due to the degree of internationalisation. It makes sense to simplify and categorise situations of the internationalisation process to avoid theoretical and managerial myopia.

The level of internationalisation is examined on the basis of increasing market exploration and integration, which evolves as an embedded process. This process has a context and a temporal setting where actors, activities and resources interact. The process involves changes, critical events and the reasons behind them.

The supplier and customer relationship plays a major role as the channel of change and as an asset used in the internationalisation process. The findings agree that customer relationships are valuable constructs in the internationalisation process. This is true not only in terms of the relationship value (the customer's perceived value of the supplier relationship, e.g. Walter et al. 2002) from the customer's perspective, also from the seller's perspective. The customer relationship's value was indeed a major determinant that contributed to the stability and further development of the customer-supplier relationships (cf. Gemünder et al. 1996; Walter et al. 2002). Valuable relationships were also shared with other firms in the network and utilised in building knowledge platforms. The buyer-seller relationships are not only an outcome of interaction, but one of the driving forces in the development and internationalisation of the business nets.

The synthesis model of process and the network view on internationalisation highlighted an assumption on tendencies relating to the firm and its business network. The study indicated that there were tendencies related to international business which were generated by the focal net and the underlying processes. The focal firm developed an active

internationalisation strategy and multiplied its international involvement in general. At the same time it also triggered other actors to get involved in similar activities.

These tendencies relate to the degree of internationalisation of the actor and the respective domestic and foreign business networks. It was found that those firm-level internationalisation processes, like export experiments and new market entry, often had either an experienced firm or an experienced domestic business network supporting a relatively inexperienced firm (cf. Late starter Johanson and Mattsson 1988). In some cases internationally-experienced customers pulled the firm to participate in certain activities (similar to pull-effect). The data validated the view considering the role of the domestic platform and the foreign platform as a knowledge-pool. A locally-oriented inexperienced domestic network seemed to hinder or spell the demise of internationalisation-related processes in this study.

The focal firm started its international activities as a relatively inexperienced local firm not having a particularly international business network. Through the impact of those international pilot customers and other international partners, together with the experienced personnel of the firm, it managed to experiment and develop international activities with other markets, where the business networks were internationally experienced in terms of imports. After the changes in the ownership and network configurations of the firm, its degree of internationalisation and experience was boosted and it developed into a highly international firm.

The role of the highly internationalised network configurations was notable. The firm was able to enter the Greek market into a business network of less international firms, having mainly inward experience (only Partner GR was an exception). Despite the problems, the emerging network members started to internationalise further (outward activities) partially as a results of the increasing activity in imports and the more experienced Finnish partners. The increasing degree of experience and integration attracted other internationally-oriented Greek firms and the development process continued. If the situation in the original network context in 1994 is compared to the network context in 2004 the level of overall internationalisation in 2004 is significantly higher to that of 1994.

The data argues that the degree of internationalisation in a firm is indeed co-evolving with its network environment, both on a domestic level and on an international level. But if there are any general patterns, it is left to further research to explore them.

8.3. Policy implications

The study indicates the vital role of institutional actors, which have both a direct influence through their support programs, information services and knowledge sharing, and an indirect influence supporting certain industries and the circumstances with their policy. Access to these institutional actors and their services may represent one critical event. The inexistence of supporting services for the SMEs may be a crucial factor that alters the activities of the firm (see development of Partner GR and Buyer 5 in Chapter 6).

Trade politics and economic policies as well as local legislation and regulations impact firms. The impact may be of the outmost significance for SMEs. These types of impacts are unilateral; they are given to a firm with very little possibilities to change or modify them.

Since the geographical sample area includes mainly EU markets, the perspective remains somewhat limited. Elimination of trade barriers and the introduction of the Euro have simplified the problems related to customs and currency risks. Still, the role of harmonising European legislation in consumer-goods related items, such as food packaging and consumer safety, is required. Many less regulated industries, like newspapers and printed media, form their own typology of preferences in different geographical areas. The role of policy is much stronger in the food, medicine, health, cigarette and retail industry and this is one key area of interest when improving efficiency and cooperation across Europe. The harmonising and implementing of common laws and directives is a hot topics. Without the support of a business network an SME firm is not able to easily overcome the radical changes stemming from institutional actors.

If an SME that produces food packaging products has to struggle and adapt its product differently in different European countries, its exports and internationalisation processes are limited. For small firms this kind of interaction with legislative bodies and government institutions is often beyond their resources when it comes to foreign markets. Unclear transition periods also create severe problems influencing the investment possibilities.

Policies form a part of the opportunity structure of a firm. The implications for export and internationalisation policy imply that the government systems to support SME's in their internationalisation process need to be developed in a more context-dependent direction, in which the special nature of an industry is more efficiently taken into consideration.

Information services were of significant importance and therefore their role should be considered very seriously. For small inexperienced SMEs the utilisation of such services may represent an important point of access to resources. The tendency towards services with fees should be considered for only for consultancy services, such as customised support for a firm.

Their important role of the basic market-specific services could be marketed more and they should be easily available for SMEs. Customised services should be in continuous interaction with the firms. It should work like a radar system foreseeing and anticipating the problem zones and identifying opportunities for the firms.

8.3.1. Internationalisation and business networks

Export cooperation programs and support mechanisms are often initiated from outside the firm. They stem from external programs and interests. When building policy for SME internationalisation in the form of export cooperation, the initiation phase has received a lot of interest. As results aspects such as the number of firms still participating or how many found it useful to participate are emphasised. Naturally it is vital to modify programs to get the best possible results, but if the origin of the program stems from outside the firms and it focuses on the beginning phase only, then the rest of the development remains without support. The study indicated not only the difficulty to enter the market, but also the difficulty in holding a position as an actor in a foreign market.

The dynamics of business networks must be understood when creating tools and programs for an SME export policy that supports business networks. The participant firms in business networks need to be integrated and examined from a wider network perspective, in which the expectations, plans and cohesion of the firms create a good fit. Naturally occurring, self-organising business networks are not purely positive arrangements for the firms. There are firms which benefit from them and others which are being exploited by the others. The development is a dynamic process. In such situations a mentor organisation could be of assistance for guiding the SMEs on how to tackle their problems and how to plan their position and activity as part of an international business network.

8.4. Managerial implications

The study generates numerous managerial implications for internationalisation strategy and its application, particularly in managing business relationships and perceiving opportunities in an international context.

Existing business relationships, regardless of their intensity or interdependency, need to be considered as one key asset for the firm. The exploration and utilisation of these relationships initiates exports and imports and assists in further internationalisation. They form an unofficial but functional knowledge-pool with industry- and market-specific information and knowledge. Positive relationships, such as managerial and entrepreneurial

contacts and buyer-seller relationships, often introduce new relationships and new opportunities. This valuable channel of human-level interaction should not be underestimated in SME management. Business relationships may be the gateway for international expansion, regardless of their “size” or economic importance.

The tendency to rate business relationships only in economic terms according to their profitability or costs-to-serve may sometimes serve as a constraint on growth. The strategic importance of a foreign business relationship as a door-opener to another market and its connection to other foreign networks might be remarkable, even if the level of economic transaction does not provide convincing results in such a relationships. Understanding and perceiving the “position and role” of a relationship that connects the firm to foreign markets and business networks is one managerial capability needed in SME internationalisation.

The selection of the business network and partners is a most strategic issue for an SME. The managers need to monitor and evaluate which type of relationships they may obtain and maintain and which type of business network matches their strategic goals and plans. SME managers often have fewer resources than MNE managers to invest in a well-researched and well-planned market entry. Still, they encounter an increased risk of failure, since a problematic start with the wrong partners may spoil the image of the firm and its products for a long period of time and postpone or terminate the entry process. In the process of selecting foreign business partners, the network context of the partner and its network horizon should be analysed before committing irretrievably to the new partner.

After acquiring the foreign business relationships and network connections, the SME managers need to give particular effort to actively building the firm’s position. When threats occur the firm needs to re-formulate its business network structure both locally and internationally according to its needs. It should do this in order to avoid being constrained without reason or exploited without alternatives. There are larger trends and evolutions in the market that are not manageable for a single firm, but as a business network they have increased possibilities to overcome changes successfully. Even small SMEs may benefit from resource accumulation.

The case study implies that management needs to have a wider perspective and take network effects seriously. The network effect is often left to a passive or reactive side when managing the SME internationalisation process. There are indeed negative and positive networks effects guiding and shaping the opportunities of a firm. These effects (assistance, synergy, initiation, lack, hindrance, competition, hierarchy, neutrality, unitary neutrality and by-pass effect, see section 6.3.3.) are somewhat foreseeable (see Håkansson and Henders

1995; Håkansson and Lundgren 1995; Uusitalo and Möller 1997) or, at the very least, the SME's should study possible scenarios when organising their business network relationships. The power structure and activities evolve. In particular, the non-central actors should be objective concerning their position, whether they exploit opportunities or are being exploited or constrained.

Håkansson and Johanson (1992) suggest using actor, activity and resource networks in total network analysis. The findings show that the suggestion is worth considering. The forces impacting firms in business networks and the networks themselves that they identified should be included in the management program of SMEs (in Ford ed. 2002, p.149).

There are some common critical events stemming from the evolution of the focal net, which indicate that these aspects acquire general managerial interest, not only the interest of the respective sales or export people. There are managerial topics that require attention beyond that of a superficial economic view. If the internationalisation process of the firm is expected to be facilitated by the new business relationship, which will connect the firm to a new foreign business network. The main critical events obtained from the focal net research material are organised and combined with managerial concerns to support establishing foreign business relationships, see Figure 8.1.

Figure 8.1. Assessment of common critical events and the respective managerial aspects



8.5. Further research avenues

The study discusses several interrelated aspects of a firm's internationalisation process, while still leaving many questions open. The research questions needed limitations, but some of these limitations reduce the validity in the sense that the influence of context could have more of a determining role than expected. Further research into these issues might improve the quality of the results.

8.5.1. Social bonds, collective characteristics and their utilisation

The importance of social bonds - social, managerial, entrepreneurial and other personal networks - was amazingly high. It was not expected to influence the strategy and the evolution process to this extent. The social aspect was present affecting the decision-making processes in the firm notably. It did so not only in partner selection, but also in several other internationalisation decisions.

The collective character that emerged in the network was effectively utilised in business expansion, new product development, and new market entry and anticipating competition. Its invisible character makes its difficult to examine.

As these aspects seemed to have more impact than expected, it is suggested that the social networks in business could be studied in various geographical areas to create an updated "categorisation" of differences for the utilisation of social networks in business following Hofstede's steps. That would assist in comparing patterns of business in various geographical areas, with the importance of the social aspect "rated" accordingly.

8.5.2. The role of autonomy and the domino effect

The findings point out another problem area of the research; the unit of analysis (the firm) and the autonomy of a firm in decision making. It seems that in several situations the focal net firms are not able to act as they would like due to the configurations of exogenous factors. In the end, despite its active strategy, the focal firm has to react and adapt its strategy and activities to match the concerns of its business network and the wider network environment.

The domino effect on a firm has various impacts; it may be filtered and indirect or direct and radical. The way some domino effects accumulate across markets and within markets has played a serious role in the development of the focal firm. The SMEs are vulnerable due to their resource restrictions.

I would therefore recommend including the concept of autonomy to the perspective when examining a firm's internationalisation process; the strategy is perhaps not following the firm's own plan, but someone else's plan.

8.5.3. Cultural aspects: bicultural corporate interpreters

The cultural aspect of the study sets its own limitations, but it also stimulates questions relating to the actors. Many managers of local firms find it tiring and more difficult to work with their foreign counterparts since it entails a variety of culture-related problems; language, trading systems, mentality, decision-making pace and systems, varying preferences and so on. Culturally the most demanding part of the process is the beginning of the business relationship, when the adaptation phase is at its peak (cf. Elo 2003a).

Several participants suggested that the interaction with bicultural partners is different than with other foreign partners. Therefore the role of bicultural corporate interpreters requires more attention in bringing business network members together and enhancing the network's cohesion. The focal firm incorporates several individuals with a multicultural background, which makes a difference in comparison to many other SMEs.

8.5.4. Exploring the findings with a larger sample

This qualitative, limited case study does not offer the basis for any nomothetical generalisation or any genetic theory building. The instrumental character may assist other firms, but similar kind of processes embedded in export cooperation networks that would offer more relevant research material. This study has generated findings on the impact of business network in the internationalisation process of a firm that could be further explored in case studies or tested as hypothesis with a quantitative approach.

Though the role of the two types of business networks (domestic and foreign) requires more research, several propositions are put forward:

1. If it is assumed that the SME firm is inexperienced in international activities then the following propositions are made:

PIA. The Firm +international domestic business network+international foreign business network= an increasing degree of internationalisation of the firm, a higher risk of being exploited

The type of dynamics is present in the wider network where start-up companies in paper business encounter exploitative behaviour from established actors.

P1B. The Firm+ locally-oriented domestic business network+international foreign business network=possibilities for increasing the degree of internationalisation of the firm, but also higher possibilities for problems and failures.

Buyer 5 and its converting partners started export activities having almost no experience to compete internationally. Still, they were able to enter the Australian market and compete there with international actors in wrapping paper business. There were set-backs and problems due to numerous factors, but Buyer 5 and its partners increased their internationalisation degree through this activity.

P1C. The Firm +international domestic business network+locally-oriented foreign business network= an increasing degree of internationalisation of the firm, increased possibilities to connect to the foreign network and improve its degree of internationalisation

This is the way the focal firm started in the very beginning. It was local, but its domestic business network had international capabilities. The early attempts were not to highly competitive markets, but rather to more domestic-oriented niche-based networks in countries where pilot customers were located. The focal firm gained experience and connections.

P1D. The Firm +locally-oriented domestic business network+locally-oriented foreign business network= possibilities for increasing the degree of internationalisation of the firm, increased possibilities for problems

Buyer 2 started as a local manufacturer which was embedded in a local network. Its exports to African continent are directed to a very local business network. The exports are built on a friendship-based entrepreneurial tie, which overcomes the increased problem potential.

2. If assumed that the firm is experienced in international activities then the following propositions are made:

P2A. The Firm +international domestic business network+international foreign business network= an increasing degree of internationalisation of the firm, an increasing possibility to explore and exploit opportunities together

In the end of the research period Seller 1b has achieved this level in many markets, which has made it into an interesting partner for companies that would not previously be interested in it. Its contact network and experience are valuable assets that can be used for exploration and exploitation of market opportunities.

P2B. The Firm+ locally-oriented domestic business network+international foreign business network=possibilities for increasing the degree of internationalisation of the firm,

but also higher possibilities for problems and failures, and the possibility that the domestic business network benefits on behalf of the firm

Customer/sub-agent attempted to connect the local business partners with the already international Seller 1b and its business net. This attempt increased the international activity of those local partners for a period of time. However, Customer/sub-agent did not benefit from it. He faced numerous coordination problems with the local net.

P2C. The Firm +international domestic business network+locally-oriented foreign business network= an increasing degree of internationalisation of the firm, and increased possibilities to connect to the foreign network, improve its degree of internationalisation and capitalise on business opportunities

Seller 1b utilises its position to connect to less international networks in certain East European countries. The East European networks are improving their degree of internationalisation through cooperation with Seller 1b. Agent 2 uses her experienced domestic net to export to countries where customers in locally-oriented business networks provide sales potential for Agent 2, but they also benefit themselves. Both Seller 1b and Agent 2 have increased their degree of internationalisation through this activity.

P2D. The Firm +locally-oriented domestic business network+locally-oriented foreign business network= possibilities for increasing the degree of internationalisation of the firm, as well as other networks, and increase problems, which, if overcome, increase the possibilities to capitalise on business opportunities for the firm.

A prospect firm attempted to organise exports together with its local network to a foreign locally-oriented business network. They were unable to overcome the problems with paper-related products. Only product groups in consumer goods which were heavily supported by international groups were successful.

Further case studies may unfold also significant industry- and market-related characteristics. If any of the propositions P1A-P2D would be supported by quantitative research, it would considerably assist SME managers in orchestrating their business networks and their configurations for improved results. A second-level study on business networks would need to analyse each group separately for internal position-related dynamics. Development of measurable tools would be the next step. An interesting research topic would be to consider the position-related advantages for firms when the business network is seen as a system.

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 Turun Sanomat 1999-2004 several articles
 Helsingin Sanomat 2003-2004 several articles
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 www.smurfit-stone.com
 www.nipponunipac.com
 www.abiticonsolidated.com
 www.m-real.com
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 www.norske-skog.com
 www.meadwestvaco.com
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<http://www.mfa.gr/greek/greece/today/economy/index.html> 27.11.2003
<http://www.pakkaus.com/index.htm> 29.1.2004
 www.fhcc.gr
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Internal documents

Annual reports 1991-2003

Memorandums

Internal reports

Communication and correspondence (incl. e-mails)

Appendix 1. Research Protocol and List of Data Sources

The listing presents the sources of primary data per company. Secondary data is listed in Bibliography, references and other sources.

Due to the large amount of interview material all tape-recorded interviews are used as verbal primary material, then those interview sessions have been selected for transcription, which are most relevant for the research questions. Other interview and in-depth discussion material is used as field notes and observations.

The information without date implies a system of continuous information during the research period.

List of interviews and data sources per company:

Note. Interviewees are not named but marked according to a position in the company.

T-telephone interview

P-personal interview face-to-face

R-tape recorded interview

Seller 1b

Managing Director, Final participant validation: 1.10.2004 T
 Managing Director, Follow up questionnaire 1+2 February 2003
 Sales Manager 3(America, foreign representations) 30.3.2004 T
 Managing Director 2.3.2004 P R
 Sales Manager 2.3.2004 P R
 Sales Manager 19.12.2003 P R
 Sales Manager 2(sheets and other business in Mediterranean area) Follow up questionnaire 2 February 2003
 Managing Director 20.2.2003 P R
 Sales Manager 20.2.2003 P R
 Sales Manager 2 20.2.2003 P R
 Financial Manager 20.2.2003 P R
 Sales Manager 19.8.2003 P
 Sales Manager 26.7.2001 P
 Sales Manager 12.2.2001 P
 Annual reports 1996-2003
 Internal documents
 Market reports
 Memorandums
 Communication between Seller 1b and Agent
 Communication between Seller 1b and Partner GR
 Communication between Seller 1b and Buyer 1
 Communication between Seller 1b and Buyer 2

Seller 1 b continues

Communication between Seller 1b and Buyer 3
 Communication between Seller 1b and Buyer 4
 Communication between Seller 1b and Buyer 5
 Communication between Seller 1b and Buyer 6
 Communication between Seller 1b and Buyer 7
 Communication between Seller 1b and Customer/sub-agent
 www.pages

Seller 1

Sales Manager 27.2.2004 P
 Managing Director 27.2.2004 P (only field notes)
 (Note. Sales Manager 1b and Managing Director 1b were in the same position in company Seller 1 and Seller 1a until it got merged with Seller 1b)
 Annual reports 1991-2003
 www.pages

Seller 2

Sales and Marketing Manager 22.4.2003 T
 Sales and Marketing Manager 2.7.2001 P
 Communication between Seller 2 and Agent

Seller 2 continues

Company related printed material
www.pages

Partner GR

Managing Director, owner 17.9.2004 T R
Communication between Partner GR and
Seller 1, 1a and Seller 1b
Communication between Partner GR and
Agent

Potential Partner

Director of the board, owner 20.7.2004 T
www.pages

Group INT

Managing Director (in pension, member of
board at Seller 1b) 17.9.2004 T R
www.pages

Group Major INT

Sales director 1.10.2004 T R
Follow-up questionnaire 9.9.2004
www.pages
newspaper articles

Agent 2

Managing Director, owner 5.4.2004 P R

Local end customer, Supermarket

Purchasing Manager 13.4.2004 P

Buyer 1

Communication between Buyer 1 and
Seller 1, 1a,1b
Communication between Buyer 1 and
Agent
Economic report

Buyer 2

Managing Director, owner 15.4.2003 P R
Company documents
Economic report
Communication between Buyer 2 and
Seller 1, 1a, 1b
Communication between Buyer 2 and
Agent
www.pages

Buyer 3

Communication between Buyer 3 and
Seller 1, 1a and 1b
Communication between Buyer 3 and
Agent
www.pages

Buyer 4

Communication between Buyer 4 and
Seller 1a,1b
Communication between Buyer 4 and
Agent
www.pages
(Note that Buyer 6 Managing director,
owner was the same contact person of
Buyer 4)

Buyer 5

Managing Director, owner 4.4.2004 P R
Commercial Director, owner 4.4.2004 P R
Managing Director, owner 14.4.2003 P R
Commercial Director, owner 14.4.2003P R
Communication between Buyer 5 and
Seller 1, 1a and 1b
Communication between Buyer 5 and
Agent
Company documents

Buyer 6

Managing Director, owner 6.7.2004 T
Managing Director, owner 9.4.2004 P R
Managing Director, owner 8.12.2003 T R
Managing Director, owner 18.10.2003 T
Managing Director, owner 14.4.2003 P R,
partially tape-recorded
Communication between Buyer 6 and
Agent
Communication between Buyer 6 and
Seller 1b
Agreement between Buyer 6 and Seller 1b
Other documents

Buyer 7

Sales Manager 1 14.4.2003 P R
Sales Manager 2 14.4.2003 P R
(Note that there is a dual role of Sales
Manager since 2004 being also Buyer 6)
Communication between Buyer 7 and
Seller 1b
Communication between Buyer 6 and
Agent

Buyer 7 continues

Company documents

www.pages

The Griffin

Prospect-Local newspaper

Owner 17.4.2004 P R

Communication between Newspaper and Agent

Publishers' association of Regional Hellenic Daily Press

Member of board 17.4.2004 P R

Customer/Sub-agent

Managing Director 5.4.2004 P R

Managing Director 3.2.2004 T

Communication between Customer/sub-agent and Seller 1b

Communication between Customer/sub-agent and Agent

Finnish consulting company in paper business

Leading consultant, Industry Specialist

24.8.2004 T

www.pages

Appendix 2. Supporting questionnaires for semi-structured interviews

1. Preliminary research phase: Culture and trust in business networks, 2002

Kyselylomake

1. Miten oma suomalaisuutenne vaikuttaa mielestänne kansainväliseen yhteistyöhön (myyntiin/markkinointiin/johtamiseen/muuhun) ?
2. Mikä mielestänne suomalaisessa kulttuurissa vaikuttaa positiivisesti/helpottaa kansainvälistä yhteistyötä?
3. Mikä mielestänne suomalaisessa kulttuurissa vaikuttaa negatiivisesti/haittaa kansainvälistä yhteistyötä?
4. Miten kuvailisitte kreikkalaista tapaa tehdä yhteistyötä ja kokemuksianne yhteistyöstä kreikkalaisten kanssa?
5. Miten kuvailisitte suomalaista tapaa tehdä kansainvälistä kauppaa ja yhteistyötä?
6. Sopivatko mielestänne suomalainen ja kreikkalainen tapa tehdä yhteistyötä keskenään?
7. Jos ei, niin miksi ei?
8. Voivatko kansainväliset yhteistyöverkostot selvittää erilaisen mentaliteetin ja kulttuurin aiheuttamista ongelmista?
9. Miten tärkeä on luottamuksen merkitys teille kansainvälisissä yhteyksissä ja kaupankäynnissä?
10. Miten paljon luotatte kauppakumppaneihinne Kreikassa?
11. Miten luottamusta voisi lisätä näiden kauppaa käyvien osapuolien välillä?
12. Mikä on oma teorianne luottamuksen kehityksessä kansainvälisessä kaupassa ja yhteistyössä?
13. Uskotteko, että yritykset oppivat ajan myötä tekemään yhteistyötä erilaisten mentaliteettien ja kansallisten kulttuurien kanssa?
14. Haluaisitteko lisätä jotain tai kommentoida muutoin?

Ερωτηματολόγιον

1. Τι σημαίνει στις διεθνείς συναλλαγές κατά την αποψη σας το να εισαι Ελληνας ;
2. Ποια είναι κατά την αποψη σας τα θετικά στοιχεία της ελληνικής καλλιέργειας τα οποία σας διευκολύνουν στις διεθνείς συναλλαγές ;
3. Ποια είναι κατά την αποψη σας τα αρνητικά στοιχεία της ελληνικής καλλιέργειας τα οποία σας εμποδίζουν στις διεθνείς συναλλαγές ;
4. Ποια είναι η αποψη σας για τον φινλανδικό τρόπο συναλλαγών και πως θα περιγράφατε την εμπειρία σας, να συνεργάζοσαστε με Φινλανδούς ;
5. Περιγράψατε αναλυτικά ποιος είναι κατά την αποψη σας ο ελληνικός τρόπος διεξαγωγής συναλλαγών ;
6. Κατά την αποψη σας ταιριάζει ο ελληνικός με τον φινλανδικό τρόπο διεξαγωγής συναλλαγών ;
7. Αν όχι, για ποιον λόγο ;
8. Μπορούν τα διεθνή δίκτυα συνεργασίας να ξεπεράσουν προβλήματα διαφορετικής νοοτροπίας και καλλιέργειας ;
9. Ποσο σημαντικό είναι για σας το θέμα εμπιστοσύνη στην διεξαγωγή διεθνών επιχειρήσεων ;
10. Κατά ποσον εμπιστευόσαστε τους εμπορικούς σας συνεργάτες στην Φινλανδία ;
11. Πως θα μπορούσε να αυξηθεί το επίπεδο εμπιστοσύνης ανάμεσα στα δύο συναλλασσόμενα μέρη ;
12. Πως θεωρείτε ότι εξελίσσεται το θέμα εμπιστοσύνη στις διεθνείς συναλλαγές ;
13. Νομίζετε ότι οι επιχειρήσεις μαθαίνουν σταδιακά να συναλλάσσονται με διαφορετικές νοοτροπίες και εθνικότητες ;
14. Θα θέλατε να προσθεσετε κάτι ή να κανετε καποια παρατηρηση ;

2. Wrapping up development of firms' for the last phase of the study, 2004.**Internationalisation of the firm**

Semi-structured

Company name, name of informant

Date

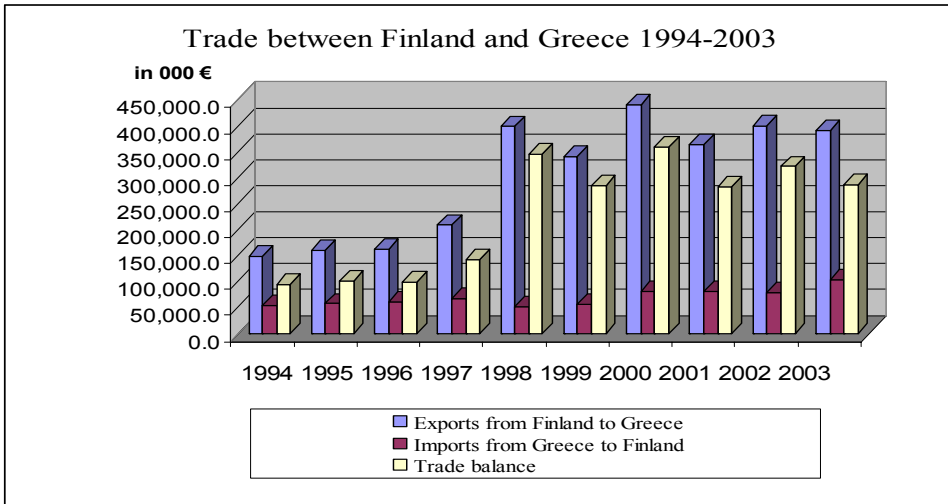
Place, country

1. Why international activities?
2. When did international activities start with and how?
3. How did it develop?
4. What has been successful?
5. What has been unsuccessful?
6. What have been the most important changes or events that have influenced the internationalisation of your firm/your international activities?
7. What has caused these changes or events?
8. If explained in a nutshell what is the story of your firm's internationalisation 1994-2004?
9. The most important events and changes concerning your international operations 1994-2004 –(Chronological map/drawing from informants)

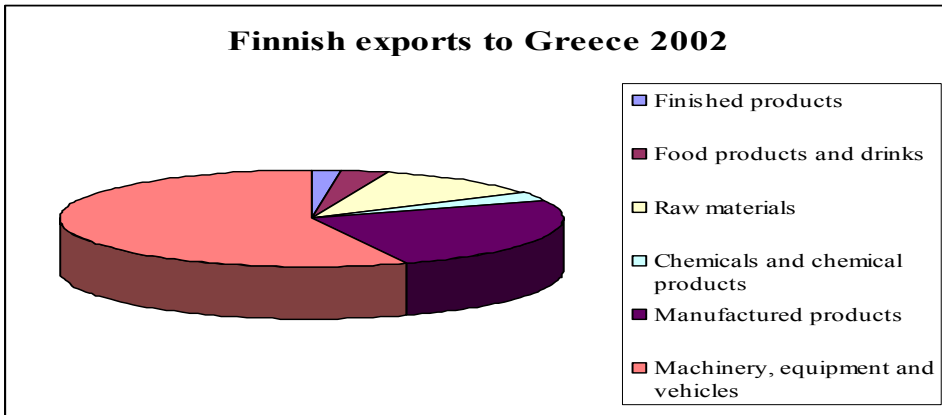
Appendix 3. Finnish exports to Greece

Trade figures and shares

Source for all: Tullihallitus



The structure of Finnish exports according to main categories in 2002



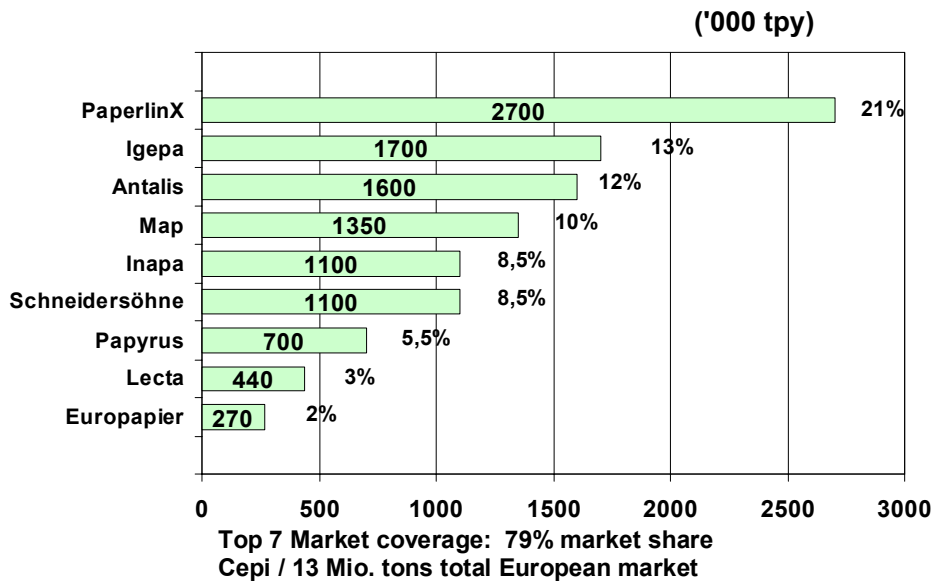
Finland's 10 most important export products in 2002, preliminary calculations

| SITC code | Million € | Share % | Change % |
|---|-----------|---------|----------|
| 1 76 telephone, radio, tv, etc equipment | 174,9 | 45,3% | 16 |
| 2 64 Paper and paperboard and manufactured products | 84,8 | 22,0 | -1 |
| 3 24 wood and cork | 28,0 | 7,2 | 34 |
| 4 72 special machinery for diff. industries | 13,5 | 3,5 | 56 |
| 5 79 other vehicles | 11,5 | 3,0 | 6053 |
| 6 02 diary products and eggs | 8,9 | 2,3 | -31 |
| 7 21 leather, fur skins and fur | 7,6 | 2,0 | -1 |
| 8 74 general use industrial machinery and equipment | 6,7 | 1,7 | 263 |
| 9 77 other electrical appliances and equipment | 6,4 | 1,7 | -17 |
| 10 25 paper pulp | 4,7 | 1,2 | 338 |
| 10 most important categories total | 347,0 | 89,9 | 8 |
| All export | 386,1 | 100,0 | 6 |

Appendix 4. The market players in paper sales: Strategic alliances in Europe

Major Fine Paper Merchants in Europe

Sales Volumes & Market Shares in 2004



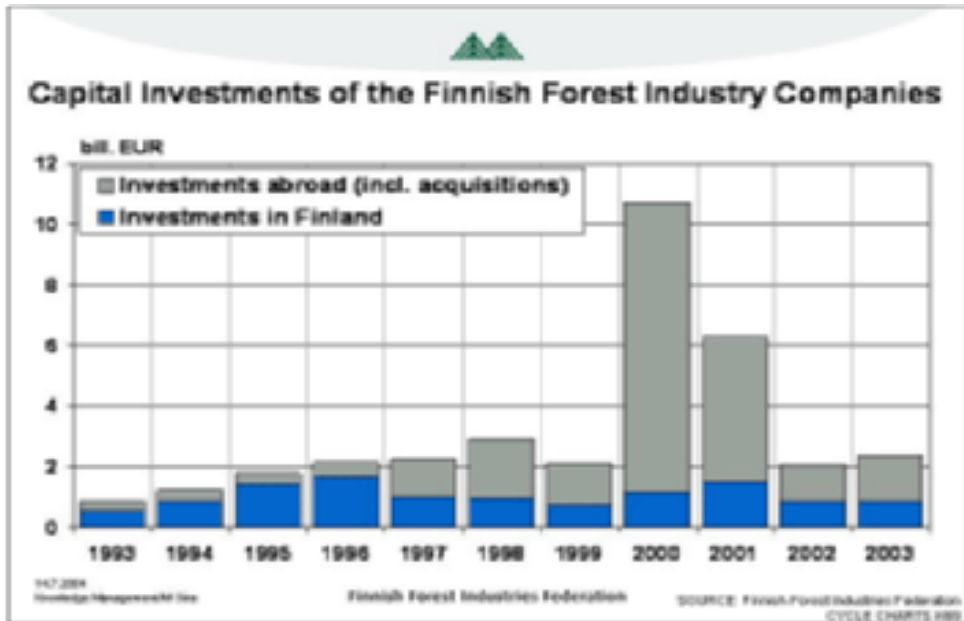
Source: UPM Kymmene/KK /Group FI 19.1.2004

Appendix 5. Finnish Forest Industry Acquisitions

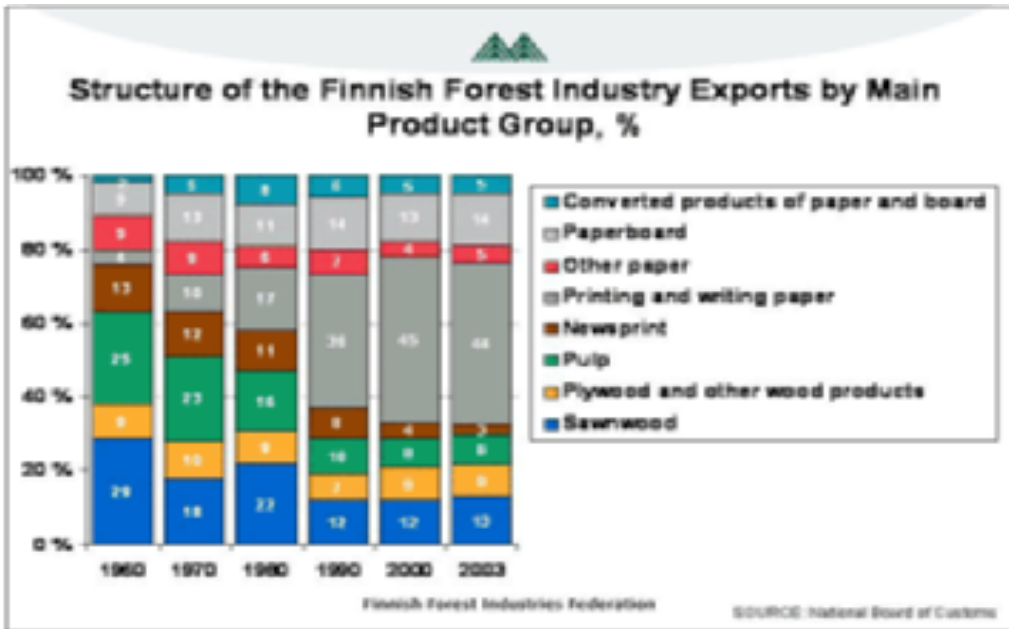
Acquisitions of Finnish Forest Industry 1999 - 2001

| Buyer | Object | Country |
|--------------------------------|--|---------|
| 1999 | | |
| Corenso United (Stora Enso) | Mandriladora Tolosana (72 %) | Spain |
| Metsä-Serla | Cartonpack | Greece |
| 2000 | | |
| Stora Enso | Consolidated Papers | USA |
| Metsä-Serla | Modo Paper | Sweden |
| Metsä-Serla | Cofinac | Hungary |
| Metsä-Serla | Zanders Feinpapiere | Germany |
| UPM-Kymmene | Repap | Canada |
| UPM-Kymmene | Changsu | China |
| Lohjan Paperi (UPM-Kymmene) | Rexam | USA |
| Ahlström | Ascoli Paper | Italy |
| Ahström | Johan Nelsbach | Germany |
| 2001 | | |
| M-real | S.A. Meulemans | Belgium |
| Finnforest | Moelven Industrier | Norway |
| Corenso United (Stora Enso) | Hangzhou Corenso Hualun Paper Core (51 %) | China |
| UPM-Kymmene | Haindl | Germany |

(Source: Metsäteollisuus ry, 25.11.2003 and 25.11.2004 <http://www.forestindustries.fi/talous/vienti/>)



Appendix 6. Structure of the Finnish Forest Industry Exports 1960-2003



Appendix 7. Paper Industry: Product related information

PAPER BASED PACKAGING MATERIALS AND PRODUCTS

Case Materials: paper and board mainly used in the manufacture of corrugated board. They are made from any combination of virgin and recovered fibres and can be bleached, unbleached or mottled. Included are kraftliner, testliner, semi-chemical fluting, and waste-based fluting (Wellenstoff).

Folding Boxboard: often referred to as carton board, it may be single or multiply, coated or uncoated. It is made from virgin and/or recovered fibres, and has good folding properties, stiffness and scoring ability. It is mainly used in cartons for consumer products such as frozen food and for liquid containers.

Wrappings (up to 150 g/m²): paper whose main use is wrapping or packaging made from any combination of virgin or recovered fibres, bleached or unbleached. They may be subject to various finishing and/or marking processes. Included are sack kraft, other wrapping krafts, sulphite and grease proof papers.

Other papers mainly for packaging purposes: this category embraces all paper and board mainly for packaging purposes other than those listed above. Most are produced from recovered fibres, e.g. greyboard, and go to conversion, which in some cases may be for end-uses other than packaging.

PRINTING AND WRITING PAPER

Writing paper: this is uncoated woodfree paper, suitable for printing or other graphic purposes, where at least 90% of the fibre furnish consists of chemical pulp fibres. Uncoated woodfree paper can be made from a variety of furnishes, with variable levels of mineral filler and a range of finishing processes such as sizing, calendering, machine-glazing and watermarking. This grade includes most office papers, such as business forms, copier, computer, stationery and book papers. Pigmented and size press "coated" papers (coating less than 5g per side) are covered by this heading.

Printing paper: also known as coated papers, is all paper suitable for printing or other graphic purposes and coated on one or both sides with minerals such as china clay (kaolin), calcium carbonate, etc. Coating may be done by a variety of methods, both on-machine and off-machine, and may be supplemented by super-calendering.

NEWSPRINT AND MAGAZINE

Newsprint: paper mainly used for printing newspapers. It is made largely from mechanical pulp and/or waste paper, with or without a small amount of filler. Weights usually range from 40 to 52g/m² but can be as high as 65g/m². Newsprint is machine-finished or slightly calendered, white or slightly coloured, and is used in reels for letterpress, offset or flexo printing.

Magazine paper: this is uncoated mechanical paper, suitable for printing or other graphic purposes where less than 90% of the fibre furnish consists of chemical pulp fibres. This grade is also known as groundwood or wood-containing paper and magazine paper, such as heavily filled super-calendered paper for consumer magazines printed by the rotogravure and offset methods.

SANITARY AND HOUSEHOLD

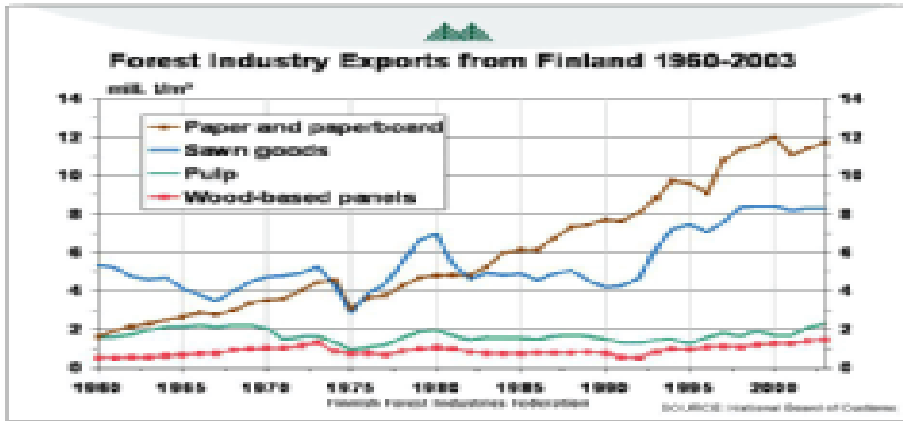
This covers a wide range of tissue and other hygienic papers for use in households or on commercial and industrial premises. Examples are toilet paper and facial tissues, kitchen towels, hand towels and industrial wipes. Some tissue is also used in the manufacture of babies nappies, sanitary towels, etc. The parent reel stock is made from virgin pulp or recovered fibre or mixtures of these. It is reported in the production statistics at parent reel weight before conversion to finished products. Import and export statistics however take into account trade in both parent reels and finished products.

OTHER - SPECIALISED PAPERS

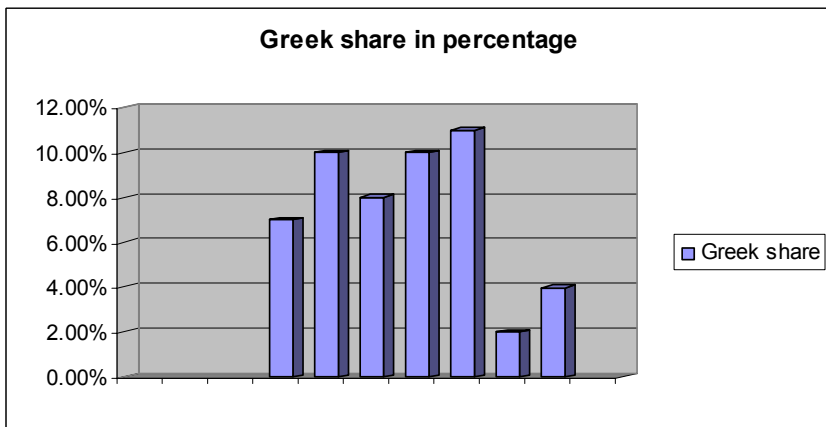
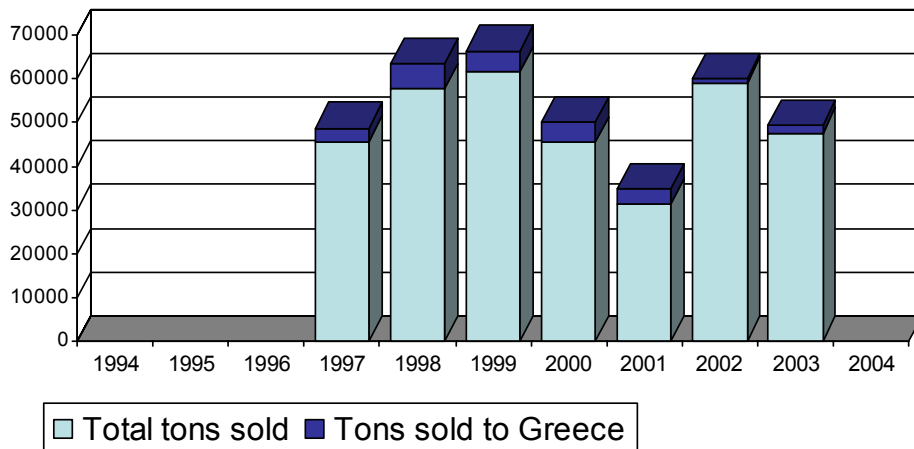
This category includes other paper and board for industrial and special purposes, including cigarette papers and filter papers, as well as gypsum liners and special papers for waxing, insulating, roofing, asphaltting, and other specific applications or treatments.

Source : <http://www.paperonline.org/> 26.1.2004

Appendix 8. Finnish export and Focal firm sales and export development



Total sales of focal firm and the share of sales to Greece in tons



Note, that the figures concern only Seller 1b. Sales figures of Seller 1a are not included.

Appendix 9. Focal firm's economic development in a nutshell (Seller 1b)

The firm Seller 1b in its current form exists since 1996. Due to the merger the relevant development data starts from the time period after the merger.

Seller 1b (from Group INT) in its original version started in 1995 as a small firm. Its existence was boosted when a large company Major Group INT in paper and board business became its owner through its subsidiary and operations were started in 1996. The first year turnover from Seller 1b was 18,2 million FIM. The company employed 11 persons.

In 1997 the company had a turnover of 124 million FIM and employed 13 persons. The Asian economic situation had a direct impact on the company's sales and strategy. 1998 was the year before the merger with Seller 1a; the turnover reached 152 million FIM. The situation was not developing in a positive direction due to the economic crisis in Asia and America, which have influenced the demand for printing papers. The Russian economy has influenced the demand in packaging industry particularly in Finland, but also in Europe. The sales prospects were decreasing and price competition was increasing.

In 1999 "significant changes in company's operations" took place. End of April 1999 50% of Seller 1b's shares were sold to Group FI, which in its turn paid with the shares of Seller 1a. Seller 1a was merged to Seller 1b in the end of year 1999.

Other small shareholders were the managing directors and also another European paper sales network. The managing director changed and the new managing director came from the Group FI.

The activities changed and increased with warehousing and cutting, rewinding and packaging services. The turnover of 1999 grew by 3 million € accounting for 29 million €.

The results of 2000 indicated the changes originated from the rewinding services, otherwise there were no significant functional changes, nor product/market-mix related changes. The turnover was 27 million €. The prospects for the year 2001 were believed to be positive although the price development was not favourable.

However, in 2001 the year was unfavourable, the market situation deteriorated and the company's turnover sank to 19 million € decreasing 29%. There were no expectations of positive development for 2002.

The year 2002 was a successful year for the firm as there were large amounts of paper available due to low demand and the US dollar supported sales in non-European markets. The company's turnover arose to 35 million €.

There were changes in the ownership of the Seller 1b, as the Group FI and the European paper sales network sold their shares to the Group INT, which now owned 96% of the firm.

The expectations were careful, since the price development trend was expected to turn up and the international political and economic development was influencing the activities.

The year 2003 had two-fold developments; there were a good availability of paper, but the demand was low. The lowered value of US dollar hindered sales outside Europe. The turnover decreased with 28% accounting for app. 25 million €.

The company expects the paper prices to stop decreasing in 2004, but it estimates the sales to stay low in the first half of 2004.

Appendix 10. Firms in the focal net

Partner GR was a consulting company of two well-established businessmen and industrialists, who were involved in several business activities due to their ownership and activity configurations. The daughters of the owners were also actively involved in business. New types of operations were considered to diversify the company's activities but also to give additional future responsibilities for the next generation.

The company located in Athens had large customers and extensive connections across Greek industry and business. The firm employed app. 6 persons. The company was closed down in 2002 as its core business divisions had shifted to other sectors, such as telecommunication, building and human resource management.

Agent is a small family-owned consulting and trading company established in 1990 in Finland. It started operations in Greece in 1993 and continues them still in 2004. The Greek operations are carried out by one person in the company. The firm has worked with several Finnish and Greek firms and is specialised in Finnish-Greek business. Paper business and business consulting form the company's main activity. The activities were reduced by the merger of Seller 1a to Seller 1b and further due to private reasons in 2002.

Agent 2 is a small Athens based firm, which was established in 1996 as "a one-woman show". The owner became an entrepreneur as the market and several sales and distribution configurations were restructured and the opportunity structure changed. She has a long background in Greek paper business and an extensive network of connections. The firm employs two persons and represents several firms in paper business. It is an agency and does not have warehousing of transport facilities of its own; instead the goods are forwarded directly to customers from the suppliers.

Buyer 1 was a family company established in 1984 run by a father and a son in Moschato, Athens. It was a manufacturer of carnival serpentine paper, confetti and paper bags. Its other activities were processing of wrapping and packaging paper, manufacturing of paper tapes for calculators and cash registers, flexographic printing, wholesale of paper products and paperboard for bookbinding, imports and wholesale trade of paper (for food products and telecovers). Share in the company (50%) were acquired by Partner GR. In 1997 the company's turnover was app. 5 million FIM, it employed 30 persons and had 3-4 paper bag machines, one laminating machine and a 6-colour flexoprinting machine. Seller 1 was the most important supplier for MWC, which was transformed into wrapping paper for wholesale and retail business. Its other suppliers for paper were: General Paper SA, Viochartiki SA, Inexeco, Cartonol and Riviano. 80% of activities were manufacturing and 20% sales and wholesale. The company went bankrupt in 1999.

Buyer 2 is a fast growing company in the pastry, food and packaging industry. It was established in 1987 occupying a space of 250m² at Peristeri. In 1997 it had 25 employees and a turnover of 472165 million GRD. It exported 1% of turnover to Cyprus.

By 2003 already 40 specialised persons were working in a space of 3 600m² in Piraeus with contemporary machinery. It is a family-owned company. Buyer 2's machinery resources consist of three offset printing machines, two- and four-colour, and eight cutting machines.

It has a wide variety of packaging product solutions for its customers in food and other industries. It concentrates on raw materials based on paper, paperboard, PE and other laminating materials. The main products are: pastry boxes, handle gripped boxes, Christening boxes, chocolate boxes, wrapping papers, self-glued labels, cellophane, soft plastic bags, ribbons, laces, cardboard discs, candy papers etc.

It has more than 1000 customers, mainly pastry shops, pizza shops, bakeries, fast food shops, shoe manufactures etc. Buyer 2 exports to Cyprus, Ukraine and Australia. In 1997 it imported paperboard in sheets 1500 tons per year from Indonesia, Italy and Germany.

Buyer 2 has an entrepreneurial contact with the owners of Buyer 5.

Buyer 3 is a family company in food packaging business, which expands its activities to cover additional products and target markets. It was established in 1982 as a personal company and became immediately active in the packaging of agricultural and industrial products. As from the start, the company's activities were divided into two main streams: Trading activity (selling out of stock) and Commercial agent's activity (selling on behalf of third parties). During the following years, the firm diversified into a wide range of packaging machines and materials and expanded its personnel and resources basis. During the same period the areas of its functional contact were extended over a wide range of market segments. Recently, buyer 3 modified its legal form to an SA. It employs 20 people covering the whole of Greece, selling machines and materials out of five strategically located posts, all over the country. A full technical service is provided for all the machines and systems sold by the company. The firm is divided into eight strategic business units which are considered as "product groups" and serve the various sectors of the market and particular customer requirements. The main company philosophy is to encompass activities which include the selling of machines and consumable products, to serve those machines. Therefore, their marketing strategy, during the last years, has developed into "a system's philosophy" and they assume complete responsibility of servicing the "system". The firm applies "synergy strategies" to develop further

Buyer 4 is established first in 1955/57 as an agency, but in 1975 it was re-established as a supplier for paper and pulp and coatings industry. It is a wholesale and importing company. It is located in Athens and operates in Greek area, having a sales network in Bulgaria, Syria and Italy. Buyer 4 has three major divisions: chemical, textile and paper business. It represents in Greece the firms Abitibi Consolidated, Papeteries de Gascogne, International paper, Ripasa, Apex International, Tiruna St, Texo, Wilfried Heinzl, Fisat, Wiretec, Wetapress, Fossaluzza, De Eendracht BV. The paper divisions trade publication and packaging papers. Buyer 4's strategic target group consists of SME customers. It has warehouses in Piraeus and since January 1996 a new warehouse in Thessaloniki (serving customers in Northern Greece as well as existing customers in neighbouring countries).

Later the sale of the paper division and its activities to a competitor changed the balance among divisions.

The annual turnover in 2003 reached 10,3 million € and for 2004 a turnover of 11,3 million € is expected, the expectations included a 10% growth. The firm exports 15% of its production which corresponds to 9% on total sales to various countries such as Italy, Cyprus, Bulgaria, Romania, Syria, etc.

Source company's www.pages 5.7.2004.

Buyer 5 is a small converting firm owned by two entrepreneurs, who share the management activities and a long history in conversion. It has been established in 1986. Buyer 5 was the first firm in Greece to laminate with PE and print PE-coating in Greece.

It manufactures various wrapping papers, laminates and prints and functions as a subcontractor in paper bag market. The main partners are in supply of paper and plastic film, but also manufacturing of specialty products and paper bags. In customer sector the large organisations and groups in retail together with institutional buyers form the significant connections.

In 2002 the turnover was 370 000€, incremental growth has been the system of expansion.

The firm has very restricted resources due to its small size, but it has been growing steadily both in turnover and in activities in different market areas and product categories.

Buyer 5 started in 1996 to import some paper from Hungary and Egypt from Zeritis, a Greek group of companies in paper production. In 1996 they started with the assistance of Greek embassy to negotiate on sales to Australia. Wrapping paper exports started in the same year. They cooperated with Buyer 2, who is a part of their personal and entrepreneurial network, forwarding their contacts further in 1999. (Buyer 2 started to export to Australia). Buyer 2 suggested them to contact Agent. As a result they started to import Finnish paper from Agent/Seller 1b in 2000. In 2001 Buyer 5 started to expand exports to Cyprus and do some experiments in the German markets. 2002 they exported wrapping paper to Italy through another personal connection in Patras.

2003 They started to import paper from Romania, Agent and Seller 1b had no such qualities to offer. 2004 They started to re-import paper from Egypt and in 2004 they started to import ink from Germany and Holland.

Buyer 5 owners are friends of Customer/sub-agent.

Buyer 6 is a company being established in 2004, an agency serving and supplying customers in printing and packaging. It is established to function as a sub-agent for Seller 1b and Agent serving customers with stock lot paper and board and additional standard qualities in kraft papers. The company is initiated by a close relative with long history in paper business that planned the activity structure together with Agent and Seller 1b. This is a family company with strong indications to become a growth company in its field. Due to the company's situation no economic, nor historical data is available, but its role in late 2004 is developing clearly towards a Partner GR2. The company's main asset is its extensive network of business relationships all over Greece and abroad. Two persons will be working for the firm in the beginning. Buyer 6 is a long-term contact of Agent and a previous colleague of Agent 2. Buyer 6 has a managerial contact to Buyer 4 and to Buyer 7.

Buyer 7 is a major wholesaler in Greece. It is established in 1951 by the grandfather, whose son and then the grandsons continue the activities. The oldest son with his own sons also established in 1993 an importing and wholesale company for graphic and printing industry. In 1997 the two firms merge and the younger generation takes over the management. In 1998 another investor, an owner of a paper wholesale company, buys a share of Buyer 4 and a new merger takes place. Immediately after, another firm in the field is taken over to increase market share and customer base. In 1999 negotiations with the largest group in printing and publishing business start, this group buys 50% of the company and the company becomes a supplier for the group's two subsidiaries in paper business. Buyer 4 buys then 60% of another well-established

player in the Greek paper business and expands geographically to northern Greece and Peloponnesus. New markets in photocopy paper and household paper are entered. The company triples its turnover in a short time and becomes the major paper wholesaler in Greece, the first in 2001 and 2002. In 2002 changes in board level of the investing group lead to repurchase of the shares sold (50% 1999) and the Buyer 7 re-establishes its independency.

The firm remains a top wholesaler, which also has modern machines for cutting, sheeting and rewinding up to 12.000 tons per year.

The main suppliers of the firm are Myllykoski, Stora Enso, UPM Kymmene, Clariana, Inapa, JAC, Sappi, Manager, MMCarton, Canda Cartiere, Arjo Wiggins, Norske Skog, Sarego, SCA, Zanders, GPV, Idem, Congueror, Forest Alliance, Abitibi Consolidated, Cartiera di Toscolano.

Prospects:

Wholesale company in Kifissia, Athens. The family company was once a leading company in carbonless paper sales, representing several firms from Germany and France. The company is established in 1996 and it has 15 employees. It works on exclusive imports and wholesale trade of paper and stationary. The product range covers computer supplies, office machine supplies, paper, paperboard, stationary, ecological paper, office goods and school stationary.

Due to the bankruptcy of its main supplier in Germany the company activities declined rapidly as locally-based suppliers refused to supply the firm therefore excluding it from certain product categories and markets. By the end of 2004 the company had no activity.

Family-owned, successful converting and importing wholesale firm in Aspropyrgos, Attica. Potential customer with whom a managerial contact exists, but the products are not having the required quantity.

Wrapping paper manufacturer in Athens, which is a previous customer through Buyer 5 and Customer/sub-agent. The manufacturer produces packaging solutions for local supermarkets and retail chains. A small family company which is expected to be sold when the owner-entrepreneur generation retires; Buyer 5 will possibly acquire the company.

Printing and packaging firm in Athens, a previous customer through Customer/sub-agent, who had problems with delivery and rejected further cooperation. Entrepreneurial contact of Customer/sub-agent.

Printing house in Athens, a small specialised high quality printing house working on books, posters, leaflets, advertisements and such. The cooperation has been constrained due to the small size of order per paper quality and the lack of warehouse of the Seller.

Printing house in Athens, a good dynamic and growing prospect, with whom a procedure was started, but during the merger of Seller 1a and b, the firm became a customer of Buyer 7 instead.

A large printing house in Attica, which became a Seller 1b's most significant customer late 2004 due to Buyer 6's role as an intermediary. Previously this firm has no direct import, nor any contact to Seller 1b.

Wholesaler and agent of paper and board, a family firm, which has been influenced by the changes in distribution and needs to prepare for a generation change internally.

Packaging manufacturer in Thessaloniki, a small family company producing food packaging.

Newspaper organisation in Greece, a potential partner for Seller 1b in the future if its organisational conflicts can be overcome.

Local newspaper in Northern Greece, a potential partner if newsprint re-emerges into the core business. Personal contact exists between Agent and the firm.

Bookbinder and printing company, a potential partner when prices increase, a managerial contact of Buyer 5 forwarded to Agent.

Other local newspaper and publication firms

Other wholesalers of paper and paper products

Manufacturers of paper products

The study examines the internationalisation process of a contemporary SME firm and explores the impact of its business network on this development. The objective of the study is to understand SME internationalisation and its dynamics from a network perspective. The research project describes and explores the development process of a firm and its business network by identifying the changes, critical events and influence factors that form this development. The case study focuses on a Finnish focal firm and its respective business network as it expands into the Greek market. The empirical study concentrates on the paper trading and converting business.

The focal firm evolves from a domestically-oriented small subsidiary into an internationally experienced company, which has activities in several market areas and business networks in various market segments and product categories. The findings illustrate the importance of both the domestic and foreign business network context in the firm's internationalisation process.

The results of the study suggest theoretical modifications on a firm's internationalisation process by broadening the perspective and incorporating the strategic context of a firm. The findings suggest that internationalisation process is a non-linear process, which does not have a deterministic order in its development. The degree of internationalisation of the firm embodies key capabilities. The findings emphasise the significance of relational networks, both managerial and entrepreneurial, for establishing position in foreign markets. It implies that a firm's evolution is significantly influenced by its business network and by critical events. Business networks gain coherence due to common goals and they use accumulated capabilities to exploit market opportunities. The business network sets constraints and provides opportunities, which makes the related decision making strategically important. The research project provides an instrumental case study on SME internationalisation process. It contributes to existing knowledge by illustrating dynamics in an international business network and by pinpointing the importance of suppliers, customers, partners, ownership and competition to the internationalisation process.

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