



# Nurturing business ecosystems for growth in a foreign market: Incubating, identifying and integrating stakeholders



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## ABSTRACT

This paper explores the process of nurturing a business ecosystem to facilitate corporate growth in an unfamiliar foreign market with high product uncertainty and no network resources. The authors conducted a qualitative, longitudinal study by examining a successful business case – ARM (a leader in microprocessor intellectual property) – to demonstrate how firms nurture their business ecosystems to develop in the Chinese market and to stimulate demand even without the advantages of resources and stabilized products. Based on the road map method, this paper develops a framework of creating a business ecosystem in three sequential stages namely, incubating complementary partners, identifying leader partners, and integrating ecosystem partners. The findings enrich classic international business and demand chain theories by highlighting different roles stakeholders adopt to cope with uncertain products in a foreign market. In practical terms, these findings also provide Mode 2 knowledge with application context (Gibbons et al., 1997) on entering new markets by building up an ecosystem.

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## 1. Introduction

In the classic international business context, multinational enterprises (MNEs) experience unfamiliarity during internationalization, since they have to introduce their products to the market in new, highly uncertain business environments (Bell, 1995; Chen, 2003; Contractor, 2007; Dunning, 1988; Ji and Dimitratos, 2013; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). MNEs usually expand into international markets using their original network resources in order to gradually develop their profiles (Johanson and Wiedersheim-Paul, 1975; Chen, 2003). Through this gradual process, an MNE is able to accumulate capabilities, experience, and network resources (Geringer, 1991; Keeble et al., 1998) that help it cope with liabilities of foreignness and alienation (Zaheer, 1995; Vahlne et al., 2012; Denk et al., 2012).

However, new international business contexts can arise if a potential market has a more complex environment on the demand side (Adner, 2012; Doz et al., 2004; Priem et al., 2012). Such a phenomenon is termed product uncertainty, which has three types of implications. First, product uncertainty creates a lack of dominant design for products in the emerging industries. Second, it brings out an uncertain demand for products. And third, the supply network system is not ready to produce such potential products. All the stakeholders in such a new international business context have to deal with the uncertainties of product design, demand, and working partners. In addition, the situation could be even more complicated for a focal firm owning a technological platform

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(Thomas et al., 2015): it needs to encourage international partners to add value to the platform and create end user products. In such circumstances, internationalizing firms need to act more proactively to create local demand and connect with local partners to finalize the products.

Classic international business (IB) and operations management (OM) theories in an international context have rarely addressed these emerging and ongoing issues. First, classic IB theories such as the stage and network approach models use a resource-dominated logic (Johanson and Vahlne, 1977; Chen and Chen, 1998; Dunning, 2001; Ji and Dimitratos, 2013; Musteen et al., 2014) to determine whether firms should internationalize or not; these models appear to have a passive attitude toward internationalization. Internationalization occurs only because the firm possesses resource advantages and the demand already exists in other overseas markets. The firm, therefore, extends its technology or service to these less developed international markets. However, these theories fail to address the proactive creation of demand or the appropriation of value from the process of demand creation. Second, classic IB and OM theories are used mainly in mature industries. The recent internationalization of technological providers in emerging industries with uncertain products (Rong et al., 2013c) has generated a greater challenge – in not only creating demand for the products, but also initiating the products themselves based on those platforms. Such firms have to stimulate new partners to realize a dominant product design, nurture the business environment to increase product demand (Rong et al., 2013c), and manage internationalization.

Recently, industrial players who are technological platform providers have started using the concept of the “business ecosystem” (Garnsey et al., 2008) to deal with new challenges and uncertainties by addressing the demand side. A business ecosystem is an independent economic community with different stakeholders, including direct industrial players, government agencies, industry associations, competitors, and customers, who mutually benefit each other and face similar outcomes (Iansiti and Levien, 2004; Moore, 1993). The hidden power of a business ecosystem lies in its dynamic mechanism, which makes it possible to transform a passive social network (Burt, 2010; Eisingerich et al., 2010) into an active value creation chain (Shang and Shi, 2013). Thus, the business ecosystem approach might equip firms with a more proactive attitude in overseas markets by exploring the demand side of uncertain products. As a result, a firm will be able to explore the local network thoroughly even if it has no previous advantages (Dunning and Lundan, 2008; Rong et al., 2011).

This study intends to answer a research question – how firms follow the business ecosystem approach to enter a foreign market and deal with complex, untraditional challenges like product uncertainty. This study explores the story of ARM, a semiconductor intellectual property (IP) supplier in China, whose success is due to its technological platform and business ecosystem. IP is a reusable unit of integrated circuit (IC or chip) design layout that performs some specific function and constitutes the fundamental architecture of chips used in digital products (Kaeslin, 2014). ARM's IPs are licensed to third-party IC design firms to accelerate the design and lower the cost. Because of this, ARM functions as a technological platform provider and positions itself in the upstream of the semiconductor supply chain. ARM started as a small company with only 12 engineers in Cambridge, U.K., in the early 1990s. Today, it is the world's leading semiconductor IP supplier. Its IP architecture firmly dominates the mobile phone microchip market (Burt, 2014). Thanks to its excellent business ecosystem nurturing strategy (ARM Holdings and PLC, 2014), it currently has more than 800 partners in its community.

Although ARM is the market leader in the West, it gains few advantages in China in terms of ownership, location, and internationalization. At the time of its entry onto the Chinese market in 2001, there was no existing end user product market for ARM's IP model and no human resources for ARM's technology. The firm had successfully built up a brand new business ecosystem to meet the challenges of unfamiliarity and triggered downstream demand for its IPs. ARM's case in China demonstrates how important it is for an MNE to nurture a business ecosystem so that the firm is able to overcome its disadvantages in a new international market environment.

This study employs the road map approach (Phaal et al., 2011) to identify the key stages of nurturing business ecosystems in a foreign market. The sequential stages of nurturing a business ecosystem include *incubating* complementary partners, *identifying* leader partners, and *integrating* ecosystem partners. During the process, different stakeholders contribute to the mutual growth and achieve a win–win situation. Our study primarily enhances the existing understanding of business ecosystems (Mills et al., 1995; Neely et al., 2000; Behrens, 2012) by focusing on the stages of business ecosystem nurture. It also proposes a proactive strategy that considers a wider range of stakeholders and explores the new international business context of product uncertainty. This proactive internationalization strategy is complementary to those proposed by classic IB theories, such as the stage model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), the network approach to internationalization (Chen, 2003; Wang et al., 2014), and international production networks (Dunning, 1988; Shi and Gregory, 1998; Fisch and Zschoche, 2012). In summary, instead of examining Mode 1 knowledge, as most IB research has, this paper addresses Mode 2 knowledge. Traditional IB theories focused on Mode 1 knowledge (Gibbons et al., 1997; Nowotny et al., 2003; Jiménez, 2008) looked at the taxonomy of an IB discipline or the determinants of a phenomenon. Mode 1 knowledge production is purely academic and mono-disciplinary, and it is focused on scientific discovery, which is characterized by the hegemony of theories, experimental science research output, and an internally driven taxonomy of disciplines. As a result, Mode 1 knowledge is to solve the problem of what and why during internationalization. Mode 1 knowledge is very different from Mode 2 knowledge, which is socially distributed, application oriented, transdisciplinary, and subject to multiple accountabilities. Thus, application-oriented Mode 2 knowledge addresses how to do things during internationalization (Gibbons et al., 1997; Van Aken, 2005; Hessels and Van Lente, 2008), such as the process of how to nurture a phenomenon. This is very different from the traditional IB theories featuring Mode 1 knowledge.

The rest of the paper is structured as follows: Section 2 provides a literature review on international business, international production network, and business ecosystem approaches and then highlights research gaps in the extant literature. The methodology section addresses the data collection and analysis methods used in the case study. Section 4 presents the road map method and the

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