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Domestic market context and international entrepreneurs' relationship portfolios

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ABSTRACT

The importance of relationships to international entrepreneurs' internationalization is well recognized, but we still know little concerning how entrepreneurs find, develop and use different types of relationships for their internationalization. In a study based on international entrepreneurship and network theories, we examine how having or not having a domestic market affects the relationship portfolios developed by born global software entrepreneurs. We find it profoundly influences the personal relationship strength they seek in new international relationships, and their activeness towards developing new relationships that are embedded in foreign markets. Further, the analytical model we develop shows how and why the presence of a domestic market influences international entrepreneurs' portfolios of relationships.

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1. Introduction

International firms at the entry stage of their life cycles are increasingly embracing a relationship perspective (Coviello & Munro, 1995), and evolving international business research is paying increasing attention to the role of international business relationships. Internationalization process research (e.g. Johanson & Vahlne, 1977, 2003), the relationship perspective research (e.g. Dyer & Singh, 1998), network research (e.g. Larson & Starr, 1993) and international entrepreneurship (e.g. Oviatt & McDougall, 2005) all emphasize the fundamental importance of international relationships for internationalization, especially for small high-tech firms (Coviello, 2006; Komulainen, Mainela, & Tahtinen, 2006; Moen, Gavlen, & Endresen, 2004). Being resource poor and needing to secure business opportunities in new territories, entrepreneurial firms seeking access to new international markets must especially develop relationships internationally, in most cases to find partners with valuable nationally specific intangible resources (Chetty & Holm, 2000; Coviello & Munro, 1995, 1997; Freeman, Edwards, & Schroder, 2006; Johanson & Mattsson, 1988; Madsen & Servais, 1997).

International entrepreneurship research presents an increasingly rich understanding of the importance and value of international business relationships for international entrepreneurs (IEs), but researchers have noted that many gaps remain, especially at the firm and manager level (e.g. Loane & Bell, 2006; Ozcan & Eisenhardt, 2009). There are particular research gaps in the specific functions and contributions of different types of relationships within a firm's portfolio of relationships (Coviello & Munro, 1997; Sullivan Mort & Weerawardena, 2006; Sasi & Arenius, 2008). Additionally, we know little as to how relationships differ between firms of different types or in different industrial contexts (Freeman & Cavusgil,

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2007) or what managers actually do in the work of finding, developing and using these relationships (Chetty & Holm, 2000; Loane & Bell, 2006; Sullivan Mort & Weerawardena, 2006).

This study begins to address these gaps by exploring the pattern of relationships that IEs choose to develop and use to help them develop their businesses, how this pattern changes as their firms internationalize, and how this differs between firms in different industrial contexts. Specifically, we ask how the presence of a domestic market influences the numbers and types of relationships that born-global international entrepreneurs (IEs) use to develop their businesses, and the effort they devote to develop new relationships with people who are embedded in foreign markets.

We here focus on the relationships sought, developed and used by software IEs as they lead their firms through stages of rapid evolution from firm inception to internationalization. To understand the IEs' own perspectives on their strategies towards building new relationships, we adopt the notion of 'relationship portfolios' previously used in industrial marketing and purchasing research (Zolkiewski & Turnbull, 2002). We then draw on internationalization process, international entrepreneurship and international network theory and research to develop a relationship portfolio model. This presents an IE's choices between parties in whom they might invest effort to build relationships, based on two dimensions. They may seek strong relationships, or work with weak relationships. They may seek relationships with parties that are well embedded in foreign markets, or those that are not. Fourteen matched IEs from one small, globally trading country are studied, split between two globalized growth sectors, one that had a substantial domestic market and one that did not.

We find international entrepreneurs with a large domestic market initially relied on strong relationships they had or could readily develop. Some research has argued that initial relationships help international development and international networking capability (Freeman, Hutchings, Lazaris, & Zyngier, 2010; Gulati, 1999; Harris & Wheeler, 2005; Johanson & Vahlne, 2003). We noted these benefits, but found that IEs with a domestic market showed less international networking activeness at the earliest stages and displayed some of the network rigidity noted by Sullivan Mort and Weerawardena (2006). Those without a domestic market worked much more actively from the outset to develop relationships with parties that were well embedded in international markets, and as a result, developed capabilities to form international relationships earlier.

The remainder of this paper is divided into seven sections. Next, we review relevant previous research on international entrepreneurs relationships in order to link the research questions with the theoretical background of the study. Then we outline the method of research before presenting the findings and discussion around those research questions. Finally, we draw conclusions and implications.

2. Theoretical background

We will now consider research that has contributed to our understanding as to what relationships internationalizing entrepreneurs will most seek to help their international expansion, and from this we define the characteristics that they can be expected to take into account when choosing them. These are the strength of the IE's relationship with the party concerned, the connections of that party within foreign market(s) (which we denote as its embeddedness), and the activeness the IEs put into international relationship development.

2.1. The value that relationships offer for IE internationalization

While much research has identified that relationships have an important role in IE internationalization, research identifying the specific value they offer in this process has remained fragmented. The roles that have been identified in previous research can be split into three broad types, each placing successively higher levels of interaction demands on the relationships involved.

The provision of market knowledge and information is the longest recognized role of relationships in internationalization (Chetty & Holm, 2000; Coviello & Munro, 1995; Madsen & Servais, 1997). Granovetter (1973) saw this information role as requiring only weak relationships, an idea has been supported in some IE research (Freeman & Cavusgil, 2007; Freeman et al., 2010; Nordman & Melen, 2008). To move from a supplier of data to become a supplier of opportunity possibilities requires a process of knowledge sharing that implies a stronger relationship (Welch & Luostarinen, 1993). Johanson and Vahlne (2003) revised model sees this to involve "relationship partners gradually learning about one another's needs, resources, strategies and business contexts" (p. 93). Mainela (2007) therefore sees strong personal relationships being needed for opportunity recognition, and Freeman et al. (2010) summarize research in IB to conclude likewise, since the knowledge sharing involved for internationalization requires trust and absorptive capacity, generally developed through long-term relationships. This opportunity recognition role can therefore be fulfilled in different ways by weak and strong relationships, but these relationships all need to have this information or knowledge in the first place, and this will reflect the extent to which they are usefully connected within those territories (Yli-Renko, Autio, & Tontti, 2002).

A deeper and more tacit form of knowledge is know-how in new territories, typically experiential knowledge concerning how to do things, such as how to find and assess partners, access supply chains or marketing and distribution in the new territories (Chetty & Campbell-Hunt, 2004; Freeman et al., 2006; Johanson & Vahlne, 1977, 2003; Turnbull, 1979). Sharing this tacit knowledge typically requires interaction time between source and recipient (Simonin, 1999), strong trust relationships between those involved (Husted & Michailova, 2002) and time in relational interaction for that trust itself to be developed (Aulakh, Kotabe, & Sahay, 1996). More, it requires a deeper level of embeddedness as well, with deep and extensive experience in the territory involved.

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