Diploma thesis

The role of networks in the internationalization of born global and traditional SMEs

A qualitative and comparative analysis of the impact of networks on the internationalization of born global and small- and medium sized enterprises in California

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International Business
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1. Introduction

1.1. Relevance of the topic

The most obvious evidence for the importance of research on internationalization is provided by modern economic reality. In recent decades world trade and foreign direct investment have increased exponentially, creating a truly global marketplace. The following figure 1 shows this development of global exports according to WTO statistics.\footnote{World Trade Organization (2011)}

![Figure 1: Development of world export in billion dollars](source: World Trade Organization (2011))

The same evolution, starting however at a later point in history, can be observed in UNCTAD foreign direct investment statistics.\footnote{United Nations Conference on Trade and Development (2011) p.3} Both statistics imply an ever increasing globalization and regional integration. Companies can no longer only rely on their home market but need to expand internationally in order to stay competitive.

From a research perspective, internationalization has been a thoroughly studied area. However, internationalization theories and strategies still exhibit contradictions and the concrete drivers of internationalization, such as networks, still remain a puzzle to be solved. An increasing number of companies start to operate internationally from the first
day of their establishment – these companies are called born globals. As such, they contradict the traditional view of firm internationalization as suggested by Johanson and Vahlne (1975, 1977, 1990, 1994) who saw internationalization as a stepwise incremental knowledge creation and an increasing market commitment process.

The first and most successful born globals were high-tech companies based in California – particularly in Silicon Valley. Scholars have long pondered the particular reason for the significant concentration of highly innovative enterprises in this otherwise less than attractive valley. More traditional small and medium sized enterprises were thought to internationalize through a lengthy process which has been studied by the so called Uppsala school. These companies initially started their international operations by exporting to culturally similar countries in order to face low risk involved.

However, born globals differ from this ordinary procedural internationalization as they operate on a global scale from the establishment of the company. It seems that they are born global and do not need a gradual creation of knowledge on markets and on the institutions within those markets. Yet little is known about how they manage to acquire the necessary resources to overcome the barriers to internationalization in such a short time frame.

The role of networks in internationalization has lately been in the limelight of international business research and even the founders of the Uppsala School, Johanson and Vahlne, have recently focused on the importance of networks in the process of internationalization:

Network ties are helpful and needed to expand internationally in order to gather information about the local market conditions and clients. Born globals operate in an international network from inception and therefore enjoy the advantage of learning from international partners. California (e.g. Los Angeles area, Orange County and Silicon Valley) itself can be considered a close network of closely cooperating innovators who share a common infrastructure, and sometimes finance and knowledge. Within this network firms can access external resources which allow them to internationalize at a

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3 Jones (1999) p. 15; Sometimes these companies are also referred to as early internationalizers.
5 Eberbacher (2004) p. 8
6 Bilkey (1977) p. 93
7 Provan et al. (2007) p. 28
faster pace. As such, California constitutes an ideal research object for this study and thesis.

Traditional small and medium sized enterprises build and develop network ties in the domestic market and produce products and services for the domestic market before they enter foreign terrain. They start to operate abroad when the product is successful in the domestic market and their expansion is based on domestic practices and knowledge. Their process of internationalization has two characteristics. First, they only enter countries with cultural similarities and second, commit resources gradually to foreign markets.

Recent research has shown that much of the internationalization process of companies is driven by their network ties. Yet, we know little about the qualitative characteristics of such loose networks, the creation of such networks, and how entrepreneurs use these networks for their internationalization.

In this Diploma thesis, the questions of whether networks are really the driving force behind the success of the internationalization of born globals, and how the networks of such companies differ from networks of small and medium sized enterprises following the traditional way of internationalization studied by Johanson and Vahlne, will be investigated. A case study of companies operating in the high-tech industry in the center of born globals – Orange County, California – will compare these two possible types of strategies of internationalization and will hopefully reveal important implications for entrepreneurs, researchers and policymakers. Orange County has the second highest number of high-tech companies among its peers in the USA and is therefore a perfect place for research on this industry.

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9 Stopford (1972) p. 46
10 Johanson and Vahlne (1977) p. 25f
12 Orange County (2010) p. 32
1.2. Research questions and aim of the diploma thesis

Based on the duality of internationalization strategies described above, this thesis will aim at answering two distinct research questions:

- Are network ties the success drivers of the internationalization of born globals?
- In which way do network ties of born global companies differ from traditional small and medium sized enterprises which follow the internationalization model studied by Johanson and Vahlne?

The core concern of the thesis is, accordingly, the phenomenon of born globals and how they establish their global business within such a short time.

1.3. Structure of the thesis

The analysis will be carried out with the use of two research case studies. By comparing the internationalization of an Orange County born global firm with a traditional small and medium sized company, the role of networks in the different forms of internationalization will be assessed. Initially, theoretical background information will be gathered through an extensive literature review and recent research papers which will explain the nature of born globals and the Uppsala-approach from Johanson and Vahlne (1977), and how they establish their business abroad.

The theoretical part of this thesis will start with two important term definitions of “internationalization” and “small and medium sized enterprises” to get a clear view of the topic of the thesis. Chapter 2 will continue with the reasons for internationalization and the internationalization theories which have been discussed in existing literature. To go into detail on all existing theories and strategies would go beyond the scope of this thesis, and therefore the author is concentrating on two very prominent but contradicting theories – the traditional Uppsala model and the more modern born global model. These two strategies will be presented and reviewed in detail in chapter 2.4. Finally a
comparison in chapter 2.3.3 will point out differences in the views of Uppsala and born global.

The core chapter 3 will discuss the role of networks in internationalization and give a brief insight into the network theory of internationalization. This chapter focuses on the importance of networks within the two diverging theories of Uppsala and born global. Again, a comparison will point out any differences suggested in the theory.

Finally, the case studies conducted in Orange County, California will answer the research questions presented in chapter 1.2.

Figure 2 illustrates the structure of the research project:

![Figure 2: Structure of the thesis](image)

The methodology used for the empirical research will be explained below.


1.4. Methodology

In order to gain a deeper insight into the importance, the establishment and functioning of internationalization networks, thorough qualitative research will be conducted on site.

As Yin (1994) notes, the case study methodology is best suited for explaining “how, and why” networks and the competitive environment of Orange County can contribute to firm internationalization. However, it must be added that any conclusions from the case study are not representative of overall firm internationalization. Despite this weakness the author agrees with Sharma/Blomstermo (2003) that a qualitative case study approach is more appropriate in mapping the complexities of such complex environments and processes generating hypothesis and identifying future gaps for research.

In this thesis the author will use the theoretical sampling approach established by Glaser and Strauss (1967/1998) as a tool of qualitative research. It is a process of discovering new research sites to compare them with ones that have been studied before. The goal of theoretical sampling is not a representative capture, because findings cannot be generalized, but a deepening of the understanding of a phenomenon by identifying and contrasting anomalies. The representativeness will not be given from the two comparative case studies. However, the case studies will allow the gaining of a deeper insight of theory and cases.

Using in-depth interviews and document analysis, an extensive research case will be built. The author will apply Eisenhardt’s (1989) search for cross-case patterns and will evaluate findings by applying selected categories found in existing literature. The main goal is to generate new ideas and to illustrate possible theoretical extensions to internationalization theory. To contrast the descriptive results of the born global the same methodology will be applied to a traditional small and medium sized enterprise, allowing the author to identify differences and particularities.

Finally a scrutiny of each type – one born global and one traditional small and medium sized company in Orange County, California should answer the research question.

13 Flick (2006) p. 102
14 Albers et al. (2007) p. 80
15 Flick (2006) p. 102
16 Eisenhardt (1989) p. 540
Moreover, it should highlight the difference in network building and maintaining between the two analyzed companies.

To fully understand the theories of internationalization in this thesis, as well as the core topic of the network importance in that process, a clear view of the meaning of “internationalization” is needed. Chapter 2.1 will show different definitions and explanations found in literature of the term “internationalization”.

2. Internationalization

2.1. Definition of the term “internationalization”

“Internationalization” or “to internationalize” means “making international”. In contemporary literature however, there is no generally accepted definition for the term but rather a myriad of different approaches to conceptionalize internationalization.\(^{17}\)

In a wider sense, internationalization can be described as the enlargement of the national business to international markets. It can be either seen as the first step into foreign territory or a process of growing commitment in international or global markets.\(^{18}\)

From a dynamic point of view it is a process of adapting firms operations to an international environment.\(^{19}\) This approach shows internationalization more as a reaction to changing environments than a consciously made strategic decision.

Johanson and Vahlne (1977), the two most important authors in this field of research, define internationalization as “a process of gradually increasing international involvement of firms”.\(^{20}\) Their point of view implies a step by step approach with growing commitment by gradually increasing knowledge in international markets.

Beamish (1990), another prominent scholar, defines internationalization as “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their futures and establish conduct transactions with other countries.”\(^{21}\)

Later, Calof and Beamish (1995) defined it more precisely as “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments”.\(^{22}\) This definition includes what kind of operations and transactions will be adapted to an internal environment.

\(^{17}\) Ninan (2009) p. 23
\(^{18}\) Cutura and Kraus (2005) p. 9
\(^{19}\) Calof and Beamish (1995) p. 115
\(^{20}\) Johanson and Vahlne (1977) p. 23
\(^{21}\) Beamish (1990) p. 77
\(^{22}\) Calof and Beamish (1995) p. 116
All these different definitions sum up to form the personal interpretation of the author that internationalization…

- is the start and ongoing process of entering foreign territory to achieve the goal of successful international expansion.

Companies internationalize for different reasons and the way they conduct their internationalization will vary from firm to firm. Literature differentiates between theories and strategies of internationalization researched by different authors depending on the pace and scope in which companies internationalize. These theories will be described later in chapter 3. However, before doing so, a second definition has to be made for the purpose of the thesis.

### 2.2. Definition of the term “small and medium sized enterprise (SME)”

In this thesis the internationalization process of small and medium sized companies, either traditional or born global, will be discussed and analyzed. Small and medium sized companies are the target group in the investigation - they have become very important as a major source of entrepreneurial skills, employment and innovation and are often found in the fast moving high-tech industry. Due to their size and composition they are highly flexible and able to react to changing environments more efficiently. To have a better understanding of SMEs, a short definition will be presented and an overview of the type and form of those businesses will be given.

Many different definitions of, and benchmarks for SMEs exist, and figures to differentiate them from multinational “large” companies can be found in literature. Furthermore, the definition is commonly influenced by regional and institutional differences across countries.

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23 Pass (2005) p. 1
24 Neubauer (2011) p. 20
The U.S. Small Business Administration (SBA), for example, defines small businesses according to their size. In effect, businesses with “up to 500 employees” are seen as small enterprises.  

This definition is one dimensional and highly quantitative and therefore not best suited for the purpose of this thesis. Therefore, the OECD definition - which is also widely accepted - of SMEs will help to refine the definition.

In the OECD context small and medium sized enterprises are defined as “companies which are independent and non-subsidiary. Their maximum number of employees may vary across countries, the most widely accepted benchmark is the limit of 250 employees” although in the United States this number is up to 500 employees.

In the European Union turnover is used as a second quantitative indicator to define SMEs. It should not exceed € 50 million for medium sized enterprises with 50 – 249 employees and 10 million for small sized enterprises with 10 – 49 employees. However, there is no such turnover measure in the United States’ definition of SMEs.

In this thesis a mix of both definitions will be used to enlarge the number of companies possible for the case study. A SME is an independent and non-subsidiary company with 50 to 500 employees. No turnover measure is used to identify the company.

With the definition of SME as the focal point of interest in this thesis, a more thorough understanding of internationalization is needed. As a first step to map the cognitive process behind the rationale of going international, it is helpful to analyze the reasons companies have to internationalize in chapter 2.3.

### 2.3. Reasons for internationalization

Due to changing market conditions and growing globalization even small companies are facing increasing competition from all around the world in their home market. Constantly improving technologies and emerging markets make it feasible for companies to enter new markets. Internationalization thus becomes a necessity rather than an opportunity.
Expanding the frontiers of the company to foreign markets does not always only come with advantages. Internationalization is very resource-intensive, may involve high risks for a company and may also result in new, genuine risks which a company is unfamiliar with (such as exchange rates). In the worst case scenario, the increased costs of doing business abroad and the sovereign and commercial risks (such as the risk of intellectual property infringement) may result in an overall loss of competitiveness for the internationalizing company.29

However, despite all of these possible risks, companies are driven to enter foreign territory because it offers new and promising opportunities, unique resources and first mover advantages. If the internationalization is successful the company is able to increase income and the sales of products or services. Moreover, due to economies of scale it may decrease the marginal costs of production and finance, and optimize the resources held by the enterprise.30 In the best case scenario, internationalization itself can be a source of competitive advantage.

Czinkota and Ronkainen (2006) categorize internationalization motives of a company into proactive and reactive motives. While proactive motives seek for a strategic change in the company, reactive motives are reactions to the behavior of other companies.31

**Proactive vs. Reactive motives:**

- Profit advantage - Competitive pressure
- Unique products - Overproduction
- Technological advantage - Declining domestic sales
- Exclusive Information - Excess Capacity
- Managerial urge - Saturated domestic markets
- Tax benefit - Proximity to customers and ports
- Economies of scale

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29 Maner et al. (2010) p. 3
30 Ubrežová et al. (2009) p. 607
Apfelthaler takes a different approach and classifies motives according to the goal orientation of a company. These motives are all proactive and will drive the success of the company and will lead to a change of strategy.\footnote{Apfelthaler (1999) p. 11f}

**Profit-oriented motives:**

- Shift of production to low-wage countries
- Higher production volumes due to increase in foreign sales
- Dispersion of sales (and stabilizing turnover) through differences in economic development of markets and countries.

**Growth – oriented motives:**

- Prolonging the product-life-cycle through entering different markets
- Benefiting from growth of dynamic markets

Even though Apfelthaler’s classification seems very reasonable, the separation of profit and growth oriented motives is not necessarily conclusive or mutually exclusive because companies may want to achieve both profit and growth, and often these two motives are interrelated. Profit figures depend on the growth of the company and vice versa.

For nearly a century researchers have been attracted to the phenomenon of firm internationalization and several theories have been developed, two of which will be reviewed briefly in two chapters 2.4 and 2.5 as they form the cornerstone of the following discussion and empiricism.
2.4. Two contradicting internationalization theories

To compare the role of networks between the internationalization of born global high-tech companies in Orange County and traditional internationalizers, a deeper understanding of two contrasting theories is needed. Although internationalization has been studied by a large number of researchers and a lot of different strategies have been identified, two popular concepts will be contrasted.

The two models selected are:

- **Uppsala Model**
  - Johanson and Wiedersheim-Paul (1975)
  - Johanson and Vahlne (1977)

- **Born Global Model**
  - Oviatt and McDougall (1994)

![Figure 3: Selected internationalization strategies](image)

These two models have contributed very strongly to international business research and have gained great importance. Both head in different directions but aim for the same goal. These two strategies have been chosen for this reason. They are highly diverging in their assumptions regarding the internationalization process. On the one hand there is the famous and more senior Uppsala model from Sweden which has been studied by Johanson, Wiedersheim-Paul and Vahlne, and on the other hand the more recent phenomenon of born global firms first studied by Oviatt and McDougall in 1994.

2.4.1. Uppsala model

The traditional strategy or process of internationalization is often referred to as the Uppsala Model. Inspired by the work of Aharoni (1966), who was the first to go deeper into this field, the Uppsala Model was later fully formulated by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) in the Swedish Uppsala
school in the 70s by conducting an observation on Swedish-owned subsidiaries abroad.\textsuperscript{33} In their model they part from a resource orientated view and suggest that companies analyze the costs and risks of internationalization while taking into account their own resources, especially regarding their knowledge when entering new markets.\textsuperscript{34} Small and medium sized enterprises in the manufacturing industry have been found to conform mostly to this slow, incremental approach suggested by the early works of the Uppsala School.

Traditional small and medium sized enterprises thus gradually accumulate knowledge and develop network ties in the domestic market and learn by experience. Decisions are based on past experiences and made when problems or opportunities appear. Their internationalization process can be seen as a series of ‘option windows’ that allow firms to learn by doing.\textsuperscript{35}

Three different types of knowledge will be accumulated by small and medium sized enterprises when entering international markets:\textsuperscript{36}

- institutional knowledge, which concerns foreign institutions, rules and regulations, business knowledge
- knowledge on clients, their needs and decision making processes, and finally
- internationalization knowledge, which includes knowledge about the external as well as internal resources and capabilities of the firm.

The theoretical legacy of Johanson and Wiederheim-Paul and Johanson and Vahlne consists of two main concepts: the “patterns of internationalization” on the one hand, and the “model of internationalization” on the other.\textsuperscript{37}

"Pattern of internationalization"

The “patterns of internationalization” describe the organizational path which gradual internationalizers commonly adhere to when moving abroad. This pattern is also commonly referred to as the establishment chain.\textsuperscript{38} It sees companies initiating

\begin{footnotesize}
\begin{itemize}
\item 33 Laine and Kock (2000) p. 2f
\item 34 Johanson and Vahlne (2009) p. 1412
\item 35 Peng and Wang (2000) p. 94
\item 36 Eriksson et al. (1997) p. 343f
\item 37 Kutschker and Schmid (2011) p. 466
\item 38 Kutschker and Schmid (2011) p. 466f
\end{itemize}
\end{footnotesize}
international expansion by directly exporting to a foreign country. This exporting is done sporadically and not on a regular basis, and the firm has no resource commitment to the market.

The commitment of resources (financial and organizational) follows the same step by step internationalization. Companies following the Uppsala Model increase their market and resource commitment gradually as they become acquainted with the new market environment and gain experience while dealing with the risks and uncertainties of international business in the course of the internationalization process.

After successful direct exporting, which involves the lowest downside risk and costs for the exporter and no commitment to the foreign market, the next step is indirect exporting or export through independent representatives in the target country. This step in the establishment chain offers an improved access to local information which is needed by the company to increase their knowledge and involvement in the market. Direct exporting is also an important opportunity for the company to learn and improve its presence while still maintaining a low resource commitment.

The next step in the establishment chain is the building of sales subsidiaries which need substantial resource commitment to the new foreign country, and which will finally lead to their own production and manufacturing facility as predicted by the Uppsala model if the company continues its internationalization process. The most important element in the Uppsala model, as described, is the increase of involvement.

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40 Johanson and Vahlne (1977) p. 25f
41 Laine and Kock (2000) p. 2f
42 Laine and Kock (2000) p. 2f
A two dimensional illustration of the establishment chain which shows all the steps starting with sporadic export, indirect export, subsidiaries, up to having their own production plants in the new foreign country can be seen in figure 4 above. The Y-axis constitutes the resource commitment and the X-axis the knowledge acquired or needed, and the time needed for the internationalization.\textsuperscript{43}

However, not only the resource commitment gradually increases in the Uppsala model but also the geographical distance of the countries that are sequentially entered into, as can be seen in the figure 5 below. The first country in which a company is going to expand is chosen very carefully and has cultural similarities with, and is often situated very close to, the home country, while later entries gradually increase in cultural distance.\textsuperscript{44} This sequential market entry can be explained by the fact that companies without prior international activity face information asymmetries and incur informational costs when entering foreign markets. The information shortage or cost of information gathering increases with psychic and cultural distance between the home market and the foreign market. The further away the target market is regarding factors such as language, culture, level of industrial development etc., the less home country experience can be

\textsuperscript{43} Holtbrügge (2005) p. 4
\textsuperscript{44} Johanson and Vahlne (1977) p. 23
transferred and applied in the new institutional setting, which again exacerbates the flow of information for companies.  

The model in figure 5 shows the interplay of psychic distance and the increasing number of different markets. The expansion starts with countries showing cultural similarities. Foreign counties which are closer to the home country are supposed to also show cultural similarities. The problem of psychic distance is the flow of information as well as the access to information on markets with great differences to the home market, which harm the companies’ learning in this process. Such differences can be in culture, language, education, economic development and also in the behavior of the management legislation and institutions. An entire research field is dedicated to the outcomes and effects of institutional differences in international business, which shows the importance of this issue. In figure 5 above, the Y-axis shows the psychic distance and the X-axis shows

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45 Johanson and Wiedersheim-Paul (1975) p. 308
46 Kutschker and Schmid (2011) p. 467
47 Vahlne and Nordström (1992) p. 3
48 Keegan et al. (2002) p. 277f
the market-knowledge. The time needed to enter the foreign markets is pointed out on the diagonal, which defines the foreign target markets.\footnote{Holtbrügge (2005) p. 5}

With an increasing number of foreign countries and the growing commitment of resources by the company, the degree of internationalization gradually increases in the Uppsala Model. How the two important parts of the “pattern of internationalization”, the establishment chain and the psychic distance, interplay, can be seen in figure 6 below.

![Figure 6: The interplay of psychic distance and establishment chain](image)

As mentioned at the beginning of this chapter, the second concept of the Swedish internationalization theory is called the “model of internationalization”.

"Model of internationalization"

The “model of internationalization” consists of four core variables which explain the internationalization process of firms: two “state elements” which are termed market knowledge and market commitment, and two “change elements” – commitment decisions and current activities – as shown in figure 7 below.

\footnote{Holtbrügge (2005) p. 5}
Market knowledge as described in the model should be understood as experimental knowledge. It is most important in foreign operations because when entering foreign markets this knowledge does not exist and has to be gained in order to operate successfully.\(^{51}\)

Companies should acquire different types of knowledge. First of all, institutional knowledge, through which we understand knowledge about the institutions and rules in the foreign country. The second type of knowledge needed for successful internationalization is knowledge on clients and their needs, and thirdly and finally internationalization knowledge is necessary, which is concerned with the capabilities of the firm (internal and external resources).\(^{52}\)

By market commitment, which is the second state element in the model above, we understand the resources committed to a target market and the degree of commitment to this market. Johanson and Vahlne (1977) defined commitment, “as the product of the size of the investment times its degree of inflexibility”.\(^{53}\) Depending on the strength of commitment the degree of commitment will increase. For example, a marketing division with strong focus on the client’s needs in the foreign country will have a very strong commitment because it is very resourceful, important and not easy to imitate.

\(^{51}\) Johanson and Vahlne (1977) p. 26f – This is different to modern theories such as the network theory because network theory assumes that external resources can be accessed.

\(^{52}\) Sharma and Blomstermo (2003) p. 740

\(^{53}\) Johanson and Vahlne (1977) p. 26f
Market commitment is influenced by current business activities which are categorized as “change elements” in figure 7. Obviously there is a certain lag in time between the current business activity and the effect of this activity. For example, the promotion of a product will take some time before generating any financial results. Depending on the time lag, market commitment is needed. The longer the lag the more commitment is needed in order to achieve the effect. In other words, every business activity has an effect on the market commitment and the company is incrementally increasing resources to the market when the business activities increase. This will end up in increased market knowledge because the firm is learning by doing and from experience.

Finally, the commitment decision categorized as a “change element” is again influenced by the market knowledge of the firm. Commitment decision means the decision on committing resources to a market and therefore strengthening the position in that foreign market. These decisions rely heavily on the knowledge of the foreign market and the country. Firms with a high degree of commitment exhibit more learning potential and generate more market knowledge. They are therefore more likely to explore new opportunities in the market. Furthermore, every additional commitment decision will reduce uncertainties in the specific market because it will increase the degree of experience.

The “model of internationalization” (figure 7) shows how interrelated all the aspects in the internationalization process are. A company can only be successful in a foreign market and in a foreign country if it has enough information and knowledge to make the right commitment decisions based on useful current business activities, which will finally lead to an adequate degree of market commitment.

With the appearance of new and fast-expansion strategies in internationalization, researchers (for example Oviatt and McDougall (1994) and Coviello and Munro (1995, 1997) stress the importance of networks in this process. Johanson and Vahlne also focused on networks in their internationalization model. The network approach by Johanson and Vahlne will be explained later in chapter 3. However, many research gaps

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54 Johanson and Vahlne (1977) p. 27
55 Kutschker and Schmid (2011) p. 469
56 Johanson and Vahlne (1977) p. 27f
remain in this field and the case studies in this thesis will try to shed more light onto the role of networks by contrasting two exemplary, contradictory cases.

The Uppsala Model was developed in the 1970s and was the dominant paradigm in internationalization research for nearly 20 years. In the 1990s high-tech companies caught the attention of researchers as they seemingly internationalized completely independently of any of the supposed patterns and premises of the Uppsala Model at a very early stage of their life cycle. The phenomenon was later termed as “born globals” or also “international new ventures” and has attracted more and more international business research as their proliferation increased with globalization. These “born globals” will be discussed in the following chapter 2.3.2.

2.4.2. Born global model

The born global theory of internationalization (companies following this strategy are sometimes also referred to as early internationalizers\(^\text{57}\), international New Ventures, High Technology Start-ups, Global Start-ups or International Entrepreneurs\(^\text{58}\)) is seemingly the factual opposite of the above mentioned Uppsala Model in terms of their internationalization process. However, some premises of the Uppsala Model still apply in the born global model, albeit with different intensities and importance. In which ways these two theories differ exactly will be compared in chapter 2.3.3. First the born global phenomenon will be discussed separately.

Oviatt and McDougall (1994) define born global as “a business organization that, from inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”.\(^\text{59}\)

Knight and Cavusgil (1996) define the phenomenon more precisely as “small, technology-oriented companies that operate in international markets from the earliest days of their establishment”.\(^\text{60}\) Moreover, they put it down to benchmarks and limit born

\(^{57}\) Jones (1999) p. 15

\(^{58}\) Neubauer (2010) p.12

\(^{59}\) Oviatt and McDougall (1994) p. 49

\(^{60}\) Knight and Cavusgil (1996) p. 11
globals to companies with less than 500 employees and a maximum turnover of less than $100 million USD per year.  

Kudian, Yip and Barkema (2008) make a third approach to define born globals as “companies who have reached a share of foreign sales of at least 25 per cent within a time frame of two to three years after their establishment”. 

All definitions found in literature stress the importance of timing in internationalization and the achievements made within the early stages of the company life cycle. For instance, Knight and Cavusgil (1996) impose a three-year limit. Conversely, McDougall et al. (2003) set a time-limit of six years within which the company should make revenues from international business.

In this thesis the author defines born global as small and medium sized enterprises which expand their business internationally within two years of establishment to at least 5 foreign countries, without any limit to geographical and cultural distance between the domestic market and the target country. To be qualified as a born global company, a company should record a minimum 20% export ratio to measure the degree of internationalization. In the best case scenario, but not as a precondition, in this thesis the born global company should become listed on the stock exchange five years after establishment as a measure of success. This definition is visualized below (in figure 8) to see the theoretical structure and movement of a born global company.

Figure 8: Born global definition as applied in the thesis

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63 Knight and Cavusgil (1996) p. 11
64 McDougall et al. (2003) p. 69
65 Neubauer (2011) p. 15
The appearance of this new phenomenon in the 1990s has been highly discussed by researchers lately. So far, reasons found in contemporary research for such rapid internationalization are: favorable market conditions, advances in technologies and managerial change. Globalization strategies of born globals differ from the conventional firms due to unique capabilities and resources which enable the companies to internationalize at an exceptional rate.

In most cases managers of born globals seem to have an early vision of becoming global and also possess extensive international knowledge from previous work experience. Most commonly, born globals are found in technology-oriented environments such as the high-tech industry. The fast moving environment and the ability to gain a global technological competitive advantage have been identified as reasons for the evident concentration in the high-tech industry. Born globals are mainly small and medium sized companies rather than big multinational groups. However, they are perceived to possess advantages in terms of valuable resources such as employees, organization-structure and capacity of production and capital which enable companies to react quickly to changes and experience a higher degree of flexibility and innovation.

The fact that born global companies are mostly small to medium sized and that the management team tend to have a global vision right from the beginning reinforces some other factors which influence the initial internationalization. Such factors are, for instance, the necessary exchange with network partners, the targeted hiring of employees with particular experience, the notion of having a too small domestic market, cooperation with other companies to gain missing resources, and finally a more focused research on market, products and clients etc.

The born global theory suggests that companies should enter foreign almost global markets right after establishment and which is more important, without any consideration of psychic distance. The process is seemingly unrelated to the company’s success, experience and reputation in the home market. Companies following this model see the world as one big market which offers numerous opportunities for a company, and enter

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67 Laanti et al. (2006) p. 1105
68 Crick (2009) p. 455
70 Renie (1993) p. 49
71 Neubauer (2011) p. 20
72 Crick (2009) p. 455
as many markets as possible at the same time without sequential patterns. Their goal from the beginning is to grow into this international – almost global - environment and collect the knowledge needed.\textsuperscript{73} From a learning perspective, such born globals are similar to traditional slow internationalizers, but born globals do the same at a much faster pace and are willing to take a greater amount of risk and cost to pursue their strategy. Most commonly they are not only facing the usual risks of every other firm engaging in cross-national trading, but also to a high degree the risks of introducing new products. New markets and new products combined with limited financial resources and the global character of the operations create a very high risk for born globals firms which they haven’t experienced before.\textsuperscript{74} Not surprisingly, born globals often attract financial investors such as venture capitalists who actively seek such high risk - high return investments. On the other hand, the capital provided by such investors enables the born globals to grow even faster.

The company operates instantly abroad with a lack of domestic operations and referral. They sell products and services which are either absolutely new or extremely different from already existing products. It is a totally new concept of international business, usually with a high degree of knowledge intensity. What is more, knowledge is often hereby gained by networks rather than experience.\textsuperscript{75} Born globals face weak or newly formed ties in their relationships with suppliers and customers compared to traditional small and medium sized enterprises. Even though the intensity and duration of interaction is limited, they manage to develop internationalization knowledge and absorptive capabilities in the foreign market through such networks.\textsuperscript{76}

Figure 9 below shows a very simple version of the internationalization process of born global companies. Instead of gradually entering the international field they expand coincidentally to the whole world and the global phase.

\textsuperscript{73} Chetty and Campbell-Hunt (2004) p. 60  
\textsuperscript{74} Gabrielson et al. (2008) p. 399  
\textsuperscript{75} Sharma and Blomstermo (2003) p. 741  
\textsuperscript{76} Sharma and Blomstermo (2003) p. 744f
Even though the internationalization process of born globals appears comparatively simple, a number of factors influence it, and paths of internationalization may vary. Some factors influencing the process are information, experience, networks, entrepreneurs’ perceptions of risk, and transaction costs, along with many others. Only if all factors come together is such an exponential growth possible.

According to Gabrielsson et al. (2008), born globals commonly go through 3 phases which are comparatively short and have a high frequency:

1. Introduction and initial launch
2. Growth and resource accumulation
3. Break-out

The first phase of introduction and initial launch is usually accompanied by a low and limited amount of resources as well as a missing organizational structure. The primary resource in this phase is the founder of the company and his/her vision to go global. The critical point in the first phase is the need for financing and knowledge of international business in order to accelerate internationalization. However, those requirements are generally not available and they can only be acquired through building network relationships or a collaboration with external agents.

The only possibility to overcome the limited resources is to access external resources through the firm’s network. This assertion shows that the network is at the heart of the

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77 Crick (2009) p. 455
born global theory and takes a leading role from the beginning. The network therefore forms the core chapter of this thesis and it will be dealt with in more detail in chapter 3. Recent literature has found that the financial resource is one of the most important resources for fast internationalization. Born globals seek financing from venture capitalists or from the stock market, both domestically and abroad. Investors from abroad might seek further expansion in their home market; therefore, global start-ups might even move to the country of their investor as is often the case when innovative startups are attracted to Silicon Valley.

The second phase of growth and resource accumulation again depends heavily on the networks the company operates in. However, to get into this phase two factors are necessary. First, the potential of the company to even become a born global, and second, the type of products or services they offer and to what extent those are suitable to be marketed on a global scale. As a consequence most of the born global companies are found in the high-tech industry, in which technological innovation is more important than adaptation of the product to local consumer preferences.

Again, networks are a driving force in this second phase of growth as new modes of distribution on a global scale need to be established in a very short time frame. Global sales need global distribution and the firm needs to position itself in the new and foreign market. As products or services are mostly new on the market, direct competition is not yet harming internationalization because success is mainly dependent on placement rather than competitive pricing.

Finally the third and last phase – the break-out phase – is dependent on the planning made, and strategy chosen, in phase two. However, to continue to be a successful born global two preconditions are necessary – global vision and effective commitment. By global vision we understand the desire and the potential to be global – to offer a unique product or service on a global scale. The second condition is effective commitment by all stakeholders, which often means becoming listed on a stock exchange (acquiring fresh capital through IPOs), acquiring other firms or competitors (it is seldom that such strong growth can be achieved organically) or accumulating additional resources through joint

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80 Oviatt and McDougall (1995) p. 32f
81 Gabrielsson et al. (2008) p. 396
82 Gabrielsson et al. (2008) p. 396
83 Gabrielsson et al. (2008) p. 397
ventures, or licensing of the product or service. Considering the high pace of innovation in the high-tech industry, a very important factor in remaining competitive is the global coordination of research and development efforts. These newly raised resources and networks are indispensible for staying successful and sustaining the rapid pace of growth.\textsuperscript{84} The commitment component also highlights the link to the traditional Uppsala type of internationalization, as does the central role of learning.

As illustrated above, the Uppsala model and the Born Global model have fundamental, partially contradicting assumptions and predictions. However, they also share some similarities like the role of networks in internationalization and the central role of gaining experience via experimental learning in foreign markets. To get a more detailed picture of the two schools of thought, the following chapter 2.4.3 will contrast the two strategies in a structured comparison.

2.4.3. Comparison of Uppsala and born global strategy

Regarding their main assumption, the speed of internationalization, the two internationalization theories discussed in this thesis are largely antithetic. The two theories do not only differ in terms of their origin but also in many other points which will be looked into in more detail in this chapter.

On the one hand, the Uppsala approach follows a very traditional view of internationalization which has been used for many years to describe the slow, risk averse, incremental and sequential expansion of companies into foreign markets. On the other hand, the new phenomenon called born global strategy describes a fast, risky and coeval way for companies to internationalize. Differences have also been found in aspects such as internationalization, vision, commitment/risk aversion, industry, market entry and networks.

Internationalization

Born global companies internationalize right from inception – literature has come to the conclusion that this means within approximately two years of establishment. As already discussed, born globals might initially not even have a strong reputation or a solid position in the home market. Before long they expand to at least five different countries.

\textsuperscript{84} Gabrielsson et al. (2008) p. 397
without any pattern – not showing cultural similarities – and with different ways of commitment. Furthermore, the rate of growth in their international sales is higher and they achieve an export ratio of approximately 25% within a short period of time.

Companies internationalizing according to the traditional theory proposed by Uppsala start exporting to foreign countries after becoming successfully established in the home market. They follow a special pattern in terms of entry modes and time (establishment chain). The first countries they enter show cultural similarities and have markets with few differences to the well-known home market. Only after being successful in these countries will the expansion go further. Moreover, the entry mode and market commitment increases over time as does the amount of knowledge.

Vision

One of the most essential conditions for becoming a born global company is the vision of the entrepreneur to become global. As there is no gradual experimental domestic growth process between establishment and internationalization, there must be the desire to become global at a very early stage. The vision plays a major role in internationalization from inception in order to become very successful. This global vision includes knowledge about foreign markets and countries, and a thorough understanding of different cultures, languages and laws. This should exist in order to be globally successful – as the only initial resource of a small and medium sized company is the founder – he/she should provide this knowledge.

On the other hand, SMEs following the Uppsala strategy do not show this vision from inception. Their internationalization is the next logical step, as they are well established in the home market and looking for new growth opportunities. One possibility to grow is to enter new and foreign markets after several years concentrating only on the domestic market. The motives for such moves have been discussed in chapter 2.1. The vision did not exist from the start, but internationalization was the consequence of the necessity to expand.

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85 Oviatt and McDougall (1994) p. 31
86 Gabrielson et al. (2008) p. 397
87 Johanson and Wiedersheim-Paul (1975) p. 307
88 Oviatt and McDougall (1995) p. 35
89 Neubauer (2011) p. 20
Commitment/risk aversion

The traditional internationalization model established by Johanson and Vahlne sees commitment as a key variable. In the model they use it as a response to problems and opportunities in the market. The core assumption is that companies are risk averse and increase their commitment gradually as they learn about foreign markets. The company starts its foreign market operations and as the knowledge in this new market increases the firm is able to take on new, and sometimes even bigger, challenges committing resources (increase their commitment) to the market through specific investments.

This process of commitment is fairly different at the beginning of internationalization in the born global approach. The initial commitment is made by the entrepreneur (usually backed by other investors) and not driven by market activities, knowledge gains or investments as demonstrated in the traditional model. Born globals seem to seek risk and be prepared to commit substantial resources into markets which they are not familiar with.

Industry

Johanson and Vahlne studied the internationalization process of Swedish companies and most of these enterprises – especially small and medium sized enterprises – were found in the manufacturing industry. The manufacturing industry is generally slow moving at adapting to new environments. Entering a foreign market seems to be a long and challenging process.

It has been determined that there is a positive relationship between knowledge and the pace of internationalization in companies. Knowledge is seen as a more mobile and flexible resource, provided that it is applicable irrespective of different settings and markets. International competitive knowledge advantage therefore allows for fast international expansion. This explains why most of the companies following a fast paced way of internationalization – born globals – are mostly found in the high-tech industry. The industry is based on innovations and flexibility as well as quick changing

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90 Johanson and Vahlne (1977) p. 27
91 Gabrielson et al. (2008) p. 398
92 Gabrielson et al. (2008) p. 398
93 Johanson and Vahlne (1977) p. 24
94 Autio (2000) p. 909
environments, which makes the products perfectly suitable to be a competitive advantage to the company.\textsuperscript{95} A competitive advantage can be defined as a resource with the following characteristics: valuable, rare, imperfectly imitable, and without strategically equivalent substitute.\textsuperscript{96} On the other hand, the high tech industry is highly competitive, and risk and a competitive advantage must be protected by constant innovation.

**Market entry**

The mode of market entry of companies following the traditional pattern of internationalization starts with sporadic exporting, which involves a very low financial and organizational commitment to the new market. Over time this commitment will increase up to the building of a production plant of the company’s own in the foreign country. This stepwise approach was termed establishment chain by Johanson and Vahlne (1977).\textsuperscript{97}

In comparison, born global companies do not follow any pattern of specific entry modes. They enter the markets through the networks which they build in the foreign country. The mode of entering the market can differ between joint ventures, building sales offices or exporting, but the most commonly found market entry strategy is undoubtedly via acquisitions which allow fast growth and the taking over of readymade structures and networks.

**Networks**

The internationalization of small and medium enterprises following the traditional/Uppsala mode is highly supported by networks created mostly internally, but also externally. By internal networks of the company we understand the network between the mother company and the subsidiary. The external networks are relationships with external partners such as suppliers, competitors or clients. These networks are established in the home market and the foreign market, but the basis for both is built domestically.\textsuperscript{98} Furthermore, networks are usually built on long term trust and formal agreements.

\textsuperscript{95} Neubauer (2011) p. 16
\textsuperscript{96} Barney (1991) p. 106f
\textsuperscript{97} Johanson and Vahlne (1977) p. 23
\textsuperscript{98} Kutschker and Schmid (2011) p. 469
As mentioned above, born global companies use networks to enter the new market. Moreover, those newly created networks help them to grow and accumulate resources. Networks or alliances help the born global company to learn by doing. They use them as an entry mode to certain markets because sometimes it is easier, or even only possible, to enter a market through an alliance with a national partner. These born global networks are mostly informal and built on a shared interest or vision. How such networks differ exactly from those of the traditional SME and how born global build and maintain the networks needed will be discussed later in chapter 4 in the case study.

Finally, the table below points out and summarizes the differences discussed above:

<table>
<thead>
<tr>
<th></th>
<th>Uppsala approach</th>
<th>Born global approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internationalization</strong></td>
<td>Gradual process</td>
<td>From inception</td>
</tr>
<tr>
<td><strong>Vision</strong></td>
<td>No vision, logical next step</td>
<td>Vision from the beginning</td>
</tr>
<tr>
<td><strong>Commitment</strong></td>
<td>Driven by activities, knowledge and investments</td>
<td>Made by the entrepreneur</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td>Manufacturing industry</td>
<td>High-tech industry</td>
</tr>
<tr>
<td><strong>Market Entry</strong></td>
<td>Through the establishment chain</td>
<td>Without any patter</td>
</tr>
<tr>
<td><strong>Networks</strong></td>
<td>Networks established in the home market – market relationships</td>
<td>Networks created abroad. Weak ties and cooperative networks</td>
</tr>
</tbody>
</table>

Figure 10: Differences in the two contradicting strategies

Having now an idea of what the two diverging internationalization strategies are and how the Uppsala approach and the born global approach differentiate, a closer look on networks and their impact on the different internationalization patterns is necessary to provide a theoretical background for the case study in chapter 4.

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99 Gabrielsson et al. (2008) p. 396
100 Changsu and Jong-Hun (2010) p. 44
3. The role of networks in internationalization

The internationalization theories presented above are very different, and sometimes even contradictory regarding their theoretical reasoning, characteristics and normative implications. One of the main controversial points is the network structure the companies create as they expand abroad. The following chapter 3 will discuss the role of networks in the process of internationalization. Before contrasting the implications within the two theories discussed, a closer look on the general structure of networks as well as the reasons why companies engage in networks as found in literature is needed. This is followed by a discussion of the network theory of internationalization because even Johanson and Vahlne and Oviatt and McDougall based their network model on the traditional and first network theory of internationalization. It will help to understand how and why networks can be essential in internationalization. Finally, importance of networks in the internationalization processes defined by Johanson and Vahlne (1977) and Oviatt and McDougall (1994) are compared.

Networks can be conceptualized as a group of 5 to 6 companies in the same industry (such as high-tech industry) or related industry which cooperate with each other in order to become more efficient, successful and competitive.\textsuperscript{101}

Conceptionally networks can be described according to the two components they consist of. First nodes, which are seen as actors - these actors can be individuals, groups, organizations or even nations. Secondly, we find edgings which are either direct or indirect relationships, activities or interactions between the actors involved.\textsuperscript{102} Examples for such relationships are strategic cooperation, joint ventures, strategic alliances and relationships with distributors or even clients etc. They may either be formal and embodied by a cooperation agreement or largely informal.

According to Barlett and Ghoshal (1990) two different types of network-structures have been identified:

On the one hand there is the intra-organizational network which is the network within one company. As such it comprises the total relationship structure within a company and

\textsuperscript{101} Chetty and Holm (2000) p. 78
\textsuperscript{102} Kutschker and Schmid (1995) p. 4
The role of networks in internationalization

the connection between the holding company and the subsidiaries all over the world. One of the many different, important and most interesting types of intra-organizational networks is called the transnational organization. The exchange of materials, capital, technology, employees, values and norms combined with control and complex coordination lies at the heart of the transnational organization.\textsuperscript{103}

The holding company and the subsidiaries are the nodes in the intra-organizational network and the existing and emerging relationships, activities and interactions between those participating actors are the edges. The transnational organization is characterized by the independence of all actors involved.\textsuperscript{104} This independence consequently means a relatively low importance of the holding company as the center of the network. However, due to the interactions and relationships between the actors involved in the integrated network, the subsidiaries are not purely autonomous as it can be seen in figure 11 below. Control and coordination is exercised through the hierarchical structure of the company. Therefore, the transnational organization is both centralized and decentralized, which means that it can centralize resources if needed but does not have to be centralized. For efficiency reasons specific activities or resources may also be concentrated in one of the peripheral subsidiaries.\textsuperscript{105} Figure 11 illustrates the structure of the transnational organization as envisaged by Bartlett and Ghoshal (1990).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{network.png}
\caption{Network of the transnational organization}
\end{figure}

\begin{flushright}
\textsuperscript{103} Kutschker and Schmid (2011) p. 535ff
\textsuperscript{104} Bartlett and Ghoshal (1990a) p. 119
\textsuperscript{105} Kutschker and Schmid (2011) p. 536f
\end{flushright}
The role of networks in internationalization

Source: Bartlett and Ghoshal (1990) p. 119

As opposed to the intra-organizational network and for this study comparatively more important we increasingly find networks with the outside world which are called inter-organizational networks. 106 Inter-organizational networks can be explained best by relationships between at least two independent and autonomous companies which reduce their level of independence in order to cooperate with other companies. 107 As such they become a sort of mixture between the two extremes of market and hierarchy.

To learn more about the use of network structures in the process of internationalization it is useful to analyze how networks are established at the level of the function carried out. In its simplest bilateral form this happens either through integration of external functions or the spin-off of internal functions. 108

By quasi-externalization we understand the (“quasi-”) outsourcing of some business areas, functions or processes. Those outsourced business units of the company become independent and specialized and act independently of their original provenience in the market. However, they are often not large or stable enough to survive and therefore need to be integrated in a cooperative network with other companies. 109 The companies are independent although still in a relationship with the company they have once been part of and for that reason this is called quasi-externalization. The result of quasi-externalization in essence is merely the limitation or even elimination of hierarchical structures and not a complete outsourcing of the business division. 110

Quasi-internalization is the opposite of quasi-externalization because network relationships are created gradually with new cooperation partners. This constitutes the integration of purely autonomous companies in the business activities. However, there is no full integration or absorption of the newly joining company and they still operate as a separate business entity within the network. There is also no formal hierarchical structure involved – usually the companies are tied together just through their mutual trust and dependence. As opposed to mergers, we are therefore talking about quasi-internalization

106 Kutschker and Schmid (2011) p. 534f
107 Kutschker and Schmid (2011) p. 538
108 Sydow (1995) p. 160f. These processes are also referred to as “quasi-internalization” and “quasi-externalization”.
109 Wildemann (1997) p. 418
110 Kutschker and Schmid (2011) p. 539
and not pure internalization.111 Most networks derive from deliberate strategic business decisions, but not necessarily.112 Other network structures evolve unintentionally, without explicit intention and aim.

The concrete nature of these network relationships – either quasi-externalization or quasi-internalization – varies among companies. Different kinds of collaborative relationships can range from long-term relationships with suppliers or distributors, supply chain relationships, franchise-systems, manufacturing abroad to joint ventures or strategic alliances.113

In transaction cost theory networks are often seen as intermediaries between market and hierarchy, which show competitive as well as cooperative aspects in their characteristics.114 Companies linked in certain networks are in a cooperative relationship, nevertheless sometimes the companies may be competitors outside this network. Some authors describe this phenomenon as “co-opetition”.115 In other words, networks are not only cooperative connections between companies where both sides benefit from this relationship because a substantial flow of knowledge and information is involved, but are also a source of fierce competition between the participating companies. Companies can cooperate in some business areas such as R&D, for example, whereas they still remain competitors in some other business areas.

In chapter 3 a differentiation between intra-organizational and inter-organizational networks was introduced and both types of networks were explained separately. Obviously there are interrelations between the two types of network-structures116 and multinational firms will commonly use both types of networks to organize their operations.117 The networks can be interrelated with each other because some actors participating in one network may be involved with companies from other networks.118 Figure 12 exhibits the totality of networks.

111 Kutschker and Schmid (2011) p. 539
112 Jarillo (1988) p. 32 In this case they are called strategic networks.
113 Kutschker and Schmid (2011) p. 539
114 Williamson (1979) p.235 Williamson is the founder of Transaction Cost Theory.
115 Dowling and Lechner (1998) p. 86
116 Bartlett and Ghoshal (1990) p. 122
117 Rall (1993) p. 82ff
118 Möller and Svahn (2003) p. 208
The holding company is in a network relationship with its subsidiaries, but also with companies outside the intra-organizational networks. Subsidiaries themselves have relationships/alliances with other companies which can also be interrelated. At the heart of the network there is the hierarchy led intra-organizational network structure, based on which the cooperative inter-organizational network structure will be build.

A very interesting and particular kind of network is the virtual network, which has proved to be most prominent in highly dynamic industries such as the high-tech industry and on which we will mainly focus in the empirical part of this thesis in chapter 4. Virtual networks are temporary cooperation between companies based on sophisticated information and communication technology. ¹¹⁹ They allow companies from all over the world to cooperate irrespectively of the geographical distance of the companies involved. In order to make virtual networks work, duties have to be assigned between the companies. Usually one leading firm is responsible for organizing and delegating all duties and activities within the virtual network. As such it exercises a minimum of control and organization which will finally lead to hierarchical structures and which are

¹¹⁹ Sieber (1997) p. 213f
necessary to build strong networks and to achieve success.\textsuperscript{120} A famous example of a very successful born global starting off through the internet is Amazon.\textsuperscript{121}

There are different reasons why companies create networks\textsuperscript{122} – to name a few:

- economic benefits such as lowered production costs
- delivery costs
- other general cost savings
- economies of scale can result from the creation of efficient supply chains and networks

Moreover, networks can be used to overcome a lack of financial and knowledge resources through alliances with other and sometimes bigger or stronger companies or investors.

Networks and supply chains provide access to global or national talents, thus useful and important knowledge which could be turned into a competitive advantage for the company integrated in the network.\textsuperscript{123} On a psychological level, network embeddedness may also decrease risk aversion or enhance the diversification of risk (synergies) through the connection with partners.\textsuperscript{124} Many small- and medium sized companies would otherwise not consider expansion into new markets. Internationalization requires resources and involves high risks and uncertainties and smaller companies usually do not have the capabilities to cover all these on a stand-alone basis.\textsuperscript{125}

Furthermore, companies in networks learn from their partners and gain the essential and applicable knowledge needed to succeed abroad. This knowledge can be used to create a competitive advantage for the company, as it will be very difficult or rather impossible to imitate complex relationships for competitors.

Companies need networks in order to cover shortages of resources and to encourage national as well as international growth and success. How networks are theoretically built was discussed above but how companies search and find, establish and maintain

\begin{thebibliography}{125}
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\bibitem{Sawhney2002} Sawhney and Zabin (2002) p. 319
\bibitem{Rugman2009} Rugman, Li and Hoon Oh (2009) p. 387
\bibitem{Kotabe2004} Kotabe and Murray (2004) p. 621
\bibitem{Hinttu2003} Hinttu (2003) p. 3
\bibitem{Freeman2006} Freeman et al. (2006) p. 33
\end{thebibliography}
The role of networks in internationalization

relationships with their concrete network partners varies strongly between companies. A very common approach to identify suitable partners starts through informal social networks. Social networks play an important role in the network-structures of companies as there are often already existing private connections. Such links are especially embodied in top management or among entrepreneurs and were developed from prior business experience.\textsuperscript{126} According to Aldrich and Zimmer (1986) and Hinttu (2003), social networks have a great importance on the internationalization of smaller companies.\textsuperscript{127} They define social networks as “the totality of persons connected by social relationships within a bounded population.”\textsuperscript{128} Even though (social) networks are highly important to enhance and initiate internationalization, the search for international exchange partners is an ongoing process because people, products and even customers change and therefore an ever-improving network of partners is necessary to remain internationally successful.\textsuperscript{129}

The notion of the pivotal role of networks in firm internationalization is not a new one. Networks have been assigned high importance when it comes to internationalization, because all markets involve social and industrial networks and actors interplaying with each other. To build relationships means to interact with other companies. As a result, the company will create experience and knowledge, which is highly valuable, especially when the company is seeking to expand internationally.\textsuperscript{130} For this reason some of the authors\textsuperscript{131} researching on internationalization have supplemented their original theories with the importance of networks. Overall these attempts have resulted in a conglomerate of research contributions which are often summarized under the term network theory of internationalization. This international network theory is more of a mélange of other theories rather than an independent theory itself.

However, there is one theory called the network theory of internationalization, which was the basis for Johanson and Vahlne’s (1977) revision of their model. It was studied by Johanson and Mattson (1988) and has also some implications for the network importance

\textsuperscript{126} Hinttu (2003) p. 3; Harris and Wheeler (2005) p. 190
\textsuperscript{127} Aldrich and Zimmer (1986) p. 8f; Hinttu (2003) p. 3
\textsuperscript{128} Aldrich and Zimmer (1986) p.12
\textsuperscript{129} Hinttu (2003) p. 10
\textsuperscript{130} Glowik (2009) p. 41
\textsuperscript{131} For example Johanson and Vahlne (2009)
in the modern born global model. Therefore, this particular network theory of internationalization will be shortly presented in Chapter 3.1.

3.1. The network theory of internationalization

A company’s network ties can support international expansion if the network created is not only connecting different companies but is also covering different countries.\(^{132}\) It becomes especially important when a company alone is unable to enter certain countries for different reasons such as restrictions on entry modes for foreign companies.\(^{133}\) The key assumption of the network theory of internationalization is that inter-organization networks will develop when cooperation is more efficient than competition.\(^{134}\)

According to the findings of Johanson and Mattsson (1988) the position in the network is highly important for the degree of internationalization of both the firm and the market (or better the network), and therefore companies can be broadly grouped into the four categories\(^ {135}\) shown in figure 13.

![Figure 13: Degree of firm and market internationalization](image-url)

\(^{132}\) Johanson and Mattsson (1988) p. 290f  
\(^{133}\) Adersson and Buvik (2002) p. 352  
\(^{134}\) Glowik (2009) p. 41  
\(^{135}\) Johanson and Mattsson (1988) p. 298
“The early starter” is characterized by only few relationships domestically and abroad. Both, the degree of internationalization of the firm as well as the market are fairly low. It has only little knowledge about countries abroad\textsuperscript{136} and the expansion is mostly driven by important customers in foreign countries.\textsuperscript{137}

The second type of company is called “the late starter” and is concentrated on the home market; although, due to the high degree of internationalization of the market, (e.g. international competition on the home market) it is forced to expand to other countries.\textsuperscript{138} Although the company does not have the knowledge needed for the internationalization, it can access information and knowledge due to its network ties.\textsuperscript{139}

“The lonely international” can be described as a highly internationalized company in a very low internationalized market as shown in figure 13. It has a very strong position in the network because of high expertise and knowledge of foreign cultures and countries. Its internationalization is not driven by other companies but it is a driver for other firms in the network itself.\textsuperscript{140}

The last type is called “the international among others” and is characterized as a highly internationalized firm and network. This means its business can be conducted on a global level because also its partners belong to highly internationalized networks.\textsuperscript{141} Changes in the network usually take place through joint ventures, mergers or acquisitions.\textsuperscript{142} The big advantage of such highly internationalized markets is that the individual firm does not have to react to changes of the business environment but can coordinate its international activities strategically.

The categorization introduced by Johanson and Mattsson focuses on the position of the company within the network and shows how important it is for the internationalization of the company. While it does not allow for normative implications and is to some degree tautological, the model is one of the most prominent exponents of the network theory of

\textsuperscript{136} Johanson and Mattsson (1988) p. 298
\textsuperscript{137} Glowik (2009) p. 45
\textsuperscript{138} Glowik (2009) p. 46
\textsuperscript{139} Johanson and Mattsson (1988) p. 302f
\textsuperscript{140} Johanson and Mattsson (1988) p. 300f
\textsuperscript{141} Wilkinson et al. (2000) p. 288
\textsuperscript{142} Johanson and Mattsson (1988) p. 306
internationalization and has implications for both the Uppsala Model of internationalization and the more modern born global.

3.2. **Networks in the Uppsala model**

Incited by criticism Johanson and Vahlne (2009) revised their model of gradual internationalization from 1977 to respond to a more dynamic business environment.\(^{143}\) Research has shown that the establishment chain has changed over time as companies are able to expand more rapidly and have the knowledge and means to overcome the psychic distance more easily.\(^{144}\) Moreover joint ventures and strategic alliances have become more common and there was a need to account for inter-organizational elements in the Uppsala model.\(^{145}\) Psychic distance has long been considered a major barrier for internationalization in the traditional model of Johanson and Vahlne (1977)\(^{146}\) but - inspired by the upcoming of new internationalization theories such as the born global theory - Johanson and Vahlne (2009) have acknowledged that psychic distance can also be a driver of internationalization as is purported in the model of Oviatt and McDougall (1994).\(^{147}\) A lot has changed since Johanson and Vahlne observed the systematic incremental pattern of internationalization, however, the role of networks in coping with uncertainties, the learning and strengthening of relationships in order to grow and succeed has proved a decisive element in the internationalization process.\(^{148}\)

For all those reasons the authors of the traditional internationalization model have revised their work and have added networks as a mediator to their theory. The outcome of this extension is the business network model.

Johanson and Vahlne (2003) themselves define business networks as “*sets of interconnected business relationships in which each exchange relation is between firms and is conceptualized as collective actors.*”\(^{149}\)

\(^{143}\) Johanson and Vahlne (2009) p. 1411  
\(^{144}\) Oviatt and McDougall (1994) p. 31  
\(^{145}\) UN World Investment Report (2000)  
\(^{146}\) Johanson and Vahlne (2009) p. 1422  
\(^{147}\) Oviatt and McDougall (1994) p. 33  
\(^{148}\) Johanson and Vahlne (2009) p. 1423  
\(^{149}\) Johanson and Vahlne (2003) p. 92
In the business network model the firm becomes part of a network during the process of internationalization and the network engagement is growing towards later stages of this process. This means that the number of network partners or co-operations is increasing with foreign firms in a later stage of internationalization.¹⁵⁰

Companies usually expand abroad due to different circumstances but also with the assistance of a network partner (such as customers, suppliers and service providing firms for example consultancy, finance) which they are in a relationship with.¹⁵¹ The partners can either be local or foreign businesses but the knowledge they share is interrelated and improves internationalization effectiveness, the scope of opportunities and therefore the level of internationalization.¹⁵²

The company seeking to internationalize itself is embedded in a network which at the same time enables (cooperation) and constraints (competition) the internationalization process.¹⁵³ The actors in the networks are connected with a large variety of independent companies.

The aim of this revision of their earlier work is to stress the importance of the internationalizing firm’s network position.¹⁵⁴ Networks may enhance the firm’s learning opportunities and capabilities and increase commitment building which may ultimately lead to the exploration of international business opportunities.¹⁵⁵

Similar to the first model of internationalization developed by Johanson and Vahlne in 1977, the revised business network model also consists of state and change elements as demonstrated in figure 14.¹⁵⁶

¹⁵⁰ Laanti et al. (2006) p. 1105
¹⁵¹ Glowik (2009) p. 47
¹⁵² Johanson and Vahlne (2009) p. 1425
¹⁵³ Dowling and Lechner (1998) p. 86
¹⁵⁴ Johanson and Vahlne (2003) p. 96
¹⁵⁶ Johanson and Vahlne (2009) p. 1424
Figure 14 also shows the two components of both state and change elements. On the one hand, state elements include “knowledge opportunities” and the “network position”. Change elements, on the other hand, are composed by “relationship commitment decisions” and “learning creating trust-building”.

The components are interrelated and state elements affect change elements and vice versa. Opportunities are seen as the most important aspect in the body of knowledge \(^\text{157}\) which drives the process of internationalization. \(^\text{158}\) “Knowledge opportunities” is the first state element as shown in figure 14 above. By knowledge Johanson and Vahlne understand two different types of experience:

- market-specific
- operation experience

Both are very necessary to be successful in the foreign market. \(^\text{159}\) Whenever a relationship is formed, the two sources of knowledge are combined and experience or

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157 Johanson and Vahlne (2009) p. 1424  
158 Eriksson et al. (1977) p. 344  
159 Johanson and Vahlne (2003) p. 91
The role of networks in internationalization

knowledge will be exchanged. As the relationship commitment increases, learning takes place and trust is formed between the two relationship partners. Ultimately this will lead to a low-cost exploration of new international business opportunities for both companies and a higher involvement in the network.\(^{160}\) The second state element is the “network position” which recognizes that the network provides the framework for the internationalization process of the company. The network position itself is built on knowledge, trust and commitment which in turn drive the firm’s internationalization.\(^{161}\)

Conversely, change variables also consist of two components – on the one hand “learning, creating and trust-building” and on the other hand “relationship commitment decisions”. By learning Johanson and Vahlne understand experimental learning, which they see as the most valuable form of organizational learning.\(^{162}\) The result of experimental learning is the creation of knowledge (creating) and by trust-building the authors refer to the accumulation of commitment between the two parties. The interplay of all these elements will finally lead to a stronger position within the network, enabling the company to pursue profitable opportunities for internationalization.\(^{163}\)

The second change variable is termed “relationship commitment decisions”. The model thus acknowledges that internationalization is highly related to commitment decisions such as investment, mergers and acquisitions or cooperative agreements, alliances with network partners such as customers, suppliers, distributors or even competitors etc.\(^{164}\) As a change element it comprises all decisions to increase or decrease commitment to a certain partner in a certain relationship in the network. The most evident repercussion of such decisions is the chosen entry mode of the company which decides over the form and size of investments and ultimately over stronger or weaker relationships with network partners.\(^{165}\) The more specific and interrelated the relationships and alliances are, the more the company will depend on them.\(^{166}\) There are two kinds of decisions possible

\(^{160}\) Hohenthal (2001) p. 54
\(^{161}\) Johanson and Vahlne (2009) p. 1424
\(^{162}\) Lou and Peng (1999) p. 290
\(^{163}\) Johanson and Vahlne (2009) p. 1424
\(^{164}\) Glowik (2009) p. 47
\(^{165}\) Johanson and Vahlne (2009) p. 1424
\(^{166}\) Johanson and Vahlne (2003) p. 91
from the network point of view – either the building of new relationships within the network or the development of new networks. 167

In the revised business network model the main barriers of internationalization are no longer cultural differences between the countries and the uncertainties associated with them, but primarily the cultural contradictions between the network partners and the management of such culturally diverse relationships as well as country-specific institutional and cultural obstacles. 168

To sum up, the success of internationalization is driven by the ability to build and maintain national and international networks as well as the learning and gathering of experience in doing so. 169 Similar to the previous model of internationalization, Johanson and Vahlne consider learning to play a pivotal role in firm internationalization. However, in the business network model they acknowledge that learning does not necessarily have to take place within the organizational hierarchy, but rather within the complex cooperative network relationships.

Comparatively the network approach used in the born global model of internationalization will be discussed in the next chapter 3.3. This will show again how contradictory those two theories are and point out particularities of the use of networks and their importance for a born global company which seeks to internationalize.

3.3. Networks in the born global model

Business networks and relationships are of great importance for companies regardless of their size, success and pace of internationalization as discussed in the beginning of chapter 3 because networks enable firms to work cooperative and to combine activities and resources. 170 Any position in the network can be valuable for a company even if they are in a “lonely international” position. 171 However, companies of small or medium size or high pace of internationalization often lack resources such as finances or managerial

167Burt (1992) p. 61
168Johanson and Vahlne (2003) p. 96
169Li (1995) p. 347
171Johanson and Mattsson (1988) p. 300f
The role of networks in internationalization

resources which are necessary to expand successfully. They are highly vulnerable because they mostly depend on a limited range of products to diversify commercial risk. Therefore, those companies are highly dependent on business relationships to reduce risk, as well as on networks which help them to expand and complement their limited competencies and resources. Networks may be of even greater importance for born globals than for any other type of company as they are more susceptible to such risks and have even less resources at hand to back their exponential growth paths.

They are not able to build up their reputation and credibility as profitable companies fast enough and therefore it is even more difficult for them to gain e.g. financial resources from conventional sources such as banks or credit institutes. The risk is often too high for investors to fund small- and medium sized companies, especially when they are expanding so rapidly without guaranteed success (also referred to as the liability of newness). However, they still manage to expand at a much faster pace than companies following the traditional way of internationalization. They do so by building up different business relationships, for example participating in a joint venture or entering a strategic alliance.

Moreover, the integration of born globals into business networks helps to overcome the lack of resources they suffer. Researchers discovered that born globals develop networks mainly through formal or informal contact with large firms – mostly large multinational companies – which provide knowledge and market entry opportunities all over the world for the small born global.

Gabrielsson and Kirpalani (2004) discovered different ways for born globals to gather more and profitable business opportunities through cooperation with a multinational corporation and increase their internationalization despite their lack of resources.

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174 Madsen and Servais (1997) p. 573
175 Laanti et al. (2006) p. 1107
176 Covello and Murno (1995) p. 361f
177 Dibrell et al. (2009) p. 38 Also referred to as the “liability of newness”.
179 Crick and Spence (2005) p. 180
multinational corporations acting as integrators
multinational corporations acting as distributors of products and services of the born global company\textsuperscript{181}

The form of cooperation suggested by Gabrielsson and Kirpalani (2004) with a multinational corporation will be discussed in detail below.

\textit{Cooperation with a multinational corporation}

The methods of increasing business opportunities include a multinational corporation acting as a system integrator (born globals will be integrated into the supply chain of a MNC e.g. as a supplier for highly specialized products) or distributor (MNC is selling products of the born global in their assortment of goods) for the born global. Such cooperative arrangements are highly valuable because large multinational corporations are usually in several different (mostly strategic) relationships with other companies. In this constellation both actors involved benefit from collaboration. On the one hand the born global gains knowledge in design, operations, production and research and its products will be sold (with very little risk) to different countries which leads to an indirect and simultaneous entry into several foreign markets.\textsuperscript{182} For the MNC the cooperation helps to identify new market opportunities for the born global without bearing the product risk.\textsuperscript{183} Moreover, both companies can learn from this interaction and cooperation as a network.\textsuperscript{184} On the other hand the big multinationals benefit from introducing new innovative products and services which complement their product range.\textsuperscript{185} The two companies in question often also cooperate in marketing and brand building because the born global again lacks the resources of strong brand recognition.\textsuperscript{186} All these factors will finally influence the born global's internationalization.\textsuperscript{187}

\textsuperscript{181} Gabrielsson and Kirpalani (2004) p. 560
\textsuperscript{182} Gabrielsson and Kirpalani (2004) p. 561
\textsuperscript{183} Chetty and Holm (2000) p. 90
\textsuperscript{186} Gabrielsson and Kirpalani (2004) p. 561
\textsuperscript{187} Harris and Wheeler (2005) p. 205
The ability of born globals, especially in the high-tech industry, to build networks quickly and benefit from these relationships is also dependent on the organizational culture and in particular on the characteristics of the top management in charge. Generally speaking the more internationally experienced the top management of a high-tech SME, the more likely they are to build the networks required for successful internationalization. The high-tech sector is very fast moving and companies in such industries are in a highly dynamic environment and therefore have to take advantage of opportunities very quickly and respond to changes rapidly within a very small timeframe. Ironically, the high demand for technological innovation increases the complexity of business relationships because it fosters strategic alliances and collaborations and causes more than the simple buyer-seller relationships to develop.

Although networks seem to be the key to successful internationalization they still involve a high level of uncertainty and risk because creating contacts across borders involves higher information asymmetries than in purely domestic partnerships. The larger geographical distance increases the difficulty of finding trustworthy foreign partners.

Small companies need to become integrated into networks not only to overcome export-marketing problems. The main constraints of rapid internationalization which have been identified in IB literature are:

- lack of economies of scale
- lack of financial and knowledge resources
- aversion to risk taking

Freeman, Edwards and Schroder (2006) discovered in their field research in Australia five important ways to overcome these three essential bottlenecks.

1. Personal network contacts

This confirms the importance of the manager’s international experience and the ability of enhancing personal network contacts.
2. Strong relationships with large foreign customers and suppliers

This supports the interplay between the intra- and inter-organizational network structures mentioned earlier in chapter 3, because these strong relationships are built inside (departments) as well as outside (customers, suppliers) a company. The foundation of a network will help to manage and control these individual business relationships.\(^{195}\)

3. Client followership

Client followership means to follow an important client to his country of origin and establish new business in that particular country. The risk involved in rapid internationalization of small born global companies can be decreased by client followership and strategic alliances or other cooperation with big suppliers or customers. The advantage is the smaller financial burden and risk which is shared with their partner\(^{196}\) and the possibility to rely on a global and sustainable business partner.

4. Use of advanced technology

Born globals are very proactive in their internationalization, especially when compared to traditional SMEs.\(^{197}\) The reason for this is that they are mainly found in knowledge-intensive and high-tech industries where innovation appears at a much higher pace which facilitates rapid expansion.\(^{198}\) Furthermore, the exponential growth of born globals results in up-to-date information systems, whereas traditional internationalizers may be hampered by outdated business support processes and IT.

5. Multiple modes of entry

The internationalization of small start-up firms is characterized by multiple entry modes such as strategic alliances, joint ventures or subsidiaries\(^{199}\) as well as client followership.\(^{200}\) Companies use these entry modes with different intensity. However, in their research Freeman, Edwards and Schroder (2006) found out that equal intensity of

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196 Freeman et al. (2006) p. 52
197 Crick and Spence (2005) p. 168
198 Freeman et al. (2006) p. 53
199 Karlsen et al. (2003) p. 394, 386
200 Bell et al. (2003) p. 348
all entry modes applied would bring higher output on the internationalization of small firms.\textsuperscript{201}

After this discussion on the role of networks in both internationalization models a short comparison to point out the differences of the network approach of both the Uppsala theory and born global theory will follow in chapter 3.1.3. This will show the differences in reasons, goals and the most common forms of networking between the two diverging theories. Those differences will provide the basis for the following case study in chapter 4.

3.4. Comparison of Uppsala and born global network theories

As discussed in this chapter 3.2 and 3.3., networks are important for both internationalization models – the traditional Uppsala model as well as the modern born global model. However, there are still differences between the internationalization theories with regard to the functioning of networks – especially between the two highly diverging theories discussed in this thesis.

On the one hand the Uppsala approach by Johanson and Vahlne (1977) was revised and a network business model was formulated after they discovered how important business networks and cooperative relationships are in the successful internationalization of companies.\textsuperscript{202} The Uppsala approach is generally based on the resources companies have. The companies take their resources in consideration before expanding abroad in order to lower risk,\textsuperscript{203} networks are primarily used to facilitate internationalization rather than to overcome resource shortages as is believed to be the case for born global companies.\textsuperscript{204}

In the Uppsala business network model the “goal” of networks is to discover opportunities domestically and abroad.\textsuperscript{205} The opportunities in question can be found through business partners and cooperative relationships and more specifically through the knowledge which is transferred through networks.\textsuperscript{206} True success can however only be achieved if the networks are maintained over a long period of time, because this will

\textsuperscript{201} Freeman et al. (2006) p. 53
\textsuperscript{202} Johanson and Vahlne (2003) p. 84
\textsuperscript{203} Johanson and Vahlne (2009) p. 1412
\textsuperscript{204} Gabrielson and Kirpalani (2004) p. 557
\textsuperscript{205} Eriksson et al. (1997) p. 344
\textsuperscript{206} Hohenthal (2001) p. 54
increase trust between the partners and increase the amount and value of information shared and experience gathered.\textsuperscript{207}

The Uppsala approach shows that business relationships are very valuable in internationalization but not indispensable for survival. Networks for sure help to increase and facilitate international expansion. However, companies which internationalize gradually do not face a high risk of failure in their expansion strategies.\textsuperscript{208} Therefore, slow internationalizers’ most important form of networking is through distributors and agents abroad as it allows them to initiate with low commitment to the partners and gradually increase it over time.

The complete opposite is true for born globals. These small start-up companies expand at such a high pace right after establishment that they don’t have the resources to internationalize relying on their own resources – without any business partners.\textsuperscript{209}

Born globals use different ways to overcome resource shortages such as being integrated into big multinational companies, using them for distribution or working through business partners in a network. Especially virtual networks have been gaining importance lately or even a combination of all those ways.\textsuperscript{210} The most popular form of networking for small born global companies is the integration in big multinational corporations’ supply chains. They use highly specialized global start-up companies as a supplier of high technological parts and serve as a spring board to global economic activity.\textsuperscript{211} Finally, the integration of small born global companies into large global networks can reduce risk aversion and may diversify risks.\textsuperscript{212}

To sum up, figure 15 contrasts the two theories in the light of networking:

\begin{itemize}
  \item \textsuperscript{207} Li (1995) p. 347
  \item \textsuperscript{208} Johanson and Vahlne (2009) p. 1422
  \item \textsuperscript{209} Gabrielsson and Kirpalani (2004) p. 556
  \item \textsuperscript{210} Gabrielsson and Kirpalani (2004) p. 560
  \item \textsuperscript{211} Hoover et al. (2001) p. 227
  \item \textsuperscript{212} Freeman et al. (2006) p. 41ff
\end{itemize}
Plenty of research has been done in the field of born globals and how they overcome their shortage of resources. However, we know little about how they manage their networks and how their structure differs from slow internationalizers. It still remains a mystery how small born globals manage to benefit so fast from their quickly built relationships.

Therefore this diploma thesis will make an attempt to understand the two internationalization strategies better, especially with regard to their way of discovering cooperative business relationships and in the way they help SMEs to expand successfully abroad.

By using two case studies conducted in California, the author hopes to identify differences between the network structure of a traditional SME following the Uppsala approach and a small born global company.

<table>
<thead>
<tr>
<th>Reason for networking</th>
<th>Uppsala approach</th>
<th>Born global approach</th>
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<tbody>
<tr>
<td>Increases and facilitates internationalization</td>
<td>Overcome shortage of resources</td>
<td></td>
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<table>
<thead>
<tr>
<th>Goal of networks</th>
<th>Uppsala approach</th>
<th>Born global approach</th>
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</thead>
<tbody>
<tr>
<td>Discovering opportunities domestically and abroad</td>
<td>To internationalize successfully and survive</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Most common form of networking</th>
<th>Uppsala approach</th>
<th>Born global approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation with local distributors or agents abroad</td>
<td>Integration or cooperation with big multinational corporations</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 15: Differences networks**
4. The importance of networks in internationalization of Californian SMEs - research case

4.1. Empirical study’s methodology

The empirical study focuses on the importance of networks and their impact on the internationalization of Californian born global high-tech companies which are internationalizing at a high pace. In a second step the findings are contrasted to traditional small-and medium sized companies following the traditional Uppsala approach.

The methodology used in this thesis has been presented twice in seminars and workshops, in Groningen (Netherlands) and Irvine (California), through the NEURUS-ICURD program the author was participating in. It has been discussed and evaluated by fellow researchers, faculty members and the attending graduate and PhD-students from both universities.

The companies studied were identified through intensive internet research. Of particular importance were the local business network websites focusing on high tech industries such as OCBC. Other important sources were contacts of venture capital funds which are commonly financially supporting small companies (especially born global companies) and contacts provided by the University of California, Irvine. The search for the companies was difficult because of limited availability of information about companies not listed on the stock exchange. Small- to medium sized companies owned by venture capital funds in particular have very restrictive information policies and do not present company information online. As a result contact persons are difficult to identify and for that reason the author was forced to use commercial online sources such as www.spoke.com to find names and phone numbers.

The definition of a born global company as described in chapter 2 was used to identify potential companies for the first case study. Due to all the difficulties and lack of information, only 40 companies based in Orange County could be identified as “role model” born globals or traditional SMEs following a theoretical sampling approach. After the identification of suitable contact persons informed about internationalization of
the firm, the companies were contacted via phone and email. First the research project was outlined and then arrangements for personal interviews were made, assuring full anonymity for all interviewees and companies.

Finally two interviews were held which was satisfactory, regarding the high confidentiality of the topics covered and the fact that they were only carried out with top management officials. Two interviews can also be considered sufficient due to the qualitative nature of the research trying to identify new areas for research and generating new hypotheses by contrasting two extreme cases rather striving for a representative sample. The interviews themselves were of 30-40 minutes length, partly conducted in California as semi-structured narrative interviews and partly conducted as telephone interviews from Austria.\textsuperscript{213} The author experienced difficulties in identifying and contacting suitable companies which were prepared to participate in the case study within the time frame of the research stay. Due to the excessive time lag between the first contact and the actual meeting with the manager it was only possible to conduct one of the planned two interviews locally. The other one was conducted via telephone after returning to Austria.

The interview questions were tested and discussed in the NEURUS-ICURD seminar (a research program for conducting research in the US) in California and by both supervisors – one in Austria (Vienna University of Economics and Business) and one in California (University of California, Irvine). The questionnaire was (see appendix 1) split into four different parts: the first part, introduction with general questions about the company, followed by questions about the process of internationalization of the company. This was done for two reasons.

- first to re-check if the company was suitable for the case study
- secondly to introduce the research topic of internationalization

In order to avoid an interviewer's bias, interviewees were not presented any background information on the two internationalization theories and were not told which study group they belonged to. The third and main part included questions about networks and their importance in the firm’s internationalization. These questions were intended to address the research questions in the thesis and interviewees were therefore encouraged to answer

\textsuperscript{213} Interview questions can be found in Appendix 1
them as detailed as possible. To conclude the interview, a final set of questions about future plans regarding further internationalization was asked. The series of forward-looking questions should help to contribute to existing research on the importance of networks in the process of internationalization by including the manager’s vision of the company. Before the interviews were held the main questions were sent out to the interviewees in order to give them the opportunity to prepare for the interview. During the interview itself affirmative questions were repeatedly asked to ensure the correct understanding and meaning of the information given by the interviewee. Finally the interviewees were asked to provide further documentation of the company’s internationalization which was adhered to in both cases.

The remainder of the empiricism will be structured as follows: in chapter 4.3.1 and 4.3.2 the case company chosen as an example for the traditional Uppsala approach of internationalization will be described and outcome and findings of the interview will be presented. Then the same will be done for the born global company. A cross case comparison in chapter 4.3.3 will summarize similarities and highlight differences\(^\text{214}\) between the two case examples for the two internationalization theories.

\(^{214}\) Eisenhardt (1989) p. 540
4.2. Orange County, California – place of investigation

The place of investigation chosen by the author was California and more specifically Orange County. It is located in the heart of Southern California with Los Angeles County to the north, San Diego County to the south and Riverside and San Bernardino Counties to the east. Orange County currently consists of 34 cities and has a population of 3,139,017 people.\textsuperscript{215} It has the second highest high-tech cluster diversification among peers (after Boston) and therefore it constitutes a perfect place of investigation. Furthermore the NEURUS-ICURD program provided the opportunity to carry out field research in the most prominent university of the region – University of California, Irvine.

Figure 16 shows a map of Orange County with all 34 cities:

Orange County is a role model region and is reaching towards a knowledge-based, 21\textsuperscript{st} century economy. Since Great Recession most of the traditional manufacturing jobs were destroyed and O.C. has become a global center for high technology trade. International

\textsuperscript{215} Orange County (2010) p. 3
trade, information technology, green technology and also the creative economy are creating new high-wage jobs and are becoming essential for the economy in Orange County. These four industries are pushing the economy and are highly important for the competitiveness of California as a whole. International trade has doubled since 1999 mostly due to technological innovations which made international business easier and faster. Information technology allows countries to interact in a very fast and efficient way and increases productivity.\textsuperscript{216}

Investments in the high-tech industry in Orange County have grown significantly in the last years. Local policy makers have attempted to replicate the success of California’s Silicon Valley as the hot spot of high technology.\textsuperscript{217} The economic reasoning behind it is that such high innovation growth crystallizes itself in high-wage positions which can lead to economic diversification and resilience.\textsuperscript{218}

Four industries are important for Orange County’s economy which can be seen in figure 17:

\textsuperscript{216} OCSD (2011)
\textsuperscript{217} SocalTech (2011)
\textsuperscript{218} SocalTech (2011)
As shown in figure 17 there are four strategic important industries in Orange County because they are having spillover effects to other industries. These industries are international trade, information technology, clean-tech and creativity. They are of great importance because investments in these four sectors have multiplying effects on other advanced industries.

As a comparison of a clean-tech company with, for example, a creative industry company would lead to industry effects distorting the research. The author decided to concentrate her research solely on the high-tech sectors which can be seen as sufficiently homogenous.

For example the born global company interviewed for the case study is a major player in the Orange County (based in Irvine) clean-tech sector.

4.2.1. High-tech industry in California

Before the author goes on to examine the results of the field research, a closer look on what researchers understand by high-tech industry is necessary.

There is no generally accepted definition of high-tech industry but many different views of different organizations and research institutes. In this thesis the author will use the definition by the Milken Institute which lists nineteen high-tech industry codes organized by Northern American Industry Classification System (NAICS code) (figure 18). The complete NAICS code consists of up to six digits and five levels of detail. The first two designate the main business sector, the third digit determines the subsector, the fourth shows the industry and group and the fifth defines the particular product industries (NAICS industry).

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219 OCSD (2011)
220 U.S. Census Bureau (2011)
221 Economic Outlook – Orange County growth management department (2009) p. 2
222 U.S. Census Bureau (2011)
<table>
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<tr>
<th>NAICS Code</th>
<th>Industry description</th>
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<tbody>
<tr>
<td>3524</td>
<td>Pharmaceutical and Medicine Manufacturing</td>
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<tr>
<td>3333</td>
<td>Commercial and Service Industry Machinery</td>
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<td>3341</td>
<td>Computer and Peripheral Equipment Manufacturing</td>
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<td>3342</td>
<td>Communications Equipment Manufacturing</td>
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<td>3343</td>
<td>Audio and Video Equipment Manufacturing</td>
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<td>3344</td>
<td>Semiconductor and Other Electronic Manufacturing</td>
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<td>3345</td>
<td>Navigational, Measuring, Electromedical, and Control Instruments</td>
</tr>
<tr>
<td>3346</td>
<td>Manufacturing and Reproducing Magnetic and Optical Media</td>
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<td>3364</td>
<td>Aerospace products and parts</td>
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<td>3391</td>
<td>Medical Equipment and Supplies</td>
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<td>5121</td>
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<td>Telecommunications</td>
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<td>518</td>
<td>Data Processing, Hosting and Related Services</td>
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<td>Architectural, Engineering, and Related Services</td>
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<td>Computer Systems Design and Related Services</td>
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<td>Scientific research and Development Services</td>
</tr>
<tr>
<td>6215</td>
<td>Medical and Diagnostic Labs</td>
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</table>

Figure 18: High-tech Industry - Milken Institute
Source: Milken Institute – U.S. Census Bureau (2011)

All sectors mentioned in this list adapted by Milken Institute (originally U.S. Census Bureau) are collectively described as high technology industry.²²³

California as place of investigation was chosen for different reasons, but mainly because of the high density of the high-tech industries in the state and the unique network setting prevalent. California has the highest share of workers in the high technology industry of the whole United States. Figures from April 2010 show a percentage of 4.3 % of total employment is employed in the high-tech industry. In comparison the national average was only 2.9 % of total employment. Employment figures peaked in 2000 due to the

²²³ U.S. Census Bureau (2011)
The dotcom bubble and reached 5.6% of total California employment. During 2003 it fell to 4.4% and since then the figure remains steadily around 4.2%. Figure 19 illustrates employment growth in high-tech industries between 1993 and 2010 comparing California and the United States in general. It shows that both the rise before the dotcom bubble and the fall afterwards were more pronounced in California than in the rest of the United States. It also shows that California was particularly hit by the recent financial crisis.

The majority of people working in the high-tech industry in California are employed in high-tech manufacturing, whereas other states show both employment in manufacturing and service industries. Four main product areas are dominating in California’s high-tech industry. The industry is made up by the computer and electronic products manufacturing, followed by computer systems design, telecommunication and internet service provision, portals and data processing.

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224 Public Policy Institute of California (2010) p. 1
225 Public Policy Institute of California (2010) p. 1
4.3. Findings

In this chapter’s interview findings will be presented and discussed. First, each company (company A as the example of the company following the Uppsala model and company B as the born global example) will be individually described and interview findings will be evaluated in chapters 4.3.1 and 4.3.2. A cross case comparison in chapter 4.3.3 will highlight similarities and differences discovered between the network importance in both internationalization theories – Uppsala approach and born global model.

4.3.1. Research findings Uppsala model

4.3.1.1. Company following the Uppsala pattern

The companies which have been interviewed for this case study research will be described in the following two chapters 4.3.1.1 and 4.3.2.1 to illustrate that they are suitable for the case study. However, both companies in question preferred to be kept anonymous in this thesis. Therefore, no names and no information which could identify the companies will be revealed. Henceforth, the company following the Uppsala approach will be referred to as company A and the born global company as company B.

The company following the traditional model of internationalization depicted by Johanson and Vahlne (1977) is an international leader in the production of aerospace extrusions and structural components ready for assembly. The company is based in Anaheim, Orange County California and the telephone interview was held with the CEO of the company. As required by the case study design, it is a high-tech company which makes it more comparable to the born global company studies later in chapter 4.3.2. Company A offers its partners in the global aircraft construction market an above average total package of services that includes technical support and logistics solutions. “This worldwide unique program – complemented with additional services – fully meets the requirements of the global aerospace industry, today and in the future.”

The company is setting benchmark standards with regard to innovation, technology and customer service.

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226 Company A (website)
The knowledge-intense aircraft industry is characterized by a need for educated specialists and a specific and extraordinary knowledge involved.

The company was established in 1950 but is operative in its current form since 1991. It is financially supported and ultimately owned by a private equity investor which is specialized in investments in high-technology companies especially in the aerospace sector. Due to the private equity company, the firm in question is cooperating in networks with other companies supported by the investor.

After building up a reputation and becoming market leader in the US, company A started expanding abroad. It has four different warehouse locations and manufacturing plants – two in the United States and two in Europe.

Today the company covers worldwide market offering comprehensive solutions for standard and specialty products for aerospace and high strength aluminum alloy. It tries to add value in R&D, engineering, extruding, machining, surface treatment, assembly, kitting and service/logistic. Moreover, it aims at identifying logistics solutions for door-to-door delivery and participating in international research and development programs to provide high quality products for its clients.

More detailed information and interview findings about the company’s internationalization process and their network building will be presented below.

### 4.3.1.2. Research findings Uppsala model

The company following the Uppsala strategy of internationalization is operating in the aircraft industry and therefore has a different approach to internationalization. The two main markets are the USA and Europe which coincides with the concentration of the airline construction industry in the two continents, with Boeing and Airbus (ESA) being by far the major players. The company’s internationalization could thus be described as client followership as mentioned in chapter 3.3. The management selects markets very carefully – the main goal is to maximize turnover and to gradually increase market commitment rather than fast and risk-intensive internationalization. Market entries and international expansion are strategic decisions made after long and careful examination
by the top management. Behind every expansion there are strategic motives and reasons – the goal is to be cost efficient and sell as much as possible. Thus the second motive for internationalization can be categorized as a proactive cost-oriented motive as set forth in chapter 2.3.

Company A exists since 1950 and so far the company is operating in the whole United States, Romania and Switzerland. These are the countries where the company is actually manufacturing and developing its products. In the United States and Switzerland the company’s plants are focusing on R&D and in Romania on pure manufacturing due to low labor and production costs. However, it sells all over the world, as the product is consumed in many different countries. More specifically they are selling all over Asia-Pacific, United States and Europe – anywhere with a large aircraft structure, but the main clients and thus very powerful players in the company’s internationalization are Airbus and Boeing.

Figure 20 shows the different production plants of the company. Two in the United States – Anaheim, California and Canton, Georgia and two in Europe – Menziken, Switzerland and Dumbravita, Romania:
Company A is the world’s second largest manufacturer of hard alloy aircraft extrusions with a large production plant in California. From Anaheim it supplies the aircraft industry in the western part of the United States as well as the pacific region. The second production plant in the United States is based in Canton, Georgia and supplies the aerospace industry in the mid-Western and Eastern parts of the United States and in Europe.

Before expanding to a foreign country the company first established a good market position and reputation at their home market – the United States. The domestic market was the most important market for a long time – mainly because of the large aircraft industry and a large number of potential clients. After saturation at the home market the expansion to Canada was the first step abroad. The market is geographically and culturally close and therefore it was for the company less risky to enter following the Uppsala approach. The high correlation between the USD and the Canadian dollar also limited the company’s exposure to exchange rate fluctuations. As such company A is a
classic example for an Uppsala-type of internationalizer first expanding to a geographically and culturally close country.

Through the acquisition of company A by the private equity investor, the company’s strategy has changed towards a high growth and high risk strategy. This is particularly interesting because the company started to apply typical born global approaches after the external impulse given by the financial investor. This suggests that the two internationalization strategies may not be exclusively alternative and companies may be “re-born globals”.\textsuperscript{227} This is even more interesting, though many of the traditional behavioral patterns can still be traced after the strategy change. For example the company still relied heavily on trust based long term network structures and low intensity of cooperation with external partners. The reason for this could be that experiences and the culture of a company may not be as easily altered as strategic direction coming from an external investor.

Due to a high demand coming from Europe, the company decided to move there and produce locally in order to save costs and be more efficient. “We wanted to go to Europe to support the European and the U.S. market at the same time - the plan was to open up a manufacturing plant in Eastern Europe because of favorable labor and production costs.”\textsuperscript{228} In 2008 the decision was made to go to Eastern Europe to produce cost efficiently and be able to sell the products directly in Europe. Romania was the chosen country for opening the production plant for several reasons. First labor costs in Romania were very low in 2008 and still remain at a low level and second Romania was a springboard for the whole European market. “We wanted to find a country in Europe which provides advantages in terms of costs – the reason we went to Romania was the cost of labor.”\textsuperscript{229} The expansion to Romania thus clearly shows cost-orientated motives with lower risk involved (Romania was an EU accession candidate) which are usually associated with traditional Uppsala internationalizers. The Europe based plant in Romania started its operations finally in 2010 and is a full 4 press facility. They planned to create a world class aerospace extrusion plant which combines best practices from already existing plants.

\textsuperscript{227} Marin et al. (2006) p. 72ff
\textsuperscript{228} Interviewee A
\textsuperscript{229} Interviewee A
In Menziken, Switzerland, the company runs another subsidiary which supplies its partners with extrusions and finished products made of hard alloys and soft alloys either directly or through its distributors. The value-added chain (in Switzerland) includes engineering support, cast house for all alloys, hydraulic presses, machining capabilities, surface treatment, assembly services and also logistics and distribution solutions.

Even though the description of all the plants in the United States and Europe would suggest a large number of other companies involved in manufacturing and distribution, the company is only cooperating with one particular distributor which is highly integrated in the company's supply chain. The distributor is based in the United States, but has international plants all around the world and especially in the countries company A is selling to. This again shows a mix of strategies because the company is only cooperating with a low number of partners and with only one particular distributor which is supported by the Uppsala strategy. On the other hand this kind of cooperation is also supported by the born global approach because SMEs are cooperating with large multinational partners, acting as distributors of products, to increase internationalization.⁴³⁰

Due to their own manufacturing also in Europe and having their own logistic and service solutions, the company hasn’t integrated other companies in the supply chain. Moreover, the main products are very complex, knowledge intense and expensive. To reduce costs and make the products cheaper for the client the company seeks to have a very slim and (especially cost) efficient supply chain.

Joint venture or formal strategic alliances were not considered useful by the company’s management. They are not interacting in any formal cooperative relationship. The only cooperation they have are strategic ones with business partners. “We are not in any joint venture or strategic alliance with other companies but we do cooperate for strategic reasons with business partners which are more or less our own costumers or used to be our customers.” These business partners are actual or former customers and are based primarily in the United States. In Europe the company is also cooperating with a customer in the UK (the headquarters of the company is in the UK).

However, such cooperative networks do not occur over night and the companies have known each other and worked together in buyer-seller relationships for many years, they built up trust and dependence. In most of the cases they discovered step by step opportunities to work together in a network and cooperate at a more intense level than commonly seen between buyer and seller. “We develop a strategic cooperation with partners or costumers because we are both operating in the same industry, have manufacturing, stock and many other areas alike and see that cooperation in some points would add value for the costumer.” Only if the cooperation promises mutual benefit due to similarities in production and warehouse organization, the company following the Uppsala approach will enter it.

The described strategic cooperation of the company is completely built on trust. The management knows the other company as their partner for many years. They have been business partners as buyers and sellers for a long time. Therefore, all business relationships of the company in question are informal and only rely on trust. “All our strategic cooperation arrangements are completely relying on trust. We are not using any contracts or anything alike. We have to trust our partners, otherwise cooperation would not make sense.” Moreover, the time frame of cooperation can vary from long time cooperation to short time – project based cooperation. Therefore contracts are regarded to make the organization unnecessarily more difficult and complex.

Which position the company takes in the network – dominant, supportive or benefitting – varies from case to case. It depends on the partner and cannot be generalized for all existing cooperation arrangements. However, it always needs to be considered beneficial for the company otherwise the management would not be participating in the network relationship.

All decisions concerning expansion, internationalization as well as strategic cooperation with partners or costumers, are made by the top management of the company.

After presenting and discussing all the findings from research and interviews with the company following the Uppsala approach of internationalization, the opposite way – the born global case will be described in chapter 4.3.2. Following this, a cross case comparison will point out similarities and differences found between the two cases.

231 Interviewee A
232 Interviewee A
4.3.2. Research findings born global model

4.3.2.1. Company following the born global pattern

Company B, following the born global approach of internationalization, is based in Irvine, Orange County and is one of the numerous clean tech companies in California. It is located only 50 km away from company A. It is operating in the energy sector and is transforming greenhouse gases into an energy source for a clean generation of electricity. The product behind this process is a particular power station which is used in landfills, coal mines, digesters, oil and gas operations, waste water treatment plants, industrial processing plants and waste fuel sites (mostly military bases). Company B is exponentially growing and discovering new applications for the power station every day.

Company B is a very young company which was founded less than two years ago and has 80 employees so far. The management team consists of eight people, the board of directors of six people and an additional advisory board of four people. The interview was held with the vice president of commercial operations – a management member. The company is funded collectively by two venture capital funds together with two other companies operating in the same industry and level of technology. Both investors are in the board of directors and have a strong saying in company’s business operations as well as internationalization strategies.

Internationalization has been a big issue in the company from the beginning of its existence. Even though they wanted to concentrate on the U.S. (domestic) market, they discovered that their market essentially comprises the whole world due to worldwide growing greenhouse gas concerns. The company has a high potential to go global very soon, due to the desire to reduce emissions all around the world and a tougher regulatory environment. It is already operating in different countries and has clients all around the world. Most of the demand comes from the military. However, worldwide non-military demand is also increasing. Electricity prices worldwide are shifting national expansion towards international expansion.

4.3.2.2. Findings born global company
The born global company had the vision to go global from the beginning of its establishment and was therefore always aiming to operate internationally. This supports the argument of Oviatt and McDougal (1995) that the management of born global companies needs to have a vision of becoming a global player in order to be successful.\(^{233}\) International expansion is a very risky endeavor in the beginning, and so they thought that the U.S. (domestic market) might be their strongest market and therefore their goal market for the start. The U.S. military spending is the highest in the world and therefore the decision to initiate domestically is evident. However, there was always a strong intention to enter global markets. International demand increased immediately and expansion started to grow internationally rather than nationally.

The reason for the upcoming international demand are rising electricity and energy prices abroad. A typical example for this is Russia. One of the first foreign countries the company is operating in is Russia – there is no geographical or cultural closeness to the U.S. and they entered the Russian market less than one year after establishment. Russia is also a very instable and risky country, whereas Romania was an EU accession candidate when company A entered the market. This type of rapid expansion is very common for typical born global companies, which is also supported by Sharma and Blomstermo (2003).\(^{234}\) After the experience with Russia the company considered internationalization is a huge step and realized that they had vast opportunities as well as a much bigger growth potential internationally than nationally. "We see our goals outside the U.S. as a big deal. Tons of business deals in the U.S. but a lot more opportunities internationally."\(^{235}\)

Most of their national expansion takes place in southern California (and generally west coast), where they are based, and northeast of the U.S. Strengthening the market position in the U.S. or better in the northern part of America (U.S. and Canada) is also important for this particular born global. Financial resources are provided domestically – both venture capital companies (which are funding the born global) are U.S. based companies. Moreover, the main product of the company – the power station – is technically extremely specialized and therefore easier to sell domestically. In case of any problems occurring, the company can fix it within a very short time and without having engineers...

\(^{233}\) Oviatt and McDougal (1995) p. 35  
\(^{234}\) Sharma and Blomstermo (2003) p. 741  
\(^{235}\) Interviewee B
flying very long distance. Too big distances are a risk when it comes to big and extraordinary machines.

For this reason the born global company has to have some sort of office or educated workers (with specific knowledge in this area) in the countries of their clients. “Selling internationally is hard because there are so many efforts to make to satisfy the customer. However, there are so much more opportunities than nationally.”

So far the born global company is operating in and selling to the whole US, Canada, Russia, England, Korea, Italy, the Netherlands and France. The foundation was less than two years ago and therefore the company can be identified as a born global company as described in chapter 2.4.2. More international expansions are planned in the near future.

The United States are the home market of the company and unlike other born globals this particular company tried to create a reputation and sales figures in the home market first. They thought that selling such a technologically sophisticated product would only work if the company selling it was right by the client. This was partly true and so they sold their first products in the U.S. and Canada (which was added due to geographical closeness). However, very soon after foundation they already entered the first foreign market even though they started their international advertising not until August 2010.

As already mentioned above in this chapter, the Russian market was the first foreign market the born global company entered. Curiously, the contact between Russia and the born global company was established through an E-mail. “We received an E-mail from someone in Russia saying: Hey I saw you guys in the web and like what you are doing.” That was basically how the market was entered and the business relationship developed. Since then groups of specialists are travelling to Russia almost every month and the born global is already cooperating with two other Russian companies and clients.

Market entries in England (and therefore Europe) and Korea were made simultaneously through a buyout of an English company. The division acquired in question had had business established in Korea and had been selling globally. Therefore, the Korean market was entered through the buyout of the English division as well as selling opportunities in different other countries were found through the already existing active business of the division of the English company.
The born global company entered the French market through a senior application engineer who bought a power station. This business relationship developed through social contacts because the senior application engineer came to California – to the company’s place of business, to visit friends (people from the management team) and inspect the company and its products. He liked the products so much that he acquired a power-system. The company basically followed the buyer to his country and developed new business there.

The “following an important client” strategy of internationalization has been discussed in the theory part in chapter 3.3 and was strongly supported by Freeman et al. (2006).236 The researcher suggested this option as a very easy way to enter a foreign country with limited risks. This was confirmed in the interview because the interviewee said that “going to the buyer’s country – following a client, is the easiest way to enter the market. If you don’t know anyone, it is too difficult.”237 Small companies often also use public assistance to enter foreign countries if they do not have any relations or network contacts on site. In the U.S. the Commerce Department (a government department) organizes meetings for U.S. companies with international companies they could cooperate with for a small fee. The born global in this case study has not used this possibility yet, but would consider so for the future. This is a classic example for an external source born global companies could use to overcome their shortage or even lack of resources.238

On the international scale a small company is forced to cooperate with partners, this is strongly supported in literature as shown in chapter 3.3. The interviewed management considered partners as very important catalysts of internationalization, too. Success will come quicker when partners are involved in expansion and therefore internationalization. “Without partners success will come eventually but much slower.”239 Even more so, the born global considered a risk averse step by step internationalization detrimental to the company’s success. Time is money and every market entered into slowly is a waste of time when it could have been entered faster through the help of a partner.

Because of this, the born global company in the case study is always trying to find partners. Still most of the business especially in the U.S. is done on a direct basis. This

236 Freeman et al. (2006) p. 52
237 Interviewee B
239 Interviewee B
means more direct contact with clients and also using sales accelerators because they can get the company into other markets much faster.

The strongest cooperation the company has in the U.S. is with two other companies operating in the same or similar industry (high-tech industry with very heavy and highly specialized machines) which are all owned/funded by the same venture capital fund. This venture capital fund is specialized in funding clean-tech companies with technically extremely complex products and has a global vision of technologies, markets and opportunities. It is also operating as a partner and reducing the lack of financial resources of the company. The cooperation with the two other companies in the clean-tech sector and the investors does not directly lead to new business but offers opportunities to meet people and talk to them. Eventually, this will end up in business opportunities domestically and abroad. Competition among these companies is rather limited, especially in the case of the born global company in this thesis. The product they are selling is so complex that there is no real competition. Their product can be considered as a “unique product” which was mentioned as a proactive motive for internationalization.240 “The biggest competitor we have is doing nothing. We lose more projects with doing nothing than losing it to a competitor.”241

The outcome of this particular cooperation is social networking. According to the interviewee, social networking is a necessity especially for small and young companies. All their business relationships in Russia, England, France, Italy, the Netherlands and Korea were established through coincidences or social contacts. When the word was spread that the born global was buying the division in England, it caused a lot of rumors and talking about that fairly young and unknown company which lead to further business opportunities domestically. Spreading information is very important and there are a lot of stories how personal networks ended in economic success. “It starts with the person and eventually ends with a lot of money and success.”242

When it comes to international networks and partnerships – business relationships, a lot of trust in the partner is needed in order to rely on him/her. Born globals enter foreign territory so quickly that the building of trust is fairly impossible in such a short time. The answer to the questions whether the company uses contracts or trust in international

241 Interviewee B
242 Interviewee B
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business relationships was “both”. “A contract is always as good as the person behind it.”\textsuperscript{243} In international law it is not possible to get 100\% protection even with the best contract. There is always a way to justify any behavior. Trust will always play a major role but “most of the people will not lead up to the bargain”\textsuperscript{244}, especially when the time between the first contact and closing the deal is rather short. When the relationship is very young and loose the partner does not feel obligated to do his/her best to fulfill the contract.

In the particular case the product is very complex, specialized and expensive. When it comes to half a million dollar products, contracts are useless, because “when the business partner does not live up to it you can’t do anything”\textsuperscript{245}. It is more expensive to sue the person than to just abandon the contract. For example when the Russians do not stick to the contract nothing can be done against it. Contracts are there to protect oneself as good as possible, but they are not a guarantee for covering all risks and problems which may occur in international interaction.

A problem where contracts could be of great importance would be patent infringement, even though the company’s product is so extremely specialized in the technology they are using that someone would need to “really peal apart to imitate it”\textsuperscript{246}. Moreover, there are only two companies in the world which have the know-how and resources to build those special turbines and both are based in the U.S. However, protection against intellectual property theft is important especially when the company thinks of entering notorious markets such as China. The company hasn’t found a sufficient way to enter the Chinese market yet but they would not be hesitating if there was an opportunity.

Small start-up companies are prepared to take risks and the born global case company in this thesis would also enter a more strictly regulated cooperation such as a joint venture. They have not been in business long enough to enter into such an alliance yet but could easily imagine being in one, especially with a costumer or competitor. In the growing phase of a start-up company, anything (cooperation, alliance - any type of relationship with another company or business) that is of mutual financial benefit and fits the core business makes sense.

\textsuperscript{243} Interviewee B
\textsuperscript{244} Interviewee B
\textsuperscript{245} Interviewee B
\textsuperscript{246} Interviewee B
As regards the form of cooperation, company B has proved to engage in a variety of innovative mutual relationships which go beyond a traditional seller-client relationship. When they introduced a new and even more powerful model of the power station (specific names may not be used) they asked their existing clients for direct hand advice and recommendations. They asked them what they expect and want from the product and the company (and not only technical side). The head of product engineering personally called important clients to ask them about their ideas. With this approach they managed to reposition themselves from being a vendor to being a trusted partner and trusted resource. Seeking advice is a very important form of cooperation in network relationship. Clients feel needed and obligated at the same time, and both benefit from this exchange and form of cooperation. Especially when you are selling complex and expensive machinery (up to one million dollars) you have to gain clients trust. Business transactions are on a very high level of engagement and customer service and help is a priority.

Besides cooperating with clients, the venture capital companies which are funding the born global are encouraging collaborations with research institutions and PhD students (engineering) – rather than outside consulting firms due to the high costs and inefficiencies of such companies.

To sum up, the clean-tech born global company has been established less than two years ago, is owned by two venture capital companies and is operating all over the U.S. and in several other countries. The management in place attributes most of its internationalization to social networks. “Business is a lot about people. Networking starts with people!”

After presenting and discussing both case studies, a cross case comparison will follow in the next chapter 4.3.3. The purpose is to identify similarities and highlight differences between the network importance of born global companies and traditional SMEs. The cross case comparison will also break down the findings and will help to answer the research questions.

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247 Interviewee B
4.3.3. Cross case comparison

In this conclusion of the case studies chapter the author will evaluate the findings of the interview with the company following the Uppsala approach described chapter 4.3.1 and the company following the born global model described in chapter 4.3.2. The author will structure the findings and point out similarities and differences in networks building and maintaining and will show some particularities of both internationalization strategies.

Both companies are operating in a highly specialized industry and are selling large, complex and expensive products. The born global company is a clean-tech firm selling power stations which transfer useless trash into energy, and the company following the Uppsala approach is operating in the aircraft industry. Therefore, in both cases selling and expanding abroad is accompanied by many difficulties and problems due to the complexity of the products. These similarities make the companies comparable and useful for the case study. Both companies are part of the highly connected networks of OC high-tech industry.

The author will start to describe the similarities found in the interviews and focus afterwards on the differences discovered. Three areas have been identified where both companies in question have the same approaches and ideas:

- assumptions about the U.S. market
- clients or costumers as important network partners
- decision making

**Assumptions about the U.S. market**

Both companies see their home market – the U.S. market – as highly important and providing immense opportunities. The company following the Uppsala approach was operating in the domestic market exclusively for a long time. This is supported by literature and especially by Johanson and Vahlne (1977). However, also the born global company was initially (especially in the beginning of establishment) focusing on the home market. They thought that the U.S. market would be their biggest market for two reasons:
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- first financial resources are provided domestically
- secondly because of the complexity and the size of the product they are selling

Even though they discovered that there are vast opportunities for growth abroad at a very early stage, they still intend to gain a good solid footing at their home market.

Clients or customers as important network partners

The company following the traditional way of internationalization is not engaging in any formal network such as a joint venture or strategic alliance with others (independent companies) but is constantly entering strategic informal cooperation with business partners who are clients or important customers. They have been in buyer – seller relationships for many years and start interacting in a mutual beneficial network when they discover that there are areas where cooperation makes more sense than doing it on their own. This is an example of quasi-internalization explained in chapter 3 because companies are integrated in networks for special cooperation, but still remain completely independent entities. 248 Similarly the interviewee of the born global company said, that the easiest way to enter a foreign country would be by following a client to its country of origin and start selling there. The company already used such a strategy to enter the French market by basically just starting to cooperate with a client there. Moreover, they are involving their most important clients intensively in product design and technical decisions and use them as consultants and therefore as important partners.

The similarity considering clients as important networks partners can be explained by the change of strategy of the traditional company following the Uppsala pattern mentioned in chapter 4.3.1.2. Due to the entrance of the private equity investor, company A is acting as a born global company (following an important client) but still showing traditional Uppsala characteristics in their internationalization process (following a long known client without any risks involved and relying completely on trust).

Decision making

248 Kutschker and Schmid (2011) p. 539
In both companies, decisions about cooperation with other companies – engaging in networks and finding network partners are made only by the top management of the company. The case study was conducted with small- to medium sized companies with 50 to 500 employees. This implies that those particular companies do not have the human resources to build up special departments for such matters.

On the other hand, some differences were also discovered in the case study between the two diverging internationalization strategies and their network importance:

- cost oriented motives of internationalization vs. opportunity driven
- active vs. passive investor
- high vs. low risk aversion
- network types
- social networks
- legal structure of the networks and trust

*Cost oriented motives of internationalization vs. opportunity driven*

Company A expanded to Romania mainly because of low production and labor cost. For these reasons management chose the country in Europe. This is clearly an example of cost oriented motivation of internationalization. On the other hand, the born global company went to Russia because they discovered opportunities there.

*Active vs. passive investor*

Both companies are financially supported by investors. The born global company is owned by a venture capital fund which is highly involved in management decisions and is supporting cooperation with other companies owned by the same investor. Even though the network relationship between the three companies is not leading to direct business opportunities, company B is benefitting from it. Company A, on the contrary, is owned by a private equity fund which is not involved in any strategic decisions. All companies supported by that fund are completely independent and not connected in any matter.
The importance of networks in internationalization – research case

**High vs. low risk aversion**

The company following the Uppsala approach went to Romania, an EU accession candidate which means that risk is rather low, whereas the born global company expanded to Russia, a fairly unstable and risky country.

**Network types**

The company following the Uppsala approach would not participate in joint ventures or any formal strategic alliances because the benefits are not considered to be sufficient. The only cooperation they are actively participating in, are informal networks with business partners which are mostly current or former clients. They are cooperating for strategic reasons – if they can add value for the customer. The born global company, on the other hand, is actively seeking for any kind of cooperation – formal or informal which is of mutual benefit. They would immediately participate in joint ventures, for instance, but due to their short time of existence haven’t had the opportunity yet. So far they have network relationships with clients, companies owned by the same investor, related business partners, PhD students and research institutes etc. Business partners are the key to success for born globals – nationally and abroad.

**Social networks**

Whereas the traditional SME is not using social networks for building business networks, the born global company established almost all of the networks they have now through social networks. Of particular importance for the born global were the social networks of top management. They use such types of networks to spread information and to discover opportunities. On the contrary, the company following the Uppsala approach never developed business networks through social networks. Their business networks come from long lasting seller - buyer relationships where the companies in question are operating in the same industry, have similar business activities (such as warehouse management) and discover beneficial cooperation opportunities.
Legal structure of the networks and trust

The born global company relies on trust and considers contracts only as good as the person behind them – especially in international business. However, all their business relationships are contractual and structured formally. In addition to that contracts are seen as a way to protect themselves as much as possible against any occurring problems emerging from internationalization. The born global company is engaging in networks fairly quickly and does not have the chance to get to know the partner before entering into cooperation. However, they use personal contacts on networks as a substitute for trust. Contrarily, the company following the traditional Uppsala way knew its partners for a long time before actively participating in the cooperation – contracts were not considered necessary and were hardly used. Trust was the only binding element behind their networks.
5. Conclusions

The aim of this thesis is to answer the research questions: “Are network ties the success drivers of internationalization of born globals?” and “In which way do network ties of born global companies differ from traditional small- and medium sized enterprises which follow the internationalization model studied by Johanson and Vahlne?” To answer the research questions, a detailed look into the two diverging internationalization strategies – born global model and Uppsala model – was needed. A comparison pointed out that there are differences in the two approaches concerning the pace of internationalization, the initial vision, the resource commitment and risk aversion. Further differences were identified regarding prevalent industry, market entry and, most important for this study, networks.

According to the thesis focus on the importance of networks in internationalization in the two internationalization strategies in question, existing research was studied and presented. By comparing the born global approach with the Uppsala model three differences were found regarding:

- reason for networking
- goal of networks
- most common form of networking.

The literature review provided the basis for the case studies conducted in Orange County, California, which was chosen as the primary place of investigation due to its unique high-tech industry, where most of the born global companies are still born and operate in. The author conducted two interviews with Orange County based high-tech companies - one born global company and one company following the traditional Uppsala approach. The main topics concerned their internationalization strategy and the importance of the networks built when expanding abroad. After discussing the case companies and presenting the findings separately in chapter 4.3.1 and chapter 4.3.2, a cross case comparison highlighted the similarities and differences between the case company A (company following the traditional Uppsala model) and case company B (born global company).

Summarizing three main similarities were found in:
• assumptions about the U.S. market
• clients or costumers as important network partners
• decision making

The similarities found stress the importance of networks as also acknowledged in the later works by Johanson and Vahlne (2004).

From an explorative point of view more importantly several differences between the case companies were discovered regarding:

• cost oriented motives of internationalization vs. opportunity driven
• active vs. passive investor
• high vs. low risk aversion
• network types
• social networks
• legal structure of the networks and trust

All similarities and differences between case company A following the Uppsala approach and case company B following the born global model are described and contrasted in chapter 4.3.3 above.

Even though the findings which have been discussed and evaluated are contributing to existing research, the aim of the thesis is to answer the two research questions.

5.1. Answering the research questions

The research questions in this thesis are about the importance of networks in internationalization comparing two diverging internationalization theories. A case study was conducted to fill research gaps and contribute to existing literature.

“Are network ties the success drivers of internationalization of born globals?”

The born global case company is operating in different countries all around the world so far and has discovered these existing business opportunities mostly through social contacts of top management. These contacts have led to business networks very quickly and are governed by formal agreements. A very prominent form of network used by born
globals is the cooperation with clients. The company interviewed followed a client to his
country of origin and established further business there. This particular approach is
supported by literature and called “client followership” strategy.\textsuperscript{249} It is suggested as the
simplest way of expansion, especially abroad. The company would also consider
engaging in joint ventures or strategic alliances to increase internationalization. This
highlights the low risk aversion and the high commitment born globals are prepared to
take. The born global case company has certainly achieved its current position through
business partners. According to the interviewee, expanding abroad without partners is
possible and would eventually lead to international success, but at much slower pace than
with networks and partners. Thus, time itself is very important and a valuable and limited
resource especially in the high-tech industry due to the fast moving innovations and
increasing competition all around the world.

As a result of the evaluation of the research findings from the interview with the born
global case company the research question can be answered with yes. However, such a
finding of one case cannot be generalized. More importantly, thus, the second research
question aimed at providing new theoretical insights into the concrete properties of the
different internationalization strategies.

“\textbf{In which way do network ties of born global companies differ from traditional
small- and medium sized enterprises which follow the internationalization model
studied by Johanson and Vahlne?}”

Unlike the born global company, company A following the Uppsala approach has not
established its manufacturing plants through more or less coordinated and casual network
relationships but rather as a result of explicit strategic decisions from the top
management. They also engage in strategic cooperative networks with business partners
which are mostly former or current clients. They have known their network partners for
many years and thus the relationships are rather informal and strongly rely on trust. The
traditional SME is cooperating with its partners mostly on project basis and occasions
when they discover that cooperation (quasi-internalization of another company) may be
more efficient than doing it on your own. Most of their business opportunities were
identified by the company’s management rather than through networks. Even through the
change of strategy due to the influence of the financial investor, company A is still

\textsuperscript{249} Freeman et al. (2006) p. 52
refusing to integrate a large number of business partners in their structure. However, they have one particular distributor they have been strategically operating with for many years. This distributor is based in the US, the home market of company A but has business establishments in the countries the case company is selling to.

Even though the born global company is also highly reliant on trust when they are operating with business partners, they still use contracts to protect themselves as good as possible. Contracts thus serve as a substitute of trust which cannot be built up during a rather short term business relationship.

Even though company A changed their strategy and adapted similarities of the born global characteristics, the company is still having a traditional culture and following a slow and careful internationalization approach as suggested by Johanson and Vahlne. The network ties of company A were discovered through long lasting relationships with clients and are therefore completely relying on trust. Conversely, the born global is creating networks at a much faster pace and does not have the chance to build up a reasonable amount of trust before cooperating with another company. Their network ties are established rather quickly and are formally structured and organized.

The two case studies conducted provided a very good insight of both internationalization strategies and network management of the two companies interviewed. However, findings cannot be generalized due to the limited number of companies studied. Even more limitations will be discussed above in chapter 3.2.

5.2. Limitations

As mentioned in chapter 1.4, in the empirical studies the author is using a theoretically sampled case study approach which is not aiming a representative capture and therefore generalizations cannot be made due to the limited sample. The two case companies were both small- to medium sized companies and assumptions cannot be made about bigger sized companies due to differences in resource availability as well as completely different management structure and organization. Moreover, both of the companies interviewed for this thesis are U.S. companies and other countries could show different
results of the interviews and also different answers to the research questions. The high-tech industry was used as the industry of investigation because most born globals are found in the technology and especially in the high-tech sector. No assumptions or crossovers can be made for other industries.

The case study itself faces limitations because it was not examined how the companies use network relationships to overcome problems. External factors driving a company’s internationalization such as government economic policies and governmental support were largely ignored in the empirical study. As were personal factors regarding the management running the internationalization process.

5.3. Implications

The findings have implications for both practitioners and research.

Implications for practitioners:

- Networks are highly important in internationalization of companies (especially non-traditional networks).
- Companies may change their strategy but must also change their network behavior in order to increase the pace and results of internationalization.
- The role of the investor or owner can be very important as they may provide valuable resources and knowledge.

Implications for research:

- The role of the product has great importance (unique products allow faster internationalization; other products mostly drive internationalization through cost orientation).
- The role of the investor or owner must be taken into consideration in international expansion research.

• Companies may change strategies (reborn global\textsuperscript{251}) but do not fully adapt to it.

\textsuperscript{251} A similar phenomenon has also been observed by other researchers like Marin et al. and Baldegger, who termed it “\textit{born again global firm}”. Marin et al. (2006) p.72ff and Baldegger (2008) p.1ff
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Appendix I

Interview Questions

General company questions

1. What are your company values? What role does internationalization play in your company?
2. What does internationalization mean for you?

Internationalization process

1. In how many countries are you operating at the moment?
   a. Which are these countries?
   b. What kind of commitments do you have in these countries? E.g. subsidiaries, manufacturing plants, distributors etc.
   c. How do the commitments in the individual markets differ? And why?
2. When (which year) did you start expanding abroad and which was the first country the company went to?
   a. How and why did you choose this country?
   b. Which entry mode did you use the first time? Why?
3. How did the expansion continue?
   a. What made you go to another country?
   b. And which following countries were ones you expanded into? m
   c. How many years after the foundation
4. Were there any partners who helped you enter this first foreign market?
   a. Did you follow an important client or supplier or any other business partner?
   b. How did you get to know them?
   c. How did you help?
Networks

5. Do you have a business structure? How are your business networks structured? Do you have subsidiaries in the U.S. or abroad that you interact with? What form do these interactions take?
   a. With which other companies totally independent of your own do you interact?

6. Are you in any cooperative relationship (Joint Venture or strategic alliance) with other companies? What was the reason why you built that alliance?
   a. Yes – when did you build that alliance? (the time frame from first contact to active relationship)
   b. How did you find your partner?
   c. Did that alliance/relationship help you in any way expand to different (foreign) countries?
   d. What is your position in these alliances? (dominant, supportive, benefitting)

7. How have you been benefiting from it so far?

8. How many cooperative business partners do you have abroad? (such as alliance partners, suppliers, manufacturers or distributors) How intensive are the relationships you have abroad? (Exchange of employees, frequency of meetings and evaluation)
   a. ➔ Could you please mark on the map where your business partners are located?* And note in which year you became business partners?
   b. Was one of these partners the key to enter the concerning market?
   c. How did you get into contact with those partners?
   d. How does that work? What kind of relationship do you have with them?
   e. What is your benefit of the relationship? What do your partners do for you?
   f. How do your partners benefit from it?

9. Do you have main/highly important business partners abroad?
   a. Partners you are in contact which on a very frequently basis?

10. How are these alliances and relationships structured? Formally with legal contracts or informally relying on trust?
    a. Do you have partners you share resources with? (financial or other)
b. How do you protect yourself against patent infringement?

11. What is the biggest advantage for you interacting with partners domestically or abroad? (could you tell me any example or a story)

12. Who in your company is responsible for discovering and creating business relationships? (top management or any other)
   a. What does the potential business partner have to have in order to connect which your company? (specializations, knowledge etc.)

13. Add something?

Future

14. What are the future plans in terms of internationalization of your company?
Appendix II

Interviewee A – Company A – Company following the Uppsala strategy

1. Interviewee: Jack P.

2. Interviewer: Hello Mr. P.! This is Marlis Monsberger speaking.

3. Interviewee: Hello! How are you?

4. Interviewer: I am fine thank you, how are you?

5. Interviewee: Very good.

6. Interviewer: First of all I would like to thank you for your time and giving me the opportunity to do this interview. It will help me a lot. Thank you very much!


8. Interviewer: So, ahm, to get this through as quickly as possible. So should we just start right away?

9. Interviewee: Yes, yes, I have only got maybe 15 minutes I can give you. This is my first day back from being in Germany so I will have meetings to go to but ah so let’s go as quickly as we can.

10. Interviewer: Ok perfect thank you! So ah my thesis is about internationalization and networks. Ahm kind of what role networks play in internationalization. So I would be interested in how many countries your company is operating in at the moment?

11. Interviewee: What well I am having troubles hearing you.

12. Interviewer: Ahm countries – different countries your company is operating in?

13. Interviewee: Ah countries we are operating in? have operations?

14 Me: Yeah I mean subsidiaries or manufacturing plants anything like that.

15. Interviewee: Ah right. We are , the company I work for has a business unit in Romania, and ahm we also help manage an operation in Switzerland. It’s a it’s another subsidiary of our parents company.

16. Interviewer: Ok, but you are also selling to other countries or getting deliveries, having suppliers in different countries?

17. Interviewee: yes, yes our customers are – our industry and our product is consumed and ahm
INTERRUPTION

18. Interviewee: Alright I am back.

19. Interviewer: Ok thank you! So again, the countries – all the countries are you operating in- how many countries are there? I mean selling and ahm?

20. Interviewee: yeah we are operating in Romania, and Switzerland and in the United States.

21. Interviewer: ok, but you said you are selling to different countries?

22. Interviewee: Oh yeah yeah, we are selling to all over Asia-Pacific, anywhere with a good aircraft structure. And and there are still contractors to the large areas are we are selling to this countries.

23. Interviewer: And you mentioned Romania and Switzerland! Why did you choose this counties?

24. Interviewee: Ahm did you ask why we chose Romania?

25. Interviewer: yes, yes!

26. Interviewee: Ahm ah we we wanted to go to a a low labor cost Eastern European ahm ahm country. Which let us operate in Europe and we can manage our supply chain from there.

27. Interviewer : And Switzerland?

27. Interviewee: Ahm we have a problem with the connection here. I am only hearing one word. Are you calling me from a payphone?

28. Interviewer: I am on the computer!

29. Interviewee: Ah you are calling me from the computer. Is there a telephone you could pick up? I just can’t hear you well.

30. Interviewer: Ok, I try again. One moment please!

Due to technical problems and connection problems the author continued the interview on the telephone but could not record the rest of the conversation. All information will be recalled correspondingly.
In Menziken, Switzerland the company runs another subsidiary which supplies its partners either directly or through its distributors with extrusions and finished products made of hard alloys and soft alloys. The value-added chain (in Switzerland) includes engineering support, cast house for all alloys, hydraulic presses, machining capabilities, surface treatment, assembly services and also logistics and distribution solutions.

The company was established in 1950 but is operative in its current form since 1991. It is financially supported and ultimately owned by a private equity investor which is specialized in investments in high-technology companies especially in the aerospace sector.

Market entries and international expansion are strategic decisions made after long and careful examination by the top management. Behind every expansion are strategic motives and reasons – the goal is to be cost efficient and sell as much as possible.

Company A is exists since 1950 and so far the company is operating in the whole United States, Romania and Switzerland. These are the countries where the company is actually manufacturing and developing its products. In the United States and Switzerland the company’s plants are focusing on R&D and in Romania on pure manufacturing due to low labor and production costs. However, it sells all over the world, as the product is consumed in many different countries.

Company A is the world’s second largest manufacturer of hard alloy aircraft extrusions with a large production plant in California. From Anaheim it supplies the aircraft industry in the western part of the United States as well as the pacific region. The second production plant in the United States is based in Canton, Georgia and supplies the aerospace industry in the mid-Western and Eastern parts of the United States and in Europe.

Before expanding to a foreign country the company first established a good market position and reputation at their home market – the United States. The domestic market was the most important market for a long time – mainly because of the large aircraft industry and a large number of potential clients. After saturation at the home market the expansion to Canada was the first step abroad. The market is geographically and culturally close and therefore it was less risky to enter for the company following the Uppsala approach. The high correlation between the USD and Canadian dollar also limited the company’s exposure to exchange rate fluctuations. As such company A is a classic example for an Uppsala-type of internationalizer first expanding to a geographical and cultural close country.

Through the acquisition of company A by the private equity investor the company’s strategy has changed towards a high growth and high risk strategy.
In 2008 the decision was made to go to Eastern Europe to produce cost efficient and be able to sell the products directly in Europe. Romania was the chosen country for opening the production plant for several reasons. First labor costs in Romania were very low in 2008 and still remain at a low level and second Romania was a springboard for the whole European market.

The company is only cooperating with one particular distributor which is highly integrated in the supply chain of the company. The distributor is based in the United States but has international plants all around the world and especially in the countries company A is selling to. This again shows a mix of strategies because the company is only cooperating with a low number of partners and here only one particular distributor which is supported by the Uppsala strategy. On the other hand this kind of cooperation is also supported by the born global approach because SMEs are cooperating with large multinational partners, acting as distributors of products, to increase internationalization.

Due to own manufacturing also in Europe and having own logistic and service solutions the company hasn’t integrated other companies in the supply chain. Moreover the main products are very complex, knowledge intense and expensive. To reduce costs and make the products cheaper for the client the company seeks to have a very slim and (especially cost) efficient supply chain.

They are not in any joint venture or strategic alliance with other companies but we do cooperate for strategic reasons with business partners which are more or less our own costumers or used to be our customers. These business partners are actual or former customers and are based primarily in the United States. In Europe the company is also cooperating with a customer in the UK (the headquarter of the company is in the UK).

The cooperative networks do not occur over night and the companies have known each other and worked together in buyer-seller relationship for many years build trust and dependence. In most of the cases they discovered step by step opportunities to work together in a network and cooperate at a more intense level than commonly seen between buyer and seller. They develop a strategic cooperation with partners or costumers because we are both operating in the same industry, have manufacturing, stock and many other areas alike and see that cooperation in some points would add value for the costumer. Only if the cooperation promises mutual benefit due to similarities in production and warehouse organization the company following the Uppsala approach will enter it.

The management knows the other company as their partner for many years. They have been business partners as buyers and sellers for a long time. Therefore, all business relationships of the company in question are informal and only rely on trust. All strategic cooperation arrangements are completely relying on trust. They are not using any contracts or anything alike. We have to trust our partners, otherwise a cooperation would
not make sense. Moreover, the time frame of cooperation can vary from long time cooperation to short time – project based cooperation. Therefore contracts are regarded to make the organization unnecessarily more difficult and complex.

Which position the company takes in the network – dominant, supportive or benefitting – varies from case to case. It depends on the partner and cannot be generalized for all existing cooperation arrangements. However, it always needs to be considered beneficial for the company otherwise management wouldn’t be participating in the network relationship.

All decisions concerning expansion, internationalization as well as strategic cooperation with partners or costumers are made by the top management of the company.
Interviewee B – Company B – Born global company

1. Interviewer: So, my research is on internationalization strategies. You saw the questions before. So your company. What is your idea of internationalization, what is your goal market? Where do you want to go?

2. Interviewee: Goal markets, it’s funny when we deviced this company and came up with company B definitely they thought that the US would be our strongest market, because of price of electricity around the world drives us to more towards international than domestic right now. We are looking ahead and having big successes in Russia right now. Because of their price of electricity and reduction of flaring which means just flaring gas in the atmosphere. Your see we have a team going to Russia going this week and leaving tomorrow in fact. And so we see internationalization as a huge step for us. We see our potential internationally much more – our growth will be much higher on the international scale than in the US.

3. Interviewer: Hm, very interesting.

4. Interviewee: Funny thing our first commercial order – non military or was from France.

5. Interviewer: Aha, ok.

6. Interviewee: So that was really exciting. So we see our goals outside the US as a big deal. There is tons of business deals in the US and when we say tons it means we will be very very successful in the US but selling internationally is hard but we see a lot more opportunities internationally if we kind of look at it. But domestic is Southern California, we do a lot of business here, we are doing a lot of business in the north-east US, but internationally is a major focus.

7. Interviewer: So where or better in which countries are you operating in so far?

8. Interviewee: We are just in the US operating right now and we just hired someone who we are putting in a new office in Korea, since we bought out the English company they have sold quite a bit in Korea. So we have an office there now and we just hired someone there. We will be hiring someone in England or northern Europe and so that’s where our definite plans are. But definitely your expansion though is in the US.


10. Interviewee: Our expansion right now is in the US on both coasts – east and west coast. So although I said very clearly that we are moving globally our investment is
domestically right now. And I tell you why. It is because our new product the powerstation we have to build it here we have to be able to operate close to home. We have got to sell more products close to home. So give service and can work properly. Only the issues you might have in the beginning solving at home before you go abroad where someone to fix something has to fly ten hours.

11. Interviewer: I see. But you said before Russia and Korea. How did that come up? How did you decide to go there?

12. Interviewee: Hm, Russia is a great story. Korea came about because of the business with the English company and we bought out a division there and they had business there already. Russia came about through someone sending us an email.

13. Interviewer: Ah, that is interesting.

14. Interviewee: Very interesting isn’t it? That really came out from people sending us – hey I saw you on the web hey and then we got this lead that lead and it is really kind of bloon into a major focus. Our head of business development is – its his third trip to Russia on four months. And he continues to spent time. One of our top application engineer is going with him. So it is becoming a major focus of ours.

15. Interviewer: And this email it came from a company? So they wanted to cooperate with you?

16. Interviewee: Buy from us. But we got emails that said that they want to resell our stuff and other things that wanted to buy from us. So we got several different emails.

17. Interviewer: ok I see. Are there any other countries because you mentioned France?

18. Interviewee: France, yes. We got that one through a – we got that project from / through a friend of our senior application engineer. He is a good friend. They used to work together in France. And so he bought a system from us. So was that personal connection that got us introduced us there. He came to visit us and saw our product and liked it so much so that he wanted-decided to buy one.

19. Interviewer: so you would say your main strategy is to go somewhere where there is a buyer? Who wants you to come to his market?

20. Interviewee: That is the easiest way to come to a market. If you don’t know anyone. If we just showed up in Russia one day you would be walked out the door. Now maybe you do or do not know this that the – and a lot of people don’t know this. That the Commerce department has a department that if I go to them and say to them I want to go to whatever country – let’s say I want to go to Australia – and they would for a very small fee ah maybe a couple of thousand dollars. They would actually set up meetings for you on behalf of the US government. So they will go in and say company B is coming to town and I am calling on behalf of the US department of commerce and you
know let’s say Mr. (interviewee B) would like to meet with you and discuss this and this. They will actually set up meetings for you to go do that internationally.

21. Interviewer: Have you done that?

22. Interviewee: We have not done that. We have had no need for that.

23. Interviewer: Ok.

24. Interviewee: But I know companies that have done that.

25. Interviewer: So, there are definitely partners involved in your expansion, because you said …

26. Interviewee: Internationally yes. Definitely yes. I think on the international scale you are definitely almost forced to do that because you as much as we think you know American English is the best in the world it is still you know we have to use our partners out there to resell our products. It is something I think you without it you will not see the quick success that you need. You will have success but it will come much much slower. And time is money as you know. And you have a very slow go to the market solution.

27. Interviewer: But these are the three countries internationally you mentioned before. Korea, Russia and France or are there any other countries you are selling to maybe not being placed there?

28. Interviewee: Hrm, we just went commercials last August we came to a new commercial organization and we started really selling our products last August. So truly we are – it is taking a while for ahhh it is taking a while for us to move along. So anyway its – I should say a short while to do this. So since last August it is a ramping up situation. So we will see.

29. Interviewer: So your partners are also locally – I mean here in the US? Do you have companies you cooperate with?

30. Interviewee: Yes, we do have some companies we cooperate with but most of that is through – we do mostly on direct basis. So we will do a lot of our business directly and not with – I mean direct contact with our clients. We do have a few partners as sales accelerators if you want to call them. And they can get us in the markets much much faster.

31. Interviewer: yes, but not other companies? Like I mean, are you in any strategic alliance or joint venture with another company?

32. Interviewee: yes, one or two.

33. Interviewer: And companies in other areas. The venture capital company you mentioned before. The owner. I mean they support you financially. This is a kind of a cooperation.
34. Interviewee: yes they own several different companies so we are in sort of an cooperation among those companies. Which didn’t happen before.

35. Interviewer: And how does that help you?

36. Interviewee: Well, it is just because it is practical to talk to more people.

37. Interviewer: ok.

38. Interviewee: If you look at any kind of sales follower or opportunity follower you have to have a lot of opportunities to look at so what falls out of the bottom. For a lot of people very surprisingly the biggest competitor we have is doing nothing. So you have – it’s funny. We lose more projects on doing nothing than to any sort of competition at all. And so with them. You have to put on all this opportunities. You put in all these opportunities and you see what comes out of the bottom. And and you have to ability to spread your word so that ah in Louisiana for example I have I started traveling to Louisiana last year because that’s where I from and so we are working on projects down there and one of the things I am going to start hoping to market and push one of the other companies. The sister companies of ours. Because they just don’t make it down to Louisiana very much. So is is just using your network to spread your word or spread your message in any given market.

39. Interviewer: So you are not doing business with the companies directly of this venture capital company.


41. Interviewer: And in how many states are you operating because you said its.

42. Interviewee: Well right now we are a new company so we have operations in North Carolina, New Hampshire and in California.

43. Interviewer: And headquarter is here?

44. Interviewee: Headquarter is here. Yes.

45. Interviewer: Good. Ok, Can you say anything – was there one big benefit you can remember you got through a cooperation with a partner or even just one of the other companies.

46. Interviewee: Absolutely!

47. Interviewer: Any story you can tell?

48. Interviewee: Well, let’s see a good story we can tell… Ahm that is a good one. Yes, I will tell you a good story. Thank you it is a good one. Through the English company and their service department ahm in one of the cooperation before we bought the English division, they introduced their service guy said to a landfill operator ahm who works for
a very large engineering firm said to them hey company B is buying us. You should really find out what these guys are all about and this goes back to I think November. So he said why won’t you check them out? This technician that work at landfill. Went to his boss and said hey what do you think about us talking to this company and this boss just said yeah whatever go. Just go and do whatever. So he kind of pushed it. And then when I was responsible enough he would push me to get information. Hey you said you would get back to me – that was like three days ago. So you know. I did and so I ah was going up to Calgari a couple of months ago and giving a speech on the company. And you know I was supposed to be there for a hour and was there for four hours. Ahm and so it turned out to be a very nice thing so we ah had a very nice discussion. So ah about three weeks ago I am in Dallas at a trade at a trade shell and a guy walks by our booth and says oh you know a very high individual with the same engineering firm that’s here in California. Walks by our booth and says oh hey you are the guy who was talking at the in Calgari. And looks at my name and says oh you are the actual guy that was talking. The name the word had spread throughout the US that we had given a speech and from that our – ahm – we got on the ahm they just presented the city of Calagri they proposed to do a new system and we are part of that proposal.

49. Interviewer: Oh wow.

50. Interviewee: Actually a picture of our system is on the cover of their – they put it on the cover of their proposal. So, that’s the kind of things when you go out and spread a word the way we spread the word. And it is a new – you know doing something a lot differently that is one where networking ahm networking and spreading your message throughout an organization is great. And so that is when we needed partners and it worked out very well.

51. Interviewer: Thank you, that is a very good story.

52. Interviewee: Yeah and more stories like that that are pretty amazing ahm if you look at. One of the problems I see personally people and coming out of college today is their soft skills are so poor. Their networking skills are so poor that they don’t have the ability to network. That comes with time ahm that comes with time for everyone. So if you look at what Jack Welch said one time 78 % of what you bring to your job is your soft skills. And we can teach you everything else if you have some attitude, but your soft skills are what you really need to be a strong player in the organization now. I am sure a lot of academics would say they don’t agree with that but it is really true that we don’t teach networking, we don’t teach you know soft skills. And it is really something which is hard to teach and it comes with experience but it is something that I would say you have to gain yourself when you look for it after you graduate. Remember that. Your networking ability and everyone in the class should talk about that. And that is something that we should know. Networking is huge. And it is not – it is walking around and shaking a lot of hands and meeting tons and tons of people. Almost being a politician.

What else have you got?
53. Interviewer: About the real network – cooperating with businesses. You talked about France about Russia, Korea. Have you any plans about – if you are doing it on a contractual basis or relying on trust?

54. Interviewee: Both, absolutely both.

55. Interviewer: So both, you are relying on trust and using contracts?

56. Interviewee: You have to. A contract is only as good as the person behind it. You and I can write any contract in the world. Especially in international law. There is nothing. You have to trust the person you are sitting across with. And and in my experience a lot of, not a lot, not a vast majority but some of the people will not live up to their side of the bargain. But I found business contracts are you know only as good as toilet paper if you ask me I mean it is just. I mean what are you going to do if someone doesn’t buy two units for a half a million dollars. What are you going to do. Sue him for a half a million – no, it is. You know. It will cost you a hundred grand to sue him. So you know, you don’t. I mean I mean, so you do have contracts that you live by. You do sell by those. But truly it is kind of a you have to trust the person you are dealing with.

57. Interviewer: Of course. I understand. This is always important.

58. Interviewee: And, yes it is always. And things you know things fall apart you know. If we sign some contract in Russia, and the company in Russia doesn’t – and we will and the company in Russia doesn’t live up to bargain, what you are going to do. We really don’t. So you protect yourself in the best way you can. So.

59. Interviewer: And also there is also a lot of knowledge involved and flowing when you are cooperating with someone. So you would say you protect yourself against pattern infringement or something like this also through contracts?

60. Interviewee: You, yes you do that the best way you can. We are kind of lucky, the way of our technology is kind of someone really has to peal apart to do it and no one else can make a microturbine. So, so there is only two microturbine manufacturers in the world and they are both in the US one of them is us. And so that’s really hard to do ahhm the next one is the the core itself and how are things made. Yeah you could, but you know if someone is going to do it, someone is going to do it. But yes, you do on an international scale. You protect yourself your initial property (IP) as best as you can. And hope that people look at it- why would I copy that. And see what happens. But funny you mentioned that we have I wouldn’t say we have hesitated to move into China, but we haven’t moved into China yet. That is somewhere where someone would you know. They are famous for that and we know that. But we really haven’t done anything yet, not because we are against it, we are just – no real approach was sufficient type of scenario. A nice scenario would do well.
61. Interviewer: About – you said the financial resources you get from this venture capital company.

62. Interviewee: Yes.

63. Interviewer: Any other, because you are a small company and very new actually, so any other resources you get from other companies?

64. Interviewee: Yes, we have two major funding sources there. Ahm We have two major capital firms that invest in us. And so ahm #name# capital partners and #name# venture capital that invest in us. And So we – that is where we get you funding sources. So there is two different firms and they cooperate very nicely together.

65. Interviewer: Ok, so it is just financial resources. No others like employees from another company or.

66. Interviewee: No, I wouldn’t say that. No we wouldn’t, I wouldn’t actually I have to say we get not only financial resources, we get help from different things like in Louisiana where I am going to the funding partner is native Louisianan also and so he has connections down there that he hooks me up with and so. So that I can network within Louisiana.

67. Interviewer: And these financial support you get – these companies do they have a say in if you say you want to go to Russia? Could they say no, we don’t want you to do that?

68. Interviewee: Yes!

69. Interviewer: So that would be a stop sign?

70. Interviewee: Yes, they sit on our board of directors and so at any moment yes the board has to prove that. Not every operation but they look at what we are doing – what business we are conducting. Yes absolutely they could say no we don’t want you to do that.

71. Interviewer: They have to agree. Aha I understand. Ok. Let’s see what I have left. Are you planning ever being in a joint venture or anything. Could you imagine that or?

72. Interviewee: Sure, oh yes, absolutely. There is nothing out. You know we are such a small young firm that we absolutely can see where some a customer or competitor of ours would come to us and we would do a joint venture. When you our size and growing you are open to anything, anything that is of mutual financial benefit. That fits into your core business. That you would see long term that would be mutually beneficial to both companies. Think about it, we make a product that, that is financially can take what was considered waste or and turn that into power. Ok, so we have taken that ability that something you would be throwing away and you turn it into power. So when we sell or deal with a costumer haven’t we just formed a joint venture? Because they bought from
us something that is that they would put in and produce revenue for them. That will pay for itself. Haven’t you just formed a joint venture with a costumer? You have gone from being a vendor to a trusted partner. And marketing and sales and being a vendor. If you can move from being a vendor to just being a vendor and when you move to that being a trusted partner where they see advice from you. And we have one in particular that is that she actually she is the head of you know of project engineering for a customer that we are bidding with right now. And we have actually moved quickly from being a just a vendor to a trusted resource. Where she calls us and says hey what do you think?

73. Interviewer: Ok, interesting.

74. Interviewee: I putting out this RFP What do you think? And not from a technical side hey I got all my terms and conditions what do you think is going to happen here what do you think is going to be the response on this? What do I do here? And actually call us and call me. And so I think you have when you dealing with million dollar worth products we deal with you really move from being a vendor very quickly from being a vendor to a trusted partner. Because we are selling something that cost $800,000 to a million dollar – it costs you a million dollar to put one system in. you move very quickly from – they have to trust you and sales becomes different. When you are doing big industrial sales you are not you are dealing on a financial business level or technical business level and so we are really solving the customers problems or customers wants or needs and so helping you know get what they want out of the certain situation. I will tell you this and this is this sounds funny and maybe should or should not go on your paper. But people buy everything for two reasons. Have you learned that shit in school? Have your professors told you this yet?

75. Interviewer: I don’t think so.

76. Interviewee: It is good. It is so easy.

77. Interviewer: Good, I can learn something.

78. Interviewee: It is so easy, even I know that. People buy everything for two reasons. Ah for pleasure or to relief pain. Think about it. You bought a car. You have a nice car. You bought it for pleasure. If you bought a bicycle to go on campus or to go around school. That is to relief pain because you don’t have to walk or whatever. Really we don’t need a nice car. Really all we need is a bicycle. But we bought the car because we want the car. We want a nice car. We buy aspirin to relief pain. We buy a big mac because we like the taste of a big mac. Not just because we are hungry we are gone beyond that certain level. And so even when we are dealing with customers from a a vendor or as a vendor or are we dealing with customers we are dealing with someone and sitting across the table from someone well the first thing you have to figure out why is this person want to do business with us?. Do they have a personal motivation or are they doing it just because their boss said they have to do it but they really don’t care. And you
want to get someone who is really personally motivated. That wants to do business with you. That likes the idea gets some personal satisfaction over doing the project.

79. Interviewer: So and your clients they are all no they are in different countries.

80. Interviewee: Yeah today with the English company sure most of our clients are here but they are internationally as well. But most are here in the us.

81. Interviewer: Ok, and Canada? What about Canada?

82. Interviewee: Very little in Canada. A little bit but very little.

83. Interviewer: You mentioned advice before. That you are giving advice but do you get advice? Do you have consultants or anything like that?

84. Interviewee: Oh sure. Absolutely. We have two projects #name#powerstation and #name#powerstation. When we designed the #name#powerstation we were talking to all our customers and got their feedback. What they would like to see in the project. What they would like to see it do. And so yes absolutely. So they became involved in the process of design.

85. Interviewer: But ahm professional consulting companies at any point?

86. Interviewee: Ahm we have outside consultants that are more PhD types you know engineering you know doctors in engineering and that sort of things. So, we don’t really hire consulting firms. No. We ah. Consulting firms are way to lose a lot of money. Because as I always say ahm consulting firms would tell fedex how to move packages. They would tell them to decentralize out to Memphis. So, as one consultant I asked him one time I said I asked him he gotten out of the military and became a business consultant. And I asked him and said what are you? And he said well I am a consultant. So, what does that mean? He says what do you mean? I said well I am a finance guy and a relationship buller that’s what I consider myself you know and he said and I said so what are you? And he did really not have an answer to that question because they don’t have answers to questions and he said I am a consultant I came out of the army and I said what has the army told you to be a proper business consultant? And the answer was nothing. And so most consulting firms if you are centralized they will tell you to decentralize if you have decentralized your operations they will tell you to centralize. And consultants are brought in sometimes so that people can make excuses and can go to the board and say why they didn’t do a certain thing. Now if you are using consulting firms for execution that is a whole different thing. If you need to execute into a certain market and you have no presence in there well that is one thing but business.

87. Interviewer: So you would consider doing that ya for market entry?

88. Interviewee: Yes, that is a completely different matter. Consulting firms they are not really consulting firms they are more contracting firms. That is different. They are
contractor not a consultant. Only consulting firms come into and tell you to do this or do that. Yeah there is contractors and there are consultants. That is two different ideas.

89. Interviewer: Ok, I see. I think I am done. Would like to add anything.

90. Interviewee: Ahm sure. I think as you move forward in your career and your fellow students I would say remember that as you go out into the business world is to I would tell this to anybody if you want to add on my comments. So tell them that the ahm work on your soft skills. And your networking skills. It is so important in the business world and it doesn’t matter what you are doing. Because you are going to be a time where you are going to be out in business and you are going to be dealing with people. And business is people. I don’t care what if you what job you are. If you are a business graduate you are going to be dealing with people on a constant basis. That’s what it is. Business is a lot of people. That is the only thing I would add to that. So remember that personally and tell that to your friends. And network, network a lot go to a lot of networking functions and pick the right ones or course. And learn how to network – you do a fine job. Anything else?

91. Interviewer: No thank you! I think I am through!

92. Interviewee: You are quite welcome! If you need anything else send me an email!