



# Network knowledge and business-relationship value in the foreign market



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## ABSTRACT

Based on the key assumptions that firms are opportunity seeking and that they gain critical knowledge operating in a network of relationships, this paper focuses on early expansion in foreign market networks. In particular, the paper examines the relation between experience and business-relationship value in a foreign market. While experience and experiential knowledge are central concepts in international business, little has been written about their effects on the value of business relationships. The paper formulates a set of interrelated hypotheses on the effects of international experience, experiential network knowledge and importance of customer and competitor knowledge on the value of business relationships in a foreign market. They are combined in a structural model, which is tested on a sample through LISREL. The main conclusion drawn from the study is that experiential network knowledge and knowledge about the importance of customers and competitors in the network influence the value of business relationships in a foreign market in different ways.

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## 1. Introduction

In several studies it has been observed that single business relationships can play a critical role in the early international expansion of SME firms (Chetty and Blankenburg Holm, 2000; Child et al., 2002; Ellis, 2000; Hilmersson and Jansson, 2011; Johanson and Vahlne, 2003; Sharma and Blomstermo, 2003). It has also been shown that network constructs can be used fruitfully for understanding and explaining SME internationalisation (Coviello and Munro, 1995; Hadley and Wilson, 2003; Oviatt and McDougall, 2005). Against this background, a purpose of this paper is to study how networks influence business relationships in foreign markets.

However, the network literature on internationalisation is heterogeneous. Most of it is about how firms develop resources and gain knowledge about foreign markets (Gilmore et al., 2006; Hadley and Wilson, 2003; Zhou, Wu and Luo, 2007). Moreover, some studies focus on personal relations between people and how these relations influence internationalisation (Björkman and Kock, 1995; Ellis, 2000), whereas others focus on firm relations and their effects. Given the important role of international experience in the internationalisation literature, we think that there is reason to examine the influence of international experience and knowledge

in a network setting (Johanson and Vahlne, 2009). Consequently, the purpose of our study is, more precisely, to investigate some effects of international experience, knowledge and networks on the value of business relationships in foreign markets.

The empirical analysis of the paper demonstrates that international experience and three different types of network knowledge influence the value of business relationships in foreign markets. The three types of network knowledge are experiential network knowledge, knowledge about customers and knowledge about competitors. The value of a business relationship in the foreign market has strong implications for network expansion in that market.

The paper is organised as follows. Section 2, is a comprehensive review of the literature on networks and internationalisation. The review identifies some gaps in this research. Based on the literature review we specify four research questions. In Section 3, we outline a model, which is the theoretical base for six interrelated hypotheses that are developed in section 4. The resulting structural model is presented in Section 5, and Section 6 describes the data and the LISREL method we used in the analysis. Finally, in Section 7 we discuss the findings of the study and their implications for future research.

## 2. Literature review on networks and internationalisation

Network theory has emerged as one of the dominant schools of thought explaining how firms internationalise. This is especially

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**Table 1**  
Summary of literature review on empirical network studies on SME internationalisation.

Authors	Theoretical framework	Purpose	Method	Definition of relationships and networks	Other concepts	Research findings
Belso-Martinez (2006)	Uppsala school and born global theory	To further understanding of the rapid internationalisation process among small and medium-sized firms; it develops and tests four hypotheses	A sample of 285 SMEs. Data from the survey were analysed with the help of ANOVA	No definitions of relationships or networks are given. The study analyses networks with clients, suppliers, competitors and institutions	Accelerated, internationalisation, networking, attitude and profile of firm managers, marketing and technological differentiation, and international orientation	Firms with a higher level of networking with their clients follow a more accelerated internationalisation process. Hypotheses about networking with suppliers, competitors and institutions are not supported. Firms with accelerated internationalisation have a high international orientation
Blomstermo et al. (2004)	Internationalisation, business network theory, and behaviour theory of the firm	To study the usefulness of network experiential knowledge and its impact on the performance of firms in internationalisation	Based on 256 closed-ended questionnaires answered by CEOs of SMEs in manufacturing and service industries in Sweden and New Zealand. Analysed with LISREL	Networks include several actors and the relationships that connect them. Actors can be either domestic or international	Performance, perceived usefulness of network experiential knowledge, internationalisation experiential knowledge, and variation	Diverse market experience makes network experiential knowledge more useful. Both useful network experiential knowledge and internationalisation experiential knowledge have a positive effect on internationalisation performance, but the relationship between network experiential knowledge and firms' performance is not linear
Chetty and Agndal (2007)	Transaction cost approach, network perspective and social capital	To study how social capital influences change of internationalisation modes	A sample of 20 SMEs (10 from New Zealand and 10 from Sweden). The main form of collecting data was interviews with key informants in the firms. The authors wrote case histories and then identified 36 changes of entry modes	Network and relationship are not defined.	Direction of change in internationalisation modes, change of direction of control (externalise and internalise). The efficacy role, the serendipity role and the liability role of social capital	A change of mode can involve single or multiple roles, where the liability role, when the relationships are characterised by low mutual commitment and trust, was the most frequent, followed by the efficacy role, which is when information is shared and knowledge gained through the firm's relationships (the least frequent efficacy role was the serendipity role, when new and unexpected information and opportunities appear in the network)
Chetty and Blankenburg Holm (2000)	Business network, social exchange, and internationalisation theory	To investigate how SMEs from a small open economy internationalise, and to examine the role of governmental trade promotion agency	Longitudinal case study based on four New Zealand manufacturing SMEs in the electrical industrial machinery and timber processing industries	Business network is defined as a set of two or more connected business relationships. Business relationship is carried by social exchanges between individuals in the firms	The early starter, the late starter, the lonely international, and the international, among others, based on degree of the firm's and the market's internationalisation	A wide network of relationships is needed to internationalise. Firms can use intermediaries in the internationalisation process. A firm's business networks form a bridge to enter new markets. Other actors' internationalisation may affect firms in the network. The firm's decision maker plays an important role in pursuing opportunities in the network
Coviello (2006)	INV and network literature	To assess the network dynamics of INVs. The research question is: What are the structural and interactional patterns at various stages of network evolution?	Three case study firms in New Zealand. Inductive interviews were the main data source. No information on number or length of interviews	The study does not define network but describes it as having structural and interactional dimensions	Structural aspects of the network: range, density, centrality and size (the number of direct ties). Interactional aspects of the network: content (family/friend or business), direction and duration	The study results in three propositions on network development. The range, centrality and size of the network will increase while density will decrease. There are also propositions suggesting that the INV's reputation and economic ties dominate, while two other propositions suggest that the network is path-dependent, unstable and idiosyncratic
Coviello and Munro (1995)	Network literature on internationalisation	To examine the impact of network relationships on: (1) international market development and (2) marketing-related activities in international markets	Four software firms from New Zealand. Interviews with decision makers and secondary data. The second source was a mail survey answered by 25 firms	A market is a system of relationships among customers, suppliers, competitors and private and public support agencies	No concepts other than network	Opportunities are created by network contacts and not by strategic decisions made by managers. Marketing-related activities are dependent on network relationships, and firms are willing to sacrifice control in order to overcome marketing weaknesses

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