



The perceived usefulness of knowledge supplied by foreign client networks

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ABSTRACT

The network surrounding a firm's foreign clients has large influence on its ability to act in the market. How firms can utilize the knowledge supplied by client networks is therefore of great importance to their business with clients. Many studies show the usefulness of foreign clients and suppliers, whereas less attention has been given to the usefulness of knowledge supplied by clients' network, such as clients' clients, clients' supplementary suppliers and competitors to the firm. This study contributes to international business research on networks by investigating the knowledge supplied by client networks for a firm doing business with a specific foreign client on a sample of 494 firms. A LISREL analysis demonstrates that knowledge supplied by client networks is more useful the more experienced the firm. Client networks are also more useful the more knowledge the firm has of its client, the more the firm needs knowledge of its clients and suppliers, the higher the cost of the client relationship, and the more standardized the product. A major conclusion is that the client network knowledge is more useful the further a firm's collaboration with the client, presumably as a result of the new, and more embedded business that the firm develops with the client. Implications are that client networks are resources that can be important competitive advantages for the internationalizing firm.

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1. Introduction

Studies have found that international business relationships are surrounded by business networks (Blomstermo, Eriksson, Lindstrand & Sharma, 2004; Welch & Wilkinson, 2005), political networks (Welch & Wilkinson, 2004), and supply networks (Walter, Müller, Helfert & Ritter, 2003). In a foreign expansion, the internationalizing firm often seeks to develop business with a client, either via direct export, or via some other establishment form. Several studies identify the strategic importance of understanding a foreign client's network (Bridgewater, 1999; Gilmore, Carson, & Rocks, 2006), but, to our knowledge, no studies have so far studied the usefulness of client networks for development of business with the clients. Client network ties are those that have a direct business exchange with the client, but not with the firm (see Fig. 1). Examples of client network ties are clients' clients, competitors, clients' complementary suppliers. As can be inferred from studies of network ties by Johanson and Mattsson (1987), client networks are an important source of knowledge and information to

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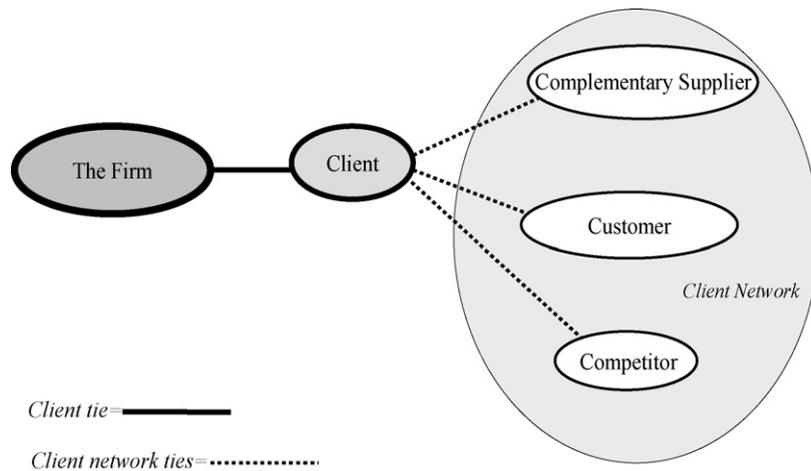


Fig. 1.

firms. Client networks may supply knowledge about competitors, supply chain linkages, or market research of demand for clients' products (Lindstrand, 2003).

In international business related decision making not all knowledge is perceived to be equally useful (Cavusgil, 1985), some types of knowledge are more useful than other types. The reason for some knowledge being more useful than others has many explanations, such as firm internal processes (Shahana & Tuzhilin, 1998), uncertainty (Wilkinson & Young, 2005), or the market focus (Blankenburg Holm & Eriksson, 2000). When doing business with a client, a firm may find knowledge about client networks useful. Thus, to advance network studies in international business, there is a need for researching the perceived usefulness of knowledge supplied by client network ties in international business.

Based on the internationalization process model (Johanson & Vahlne, 1977), the experience effect establishes a connection between firm experiences and firm internal processes (Delios & Beamish, 2001). However, the nature of this connection is still a 'black box', even though several studies reveal a relationship between experience and outcome, such as performance (e.g. Barkema, Bell, & Pennings, 1996; Erramilli, 1991; Hitt, Hoskisson & Kim, 1997; Lou & Peng, 1999). The perceived usefulness of knowledge has been found a kind of perception that is a strong predictor of behavior (Davis, Bagozzi & Warshaw, 1989, Venkatesh & Davis, 2000). Perceived usefulness can be considered a mediating variable between perception and behavior, which is central to the understanding of how experiences make firms develop and use knowledge in firms internal processes (Eriksson, Johanson, Majkgard, & Sharma, 1997). For this reason, the research presented in this paper used an empirical research design that frames the perceived usefulness of a client's network ties within an ongoing international business relationship with a client. An ongoing international business relationship is a current decision-making situation that is of great importance to the internationalizing firm, and may concern an international expansion via export, or other modes of establishment.

The purpose of this paper is thus to study the 'perceived usefulness' of client networks for international expansion with a client.

A delimitation of this study is that performance is not studied. Previous research has found a link between international business network development in general and performance (Blankenburg Holm, Eriksson, & Johanson, 1999). Future research can study the link between performance and the perceived usefulness of knowledge supplied by a client's network.

The paper begins with a discussion of the knowledge in firms. Thereupon, the issue of perceived usefulness of knowledge and the network connections in firms are presented. Based on the above, five hypotheses are developed and tested with the help of LISREL. The data and results are then presented, and we conclude with a discussion of some future research issues.

2. The Perceived usefulness of knowledge from client networks, client tie, and firms' international experience

Knowledge accumulation or learning implies 'the process within the organization by which knowledge about action–outcome relationships and the effect of the environment on these relationships is developed' (Duncan & Weiss, 1979, p. 84). Knowledge contains assumptions, causal maps, strategic orientations (March & Olsen, 1976; Hall, 1984), and operating procedures (March & Simon, 1958). Knowledge in firms is based on history and trial and error (Levitt & March, 1988), deposited in its routines (Nelson & Winter, 1982), and forms a firm's theory-in-use (Argyris & Schön, 1978, Fiol & Lyles, 1985, Corsini, 1987). The firm's theory-in-use can furthermore be seen as its interpretative schemes (Ranson, Hinings, & Greenwood, 1980), or organizational frames of reference (Shrivastava & Schneider, 1984). Theory-in-use helps the firms understand the cause and effect relationship and guides the behavior of decision-makers including what information they perceive as useful and how it is interpreted.

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