

# **Building and Sustaining International Business Networks in the Baltic Sea Region.**

## **A Comparison of Small and Medium-sized Exporters from Emerging and Mature European Markets**

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### **Abstract**

This paper focuses on the internationalization of small- and medium sized enterprises from a business marketing point of view. The building and sustainment of international business networks is studied in the Baltic Sea Region involving exporters from both mature and emerging markets. The paper reports on research conducted between 2004 and 2007 with researchers participating from eight countries in this region. The study encompasses eight exporters and their importers. The research contributes to international process theory by developing the network aspect of the entry node, the entry process, and the entry mode. One major result is that the exporter's entry process changes character so that the exporter participates in three major types of networks. Initially, there is the exposure network consisting of many weak information and social ties. This social network is closing in the formation network, where the ties are becoming stronger and social trust develops. In the sustenance network, relationships become more permanent and integrated into the firms regular business. The organization-based network takes over, becoming a precedent to the social network. The entry mode varies over the entry process, being a result of what kind of hub that the exporter uses during the different networks.

### **Key words**

International business networks; internationalization processes; SMEs; emerging and mature markets; Baltic Sea region

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## **Introduction**

This research focuses on internationalization processes of small and medium-sized enterprises (SMEs) in a region affected by major changes of their societies, from plan to market, from dependence to independence, and a wave of democratisation, namely Central and Eastern Europe. Even if these countries have covered different distances on the road towards maturity, most of them have successfully implemented new economic and societal institutions since the demise communism in 1989/90. Yet, despite the heavy burden of their past, ten post-communist countries are integrated into Western cooperation structures, manifested by memberships in the European Union (EU) and NATO. Among these, the Baltic countries of Estonia, Latvia and Lithuania, as well as Poland, are represented in this article. Thus, the Baltic Sea has changed from moat to open sea. Trade barriers disappeared and a common market came into force, reducing institutional distance considerably. This favoured international trade among neighbouring countries. In particular, it was expected that SMEs would be favoured, since they mostly operate on domestic markets and many times are too poor to expand internationally. This situation offered a golden opportunity to study how SMEs internationalize to emerging markets and how SMEs from these countries internationalize to mature markets. This article is therefore about how SMEs took advantage of these business opportunities by starting trade over the Baltic Sea region, either before or after the accession of the new member countries in 2004, contributing to potential EU enlargement effects of increased trade (Hilmersson & Sandberg, 2007).

This article is about the internationalization of SMEs from a business marketing approach, which is an underrepresented area in the international marketing literature. First, most research is about MNCs. Second, there is little knowledge about such internationalization related to emerging markets, in particular about SMEs from these markets.

This article contributes to this research field by comparing the internationalization of SMEs to emerging markets with this from the latter markets to mature markets. It is based on a study of international business marketing in the Baltic Sea area. Most SMEs are in the internationalizing phase and therefore not fully internationalized, mainly being involved in trade rather than foreign direct investment. This is especially relevant for SMEs from the new market economies in East Europe, whereas this research also contributes new knowledge about the beginning of this process as called for by Johanson & Vahlne (2003).

The research is based on the institutional network approach to internationalization, the main reason being that emerging markets are characterized as network societies and differing a lot from mature markets through another institutional environment (Jansson, 2007a,b). The focus is on networks: how SMEs establish and maintain relationships in networks during the different stages of the internationalization process.

This paper is structured as follows; first we account for the methodology of the research project, then we present our theoretical framework. Thereafter we analyze the case database that has been compiled, which is followed by our general conclusion and the theoretical contributions of our paper.

## **Methodology**

The paper reports on research being done within the EU financed project Baltic Business Development Network (BBDN). The purpose of this project was to study how internationalizing firms from 'old' EU countries expand their business to new EU members' country markets and vice versa. The research has been conducted between 2004 and 2007 with participating researchers from eight countries on the shore of the Baltic Sea. The study encompasses eight exporting firms and eight importing

distributors/agents/ subsidiaries. 8 case studies have been done about the expansion of internationalizing firms from Sweden and Denmark to the newer member states Latvia, Poland and Estonia and from the newer member states Estonia and Lithuania to the more traditional EU country markets Germany and Finland. At the selected companies, about twenty tape recorded on-site interviews have been conducted. A major benefit of the research project was that the interviews could be done in the local language. The informants within the firms have been export managers, market managers, CEOs and/or business development managers for the exporting firms and sales personnel and/or CEOs representing the intermediary. The interviews followed a semi structured-questionnaire (Merriam 1998) that was restructured from case to case in order to fit the character of the firm and their particular organization of business activities. The research group, consisting of all participating nations, met on a regular basis to discuss, clarify and update the cases as well as to secure that there was a balanced compilation and description of each and every case. In total, six meetings were held.

The 8 cases studied are introduced in Table 1:

	Nexö Vodbinderi	Norfo	Norba	Naxoflex	Viljandi Metall	Terg	Auridos	Splitas
<b>Origin:</b>	Denmark	Denmark	Sweden	Sweden	Estonia	Estonia	Lithuania	Lithuania
<b>Entry in:</b>	Poland	Poland	Latvia	Estonia	Finland	Finland	Germany	Sweden
<b>Turnover (mEUR) 2006:</b>	1.6	10.6	30	10	22	n/a	2	5.2
<b>Employees 2006:</b>	9	70	130	70	270	70	45	150
<b>Export % 2006:</b>	40	90	75	85	65	90	88	95
<b>Foreign main market prior to entry in X:</b>	Sweden	Germany	U.K except for Scandinavia	U.S except for Scandinavia	none	none	none	none
<b>Degree of Internationalization prior to entry in X:</b>	Experimental involvement	Committed involvement	Active involvement	Committed involvement	Pre-export	Domestic focus	Domestic focus	Pre-export
<b>Product:</b>	Trawls and nets for fishery	Portioning machines for meat/fish	Waste collectors	Grinding material	Semi constructions	Construction details	Components	Components

### Internationalization through Networks

SMEs are assumed to gain international experience by establishing and developing relationships to business partners. The more network relationships that have been established in a foreign country and the more countries this has been done in, the more internationally experienced the firm becomes. This is derived from research on internationalization processes, which has found that how firms respond to changes in international markets largely depends on where in the internationalization process they are found, i.e. their degree of internationalization. The relationship process and the internationalization process are combined into a five plus five stages process for the internationalizing firm. It is influenced by the institutional distance between countries, and organizational learning is the key internal process behind these processes.

These internationalization processes to emerging country markets are assumed to follow the typical patterns found for firms in general, i.e. taking place in a stepwise manner. Companies commit themselves through a gradual learning process. Learning is incremental and takes place by doing. Firms learn about doing business abroad, e.g. about the conditions in particular markets. Companies tend first to establish themselves in geographically and culturally proximate markets and increase their commitment more

and more, starting with agents, and passing through sales companies to manufacturing companies (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). This has mainly been studied for MNCs but also for SMEs (Hohenthal, 2001). Research on the export of mainly North American both small and large companies have reached similar results (cf. Cavusgil, 1980). However, 'Born globals' or 'International new ventures' (that are international from inception) tend to follow another pattern (Oviatt & McDougall, 1994; Madsen & Servais, 1997; Zahra, 2005).

### **Entry Nodes**

Internationalization to emerging country markets then takes place by establishing and maintaining business relationships in the foreign market networks. Firms enter by establishing two-party or three-party relationships or entry nodes (Jansson, 2007b; Timlon & Hilmersson, 2008). Various entry modes such as subsidiaries, agents, and distributors are viewed as hubs for building and maintaining relationships. The local network organization is therefore defined as a hub organization, which main task is to control dyads and/or triads.

### **Five/Five Stages of Internationalization**

The relationship process is seen as an entry process, taking up how relationships are developed with actors of importance to the firm. Jansson & Sandberg (2008) develops a five/fives stages model of the internationalization process. It is based on the experiential knowledge process, where internationalization processes often are divided into different degrees of internationalization or stages. A classical grouping of firms is made by Cavusgil (1980), which has been found to be valid also for exporting SMEs (Gankema, Snuif & Zwart, 2000). The internationalization of firms takes place in five stages. During the first stage, firms have a domestic market focus. Next follows the pre-export stage, when the firm evaluates the possibilities to start exporting. The third stage is experimental involvement, when exporting is a marginal activity. The fourth stage is active involvement, when international business is a normal activity, e.g. an important share of the turnover is exported. A suitable organization structure is also in place for this activity. International business is now a regular feature. The company is focusing on key export markets and devotes substantial amounts of time and resources to entering and developing new markets. International business has been integrated into the organization of the firm. Adaptations are increasingly being done regularly to markets, customers, and partners. The fifth and last stage involves committed involvement in exporting. The firm can now be called international, since it is heavily dependent on foreign markets. The majority of the turnover is generated through exports and significant amounts of time are spent on this activity. Exporting now accounts for more than 50 % of the turnover, and the domestic market is viewed as just another market. International business is an integral part of strategic management both in the shorter-term and the longer-term.

These five stages are integrated with the five stages of the relationship process, originally developed by Ford (1980). While the former concerns how the internationalization knowledge of the firm is developed, the latter is a good approximation of how network experiential knowledge is gained in a country. As illustrated above, the more developed the customer relationships, the more experience the firm has of the particular foreign country market. By establishing more and more relationships abroad the firm moves further and further along the internationalization process, starting in the experimental export stage. The larger the number of relationships established, the larger the part of the firm's resources and capabilities are dedicated to international business, inter alia meaning locating them increasingly abroad. During the pre-relationship stage,

the experience of the customers/ suppliers is none or very low, uncertainty high, distances large and commitment and adaptations zero. In relation to Cavusgil's five-stage model, for a firm that has a domestic market focus and starts to internationalize its relationships to a foreign country, the pre-relationship stage corresponds to the pre-export stage for the first foreign market. As found above, the development of the relationships in the foreign country market starts in the early stage, when commitments and experience increase somewhat. This is similar to the experimental export stage for an internationally inexperienced firm according to Cavusgil's five-stage model. It was also shown above that the establishment of relationships is a mutual learning process, where the parties learn to know more and more about each other. The first adaptations are made, but are still few. High uncertainty is experienced and high distances prevail between the parties. The early stage is followed by the development stage, during which business between the customer and the supplier starts to grow and resources are increasingly shared. The relationship settles in a stable stage of the long term stage, where it is a matter of maintaining relationships for continuous business between the parties. The exporter and the importer have now learnt to know and trust each other, which gives high experience and that the uncertainty is perceived as being low. Distances are small and commitment high. The main aim with building relationships is to reach the long term stage, to get an on-going long-term relationship.

Thus, relationships being at the core of the entry process follow a similar pattern as the internationalization process as a whole, showing how the gradual build-up of internationalization knowledge takes place through increased network experiential knowledge. The passing through the stages of the entry process is intimately connected to institutional knowledge. The more such knowledge acquired, the easier it is to develop the customer relationships. As a consequence, the more relationships in a foreign country that have reached later stages, the more established and internationally experienced the firm becomes and the higher its degree of internationalization. Also, the more countries the firm has established relationships with, the more internationally experienced the firm is said to be.

### **The Network Aspect**

The relationship stages above focus on the development of individual relationships but not how they relate to each other, i.e. the totality of relationships or the network aspect. Based on Harryson et al (2007), we take a multilevel perspective to networks and distinguish between two levels of networks: interpersonal or social networks, and interorganizational networks. These networks interact so that activities at one level result in consequences, which become antecedents for another level. For example, the formal organization structure of linked organizations can be seen as an antecedent for the interpersonal network, since it influences how individuals build networks among themselves, inter alia constraining the formation of informal relationships. Similarly, the resulting structure of the informal social network becomes an antecedent to the interorganizational network, since it influences the pattern of cross-unit connections. Thus, social network relationships take place between individuals and how they form networks influences the formation of organizational networks. These network ties are therefore socially embedded. Actually, the main network theories concern such social networks, e.g. 'social exchange theory' (Blau, 1964), 'weak/strong ties theory' (Granovetter, 1973) 'social embeddedness theory' Granovetter (1985), 'structural holes theory' (Burt, 1992) and 'social capital theory' (Coleman, 1988). Research findings by Uzzi (1996), Rowley et al. (2000) and Van Wijk et al. (2004) confirm that strong ties are positively related to firm performance when the environment demands a relatively high degree of exploitation and weak ties are beneficial for exploration purposes.

### ***Open and Closed Networks***

Along the connectivity dimension of the social network, a distinction is made between open and closed social networks. Based on the idea that organizations are embedded in social ties (Granovetter, 1985), the characteristics of these networks are also assumed to be valid at the organizational level of the network. The open network is mainly about resource exchange of information, while the closed network focuses on social exchange, trust and shared norms. An example of an open network is one in which firms have direct social contacts with all their partners, but these partners do not have any direct contacts with each other. A high number of such non-connected parties, or structural holes, means that the network consists of few redundant contacts and is information rich, since people on either side of the hole have access to different flows of information (Burt, 1992). Burt (1993) argues that to enhance network efficiency an actor should focus on maintaining only primary contacts and delegate the task of maintaining all complementary contacts to these primary contacts. The major selection criterion for such partners then concerns how many contacts they have. This implies that the structure of an open network is suitable when gathering, processing and screening of information is the primary purpose as well as identifying information sources. This kind of information network then stresses the indirect linkage, has mainly weak relationships and is loosely coupled. The opposite is the tightly coupled closed network, where all partners have direct and strong ties with each other. This network is centered on social capital, which is built through trust and shared norms and behavior (Coleman, 1988). The contradiction between open and closed networks is also stressed by Ahuja (2000), who proposes that the larger the number of structural holes spanned by a firm, the greater its innovation output. There seems to be a trade-off between a large network that maximizes information benefits and a smaller network promoting trust building and more reliable information. This contraction is studied by Soda et al. (2004) regarding the organization of project teams. They found that the best performing teams are those with strong ties among the project members based on past joint-experience, but with a multitude of current weak ties to complementary resources.

### **Organizational Learning**

In accordance with Forsgren (2002) and Sharma & Blomstermo (2003), experiential knowledge is behind the step character of the Five/Five Stages model. The longer the firm has been involved in foreign operations, the more knowledge firms accumulate about such operations. There is a relation between knowledge accumulation and risk so that the more knowledge the firm has, the less uncertain it perceives the foreign market to be. According to Sharma & Blomstermo (2003), existing internationalization knowledge is restructured intermittently. Organizational learning takes place in stages, which can be seen as a kind of learning platform based on a specific 'theory in use'. This learning process is broken, when the 'theory in use' is not working, and a new platform is created. According to Jansson (2007b), one example of such a discontinuity is when firms with long domestic experience from the home market move abroad, having developed such a cemented knowledge platform. Another similar discontinuity or change of learning platform was illustrated above, when the firm expands from one major type of market to another, e.g. from a mature markets in Western Europe to an emerging market such as Latvia. Organizational learning was found to be critical for how SMEs from Sweden enter triads and develop them in the Baltic states (Timlon & Hilmersson, 2008).

## **Trustworthiness**

Trustworthiness is mainly related to social exchange in the social network, where a distinction is made between organizational trust and individual trust (Jansson, 1994; 2007a). Organizational trust is a relation between an individual and an organization, i.e., combining the social and organizational aspects of the network. However, it does not mean that it is less emotional than other person-to-person relationships, since an individual may be highly involved in an organization, and identifying with it through its brand in a very personal way. Reputation is an expression of this trust. Individual trust regards persons and the friendship among them, i.e., the social network. One type of individual trust is related to coalitions and concerns the individual as a representative of his or her company. This type of trust is defined as professional trust, since it has to do with how tasks are completed together with other individuals, and is more instrumental than emotional. An employee can, for example, be expected to complete his tasks in a certain way, not being biased from undue influences. This relationship is personal and formal. The connection between the social and organizational networks becomes another than for organizational trust. Professional trust originates from the organizational network, is established through the social network, and strengthens the organizational network.

## **Network Capability Profiles**

Establishing trustful relationships is a critical part of the internationalization process, whereas trustworthiness becomes a key ingredient of every capability profile of a firm. The term trustworthiness signifies that trust is defined as a capability of the firm (Jansson, 2007a). Trustworthiness is a major norm of the social capital that constitutes a social organizational capability established from the resource base of the firm in the form of relationships.

How business marketing is executed depends upon which organizational capabilities that the firm has at its disposal. The internationalization process is influenced by the organizational capabilities and resources of the firm. Four network capability profiles provide the connection between the external and the internal network. A customer specialist has a competence to tailor make customer solutions by operating through specialized networks, while a product specialist solve problems customers have in common through having direct and more standardized network linkages. Two major types of competence relates to intermediaries. A distribution specialist can deal with customers both directly and indirectly through a distribution network, while a distributor network specialist more has a competence to cater for the problems of distributors, through which there is an indirect and often distant coupling to the customer. The network capability profile influences the possible range of entry options open to a firm, for example if it should enter through an agent or a subsidiary, that is what entry mode to select. In the former situation, it is a question of establishing indirect relationships to the customers via the intermediary, for which a distributor network specialist capability is required. In the latter situation, it could be a question of going for direct relationships with customers through establishing an own entry node in the form of a distribution network, for which a distribution specialist capability is required.

## **Analysis of the Cases**

As found above, the case database consists of two major groups of exporters within the EU: four SMEs from mature European markets and four SMEs from emerging markets. The first group is represented by the Swedish firms Norba AB, and Naxoflex AB plus the Danish firms Norfo A/S and Nexö Vodbinderi. The second group includes Terg Oü and

Viljandi Metall from Estonia, plus Auridos and Splitas from Lithuania. The analysis of the cases is made in three steps. First, one representative case of each group is presented followed by a comparative analysis of the four cases of each group. Finally, the two groups are compared with each other and general conclusions are drawn. Nexö Vodbinderi and Viljandi Metall were selected as cases to represent their respective groups.

### **Exporters from Mature Markets: Nexö Vodbinderi (NV)**

Prior to their entry in Poland, the Danish trawl and net producer NV had some experience of exports to the Eastern shores of the Baltic sea. Annually, NV was visited on Bornholm by Sovryb Flot, a collective communist trade organization for the fishery sector. Selling their products to this intermediating organization was the only way in which NV generated any experiences of the Eastern European fishery sector.

*“It was organised almost like an inquisition, with a whole panel of fishing experts from the trade organization stating you critical questions regarding technical aspects of your products and offers. Although this sort of interviews was tough to do, they gave me experiences and knowledge about the cultures and the structures of the fishery sectors in those countries”. - Klaus Hjort-Hansen (KHH), Director of Nexö Vodbinderi*

Except for the marginal international experiences generated in the COMECON area, NV had some exporting experiences generated from supplies to Swedish, German and a few Finnish vessels landing their catch on Bornholm. However, as noted by the manager of NV, no matter where in the world, fishermen are almost nationally or even locally oriented when it comes to supplies. They always tend to prefer suppliers in the domestic market compared to foreigners; they even tend to prefer suppliers from their home harbor.

The fall of the Soviet Union had a revolutionary impact on the Baltic fishery sector. As a result of the opening-up of the Baltic Sea Region, vessels and fishermen from the Eastern shores gained access to more modern equipment, know-how and technologies. At the same time, they gained access to the Western European fish processing industries and value chains. The result of the latter was that more and more East European vessels started to land their catches in Western Europe because of the higher price paid, and often their catch was landed on Bornholm, the hub of fishery in the Southern Baltic Sea.

The opening up of the Baltic Sea area made the manager of NV aware of the uprising export opportunities. As more foreigners started to land their catch on Bornholm, he was exposed to different cultures and languages. The awareness was a result of informal discussions with foreign fishermen in the harbor

To respond to the rising export opportunities to the Eastern shores of the Baltic Sea, especially Poland, NV signed an agreement with an agent. This agent also worked on commission for another Bornholmian firm in the fishery sector. His experiences of Danish industry and his knowledge of the East European fishery sector was a valuable resource to NV. However, the manager of NV didn't trust the agent and they had severe difficulties in developing any real personal relationship. Therefore the relationship was ended.

*“His task was to find customers and make our name known in Poland and the Baltic countries. He travelled a lot also in Ukraine and the Black Sea area - sometimes I participated in these travels too - and in fact he managed to make our*



*firm known. But he was a “smart-ass type” that was difficult for us to trust and for a long time we were close of firing him and then, suddenly, we started getting orders out of his work. In the end however, we fired him because he cheated us for a small amount of foreign currency. Still, I can’t tell if this was reasonable and fair or not but we simply had general mistrust in his personality.” - KHH*

Parallel to the cooperation with the mistrusted agent the manager of NV met a purchaser working on behalf of a fleet of Polish vessels. During one of his visits to Bornholm, he and the captain of his boat were invited home to the managers’ private house for a cup of coffee and an informal discussion about possibilities for co-operation, and very quickly a personal friendship developed. Hence, in the early 1990s this purchaser was engaged as a sales agent for NV.

The new agent identified a target segment in the Polish market, namely fleets that wanted to change their fishery from, for example, small sprats to the much bigger cod. The new agent collected information about the pulling power, dimensions etc. of their vessels and on the basis of this NV calculated a specific offer of new trawls and a price for them. If the fleet was interested in this offer they sent a delegation and one of their boats to Bornholm for trying out the equipment and having a more thorough technical discussion about its details. A main subject for this discussion was to convince this new group of customers via practical, personal experiences that the trawls were not only more expensive than the ones they were used to but also more efficient, more durable and cheaper in operation. The relationship with the new agent contrasts the former, now an almost indefinite trust resides, it is expressed:

*“If Krystof [the Agent] say “yes” or approves a contact or a business possibility, I do the same. Krystof’s insight in the market potentials of Poland reduced my worries of starting activities there. I trust him 120% and our friendship is maybe the main reason for my business and financial engagement in Poland. We think and do similar things. We share the same ideas and visions for future business development.” - KHH*

Due to the locally oriented mindset that characterises most fishermen, the only possibility for NV to develop and expand its position in the Polish market was to establish production facilities in Poland. Hence, in 1995 NV helped the agent to establish a trawl producing daughter firm in Poland, Baltic Net Ltd., by paying the needed business registration fees and by providing supplies on favourable conditions of nets and other materials for starting trawl production. Baltic Net has the same products, suppliers, and types of customers as NV, however, it focuses on the Polish market. The ownership and equity of Baltic Net was divided from start in 80% for NV and 20 % for the partner.

The establishment of the Polish daughter firm Baltic Net has not caused any need for changes in NV except for the formal organizational changes of the firm’s ownership structures. It is described that the start-up process was rather straightforward:

*“We only had to add our technology and know-how to the relatively cheap labour that was employed - and we could make a prosperous business.” - KHH*

However, the transfer of skills and knowledge from Bornholm to the Polish labour force was not that straightforward. Contrary to Danish net tiers, the Polish traditionally are female and rather old between 55-60 years, which means that they are not as strong as male workers and not able to tie the knots as tight. But the Polish female workers really

have been keen on learning and to do the work exactly as their male colleagues in Bornholm:

*“When I visit Baltic Net the women in the production always approach me with a big smile and show me a piece of a trawl and ask if I can tell if it is produced in Poland or in Denmark. And today after years of training, neither I nor the fishermen using the trawls are able to tell the difference. They simply have learnt the tying techniques perfectly. The first five years after the start of Baltic Net, Krystof called me very often with all sorts of questions about how to do a specific task or process. By phone, photos, mails, fax, etc. we have taught his workers how to do things through Krystof. The same could be done regarding production units in China or other places.” - KHH*

In 2003, NV and Baltic Net jointly started a small firm in Croatia (production, storage, and service of fishing trawls), and employed a man to develop it. He was a fisherman that also had the skills of a net tier. The Croatian market was considered promising since there is a big fishery sector along the Adriatic coast. But the plan did not work. The Croatian man, who was engaged in the job, was not able to focus and plan his work in a good manner due to personal/family problems. The engagement with him is stopped but the firm is kept as a “sleeping” one.

*“Our costs for this Croatian involvement have not been big, maybe 25.000 Euros. We will look somewhere else for new projects – primarily in China. Today, Poland is not so cheap anymore so the future (also for Baltic Net) lies in China where we consider starting trade relations. Krystof and I sometimes spend our summer holiday on marketing travels. We have recently been in Vladivostok to try and build up export markets. The market potentials out there are huge – one single shipping company has a fishing capacity and quota similar to all the Baltic Sea. But we are too distant to supply and serve this market from Bornholm and Poland. We would have to go there very often if not establishing a production unit. From a logistical and transportation point of view it would be almost impossible to send trawls out there. We are also looking at the Black Sea area, Bulgaria, Romania, Ukraine etc. For starting business in this particular region we might get access to EU funds, especially if the investing firm is Polish rather than Danish. And in logistical terms, doing business in this region is much easier to manage from here, compared to the Far East.”- KHH*

Regarding use of partners with knowledge about and established network relationships in the export market, the strategy of starting business activities in China is similar to the one pursued in Poland.

*“I and Krystof will not risk going there on our own – we are too small for that. However, we have got a serious contact to a foreign producer of other types of fishing equipment who is already in China but wants to enter the local market for trawls. His idea is to produce the basic part of the trawl product in China and then to provide it the very important finish in his own European country. But for performing this part of the production at the demanded level of quality, he will need our know-how on trawls including our IT-software for simulation and testing. So if we can find a good arrangement including an agreement about how to divide the market, I and KS probably will say yes to an offer of being engaged in this final part of ‘his’ production.”- KHH*

## Comparative Analysis of the Four Cases from Mature Markets

NV is compared with the other Danish case and the two Swedish cases in Table 2.

	<b>Nexö Vodbinderi</b>	<b>Norfo</b>	<b>Norba</b>	<b>Naxoflex</b>
<b>Pre Entry</b>	-Experimental exporter -Sweden & Germany -Did not leave Bornholm.	-Committed exporter -W Europe -Agents in export markets	-Committed exporter -W Europe. -Subsidiaries in E.U.	-Committed exporter -W Europe & U.S -Converters in export markets
<b>Trigger to entry</b>	-Unsolicited order	- International growth aspirations	-Unsolicited order	-International growth aspirations
<b>Find/Found</b>	-Met future partner who visited Bornholm	-Found agent at industry trade fair	-Was found by customer after partners recommendation	-Found customer and distributor via individual network
<b>Initiator</b>	-Joint initiative based on unplanned meeting	-Norfo searching for export partner	-Customer searching for more modern equipment	-Naxoflex searching for international growth opportunities
<b>Establishment of relationships</b>	-First relationships was made between NV and an agent travelling in the BSR. The latter was responsible of developing relationships with customers	-First relationship was with the agent. Then, joint visits were made with the agent at the customer. Thereby Norfo learnt about local customers and the agent about Norfo's products	- The export manager established the first relationships with customers assisted by representatives of Volvo.	-First relationship was established with an Estonian customer. At their facilities the distributor was met.
<b>Sustainment of relationships</b>	-As customers tend to prefer local supplies, local production was set up as a joint venture between the partners (80%NV 20%P)	-The agent was extensively educated to enable responsibility for customer relationships in the local business network	-To a local sales office set up to become more present in the market and to handle after sales service	-The distributor was taught to convert material . Thereafter, the converter more or less acts as a local sales office.
<b>Social Network</b>	-Is developed at Bornholm. The manager of NV tries to talk as much as he can with foreign fishermen landing their catches there.	-The social network is primarily a matter of the agent. However, at trade fairs, the export manager has a few beers to get to know the customers.	-The social network of the subsidiary manager is of great importance to the information generation in Latvia.	-The converter builds a social network in the local industry. However, a friendship between the area sales manager and representatives of Naxoflex has developed over time.
<b>Organizational network</b>	-Joint Venture	-Agent	-Foreign sales office	-Distributor (converting material)
<b>Trust</b>	-Primarily individual between the partner and NV	-Organizational related to the successful products	-Individual with customers and developed by the sales office manager	-Individual, the relationship with the distributor is described as a freindship
<b>Continued Internationalization</b>	-Joint to China and Croatia	-Norfo was acquired by an MNC and products are now distributed globally	-Setting up partnership in Russia based on Latvian experiences	-Searching for a converter in Russia with assistance from Estonian converter

A number of conclusions are drawn from this table. Prior to their entries, Nexö (in Poland), Norba (in Latvia) and Naxoflex (in Estonia) had been supplying Soviet customers. However, their experiences of solving the problems of those customers were very limited as all transactions were mediated by representatives of the Soviet Central planning authorities. The only one, having met their Soviet customers face-to-face was the manager of Nexö Vodbinderi, who met some Polish fishermen that landed fish on

Bornholm occasionally. On the other hand, Norba, Naxoflex and Norfo possessed quite extensive international experience generated from Western Europe. Those three firms can be described as active or even committed exporters as most of their turnover is generated from exports. Nexö, in contrast, had little experience in marketing their products abroad. The latter is rather seen as an experimental exporter that had some experience of supplying Swedish, German and Finnish vessels that landed fish on Bornholm.

For their entry in Eastern Europe, Naxoflex and Norfo proactively searched for presumptive customers. Naxoflex identified a major customer via personal relationships in Estonia, while Norfo found an agent at an industry trade fair already possessing a network of potential customers. Instead of finding their customers Norba and Nexö was found. Norba received an unsolicited order that was mediated by their long term partner Volvo, whereas Nexö was visited by fishermen landing their catch on Bornholm. Even though the latter two firms did not plan to enter the market, they realized that there was a great potential to do so once they got their first orders. Consequently, they both started to prepare for future activities in the market.

Norba and Naxoflex initially tried to enter the markets on their own. The export managers tried to develop relationships with local customers by visiting them and by arranging mini-fairs on foreign soil. Norfo and Nexö, on the other hand, entered the markets by cooperating with local agents that already possessed a network of customers and knowledge about the local fishery industries.

After a couple of years, Norba and Naxoflex realized, that to sustain their network position and develop relationships with local customers and ensure after sales service, local presence and knowledge build-up were required. Nexö, Norfo and Naxoflex externalized their marketing, whereas Norba set up a local sales subsidiary.

To sustain their network position, personal relationships have been of utter importance for all cases. However, they are primarily between the exporter and persons at the intermediary/subsidiary. Developing a personal relationship is described as being of utmost importance to develop a certain level of trust of/from the intermediary. However, the personal relationships with the customers are developed by the local partner. The local partners' personal network has in all cases been the major reason for success. It is by exploiting their individual networks to these intermediaries that the exporters have succeeded.

With increased international experience after the entries in the BSR all of the firms are searching for new international growth opportunities. Nexö Vodbinderi is heading for China and Croatia together with the Polish partner. Norba and Naxoflex are heading for Russia, where Norba is forming a partnership based on some of its experiences from Latvia. Naxoflex is trying to identify potential converters with assistance of their Estonian converter. Norfo, with a rather unique technology, was acquired by a multinational corporation.

### **Exporters from Emerging Markets: Viljandi Metall AS (VM)**

Prior to the entry in Finland VM had no international experience. The interest in focus was the domestic construction industry. However, in the early days of independence in Estonia there was a remarkable decrease of activity in the construction industry causing a major market slow down for VM. The company actively searched for new projects in the domestic market and tried to stick to its core competences of metal treatment. Nevertheless, VM was unsuccessful in finding more than marginal projects.

Thanks to personal relationships and the individual network of VMs management, contacts in Finland were made. A Finnish firm had approached a professor at the Tallinn Technical University asking for information concerning potential suppliers in Estonia. The

professor mediated contacts to VM. Due to the domestic focus of VM, the opportunities arising were described as coincidental.

*“We have survived thanks to a co-incidence. We were found by an interesting partner through the Tallinn Technical University who took the risk: they gave us an order. First 2-3 years we were living on it.” - Jaak Sulg (JS), Market Manager, Viljandi Metall AS*

The establishment of the business relationship is described as more strategically planned and proactive by the Finnish counterpart:

*“It was about in year 1993 or 1994, something like that, we really tried to find some companies from Estonia that could serve as subcontractors to us. At that time I knew an Estonian gentleman, Mr. Kalju Looirts who was professor at Tallinn Technical University, I asked Mr. Kalju Looirts if he could help us to find some suitable companies. We visited several companies in Estonia and finally we found Viljandi Metall. Of course it was very important that the price level at that time it was lower in Estonia compared to the price level in Finland. Previously, we ordered the same things from Finland.” -Klaus Saarikallio (KS), Managing Director, Normek*

Thus, the entry of VM in Finland was initiated by its customers, Normek OY. They searched for decreased costs of production and found VM, who were in desperate need of new market opportunities. Trust and the personal relationships with the professor are described as the major reason to why Normek chose VM as their partner.

*“We visited several companies in Estonia, some of them were – may I say? – Russian organizations.....it was Mr Kalju Looirts (Professor) that recommended Viljandi Metall, personal information was really valuable.....perhaps it was so simple that with people in Viljandi Metall it was easier to trust them and that’s why we started cooperation with them.” - KS*

As VM had no prior international experience the relationship between N and VM was characterized by quite an intensive transfer of knowledge from N to VM. VM had to learn about Western standards, requirements and culture. In order to stay in business they had to develop its products and production processes to ensure a certain level of quality and to stay as a preferred supplier to Normek. The CEO of VM describes that the knowledge exchange has been in one direction:

*“From Normek we have got the basic knowledge how to do business in the Western world at all, we got the basic knowledge, what kind of product is expected in the foreign market – about which quality it should be, about the certainty of supply.” -JS*

A similar description is given by the managers of the counterpart, -Normek.

*“...if we concentrate only on this steel branch I think that we haven’t learnt anything from Viljandi Metall but I am sure that Viljandi Metall has learnt through our company for example this way how to make business here in Finland, and Finnish, or Western, quality.” - KS*

Eight years after their first contacts with the Finnish market, VM decided to establish an own sales office in Finland. This strategic move was in line with the development of VMs business. Primarily by supplying Normek, VM had grown from 55 to 270 employees. A decision had been taken to become more independent in the market by spreading its risks to more customers than Normek. At the same time the strategic direction was to move further along the value chain from being a detail producer to also involve in the assembly of details. The decision to set up an own office in Finland can be seen as a manifestation of the success of the latter.

Setting up a local sales office in Finland was seen as a prerequisite for VM to develop its position along the value chain. Primarily it gave access to information and knowledge about local customers. However, it wasn't VM that identified this growth opportunity that was enacted on. Rather, it was the customers of Normek that encouraged VM to also involve in the assembling activities. This encouragement was the result of the customers of Normek tracing the products (for quality inspections) down the value chain. Normek was unwilling to reveal their subcontractors. But when their customers wanted to inspect the quality of their products Normek was unable to hide this information. As a result, the Finnish customers became aware of the competences of VM and encouraged them to move forward along the value chain. The manager of VM stresses that this move purely was driven by the customers, and not by VM:

*“We didn't offer ourselves to order the assembling from us instead Normek, it would be against fair business traditions in our business culture.” - JS*

However, once the sales office was set up in Finland VM has been successful in establishing its own contacts in the Finnish market. They have had orders to produce details and to assemble on site. The consequence thereof is that VM has started to compete with Normek. The relationship that previously was described as a personal relationship from VMs side, at the same time as Normek said that we are almost friends is now ended.

The main focus of VM is to strengthen the position in the Finnish market. However, as a result of their success there, a few orders have come from Sweden. But, the manager describes that Swedish companies generally mistrust East Europeans, which causes a lot of trouble for VM to compete outside Finland and Estonia. Therefore, VM is focusing on strengthening their position in Finland at the moment. In a few years, they expect the Swedish market to be ready for Estonian suppliers in the construction industry.

### **Comparative Analysis of the Four Cases from Emerging Markets**

Viljandi is compared with the other Estonian case and the two Lithuanian cases in Table 3.

	<b>Viljandi</b>	<b>Terg</b>	<b>Splitas</b>	<b>Auridos</b>
<b>Pre Entry</b>	-Domestic market focus	-Domestic market focus	-Exploratory	-Domestic market focus
<b>Trigger to entry</b>	-Unsolicited order	-Unsolicited order	-Unsolicited order	-Unsolicited order
<b>Find/Found</b>	-Was found by customer on recommendations	-Was found by customer	-Was found by customer in a web forum	-Was found by customer
<b>Initiator</b>	-Customer searching for decreased costs	-Customer searching for decreased costs	-Customer searching for new suppliers	-Customer searching for decreased costs
<b>Establishment of relationships</b>	-Having provided the first pilots, Viljandi was approved as subsupplier, the customers visited	-Provided by blueprints Terg started to produce for its Finnish customer who in turn visited (controlled) production	-After the first pilots Splitas agreed to produce on the terms set by the Swedish partner.	-After the first test order, Auridos became a sub supplier for its German customer and soon orders were

	Estonia to teach about quality, leadtimes and general business standards of the Finnish business network	to ensure quality		repetitive.
<b>Sustainment of relationships</b>	-Ended relationships with the original partner -Moved further up in the vertical production structure -Started to compete with its former customer	-Slimmed organization, -Invested in equipment for automatization -Focus on keeping low cost advantage	-Applied for ISO certification -Invested in equipment -Started to develop own products	-Focus on more efficient production -Mediate contact with complementing Lithuanian suppliers
<b>Social Network</b>	-Of great importance as it mediated first foreign contacts	-pure business relationships	-pure business relationships	-pure business relationships
<b>Organizational network</b>	n/a	n/a	-Of great importance for the first entry as contacts were mediated by LEDA	-Of great importance for the first entry as contacts were mediated by LEDA
<b>Trust</b>	-Individual and organizational	-Organizational	-Organizational	-Organizational
<b>Continued Internationalization</b>	-Further commitment to the Finnish market	-Keeping their Finnish customers	-Keeping present customers and looking for opportunities with own product in Russia	-Searching for customers in Austria, by exposing their services on the Internet

Some major conclusions are drawn from this table. Prior to their entries, none of Viljandi (in Finland), Terg (in Finland) Auridos (in Germany) Splitas (in Sweden) had any experience from supplying foreign customers; all production was addressed to the domestic market. Thus, the restructured companies from the former Soviet Union had no knowledge of quality standards, business logic or requirements of the mature markets in the EU.

None of the firms were actively searching for foreign customers. Instead they were all found by the customers looking for opportunities to lower costs by finding cheaper sources of supply and by outsourcing of production. The two Lithuanian firms, Splitas and Auridas, exposed their services on a subsupplier forum on the Internet in order to be found by potential customers. This forum was hosted by the Lithuanian Enterprise Development Agency (LEDA), a state founded development agency which mediated contacts between foreign and local firms. Viljandi, in turn, leaned on their managerial personal network when internationalizing its business activities. The board of managers had developed a personal relationship with a professor at the Tallinn technical university, through whom the company was found by a Finnish customer. Terg was also identified by its customer in Finland.

As none of the firms had any prior international experience they all learned a lot from their customers in the mature markets such as quality, business culture, lead time and logistics. However, Auridos and Terg have primarily learned to become efficient sub-suppliers. Thus they have learned how to efficiently fit into the sub supplier network of its customers. At the same time they have strived to spread the risks by starting to supply more than one customer. Splitas and Viljandi initially had a similar development. But, having learned a lot from their customers from EU mature markets, they started to develop their own products/projects to become more independent. This development started off in parallel to becoming more efficient sub suppliers.

Viljandi set up their own office in Finland and moved forward in the value chain and started to compete with their former customer. Splitas, on the other hand, developed products of their own to be launched in the Russian market. They are therefore actively searching for new customers.

Concerning the future internationalization, Splitas and Viljandi are actively searching for new foreign customers. Viljandi is primarily committing themselves further to the Finnish market by dedicating resources to its foreign sales office, whereas Splitas is planning to enter the Russian market with its own products. In parallel Splitas applies for ISO certification in order to safeguard its position as supplier to a couple of large customers in mature markets. Terg and Auridos are primarily focusing on strengthening their positions as preferred suppliers to their existing customers. Terg is primarily focusing on keeping their Finnish customers, while Auridos has started to pay interest to the Austrian market. The latter will be manifested by Auridos listing its services in Forum of sub-suppliers available to Austrian firms.

### **General Conclusions on All Cases**

After having empirically analyzed and compared the exporters coming from mature markets and emerging markets respectively, the general conclusions are presented based on a comparison of the two groups, accounting for the key differences and similarities identified concerning the building of international business networks in the Baltic Sea Region.

The degree of international experience of firms from mature markets seems to make them initiate to international business networks around the Baltic Sea. Prior to the entries accounted for in this paper none of the SMEs from immature markets had any international experience. None of them was actively searching for international growth opportunities, rather they were found by companies from mature markets searching for decreased costs of supply. Consequently, the immature exporters are described as passive in their early internationalization. Two of the SMEs from mature markets were actively searching for international growth opportunities in a proactive way. The other two reactively responded to unsolicited orders. However, the latter two soon realized that there was a great growth potential in the focal market, and started to search for further opportunities. As a consequence, we conclude that the establishment of international business networks in the Baltic Sea region generally is initiated by firms from mature markets, either exporters searching for international growth opportunities or importers looking for decreased costs of supply.

The entry node into foreign business networks seems to be closely influenced by the initiators motive of internationalization. The SMEs from mature markets are all actively searching for new potential customers while the entry of SMEs from immature markets was initiated by its customers searching for new sources of supply. To develop their positions in the local market, the SMEs from mature markets soon realized that local knowledge and a local network was of utmost importance. As a consequence, two firms started to cooperate with intermediaries, whereas one did set up a joint venture with their partner and one did set up a local sales office. The knowledge gained via locals has served as an invaluable resource to the exporters as it has made them able to understand local preferences and made them able to solve (local) problems of (local) customers. In contrast to the this group of SMEs these SMEs from immature markets are not searching for new customers, they do not have to identify the needs of their customer and they are not identifying or solving any problems. They are rather learning from the customers how to produce the products as efficiently as possible. Thus, they are in no need of any intermediary translating preferences of the local business network. Instead they are directly connected to local business network in dyads, the problem being exposure to few networks and a high level of dependency on a limited number of customers. As a consequence, we can conclude that the entry nodes connecting international business networks around the Baltic sea region generally is adapted to the needs of the customers in the network.



To sustain business in the foreign market networks SMEs from mature markets seem to invest in their entry nodes/hubs, whereas SMEs from immature markets are investing in their production units. The SMEs from mature markets primarily have invested time and energy in educating their local partners/employees related to the products to be sold whereas the SMEs from immature markets have invested in their production facilities to become more efficient and cost competitive. Thus, there seems to be different drivers of the two groups, the first one aiming to increase sales by attracting new customers and the second one aiming to decrease production costs to stay preferred as suppliers.

The social network seems to play a more important role to the SMEs from mature markets entering immature market compared to vice versa. The SMEs from mature markets have all taken advantage of social network in order to develop relationships both with intermediaries, partners and customers whereas the SMEs from immature markets describes their networks with customers as purely business oriented and organizational.

The importance of social networks for SMEs from mature markets seems to manifest itself in the great level of trust in individuals rather than organizations. This characterizes both the relationships with intermediaries and partners..

The business networks of SMEs from mature markets will be extended eastwards whereas the ones of SMEs from immature markets are extending westwards in the future internationalization processes. The SMEs from mature markets are all looking east towards Russia and China. Strengthened by their experiences from the BSR they are about to enter more distant emerging markets, some of them in a joint parade with their BSR partners. The SMEs from immature markets, in contrast, are searching for more sub supply partners or projects in the E.U. One exception, though, is Splitas heading for Russia with its own newly developed products.

	<b>SMEs from mature markets</b>	<b>SMEs from immature markets</b>
<b>International experiences</b>	-Extensive -Primarily generated from Western Europe and the U.S	-none
<b>Initiator</b>	-Supplier/ customer	-Customer
<b>Establishment of business relationships</b>	-First relationships are established with local partner/intermediary -Thereafter joint attempts to establish relationships with customers	-Initiated and dominated by customers
<b>Sustainment of business relationships</b>	-Investment of time, energy and resources in business network entry node	-Investments in production efficiency
<b>Social Network</b>	-Of great importance for establishment of business relationships	-Of marginal importance
<b>Organizational network</b>	-Of marginal importance	-Of great importance for establishment of business relationships
<b>Trust</b>	-Individual between exporter and local intermediary/ partner/ employees	-Organizational between exporter and customer. Relationships are described as pure business oriented
<b>Continued internationalization</b>	-Heading Eastwards towards Russia and/or China	-Heading west. Deepening their commitment in present markets or searching opportunities within E.U.

### **Theoretical Contribution**

Based on the empirical analysis and the theoretical framework, a number of conclusions are drawn. These conclusions represent the theoretical developments made from the study. A contribution is chiefly made to internationalization process theory by developing the network aspect of the entry node and the entry process, mainly adding to the relationships part of the 5/5 stages model. Being based on eight cases the conclusions are suggestive for further research rather than conclusive.

As found above, a potential exporter creates contacts of various kinds to expose itself to various parties of relevance to the business it wants to have in a new market. This first type of network that the SME becomes part of is defined as the **exposure network**. According to the study, it can be characterized to consist of many general and weak ties. Moreover, this network is information dominated, open and loosely coupled. The focus of the potential exporter from the mature market is to find hubs in order to expose the firm to as many networks as possible. The aim is that it will lead to finding hubs to more specific business networks in a certain country or countries encompassing various customers and intermediaries. If successful or lucky, new partners are found by or find the company, to which relationships are established through the next type of network, which is defined as the formation network. Exporters from emerging markets, on the other hand, play a more passive role in the exposure network, and get involved in dyads in the form of direct contacts with the customers in the mature markets instead of in triads.

Exporters from mature markets develop businesses through the **formation network**, gradually transforming certain weak ties into stronger ones. The customer development process can therefore be seen as an act of transformation from relatively open to closed networks. Strong social ties are developed with persons found through the exposure network, which are developed further with those selected as promising prospects. The social network is therefore gradually closing. The formation of this social network leads to the formation of the inter-organizational network, thereby being a precedent to it. The exposure and formation networks are thereby driven by social networks, which close into the next type of network. It is defined as the **sustenance network**, since relationships are becoming more permanent or integrated more permanently into the firm's regular business. This seems to mainly be an organization-based network, which is superior to the social network. The formation network of the exporters from emerging countries is smaller and less complex, since it only involves developing relationships with a few large customers. The social network is less important and usually preceded by the organizational network.

The nature of internationalization of relationships at the interpersonal level is described by the social network, while its nature at the organizational level is described by the organizational network. Social trust and professional trust is developed through the social network, which later is turned into organizational trust. Interaction in social networks leads to the inter-unit relationship between the firms. This inter-organizational network seems to be mainly based on professional trust. For the exporters from mature markets, the social network is the main vehicle of internationalization from exposure to establishment, being the main antecedent to the structure of the inter-organizational networks of the sustenance network. However, the opposite situation prevails for the exporters from emerging markets.

In the exposure network, it is mainly a question of limiting the network size by linking up to certain hubs of interest. In the formation network, it is more the other way around, especially for the exporters from mature markets: to use these few hubs to expand the network. Leverage effects play a critical role to get this network large enough. Agents are good examples of such hubs, from where to expand the customer network. In some of the cases studied, the agents and their social networks are instrumental for the establishment of a number of customer relationships in the country. In the sustenance network, the purpose is still another, namely to go on with partners in the formation network, with which sustainable business can be developed, or develop new partners, with which this is possible. The SME might now have gained enough network experiential knowledge so that such new customers can be found. The framework suggests that continuous business in the long run requires the more structured

relationships of the sustenance networks to secure production, marketing and sales, logistics and after sales service. This means that the exporter from mature markets establishes itself firmer in the country, e.g. through forming a joint venture or establishing a subsidiary. The exporter from emerging markets, on the other hand, does this by deepening the relationship to a few customers by more efficient production and logistics or moving forward in the vertical market by replacing the customer by the customer's customer as illustrated for Viljandi.

It can now be concluded that the entry mode is subordinated to the entry node, and that the mode varies between the networks. Agents and distributors play a critical role in the formation network for exporters from mature markets, thus being a triad. In the sustenance network they are turned into dyads by the agents being replaced by subsidiaries or joint ventures. If agents are still used in the latter network, their role changes to becoming more independent: from parallel to sequential triads. The exporters from emerging markets, on the other hand, develop dyads directly with their mature market customers.

Finally, it is concluded that the overall internationalization process of the exporters from mature markets follows the normal pattern of such a process, while this process for the exporters from emerging markets is different. One main reason is the difference in degree of internationalization. Another is the type of product exported. The former type of exporter sells a product of its own that is used as an input in production, used up, or used for production. The latter type of exporter, however, is more directly engaged in the production of the customer, either participating directly in this production, or supplying semi-finished products for the customers' production.

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