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Value creation in foreign network relationships and its impact on the company's operations.

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Abstract

The aim of the paper is to analyse value creation processes that take place in the foreign network relationships and their impact on company's operations during new, foreign market entry. As important elements that impact value creation were proposed relationship characteristics (trust and conflict handling) as well as managerial competences. The study is of a qualitative character and is based on in-depth interviews with key informants of 10 Polish-based companies. The results show that in the majority of situations, value creation took place in the foreign relationship with company's distributors. Value creation in foreign network relationships had in the majority of companies the positive impact on operations during the internationalisation process. As the effects of the value creation were mentioned the improvement of operational activities in a new market, adaptations or innovations in products dedicated to the specific foreign market.

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Introduction

The ongoing competitive pressure and the progress in new technologies are important reasons to increase interactions aimed at the development of products or services that respond to the demands of foreign actors. As David Lepak, Ken Smith and Susan Taylor (2007, p. 320) state, "notion of value creation lies at the heart of organisational success and survival". As a result of actions to meet the competitive pressure and improve the position on the market, value is created.

The existing literature presents the multi-facet analysis of value creation within business network relationships. Researchers focus on the dimensions of value creation in buyer-seller relationships (efficiency, effectiveness and network functions) (Möller and Torronen, 2003) or the significance of actor's competence in that process (Waseem, Biggemann and Garry, 2018). Literature presents also research on sustainability of value creation, like actions that aim at creation value in business relationships (Haas, Snehota and Corsaro, 2012), the determinants of sustainable value creation in supplier-customer relationships (Lacoste, 2016) or the measures to assure the interaction and value-creation in the exchange relationships (Hammervoll, 2012). Recently the attention is also attached to the tensions within value-creating relationships (Tóth, Peters, Pressey and Johnston, 2018). However, to the best of our knowledge, the existing literature does not present analysis on

how the interactions with foreign actors (distributors, consumers or competitors) impact value creation and the operations of the company in the internationalisation process. Therefore the aim of the paper is to analyse value creation in company's foreign relationships with different actors and how this process impacts its operations in a new, foreign market. In the paper the broad approach towards value is adopted and following Gummerus (2013) we consider value as the advantages that an actor may obtain as the effect of the cooperation. Therefore value creation that takes places in foreign relationships determines the scope and the results of company's operations in foreign markets. The results come from qualitative studies that were realised among key informants from 10 Polish-based companies. The realised interviews were the basis for the preparation of illustrative examples used for the analysis in this paper. The paper consists of four main parts. First the literature review on value creation is presented along with relationship characteristics that impact that process. Then the results of illustrative examples' analysis on value creation in foreign business network relationship are discussed. The last part of the paper is dedicated to the final conclusions and managerial implications. The paper ends with recommendation for further research.

Literature review

Value, understood as "the capacity of a good, service, or activity to satisfy a need or provide a benefit to a person or legal entity" (Haksever, Chaganti and Cook, 2004, p. 292), is the sum of value creation processes (resources and activities which are performed to create value) and value outcomes (advantages for the actor) (Gummerus, 2013). Value creation may by the effect of the *motivating fact* (e.g cooperation with a recognised company or enhanced product/service quality) or the results of the development of the relationship and the "access to new technological opportunities" (Tescari and Brito, 2016). Core competences are important element in value creation processes (Fonfara, Deszczyński and Dymitrowski, 2016; Waseem, Biggemann and Garry, 2018) since they determine the spectrum of unique outcomes and as a result impact company's operations. Value outcomes are the effect of the interactions among company's resources (Prior, 2013). They "are formed via accumulation of both individual- and organizational-level value perceptions" (Mustak, 2017, p. 2) and as such have a very subjective value, which is different for every actor in terms of the evaluation of the outcomes (Gummerus, 2013, p. 21). Value outcomes do not always have a material aspects – "they may also perceive non-monetary or intangible value outcomes, including developing new technologies together with the customer, entering into new markets, and accessing information and competencies" (Mustak, 2017, p. 3).

Value creation in the network context depends on the dominant logic (Möller and Rajala 2007) and appears not only within the organization but also between actors (Chou and Zolkiewski, 2018). Actors interact and develop relationships which aim at creating value for the network (Doz and Hamel 1998). Interactions and relationship development help in value creating process since actors are focused on long-term cooperation, beneficial for both sides of the dyad (Håkansson and Ford 2002). Value in the business network relationship may come from resources and capabilities of a single actor (*intrinsic value*) or may be the outcome of cooperation of different network actors (*relational value*) (Tescari and Brito, 2016). According to the research, the more collaborative the relationship is, the higher is the will to share resources and knowledge. It means that development of cooperation results in the value growth (Tescari and Brito 2016, p. 485). There are two main approaches to measure value which embrace financial or non-financial aspects. In the first one, value is measured as " what a customer gets in exchange for the price it pays" (Anderson and Narus, 1998, p. 6). It is therefore the result of market transactions between actors. But value may be also determined taking into account non-monetary aspects, and be measured by analysing the number of innovations (Möller and Halinen, 2017), new competencies or the scope of social networks (Lindgreen, Hingley, Grant, Morgan, 2012). In the paper value creation is understood as all the processes that aim at creating new outcomes in monetary as well non-monetary terms and,

in result, at enhancing company's operations in the market. Adopting such a perspective, foreign operations are measured taking into account e.g. innovation level, market adaptation or financial results.

Internationalisation process that is the process of building and developing relationships with actors in a foreign market (Johanson and Mattsson, 1988; Håkansson and Snehota, 1995) constitutes a challenge for company's operations. As Skarmeas (2006, p. 567) states, "managing international trade relationships is a more challenging task compared with exchanges in the domestic context, due to geographical and cultural separation between exchange partners". Companies develop business relationships in order to create and distribute value for all network actors (Doz and Hamel, 1998) and their growth is determined by the growth of other foreign network relationships (Ford and Redwood, 2005). Taking business network perspective one can determine two main value creation sources: *intristic* value (result of resources or capabilities that come from only one actor) and *relational* value (results and synergy effects obtained as the effect of cooperation of network actors) (Tescari and Brito, 2016). What concerns value outcomes researchers propose (Möller and Torronen, 2003, p. 110):

- "transaction value" that reflects direct costs and benefits;
- "generative value" that has sources in mutual learning and adaptation;
- value that impacts actor's portfolio of relationships;
- value that impacts the wider actor's network.

Collaborative approach of network actors fosters resources' development and has a positive impact on the mutual value creation amount (Tescari and Brito, 2016). In the paper it is being assumed that creating value in foreign network is affected by two relationships characteristics (trust and conflict level) as well as by individual managerial competences. Among different relationship characteristics that impact value creation, trust and the level of conflict are recognised in the paper as the two main ones. With no trust, no strategic value, that enables achieving competitive advantage may be created. And poorly managed conflicts do not allow to develop strategic value. That is why, in order to properly manage the level of trust and conflict, especially taking into account actors' different cultural backgrounds, managerial competences are needed.

The first relationship characteristic -trust- has a significant impact on the development of social networks and knowledge exchange (Hauke-Lopes, 2018) and as result determines innovation processes. Being created as the effect of cooperation and strictly related to a given relationship, trust affects the way actors cooperate, what resources they exchange and how they act in the relationship in case of problems or conflicts. It also fosters discussions, creativity, increases actors' involvement in the development of the relationship. Important is therefore to manage the level of trust among actors so it would enhance the cooperation and actors' resource integration to create value. Too low level of trust may not allow to exchange strategic resources, like knowledge and in effect may result in lower innovation or worse competitiveness. Too high level of trust may lead to inertia, lower creativity, problems with being fair-minded (Zahra, Yavuz and Ucbasaran, 2006, p. 547) which may also not allow the relationship to develop and may inhibit value creation.

The second relationship characteristic that impacts value creation is the level of conflict. Conflicts are an integral part of social exchanges and business cooperation (Duarte and Davies, 2003). Due do their different intensity (Ratajczak-Mrozek, Fonfara and Hauke-Lopes, 2019) they may have different impact on the relationship and value creation. Positive (leading to changes or innovations) or negative (worse performance) outcomes may depend on actor's network position, level of trust or conflict intensity. Taking into considerations the company's international operations a crucial element that may impact the conflict are cultural differences (Hofstede, 1997; Rousseau, Sitkin, Burt and Camerer, 1998). Therefore conflict handling should be adopted to the specific relationship characteristics and aimed at generating positive outcomes including value creation for actor and the foreign network.

Taking into account those two relationship characteristics, the next important element in value creating processes are managerial competences (Waseem, Biggemann and Garry, 2018). Theses competence should on the one hand be aimed at developing trust among actors so as to enhance resource interaction and exchange of ideas. Competences should also embrace the activities that aim at positive conflict handling (Ratajczak-Mrozek, Fonfara and Hauke-Lopes, 2019). Taking into the account the company's operations, managerial competences on the other hand should aim at dealing with cultural differences among network actors as well as other foreign partners. Cultural differences may impact the cooperation leading to conflict situations or may lower initial trust among network actors.

Method

The results come from the qualitative study realised among Polish-based companies. The qualitative approach was chosen since it is suitable for business network analysis (Easton, 1998) and allows comprehensive investigation of the problem. The sample was purposive – we have chosen the companies of different sizes (from small firms to MNEs) and different branches since such a sample allows to draw wide-ranging results (see Appendix 1). The basis for the study were the in-depth interviews with companies' key informants (Lenartowicz and Roth, 2004). The interviews were based on the semi-structured questionnaire. The results presented in the paper present one section of the questionnaire which embraced different aspects of the company's internationalization maturity. The interviews took among 1-2 hours and were realised until the data saturation has been reached. On the basis of interviews' transcriptions, the illustrative examples were prepared using constant comparative method. These illustrative examples were the basis for the data analysis presented in this paper. We have investigated the interviews in a two-fold analysis. The first aspect of the analysis was to determine if and in what extend trust, conflict and managerial competence impacted (in a positive and negative way) the value creation and what the outcomes of that value creation were. The second aspect of the analysis consisted on investigating the impact of value outcomes on company's operations in foreign markets. We wanted to examine that impact (both positive and negative) and make of it a starting point for further research. As we wanted to be more specific and propose new aspect of the analysis, we focused on external network relationships and analysed the impact of value on the operations with three groups of actors: distributors, competitors and consumers.

Results and discussion

The results of the analysis show that the value creation in the companies under research mainly took part in their foreign relationships with distributors. These foreign actors helped the companies to enter the market or to develop a solution for the problems that occurred during new market entry. Research showed that value creation took part also in the foreign relationships with consumer. In one case the value creation was the effect of the interaction with company's competitor.

Value creation in relationships with foreign distributors was the effect of the companies' operational activities in the foreign market (B, E, G, U). Companies underlined that in relationships where trust and information exchange took place it was easier and quicker to learn about the new market (B, G) or to remain and develop the activities in the market despite bad economic situation (E). Important in that process was the right selection of potential business partners (distributors) with whom it was possible to quickly develop trust which allowed further value creation (G). The selection of suitable potential business partner was also stressed in terms of market development possibilities (G).

Trust in the relationships with foreign distributors was seen by key informants as the important element of value creation. In one of the companies the relationship with foreign actors are focused to be partnership oriented and as such do not allow the opportunist behaviours as well as enhance trust level (U). In the majority of the situations trust was very

low at the beginning (B, G, U) and actors took actions in order to increase it so as to be able to create value in the new, foreign market. However in some of the analysed companies trust level established between analysed companies and the foreign distributor had been and remained low due to the unstable economic situation (E).

Companies under analysis underlined that although conflicts of different intensity took place they managed to handle them so as to maintain or even to strengthen the relationship with foreign distributors (B, E). The conflict situations had in key informants' opinions positive outcomes also in terms of value creation (B, U, G). As the positive conflict effects were mentioned: quicker reaction to the market requirements (B, E, G) or better adaptation to the market changes and to clients' demands (B, U).

Key informants stressed that relationship development, growing trust and increasing knowledge transfer with foreign distributors helped to create new products or introduce the innovations in the existing ones (B, U, G). Companies became more competitive in the foreign markets. One of the key informant said that the cooperation with foreign distributor helped to create value due to distributor's knowledge about the branch, knowledge of the market and especially knowledge about consumer' tastes. Information obtained from the distributor enabled the analysed company to create new products adapted to that specific market (U). In another company foreign activities were improved and extended (E). One of the interviewed key informant stressed that foreign relationships with distributor helped to get extra financial support and to determine the strategy dedicated only for this foreign market as in effect become more competitive(G).

Value creation took part also as the effect of the cooperation with consumers. In case of one of the analysed companies, along with the development of the relationship with distributor the relationships with consumer were also being developed. As the result a new, innovative product was invented (A). As it been stressed, the crucial element in the relationship development, also in terms of value creation, was considered trust (A,N). Trust building activities were stressed as especially important in psychically distant countries in terms of new product inventions or innovations (A). Consumers were also mentioned as the source increased market share since they were recommending the products to other consumers and generating higher turnover in that market (N). The company under research attached importance to consumers' opinions and their suggestions which allowed to determine if modifications in the existing products dedicated for a chosen market were required or desired by consumers (N). In both analysed companies, as the result of cooperation with consumer, established and developed trust as well as opened to their suggestions, new value was created and companies could perform better (A, N).

The last observed source of value creation it the foreign network relationships were relationships with competitors. These relationships helped one company under research to get knowledge about the market and to adjust to product to the local consumer (L). As the result of product adaptation, the company became more competitive.

The results of the interview analysis also showed that is some cases, value creation processes could not take place and the cooperation lead to the value loss (S, P). That loss was the result of the lack of competence of the local distributor who was not able to perform the tasks (S) or generated by conflict situations with local actors (P). Key informant (P) stressed that this conflict allowed the company to gain the knowledge on what kind of distributor's competences were important for that specific market. In one situation, due to cultural differences, the relationship with local actor could not develop and trust remained at the same, initial level (O).

Table 1: Value creation and its impact on company's operations

Foreign relationship with:	Value outcomes	Impact on the operations
Distributor	Improvements of operational activities • better knowledge of the market and responding to local requirements (B, U) • strategy dedicated to the specific market (G) • being more agile and reactive to customers' needs and preferences (B G E) New or adapted product created due to the distributor's knowledge or help (U, B) Worsening of cooperation and decrease of value creation as the effect of limited distributor's experience and knowledge; conflicts in the relationships (P) No value creation • the distributor could not perform the tasks that were in the contract (S) • cultural differences impeded the relationship and trust development (O)	Better financial results and better operations in the effect of the development of activities (B, G, U) Development of operations despite bad economic situation (E) Extra financial support that helped in the market development (G) Higher sales and better operations due to modifications in products (U, B) Worse operations and conflict situations (P, S) Stable market share with no perspective on growth (O)
Consumer	Product developments • Adaptations or innovations in existing products (N) • Creating new products (A)	Better operations achieved on a local market as well as on other markets where that product was introduced (A) Higher market share in the effect of client's recommendations (N)
Competitor	Adaptations in products (L)	Better operations (L)

Own study

The results of the analysis show that in the majority of analysed companies value creation in the foreign relationships had a positive impact on company's operations (see Tab.2). As the effect, companies were able to improve their operational activities or come up with new or adapted products which had positive impact on the operations in foreign markets. The majority of key informants stressed the importance of trust and competences in handling conflicts or managing relationships with local actors (distributors, consumers). It may be observed that the companies under research were dedicated to develop trust by handling conflicts in a positive way, dealing with psychic distance, offering products adapted to local requirements or being open to consumer suggestion on further modifications. In the majority of analysed companies conflicts, regardless their intensity, had positive impact on the value creation processes. It may assumed that the long-time orientation towards cooperation and the potential profits to be gained due to this cooperation were important arguments for the continuing of the cooperation. As the result, companies were aimed at finding such a solution that would helped to improve their competitiveness due to value creation outcomes. These outcomes were acknowledged by key informants as improved operational activities, higher innovations or better product adaptation to the local market.

However there were some cases when despite the initial cooperation, the relationship with foreign actors could not be developed and as the effect, the value could not be generated. Companies either ended that relationship or continued, but with not prospects for further development. On the one hand it had a negative short-term impact on operations. On the other hand, it might have a positive long-term impact. Companies gained knowledge and experience on how to handle relationships or manage conflicts in order to achieve positive outcomes and introduce that knowledge in new markets or relationships.

Conclusions and managerial remarks

Value creation as an integral element that impacts company's competitive position should be managed and enhanced (Lindgreen *et al.*, 2012). Based on the literature review as

the elements that impact this process in foreign network relationships were proposed: trust, conflict handling and managerial competences. These elements are of significant importance when it comes to the internationalisation of the company and starting the activities in a new, foreign market. New cultural, economic and social environment, psychic distance towards new market, no common history of cooperation are only some factors that affect internationalisation and relationship development. These factors may impact relationship characteristics, especially in terms of developing trust or conflict situations (Hauke-Lopes, 2018). Some relationship characteristics, eg. too high level of trust or conflict, may negatively impact company's operations in a new, foreign market. Therefore a balanced level of trust and of conflict among actors as well as managerial competences to handle relationships in a new foreign market are, as research showed, of crucial importance so as to create value and help company to be competitive in a new market.

From managerial perspective the research showed that competences to handle conflicts and enhance trust seem to be, according to key informants, important elements of value creation. As the analysis revealed, foreign relationships with high level of trust, where conflicts were handled in a positive way, allowed to create value due to better operational activities or product innovations. In the foreign relationships where trust level was low and where conflicts were not resolved, the relationship continued but with no prospects for the development. Low level of trust among actors and lack of competences to handle conflicts did not allow to create value in the foreign market. Value creation may encounter additional challenges when actors come from different cultural settings or have a high psychic distance towards new, foreign market. Managerial competences should embrace and foster value creation especially in relationships where actors have different cultural backgrounds. Cultural differences may on the one hand even impede value creation but on the other hand, if managed in a proper way may lead to innovation.

Further research should aim at investigating more in-depth relationship characteristics in terms of their positive and negative impact on value creation. The research should focus on how managers may foster and develop the aspects that enhance value creation in foreign relationships but also those which inhibit that process. Another research direction that stems from realised research is the analysis of internal relationships in terms value creation. In that aspect special attention should be given to the analysis of organisational culture and its impact on value creation.

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Appendix 1

Table 2: Characteristics of analysed companies

Company	Industry	Main foreign markets	Year of starting of international expansion	Market described	Year of starting foreign activity in analysed market
A	Manufacturing operating room furnishing	European Union, Asia, Africa	late 90s.	Saudi Arabia	2011
B	production of household equipment	UE, Eastern Europe	early 90s	headquarters	Germany
E	Production of headgear (children &teenagers)	Eastern Europe, Germany, Great Britain	2000	Belarus and Italy	2011
G	Production of audio equipment	Germany, Norway	2014	Germany	2016
L	Production of agricultural machinery	Germany	2013	Germany	2013
N	Production and distribution of fittings for sanitary and heating systems	Romania, Germany, Czech Republic, Slovakia, Lithuania, Latvia, Ukraine	2006	Czech Republic	2010
O	Production of exhibition stalls	Middle and Far East, China, South Korea	2007	Spain	around 2012
P	IT and new technologies	*born global*, without defined main foreign markets	2007	USA	no data
S	Software development	Baltic states	2014	Lithuania	2014
U	Fish-processing	UE, Eastern Europe	2002	Hungary	2010