

# **Social networks - Making an impact on the international exchange partner selection**

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## **Abstract**

*While the internationalization process of SMEs have gained a lot of research attention the past decades with different theories about the phenomenon, very few of them have actually concentrated on explaining how the opportunities for international business are identified and more specifically how firms discover and chose their international exchange partners. Many are the definitions on what a network is and how to define various relationships, but to acknowledge the distinction between business and social aspects in different contexts remains a challenge. This conceptual paper focus on which social relations have an impact when firms first become aware of their international exchange partner and later on select a partner.*

Keywords: internationalization, partner selection, social networks

## **Lacks clear introduction**

## **Introduction**

Many are the theories about the internationalization process of the firm like the transaction-cost approach (Hennart 1982), eclectic paradigm (Dunning 1977), the growth of the firm (Penrose 1959) and the Uppsala model (Johanson & Wiedersheim-Paul, 1975, Johanson & Vahlne 1977, 1993) just to mention a few. When focusing on relationships it is necessary to view them from a network perspective. Different kinds of networks (industrial, business, professional, social) have been studied, but to make a clear distinction between various networks can be very complicated. One way of looking at networks on different levels is to view them from a firm level or from a more individual level. The individual level can also vary depending on which set of roles you give the focal actor. These roles might very well be in conflict with one another at some point. The networks a firm and its employees are engaged in will provide lots of

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opportunities as well as constraints upon firm performance. The network model emphasizes long-term close relationships, which develop into resource ties, activity links and actor bonds and become an important asset for the firm over time (Håkansson & Snehota 1995). I will not use the terms actor bonds here, instead the terms personal relationships or ties will be used equally. I chose to use these terms because they are more frequently used in the reference literature. It is very important for a firm to be able to recognize and draw on these numerous relations in different networks. Few firms do actually have any systematic records of the various networks of their own personnel. Agndal and Axelsson (2002) point out that a new person in a firm will always bring with him a personal network consisting of family, friends and earlier business relationships, which they call the “relationship sediment”. These contacts can be used for either company or private purposes, depending on that particular person’s willingness to share and ability to use them.

### **Aim**

This conceptual paper focus on how variously structured social networks can be of use and especially which relationships have an impact when firms first become aware of their international exchange partner and later on select a partner.

### **Purpose**

### **Research problem**

### **Possible contribution related to previous “open end”**

### **How they intend to proceede**

### **Network structure on firm level**

The perceived attractiveness of a firm as an exchange partner is originated from its set of connected relations with other firms and what position it has in a network (Håkanson &

Snehota 1995, Burt 1992). This is also important from the perspective how firms see themselves and how other perceives the firms in a network context. Halinen and Törnroos (1998) wish to call the same phenomena the representational role of a firm, where firms which represent power, capital know-how or important contacts are the ones best equipped to establish profitable relationships. The greater the market uncertainty the more will firms restrict their range of potential exchange partners to firms they have had prior interactions with or to firms engaged in an network of other attractive partners. (Podolny 1994) The phenomenon of centrality is part of the discussion about positions in a network, since if a firm or a person is more central in a network they are more important and therefore more likely to become invited as a new member of other networks. A central position indicates that an individual has access to more information through stronger relationships to key decision makers and informants. In other terms, investments in the social bonds to centrally positioned individuals are extremely important. To enter into a new network may be very time consuming. This presumes that members of the network already see the new member as adding something unique to the picture and will therefore be willing to engage in interaction with the newcomer. (Johanson & Vahlne 1990) The surrounding network represents for a small- or mid-sized firm, not only a source from which external resources and information are gained, but the firm is also able to share risks with its connected partners (Forsman, Hinttu & Kock 2002).

### **Network structure on an individual level**

When trying to grasp a network on an individual level it is hard to distinguish where the business relationships end and more personal relationships begin. Sometimes it is also the opposite, where already existing private ties develop to be of use for business purposes.

Björkman & Kock (1995) state the fact that it empirically may be difficult to separate between social, information and business exchanges taking place when actors interact.

Granovetter (1973) states that relationships based on weak ties are of greater importance when considering distribution of new information flowing in the network, since people moving in circles distant from our own will have access to different information. Close relations are suggested to be reflecting the concept of embeddedness. These relationships are distinguished by the personal nature of the business relationship and their effect on economic processes.

Strong ties are even more emphasized by Uzzi (1997) stating that embedded relationships have three main components that regulate the expectations and behaviour of the exchange partners: trust, fine-grained information transfer, and joint problem-solving arrangements. However, Uzzi also warns of the problem that firms can become too slow to adapt to changes in strong personal networks. As individuals and organizations invest in long-term relationships, particularly where personal relations are overlaid on business links, it becomes harder to take a dispassionate and coldly calculating view of the members in the network. (Galaskiewicz & Zaheer 1999)

### **2.3 Network use**

There are various opinions how network ties are most effectively used. Burt (1992) argues that firms as well as individuals purposefully work toward structuring their networks through patterns of network use. A cohesive network explained by Coleman (1988) is important for the development of social capital. It ensures that actors behave in a trustworthy manner because it allows proliferation of obligations and expectations. It is also the source, where reliable information is exchanged and where norms that put collective interests ahead of individual self-interest can be observed. Some benefits of the cohesive network can only be captured by those who invest in them. (Coleman 1988) Strong relationships are managed by trust, which

promotes access to privileged resources and extra efforts. Furthermore, the information transfer in the embedded network is more fine-grained, tacit and holistic compared to pure price exchange data of market relations. Finally the joint-problem solving arrangements deepen the relationship and promote useful learning and innovation. (Uzzi 1997)

On the other hand the more nonredundant contacts you have the more efficient is your network, while providing you with more benefits, argues Burt (1992). Burt points out that contacts in the other end are not people but they are “ports of access to clusters of people beyond in order to reach more diverse social worlds of network benefits.” Also Greve (1995) leans toward a solution where entrepreneurs spending a smaller amount of time with a higher amount of people will increase their chance of getting more useful and diverse information. In line with Burt’s (1992) argument above is the statement from Greve (1995) that the closest contacts may not always be able to provide the information or resources required and therefore it may be necessary to access contacts that are friends of one’s own contacts or part of their network. I tend to agree with the different arguments above since diverse relationships are needed in different settings and for a number of reasons and therefore a network consisting of various kinds of ties is probably the overall best solution. Both opportunities and threats may be presented to a firm by partners in the same network and may therefore influence the firm’s future actions. These external ties may in other words drive, ease or restrain on a firm’s choice of actions taken in their international process. (Coviello and Munro 1997)

## **Methodology**

This paper focuses on understanding how and to what extent social networks influence on the internationalization process specifically regarding international exchange partner selection.

Data collected in both Finland and in Sweden, will focus on how business professionals in different departments analyze their relationships to other external actors embedded in the same business network. In the first phase of the empirical study three companies in Finland and three in Sweden will be chosen. In every company between 4-8 business professionals will be included. The analysis will be based on the activities they are involved in, the roles they play and how social relationships will impact on the actors' selection of international exchange partners. Social networks are here considered as the interpersonal external ties of the management in the selected Finnish and Swedish SMEs, including both business and private ties in the networks. Partner selection in this paper is concentrated to outward activities, which are considered more outgoing and therefore need more reliable relations in order to become successful. When adopting a relationship approach some methodological difficulties need to be stressed. The actors may have different perceptions of the research questions of interest and an outsider may therefore get a very superficial comprehension of the relationship and the network the actor is involved in as a whole. It needs to be sorted out that I do not consider networks as objectively given structures but as subjectively perceived contexts for activities having an impact on the internationalization process. When gathering, analysing and interpreting my empirical data, I hope to shed some light on the propositions stated in the following text.

### **Social networks and international exchange partner selection**

Much of the small firm network research focus on general network influences on firm behavior but only a few studies has highlighted the potential role of networks in small firm internationalization (Lindqvist 1988, Bell 1995). These studies have not, however, looked specifically on the impact of social networks on the internationalization process. Some scholars like (Björkman and Kock 1995, Holmlund and Kock, 1998, Salmi and Bäckman 1999 and Chetty and Blankenburger Holm 2000) have pointed out the general importance of both social

and business relations in the internationalization process. Some few like (Ellis 2000, Ellis and Pecotich 2001, Wong and Ellis 2002) have focused more on the impact of antecedent relationships when looking for new business partners.

To make a clear distinction between business relationships and social relationships is not an easy task. Even to determine how different relationships are born and how they develop over time is something, which needs more research attention. Hallén (1992) see social networks as essential for the creation of business networks when on the other hand Holmlund & Kock (1998) consider social networks as part of the business network. Welch et al. (1998) state that business and social relations often overlap in a network. Johannisson (1996) indicates that industrial networks have the market as a dominating frame of reference while the entrepreneur's personal network consists of both a very personal dimension and a business dimension, where both are used whenever needed. Consensus have been reached to the extent that whether we look at networks between firms or individuals, whether they are more business oriented or more social, networks do truly matter.

According to Holmlund & Kock (1998) the individuals in small and medium sized firms will have a substantial impact on the internationalization process as close social relationships with other individuals impact the interest of going abroad. In the Finnish SMEs studied by Holmlund and Kock (1998) the social network of the management in the home country received a high value affecting the internationalization, as did also the management's social network abroad. Social relationships have also been pointed out as extremely important for entrepreneurs by Aldrich and Zimmer (1986). They define a social network as the totality of persons connected by social relationships within a bounded population. Håkansson & Snehota (1995) state that the same people often meet in different arenas playing different roles. These

roles can be contradicting in diverse contexts and if so harder to manage. The social networks between individuals are largely invisible and mostly unknown to others outside the network, which gives the firms involved a competitive advantage (Galaskiewicz and Zaheer 1999).

As mentioned before are social networks in this paper considered as the interpersonal external relationships of the management including both business and more personal private relationships into the same network.

An implicit fact when looking at the literature is that partner selection follows a certain pattern consisting of identifying the preferred characteristics in a potential partner, determining the information sources to discover likely candidates and finally to approach the right prospects accordingly. Wong and Ellis (2002) however, came to the conclusion that in their sample this formal pattern of market research was not at all followed. Instead the managers that did search relied heavily on their existing connections for this. A key factor affecting the partner selection process is management proactiveness in the search process and also the timing. Companies entering the market early, ahead of competitors, are more likely to find good partners simply because there are more partners available (Shymanski et al., 1995). The importance of having a large diverse network is also emphasized by Lye and Hamilton (1998), who conclude from their sample that search for international exchange partners is often being conducted through informal brokerage networks, where third-party referral was the main route to the formation of successful international dyads.

Proposition 1: When a firm is seeking international exchange partners will the personal relationships in the social network of the management be of more use than the business relationships.

Agndal (2002) found that in Swedish firms are outward connections established mostly through the partner firm and secondly through the focal firm or through third party referral. If the

business relationship is established based on antecedent connections it happens mostly through the connections of the partner firm or through the focal firm's customers, owner or through antecedent relationships. When the relationship was based on a personal social connection it was based mostly on earlier task related connections, like former colleagues.

Proposition 2: The more domestic personal relationships are used the more will the partner selection go through third-party referral.

Wong and Ellis (2002) found in their sample that family ties were commonly used for providing introduction to non-related potential partners. Relying on family ties and old friends also had an impact on the duration of the search activities. The social networks, defined as family, friendship or business ties provided a valuable resource for reducing search costs. When depending on strong ties the search process was shorter and more successful measured in partner selection ratios and in this case concerning international joint ventures, the levels of cooperation in the resulting ventures was higher.

Proposition 3: The more strong ties that are used in a social network the faster will the partner selection come about.

Consistent with the claims of Uzzi (1997) strong ties between intimates provided a better base for establishing the trustworthiness of potential partners but even so weak ties are also of great importance. As an extension to the previous proposition I would like to state

Proposition 4: The more personal relationships are used when selecting new exchange partners, the more trustworthy and successful will the newly established relationship become.

Ellis and Pecotich (2001) examined the influence of antecedent social ties on the export behavior. Across their sample there was a clear picture that exports typically were initiated on the basis of the decision maker's social network. These ties provided a direct or indirect bridge between the buyer and the seller. The majority of the export initiations would not have taken place without these observed prior ties. The number of ties recorded in this sample is larger

than the number of initiations. This reflects the observation that sometimes more than one kind of interpersonal tie influenced the formation of an export exchange.

### **Conclusions and further research**

Social relationships should not always be seen as a result of ongoing business exchanges.

(Björkman & Kock 1995) The social relationships existing among partners, where no monetary value is being exchanged or within a person's private network can also be seen as a prerequisite for gaining more useful information and thereby doing a more successful choice when selecting international business partners.

However, partner selection is not something a firm does only in the beginning of the internationalization process, even if the problem might be more significant at that stage. The international exchange partner selection is an ongoing process, in order for the firm to build an ever-improving network of suitable partners. This is necessary because people change, new products and customers come and go and the firm needs to develop systems in order to always have the best set of connections possible at all times

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