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**THE IMPORTANCE AND LIMITATIONS OF THE NETWORK APPROACH TO
INTERNATIONALIZATION**

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Abstract

Despite the existence of several overviews of the network approach, there are none thoroughly examining its usefulness and limitations for studying internationalization. This paper tries to fill this research gap. It introduces the main issues of this and some other research streams and ends with recommendations for the future research.

Introduction

Interest in the network approach has increased since the 1980s. Since that time, it has been widely applied in several disciplines — sociology, organization theory, social policy, innovation and entrepreneurship studies, political science, industrial marketing and purchasing and economic geography (Araujo and Easton 1996). As a result, the term “network” is being used to describe very different phenomena (for an overview, see Achrol 1997). In this paper, it will be utilized in terms of a business network and defined as a set of connected relationships between actors controlling business activities (Forsgren and Johanson 1992, p. 5).

Due to the popularity of the network concept, it is not surprising that several authors have written overviews of different research streams dealing with networks (see, for example, Araujo and Easton 1996; Brennan and Turnbull 2002; Ford 1998; Ritter and Gemünden 2003; Rumyantseva and Tretyak 2003). On the other hand, there seems to be a lack of research examining, how useful the network approach is for understanding the internationalization process and what critique it has received from different authors. As the approach has been used in many studies investigating internationalization and its popularity appears to be increasing, it is necessary to understand how applicable it is and what problems might arise from selecting it.

This paper aims to analyze both the importance and limitations of the network approach to internationalization. It begins with a short overview of several other approaches in the area of internationalization, as it is important to comprehend how the network approach differs from them. After that, it concentrates on the IMP literature, but also introduces some ideas from the other authors applying the network concept. Then, the overview of the importance and limitations of the approach will be introduced and discussed. The articles on (the importance and limitations of) this research stream were searched from Ebscohost, Sciencedirect, Emerald, Google, the IMP Group’s homepage and other sources by using keywords like “net-

work”, “internationalization”, “IMP”, “importance”, “limitation” and their various combinations. The paper ends with some recommendations for the future research.

An overview of (the critique of) some other approaches to internationalization

Table 1 provides a short overview of four well-known approaches to internationalization: the Uppsala and the innovation-related internationalization models, the Finnish model and the literature on born globals. They have reached considerable empirical support and each of them helps to understand some aspects of internationalization. On the other hand, all the above-mentioned research streams have also received severe critique (for an overview, see Arenius 2002; Chetty 1999; Johanson and Vahlne 2003; Leonidou and Katsikeas 1996; McDougall and Oviatt 2000; Moen and Servais 2002; Pedersen 1999; Rasmussen and Madsen 2002; Turnbull 1987; Vissak 2003). The first two approaches have been often criticized for being too deterministic (they propose that during their internationalization, companies move through certain stages without skipping them) and less suitable for services, providing only a partial explanation of the internationalization process, failing to explain why firms inevitably have to move from the exporting stage to foreign sales and production subsidiaries, and not including all foreign market entry modes.

Both the U- and the Finnish model seem to under-emphasize the importance of managers and founders (owners). In addition, the three research streams do not show how companies speed up their internationalization process and how they solve the problems inhibiting their switching from one market operation mode to another. The literature on born globals, in turn, is claimed to be too narrow and overlook some important issues like low-technology industries and the inputs of internationalization. Consequently, several researchers have claimed that the old models of incremental internationalization are no longer valid. Thus, there is a

need for new approaches, placing attention to the impact of (foreign owners') networks and network relationships, that the U- and I-models ignore and the two other research streams do not clearly demonstrate. This is done in the network approach to internationalization (despite it has partly grown out of the Uppsala model), introduced in the following section.

An overview of the network approach to internationalization

While the traditional internationalization literature largely concentrates on the processes of deciding and planning to enter a market and on entry modes, the network approach stresses the actual process of market entry and becoming a player in the network (Salmi 2000). According to this approach, internationalization of the firm can be achieved through creating relationships in foreign country networks that are new to it (international extension); the development of relationships and increasing resource commitments in those networks in which the company already has a position (penetration) or connecting the existing networks in different countries (Johanson and Mattson 1988). As not only direct partners, but also the ones of their partners affect an enterprise's behavior (Ford 1998), different actors are individually unable to control the entry process (Andersson 2002b).

The network approach claims that for a firm's development, cooperation is more efficient than competition: together, companies can organize their resources and capabilities efficiently (Ibid.). Consequently, an enterprise can have most of its physical assets located domestically but still be an important player in an international network (Björkman and Forsgren 2000). It can also gain access to the other firms' experiential knowledge without necessarily going through the same experiences (Eriksson et al. 1998). In addition to learning about the partner's capabilities, needs and strategies, a company can also acquire knowledge about the latter's business conditions and market networks (Johanson and Johanson 1999). Thus, a typical internationalization sequence has changed from gradual expansion to the one

in “leaps” by joining the nets (Hertz 1996). On the other hand, it should not be forgotten that the relationships could not only drive and facilitate, but also inhibit a firm’s internationalization (Ford 1998).

From the network perspective, companies can be divided into four groups depending on their and their environment’s internationalization. The “early starter” has little knowledge of foreign markets and it cannot use relationships in the home country to gain it (Hinttu, Forsman and Kock 2002; Hadley and Wilson 2003; Johanson and Mattson 1988). Should this firm start to export, it might not meet internationally active competitors or customers (Wilkinson, Mattson and Easton 2000). Consequently, the enterprise uses agents, distributors or customers abroad to internationalize, reduce cost and uncertainty and benefit from the agent’s previous knowledge and investments in that market. The initiative to go abroad is often taken by other counterparts than the firm itself. The alternative strategy, to start with an acquisition or “greenfield” investment, is mainly possible for the companies that are large and resourceful in the home market (Johanson and Mattson 1988).

If a firm’s suppliers, customers and competitors are international, it has a number of indirect relations with foreign networks even it is purely domestic (Johanson and Mattson 1988). Thus, its relationships in the home market may drive it to enter foreign markets. The “late starter’s” internationalization may be also led by indirect foreign network relationships. The closest markets, however, might be difficult to enter (as the competitors have more knowledge and because it is hard to break into an existing network), so the company might start its internationalization by entering more distant countries (Chetty and Blankenburg Holm 2000), if it tries to internationalize at all.

The “lonely international” alone has experience of relationships with and in foreign countries. It has thus acquired knowledge and means to handle environments: consequently, failures are less likely (Chetty and Blankenburg Holm 2000; Johanson and Mattson 1988). Its

network, on the other hand, is only lowly internationalized (Johanson and Mattson 1988). This enterprise may work with suppliers to upgrade inputs and thereby enhance their competitiveness, but the latter are only indirect exporters (Wilkinson, Mattson and Easton 2000).

An “international among others” has possibilities to use positions in one net for bridging over the other nets (Johanson and Mattson 1988), for example, penetrating third countries. Its suppliers also belong to highly internationalized networks (Wilkinson, Mattson and Easton 2000). An important issue for this type of an enterprise is co-ordination of activities in different markets (Andersson 2002a): the company may increasingly purchase components and sub-assemblies rather than do the manufacturing itself (Johanson and Mattson 1988).

An overview of the importance of the network approach to internationalization

The IMP Group has contributed significantly to the development of theories and evidence on the nature and development of business network relationships, as well as to the development of methodologies for studying them (Wilkinson 2001). The ideas, concepts and models of the network approach have inspired some recent work on firms' internationalization. For example, some papers have demonstrated the importance of networks for studying foreign direct investments (FDI) abroad as a market entry mode (Bridgewater 1999; Chen and Chen 1998; Ghauri and Holstius 1996; Salmi 2000) and analyzing the impact of inward FDI on foreign affiliates' internationalization (Hunya 1998; Kaminski and Smarzynska 2001).

By highlighting a firm's business context (including the degree of its surrounding business network), the network perspective goes beyond the models of incremental internationalization. It is a good starting point when examining the internationalization process (Björkman and Forsgren 2000; Laine and Kock 2000), as this approach is able to capture its interconnectedness and concurrence, inward and outward internationalization (Andersson 2002a; Fletcher

and Barrett 2001). It also represents an important theoretical framework for describing the foreign market/customer selection (Andersen and Buvik 2002; Coviello and Munro 1997). In addition, network relationships might be instrumental in explaining why some firms choose to enter a market directly with their own manufacturing unit (Björkman and Eklund 1996) and not start from exporting as the traditional models suggest. Moreover, the network approach provides a good description of the business reality (Björkman and Forsgren 2000) and has thus received considerable empirical support (Andersson 2002b; Chetty and Blankenburg Holm 2000; Coviello and Martin 1999). It draws attention to a firm's changing internationalization situation as a result of its position in a network of firms and associated relationships (Hadley and Wilson 2003) and includes the seemingly random internationalization behavior falling outside the traditional models (Axelsson and Agndal 2000) — for example, the one of the late starters that might begin their internationalization from distant markets.

This approach also demonstrates the importance of long-term relationships with customers, suppliers and other actors (Björkman and Forsgren 2000; Hadley and Wilson 2003) and external influences in firms' internationalization process (Ford 1998). For example, acquiring necessary resources and contacts would be difficult without having long-term network partners (Chetty and Wilson 2003). Moreover, by admitting that relationships can sometimes inhibit a firm's foreign market entry (Ford 1998) it is able to explain de-internationalization.

An overview of the critique of the network approach to internationalization

The network approach has received criticism for having limited strength for understanding the pattern of internationalization, not offering very precise conclusions, including too many variables (Björkman and Forsgren 2000), having indistinctive criteria for differentiating between different firm types like the early and late starters (Chetty and Blankenburg Holm 2000), not offering satisfactory models for predictions (Björkman and Forsgren 2000) and concentrating

on larger and/or manufacturing companies: it rarely describes how small and medium-sized firms use networks in their internationalization (Nummela 2002). In addition, the model does not address how firms shift positions in the typology: for example, how an early starter becomes an international among others (Chetty and Blankenburg Holm 2000), and does not discuss in depth how to create relationships where none exist (Andersson 2002b).

Moreover, this approach often neglects several external factors and actors: for example, relationships with competitors (Chetty and Wilson 2003), intense domestic competition, unsolicited orders and government export promotion programs leading to or quickening internationalization (Chetty and Blankenburg Holm 2000). It also frequently treats the relationship between levels of knowledge and internationalization as an implicit dimension (Hadley and Wilson 2003). In addition, the approach does not discuss the importance of inter-personal linkages (Agndal and Axelsson 2002), decision-maker and firm characteristics in taking up opportunities for international penetration, extension and integration that emerge from the networks (Chetty and Blankenburg Holm 2000). These characteristics are important: for example, despite a stimulus for internationalization, the manager might not respond due to unwillingness to internationalize, fear of losing control over the enterprise or other personal grounds (Hinttu, Forsman and Kock. 2002).

The network approach to internationalization also ignores the ways companies could overcome the problems experienced in internationalization through their network relationships (Chetty and Blankenburg Holm 2000). In addition, the approach might be less suitable for explaining radical strategic changes like closing down of some units (Andersson 2002b).

Discussion

A short summary of the importance and limitations of the network approach is presented in Table 2. From the above it becomes evident that compared to the other research streams, the

network approach to internationalization has some distinctive capabilities. It is able to show that by joining a foreign business network, a firm can considerably quicken its internationalization: it may begin the process by entering distant markets and skip some stages of its internationalization process (for example, enter a market directly with its own manufacturing units). Moreover, it demonstrates that network relationships may sometimes inhibit the process: consequently, de-internationalization may occur. Compared to some other research streams, the network approach thus provides a somewhat more detailed description of the internationalization process (the latter often ignore the importance of long-term relationships and external actors and influences). Thus, it is not surprising that this view has received empirical support.

On the other hand, the authors belonging to this stream have received some criticism, mostly for ignoring some important factors and actors: decision-maker and firm characteristics, relationships with customers and competitors and government export promotion programs leading to or quickening internationalization. Moreover, they have been blamed for offering vague conclusions, including too many variables, not differentiating clearly between different firm types, not offering satisfactory models for predictions and ignoring smaller and/or service companies. Consequently, like any other research stream, the network approach also has somewhat limited strength for understanding the pattern of internationalization.

As internationalization is a complex process, no existing research stream could explain all its aspects: the network approach emphasizes the importance of relationships, the U-model demonstrates the importance of knowledge acquisition, the I-models and the Finnish model include several other important actors and factors, while the literature on born globals concentrates on rapid internationalization of some firms with relatively few knowledge and other resources. Thus, all have been criticized for ignoring some important subjects and praised for

investigating some others. As the logic and the assumptions of these approaches differ, it would be too optimistic to hope that a universal internationalization theory could be developed. Still, the existing research streams could be advanced further. Some suggestions for developing the network approach to internationalization are presented in the following section.

Recommendations for the future research

The network approach to internationalization could be developed in different directions (see Table 2). It could pay more attention to the reasons, processes and consequences of de- and re-internationalization, as these subjects have not been very thoroughly studied in this or the other research streams. The impact of foreign owners and their network relationships on the internationalization of (recently acquired) affiliates might be another interesting topic. Both themes should also pay attention to the roles of individuals: for example, if the managers are active in trying to achieve a more important role in the foreign owner's network, then how it might affect the internationalization process of the subsidiary (whether it could re-internationalize or, on the contrary, even de-internationalize because of that).

Managerial implications should also be emphasized more: we can say that managers should pay more attention on creating and maintaining network relationships, as this could quicken their firms' internationalization (although there might be some exceptions), but it is also important to suggest how a company should find new network partners, gain a more important role in the network, maximize benefits and minimize losses from networking, when and how it should avoid or terminate network relationships and whether it could predict the results of networking. Here, some attention should also be paid to cultural differences in different foreign markets: what problems might arise from them and how they could be overcome. Moreover, some suggestions should be made, how an enterprise should deal with

the other dissimilarities of network members, for instance, their size, industry type and managerial orientation. These issues might otherwise cause serious conflicts.

In addition, the negative impacts of networking should be studied more thoroughly. For example, some case studies or surveys could be done on the companies that de-internationalized because of conflicts with their major buyers and suppliers. Some others should concentrate on the firms that lost a large share of their decision-making autonomy in the foreign owner's network and were forced to exit some foreign markets or enter some others. This type of evidence should simplify drawing managerial suggestions.

To increase the generalizability of the results, more attention should be paid to some less-investigated regions (for example, Central and Eastern Europe), firm types (small, foreign-owned and/or service enterprises), outside actors and factors — for example, formal associations and government policies. The typology should be also developed further: how and when an early starter or a lonely international become international among others; are there any stages in between (if yes, then how to distinguish between them and could these stages vary in different countries and situations), is there a possibility of backward movement (the other network members de-internationalize). This should also help governments to develop their export promotion programs further.

Finally, some research should focus on the meaning and measuring of internationalization. If there is no agreement on which company is (more) international, it is impossible to say to what extent their network relationships affected their internationalization process and which of them gained or lost more.

Table 1

A summary of the main postulates of some other approaches to internationalization

The Uppsala internationalization (U-) model claims that internationalization is usually a long, slow and incremental process driven by experiential market knowledge that can be gradually acquired through operations abroad. Thus, companies are expected to make stronger commitments to foreign markets (from closest to more distant) and operations (from simpler, like exporting, to more complicated, like establishing production subsidiaries abroad) incrementally as they gain experience from their current market activities (Johanson and Vahlne 1977, 1990; Johanson and Wiedersheim-Paul 1975; Vahlne and Johanson 2002). The process can be faster only if enterprises are large, have substantial resources and considerable experience in similar countries, and if market conditions are stable (Johanson and Vahlne 1990).

Innovation-related internationalization (or I-) models (for an overview, see Bilkey 1978; Leonidou and Katsikeas 1996 and Vissak 2003) state that firms internationalize step by step. Although the number of stages varies in different papers, the authors agree that each new step represents more experience/involvement than the earlier stages. Unlike the U-model, the authors belonging to this stream demonstrate that several other important factors and actors impact internationalization besides knowledge (Bilkey 1978). It has also been shown that some forces influence foreign-owned firms' internationalization more than that of their domestic counterparts. For instance, the initial decision to start exporting could be taken in the headquarters as a result of a global marketing decision and sales might be organized through its global marketing network (Wiedersheim-Paul, Olson and Welch 1978). Moreover, it is accepted that a company might withdraw from foreign operations (Reid 1981).

The Finnish model agrees that enterprises often start their internationalization from closest countries and simplest operation forms. It implies that a company might be more international than others in some categories like in terms of depth of operational mode, through diversity, by using various operational forms, offering a varied product range or penetrating dissimilar markets (Chetty 1999; Luostarinen and Welch 1997). It also suggests that firms can leapfrog some stages and quicken their internationalization (Chetty 1999); the inward internationalization process might precede and influence the development of outward activities and vice versa and that enterprises can de-and re-internationalize during the process (Korhonen 1999).

The literature on **born globals** (international new ventures) claims that some companies leapfrog into internationalization despite the fact that their resources are constrained by their young age and small size, their markets are most volatile and they, by definition, have little or no experience in any country (Oviatt and McDougall 1994). Consequently, the exceptions to the U- model, introduced above, do not include this type of enterprises. In this stream, it is also agreed that some firms may not complete the internationalization process (Crick 1995) in the sense it was viewed in the U- and I-models: they do not necessarily have to invest abroad. Instead of establishing subsidiaries, they may arrange strategic alliances (Oviatt and McDougall 1994).

Table 2

A summary of the importance, limitations and further research topics of the network approach to internationalization

Importance	Limitations
<ul style="list-style-type: none"> • Goes beyond traditional internationalization models. Inspires other research on internationalization. • Describes business reality and context well. Has got empirical support. • Addresses some shortcomings of the other approaches: for example, internationalization behavior falling outside the traditional models. • Demonstrates the impact of internal and external actors and long-term relationships on internationalization. • Can capture interconnectedness and concurrence of internationalization. • Can explain de- and re-, inward and outward internationalization. • Suitable for describing the selection of foreign market, customer and entry mode. • Shows that the resources necessary for internationalization can be acquired through network relationships. • Has contributed to developing research methodologies. 	<ul style="list-style-type: none"> • Has mostly concentrated on large and/or manufacturing firms. • Has limited strength as a tool for understanding internationalization and drawing conclusions about its pattern. • Offers vague predictions, uses indistinctive criteria (while not addressing how firms shift positions in the typology) and includes too many variables. • Does not show how to create relationships. • Does not discuss the importance of decision-maker and firm characteristics. • Does not examine how the companies overcome the problems experienced in internationalization through their network relationships. • Might be less suitable for explaining radical strategic changes. • Ignores some external factors propelling an enterprise towards internationalization like unsolicited orders and government economic policies.
Further research topics	
<ul style="list-style-type: none"> • The reasons, processes and consequences of de- and re-internationalization. • The impact of foreign owners and their network relationships on the internationalization of (recently acquired) subsidiaries. • The roles of managers and other individuals during internationalization. • Managerial implications: how to find new network partners, gain a more important role in the network, maximize benefits and minimize losses from that and so on. • (Cultural) differences in different foreign markets and between network members and ways for overcoming them. • Negative impacts of networking: conflicts, the loss of decision-making autonomy and de-internationalization. • Central and Eastern Europe and other less-investigated regions, firm types and outside actors and factors. • The typology: the criteria distinguishing different firm types; the stages in between; a possibility of backward movement. • The meaning and measurement of internationalization. 	

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