

# The role of Networks in the internationalisation of a SME: the case of an Italian company

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## Abstract

The purpose of this wip Paper is to discuss how a SME, still inserted both in a local-regional network – the industrial district – and in the international arena with regular business relations, can develop a real (effective) internationalisation process through the network approach (IMP).

According to the Internationalisation Process Model (IP Model), firms follow internationalisation steps depending on their specific characteristics and resources availability. Despite the advantages of being part of an industrial district, SMEs suffer both endogenous and exogenous factors that limit their growth.

The Italian industrial districts, characterised by a fully concentrated structure (Cedrola 2005), where all the predominant activities are kept in a sole area, namely the district, permit the firms to operate under special conditions creating a sort of shield. Here, distinct capabilities are based mainly on the ability (of the owner and its resources) to produce locked and protected (“embedded”) in that district in which vertical dual links are vital to the success of the firms involved in the district.

These existing vertical links along the value chain (production net), and the related advantages, are hardly reproducible outside the district, and in particular abroad.

On the other side these links are not fully exploited by firms, either internally, where competition prevail against cooperation, and internationally, where firms establish single relations unlinked with the industrial district.

These concepts are unrolled throughout the case of the “Button Valley” and in particular of a SME in search of its international development (Brevi 2006). The analysis of the focal firm and the interviews to 40 “relation-points” - among competitors, suppliers, customers - permits to propose for discussion the completion of the existing network (according to the network approach) to face global and new competition and to overcome their size disadvantages.

**Keywords:** internationalisation, network approach, small and medium enterprise, business-to-business, industrial districts.

## Introduction

Many theories and conceptualisations have been suggested to understand the internationalisation process of companies, both big and small-medium ones (Leonidou, Katsikeas 1996). This process is mostly seen as a progressive, incremental and gradual steps process. The internationalisation process for the small and medium enterprises seems particularly linked to the available resources typology (innovation grade, know-how, technology) (Cedrola 2005).

Traditional Italian industry structure sees a multitude of small and medium enterprises, mainly family owned. One of the most important values of these companies is related to the “artisan” experience that, mixed with the flexibility, the dynamics and the specialisation, permitted to build a successful marketing approach.

These SMEs often operate in a special context, the industrial district, where the individual enterprises profit of the district’s economies in order to leverage their competitiveness. But most of the time these advantages are not reproducible outside the district and so it is particularly hard for these SMEs to work abroad with similar advantages (Cedrola 2005).

Furthermore in recent years industrial districts show an export increase higher than the Italian export average. This growth is due to many SMEs that, despite their local-regional connotation, came into the international markets, some of them with occasional exports, often called by foreigner operators, distributors or customers, and few others with regular, but limited dual relationships with foreigner customers.

Today competitive environment has been hardly affected by globalisation, high and new competition coming from the emerging economies, continuous changes and innovations. The global competition pushes SMEs searching different ways to market, and in this context internationalisation is a must in order to guarantee the continuity of the SMEs over time.

The purpose of this wip paper is to discuss how a small-medium enterprise can develop a real and effective internationalisation process using its network. The network perspective appears to be the most relevant theory from the point of view of small business internationalisation (Rutashobya, Jaensson 2005). The network approach says that internationalisation is a process that takes place through networks of relationships (Johanson, Mattsson 1987; Håkansson, Snehota 1995). And relationships – at least dual vertical relationships – are the key to overcome size limit and to provide value to own partners.

But, coming to our case of analysis, the focal firm presents the typical limits of a SME such as scarce communication and information process, lack of visibility, lack of empowered resources and of effective organisational structure because of the owner-centric management.

Despite these characteristics, the focal firm has a good internationalisation view with important dual relationships and is a pioneer in its industrial district.

The wip paper is based on the analysis of this small Italian firm and on personal interviews to 40 “relation-points” among competitors, suppliers and customers, all operating in the district, the so-called “Button Valley” in Northern Italy. The aim is first of all to depict the “unknown” SME’s network and to identify opportunities in terms of value actors-relationships, activities and resources to expand abroad. The definition of the complete network can be depicted then, with the advantages in terms of internationalisation for the focal firm and for the entire district itself.

This case-study allows to illustrate that a SME also can drive its international development through the management of its business relationships, with limited investments. The possibility of sharing and acquiring resources among network members could enable them to minimise the size disadvantages and to overcome their isolation in the current global market.

### **Internationalisation process of SMEs: different approaches and methods**

The environment in which small and medium enterprises born, move and develop themselves is radically changed in the last decade. All the competitive mechanism characteristics changed opening markets to the epochal transformation defined as “Globalisation” and identified by markets geographic widening, traditional sector boundaries fall, demand convergence, increasing interdependency among countries and advances in transportation and ICT (Levitt 1983).

As a consequence of those different conditions, many enterprises considered exporting as an easier option than continuing operating in the intensely competitive domestic market (Chetty, Campbell-Hunt 2004).

Considering SMEs we can state that they were forced to begin or accelerate their internationalisation processes and that the main driver pushing them beyond country boundaries is the need to overcome the aggressive local competitiveness in search of new markets for their products, new opportunities

and enterprise profitability growth in an economic environment that had been dramatically open to the world (Cedrola 2005).

Facing this process SMEs and their competitiveness become interdependent with the national business community, the sub-national business clusters (Porter 1990) or with the industrial districts in which SMEs are included (Kristensen 1989).

While the international nature of economy is evident, also for SME, there is not a suitable theory, able to explain the specificity by which those kind of enterprises internationalise. As a consequence other traditional situations and dimensions theories are applied to SMEs processes. In fact there are numerous types of internationalisation processes for SMEs that have been identified (Freeman 2002) and the literature review seems to propose nine schools of thought groups that can be considered as sequitur (Leonidou, Katsikeas 1996) (Cedrola 2005) (Laine, Kock 2000):

#### **Classical economic theory**

##### Absolute Advantage Theory - Smith (1776)

Based on the immobility of the labour force between countries and the perfect internal mobility, states that each country exports those products for which has an absolute advantage towards competitors, in terms of productivity and then costs.

##### Compared Advantage Theory - Richardo (1817)

States that countries trade because labour - the only productive factor considered - has a different productivity among countries; then each country exports the products produced in a relative efficient way and imports those for which is relatively inefficient.

##### Neoclassical Model - Heckscher (1919); Ohlin (1933)

Considering a situation of equilibrium - two countries, two goods and two productive factors (capital and labour) - the compared advantages are determined by the interaction between the resources and the technologies owned by the two countries. Each country will tend to export the product with the higher use of the most abundant productive factor and will tend to import the other products.

#### **Technological gap theory**

##### *Posner (1961)*

This theory proposes an explanation of the international trade based on compared costs differences generated by a different rate of innovation and times to answer in the sectors among different countries. These economical advantages of an innovation are connected to the length of the monopolistic international market position (copy time by the other firms - demand for new products by consumers).

#### **Representative demand theory**

##### *Linder (1961)*

Assumes that a company has developed specific advantages in its domestic market, in the form of internally developed intangible assets, which give the company superior products, marketing and/or management knowledge. If these assets cannot be efficiently exploited or safeguarded by market and contractual transactions without undue transaction costs, it is necessary to create an "internal market". From this point of view, a company expands outside its domestic market through horizontal or vertical integration. The costs of internalisation and internationalisation will be lower if the foreign market is similar to the domestic one (market proximity).

#### **Product international life cycle theory**

##### *Vernon (1966)*

Connects the internationalisation development with the evolution of the product/technology life cycle phases developing a three stages model: a first step of research and introduction of the innovation (production); a second step of product development and maturity (import/consumption) and a third step of product standardisation and decline (export).

#### **Foreign Direct Investments (FDI)**

##### *Hymer (1976); Kindleberger (1970); Griffin & Pustay (1998); Buckley (1996)*

Is based on the observation that a superior firm specific advantage (FSA) must be exploited in a timely fashion by the enterprise in a marketplace before FSA is eroded. It is the strength of the FSAs that enables international enterprises to compete successfully against local enterprises, despite their inherent handicap of foreignness. Although most advantages erode, FDI theories do not invoke time as a driving factor in either stimulating or deterring FDI. Rather, FDI is viewed as a mechanism that empowers an enterprise to combine its various FSAs with location-specific advantages and exploits them internally by creating its own system of subsidiaries abroad. In this view, the enterprise internationalises independently, through FDI, without relying significantly on the knowledge or other resources of partners.

#### **The eclectic model**

##### *Dunning (1988); Hill, Hwang & Kim (1990)*

According to which a firm starting an internationalisation process has to satisfy three basic conditions: 1. ownership advantages towards competitors (asset ownership advantages and transactional ones); 2. internationalisation advantages; 3. location advantages. That is: in order to invest abroad the firm has to possess competitive and internationalisation advantages; while the host country has to possess superior location advantages compared with those of the country of origin.

### **The stage models**

Uppsala models - Cavusgil (1980); Johanson & Vahlne (1977); Aharoni (1966)

Described as a commitment to international sales and production as part of the growth and experimental learning processes. In this model, internationalisation is described as a sequential learning process by which a company goes through stages of increased commitment to foreign markets.

Vernon (1979)

This means that markets and products are entered in the international context according to a minimum "cultural distance" perceived and that the company only sequentially goes from exportation to higher forms of internationalisation.

Innovation Diffusion Models - Rogers (1962); Lekvall (1973); Bilkey & Tesar (1977); Reid (1981); Czinkota & Johnston (1981); Czinkota (1982); Lim, Sharkey & Kim (1991); Chetty & Hamilton (1996)

When the learning process is associated with an innovation or a new idea. The model focuses on the learning sequence in adopting an innovation, treating internationalisation as an innovation facing the firm.

### **The born global approach**

Jolly, Alahuhta & Jeannet (1992); Knight and Cavusgil (1996); Oviatt and McDougall (1994); Harveston (2000)

This view holds that firms do not internationalise incrementally but enter international markets soon after the firms' inception. Such firms may not even have sales in their domestic market. A born global is "a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries; small, technology oriented companies that operate in international markets from the earliest days of their establishment, not confining themselves to a single market.

### **The network approach**

Luostarinen (1977); Håkansson (1982); Johanson & Mattsson (1993); Håkansson, Snehota (1995); Welch, Welch, Wilkinson & Young (1996); Coviello, Munro (1997); Aldric & Zimmer (1986); Larson (1992); Easton (1992); Barret & Wilkinson (1996)

Focuses on the relationships between companies, involved in production, distribution and use of goods and services, within an industrial system. According to this view, enterprises internationalise by establishing and cultivating relationships with partners in foreign networks by: international extension - where companies establish new relationships with partners in local networks in other countries; penetration - by developing relationships and increasing resource commitments in networks abroad where the company is already cooperating; and/or international integration by increasing coordination within different networks. Network approaches perceive contemporary interorganisational markets as organised behaviour systems manifesting network structures.

There is a growing body of literature suggesting that SMEs may have to rely on networks and relationships to overcome disadvantages as they internationalise (Madhok 1997).

In accordance with the above analysed models it has been stated in many recent studies that a great number of SME has entered into various cooperative relationships and arrangements in order to enhance their competitiveness in declining markets. SMEs have very often considered interorganisational cooperation as the only way to survive in the domestic market and global competition.

Among the ways for the internationalisation of a SME, we can also mention cooperation as an implementation of the network approach in which both cooperation and competition are needed; in fact on the one hand actors must compete to a certain extent, otherwise the business network will not be effective; on the other hand, there is a demand for cooperation, as the actors must invest in bonds and make adaptations to create long-term relationships (Bengtsson, Kock 2000).

From the above remarks it emerges that SMEs more than a new theory need a new approach considering markets as networks, expanding the traditional economics-oriented view of industrial markets including all kind of actors and recognising non economic bonds between organisations.

Instead of pure market forces, hierarchies or some intermediate forms of internationalisation, the contemporary international exchange seems to be governed by the "invisible hand of the process of networking", the linking together of various market actors and their complex activities and heterogeneous resources (the so called ARA model) and the consideration that enterprises are actors inserted in a chain able to create value and reach profitable results in international markets only through a network approach.

The internationalisation process emerges, then, as an evolutionary process - co-evolving with the national business environment - through which companies become involved in business and relationships, changing in this way their position in their networks and in the competitive environment.

## **The Italian manufacturing districts**

An industrial district is "a network including independent firms operating in the same or related market segment and a shared geographic locality, benefiting from external economies of scale and scope from agglomeration" (Brown, Hendry 1998).

In Italy there are 199 industrial districts that represent 1/3 of the GNP, almost the 45% of the total Italian export share and occupy more than 2.200.000 employees. For many years they have represented a source of development and employment of labour forces, strongly contributing to the Italian richness and to the "Made in Italy" affirmation.

Firms located in the Italian districts are all relatively small and organisationally simple, characterized by flexibility, dynamism and specialisation, that in the past years strongly contributed to their success. Localisation and proximity foster cooperation and competition among firms, supporting the competitive advantage of both the district and the individual firms (Boari, Lipparini 1999).

Network ties between members in an industrial district are established as a result of interpersonal relationships developed from informal social gatherings and meetings (Brown, Hendry 1998; Paniccia 1998).

In fact, the district ability to access, transmit and spread both explicit and tacit knowledge, deriving from a widespread socialisation activity, allows the sharing of experiences and models within individual firms (Corno, Reinmoeller, Nonaka 1999).

A large number of recent studies on industrial districts have emphasised the capacity of districts to support processes of knowledge acquisition and innovation as the basis for creating competitive advantages (Mac-Kinnon, Cumbers, Chapman 2002).

Keeble and Wilkinson (1999) identify three major mechanisms for the spatial transfer of knowledge within the boundaries of an industrial district: interfirm mobility of the labour force within the district; interactions between suppliers and customers and the makers and users of capital equipment; spin-off of new firms from existing ones, universities, and public sector research laboratories.

In the competitive context of global economy new questions emerge about the chances of local development of economies and districts (Albertini, Pilloti 1996).

Since '80s the expansion process of local economies abroad has started, but we cannot correctly speak of a real internationalisation process. In fact some relationships were related to commercial transactions and to direct or indirect exports to foreign markets, especially European ones.

While small enterprises had occasional contacts, big firms had systematic and continuous relationships with foreign markets.

SMEs are now facing some barriers in their growing process, including both endogenous and exogenous factors. These limits are mainly related to the scarce availability of internal financial resources, the difficulty in collecting external ones, a weaker contractual power than big-sized firms, the paucity of human resources with managerial and marketing skills and last, but not least, the concentration of functions in the firm's owner. Then, market pressure requires tight delivery times to be respected, in addition to the usual product/service quality (possibly certified), top level planning and innovation skills (Camuffo 2003).

In addition, these SMEs establish intense network ties and tend to pay little attention to strategies and capabilities of competitors outside the district (Pouder, St. John 1996).

All these elements have limited these firms in their competitiveness in the global marketplace (Murto-Kovisto, Versalainen 1994).

SMEs preferably operate into domestic markets or, in any case, into similar ones, interfacing themselves with known enterprises or mirroring ones in dimensions and business models terms. The market and different geographically/culturally partners opportunities research, then, is confined to the sole inescapable situations.

Small firms meet many difficulties in individuating risks and opportunities related to the entry in new markets, because of the lack of information about final markets, know how, legislation, entry barriers and opportunities of financing. As a consequence they are not able to formulate specific aims, adding a position of closure to their structural limits (Pepe, Musso 2001).

The SMEs' internationalisation process is influenced by the network structure and facilitated by the accumulated effect of pull-push forces, learning, tacit knowledge and social contacts (Elo 2003).

These firms are very dependent from their domestic environment and, as a consequence, technological and managerial capabilities are developed under the influence of national culture, institutions and common knowledge (Dunning 1993).

The district should promote and mediate the local competitive advantages on the international level (Beccatini, Rullani 1993; Grandinetti, Rullani 1996), becoming a tool for SMEs to overcome their fragilities and introducing themselves on international markets.

In modern contexts, industrial districts are limited by their closure (Rullani 1995) and, to face the challenge of a global competition, the district should be able to open its boundaries. Interacting with external networks of labour division and knowledge sharing permits the local network to achieve economies of scale and to control competitive markets containing a high level of variety and variability (Corò, Grandinetti 2001).

Notwithstanding the district is defined as a close system, the establishment of relationships with new actors, competencies and external resources leads to weak its traditional barriers, showing the emergence of two phenomena: an increasing role of leader firms in the development of new markets, which are modifying the traditional way in which the district works; the projection toward the external context of a wider base of firms (Corò, Grandinetti 2001).

A recent research (Andersson Gabrielsson, Wictor 2004) about international activities in small firms suggests that dynamic and fast changing environments may push small firms to expand their operations abroad. Then, the experience and the connections that organisations build up with prevalence of younger CEOs enable small firms to further expansion and growth of the internationalisation activities.

## **The Network approach for the internationalisation of the SME**

The economic action is embedded in networks of relations (Granovetter 1985) and companies, as all organisations, are units of interlocking behaviours where individuals are not acting in isolation, as they interact and their action becomes organised (Håkansson, Snehota 2005).

An industrial district consists of a network of producers, supporting organisations and local labour market (Scott 1992).

SMEs that compose these districts are often characterised by incompleteness due to their lack of resources, competences and technologies; they depend on the ones of suppliers, distributors, customers and even competitors. A major obstacle for SMEs engaging in international operations is generally limited resources (O'Farrell, Hitchens 1988; Rønning 1991; Christensen, Lindmark 1993; Kaufmann 1994).

Malecki and Veldhoen (1993) state that small firms are "most plagued by a general problem of inadequate expertise and skills at several levels - managerial, supervisory, and production employees".

With reference to the process of internationalisation, this paucity of resources caused to have fewer possibilities in choosing the appropriate markets and entry modes (Alon 2004).

In this sense the local context and the firms that compose it, become themselves a resource for the focal firm. In fact it can draw upon information, knowledge and support services shared with partners in their home environment (Meyer, Skak 2002).

A firm should have to consider the network of relationships where it operates. The relationship is bidirectional: the firm with its decision influences the network, and the network at the same time influences the firm's behaviour.

The creation of business networks is becoming increasingly important (Holmlund, Kock 1998) and facilitate the internationalisation process (Coviello, McAuley 1999).

Particularly for small firms, the network reinforces the internal learning processes and provides access to new customers and suppliers located abroad. For many SMEs establishing and/or reinforcing relationships with local counterparts is a fundamental key for creating an international network: relationships are developed as bridges into foreign markets (Meyer, Skak 2002).

Naturally, relationships among firms follow complex logics of interaction, and include both cooperation and competition, the so called "coopetition" (Bengtsson, Kock 2000). So, the contribute that the network can give to the single firm in its internationalisation process depends also by the level of coopetition in the network.

Networks help small companies "think and act big" (Selz 1991), permitting them to access to knowledge, resources and customers that might only be available to larger firms.

Through the network approach the firm can start to change its strategies and exploit the national and international relationships of the network it takes part. In this ways it can have access to the resources belonging to third parties connected, directly or indirectly, to the firm without changing radically its structure and minimising the disadvantages coming from their limited dimensions (Rutashobya, Jaensson 2003).

Furthermore, through connected partners it is possible to share risks and, considering that risks generally increase as the firm become international, the significance to share them with, increases too (Kaufmann 1994).

Relationships to foreign suppliers and other actors, such as import agents, freight forwarders and distributors, may be used both to gain information about potential buyers or directly as business partners for outward activities.

At this proposal Brewer (2001) underlines that informants, and particularly manufacturing representatives and outside inquiries, are crucial for the internationalisation of the firm, since they help in identifying and prioritising countries and evaluating-selecting the target country based on market

potential and competitiveness. In general, these informants allow firms to miss out on market with great potential.

Knowledge is another fundamental element for entry in a specific region and the lack of information can particularly damage small and medium firms, since they can not spread their costs across large volume of exports as big firms do.

The knowledge and the specific expertise about the foreign countries, which include knowledge of local market, business practises and institutional conditions (Barkema, Bell, Pennings 1996) can belong to the firm or to the local/foreign business network.

Describing the internationalisation process in a network perspective Johanson and Mattson (1988) affirm that internationalisation is aimed i) to develop existing positions and increase resource commitments in profitable nets ii) to increase the coordination between positions in different national nets iii) to establish positions in new networks.

When we refer to the district internationalisation, we consider a process involving both the entire system and the single firms. The district, in fact, reinforcing its identity and competitiveness on foreign markets, could represent an important supporting element for the single Sme not internationalising alone.

It is possible to recognize different actors of the districts' internationalisation, who naturally vary according to the unit of analysis (Corò, Grandinetti 2001): larger firms with a leading role in the local productive system; multinational corporations acquiring existing district firms; small and medium firms, generally operating in final markets or in other supply industries, which take independent path toward international growth; institutional actors developing programmes supporting the expansion abroad.

## **Issues and research methods**

Starting from the assumption that networking has grown in importance as companies have become more concerned with the proper balance between competition and cooperation (Ford, Håkansson, Johanson 1990), it seems clear that both competition and cooperation have been growing in intensity in the last two decades; the motive for competition is fairly well understood in theory and practice, which cannot yet be said for cooperation.

According to the statement that the degree of the company's internationalisation depends on the company's position in different international networks, that is, how important and integrated their positions are within the network (Johanson, Mattsson 1988), the purpose of this wip paper is to discuss how a small-medium enterprise can develop a real internationalisation process using its network. Even if any company is inserted in a local network, the industrial district, very often it does not realise that the network exists and how important it is.

Our hypothesis is that companies would like to increase their internationalisation power and gain competitive advantage with cooperation and networking, whether collaboration - be frequent or infrequent, explicit or implicit, conscious or unconscious - offers the following motives for corporate cooperation: the growing complexity of products and services, production, delivery and technological innovation. Due to the characteristics and limits of Italian SMEs and their structure in districts, the second hypothesis is that business globalisation and higher forms of internationalisation – that require significant knowledge, high-quality products and/or services and also capitals - can be more easily attained with cooperation. Openness brings closer cooperation, freer flow of information and also a risk and resources sharing motive, that could lead to greater success, decreasing market failure.

What the industrial network approach adds to the interaction approach is the knowledge that a relationship cannot be managed in isolation from the other relationships and represents a conduit to other relationships trough which resources may be accessed. The approach used, then, would be concerned with understanding the totality network relationships – the ARA model – in the industrial system studied (Håkansson, Johanson 1992).

The network is in fact analysed in terms of: Actors, who manage activities and control resources; Resources, through which actors develop activities. They can be material (product and production facilities) or social resources (organisational and relational units); Activities, referred to the processes of resources transformation that occur when one or more actors combine, develop and exchange resources through other resources (Ferrero 1992).

Among these three levels there is interdependency in a multidimensional sense: links between activities from different organisations, ties between resources, and finally bonds between actors.

As for methodology, according to some network researches (Hertz, 1993; Li, 1995; Salmi, 1995), this work takes a focal company viewpoint to the network. The reason of adopting a single-case design is to present an example of how to describe and analyse a company using the industrial network approach as theoretical frame of reference, besides 1. this perspective would help to better

understand the real composition of the business relationships and its real potentialities for the development abroad of the entire district; 2. the focal firm viewpoint can help to develop practical implications for the firm's network and internationalisation process development; 3. this approach allows an easier use of the ARA model selected as reference (Tikkanen 1998).

The conceptual framework used in this wip paper analyses the focal company with all its "high value" links – vertical and horizontal - chosen on the base of the growth potential of each relationship for the focal company. In particular the identification of the value links has been made through the identification of actor bonds, activities links and resource ties that could present more, national and international, opportunities for the focal company evaluating in depth each relationship giving a high growth potential. The research has been conducted from March 2005 to January 2006. The understanding of the network has been made first through interviews and continuous contacts with the focal company's owner and key operational people to design the present network structure and to weight the existing links and relationships. In the second step the completion of the network design, with the deepen understanding of the different relationships – and in particular the elements of actor bonds, activities links and resource ties – has been made through personal interviews to 40 network actors, namely: 18 suppliers out of 20 of the focal firm, the majority belonging to the Button district; 16 customers out of 252 of the focal firm, 59 of them belonging to the analysed district; 5 competitors out of 275 belonging to the district, 51 of which manufacturing with the same material; and the District Agency. Personal interviews have been made: to the company owners of the selected firms; for foreigner companies, to the buyer during his visit to the focal company, followed by a telephone interview completion to the company's owners. The majority of the companies is of small/medium size. Interviews were quite informal with open questions, mainly for sensible subjects towards customers and competitors. The following analysis and also discussion with the focal firm's owner permitted to depict the "new network" both strengthening the existing relationships and individuating new ones able to facilitate the internationalisation process.

## Case study

The focal firm selected for the present case study is a small-sized family owned company, located in the eastern province of Bergamo, in Northern Italy.

The reason of this choice lies, first, on the desire of the ownership to find alternative ways for the development of the small company, rather than the owner's personal relationships and intuitions, in order to guarantee a long lasting positioning in the market. And, second, because this research could show that the network approach brings benefits not only to the focal firm, but also to the entire district as it is a tool that can assist the management of each SMEs – collaborating also with others – to develop their own managerial capabilities, marketing and purchasing, and also to define vision and objectives for their future international operations.

### ***The context***

The focal firm is ranked fifth in Italy and twentieth worldwide as manufacturer of zamak fashion accessories such as buttons, buckles and spring clips for wholesalers and fashion designers. Its origin and development has been strongly influenced by its particular location: as a matter of fact, this firm operates in a district specialized in the production of fashion accessories, a territory better known as Button Valley. The industrial district n°11 specialised in the production of fashion accessories is located across the provinces of Bergamo and Brescia, Lombardia Region, and accounts for 14 villages. It counts for 6.703 local units (SMEs) that produce along the entire value chain of the fashion accessories for a total production value of around 250 millions of Euros with a total of 32.276 workers in 2002. Industry is fragmented but accounts for 20% of the total world production and for 69% of national production of fashion accessories. As average the District exports 42% of its production. It is a good representation of the "Made in Italy".

The focal firm produces buttons and accessories with other 274 competing companies (horizontal level); overall production is characterised by medium-high quality level, sometimes being in the luxury sector. Furthermore specialisation, innovation, technology and flexibility characterise the district. On the negative side, in addition to the limits related to the small size, the main fault of the district is related to the scarce cooperation among firms due to the competitive fear and pressure. The creation of the District Agency – MicroMega Network – to overcome firms' structure limits and its utilisation limited as a pure service centre, confirms this aspect. Some cooperation exists, but mainly on the vertical chain.

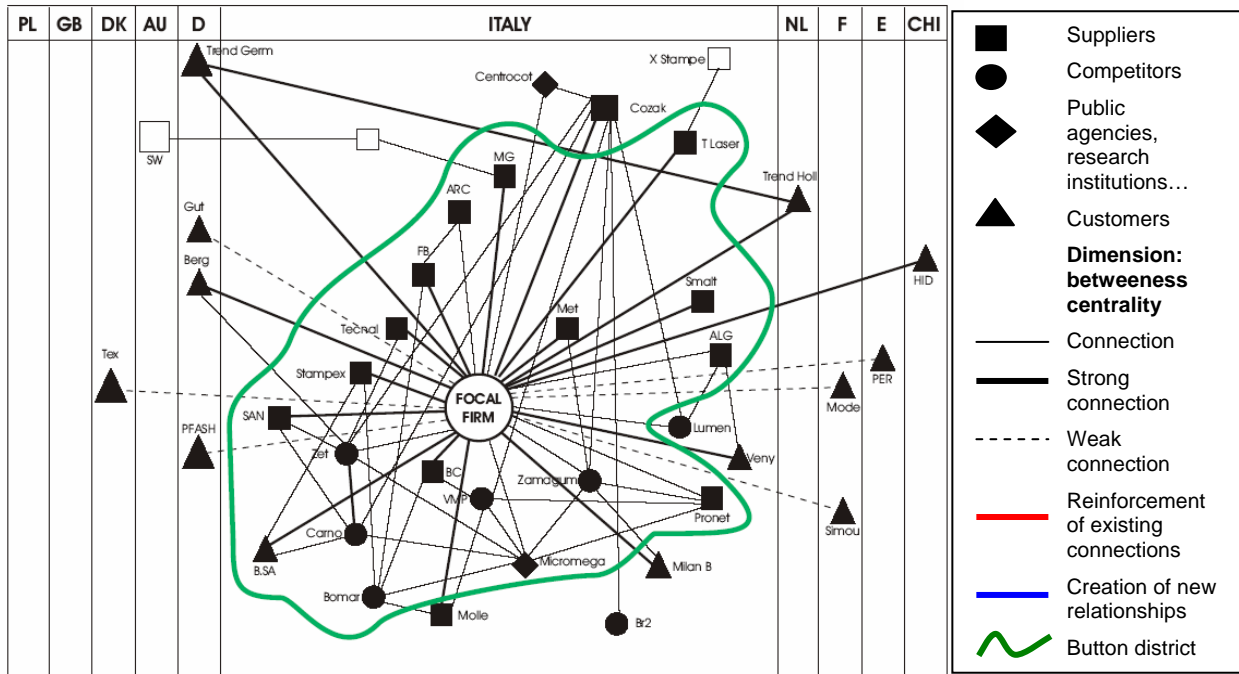
The current state of the network has been designed through the various and continuous interviews of the focal firm's owner and key operational people to understand and select the most relevant

relationships. And the personal interviews to 40 district nodes as illustrated above. Despite the existing social links it was particularly difficult to interview competitors because of the intense competition in the district.

At the end of this process, applying the network model perspective, it has been possible to depict the current state of the network in which the focal firm is embedded.

**Preliminary findings – The present network**

- Figure n.1 -



As the design of the network shows, the focal firm has only horizontal links with two competitors of the district (Zamagum and Zet) and with one outside that territory (Lumen). But this tendency to give few importance to horizontal connections is not a particular feature of the focal firm. In fact, as the same design points out, it is a common behaviour shared by all the firms of the district: there are no direct connections among competitors. In this district competition is stronger than cooperation. Each company wants to achieve its goals by itself because it thinks it can trust nobody. Then, as it can be observed, all the competitors of the district are in contact with Micromega, the District Agency; but the lack of communication between them makes that Micromega cannot operate effectively.

Moreover, although there are no contacts among competitors, they use the same suppliers. For example, they buy the raw material (zamac) by the same enterprise, they buy moulds by the same artisans and colour items by the very same specialised companies. Furthermore the focal firm and its competitors have many vertical links with suppliers, but suppliers are not interconnected among them. Most of the suppliers are situated in the same Button district.

As for customers, the focal firm has connections both inside and outside the district. But on the international level, the links with foreign customers are very weak and not well exploited ('sleeping links'). The focal firm has also a weak connection with a research institution, Centrocot, which is linked to other firms on the national territory too.

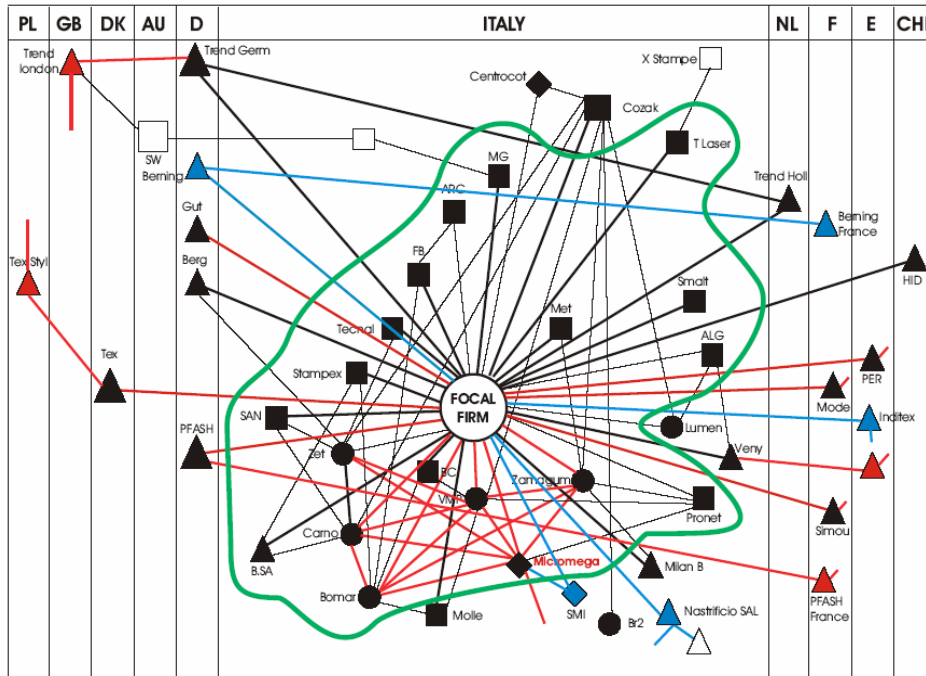
So it is possible to observe that the analysed district already works with relationships. But, in spite of this, the district network is highly imperfect, especially on the horizontal side. In fact, internally there are many unexploited opportunities, and many resources are not used properly. As a consequence, this internal gaps impede the creation of an effective 'engine' able to improve the external development and the innovation process of the district. So, in spite of the presence of partial elements of the network approach, the main problem of the Button Valley is the want of internal synergies and cooperation, which has become a lack of competitiveness: and at present this last element hinders the internationalisation of the district and, therefore, of every single small firm which made it up.

The understanding of the value relationships – current and potential – permitted to identify and describe actor bonds, activities links and resource ties and so to view each element (relation) with its function for the focal firm, for the dyad and also, sometimes, for the entire network (or for other parties in the network).

**The new network**

The deployment of the network approach could bring the focal firm to reorganise some connections, strengthening some relationships and potentially creating new ones to develop the focal company internationally, firstly, and, secondly, to bring advantages to the whole network.

- Figure 2 -



To sustain this, we therefore illustrate as example three detailed links that bring or could bring advantages to the focal firm or/and to the network.

To its mere own advantage, and therefore acting opportunistically, the focal firm could reinforce its relationships with some foreign customers such as Trendland Germany or Texilp, with some national counterparts such as Veny or with some French customers. Taking as an example the relationship between the focal company and Trendland, we can show the approach followed:

<b>Initial perspective and objectives</b>	Opportunistic behaviour: thanks to the resources of the counterparts the focal firm could reassess its position on the German market, and exploit the relational resources of the counterpart itself.
<b>Activity links</b>	The two firms decided to share their projecting activities in order to assemble the focal firm's technical experience with the design sensitivity and the marketing experience of the European distributors. This connections resulted key for the focal firm and its international development.
<b>Resource ties</b>	The sharing of market and technical information permitted the creation of products meeting the final customers needs. At the same time, the focal firm could take advantage of the relational resources of the German partner, being able to reach the new Dutch market.
<b>Actor bonds</b>	Without the deepening of interpersonal bonds this could never happen. Actor bonds were the basis to develop.
<b>Function for the focal firm</b>	This new connection helped the focal firm to improve its position on the German market and also to penetrate the Dutch market (Trendland Holland). Moreover, it allowed the focal firm to receive fundamental information about trends and needs.
<b>Function for the dyad</b>	The relation between the focal firm and Trendland associated design sensitivity to quality and technical experience, giving Trendland itself the possibility to offer a very high and competitive product on the German and Dutch markets.
<b>Function for the entire network</b>	The connection between the two firms created something new that imposed to the whole firms of the network to pursue innovation in order to maintain their competitiveness. This create a virtuous cycle improving and strengthening continuously the network.

On the other perspective, acting in the network logic, the focal firm could improve its horizontal relationships, trying to establish better connections with its competitors and thus to find a real balance between competition and cooperation. This new net of relations, coordinated by the District Agency Micromega (which could have finally a proactive role in the district), could help the district to become

stronger, more competitive and ready for internationalisation. The cooperation between competitors, for example, could reduce the cost of raw material supplied by Cozak, or could empower the marketing and research functions of the whole district. It could also improve relationships with some suppliers (ex. Galvaniche) helping each firm get more and more better non-core activities. So, thanks to this horizontal local links, each firm could become more competitive on the international arena and have more possibilities to strengthen some sleeping ties with international partners which are opportunistically very interesting and strategic.

The above mentioned strengthening of current relationships leads to the creation of a new network.

To really improve the internationalisation process of the focal firm, the new network designed need to be developed with new ties, according to Håkansson and Snehota (1995) with referential customers and technological leaders belonging to strategic potential markets.

The focal firm identified as example the following potential links to develop: 1. Inditex: the focal firm had in the past (5/6 years ago) a production link with Zara (Spain) through a distributor that failed. Today thanks to a new actor bond linked to Inditex, it could invest to develop a new link to the Spanish market; 2. Nastrificio SAL is a supplier of the focal firm and also a potential customer being a link to a different district, Castelgoffredo, specialised in the stoking and underwear production, that is looking for product innovation; 3. Sistema Moda Italia is the national organisation promoting internationally the "Italian fashion" and the "made in Italy" and it could constitute a good knowledge base to develop focal firm's professional and marketing capabilities.

Two of the above examples of the development of the new links are illustrated here over.

	<i><b>Inditex</b></i>	<i><b>Sistema Moda Italia</b></i>
<i><b>Initial perspective and objectives</b></i>	this Spanish wholesaler owns Zara, Oysho, Berska, and many other trademarks. It is very prestigious in Spain and worldwide too	Sistema Moda Italia is the organization created appositely for firms working in the so called "made in Italy" of the Italian fashion
<i><b>Function for the focal firm</b></i>	Thanks to a new connection with this Spanish technical leader, Botone Pereda, the focal firm can reach a new potential market, reassessing its position in the network and reducing the risks brought by globalisation. Inditex is well-known in Spain: working with it would also have a positive impact on the company's image, attracting other Spanish counterparts	Thanks to this new relationship the focal firm could acquire new knowledge, becoming more prepared to act in the international arena and to reassess its position nationally
<i><b>Function for the dyad</b></i>	Inditex could exploit the good quality of the focal firm's production and its relational resources, differentiating its same production. Inditex design and the focal firm's quality create new products which would never be projected by each single firm	Thanks to the dyadic relationship, other firms could take advantage of the information acquired
<i><b>Activity links</b></i>	The linking of the projecting activity would be fundamental in order to grant specialisation and innovation and better penetrate the Spanish market. Without Inditex market experience the focal firm could never adapt its activity to meet in a proper way the needs of the Spanish target.	The marketing activity of the focal firm could be associated to the marketing activity of this association. In this way the firm could have the possibility to use means and exploit ideas it would never had by acting in isolation.
<i><b>Resource ties</b></i>	Knowledge sharing is fundamental for the focal firm to acquire all the relevant information needed to penetrate the Spanish market.	The cooperation with this research institute would allow the focal firm to acquire some relevant information about new potential markets. Internationalisation would become possible and easier
<i><b>Actor bonds</b></i>	In order to create effective activity links and resource ties (to exploit relational resources) it is fundamental first to create actor bonds. Investing in journeys, meetings and marketing is therefore needed.	In order to exploit the activities and resources of this association it is fundamental first to create proper interpersonal contacts thanks to which the managing of new knowledge is possible.
<i><b>Function for the entire network</b></i>	Thanks to this new connection, innovation and differentiation can enrich the entire network, giving the input for further innovation, research and development. In particular, it could create new connections between the Spanish market and the focal firm, and consequently, the district, pulling its process of internationalisation	So, the mentioned relationship could help the entire district in the marketing and research functions. New knowledge leads to innovation and network development in the globalised world.

## Final considerations and open questions

Our preliminary findings indicate that the Present Network as it is today does not guarantee an effective international development for the focal company. They show also that the focal firm is trying to enter into new relationships in order to gain benefits from cooperation in international marketing and purchasing.

And so, they confirm that the introduction of collaborative elements, even in a competitive context like the district considered, brings advantages. Simultaneous collaboration and competition are fundamental for a synergic development of the network: in fact, collaboration allows the sharing of resources, tangibles or intangibles, and competition pushes each actor to reach a competitive advantage.

In addition, the focal firm with the network approach can develop its internationalisation process strengthening existing value relationships – reinforcement and empowerment of existing interdependency – or creating new relationships leveraging on referential actors belonging to strategic potential markets, inside or outside the district and/or internationally.

It should be noted that the focal firm started searching benefits for itself, first following an opportunistic goal, but the network approach and coopetition favour the international development both of the focal firm and of the entire district. As for managerial implication the understanding of the SME position in the network, the mapping and weighting of the different links help the SMEs' owners to assume a strategic view, a clear vision and structured objectives for their future and international operations.

However, to reach these goals it is fundamental a strong management sensitizing to the network benefits, inside the focal firm and outside, in the district.

Thinking and acting in a network approach for a SME implies efforts and investments at different responsibility levels – management and operational - in terms of: capabilities development (communication and information sharing, empowerment and confrontation in and out the SMEs, networking culture acquisition, companies culture enrichment, intercultural formation); marketing and purchasing development (market information usage and sharing; technical, relational and networking competences), strategy development (understanding, evaluating and weighting alternatives and developing own strategic views).

In conclusion from the case analysed emerges that business networks are of crucial importance for the internationalisation process of smaller firms, because they allow a free flow of information between partners, provide access to complementary assets, reinforce the internal learning processes and provide access to new customers and suppliers located abroad.

Questions still open refer to the coordination and the management of the above “thinking and acting” elements from two points of view:

- inside the SMEs: among the most important issues we can mention training and formation; empowerment; key operators and their role definition;
- in the District: how to show and convince owners about coopetition benefits; trust building; net coordination and governance; role and balance between strong and weak ties and power; District role: leader or follower in the internationalisation process.

The considerations here presented refer only to a specific context of a larger project as other aspects need to be taken into account as for example cross-cultural implications; these will be considered in the development of the research.

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