Firm internationalisation and business to business relationships. The issue of local and international networking in a multiple embeddedness framework

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Abstract

International business studies have been fertilised by the growing adoption of the network paradigm in both theoretical and empirical works. This paper aims at combining the two approaches in the perspective of the small international firm, challenged by threats and opportunities deriving from the exploration-exploitation of local versus global networking.

The Nordic school –among others- emphasized the role of international networking –both inter-firm and inter-personal - for the firm internationalisation, underlining its relevance for SMEs, which can rely on the foreign partners' complementary resources and foreign markets knowledge base (Johanson and Vahlne, 2003; Petersen, Pedersen and Sharma, 2003). This approach also proves useful in order to explain precocity and speed of infant firms' international growth (born global firms, international new ventures) and in general accelerated internationalisation paths (Bell, McNaughton and Young, 2001; Kutschker and oth., 1997; Lommelen, Matthyssens and Pauwels, 2002).

On the other hand the Southern School –among others- underlined since the '80s the role of local domestic networks –notably industrial districts and local clusters- in providing a suitable platform for early and fast international expansion for SMEs (Becattini, 2000a; Becattini, 2000b; Corò, Rullani, 1998; Sopas, 2001). Some recent empirical surveys reveal that local networking is a good platform for international new ventures – a sort of incubating space- but it is not enough to reach long run international performance, which also depends on international networking capabilities (Maccarini, Scabini, Zucchella, 2004).

The paper builds on the two key constructs of multiple embeddedness (Zucchella, 2006) and connector firms (Madsen, Servais, 1999). The former provides a theoretical frame about the causes and nature of leveraging on a system of embedded ties, both at the domestic and at the international level (multi-local). The latter outlines the interpreters of such processes, notably leading (not necessarily large) firms moving early and fast in international markets, by leveraging on their capacity to connect different local networks across the globe.

In order to develop an interpretative theoretical model, the research methodology is based on a qualitative approach on firms belonging to local clusters. The qualitative analysis reaches a rich and deep knowledge of the matter. Italian and Danish case studies have been extracted from a general data set and selected according to their relevance in relation to the research guidelines. They are analysed adopting a common framework of case study research and compared in order to find similarities and differences.

The cases have in common the importance of local versus global networking: network capabilities seems to be at least as much important as the other traditional organisational capabilities. Network capabilities involve the capacity to build a unique mix of local and foreign ties in order to access so sticky complex knowledge, which is highly embedded in contexts and firms belonging to them.

The paper may have relevant managerial implication, because it offers to SMEs an alternative understanding of how they can rely on local networks as platforms and on foreign networks as lifts to a sustainable international performance. It also suggests a model for capabilities development for small firms in order to gain, sustain and renew their competitive advantage in international markets and a way to conceive their internationalisation strategy.

Keywords: international business, business to business relationships, local networks, internationalisation

Introduction

International business studies have been fertilised by the growing adoption of the network paradigm in both theoretical and empirical works. This paper aims at combining the two approaches in the perspective of the small international firm, challenged by threats and opportunities deriving from the exploration-exploitation of local versus global networking.

The Nordic school –among others- emphasized the role of international networking –both inter-firm and inter-personal - for the firm internationalisation, underlining its relevance for SMEs, which can rely on the foreign partners' complementary resources and foreign markets knowledge base (Johanson and Vahlne, 2003; Petersen, Pedersen and Sharma, 2002). This approach also proves useful in order to explain precocity and speed of infant firms' international growth (born global firms, international new ventures) and in general accelerated internationalisation paths (Bell, McNaughton and Young, 2001; Kutschker and oth., 1997; Lommelen, Matthyssens and Pauwels, 2002).

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Some authors have gone further in building on these issues and integrating the two perspectives, proposing a view of the performing international venture as a network broker capable of integrating local and foreign networks (Madsen, Servais, 1999), thus benefiting from multiple access to local knowledge throughout the world leveraging on a complex system of embedded ties (Zucchella, 2006), where personal (social) and inter-firm networks coexist and intertwine reciprocally.

This perspective is parallel to the one adopted in international marketing and in international management when the issue of balancing global integration and local responsiveness is considered. In these research streams the object of analysis was typically- even though not exclusively- the MNC. The networking approach was mainly referred to the internal organisation of the multinational (headquarter-subsidiaries, internal social network), while this paper focuses on small firms and on their inter-organisational ties with local and foreign firms, aimed at multiplying access to resources, assets and learning opportunities. Since knowledge tends to be sticky also in territorial terms, we hypothesise that it is likely that small firms orientated to fast growth in international markets in order to access to sticky and tacit knowledge in foreign markets will balance their local network with a network of partners located primarily –though not exclusively- in foreign clusters.

Theoretical background: inter-firm network and local clusters

Inter-firm networks support the sustainable competitive advantage of the firm because:

- they allow the access to a wide stock of external resources (Pfeffer, Salancik, 1975) – knowledge, technology, financial resources, and so on ;
- they create a mix of heterogeneous resources stemming from independent firms characterized by own and unique cognitive patterns (Nooteboom, 2000), which preserve novelty and diversity of the knowledge shared (Cohen, Levinthal, 1990);
- they represent a very flexible inter-organisational system (Powell, 1990), which permits the continuous renewal of the knowledge shared.

These conditions seems enhanced in the case of international networks, since the heterogeneity of resources and knowledge of partners is likely to be higher, thus enlarging the spectrum of learning opportunities. The relevance of inter-firm cooperation for learning is widely agreed in literature (Nooteboom, 2004) and -as a far as internationalisation processes are concerned- has been outlined in a number of contributions (Petersen, Pedersen and Sharma, 2002; Chetty, Eriksson, Hohenthal, 2002).

Many studies have shown the importance of international networks, both on a personal level as well as on an organisational level to understand a firm's international development (Majkgård and Sharma, 1998). Even though there is evidence that some born global firms are founded without any international network of the founder being involved (Rasmussen, Madsen and Evangelista, 1999), it is likely that some more or less pronounced form of international network is developed to support and consolidate the original

entrepreneurial impetus. It is recognised that not only international networks are important to understand a firms international development, but also local networks (Johannisson, 1994).
The local environment is supposed to be a vital component for SMEs' competitiveness on the global arena. This argument is further developed in a model for SMEs' internationalising, by Lindmark (1994). The localisation of a business affects the internal resources of the firm as well as it affects the opportunities of the firm to access external resources. The assessment of internal resources and the use of external resources also affect the export performance.
The successful establishment and growth of SMEs is often argued to benefit from location within a geographical cluster. Hayter (1997) refers to the seedbed start-up path where the motivation is the desire to live in one's own locality: in such cases the familiarity of the host environment involves relying on a social network which is already in place, on easier access to specialised local labour and services, as well as to local customers and suppliers. The agglomeration economies approach, grounded on the role of externalities as a crucial support to firms' establishment and growth, provides similar outcomes as the knowledge-based approach, where co-location and sharing a similar cultural and institutional set enables access to tacit knowledge and strengthens embedded ties among local players.
Districts and local clusters may seem more or less synonymous, but there are some significant differences, which an analysis of alternative definitions can confirm. By district we mean 'an organization of the production process based, in particular, on single specialized industries, carried out by concentrations made up of many small firms achieving the advantages of large-scale production by external and internal economies, with social environments that feature local communities of people adhering to relatively homogeneous systems of values, and with networks of merging urban and rural settlements inside territories united by production and social links' (Sforzi, 1990,p.12). On the other hand, according to a definition adopted in international literature, for local cluster we mean 'geographically proximate firms in vertical and horizontal relationships involving a localized enterprise support infrastructure with shared developmental vision for business growth, based on competition and co-operation in a specific market field' (Cooke and Huggins, 2003, p.4*).* According to this literature, four elements appear to characterize clusters and districts, viz. geographical concentration, a high specialization of firms coupled with strong productive complementarities, a homogeneous system of values and a strong influence of the social dimension. While the first two dimensions appear typical of clusters in general, the latter two seem to be qualifying features of industrial districts in particular.
The reasons underlying the clustering of economic activities have been explored relatively recently, since the bulk of the studies in the 20th century were mainly ideographic (Maskell, 2001). More recently the clustering phenomena have been approached through a transaction cost analysis (TCA) (Williamson, 1975) framework 'including search and information costs, as well as policing and enforcement costs' (Maskell, 2001, p.925).
The perspective of IDs according to TCA does not contrast with an embeddedness framework. An ID is shaped by strong embeddedness, both in its relational and in its structural meaning (Granovetter, 1992). This means that 'economic action and outcomes, like social action and outcomes, are affected by actors' dyadic relations and by the structure of the overall network' (ibid.p.33). An illuminating view of the similarities and differences between the TCA and the embeddedness approach is provided by Perrow (1990,p.132), 'One reason trust may appear in bilateral exchanges is that the parties get to know crucial macroeconomic aspects of each other and of their interdependency. Political, ethical and cultural values are exchanged and modified. The economic relationship becomes 'embedded' in social and cultural exchanges and the strictly economic and strictly self-interested nature of the exchange is modified and overlaid. But Williamson reminds us that it cannot be ignored, and economic concepts help us to see it.'
The construct of embeddedness is far from being clear cut and easily observed, but it represents the constitutive element in an ID formation and structuring, progressively transforming the mere co-location of people, organisations and institutions (geographic proximity) into a growing cognitive, organisational, institutional and social proximity, according to Boschma's (2005) categorisation of different forms of proximity.
The building of long term and trust based business relations stems from personal ties and deep interpersonal knowledge, thus giving rise to a strongly embedded local system. According to Perrow (1992, p. 460) among the various characteristics distinctive of small firm networks that are more likely to produce trusting rather than self interest maximising behaviour is '…an awareness of a bounded community of fate generated by trade or professional associations, municipal service groups, unions and the like'.
When firms belong to a local cluster their internationalisation process is affected in a significant way. A very strong linkage exists between the clustering of economic activities and the international performance of the firms belonging to such clusters. Inter-firm local networks, a "territorial information system", the social capital existing, all represent the ground on which a sort of "collective international thinking" has grown (Brusco, 1989; Pyke, Becattini, Sengenberger, 1991). Easy and immediate access to information -vital for international expansion- is due to a complex blend of imitative behaviours, high frequency of spin-offs, organisation of international trade fairs based in the district territory or lower cost participation to foreign

events, and other actions carried out by institutions that mediate and intermediate between the firms and the markets, like enterprises' associations, shared service centres and export consortia (Becattini, 2000; Corò, Rullani, 1998; DATAR, 2001). The interest in these issues has known a recent development in literature, showing a growing interest of authors for the subject (Brown, Bell 2001; Porter, 1990; Enright, 1998; Storper, 1992). The main consequences o firms' internationalisation paths and performances could determine precocity in international orientation and higher speed, i.e. export intensity ratios, when compared to non-clustered firms. The empirical surveys made on these issues show that precocity is significantly related to clustering, but the relation of the latter with speed and intensity is weak (Maccarini, Scabini, Zucchella, 2004).

These outcomes suggest that somehow local clustering also affects the path of internationalisation.

Traditionally early and fast internationalisation processes were supposed to collide with the actual availability of adequate financial and – most important - managerial resources. In gradual internationalisation processes both risk aversion and lack of knowledge on foreign markets are overcome through gradualism in commitment and through experiential learning (Johanson and Vahlne, 1977). The so called born global firms on the contrary rely on a set of different leverages: the entrepreneur's experience and strategic orientation, the international knowledge capital available in the local cluster and finally the firm relational attitude, i.e. its propensity to establish alliances and cooperation agreements with other firms both in the local system and in foreign markets, in order to reduce risks and improve international learning effects. Early and intense international expansion may be attributed to pre-existing personal network established by the entrepreneurs and management team (Johanson & Vahlne, 1990).

Early international firms have surged in the interest of academic literature, practitioners and policy makers since the early '90s (Litvak, 1990; McKinsey and Co, 1993; Oviatt and McDougall, 1994; Madsen and Servais, 1997). The definition and profiling of born global firms is still ambiguous and missing a generally accepted theoretical framework. The frequently used term "Born global firm" has been subject to much criticism, because the conceptualisation of McDougall and Oviatt (1994) has been progressively used by different authors to identify any firm which starts internationalisation at inception, or in the first years. The attention devoted here to born global firms stems from the idea that the *stricto sensu* born global firms, characterised by precocity, speed and intensity in internationalisation (both inward and outward) may have a crucial role in connecting the local network with foreign networks and clusters (Madsen, Servais, 1999).

The literature on networks for internationalisation focuses mainly on international networks, but also local networks are recognized as a relevant driver of foreign sales for small firms.

The behaviour of district/cluster firms in the last decades can be viewed – as envisaged in the theory interpreting internationalisation as specific assets exploitation - in terms of exploitation of firm and territorial advantage to conquer foreign markets. Rapid and intense internationalisation processes represent a means for cluster-based firms to exploit the advantages of being embedded in a given territory and the resulting positive externalities (skilled and specialized labour, specialized services, access to "collective international knowledge", easy access to information on the internationalisation strategies of main local competitors) on a larger scale (Becattini, 2000; Corò, Rullani, 1998; Maccarini, Scabini, Zucchella, 2003).

This explains the early internationalisation of SMEs, but not all of them could reach significant foreign sales and growth performances, especially in the long run. Moreover, at the cluster level of analysis, periods of development and international competitiveness may be followed by periods of crisis and also of decline. Understanding the reasons of these phenomena and the role of leading firms in driving the system evolution and hopefully its renewal is the aim of the following section.

Local clusters and global competition: from short to long networking?

When a network is connected via embedded ties, it acts as a 'social boundary of demarcation around unique resources' (Uzzi, 1997, p. 327). Globalization loosens these boundaries and challenges network members offering a wider array of new systems of relationships, mainly arm's length ones. The role of globalization as a transformative force is widely recognised (Nordhaug, 2003) and Polanyi (1957) had indicated the spread of disembedded forms of capitalism in formerly embedded systems as an outcome of globalization.

The surge of new competitors across the world refers both to foreign firms, potentially better capable of interpreting market need and global competitive drivers, and to the local systems they belong to. Viewing competition solely in terms of firms' competition or –on the other hand- of countries competition is misleading, as well as the only competitive perspective is misleading because in the meanwhile strong collaborative forces counterbalance/coexist with the competitive ones and are shaping global markets.

When challenged by global competition local clusters and their firms are confronted by a "perish or change" dilemma. This is particularly evident in the case of some of the forerunners of local clustering, e.g. Italian industrial districts, which have entered recently a period of turbulence and sometimes of crisis, which is still on going (Harrison,1994; Onida, Viesti and Falzoni,1992). The diagnoses of the drivers of a district crisis mainly converge on the risk of lock-in; its strong point (embeddedness) turning into its weakest one (over-embeddedness: Granovetter,1985; Soda and Usai,1999; Grabher,1993). the risk of over-embeddedness appears to be a convincing argument in explaining local clusters' decline. When decline occurs the system evolves from over-embeddedness to disembeddedness, since local members can no longer find competitive enhancement in locally embedded ties. A reduced number of firms, and the growing disembeddedness of local ties challenge the survival of the district.

Concrete and frequent cases of this phenomenon are found in those clusters where global competition leads firms to look for non local suppliers, mostly located in developing or transition economies, in order to access cheaper resources (labour, materials, components). But the same happens when a firm does not find anymore in the local system the needed competences and know how: it happens for example when the value drivers of a given business change radically. In this case local highly skilled labour and manufacturing competences are no more the leading value driver, which turns out to be advanced research and design or marketing, as it happens for example in the jewellery, apparel or furniture industry, where design competences are now essential and they have to be found elsewhere (metropolitan areas, creative cities à la Florida).

Traditionally, district firms have privileged short networks, i.e. the territorial network of relationships that is the essence of district structure and a key driver of territorial advantage. The shift (balancing) from short to long networks represents one of the main challenges to district survival and renewal in the next decade. In recent years the growing pressure of global competition determined a tendency towards off-shoring and international outsourcing of activities/business formerly carried out inside the district led many clusters to weaken progressively their density and vitality.

The future evolutionary trajectories of districts and local clusters depend on the combined effect of trigger events – mainly connected to globalisation and hyper competition- and the reaction-proaction of some key players, frequently identified in the literature such as district activator firms (Sammarra, Belussi, 2004), meta-organisers (Pilotti, 1999), connectors (Madsen, Servais, 1999), i.e. the firms –not necessarily the largest ones- possessing technological, strategic and social leadership. The existence of focal firms is widely recognised in the small firm networks literature (Lazerson, Lorenzoni, 1999; Perrow, 1992): they have multiple upstream and downstream ties (suppliers, customers) compared with other firms within the network. In local clusters focal firms are the ones which usually tend to establish direct contacts with final markets, thus possessing the strategic asset of customer experience, while many other district firms are sub-contractors, or suppliers and second-tier partners of district leaders. District key players act as gatekeepers (Morrison, 2004), bringing external information into their home cluster. They are the most prone to react to or anticipate relevant changes in global competitive positioning, because they are directly exposed to customer pressure and market dynamics. These firms benefit from being embedded in different local systems (multiple embeddedness).

Multiple embeddedness is not just de-locating production to low labour cost countries, but it involves a more varied system of global links among complementary clusters.

The role of connecting firms is crucial in detecting emerging challenges to district survival promptly and pioneering new ways of tackling these threats, turning them into new opportunities for growth. The importance of imitative behaviours in district evolution explains why leading firms set out the path that other local players tend to follow.

The multiple embeddedness scenario would thus represent a case where clusters establish what Amin and Thrift (1992: 577) defined as 'neo-marshallian nodes in global networks'

This contribution borrows from international business literature the idea that the process of multinational growth can involve the embeddedness of foreign subsidiaries in local markets (Ghosal and Bartlett, 1990; Ghoshal and Nohria, 1997; Forsgren, Johanson and Sharma, 2000). In particular, transnational organisations (Hedlund, 1986; Bartlett and Ghoshal, 1989), exploit the opportunities of embedding in multiple local contexts. In these organisations knowledge is developed by and distributed among all foreign units, enabling the different local contexts to dialogue reciprocally, contributing to the overall knowledge creation and performance of the organisation. This potential outcome better prevents risks of lock in, because each local system maintains unique resources and network structure and is differentially exposed to new knowledge, ideas and opportunities, as McEvily and Zaheer (1999) state about multinational firms. This is in fact an important advantage of the latter, increasing the breadth and variety of its network resources (Malnight, 1996; Andersson, Forsgren, and Holm, 2002). According to this perspective foreign direct investments represent not only a market or efficiency seeking strategy, but a series of attempts to access local knowledge and to combine at a global scale this variety of knowledge pockets to produce novel combinations (Cantwell, 1990; Dunning,1996).

Building on this theoretical framework, this paper highlights the role of connector firms, trying to understand which kind of business to business relationships they develop and which is their role in these firms' international success. Connector firms are viewed as a crucial agent of change in local clusters, which are not necessarily bound to perish when challenged by global competition. In fact local clusters, supported by the leading role of these firms can avoid decline and become local agglomerations of dedicated /renewed competencies, strongly connected with other foreign clusters specialised in complementary activities. This multiple embeddedness scenario supports the exchange of rich information flows and tacit knowledge

through long term trust based relationships. Complex knowledge, where both tacit and codified knowledge are intertwined, tends to be highly sticky across the world: this is why firms looking for access to such knowledge pools need to establish a global system of embedded ties, connecting clusters located in different countries.
Traditionally clusters have supported early and rapid internationalisation of local firms, thanks to two main phenomena: imitation of firms which already experienced successfully foreign expansion and access to local foreign trade services and know how, which is highly sticky in districts and fits with local firms characteristics. As mentioned above, being located in a cluster enables early international orientation (born global) but does not explain well rapidity and intensity in foreign sales (Maccarini, Scabini, Zucchella, 2004; Denicolai, Palamara, Zucchella, 2005).
The international success of district-based firms in terms of high export intensity, profitability and long term sustainability seems to depend on a more complex mix of drivers. In this contribution we suggest the idea that it depends on the capacity of leading firms to shape a well balanced system of local (short) and foreign (long) networks. In building a system of local/foreign relationships, embedded ties play a crucial role, but also arm's length ones may be present, in order to ensure variety, enable scouting of new potential partners, and prevent lock in. According to Uzzi (1997), there is an optimum equilibrium of embedded and arm's length ties, so that globalisation can provide wider opportunities to scan for the best ones.
In a nutshell the research hypothesis of this paper rests on the idea that local networking is a powerful platform for international competitiveness and global networking is its elevator. This could explain why in local clusters there are so many firms but only a few reach long term excellence in growth and foreign sales levels over long run. Moreover, these firms together with network capabilities posses also dynamic capabilities (Teece, Pisano and Schuen, 1997), because their long run performance is connected with renewal over time of products and processes. In doing this they contribute also to the *dynamisation* of the cluster knowledge base and capabilities.

Research method and findings

The paper builds on the two key constructs of multiple embeddedness (Zucchella, 2006) and connector firms (Madsen, Servais, 1999). The former provides a theoretical frame about the causes and nature of leveraging on a system of embedded ties, both at the domestic and at the international level (multi-local). The latter outlines the interpreters of such processes, notably leading (not necessarily large) firms moving early and fast in international markets, by leveraging on their capacity to connect different local networks across the globe.
In order to develop an interpretative theoretical model, the research methodology is based on a qualitative approach on firms belonging to local clusters. The qualitative analysis reaches a rich and deep knowledge of the matter. The purpose of this study can be described as mainly exploratory and, to some extent, descriptive, as our aim is "to build a rich description of complex circumstances that are unexplored in the literature" (Marshall and Rossman, 1999, p. 33). Guba and Lincoln (1994) compare the two main research methods and outline that the qualitative approach implies an emphasis on processes and meanings that are not measured in terms of quantity, amount, intensity or frequency. The qualitative approach provides a deeper understanding of the phenomenon within its context. Moreover, qualitative researchers stress the socially constructed nature of reality that states the relationship between the researcher and the phenomenon under investigation.
Italian and Danish case studies have been extracted from a general data set and selected according to their relevance in relation to the research guidelines. They are analysed adopting a common framework of case study research and compared in order to find similarities and differences.
Alessi provides a good example of a firm which is contemporarily a local leader in the district of Omegna, where many SMEs specialised in stainless steel home appliances exist since more than century, and among the European leaders in design appliances. Alessi has grown progressively and has become a large sized firm, but still deeply rooted in the original local system where it still nowadays finds the needed manufacturing capabilities and where many subcontractors are found (business to business relationships). Alessi has also grown progressively in foreign markets, following a sequential approach to internationalisation , starting from conquest and consolidation of domestic market, and moving later on to other countries, with a similar gradual approach. When the business value drivers shifted towards design and technological content, Alessi developed internal design capabilities but mostly developed a system of ties with designers across the world (business to professional relationships), who were capable of interpreting the company product concept in innovative ways. Special attention was given to creative endeavours such as the so called creative cities and locations where designers tended to concentrate and where design innovation was incorporated in a more and more diversified set of objects (building, furniture, household appliances, cars, clothes…), thus providing continuous inspiration for new products and new design concepts.

Alessi plays the role of focal firm according to Perrow (1992) construct, showing a number of upstream (both local and foreign, both business firms and professionals) and downstream connections (leading customers, leading distributors). Most of these ties have an embedded nature and refer to organisations and professionals who are located in the local district or in other clusters across the world.
The progressive opening and widening of Alessi network could produce a change in local network structure, notably a higher degree of verticalization. This phenomenon can already be observed in present day districts (Sammarra, Belussi, 2004). Such verticalization/hierarchization is favoured by higher research and development, design and marketing investments and the ensuing growth in importance of managerial and financial resources. Verticalization may come from inside (district leaders) or outside (multinationals, global brands, which exploit district knowledge and co-ordinate cluster-based firms under umbrella brands).
The remaining three case studies refer to small firms which cannot be considered district leader in terms of size, but they have leadership in their market niches and contribute to clusters dynamics and renewal through their role of connectors.
Granite Cut ltd. is a small company, located in a granite mining and refining cluster in Northern Italy, where the local specialisation has moved also in the direction of the production of technologies for local customers and where the former import of machinery from Germany and Japan has been substituted by local technologies development. The company is a born global one because, due to its highly specialised business, its own market is naturally a global one, and not only the local mining industry, which would have been too small a niche for their survival. The internationalisation process is very fast and global from beginning, the foreign sales growth has been rapid and intense, thanks to the development of a system of embedded ties with foreign customers (business to business relationships).
Densen Audio Technology is small Danish Born global firm. The firm relies of two clusters in Denmark one being the electronic cluster centred on a sub supplier (BB electronics) and the other is the aluminium cluster which is used also in other firm's like Bang & Olufsen. Combined with the founder previous knowledge on the international HI-FI high end segment, Densen has seen a potential in a very narrow international segment.
Discover System is another small Danish Born global firm. The firm relies on outsourcing of manufacturing and after sales service. The cluster dependence of the firm is more weak, but one of the founders previous employment has vehicle a focus the catering business and the business possibilities herein. Definite, personal relationships have made it possible for the firm to use the home market as a test market and these experiences has made it possible to export the solutions to particular market segments. A further international expansion is, however limited by the fact that kitchen management is culturally very different.
It happens frequently that niche firms, such the above mentioned ones, belong to the business-to-business market. In such markets direct contact with global industrial customers supports customer orientation, problem solving and strengthens client relationships without the need of large investments in marketing and promotion. Other studies seem to confirm the role of network embeddedness for niche firms performance (Echols and Tsai, 2005) and underline the importance of building a system of embedded ties together with the selection of product/market segment strategy. Global networks are deemed crucial for the development of born global firms (Knight and Cavusgil, 1996).

ALESSI

Alessi, one of the most important "Factories of Italian Design", is based in Crusinallo, close to Omegna , on Lake Orta. Founded in the 20s, in a region historically devoted to the household goods production, since the 50s Alessi specializes itself in stainless steel manufacturing. Alessi headquarters bears the mark of the Atelier Mendini, that designed in the mid 90s the recent extensions to the plant. Nowadays the company employs about 500 people, who are directly involved in project development, production, sales and distribution. Alessi is exporting the 65% of its turnover to over 60 countries and count over 5000 points of sale. Today the company owns 14 Alessi stores (Showroom and Flagship) located in the most strategic areas in the world and 175 Shop in shop.

"Along the shores of Lake San Giulio, amongst the Romanesque churches and the Baroque chapels, the household goods factories have become a precise point of reference, leaving their strong social and cultural imprint on the whole area. One of those early craftsmen/small businessmen was my grandfather, Giovanni Alessi. Alessi has changed from being a "Workshop for the working of brass and nickel silver plates, with foundry" (so read the sign over our stand at the first Milan Trade Fairs in the twenties) into one of the "factories of Italian design." The change from a metallurgical and mechanical industry into a workshop actively researching the field of applied arts has been a gradual one over several decades. It has been an exciting process which, quite possibly, could serve as a possible model for the evolution of many kinds of industry in our consumer society." (declaration of the entrepreneur, extracted from corporate web site)

Nowadays the company can be considered on one side a district leader, because in the tightly knit lcal production system, specalised in stainless steel home appliances, it reached a large size, maintaining strong long links with local SMEs, especially in the manufacturing activities. On the other hand Alessi is also one of the leading Italian and European design firms, connecting through a system of strong relationships with designers (business to professionals relationships) and design clusters across the world and applying innovative design to a growing number of fields. One of the last concepts is a FIAT Panda designed by Alessi, highlighting the establishment of business to business relationships with manufacturing firms belonging to very different industries.

Alessi opens 2006 with a substantial boost to its sales strategy. **Alberto Alessi** illustrates the goals of what he describes as rationalization and reclassification: "… Simply thumb through our catalogue to get a feel of how difficult it is to manage an assortment of products which, in price terms, range from ten to thousands of euro. Therefore, from now on the brand will be divided into three branches: <u>Officina Alessi</u>, <u>Alessi</u> and <u>A di Alessi</u>...... At the same time it should be noted that the new names identify three collections to be considered as variations of a single business identity, and should be regarded – clarifies Alberto Alessi – not as single identities but as elements that belong to the Alessi identity; each will express some of the aspects of our company's versatile and encyclopaedic catalogue".

The primary aim of this division into three brands is to facilitate the targeted allocation of products to the distribution and sales sectors, which may thus avail of more flexible and efficient instruments of top contemporary design split across different price ranges and purchasing opportunities. **Officina Alessi** groups more sophisticated and highly priced limited-edition or unique products as well as the results of researches of highly innovative and experimental, formal, constructive and functional content, free from the limits dictated by mass production.

The traditional **Alessi** brand will continue to express the best of industrial production in the household goods sector, from the point of view of design and technological and construction quality. Prices will be consistent with average-high and high market levels.Products grouped under **A di Alessi** reflect a design creativity aimed at obtaining inclusive rather than exclusive results, so as to bring "… a bit of joy and beauty to as many people as possible….. without neglecting design quality and focusing greater attention on function and price".

What's important is that the ethical choice of keeping the metal production in its original location, in Crusinallo di Omegna, is confirmed for <u>all brands</u>.

At the same time, the company intends to continue developing its special design-management skills, with a view to creating a more evolved form of marketing of the applied arts market.

Source: Company web site, press releases, direct interviews

GRANITE CUT

It is a small firm with 35 employees, a turnover of 12 mil. Euro. Born in 1984, it operates in a granite mining and refining cluster in Northern Italy. The original cluster of granite extraction gave birth in the last decades to a parallel co-located cluster of technologies for granite mining and refining. Proximity to customers and deep knowledge of the geological characteristics of the ground and of the minerals permitted to small local firms to introduce machinery adequate to local customers' needs. It happened frequently that these small firms were spin offs of extractive firms, which developed knowledge of the needed technologies working in this context and using machinery imported from abroad (mostly from Germany and Japan).

The Granite Cut firm has the typical characteristics of small firms: a strong role of the entrepreneur, family business, it does not belong to any group, even if it has some minority share in other SMEs.

Initially it was the only producer of diamonds threads to cut granite, even though later on other enterprises began to imitate the technology.

The enterprise is leader in the domestic market, and among the top ten in the world market. The latter is divided with other 4 direct foreign competitors, but they are big firms, that operate on more market segments and product lines.

The firm had a serial approach to the global market: "We were the only producer of diamonds threads, our natural market is the world, for such reason we have always looked at global customers, independently from their location". Barriers in the international activities were found only in tariffs and protectionism, while geographic or cultural distance where not considered a problem at all.

It is a born global firm: export and import started in same the year of foundation, with a broad scope (UE, USA), and a percentage of export on total sales, in the first 3 years form inception, of 33%. In a few years, its products were present all over the world, with a EU share on total sales of 25%, an extra Ue share of 70%, and only a 5% on the national market.

The firm sells mostly in Spain, Portugal, France, Brazil, China, India, in USA with a sales subsidiary, while it has representatives and agents in the other countries.

The firm has focused its business only on the production of diamond threads, with the purpose to reach a critical mass of clients, to specialize production and to "have a development in line with the demands of the market and with an immediate adjustment to the particular demands of the client".

The customer orientation is very strong; the strategic approach is more *customer* than *country oriented:* the product can vary according to the demands of the clients. The strong customer orientation is the reason why the enterprise -besides the activity of production - offers also services to clients. The firm is aware that its technology is not well known yet: the enterprise sells the machinery to the client, and assists him/her/them to correctly use the diamond thread.

The entrepreneur thinks that the competitive advantages of his firm are quality, innovation, customer adaptation, and assistance. Price is not considered an influential element for competing in this business.

The entrepreneur has travelled a lot, in order to learn from his customers, and to explore markets. He thinks "an open mind, the ability to create a global and local network, commercial relationship, and the ability to have dialogue with other firms, also of other businesses, are fundamental to develop an international commitment".

The entrepreneur himself is the manager of the international activity and of the strategic choices. He has driven his production to a global market from the inception, because "the local one has never been considered as the only market".

The firm tries to solve the problem of the technological risk that could derive from the introduction of an innovation, with a dynamic attitude and proactiveness. The firm develops continuous research and aims at leading the innovation in stone cutting over time.

Source: direct interviews

Densen Audio Technologies

Densen is a small firm (9 employees) who designs, manufactures and sells HIFI-equipment in the high-end. The firm has three product lines; Receivers, amplifiers, pre-amplifiers and CD-players. The firm's approach to sound is very different from the competitors focusing on replicating the recording as close to the original as possible. When products are designed focus is on the company values and the functions the founder wants it to have and how it should be designed. E.g. the founder has chosen not have the possibility to plug-in earphones, because he does not like it and it does not fit into the design. Other firms' tries to streamline according to consumer taste whereas Densen tries to show the consumers how sound should be and look like and the design is same for all the products.
The company was founded 2000 but before that the founder had substantial prior knowledge on HIFI through importing and distributing equipment from the US and late in 90'ties he decide on starting his own business based on his own ideas on design and technology. Since he did not have any education on electronics he had to learn from scratch and have designed a print board which is unique to Densen and constitutes the core in all the products. Densen relies heavily on two suppliers of electronics (one local and one from Taiwan) and one supplier of cabinets (local). Densen assembles the components into the cabinets. Densen do sell to distributors in 35 countries who again sell to outlets. UK is a very important market for HIFI equipment and on this particular market Densen has employed one sales person. Densen has a homepage with extensive communication to end-users, but has no sales via the net. Densen offers live long warranty on the products to the original owner. Since Densen do not have a R&D department all the products are build of modules, hence the products can be shipped to Densen for upgrades.
One item costs around 7000 euro

Source; Company Website and Interviews

Discover systems

Discover system is a small manufacturer of kitchen management systems. The firm was founded 1998 by two entrepreneurs one being engineer the other a sales trained person with substantial knowledge from the catering industry. The system is patented and is based on RDIF-technology. When a customer approaches the counter and orders a meal, the order is put into the computer and the order is unique attached an electronic brick handed out to the customer. When the meal is prepared the chef informs the computer that the meal is done and a signal goes to the customer's brick that the meal can be picked up. The brick will start flashing and the customer can swap the meal for the brick at the outlet counter. Discovers system designs the brick together with the customers, but all production is outsourced and after sales services is outsourced to local firms close to the customers. Discover systems main market was the Danish home-market but as the system has been "tuned inn" Discover systems exports via agent to Sweden, Norway, Finland, Germany and Australia. The prime target for the agents is to sell into the different catering chains in the different countries (e.g. Monarch) and to establish the service contracts.
The system can be used in many different industries but since one of the founders had previous knowledge in the catering industry they decided to focus on this industry. They have also discovered that kitchen management is very dependent on the different cultures; therefore they foresee the future expansion to take place in countries like the north European countries. Even though the main business is the electronic brick system, Discover system has discovered a prosperous submarket; that is advertising space on the bricks. Since many of the customers are hungry they will often be looking at brick waiting for the meal to come, hence Discover systems has been successful in selling advertising space on the brick to e.g. local breweries.

Source; Company website and Interviews

Discussion

Many local clusters have entered in the last years into a period of crisis, which challenges their survival. This happens meanwhile the clustering of economic activities currently grows and touches new business, such as the biotech or the ICT ones. Traditonal districts, largely relying on labour intensive production, have been threatened by global competition, especially from lower labour cost countries. As a consequence their crisis has been superficially categorized as an unavoidable evil due to disparities in the cost of factors. In this contribution we preferred to underline that any cluster is challenged by a problem of local over-embeddedness which generates lock in. The latter can be defined as lack of variety and of capacity to vary and can be contrasted by reducing the levels of local embeddedness in inter-firm relations. These process are complex and need to be leaded by pioneers, i.e. by leading firms –not necessarily the largest ones- possessing global vision, network capabilities and strong innovation commitment These firms establish new systems of local-global ties, favouring mostly firms located in other clusters around the world because complex knowledge is sticky.

In this perspective network capabilities have to considered among the crucial ones for firms looking for international competitiveness and innovation, and their internationalisation "network –based" strategy can be viewed more properly in terms of quest for access to knowledge embedded in foreign contexts rather than as exploitation abroad of an home based competitive advantage.
The role of the home cluster remains important but not enough: it ensures access to a local pool of know how and resources and drives early international orientation, but it needs to be supported by foreign clusters/foreign firms dense relationships (multiple embeddedness) in order to build competitive advantage and to gain long term international performance.
The case studies reveal different paths of local cluster evolution, different roles of leading firms, and highly differentiated competitive responses, due to different business value drivers, as well as to firm-specific traits.
Also the internationalisation paths of the firms are different because they can be either gradually internationalising or born globals. This means that even though born global firms (in the strict definition of firms which are international from the beginning and very fast growing in inward-outward flows) represent a vital part of the local network, naturally open from their inception to a multiplicity of local and foreign ties, also firms which followed a more traditional path can become district leaders over time. Alessi for example had a product which originally had a sufficiently large domestic market, while Granite cut didn't.
The firms surveyed have in common the importance of local versus global networking: network capabilities seems to be at least as much important as the other traditional organisational capabilities. Network capabilities involve the capacity to build a unique mix of local and foreign ties in order to access so sticky complex knowledge, which is highly embedded in contexts and firms belonging to them. Network capabilities – when partners are sufficiently diversified and absorptive capacity is high- nurture dynamic capabilities. The concept of absorptive capacity (Cohen, Levinthal, 1990) expresses the ability to recognize the value of new information, assimilate it, and exploit it for commercial purposes. Being international nowadays involves not only a wider potential market where to sell products and services but – most important - a global space where to mobilize complementary resources and where to access knowledge and recombine knowledge for innovation and long-run performance. Teece, Pisano and Shuen (1997) defined dynamic capabilities "as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (ibid. p. 516). The firm's competitive advantage is thus a highly dynamic one, and requires continuous innovative reconfiguration as well as resource mobilization, considering path dependence and market positions.
The behaviour of leading firms (or connectors) can drive local cluster evolution.
When district specialization moves from labour intensive final goods manufacturing to the production of related technologies, it calls for establishing stronger (embedded) ties with final customers, since technologies such as specialised machinery are constantly tailored to customers' requirements. In this scenario local firms specialised in technology market niches and develop a early and strong global customer orientation, through a system of business to business ties across the world.
In other cases it is possible to identify a different process of value chain re-organization, when the district specialisation remains the same (e.g consumer goods), but business value drivers move to the other value-added activities, like design, R&D and marketing. District connectors tend to locate some of these activities outside the district often choosing large cities where research, design and marketing competences are concentrated and benefit from cross-fertilization effects resulting from their application in different fields from that of the original business. The nature of such geographical concentrations may be very different from that of the original cluster (think of Milan or Florence or Paris for fashion-related activities, which could be portrayed as 'creative cities').
This behaviour of leading firms may result in multiple local system embeddedness (the traditional closely-knit district, the metropolitan looser design/research/advanced services basin and foreign labour-intensive systems of production), where the challenge is represented by these firms' ability to play the role of main connectors among different local systems and to open this option to the other local players.

Conclusions and main contribution

Qualitative research confirms that networking is an important (determinant) factor for SMEs internationalisation (spatial dimension in IB). Moreover, it is also a key driver for early and fast international growth (temporal dimension in IB).
Also networking can be viewed in a spatial perspective. In the paper the most relevant one is not the traditional country-based one, i.e. domestic versus foreign networking. On the contrary it proves useful to adopt the perspective of multi-local networking on a global scale.
Local (home based) networking proves an important platform for small and infant firms internationalisation. Foreign networking fosters and consolidates international growth, and opens new learning opportunities and novel knowledge combinations. These phenomena of local/international learning are grounded on the embeddedness of network ties, so that trust based and rich information exchange can take place.
Firms which prove capable of leveraging both on local and foreign networks (multi-local networking or multiple embeddedness framework) prevent risks of lock in, can enhance new knowledge combinations,

through access to rich and dense knowledge “pockets” across the world. Connectors are likely to show to a greater extent than other dynamic capabilities (Teece, Pisano and Schuen, 1997) grounded mostly on their network capabilities (Foss, 1999; Kogut, 2000).

Moreover “connector firms” are not only beneficial for their own survival and performance but also for the local clusters they belong to, since they un-lock in local systems.

The paper may have relevant managerial implication, because it offers to SMEs an alternative understanding of how they can rely on local networks as platforms and on foreign networks as lifts to a sustainable international performance. It also suggests a model for capabilities development for small firms in order to gain, sustain and renew their competitive advantage in international markets and a way to conceive their internationalisation strategy.

The paper also offers some reflection for policy makers regarding local clusters and districts, the survival of which is threatened by global competition and off-shoring trends by local firms. In particular, the paper identifies district enabling factors (which glue together local firms) and disabling factors (leading to off-shoring-international outsourcing) and proposes a path whereby off-shoring trends are made compatible with the survival of the district, by establishing connections with dense knowledge sharing among different clusters, driven by “connector firms”.

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