

THE MECHANISM OF BUILDING BUSINESS NETWORK RELATIONS IN THE INTERNATIONALISATION PROCESS

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Abstract

Purpose of the paper: The purpose of the paper is to present the idea of the doctoral thesis. The proposal will start with the theoretical background explaining the importance of business networks, types of business relationships in terms of the different entities involved in the relations and relationship strength, relationship building process and internationalisation process. The following parts will consist of the research issue, object of the thesis, purposes and hypothesis presentation.

The main aim of the thesis is examine which relations have the highest influence on companies' performance and how companies' should built those relations.

Research method: Mail surveys will be used as main research method. They will be followed by detailed analysis of chosen companies in the form of case studies.

Keywords: Business networks, business relationships, relationship strength, internationalisation process.

Theoretical background

Network approach is present in literature since the '70s when researchers from IMP (Industrial Marketing and Purchasing) Group started to examine behavior of firms operating in a business-to-business (B2B) market. In this approach, a company is discussed from the perspective of its relationships and interactions with other companies. As these relations exist, various resources are exchanged in order to achieve common goals and enhance co-operation and in effect the strategic position of a network¹.

A business network is defined as a system of relations between separate entities in business-to-business market².

It is possible to distinguish five groups of benefits that are connected with business network:

- market benefits (access to other markets, sales support etc.),
- product benefits (joint product development, technical support for products etc.),
- information benefits (access to partners' knowledge and skills etc.),

¹ Anderson J., Håkansson H., Johanson J., "Dyadic business relationships within a business network context", *Journal of Marketing*, 1994, Vol 58, pp. 1-15; Håkansson H., Snehota I., "No business in an island: the network concept of business strategy", in: Ford, D. (Ed.), *Understanding business markets: interaction, relationships and networks*, Academic Press Harcourt Brace & Company, Publishers, 1993, pp. 526-540.

² K. Fonfara (red.), *Zachowanie przedsiębiorstwa w procesie internacjonalizacji. Podejście sieciowe*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2009, s. 30.

- technological benefits (connected with exchange and development of technology etc.),
- financial benefits (financial support, economy of scale etc.)³.

There are two theoretical approaches to the creation of a business network. According to the one developed within IMP Group, business network emerges as a result of many complex interactions created between separate companies within a certain period of time. These ties are created on the basis of constant and long-lasting co-operation and have their source in the existing relations. The network is not dominated by a single entity. The interactions between actors in a network have both formal and informal character.⁴

The second approach is the strategic network approach. Going along with the received business network theory, this approach presents more strategic orientation towards business management. The enterprise decides with whom to cooperate, what form of co-operation to use and chooses business associates according to the adopted strategy. The network is still created by separate entities.

It is essential to understand that not all relations are the same⁵. In the doctoral thesis all the relations will be classified according to the entity with which the relation is developed and to the relationship strength.

The *network approach* states that the effectiveness of the company is determined not only by its relations with purchasers but also with other entities. Relationship marketing theory lists seven markets that may be crucial for the company success – purchasers market, suppliers market, recruitment market, internal market, competitors market, referral market, influence market⁶. Additionally a complementor market could be distinguished⁷. The entities of crucial importance for the company's success will be underlined in the doctoral thesis and relations with those entities will be thoroughly analysed.

Relationship strength refers to the ties between partners and reflects their ability to weather both internal and external challenges to the relationship⁸. Distinction between strong and weak relations is crucial to detailed analysis of business networks.

Each relation between separate entities can be explained by economic or behavioural factors. The economic theory assumes opportunism and concentrates on efficiency of transactions. In the economic explanation of exchange, the most efficient relationship structures are those that enable firms to remain independent, use the market or gain control to use their power over partner firms. The main focus in economic explanation is on the *content of exchange*⁹.

Behavioural analysis brings history, social structure and interdependence to analysis of business relationships. The relationships are characterised by trust, commitment, co-operation, mutuality. Researchers focus on the *process of exchange*.

³ K. Fonfara, *Marketing partnerski na rynku przedsiębiorstw*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2004, s. 53-54; A. Hausman, *Variations in relationship strength and its impact on performance and satisfaction in business relationship*, Journal of Business & Industrial Marketing, Vol. 16, No. 7, 2001, s. 600.

⁴ K. Fonfara (red.), *Zachowanie...*, op. cit., s. 16-17.

⁵ A. Hausman, op. cit., s. 600.

⁶ K. Fonfara, *Marketing partnerski*, op. cit., s. 78-79.

⁷ por. S. Hollensen, *Marketing Management. A Relationship Approach*, Financial Times, Prentice Hall, 2003, s. 202-242.

⁸ A. Hausman, op. cit., s. 602.

⁹ B. Donaldson, T. O'Toole, *Classifying relationship structures: relationship strength in industrial markets*, Journal of Business & Industrial Marketing, Vol. 15, No. 7, 2000, s. 491-506.

Classification of relationship strength should include both economic and behavioural approach. B. Donaldson and T. O’Toole have developed a matrix that consists of belief component, which measures behavioural process and action component, which measures economic content. The relations with high belief component are open for co-operation and are characterised by high level of information exchange. Partner’s actions in the relationship indicate the economic strength of the tie.

Figure 1. B. Donaldson and T. O’Toole relationship matrix.

		ACTION COMPONENT	
		high	low
BELIEF COMPONENT	high	BILATERAL	RECURRENT
	low	HIERARCHICAL	DISCRETE

Source: B. Donaldson, T. O’Toole, *Classifying relationship structures: relationship strength in industrial markets*, Journal of Business & Industrial Marketing, Vol. 15, No. 7, 2000, s. 495.

“Bilateral relationships are high strength relationships . This means that the belief and action elements are at a high level and in bilateral relationships, partners co-operate for mutual advantage. There is openness, information sharing and collaboration at a strategic level. Both the process of interaction and content strength are high. It is a unique and complex relationship, not easily copied.

A recurrent relationship is a hybrid form between the pure discrete and bilateral types. Elements of reciprocity and temporal duration creep into the exchange. The relationship is open but not seen as strong by the parties involved, so that committed actions are at a low level.

Dominant partnerships are a very common governance mechanism, in which the dominant partner specifies the nature of the interaction between parties. The nature of hierarchical relationships is decided on an authority basis and governed by the power-dependency balance between partners.

Discrete relationships are the lowest relationship strength. Opportunism dominates this approach with few, if any, ties between parties. Discrete relationships are based on the assumption that firms make rational economic decisions as independent actors in the marketplace”.

in the thesis It is planned to compare performance of companies developing strong relations (bilateral), weak relations (recurrent and hierarchical) and performance of companies using mostly discrete relations.

The classification proposed by B. Donaldson and T. O'Toole, which combines the economic and behavioural elements of relationships will be adopted in the thesis. Moreover the elements of other classifications will be considered.¹⁰.

Previous research on the impact of relationship strength on the company performance used both economic and behavioural elements. Relationship strength used to be associated with factors such as trust, commitment, flexibility, mutuality, information sharing, history of cooperation (which are behavioural elements) as well as dependence, adaptations, value of the exchanged products, market uncertainty (which are economic elements). The results indicated that strong relationships have positive impact on company's performance and success¹¹. However the researchers have used various, often divergent, approaches to relationship strength. They have focused either on behavioural or economic elements of relationship. There is no research that apply complex classification of relationship types with both of these elements. Moreover, some research suggest that low level of one factor that constitutes relationship strength could be compensated by the other factor (e.g. low level of trust can be compensated by high level of adaptation maintaining the same relationship strength)¹². Such reasoning stays in inconsistency with the assumption that relationship strength is created by both economic and behavioural elements. Some researchers also discovered that weak relations (particularly recurrent relations) have much bigger impact on identification and exploitation of chances that emerge in foreign markets (and thus bigger influence on the internationalisation process) than the strong relations¹³. That leads to a conclusion that the influence of different relationship types and relationship strength on the company's success demands further research and empirical verification.

Summarising, the company may have relations of different strength with different types of entities. We can also distinguish different types of weak relations, which are characterised by different combination of economic and behavioural elements that maintain the relation. Figure 2 presents an example of business network of individual company.

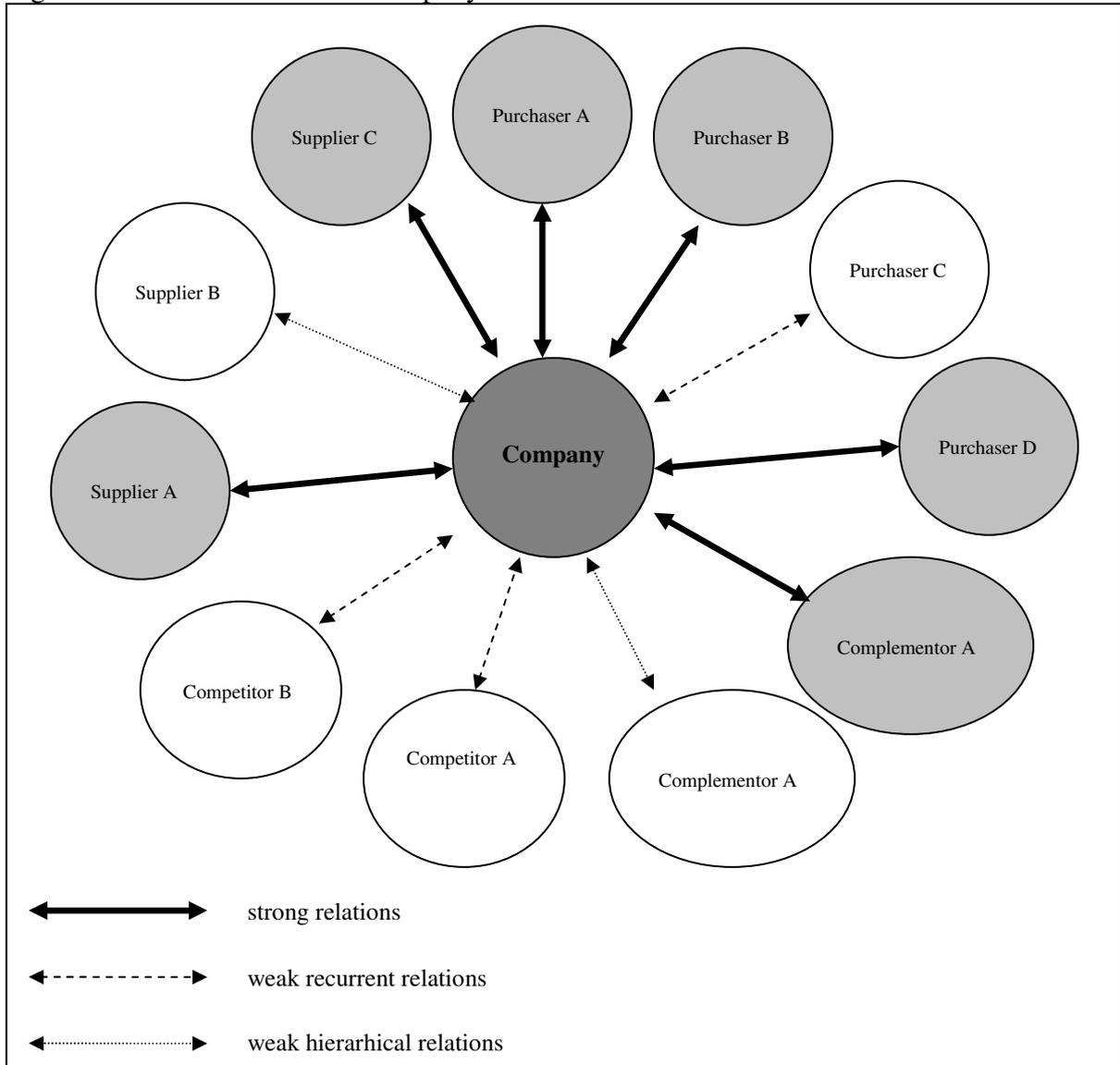
¹⁰ np. L.A. Keister, *Where Do Strong Ties Come From? A Dyad Analysis of the Strength of Interfirm Exchange Relations During China's Economic Transition*, The International Journal of Organizational Analysis, Vol. 7, No. 1, 1999, s. 5-24; K. Fonfara, *Marketing partnerski*, op. cit., s. 58-59.

¹¹ por. L. Hallen, J. Johanson, N.S. Hohamed, *Relationship Strength and Stability in International and Domestic Industrial Marketing*, Industrial Marketing and Purchasing, Vol. 2, No. 3, 1987, s. 22-37; S.L. Golicic, *A comparison of shipper and carrier relationship strength*, International Journal of Physical distribution & Logistics Management, Vol. 37, No. 9, 2007, s. 719-739; A. Hausman, op. cit., s. 600-616; L.A. Keister, op.cit, s. 5-24.

¹² por. A. Hausman, op. cit., s. 610.

¹³ B.M. Oviatt, P.P. McDougall, *Defining International Entrepreneurship and Modeling the Speed of Internationalization*, Entrepreneurship Theory and Practice, 2005, 29 (5), September, s. 545.

Figure 2. Business network of company A.



The establishment and development of relations between separate entities is a process, which takes a certain amount of time. Each relationship changes over time – the change could be connected with transmission from market transaction to collaboration based on relationship marketing approach¹⁴. There are five stages of relationship development¹⁵:

1. *pre-relationship stage*,
2. *early stage*,
3. *development stage*,
4. *long-term stage*,
5. *final stage*.

Each of the above-mentioned stages is characterised by different level of variables, such as experience, uncertainty, distance, commitment and adaptation.

¹⁴ Por. K. Fonfara, *Marketing partnerski...*, op. cit., s. 63-64.

¹⁵ D. Ford, *The Development of Buyer-Seller Relationships In Industrial Markets*, European Journal of Marketing, Vol. 14, No 5/6, s. 339-354.

First stage is related to seeking and evaluation of potential partners. It is influenced by experience that comes from cooperation with existing and previous partners. Companies will have no commitment to a new partner at this stage and at the same time they will face high uncertainty about potential costs and benefits involved in the relation. Also the distance, which exists between partners, is perceived to be high (the distance has several aspects: social, cultural, technological, time and geographical distance).

The three following stages are characterised by constant development of co-operation. The experience and knowledge of the other side increase, what allows the adaptation of operations and plans of the partners. At the same time both uncertainty about actions of the partner and distance to the partner are reduced by experience. Companies may however face other problems. Reduction of uncertainty can lead to usage of routine ways of dealing with partner, which may no longer relate well to either party's requirements. Perception of company's commitment to the relation may differ from the actual level – paradoxically when the company is most committed to the relation, it may appear less/least committed. Also some social problems may occur in long-term relations.

The final stage is reached in stable markets over long periods of time. The co-operation is based on codes of practice and may have relatively little to do with commercial considerations.

Because of different levels of experience, uncertainty, distance and commitment at each stage, companies should adjust the tool it uses and actions it takes to build and develop strong relations.

Business relations of a company have large influence on its internationalisation process¹⁶. In the doctoral thesis internationalisation will be defined as every type of economic activity that a company undertakes in the foreign markets¹⁷. Both passive and active internationalisation will be considered (active defined as company's foreign expansion and passive defined as various interactions with foreign partners in a home market)¹⁸.

In terms of network approach company's internationalisation is connected with establishment and development of relations with partners in foreign markets. High level of company's internationalisation means that it has a lot of relations on different foreign markets¹⁹.

The presented issues on establishment and development of relations with different types of entities, relationship strength, and internationalisation are the basic form stating the research issue, object of the thesis, aim of the thesis and research hypotheses.

¹⁶ N.E Coviello, H.J. Munro, *Growing the entrepreneurial firm. Networking for international market development*, European Journal of Marketing, Vol. 29, No. 7, 1995, s. 49-61.

¹⁷ J. Rymarczyk, *Internacjonalizacja i globalizacja przedsiębiorstwa*, Polskie Wydawnictwo ekonomiczne, Warszawa 2004, s. 19.

¹⁸ M. Gorynia: *Podstawy strategii przedsiębiorstw w biznesie międzynarodowym*, w: K. Fonfara, M. Gorynia, E. Najlepszy, J. Schroeder, *Strategie przedsiębiorstw w biznesie międzynarodowym*, Wydawnictwo AE w Poznaniu, Poznań 2000, s.16.

¹⁹ J. Johanson, L. G. Mattsson, *Internationalisation in Industrial Systems - A Network Approach*, w *Strategies in Global Competition*, N. Hood, J.E. Vahlne (red.), London: Croom Helm, 1998; N.E Coviello, H.J. Munro, op. cit.

The research issue

Despite a large interest in business networks in the literature, there is still a lack of complex and comprehensive research on the mechanism of building business networks by companies in foreign markets.

For so determined research gap, **the research issue** of the thesis is the mechanism of building business network relations fostering company's success in the internationalisation process..

Object of the thesis

The object of the thesis are relations build by the company in the internationalisation process with entities in foreign markets. The relations are characterised by different strength and features.

Purposes and hypotheses

There are three purposes of the thesis:

1. Identification of different types of entities with which the company establishes and develops relations in the internationalisation process.
2. Explanation of the relationship building process in the internationalisation process.
3. Identification of types of the relations, which have the biggest impact on the company's success and explanation of the methods of building such relations.

Additionally it is planned to create an internationalisation model , that includes co-operation with different types of entities in foreign markets and different relationship strength characterising relations and implying development of relations in time.

In the thesis the success of the company will be measured by aggregated index of market outcomes (encompassing profit, sales, market share and ROI) compared to company's closest competitors. This will allow comparing the results with research made by International Marketing Department at the Poznan University of Economics²⁰.

It is anticipated that a number of groups of companies characterised by the co-operation with different types of entities in the foreign markets and building relations of different strength will be distinguished.

The concept of relationship strength and its importance for the analysis of business networks has been elaborated in the literature review. The proposed classification of business relations includes economic and behavioural explanation of the exchange relationship. It is believed that the strongest relations are those that keep /enable economic benefits of the exchange and maintain good atmosphere. The importance of strong relationship for the companies has been proved in numerous researches. However, there's a lack of researches

²⁰ por. K. Fonfara (red.), *Zachowanie...*, op. cit., s. 61.

indicating the correlation of company's success and the strength of business relations in foreign markets, which includes both economic and behavioural elements of the exchange.

Hypothesis 1: The companies that build strong business relations in the internationalisation process, achieve relatively better market outcomes than their closest competitors.

Company's business network is created by its ties to other entities. Different types of entities can be distinguished – client, suppliers, complementors, competitors etc. In accordance to relationship marketing theory, effectiveness of a company is connected with its co-operation with different type of entities²¹. However there's a lack of researches indicating correlation between the success of a company and development of relations with different entities in foreign markets in the internationalization process. Enterprises see distinct benefits of building relations in foreign markets with purchasers. It is planned to prove in the thesis, that development of the relations also with other entities has a positive effect on company's success.

Hypothesis 2: The companies that build relations with different types of entities in the internationalisation process, achieve relatively better market outcomes than the companies that limited building the relations only to purchasers.

²¹ K. Fonfara, *Marketing partnerski...*, op. cit., s. 78-79.