Title: Networking of international new ventures: leverage of large firm resources

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Abstract

Networks of international new ventures calls for profound understanding of interpersonal relationships between key actors. The network theory describes and explains the development of relational processes over time. More specifically, resource-based view addresses different resource combinations that produce the competitive advantage. The theory has rarely explored the impact of strong dyadic partnerships which lead to successful global business. We extend the network theory research of international new ventures by explaining how young and inexperienced entrepreneurs create, develop and maintain interpersonal relationships that bring tangible, intangible and organizational resources. In this study, we focus on investigating the development of crucial resources for the survival and rapid development among four high-technology case firms from a small and open economy. The results are based on cross-case analysis and propositions are formulated. The results highlight the important role of strong relationship ties as a key source to achieve vital positions in global networks. The relationships with the industry leaders were highly emphasized since founding of the case firms. The theoretical contribution stems from that applying effectuation in networking was found to moderate the effective tie selection and acquisition of valuable and costly to imitate RBV-resources, which secured the sustainability of the competitive position of the INVs. For networking of entrepreneurs, this study provides practical implications especially in the early stages of international venture creation.

Keywords: International new venture, Networks, Effectuation, Relationships, Strong ties, Weak ties, Resource-based view

INTRODUCTION

International new ventures (INVs) have received lots of attention by the international entrepreneurship scholars. According to McDougall (1989) these start-up firms engage in international business since their inception. Later Oviatt & McDougall (1994) have defined INV as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale outputs in multiple countries”.

In order to survive and achieve rapid international growth, these firms need to overcome three types of liabilities that relate to their newness, smallness and foreignness (Zahra 2005). Accordingly, INVs are often inexperienced and unknown to the public that influences to their ability to acquire resources and positions in local and foreign networks. Also their small size sets limitations to their resource base and they need desperately more resources for survival and rapid internationalization. Lastly the foreignness reflects to the firms so that they have to overcome entry barriers, build networks to suppliers and other interest groups as well as to identify and convince their potential customers.

Several authors have encouraged focusing on the internationalization context in order to study the internationalization of firms, and thus examining the business environment and relationships of the firm (Servais & Madsen 1997). Inter-organizational networking is widely recognized phenomenon that has been studied in different context with different perspectives. Johanson & Mattsson (1988) have argued that other players are holding the requisite resources and to get access to these resources, the firm must develop its position inside the network. Since then several studies have indicated that inter-organizational relationships are vital for international growth of new ventures (see e.g. Ylirenko et al. 2002; Coviello & Munro 1997; Coviello 2006; Prashantham & Dhanaraj 2010).

This study focuses on bilateral network relationships between an INV and its network partners. When considering the strength of these bilateral relationship ties, previous studies (see e.g. Granovetter 1973; Sharma & Blomstermo 2003; Söderqvist & Chetty 2013) have provided divergent findings where some studies have found strong ties more beneficial, where as others suggest young start-up firms to establish weak relationship ties with their network partners. However studies rarely explain how these inter-organizational relationships of different tie-strengths are actually created.

This study is focused on early phases of four university-based international new ventures based on investigation of how these firms are able to create network ties that help them to survive and achieve rapid international growth. Earlier research shows that entrepreneurs adopt effectuation logic under higher levels of uncertainty and it is emphasized especially in the first stages of venture creation (Sarasvathy 2001). Next to these results, previous studies call for more research focused on internationalization processes of new ventures and effectuation. More attention is in particular needed on "pre-start" phase of the ventures (Chandra et al. 2009). Moreover Perry et al. (2012) have specifically encouraged scholars to adopt the effectuation perspective as the theory has a potential to explain individuals' behavior in a situations where more classic strategies (causal, bricolage) cannot. Therefore this research has following research questions:

1) How INVs create inter-organizational relationships of different tie-strengths through effectuation process?

2) How different tie-strengths influence on the competitive advantage of INVs?

THEORETICAL BACKGROUND

Inter-organizational relationships and resources

Inter-organizational cooperation is based on relationships between co-operating organizations (Kumar et al. 1994; Vlaar et al. 2006) that most often describe bilateral interactions between cooperating organizations (Rao et al. 2000; Vlaar et al. 2006). Bilateral relationship research usually studies the forms (Cropper et al. 2008), roles and positions (Vlaar et al. 2006; Hatch 1993) pertaining between partners. Cooperation is used especially as a tool for solving problems within organizations, it creates new opportunities (Anderson and Narus, 1990; Vlaar et al. 2006) and it provides resources that organization could not access alone (Hardy et al. 2003). Therefore a competitive advantage which would be impossible to achieve alone is the main object of cooperation (Boonstra and Vries 2005; Vlaar et al. 2006) which is based on a willingness to share power (Kumar et al., 1994).

In this study, the focus is on bilateral relationships between an INV and their network partner. According to Boonstra and Vries (2005), inter-organizational cooperation aims to improve the effectiveness, flexibility and speed of business. Despite the strengthening effects for the cooperating organizations, inter-organizational cooperation has been described as a conflicting, ambiguous and complex relationship (Babiak and Thibault 2009; Vlaar et al. 2006; Vlaar et al. 2007b).

In this study, the theoretical background focuses on a resource-based view which means that firms can acquire a sustainable competitive advantage by using different resources (Barney 1991). The resource-based view (RBV) can be defined through tangible, intangible and organizational resources. When firms consider tangible resources, they focus on funds and other physical resources such as machines and materials of firms (Grant 1991). On the other hand, the intangible resources consist of a firm's internal knowledge and expertise (Hall 1992). Organizational resources (Barney 1991), include both the culture and structure of the firm.

This study gains a profound understanding of the construction in resources among organizational relationships focusing on tangible, intangible and organizational resources (Barney 1991). Inter-organizational relationships in particular are seen as connections between the partners that can be understood as the inter-firm ties and have previously been seen as the sources for external resources and especially for intangible assets (Gulati 1995). Recent research has suggested that RBV, which originally has centred on internal resources of the firm, can be extended to cover also the network relationships (Sepulveda & Gabrielsson, 2013). Accordingly, INV may access valuable, rare, and costly to imitate and substitute resources from their network partners.

Tangible resources are focused on funds and other physical resources, such as the machines and materials of firms (Grant 1991). In the current practical business-to-business life, tangible resources include all systems (i.e. software programs) which are used as operational tools for helping firm's management. These intangible resources are built on a firm's inner knowledge and know-how (Hall 1992). Firms can increase or lack resources, both tangible and intangible, depending on the strategic choice of a venture (Gabrielsson et al. 2008). For instance, international new ventures (INVs) have been shown to have a high risk of lacking resources because of their strategic business choices in new international markets (Gabrielsson et al. 2008).

Sharma and Blomstermo (2003) state that inter-firm relationships, and especially weak ties to other network partners, are used to acquire intangible resources and influence on decision about foreign market and entry mode selection. According to the earlier literature, firms' experience through hard work, "blood, sweat and tears" (i.e. hard work), recruiting and networks were prevalent sources for intangible resources. In the discussion of intangible resources such as market knowledge were acquired, required cash flow was raised and the level of risk was divided (Freeman et al. 2006). Organizational resources describe both the culture and structure of the firm (Barney 1991). Accordingly, organizational resources as cultures or structures of firms might impede the routines of the firm, especially when leading people.

Effectuation

Sarasvathy (2008) describes effectuation as "a logic of entrepreneurial expertise, a dynamic and interactive process of creating new artefacts in the world." When observing from the effectuation theory perspective both individuals and a firm will be covered. Sarasvathy (2001) suggests that this approach is useful in new, unpredictable situations and therefore entrepreneurs adopt this decision-making logic under higher levels of uncertainty, and effectuation processes are emphasized especially in the first stages of venture creation (Sarasvathy, 2001). Uncertainty relates closely to international new ventures and hence this decision-making logic is connected with networking of INVs in this study.

The entrepreneur who adopts effectuation takes "a set of means as given and focus on selecting between possible effects that can be created with that set of means" (Sarasvathy 2001). Background and identity, knowledge and networks start this process as the entrepreneur asks the following three questions: "who I am", "what I know" and "whom I know" (Sarasvathy et al. 2013). This dynamic process is based on five dimensions that differentiate it from traditional and more strategically oriented causation logic. The dimensions of effectuation are means orientation, affordable loss principle, usage of strategic alliances, exploitation of randomness and control logic, that separate it from traditional, strategically oriented causal logic (Sarasvathy 2001; Sarasvathy et al. 2013).

Recent research has suggested that effectuation may moderate the relationship between firm resources and growth, thereby overcoming the resource limitations and enabling more rapid growth advancement (Gabrielsson and Gabrielsson, 2013). Here important part of effectuation process is networks by providing resources necessary for INVs. Since beginning of effectuation process the entrepreneur starts to connect with other people to acquire tangible, intangible and organizational resources from new relationships. In this study we are interested in how these new bilateral relationships are created and how different strength of relationships influence on the survival and rapid growth of university-based INVs

Strength of ties

Granovetter (1973) has defined the strength of ties based on time, intimacy, emotional intensity and mutual services. This study adopts the view and defines the strong tie as a relationship that is intimate, it is based on high level of trust and respect from both sides, the relationship is difficult or impossible to be replaced, and both parties are highly committed to the relationship. (Granovetter 1973; Uzzi 1997; Jack 2005; Söderqvist & Chetty 2013).

Earlier studies have showed that international new ventures leverage both strong and weak ties to facilitate their liabilities of newness, smallness and foreignness. For example, Oviatt and McDougall (2005) have found that weak ties are faster and need less work to be created and they influence positively on performance. Young firm who has many strong ties may face high opportunity costs to develop and maintain these relationships. (Han 2006). The author suggests that start-up firms should therefore establish more weak and only a few strong ties in the phase of early internationalization. Also Levin and Cross (2004) found in their study that weak ties are an access to valuable information.

Respectively Aldrich and Zimmer (1986) have suggested that strong relationship ties are fruitful because the members of these relationships are more motivated for co-operation and their mutual trust is higher. This relates to their access of resources also as knowledge and other resources are better available. In the most recent research, strong relationship ties were found important for young INVs as they are brokers for new networks. The research also presents that there is a third relationship strength level that is called as “equally strong as weak” tie. These certain relationships have often benefits and potential that encourages INVs to develop them stronger. On the other hand, elements from weak relationship ties such as uncertainty, passiveness and a possibility to be replaced belong to equally strong as weak tie relationships. (Söderqvist & Cherry 2013)

Based on these earlier findings all three tie strength levels (strong, equally strong as weak and weak) are recognized and investigated in the early development phases of university-based INVs. The theoretical framework (Fig.1.) of this study is presented below.

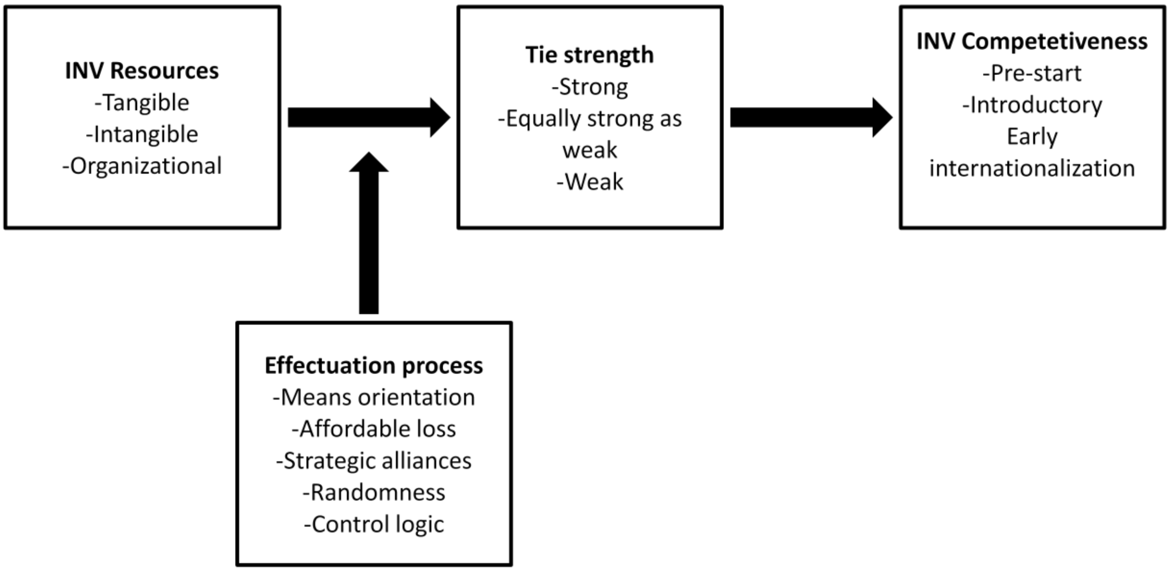

Figure 1. Theoretical framework

METHODOLOGY

Multiple case study method was selected for this study as it is suitable for examining the relationship between theoretical constructs and a complex, empirical phenomenon. (Eisenhardt & Graebner, 2007). The chosen method underlines the explanatory nature of our study (Piekkari, Plakoyinnaki & Welch, 2010). It is particularly appropriate for this investigation as there has not been much research on the creation and development of different tie strengths between international new venture and their network partners. Furthermore this methodology gives an opportunity to investigate how various ties influence on competitive advantage of the firms.

Validity of the research was increased by using multiple sources of evidence such as face to face interviews, phone interviews, emails and reports (Miles & Huberman, 1994). Three researchers analyzed the data, a chain of evidence was built, and explanation building logic was followed in the case analysis. Reliability was secured by careful data collection and formation of case database. Interviewees reviewed the transcribed data, and the coded data was cross-checked (Piekkari et al., 2010).

In the selection of the case companies, the chief executive officers of each firm were contacted. The case companies were selected to meet the following explicit sampling frame based on theoretical sampling logic (Miles & Huberman, 1994; Yin, 2009) they had to be: 1) university-based firms (i.e. academic spin-offs), and (2) entrepreneurial firms with international vision since inception (Oviatt & McDougall 1994). Four cases were selected using the above requirements. We conducted in-depth interviews with the founding CEOs and CMOs of the firms to study their bilateral relationships with larger network partners. The qualitative data was analyzed with cross-case analysis method.

The firm *Alpha* develops and markets high-technology sensors that provide high-solutions to the challenges of various processing industries (e.g. food, chemical, oil, and paper industry). The core business of alpha is based on mathematical modelling. This enables 3D-tomographic imaging and optics of flows and vessels and this mode can be utilized in optimizing customers´ processes. Instead of selling measurement products the core business model is based on providing measurement system solutions for customers.

The second case firm, *Beta*, develops and manufactures high technology products for skin measurement and operates in a highly specialized business environment. The production and shipment volumes of Beta are specialized and relatively small (approximately 20 products per series). In the production chain mechanical product components come mainly from Finland and the electronic components come from wholesale businesses worldwide. The final assembly and testing of the measurement equipments are executed at the head office.

Our third case firm, *Charlie*, develops products for global markets and at the moment they provide muscle measurement technology for the need of B2B sector. The current technology is still relatively complex and expensive for the mass production and therefore the business customers are mainly local and global research centres, universities and professional sport clubs. However the case firm is developing its technology to better serve the needs of regular consumers in the future.

Delta develops mobile games and during the past five years the firm has expanded rapidly to other areas of entertainment business as well as dairy products and toy business. During this time their brand has become globally well known that has provided new opportunities mainly through licensing.

FINDINGS

The cross-case analysis of the four cases revealed that entrepreneurs adopted characteristics of effectuation well before the firms were established. In the pre-start phase the founding entrepreneurs focused on research and development operations and believed strongly in their technological capabilities. Based on their strong academic experience, knowledge and reputation they were able to build strong relationship ties to the central actors of the research field. In their specified fields of research all the key persons knew each other and this fostered the development of new relationsip. Despite of this, the founding CEO of *Alpha* described that maintaining and developing these bilateral relationships to MNEs, international research centres, and influential individuals required lots of work from him and the CTO.

Several relationships were based on previous relationships from academic research networks. Moreover research and industry conferences became important as the entrepreneurs found new and unexpected partnerships from these events and hence the entrepreneurs utilized randomness. Important inter-organizational relationships were established to potential lead/pilot customers and to larger firms who wanted to do co-operation. *Charlie* found their first internationally distinguished pilot customer in this type of event and the CEO of *Delta* highlighted the role of a game development conference in the firm's introductory phase.

The role of the first pilot customers were emphasized in the introductory phase in all of the cases. Some of these relationships were a result of existing strong network relationships of the founding team. However majority of these relationships required events, cold calling and internet to be established. *Alpha* and *Beta* stated that without Internet, their businesses would not exist. Pilot customers found these firms from web portals (e.g. LinkedIn, firm home pages, and professional portals) and new contact were created. *Delta*'s CEO added that he had to throw himself into the center of people that influenced in the industry.

The entrepreneurs described relationships to pilot customers as very important though these relationships were still uncertain. The entrepreneurs were aware of their position and to avoid over-dependency and high level of risk, *Alpha* had established relationships to three MNEs from different industries. These firms were leaders in their industry and the INV needed them to change the market.

In the introductory phase lots of potential was included into these relationships and the amount of time used for these relationships was large. The INVs aimed at developing these relationship ties with their large pilot customers to as strong as possible even though the current tie strength was described as equally strong as weak. Furthermore one of the case entrepreneurs explained that their business model would require an intimate relationship with the customer and without mutual trust and knowledge, the results would not be optimal. These relationships to potential end-customers required “sweat and tears” as the CEO and CTO had weekly visits, phone calls, and web meetings with these partners in the early internationalization phase.

Network relationships to channels and publishers became crucial in the internationalization of the case INVs. *Charlie* had developed a strong relationship tie to few MNEs that had an important part in the firm’s supply chain. Respectively, *Delta* stated that through two channels, they were able to reach literally all the potential customers. Hence both of the case firms found it important to maintain and develop these relationships as strong as possible. This required continuous R&D work and contacting from INVs to foster the interests of their large partners.

DISCUSSION AND CONCLUSIONS

The novel finding of this research is to study effectuation logic (Sarasvathy 2001; 2008) together with networking of INVs (Oviatt & McDougall 2005; Coviello 2006). Earlier network structure and centrality literature has mainly focused on strong and weak ties where the first group of scholars has indicated that weak relationship ties are more beneficial for international new ventures (see e.g. Sharma & Blomstermo 2003; Oviatt & McDougall 2005; Han 2006). In proportion, other group of scholars has suggested that strong relationship ties can be more fruitful (Aldrich & Zimmer 1986; Chetty & Söderqvist 2013). This study contributes to the earlier research stream by adopting the third strength level of relationship ties (equally strong as weak ties; Chetty & Söderqvist 2013) and shows how university-based INVs create and utilize equally strong as weak relationship ties and strong relationship ties in their early development phases for survival and rapid international growth. Equally strong as weak tie is consists of characteristics from both weak and strong ties as they include both uncertainty and potential (Chetty & Söderqvist 2013). Large amount of resources is required from INVs to strengthen these relationships and their behavior indicates that it is important.

Effectuation is adopted since inception and it requires active networking and interaction (Saravathy 2001; Sarasvathy et al. 2013). Active networking provides new and sometimes unexpected opportunities for close co-operation. Constant interaction with a large partner strengthens these bilateral relationships and eventually can lead to strong relationship ties where intimacy, trust and commitment are high from both sides (Granovetter 1973, Uzzi 1997; Jack 2005).

The study findings have managerial implications also. Entrepreneurs of INVs should identify the most important partnerships from their industry and focus on developing strong bilateral relationship ties with these partners. This requires hard work from the management team and constant assurances from the INV. Strong relationship ties to large firms provide resources such as knowledge, channels and new partnerships that are necessary in the early phases of venture creation.

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