THE ROLE OF DOMESTIC EMBEDDEDNESS IN THE INTERNATIONALISATION OF SMEs

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Abstract

The paper addresses the research gap regarding the role of domestic relationships for first foreign market entry and international activities. The theory of embeddedness is related to an analysis of small and medium enterprises (SMEs). The purpose of the paper is to investigate when domestically embedded relationships are conducive to companies' internationalisation and examine how they positively impact the internationalisation. For this purpose a conceptualisation of domestic embeddedness is proposed, taking into account the level (personal/inter-organisational) and the type (inbound/outbound) of domestic relationships. The effects of domestic embeddedness are examined within SMEs the beginning of internationalisation (first foreign market entry) and subsequent international growth (international activities).

Two comparative case studies are employed to provide an empirical foundation. The case studies are conducted among two SMEs from industries representing different levels of technological advancement, i.e. the furniture and IT industries, both originating from Poland and active on the Scandinavian market.

The paper points out that domestically embedded relationships are particularly conducive to internationalisation at the beginning of this process when companies do not have any foreign relationships and are at risk ("liability") of outsidership. Domestic personal relationships are more important at the start of the internationalisation when SMEs try to enter foreign markets for the first time. Once operations have been stabilised at an international level, it is inter-organisational relationships which become more important. Inbound domestic relationships (with suppliers, universities etc.) are particularly significant. The presence of trust is important for there to be a positive impact of domestic embeddedness on internationalisation, as are mutual understanding and mutual benefits.

Keywords: SME, domestic embeddedness, internationalisation, network model of internationalisation, domestic relationships, inbound and outbound relationships

Competitive paper

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INTRODUCTION

The concept of embeddedness is rooted in sociology, where research by Granovetter (1985) points out that the economic life of a company is territorially embedded in its particular social and cultural relationships. This concept has been addressed by research into companies' business networks (Halinen and Törnroos 1998; Fletcher and Barrett 2001; Forsgren et al., 2005; Andersen, 2013; Ratajczak-Mrozek, 2014a). From this perspective, "relationships are difficult to replace, because over time, both sides have adapted their resources and activities to each other to such an extent that every relationship has become unique" (Forsgren et al., 2005, p. 105). In keeping with this research perspective, we can view a company as embedded in different relationships and networks on a domestic, international, social (personal) and inter-organisational level.

Within the international business research the idea of embeddedness is widely used to analyse the activities of multinational corporations, that is large and very large entities, in the local environment (Forsgren et al., 2005; Whitaker et al., 2011; Nell et al., 2011; Heidenreich, 2012). There is a focus on the embeddedness of subsidiaries within their local environments (Ghoshal and Bartlett, 1990; Andersson et al., 2001; Forsgrenet al., 2005) and (but to a lesser extent) on the phenomenon of headquarters' linkages in the local context which creates an embeddedness overlap (the problem of simultaneous existence of linkages by headquarter and subsidiary to the same local actors is an embeddedness overlap) (Nell et al.,2011). However, the available research into companies' international activities, in terms of the theory of embeddedness, covers only to a limited extent the activities of small and medium sized enterprises (SMEs). This problem is important as the available research confirms that SMEs have a different specificity in terms of internationalisation than large companies. This happens due to the differences in resources, organisational structures and management systems (Pangarkar, 2008). First of all, due to limited internal resources, they often lack the resources needed to enter foreign markets (e.g. financial resources or the materials needed for the execution of large orders or the lack of reputation or time) (Jansson and Sandberg, 2008; Meyer and Skak, 2002; Roberts, 1999; Gilmore and Carson, 1999). This specificity of SMEs in terms of internationalisation means that it may be assumed that just as separate analyses should be carried out regarding the internationalisation of SMEs, it is also necessary to separately analyse the matter of SMEs embeddedness. This is even more important given that SMEs are embedded in domestic business environments to a greater extent than large multinational enterprises (Meyes and Skak 2002). It can therefore be assumed that it is important to analyse the significance of domestic embeddedness for international activities. Embeddedness in SMEs requires a separate analysis and is different in nature in comparison to the embeddedness of MNCs. In this article we attempt to address this research gap, by adopting the perspective of SMEs and their internationalisation.

Although personal and interorganisational relationships are critical for companies' internationalisation, which is underlined by both the network model of internationalisation (Johanson and Mattsson, 1988) and the Uppsala model 2009 (Johanson and Vahlne, 2009), the role of the domestic relationships for first foreign market entry and international activities has received little attention. Most of the literature focuses on the role of international, or cross-border networks. In contrast, in our article we focus on the role of domestic relationships. Particularly, in the case of small and micro companies with limited resources as well as relationships, it seems that it is in fact relationships and embeddedness on the domestic market

which can be of significant importance for overcoming challenges and barriers associated with internationalisation.

In the article we relate the theory of embeddedness to an analysis of SMEs internationalisation and investigate *when domestically embedded relationships are conducive to companies' internationalisation and examine how they positively impact the internationalisation*. For this purpose we propose a conceptualisation of domestic embeddedness, taking into account the level (personal/inter-organisational) and the type (inbound/outbound) of domestic relationships. We examine the role of domestic embeddedness within SMEs beginning of internationalisation (first foreign market entry) and subsequent international growth (international activities). We assume the moderating effect of time on the specifics of internationalisation. We define the first foreign market entry (Sharma and Blomstermo, 2003; Agndal and Chetty, 2007) as a moment when a company has first active contacts with foreign customers. First foreign market entry includes overcoming the barriers to internationalisation as well as establishing relationships with first foreign customer. The challenges which SMEs face regarding their international activities do not end with difficulties in acquiring foreign customers and entering in to foreign markets. After overcoming these barriers, it is equally difficult to actually maintain operations on the foreign market and to appropriately develop relationships with foreign partners. Therefore we assume after Manolova et al. (2010) that with time the importance of particular relationships (and consequently the embeddedness) on the foreign markets will differ than within first foreign market entry. The analysis of SMEs' international activities, taking into account the development of relationships over time, allows us to answer the question when and what type of domestic embeddedness may be conducive to companies' internationalisation as well as when and how domestic relationships may be beneficial for the internationalisation of SMEs.

We employ two comparative case studies to provide an empirical foundation. The case studies are conducted among two SMEs from industries representing different levels of technological advancement, i.e. the furniture and IT industries, both originating from Poland and active on the Scandinavian market. Using these two different industries we want to provide insights from the perspective of two companies with different characteristics of resources and activities.

The findings of the study contribute to the network model of internationalisation research by identifying the role of domestic embeddedness and domestic relationships in internationalisation and most importantly – the conditions conducive to the positive impact of domestic embeddedness on company's internationalisation.

THEORETICAL BACKGROUND – EMBEDDEDNESS AND RELATIONSHIPS IN COMPANIES' INTERNATIONALISATION

Embeddedness

Embeddedness, as a concept rooted in sociology, is the idea that companies are connected by networks of personal relations and that economic behaviour is embedded in networks of interpersonal relations and larger social structures (Granovetter, 1985; Uzzi, 1996). This in turn means that the economic life of a company is territorially embedded in its particular social and cultural relationships: in place-specific characteristics, infrastructure, operating environments and production conditions (Granovetter, 1985). Moreover, the concept of embeddedness by Granovetter assumes that economic transactions are affected by other, connected, exchanges and what is more, that these social relationships have their own histories, meaning that dependencies are historically constructed.

The concept of embeddedness is widely used in analysis in to business networks and relationships (Halinen and Törnroos, 1998; Fletcher and Barrett, 2001; Forsgren et al., 2005; Blankenburg Holm et al., 2013; Ratajczak-Mrozek, 2014a). Embeddedness is said to refer to "companies' relations with, and dependence on, various types of network" (Halinen and Törnroos, 1998, p. 187). And embedded relationships, contrary to arm's length exchanges, mean that they are "difficult to replace, because over time, both sides have adapted their resources and activities to each other to such an extent that every relationship has become unique and commands a diversity of resources for activation" (Forsgren et al., 2005, p. 105).

There are two different aspects of embeddedness that are important for our analysis. Firstly this is the vertical and horizontal dimension of embeddedness. "Vertical embeddedness refers to the relations between different identifiable levels in a network. Vertical levels can be distinguished geographically (e.g. international, national, regional and local), based on channel structure (e.g. supplier, manufacturer, distributor and customer) or within a specific business (industry, company, company unit/department and individual). The horizontal dimension refers to the relations of the actors within a specific network level." (Halinen and Törnroos, 1998, p. 197).

Secondly this is a breakdown into structural and relational embeddedness (Granovetter, 1992; Moran, 2005) – "a distinction essentially between the configuration of one's network and the quality of those relationships" (Moran, 2005, p. 1131). Structural embeddedness focuses on the whole network system in which the dyad's mutual contacts are connected to one another (also indirectly through third parties) (Pavlovich and Kearins 2004). It relates also to the actor-network embeddedness which "refers to the case in which a business network is viewed from the viewpoint of a certain actor, a company or an individual (or both)" (Halinen and Törnroos 1998, p. 191). Whereas relational embeddedness means "the interdependence between social relations, exchange of resources, and combination of resources in the relationship" (Blankenburg Holm et al., 2013, p.4). "Relationships with a high degree of relational embeddedness are characterised by informal contracts, mutual trust and wide and intensive cooperation and interaction, where the exchange is dependent on social relations between people involved in the interaction and the combination of resources deployed in the technology" (Blankenburg Holm et al., 2013, p.5). As a high degree of relational embeddedness is said to affect the opportunities found, but also influence how they are exploited (Blankenburg Holm et al., 2013) this concept may be of particular importance for the analysis of companies first foreign market entry (when finding opportunities is crucial) as well as of international activities (when exploiting of opportunities is crucial).

The significance of relationships for the internationalisation

Personal and inter-organisational relationships are critical for companies' internationalisation, which is underlined by both the network model of internationalisation (Johanson and Mattsson, 1988) and the Uppsala model 2009 (Johanson and Vahlne, 2009).

In keeping with the network model of internationalisation, internationalisation "means that the firm establishes and develops positions in relation to counterparts in foreign networks" (Johanson and Mattsson, 1988, p. 296). This can be achieved through international extension (relationships with new foreign counterparts), penetration (developing positions in those networks abroad in which company already exists) or integration (coordination between positions in different national networks) (Johanson and Mattsson, 1988). In the revised Uppsala model of internationalisation (Johanson and Vahlne (2009) underline the importance of networks and relationships. Internationalisation is seen as the outcome of companies' efforts to strengthen their network positions, hence existing business relationships "have a considerable impact on the particular geographical market a firm will decide to enter, and on

which mode to use" (Johanson and Vahlne, 2009, p. 1423), which takes place by facilitating the identification and exploitation of opportunities. A significant assumption of the model is the issue of "liability of outsidership and foreignness" resulting from the fact that a company lacks a good position within a relevant network. And it is in fact outsidership, more than psychic distance, that is said to constitute the root of uncertainty.

A number of studies discuss the role of relationships in the internationalisation of companies. The internationalisation is to be determined by the establishment of relationships with the entities within it (Axelsson and Johanson, 1992; Chetty and Blankenburg Holm, 2000; Hadley and Wilson, 2003; Fletcher, 2008; Hadley and Wilson, 2003; Lindstrand et al., 2009; Hohenthal et al., 2014). Relationships are, above all, deemed a factor for the initiation of the process as well as foreign market selection (Erramilli and Rao, 1990; Ellis, 2000; Crick and Spence, 2005; Coviello, 2006; Kontinen and Ojala, 2011), which is tied to, among others, ensuring knowledge and reducing uncertainty (Luo, 2001; Hitt et al., 2002; Zhou et al., 2007). There is also reference made to the importance of relationships and networks for the internationalisation of SMEs (Chetty and Blankenburg Holm, 2000) and rapid internationalisation (Loane and Bell, 2006).

One of the dimensions of business relationships are interpersonal relationships (including social). They have tangible benefits for the internationalisation in the form of reducing transaction and information-acquisition costs (Peng et al., 2005; Rutashobya and Jaensson, 2004), risk (Sharma and Blomstermo, 2003) as well as uncertainty (Zain and Ng, 2006) during entry on to a foreign market. They also provide knowledge of new markets (Harris and Wheeler, 2005) and help to develop the resources and capabilities needed for internationalisation (Zhu et al., 2006; Manolova et al., 2010; Chandra et al., 2009). Personal relationships support the identification and utilisation of new market opportunities (Manolova et al., 2010; Ellis, 2011; Kontinen and Ojala, 2011; Harris and Wheeler, 2005, Chandra et al., 2009; Crick, Spence, 2005; Komulainen et al., 2006; Sharma, Blomstermo, 2003; Ratajczak-Mrozek, 2014b) and also give the possibility of making recommendations through network members as well as guaranteeing transactions (Burt, 1997), which gives little known companies the chance to gain credibility. Research suggests that personal relationships offer access to a network of relationships in other countries, which can then form the basis of new inter-firm links (Harris and Wheeler, 2005; Sasi and Arenius, 2008). Personal relationships facilitate the identification of new market opportunities (Sharma and Blomstermo, 2003; Crick and Spence, 2005; Harris and Wheeler, 2005, Komulainen et al., 2006; Chandra et al., 2009; Manolova et al., 2010; Ellis, 2011; Kontinen and Ojala, 2011; Ratajczak-Mrozek, 2014b) and in this way they represent inter-organisational relationship resources that are fundamental in internationalisation (Harris and Wheeler, 2005; Ellis, 2011).

Most of the subject literature focuses on the role of international, or cross-border networks and foreign embeddedness of companies, as "internationalisation is a matter of developing business relationships with partner firms in other countries" (Forsgren et al., 2005, p. 28), not paying a great deal of attention to the role of domestic relationships for internationalisation (although it should be noted that Johanson i Vahlne (2009, p. 1415) mention the role of companies' "in the focal firm's home country"). At the same time, relationships which are embedded domestically may be a source of the aforementioned benefits.

Within the limited research tackling the issue of the importance of domestic relationships for internationalisation, it is underlined that these relationships between companies constitute a significant factor during the stage when the decision is taken to undergo internationalisation (Lin and Chaney, 2007) and that the personal relationships of the owner have a positive impact on identifying opportunities abroad and on the subsequent internationalisation of the SMEs (Manolova et al., 2010). Domestic relationships are particularly important for companies which do not have their own resources and competitive advantage (Meyer and Skak, 2002). For

production companies, domestic relationships are significant for ensuring knowledge and expertise particular for the industry (Mackinnon et al., 2004). In turn, advanced technology firms which achieved a high level of internationalisation in reality demonstrate an above average level of domestic relationship utilisation (Keeble, 1998). The importance of domestic relationships for the international development of SMEs is therefore significant, however, they have been paid insufficient attention to-date (Sim and Pandian, 2003; Lin and Chaney, 2007; Manolova et al., 2010).

CONCEPTUALISATION OF DOMESTIC EMBEDDEDNESS

When conceptualising the domestic embeddedness we assume the perspective of Forsgren et al. (2005, p. 109), according to which the higher degree of embeddedness the more difficult relationships are to replace. Moreover, we take the view that when defining domestically embedded relationships, their quality (that is trust and shared norms) is even more important that their structure. Thus we address the issue of relational embeddedness (Granovetter, 1992; Blankenburg Holm et al., 2005; Moran, 2005).

The proposed conceptualisation and three types of domestically embedded relationships important for the internationalisation is presented in table 1.

Table 1. The conceptualisation of domestic embeddedness – three types of domestic relationships important for the internationalisation

Level and type of the relationships		Domestic relationships/ Domestic embeddedness
Inter-organisational	Inbound	**domestic inbound inter-organisational relationship**
	Outbound	**domestic outbound inter-organisational relationship**
Personal		**Domestic personal relationship**

Due to the specific nature of SMEs, which not only have limited resources but are also said to be embedded in domestic business environments to a greater extent than large multinational enterprises (Meyer and Skak, 2002), it is important for relationships to be analysed both at an inter-organisational, as well as social (personal) level. At the inter-organisational level, we additionally highlight outward (with customers) and inward connections (foreign sourcing activities such as the purchase of equipment and machinery, procurement of raw materials or semi-finished goods (Welch and Luostarinen, 1993)) in order to provide a holistic view of the all types of entities important for the SMEs' internationalisation (Welch and Luostarinen, 1988; Welch and Luostarinen, 1993; Fletcher and Barrett, 2001; Fletcher, 2001) and not to limit it to the analysis of relationships with customers.

DATA COLLECTION AND ANALYSIS

The theoretical analysis presented in the article is exemplified with two case studies of the companies "Flow" (Furniture Luxury of Wood; the name of the company was changed at its request) and "Gridia" (later nSense Poland). An exploratory qualitative research method is used in order to "uncover and understand what lies behind a phenomenon about which little is known" (Strauss & Corbin, 1990, p. 19). Both of the analysed companies while being small/ micro enterprises operating only in the domestic market and facing hindrances in the foreign

expansion have acquired a large and important foreign customer and thus have started their internationalisation.

The companies selected for the case studies represent industries with different levels of technological advancement, i.e. the furniture industry and IT industry. The first of the selected industries is the furniture industry, classified as a low-technology industry, but with a high degree of embedding in domestic resources and also with a large degree of internationalisation (98% of Polish production was exported in 2011 (CSO, 2015)). In turn the IT industry is classified as a high-technology knowledge-intensive service. High-technology companies are said to be forced to be active on an international scale because the domestic market creates a somewhat limited demand for their products/services which have to be quickly commercialised (Madsen and Servais, 1997; Spence, 2003; Ratajczak-Mrozek, 2012).

The two case studies offer the chance to see and compare different aspects of the analysed phenomenon. They may be seen as both comparative and complementary. The same research questions used for the analysis indicate comparativeness, whilst using the two industries representing different levels of technological advancement implies complementarity. By using two examples from such contrasting industries, we wish to provide insights from the perspective of two companies with different characteristics of resources and activities.

Data was collected in Poland using semi-structured, in-depth, face-to-face and phone/Skype interviews. Altogether we conducted eleven in-depth interviews. In the case of the furniture company, four detailed interviews were carried out with company owners as well as two with the owners of two companies identified as being key suppliers (companies Sfinx and Sand). In the case of the IT company, three detailed interviews were carried out with the CEO of the IT company in Poland (now the CEO of nSense Poland, previously Gridia), one with the COO of the nSense Group located in Denmark and one with the representative of the Poznan University of Technology (an entity with which the company has its most important relationship on the Polish market). On the one hand, the high positions held by the firms' representatives ensured that they possessed the appropriate level of knowledge regarding topics covered by the research. On the other hand, all of the interviewees were actively and directly engaged in the described processes at a decision-making and implementation level. Access was ensured to detailed information and opinions related to the evaluation of these processes (for this reason we chose to speak to a representative from the university employed in the department engaged in the relationship with the firm as opposed to the University authorities). More importantly, in the case of Gridia/nSense Poland the entities described (i.e. nSense Group and the University) represent the only important, directly related entities in the IT company's network (the company doesn't have suppliers or other direct customers). In the case of the company "Flow", the analysed entities constitute the company's most important suppliers. Unfortunately, due to the need to preserve the secrecy of data and the characteristics of the described relationships, we were not permitted to speak to the foreign customer's representatives. However we were able to conduct interviews with the representatives of all domestic interorganisational relationships important for focal companies' internationalisation (that is suppliers in the case of Flow and the University in the case of Gridia/nSense Poland). Additionally we used the companies' documents in the form of a presentations and web pages which allowed for data triangulation.

The interviews, which were carried out during the period from January to December 2014, were conducted each time by two trained interviewers which aimed to ensure an objective assessment of the information obtained. The long interval between subsequent interviews was to ensure the possibility of verifying the opinions and the identification of changes occurring over time, as well as the opportunity to obtain further detailed information in response to our questions, in terms of the analysis of the research material. After the fifth interview in the case of Gridia/nSense Poland and sixth in the case of Flow, we achieved data saturation, when no

new or relevant information concerning the analysed process emerged (Saumure and Given, 2008). The saturation point was reached quickly due to the size of the focal companies and the companies' limited number of important direct relationships and the research questions analysed.

The interviews were recorded and transcribed, thereby creating an interview protocol. The interviews were based mainly on open-ended questions. In the research we adopted the approach of Forsgren et al. (2005, p. 109), according to which the higher the degree of embeddedness the more difficult relationships are to replace, because "over time, both sides have adapted their resources and activities to each other to such an extent that every relationship has become unique and commands a diversity of resources for activation." In order to assess embeddedness formulated in this way, the focal firms' representatives were asked to identify three customers, suppliers and other entities important for their companies (under the condition that the firm has such important entities). Next, they were asked to justify the importance of the identified entities for their domestic and international operations. In order to understand the characteristics and importance of these relationships, a series of detailed questions were asked regarding the identified resources, activities and effects associated with these relationships. The firms' development on the domestic market as well as their internationalisation were the subject of detailed analysis. Thus we obtained a picture of most important domestic relationships of analysed focal companies.

As part of the analysis of the case studies and following a concise presentation of the analysed companies and their international development, we also review the importance of domestic relationships at a personal and inter-organisational level during companies' first entry on to foreign markets and later the actual activity on these markets. We present the perspective of the focal companies, however, it has been verified and supplemented using information obtained from two other entities as well as secondary data.

CASE STUDIES ANALYSIS

The characteristics of the analysed companies and their internationalisation

The Company "Flow" is located in Poland, is 100% owned by Polish capital and designs and produces furniture (to both individual and business-to business customers). This small company was founded in 2004 and employs less than 49 people. The Owners underline that the hindrance they experienced regarding entry on to the foreign market as well as the internationalisation from the position of a SME was the lack of an international reputation, which means that activities such as the submission of offers to potential foreign customers ended in failure. In 2011 Flow initiated its internationalisation, i.e. acquired a foreign customer – a large Scandinavian company operating in the recreational industry. This Scandinavian Customer is the company's only foreign customer, and in 2013 was responsible for approximately 60% of Flow's sales. Cooperation with the foreign customer required many adaptations and investments but also allowed Flow not only to start the internationalisation but to ensure its development (the company was forced to innovate the production process, purchase new machinery and transport). On the suppliers side Flow mostly cooperates with suppliers located in Poland in order to carry out its operations and of these suppliers the most important are Sand and Sfinx. Only a small part of the supplies required for the furniture production process (approximately 3%) is imported from China and this choice is the result of the lack of domestically located supplies.

However, the IT micro-company Gridia (now nSense Poland) was founded and began operating on the Polish market in 2006. The company started by offering basic IT services and

later gradually started to transform in to a software development company. The first years of the company's operations were very difficult and were a battle for survival. The main development barrier was the company's size and therefore lack of reputation and renown (no large companies wanted conduct business or even just talk about such a possibility with a two-person company). In 2008 this IT company started its internationalisation by cooperating with Scandinavian customers, including nSense Group where it was subcontracted to carry out outsourced IT development. The nSense Group is a highly specialised IT security company offering high-end security services. After confirming the high quality of services for nSense Group which were also low cost, there was a gradual expansion of the profile of the orders as well as an increase in trust between the companies. Finally in 2010, there was a joint decision to create nSense Poland S.A. which became a new entity in the nSense Group structure (Ratajczak-Mrozek, 2014b) and continues to be a small company. That meant that the Polish IT company had to formally cease trading but in practice everyone, including the employees, was transferred to the new company and so in reality this was a continuation albeit not from a legal perspective. It should be underlined that the Polish branch of the group is characterised by a significant amount of autonomy in terms of decision making and what's more, representatives of nSense Poland are members of the nSense Group's management board. Therefore in this case we can refer to the merger of entities on a mutual basis rather than a takeover by an international group. The Polish branch does not have a marketing department and is not engaged in customer acquisition, instead exporting all of its services solely to other entities from within the nSense group. The development of relationships has resulted in nSense Poland becoming a human resource centre. Together with its growth on foreign markets, nSense Poland ceased providing services on the Polish market and is not having any customers located there. The company also does not have any significant suppliers which is tied to the provision of remote services. Currently, the only important entity with which links the firm to the Polish market is the Poznan University of Technology.

Discussion

Both of the analysed focal SMEs, although they represent different industries (low-technology production furniture industry and high-technology knowledge intensive IT industry) point to many similarities in terms of their internationalisation and the role of domestic embeddedness and domestic relationships in these processes.

Before starting the internationalisation and entering on to foreign markets for the first time, both companies not only did not have any inter-organisational relationships on any foreign market (as well as inbound relationships in the form of foreign suppliers) but additionally both had a big problem with forming such relationships. In the case of these SMEs, the „liability of outsidership" (Johanson and Vahlne, 2009) and difficulties in finding a route to insidership in relevant network(s) which is necessary for successful internationalisation is evident. In the case of Gridia, the lack of foreign relationships was associated with an overall problem from the perspective of the firm's development (also on the domestic market) as well as during its initial operations. In the case of Flow, however, the lack of relationships on foreign markets was caused by the earlier domestic concentration of this SME's operations.

In what way were these companies able to eventually enter foreign markets and to overcome the barriers associated with the liability of outsidership, lack of foreign relationships, lack of reputation and limited resources? Table 2 presents an analysis of the embeddedness of the most important domestic relationships of Flow and Gridia (later nSense Poland) at the point of first entry on to foreign markets and then later activity on foreign markets.

Table 2. Domestic relationships and domestic embeddedness in Flow and Gridia (nSense Poland) which have an important role in the internationalisation

Part of the internationalisation and type of a relationship	Flow	Gridia (nSense Poland)
1. First entry on to foreign markets		
• Domestic personal relationships	Foreign customer met thanks to the recommendation of a friend	Domestic customer (Polish branch of a foreign company) met thanks to the recommendation of a friend The acquaintance with the manager of the customer's firm turns into a joint venture and entry on to the foreign market
• Domestic inter-organisational relationships	Support of the supplier – "Sand" (inbound inter-organisational relationship)	-
2. Activity on foreign markets:		
• Domestic personal relationships	-	-
• Domestic inter-organisational relationships	Support from suppliers: "Sand" and "Sfinx" (inbound inter-organisational relationship) The importance of Polish customers (outbound inter-organisational relationship)	The importance of the Poznan University of Technology (inbound inter-organisational relationship)

In both cases the role of personal relationships embedded in the domestic market played a key role during the beginning of the internationalisation and first entries on to foreign markets. In the case of the furniture company, the acquisition of the foreign customer was helped by the fact that the company obtained a recommendation from a manager's acquaintance. This recommendation was not in the form of a letter of reference, but a personal recommendation provided by a contact who was asked to comment on the company. Contact with the Scandinavian customer was developed thanks to personal relationships on the domestic market and word-of-mouth referral. Domestic personal relationships also played a fundamental role in the case of Gridia. Firstly, in 2008, through personal relationships and thanks to the recommendation of an acquaintance, the company was able to acquire the first customer, a branch of a Danish company located in Poland. Next, Gridia's founders became friendly with one of this branch's company's managers who proposed that perhaps they could do something together, suggesting that they start a joint venture. The new partner was a Danish resident, had knowledge of the Danish IT market and because of the local contacts his role was to acquire customers. One of these customers was the nSense Group. At the same time, the initial personal relationship which started on the domestic market became a joint-venture.

Based upon the above examples, it can be stated that domestically embedded personal relationships were the bridgeheads for the emergence of opportunities to eventually enter foreign markets for the first time. They therefore made it easier to start the internationalisation and to enter foreign markets when the companies had no foreign relationships on an inter-organisational level. Domestically embedded personal relationships constituted a certain

bridgehead facilitating foreign opportunity recognition (Ratajczak-Mrozek, 2014b) and constituted a first indirect contact with the foreign market. It therefore seems that the significance of domestic personal embeddedness is more important during the first foreign-market entry especially when the lack of foreign relationships is a significant barrier for initiating the process. Of course, it should be noted that domestic personal relationships simplified the contact with foreign markets and were an indirect link to these markets, however, additional factors (e.g. willingness to take a risk, willingness to take advantage of opportunities, an entrepreneurial approach and economic factors, which include competitive prices as well as a high level of professionalism and service quality) were instrumental for first foreign market entry and internationalisation.

The relationship at an inter-organisational level played an important role during the first foreign market entry in the case of the company Flow. At the beginning of Flow's internationalisation, when Flow received the first orders from the foreign customer, it was not able to purchase the required materials for cash and if not for the financial support provided by the supplier in the form of a trade credit it would not have been able to take advantage of the opportunity generated by the Scandinavian customer and therefore to start the internationalisation. It should also be noted that this inter-organisational relationship is tied to the personal relationships (personal contact between the firms' owners and their mutual trust, although this trust quickly arose as a result of a business meeting and was not preceded by previous personal or business relationships). Since then, this domestic wholesaler is classified as an important supplier for Flow (Ratajczak-Mrozek, 2014b). It can be noted that during the first foreign market entry, the relationship at the inter-organisational level was important for Flow, but this type of relationship did not exist in the case of Gridia. The reason for this seems to be specificity of the industry and its key resources. For the IT industry, based upon the remote provision of services (as opposed to production in the furniture industry) it was not the lack of access to material resources which was a barrier, but the lack of access to foreign networks. Hence the entry barrier to foreign markets in this case could have been overcome even at the level of personal relationships.

The analysis of the companies shows that just as personal relationships were important for starting foreign operations, over time, in order to continue this activity, relationships at an inter-organisational level played a significant and more important role. It is in fact domestically embedded inter-organisational relationships which support the foreign activities of SMEs.

In the case of Flow, such support continues to come from domestic suppliers (the most important are Sand and Sfinx). Of course, there is a possibility to change suppliers, however, due to the trust which has developed as well as just-in-time, fast and cost-effective deliveries, the relationships are maintained and strongly support Flow in being elastic and able to successfully operate on the foreign market. Due to its size, it is not profitable for Flow to individually negotiate with individual foreign producers of raw materials (wood-based panels), parts and accessories, which means that instead, the firm uses the services of wholesalers. The relationships with these entities support internationalisation activities by giving access to resources, thereby ensuring that the standards expected by the foreign customer are met. Moreover, they ensure the flexibility of actions (access to a wide range of resources, on time and even urgent deliveries), quick reactions, as well as cost optimisation (reasonable prices and too small orders to negotiate them individually with producers).

Other important relationships on the domestic market for Flow are those with Polish customers. They are not engaged in the internationalisation, but ensure the required support/security for the company's foreign activities. Apart from the Scandinavian Customer all of Flow's customers are domestic (both individuals and entities from the B2B market), however, 60% of orders are targeted towards the foreign customer. Even though it would not be easy to replace the Scandinavian Customer because of its large share in the company's

overall sales, the financial condition of Flow is not fully dependent on it. When the company receives orders from the foreign customer, it elastically increases employment (these aren't permanent contracts in order to avoid maintaining a larger workforce when there is a lack of orders) which assures a high level of operational flexibility. In this way orders from domestic customers cover its running costs (administrative costs, wages and other financial obligations). Strong embeddedness on the domestic market as well as the development of strong domestic inter-organisational relationships with domestic customers seems to be a way of mitigating the risk and the strong dependence associated with the relationship with the foreign customer. This allows for the creation of a type of buffer in terms of customers and provides a certain amount protection in terms of survival if the company were forced to terminate the relationship with the foreign customer.

In the case of nSense Poland (former Gridia), however, the Poznan University of Technology (PUT) is an important domestic inter-organisational relationship supporting activity on the foreign market. This is the only significant relationship which the firm has on the domestic market. Representatives from nSense Poland run classes and workshops for students at the Poznan University of Technology. They do this purely on a pro bono basis with no direct marketing activities. An interesting subject related to data security is of particular interest for students and as a result it is possible to consistently source new employees. This is particularly important given the company's high level of specialisation in areas beyond basic IT competencies as well as the limited list of potential Scandinavian employees in this field. What is also important is that the COO of the whole nSense Group itself underlines that Poland's importance for the Group is the result of its talented employees and contact with the PUT. This domestically embedded relationship which nSense Poland has with PUT therefore ensures permanent access to key human resources for its operations and guarantees its important, central position in nSense Group's foreign network. Again (as in the case of Flow) the domestic inbound inter-organisational relationship supports the international actives of the SME.

An analysis of important relationships during the on-going actives on foreign markets suggests that with time, when developing activities on foreign markets domestic inter-organisational relationships are of greater importance. However, these are both inbound (suppliers, PUT) and outbound relationships (customers). In terms of inbound/outbound relationships, the former appear to be the most significant, whilst relationships with domestic customers only ensure security should there be any risk or dependence on foreign customers.

To answer the question of how domestically embedded relationships positively impact the internationalisation, Table 3 shows the positive effects of these relationships associated with the internationalisation.

Table 3. The main domestic relationships of Flow and Gridia/nSense

Relationship	Part of the internationalisation and type of a relationship	Effects of the relationships tied to the internationalisation
FLOW		
Acquaintance giving recommendations	First foreign market entry, personal relationship	– Ensuring a reputation. – Ensuring access to foreign relationships & overcoming the liability of outsidership. – Creating a foreign opportunity.
Relationships with Polish wholesalers (Sand and Sfinx)	First foreign market entry and activity, inbound inter-organisational relationship	– Ability to overcome a barrier to internationalisation in the form of a lack of sufficient resources for fulfilling large orders (financial support in the form of a trade credit). – Facilitating international activities by granting access to resources, thereby ensuring that standards expected by the foreign customer are met. – Cost optimisation (reasonable prices and orders of insufficient size to negotiate them individually with producers). – ensuring flexibility of activities (access to wide choice of resources, on time and even urgent deliveries).
Relationships with Polish customers	Activity on foreign markets, outbound inter-organisational relationship	– Ensuring the security of the internationalisation (the creation of a type of buffer in terms of customers). – A certain amount protection in terms of survival should the company have to terminate a relationship with a foreign customer. – Covering running costs (administrative costs, wages and other financial obligations).
Gridia/nSense Poland		
A friend recommending a domestic customer	First foreign market entry, personal relationship	– Ensuring a reputation. – Ensuring access to foreign relationships and overcoming the liability of outsidership. – Creation of an indirect foreign opportunity.
Manager from the Polish subsidiary of a Danish company	First foreign market entry, personal relationship	– Ensuring a reputation. – Ensuring access to foreign relationships and overcoming the liability of outsidership. – Creation of a foreign opportunity. – Ensuring customers. – Direct support for the first foreign market entry.
Relationship with the University	Activity on foreign markets, inbound inter-organisational relationship	– Ensuring permanent access to human resources key for the firm's operations. – Ensuring growth/development. – Ensuring important network position within the relationships with the foreign internal customers.

Moreover, when identifying the conditions conducive to the positive impact of domestic embeddedness on internationalisation the importance of trust, mutual understanding and mutual benefits should be underlined, which may be related to the idea of relational embeddedness (Granovetter, 1992; Blankenburg Holm, 2005; Moran, 2005) referring to the "quality of those relationships" (Moran, 2005, p. 1131). It seems that when defining domestically embedded relationships, their quality (that is trust and shared norms) is even more important that their structure. At the same time, trust is important at the level of personal relationships, which may be accompanied by „liking each other" and „friendship", without expecting mutual benefits. Such a situation occurred in the case of the acquaintance who recommended Flow to the Scandinavian customer and the friend who put the founders of Gridia in contact with its first customer. In the case of inbound inter-organisational relationships trust, mutual understanding and/or perceived benefits for both parties are important. This is the case for Flow and its suppliers as well as Gridia/nSense Poland with the university. It should be noted, however, that just as at the level of personal relations, actors are usually aware that they can contribute to the internationalisation of the focal companies through their actions, in the case of inter-organisational relationships such awareness is no longer necessary (especially during development of international activities).

CONCLUSIONS

Just as the role of relationships with foreign entities is underlined both in literature regarding international business and entrepreneurship, this paper has focused on the analysis of the importance of domestic relationships for the internationalisation and therefore activity on foreign markets itself. SMEs and their representatives are particularly embedded in domestic relationships which in turn has an impact on the nature of their internationalisation. It is interesting that this particular research thread is not frequently addressed by them. Thus, our findings contribute to internationalisation theory by indicating the importance of domestic personal and inter-organisational relationships for the internationalisation of SMEs and their activities on foreign markets.

Our analysis has shown that domestically embedded relationships are particularly conducive to companies' internationalisation when companies do not have any relationships at a foreign inter-organisational level, or contact with international networks. This is typical for an SME especially at the beginning of its operations, or if its activities are particularly linked to the domestic market. Domestically embedded relationships therefore constitute a certain bridgehead facilitating foreign opportunity recognition and are an indirect link to the foreign market, allowing companies to overcome liability of outsidership. The role of domestic embeddedness for internationalisation is in this regard more important the fewer the number of foreign relationships the company has. In turn, this means that domestic embeddedness is more important during the first foreign market entry, especially when the lack of foreign relationships constitutes a barrier for starting the process.

After analysing how the domestically embedded relationships positively impact the internationalisation, the significance of personal relationships in domestic markets which provide missing reputation as well as ability to recognise an international market opportunity and make first contact with potential customers on foreign markets should be underlined. It should be noted, however, that just as these relationships foster the emergence of opportunities, additional factors such as the approach of the owners/management (e.g. willingness to take risk, be open) or economic factors important for the relevant industry (such as quality, price, specialist knowledge) are key for developing these opportunities and internationalisation of an SME. Without these additional factors, the element of luck (in the form of establishing the right

relationships) will not transform in to a long-term business relationship leading to continuing operations on a foreign market.

Personal relationships appear to be more important when SMEs try to start internationalisation and enter foreign markets for the first time. Once operations begin to stabilise at an international level, even though personal relationships can continue, it is important for them to lead to relationships at an inter-organisational level. When companies are already active on foreign markets, strong embeddedness within the domestic market as well as the development of strong domestic inter-organisational relationships are associated with positive effects. They seem to be a way of mitigating the risk associated with relationships with foreign partners and supporting the internationalisation itself. However, domestic inbound relationships (with suppliers, universities etc.) which give SMEs a certain degree of elasticity and access to key resources, play a more important role. In turn, relationships with domestic customers provide an SME with security and protect against the risk of becoming too dependent on foreign customers. This allows for the creation of a type of buffer in terms of customers and provides a certain amount protection in terms of survival. The scope and assessment of specific benefits derived from domestically embedded relationships is strictly tied to the specificity of the industry and its key resources. In production industries it is important to ensure production continuity and access to raw materials and other material resources allowing companies to produce the required quality of goods. The IT industry, however, which is based upon the remote provision of services is more reliant on access to the knowledge and skills of talented employees.

It is also important to address the question to what extent the described benefits are unique for domestic embeddedness (as opposed to embeddedness in foreign networks). It must be admitted that this uniqueness ensures access to foreign markets during the first foreign market entry, when an SME does not have relationships on a foreign market. The positive impact of domestic relationships during a company's actual activity on foreign markets could also be achieved thanks to strong foreign embeddedness. For this reason it is more important to acknowledge this positive impact of domestic relationships which is to a large extent omitted in literature regarding companies' internationalisation. Moreover, it is important to underline the fact that the development of strong foreign embeddedness by an SME is more difficult and often requires more time than in the case of large companies. For this reason, domestic embeddedness for SMEs can play a more important role than for large multinationals. An important managerial piece of advice is therefore the need to consciously create networks of relationships both an individual (personal) and inter-organisational level. Moreover, when pointing out the conditions which are conducive to the development of positive impacts from domestic embeddedness, it should be underlined that trust, mutual understanding and mutual benefits are key factors and may be related to the idea of relational embeddedness. However, just as trust is important both at a personal and inter-organisational level, in the case of the former "liking each other" and "friendship" are also sufficient without the expectation of mutual benefits

The conducted analysis is not free of certain limitations which indicate the direction of further research. Above all, the paper presents the case of only two firms. It can be assumed that they do not provide a full illustration of all types of domestically embedded relationships in the internationalisation and, what is more important, they do not show all of the potential benefits achieved thanks to these relationships. This is especially the case given that the described firms are small with a limited number of important relationships. It is therefore not only important to verify dependencies using a greater number of examples, but to examine the case of SMEs with a greater number of important domestic relationships which may of course mutually impact each other. It is interdependence in various domestic relationships which may have opposite effects, where subsequent relationships mutually eliminate their positive

impacts. Attention should be drawn to another important matter, namely the question to what extent domestic embeddedness is associated not only with benefits but also with potential pitfalls which negatively impact the internationalisation. An attempt to answer these questions should provide a broader picture of the role of domestic embeddedness and relationships on the internationalisation of SMEs.

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