

The development of network competence in an internationalized SME

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The Development of Network Competence in an Internationalized SME

I Introduction

Business networking has become an everyday activity for all companies, independent whether they operate on domestic or international markets. In practice, all companies engage in business networks at some level, thus, “no business is an island” as Håkansson and Snehota (1989) pointed out already 25 years ago. Being part of a network implies that all companies are actors in networks, connected to other companies through various linkages (Håkansson, 1982; Håkansson & Snehota, 1995). Still today researchers disagree whether those linkages emerge or whether they are deliberately created to benefit the organizational strategy of the company. In the latter case, the relationships in the network maybe labelled as strategic alliances and the interlinked network of the relationships forms a strategic network (Gulati, 1998; Jarillo, 1998; Gulati et al., 2000).

Networking with other companies has been considered particularly important for companies who aim at international markets. In fact, internationalization of a firm can be seen as a process during which the company creates new linkages in its network (Johanson & Mattsson, 1987; 1988) and learns from its partners (Johansson & Vahlne, 2003; 2009). This networking process is particularly important for smaller companies, who utilize the network not only to overcome liability of outsidership (Johanson & Vahlne, 2009), but also to solve the resource-related challenges that hinder their internationalization efforts (Coviello & Munro, 1995; 1997; Madsen & Servais, 1997; Saarenketo et al., 2004; Loane & Bell, 2006; Sasi & Arenius, 2008).

In spite of the importance of networks and networking, our knowledge on how small and medium-sized enterprises (SMEs) create and manage them is yet limited. Earlier research has examined the dynamics of change in business networks in general (e.g., Ford & Redwood, 2005; Abrahamsen et al., 2012), and in internationalizing small companies in particular (Boojihawon, 2007; Coviello, 2006). On the other hand, the differing levels of organizational competencies in developing and managing business network relationships (Ritter, 1999; Walter et al., 2006; Mitrega et al., 2012) and the implication that those differences may have an impact on the internationalization process have mostly been neglected. This conclusion is very much in line with the findings of Autio et al (2011) who argue that literature ignores the capability emergence in entrepreneurial firms. And yet, few studies exist which demonstrate that the capability of managing networks better may indeed have beneficial outcomes for the internationalization process of small companies (Torkkeli et al., 2012).

Examining business networking at such a context provides an increasingly concrete level into research on dynamic capabilities and internationalizing small companies, which Slotte-Kock and Coviello (2010) have pointed out as a potential research gap. Thus, in this chapter we focus on illuminating the development of distinct organizational abilities in SMEs which are needed to manage business network relationships in the internationalization process. These abilities are here labelled as network competence. We are particularly

interested in how and when such competence arises. Therefore, we adopt a longitudinal view to the development of network competence in a small, internationalizing company and study the process in one Finnish company between 1999 and 2013. By examining the question of: “How does network competence emerge in an internationalizing SME?”, we thus seek to respond to the research gap on capability emergence noted by Autio et al. (2011), as well as the call by Ritter et al. (2002) to examine the longitudinal development of network competence in particular.

The chapter starts with a literature review and presentation of a theoretical framework. Then we describe our empirical study, followed with findings and concluding discussion.

II Literature review

Business networks consist of two or more companies engaged in long-term business relationships, which are characterized by interdependence, commitment and mutual orientation of the participants (Håkansson & Snehota, 1995). Embeddedness in networks provides companies access to resources and market information which would otherwise be outside their reach. This is particularly important for SMEs, who tend to lack the resources that their larger competitors and counterparts may possess (Knight & Cavusgil, 2004; Saarenketo et al., 2004). The access to resources is so decisive that some researchers have suggested that internationalization is a process driven by the business networks (Coviello & Munro, 1995; Moen et al., 2004). Sarasvathy (2001) also emphasizes the importance of inter-firm cooperation in company establishment and new market development, cooperation that may arise from both social networks at the individual level, as well as from resources at the organizational level. Cooperative arrangements such as strategic partnerships between firms are thus seen as central to entrepreneurial development, whether that development is considered causation- or effectuation-based. Furthermore, prior research on rapidly internationalizing enterprises has also highlighted the importance of networks for these types of firms (Bell, 1995; Madsen & Servais, 1997; Sharma & Blomstermo, 2003). It has even been argued that the access to networks may determine the overall speed of internationalization for these firms (Zahra et al., 2003).

However, firms differ in their abilities to develop and manage business network relationships. Such differences are often conceptualized through strategic competencies, in line with Prahalad and Hamel (1990), Teece et al. (1997), and Eisenhardt and Martin (2000). Several studies have discussed the role of competencies and/or capabilities in the context of business networking (e.g., Möller & Halinen, 1999; Ritter, 1999), and several of them have gone beyond abstract conceptualizations to establish structural characterizations (Ritter et al., 2002; Jonhson & Sohi, 2003;; Walter et al., 2006; Mitrega et al., 2012; see appendix 1). Still, studies examining them in the context of internationalization of SMEs have been few. Those that exist tend to examine the phenomenon at the conceptual level (Mort & Weerawardena, 2006; Weerawardena et al., 2007) or do not include a longitudinal description of how such competencies actually develop in internationalizing SMEs over time (Torkkeli et al., 2012). This means that the role that competencies and capabilities have in the internationalization process of firms is still mostly an understudied phenomenon.

Unfortunately researchers have not been consistent in the use of terminology when investigating the phenomenon. The terms competence and capability have been used interchangeably, even by the same authors. For example, Ritter, Wilkinson and Johnston (2002) study “network competence”, while Walter, Auer and Ritter (2006) later discuss “network capability”. On the other hand, also the content of the concepts used vary. As an example, Mitrega et al. (2012) study networking capability, but their operationalization differs from the one by Walter et al (2006). In our opinion, in order not add to the confusion

it is of utmost importance to define the concept clearly. In our study we define – in line with Ritter (1999) and Ritter et al. (2002) – the concept of network competence as *the ability of companies to develop and manage relations with key partners, e.g. suppliers, customers and other organizations, and to deal with the interactions occurring among these relations.*

The concept of network competence consists of two distinct activities: relationship-specific and cross-relational task execution activities (Ritter, 1999; Ritter et al., 2002). Relation-specific activities refer to the firm's ability to develop and maintain dyadic partnerships, whereas cross-relational activities encompass the ability to develop and manage the network as a whole. Both encompass related organizational routines, the prevalence and systematic nature of which comprises the level of network competence a given company possesses. By routines we refer to the cognitive regularities expressed in rules and standard operating procedures in the organization (cf. Becker, 2004). The routines which are central for the development of network competence are more often found at the organizational rather than the individual level (Dosi et al. 2000). Thus, we are referring to what Ritter (1999) defines as the level of "task execution" of routines in a given organization. Besides enabling the company to execute routinized tasks, the existence of routines also allows the company to coordinate between the participants, to increase the stability of behavior and to contribute to the creation of binding tacit knowledge (Becker, 2004). All this facilitates the development of capabilities, which extend beyond the routines.

The relationship-specific network competence can be further classified into three types: initiation of, exchange in and coordination of individual business relationships. Together, they encompass the competence of a given company to maximize the outcome of each individual business relationship within the network, with the three types relating to how actively the company seeks new network partners, how well they are able to share information with the existing ones, and how meetings are organized so that each business relationship is accounted for. (Torkkeli et al., 2012; Ritter et al. 2004; Ritter & Gemünden , 2003; Ritter & Gemünden 2004; Ritter et al., 2002; Ritter, 1999). Companies naturally differ in terms of their relation-specific competence, and different degrees of competence can be identified. For example, a company which is passively waiting for new partners to find them instead of actively seeking them (initiation) and whose partnerships demonstrate lack of trust in exchanging information (exchange) and general inactiveness in interacting with partners (coordination) has a low relationship-specific competence. Then again, another firm which systematically scans for new potential partners based on its partnership strategy, exchanges confidential information with its partners and regularly meets its collaborators has a high relationship-specific competence. (Ritter et al., 2002; Torkkeli et al., 2012). These two companies can be seen as the opposite ends of a continuum on which a company can be placed according to its relationship-specific network competence.

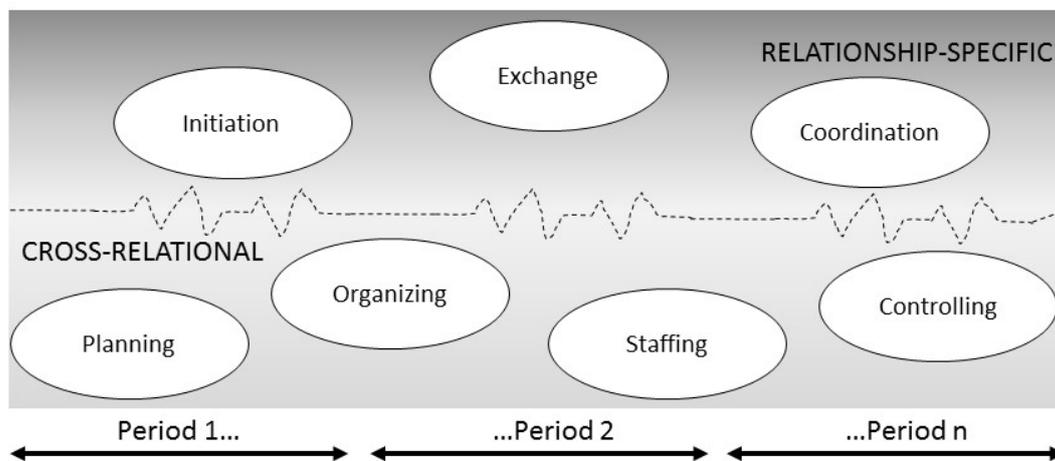
Cross-relational network competence consists of activities related to planning, organizing, staffing and controlling. In other words, it is the level of competence at which the company develops and manages its network as a whole, in order to optimize the outcome of the business network for its own benefit. It consists of competence to ensure that the goals of all the network partners are aligned, and the level of competence at which all the relationships within the network are staffed with employees who make monitoring the business network possible. (Torkkeli et al., 2012; Ritter et al. 2004; Ritter & Gemünden, 2003; Ritter & Gemünden 2004; Ritter et al., 2002; Ritter, 1999) In line with the other type of competence, also cross-relational network competence varies across companies. For cross-relational network competence the decisive element is the level of systematic effort which the company puts in developing its network and related activities. A company which does not evaluate and/or compare its partners strategically (planning), reveal and coordinate its strategic goals to and with its network partners (organizing), devote managerial resources to network

development (staffing) and control for the efficiency of efforts put in relationship and network development (controlling) has a low cross-relational network competence.

As an opposite example, A company with high cross-relational network competence may conduct regular managerial reviews of their partner network where the merits of each individual partnerships are assessed critically and thus the benefits of each partnership evaluated in relation to the business network (planning). Such a company may also host regular conferences or meetings between the people that are involved in their business relationships, and invite or demand that the representatives of each partnership in the network attend (organizing). High cross-relational network competence may also be exhibited by all business partnerships having a different, specified employee responsible for each (staffing), and by having regular managerial reviews of both the costs accrued by such staffing as well as the extent of the benefits the company gains from the partnerships (controlling).

In sum then, the cross-relational network competence comprises of the above components to the degree to which the company is able to control the output of the business network to its benefit. (Ritter et al., 2002; Torkkeli et al., 2012). Figure 1 depicts the process in which network competence would be expected to develop across time during the internationalization process of an SME: the two types of competence would develop across different periods throughout the internationalization process, and the development process should be evident throughout the seven types of task execution activities.

Figure 1. The development of network competence in an internationalizrd SME.



However, extant research has not examined the dynamics of such multi-faceted competence development in the context of internationalization, and thus an exploratory study is called for to illustrate how and when such a competence may arise in an internationalizing firm. Therefore, we next seek to shed more light into the dynamics of how companies develop such competence longitudinally and through what means. In the hopes of responding to some of these gaps, we will present the empirical part of the study, a longitudinal case study with an internationalizing SME.

III Research design

Our study had an exploratory approach, as the study aimed at understanding how and when does an internationalizing small company develop its network competence. Therefore, we considered that qualitative research methods would provide the information which we need, as it provides in-depth understanding of the phenomenon (cf. Eriksson & Kovalainen, 2008). A longitudinal single-case study seemed an appropriate research strategy, as it allows

a detailed description and analysis of the phenomenon in its natural context (Eisenhardt, 1989; Woodside & Wilson, 2003; Yin, 2009). Further, case study has been recommended for studies on business networks in particular (Dubois & Gadde, 2002). Given that we were analyzing the development process of network competence, context-sensitivity was considered important. Therefore we chose a single-case study as it enables a deep immersion in rich spectrum of case data, which is particularly important with longitudinal research aiming to unravel dynamics of a phenomenon across time (Siggelkow, 2007).

Our case company is a small, Finnish software company, Blancco Ltd. The company is a good example of a successfully internationalized SME, but it also is an interesting case from the viewpoint of our research question. The company was founded by two university students in Eastern Finland in 1997 and today the company operates in 17 countries and employs 47 people. The small home market pushed Blancco fast to international markets and the company operates in a context where the role of networks and internationalization is decisive for long-term success. It can be argued that for the company development of network competence was a ‘must’ and yet the company started with very limited or no network competence. Thus, the case company offers us a representative view to the development of such a competence.

The data for this longitudinal case study were collected during the years 1999-2013. The main source of information were the six semi-structured interviews with the founder and CEO of the company which were conducted between 2001 and 2013. An example of interview structure is included in Appendix 2. Additionally, to complement the interviews a considerable amount of secondary data was collected. The secondary data set included internal company documents (e.g. strategies; business plans), external public database for financial data, clips from the business press, and press releases from the company website (see table 1 for details).

Table 1. Summary of the used data sources.

Data type	Source	Date	Reasoning
Semi-structured interviews	CEO	2001, 2004, 2006, 2010 (twice), 2013	Identifying the critical incidents in the internationalization process
Voitto database	Financial data of the case company	2014 (balance sheet information for up to 2012)	To provide an overview of the growth of the company across its internationalization and to identify critical incidents
Media coverage and releases	Company press releases, articles from the business press, company brochures	2001-2014	To supplement the overview of the company and to identify critical incidents
Archived company documents	Company strategies, business plans	2000, 2002, 2003, 2004, 2008, 2009, 2010-	To illustrate and describe the strategies of internationalization and partner selection of the company

Data triangulation has been encouraged in qualitative research and it has been recommended in case studies in particular (Yin, 2009). Thus, all the conducted interviews were tape-recorded and transcribed in verbatim afterwards. Based on the interview data first narrative of the internationalization process of the company was drafted. Next, the narrative was revised and complemented with the help of secondary data. Since our examination was based on the processual development in a rapidly internationalizing SME (cf. Mainela et al., 2011), we examined the internationalization through the critical incidents method (Flanagan, 1954). Examining the critical incidents of the company in its internationalization process would allow for separating the process into distinct phases, upon which the competence development could be contrasted. Thus, we divided the company's internationalization process into four distinct phases, as deemed by the major events over its international growth (1999-2013). Next, we will elaborate upon the case company and the development of its internationalization process and conduct the division.

IV The case company

Blancco Ltd. is a software company founded in 1997 in Joensuu, Finland. The company was first founded by two master's students at the local university, and the underlying business idea was further refined by a national scandal in 1998 involving unintentional breach of confidential medical data through insufficient data erasure practices with hospital computers. Anticipating increased demand through consequent voluntary and regulatory adaptation of data erasure practices throughout Finnish businesses and organizations, the founders decided to focus the company on developing and distributing data erasure software for both domestic and international markets. The company deemed the development of a software solution a promising strategy, as the few incumbent competitors at the time were limited to hardware solutions at the time. Thus, whereas the prevalent business model in the industry niche may have entailed physical delivery of hard disks and use of cumbersome expert machinery only available at specific sites, Blancco aimed at developing a solution that would be simple, easily deliverable to customers and would provide a comparatively ecological and efficient way to meet arising data erasure needs. Consequently, the company started the sales of its first product, Blancco Data Cleaner, in 1999. The software was developed to be deliverable to the point where minimal customization was needed and ease of use would be optimized.

The internationalization process of Blancco can be divided into four phases. The *first phase* comprises the start of the internationalization process (1999-2000). Such an early decision by the company to target both domestic and international markets was based on the market and industry characteristics it was facing: while the domestic demand could be expected to rise through increasing national legal regulations on data safety, the management of the company recognized early on that the domestic market demand would be quickly met. Furthermore, by targeting a specific niche in software industry, and by doing so while focusing on business-to-business-markets, the company faced additional limitations to its local market potential. This aggressive internationalization strategy resulted in the company deriving above 40% of its total turnover from foreign markets as early as 2001. Thus, Blancco can be with some certainty defined as a "born global" (Rennie 1993; Madsen & Servais, 1997) company.

Thus, as soon as the development of the software reached a point where the product could be launched, the company was already aiming to internationalize as rapidly as possible. By making use of existing customers, potential partners and customers abroad were sought and a partner network was established gradually in various geographical markets, starting in 1999 with Sweden, Hong Kong, Hungary and Spain, and continuing with Germany (2001), Austria, Belgium, USA United Kingdom and Italy (2002). This comprises the *second phase*

of the internationalization process of the company, characterized by low-commitment foreign operation modes and ad-hoc selection of foreign business partners. During 2001-2002, the company also faced some short-lived challenges financially and strategically, both of which were consequently mitigated: the former via an external investor and the latter through re-considering the company strategy on foreign market entries and partner selection.

The *third phase* of Blancco's internationalization process thus covers the main years during this strategic shift (2003-2007), during which the company entered Australia (2003), Japan (2005), France (2006) and Canada (2007). During this phase, entry mode choices of the company moved from licensing and increasingly to the establishment of owned subsidiaries. From 2008 onwards, the company has preferred almost solely these high-commitment entry modes and has sought to use its growth and increasing financial resources to acquire its remaining independent business representatives abroad or (alternatively) to establish its own operations in place of those partnerships. This comprises the *fourth and final phase* in the internationalization process of the company (2008 until 2013 when the latest interview data were collected), time during which the company has further started foreign operations in Poland, Romania and Slovenia (2009), and also in Russia and in the Netherlands (2012).

From there until the present state, Blancco had grown to the point that currently over 90% of the turnover (7.7 million Euros according to the latest balance sheet information) is derived from foreign markets and the present CEO of the company estimates that the growth of this foreign share over the last decade has been linear. Presently, the company is embedded in a business network comprising of international offices and partners in 17 countries locating in Europe, North and South America, Asia and Australia. Presently, the CEO of the company anticipates future growth through increasing the international operations further through establishment of additional subsidiaries and joint-ownership companies.

V The development of relationship-specific network competence in Blancco

Overall, the company seemed to start out with very few if any organizational practices conducive to developing relationship-specific network competence. We do not see this as a surprise, considering the fact that the founders of the company were two university students without prior experience of either entrepreneurship or information technology business. The founders were both too young to have developed extensive personal networks typically available for more experienced entrepreneurs (Witt, 2004) and founded their company in the information technology sector where small, resource-challenged SMEs are the norm (Bell, 1995; Saarenketo et al., 2004; Kuivalainen et al., 2010). Exchange-related network competence encompasses the extent to which the company is able to trust their network partners with confidential information, and how well the requirements of partners are informed internally in the company. In Blancco, the starting phase of its internationalization process in the early 2000s was characterized by forming of ad-hoc business partnerships with foreign dealers and distributors, and without critical evaluation. This meant that a crucial part of exchange-related network competence, being internally aware of the requirements that network partners place for the information exchange to occur, was ignored, according to the CEO:

“[On whether at that time Blancco was internally aware of the requirements of its partners] Nothing...someone may have perhaps known something...I think it was a question of lack of ability...I saw [an advertisement] saying “only experience cannot be copied”. I think it applies here.”

The quote above implies that the company in the first years after its foundation did not have the necessary managerial experience to accurately understand and predict the requirements of its business partners. The lack of experience could be attributed to the origins of the company as the brainchild of young university students without prior business experience in the field. However, a venture capitalist company, Helmet Business Mentors Oy, acquired a minority share of Blancco in 2000, and which resulted in a Helmet representative being included in as member of the company board. Upon arriving, the representative previously had 25 years' worth of experience from operating in various managerial roles in businesses operating in the field of information technology. His inclusion to the company board contributed to significantly raise the amount of individual managerial experience available in Blancco. We consider it probable that the role of managerial team later contributed to an increasingly accurate understanding of partners' requirements, as the business relationships of the company over time have contributed to make Blancco willing to exchange increasingly confidential information with its partners. This further highlighted by the fact that information exchange tends to occur increasingly smoothly as established partnerships in the business network become mainstays:

“Yes, we [are exchanging] quite confidential information...yes, a lot, in great detail...I think that, over time, relationships get deeper... The guy in Japan, we've done, this is now the tenth year [of the business relationship]...that's a long time.”

While very few of the network relationships Blancco currently is embedded in have remained in place since the early phase of the internationalization, there seems to be in general enough trust built for exchange of rather confidential information between the company and its partners. Part of this may be due to the company engaging in increasingly analytical and critical partner selection, but in most part this may also be due to the preferred partnership types: whereas the early internationalization of the company saw the establishment of distribution and dealer relationships with independent foreign business partners, since the mid-2000s Blancco has gradually shifted its partnership strategy towards the establishment of more committed (and thus, more controllable) network partners, such as joint ownership companies, channel partners and subsidiaries. Overall, however, the exchange of information on requirements of network partners is still in a work in progress in the company:

“Each year, we conduct a work satisfaction survey, there are 12 categories that are rated. We're doing quite well [relatively], but the three categories that are always the worst [include] internal communication... if you have 15 distinct cultures [presented in the workplace], that already creates its own small challenges...”

Initiation-related network competence deals with the level of activity with which the company seeks new partners, and the frequency with which they visit potential partners to get to know them (Ritter et al., 2002). Similarly to the exchange-related network competence, initiation-related activities have been introduced to the company as routines only recently:

“We now have ready-made business plans for [several potential markets]. And they've been made very carefully and are over 100 pages long...Everything has been counted, what it costs, where to invest, who are the potential customers, and so forth. And for the first time we've done it in such a thorough way, in great detail.”

This development in more detailed market- and partner-seeking has also similarly coincided with the strategic shift of the company to prioritize more controllable types of network partners:

“Those re-sellers and them...they are a bit like a lottery, you’ll never know beforehand which ticket will win...and at some point, there wouldn’t have been resources to commit, those few tens of thousands to market research. It is, like many things, a resource question.”

We interpret to initiation of network relationships in Blancco to have been driven by the need for increased resource efficiency and by the overall possibility for more systematic and strategic decision-making made possible through increased financial resources available via the growth of the company through increasing its foreign operations. We also interpret the latter response to indicate that the decision by the company to commit to developing initiation-related network competence had to do with the type of the network partner preferred: namely, that the company did not consider the resource commitment worth prioritizing when the potential network partners were seen as additional re-sellers similar to those the company already had challenges controlling.

The coordination-related network competence comprises of the level with which the company systematically puts people from their company and from the network partners in contact with each other (Ritter et al., 2002). One area of this is the extent to which the company encourages communication between people involved in the business relationships within the business networks, both those internal and external to the company. The competence for coordination in Blancco is presently systemized through arranged cross-functional events that were started fairly recently:

“We do encourage cross-communication [between the people]...for example our marketing department arranges these cross-functional [events] where all the country leaders are invited...[The practice was started] only in the very recent years, probably the most crucial change has been since 2008...”

This is a fairly striking development in comparison to the level of coordination prior to 2008:

”Before, the keeping contact part, for example between myself and the UK country manager, was completely ad-hoc. We would call each other daily, evenings, mornings, e-mails, Skype...And now, it’s completely systematic, for example, Wednesday, 15:30, we have one hour, go...It something learned and more efficient use of time...better to meet once a week and to have thought of things beforehand...”

The quotes above suggest that, while some development of coordination-related network competence was developed in Blancco at the early stages through various uncoordinated routines, most of the development is evident more due to the growth of international operations in the latter part of the 2000s. Overall, the need for increasingly systematic routines of coordinating communications with network partners was driven by practical time constraints, as increasing amounts of foreign markets where the company started operating in comprised to present a gradually more complex set of network relationships to try and coordinate.

Overall, the development of relationship-specific network competence in Blancco over time is rather clear: A pattern of development towards increased network competence seems to be occurring from the latter part of the 2000s, after Blancco was already an

established, internationally operating born global (see table 2). However, it also seems that while Blanco was able to enter foreign markets without being competent in managing business relationships in its business network, some difficulties did arise during the process that called for more refined management of the business relationships at the strategic level. Mainly, there was the fact that the increasing scale of foreign operations caused the company to look for increasingly efficient and more systematic ways of handling communication and diffusing necessary information between the actors embedded in their business network.

Table 2. Interpretation of the development of relationship-specific network competence in Blanco over time.

Network competence type	Level when starting internationalization (1999-2001)	Level during the crisis (2001-2002)	Level during the shift in partnership strategy (2003-2007)	Level presently (2008-2013)
Initiation	Low	Low	Medium	High
Exchange	Low	Low	Medium	Medium
Coordination	Low	Low	Medium	High

In sum, when contrasted to the definitions of what constitutes low and high levels of relationship-specific network competence in a company, the data suggest several things: firstly, it suggests that prior to the third phase in the internationalization process (2003-2007), no systematic routines were at place at the company to form the competence, thus comprising what could clearly be described as low relationship-specific competence. Secondly, during this third phase such routines were gradually introduced in the company and they were starting to be resources sufficiently enough to be carried out in practice. However, it was only at the fourth phase (2008-2013) when initiation and coordination of individual business relationships reached what adheres to the definition of high relationship-specific competence. The exchange of information, however, remains at an intermediary level: while the company does increasingly exchange confidential information with its network partners, its internal communication is still somewhat limited by the limits of cultural barriers presented by its multinational workforce.

VI The development of cross-relational network competence in Blanco

The cross-relational network competence comprises of the ability of the company to engage in organizational activities aimed at managing the structure and the output of the network so as to benefit the company maximally (see Ritter et al., 2002; Torkkeli et al., 2012). These activities can be divided into those related to planning, organizing, staffing and

controlling of the network (Ritter, 1999; Ritter et al., 2002). As Blancco was starting out in its internationalization efforts at the turn of the millennium, the company had neither the time nor the willingness to differentiate between potential network partners. Very little planning was involved when assessing the suitability of foreign partners for the company long-term strategy, and thus the potential business partnerships were not evaluated critically:

“When we started in the late 1990s... We went to partnerships with anyone, with any conditions. If anyone wanted to do something for us, we went “that’s great”!... We were like a regular barfly... If someone indicated interest towards us, we just went with it...”

The quote above suggests that the company had not developed a structured strategy for evaluation of each business partnership based on their value to the company, and thus was not in a position to develop their business network to the benefit of the aims of the company optimally. During the early 2000s, managerial and strategic issues arose due to the company not being able to manage their business network due to the lack of planning:

“It was just that you couldn’t manage those... sales partners, or the sales channel... They can say today that I don’t feel like doing this, I’ll do something else, take another product, I don’t like your face... if you’re employed by someone, you can’t say that...”

As a reactionary measure, during the mid-2000s the company decided to start re-evaluating their organizational practices on partner selection towards systematically comparing, evaluating and critically assessing any potential business partner. This has led to the present situation where such planning is systematic, critical and linked to established long-term company strategy:

“[Now] We are constantly evaluating, both [the network] as a whole and each individual actor [in the network]... We started with [establishing] subsidiaries. Now we only use [the old] model in Australia.”

Following a similar logic and timescale, the company has commenced evaluating the way the results gained from individual partnerships in the business network fit together, and has started comparing their network partners in terms of their technical knowledge. The outcomes from the individual partnerships are mapped out during annual “Blancco strategy days”, during which all members of the partnership network are evaluated in relation to each other, in order to find out which are the most and least capable from the point of view of the company. This has brought added rigor to the evaluation of potential network partners:

“Now it’s the opposite [from the beginning], which is to say that we are quite critical with whom we want to [partner]... for example, South-East Asia... There we had two-three options [prepared].”

We interpret these responses suggesting that, for Blancco as a born global -type small company, it may experience particular pressures to extend their business abroad rapidly and intensely, a necessity that may make focusing on planning of network partnerships less of a priority. It seems that very little systematic planning-related network competence was evident in the company routines until the mid-2000s, when both the increasing scale and scope on the one hand, and diverging goals of some of its network partners on the other hand contributed to make managing the network increasingly more challenging.

As a response, the company established several planning-related organizational routines and practices that lead to the company becoming increasingly competent in its planning-related task execution activities. Thus, over time, the company has developed systematic evaluation practices for its existing network relationships, and the partner evaluation overall is also conducted in a more systematic and analytic manner.

The organizing-related network competence describes how similar goals of the company are to those of its partners, and how the company is able to initiate the meetings and discussions among those involved in the relationships (Ritter et al., 2002). With Blancco, the type of the business partnerships employed have come to determine in large part the alignment of such goals, as in the beginning of the internationalization process, the partnership network of Blancco was mostly based on low-commitment (but also less controllable) network of distributors and local export partners, each of which tended to have misaligned goals from the point of the view of the company. In order to be able to organize its activities throughout the network increasingly beneficially, the company sought to re-adjust their main foreign operations towards more committed, but also more controllable, operation modes:

“Sometime 2005-2006, we had to acquire some of these Blancco’s regional offices, as we did not have ownership there.”

An example of such strategic shift was when the company established its own regional office in the United Kingdom, acquiring the local partner after conflicts had arisen with its local manager due to the misalignment of goals. The company recognized that it needed to find ways to ensure a proper aligning of goals between its network partners and itself, and thus started to shift the focus of its internationalization strategy towards the more controllable partnership types, preferring subsidiaries and joint-ownership companies. This development has led to the company being able to ensure that the members of its business network share goals conducive to the company success:

“One common goal is Blancco’s success. Everyone wants Blancco to succeed...I don’t believe than anyone in this Blancco business network wants Blancco to fail...[Even though] there is some individual optimization [that the partners do]...there is in practice [also] the profitability and growth of turnover.”

The increased competence in organizing the network was achieved through the establishment of regular meetings among the involved in the business relationships of the company:

“Twice a year, we [now] have face-to-face meetings...They include the country managers and the latter also has a lot of the people from the regional offices...The teams also hold quartile follow-ups with this network...They tell where we are, what we are trying to achieve, and so forth.”

Such structured approach to organizing meetings between people involved in the business network relationship was not feasible prior to mid-2000s, due to the company lacking both financial and personnel resources to commit to organizing such meetings. Recently, these meetings have become still more common and systematically arranged:

“We have had these Blancco partner base -type activities for ca. 10 years now. But now it’s systematic, wide-spread. What was once a year before is now twice a year...the challenge is to haul the large number of people to the specific [meeting] place.”

The quotes above suggest that the development of organizing-related network competence in Blancco has followed a pattern similar to that of planning-related network competence: in the first phase of its internationalization process (1999-2000), such competence was almost non-existent, and has since only developed as the company has grown and been able to commit gradually increasing resources to such large-scale meetings among the people involved in the partner network. However, organizing-related network competence has developed somewhat prior to the planning-related one, as the “Blancco partner base”-events have been arranged in some form by the company since early 2000s.

Staffing-related network competence relates to the development of abilities related to two key organizational practices: the level of systematic assignment of people responsible for each relationship, and the level of coordination of activities between different relationships (Ritter et al., 2002). This type of network competence has developed in Blancco in line with the planning- and organizing-related network competencies. Presently, the staffing competence is evident via practices such as each business relationship in the network being assigned a person responsible for managing it:

“Before there was no [such practice]. We have divided the areas, each partner has their own...so-called account manager. I only have one left now that I’m responsible myself... There are about 15-16 [network relationships] now, so it would be quite hard to do it alone...they have [now] been divided. ..The division is about two years old... We have had some kind of [systematic] division for about five years.”

In addition, the systematic assignment within the company has developed further over the past few years, parallel to the company increasingly forgoing less controllable business partnership (such as franchising and licensing) in favor of more controllable ones (such as channel partners and subsidiaries). Again, a clear trend is visible: during the early phases of the internationalization process in early 2000s, no such systematic practices were in place, as each business relationship was not assigned specific individual employees. Thus, staffing-related network competence can only be clearly seen as a late-stage development over the internationalization process of the company, and one arising later even than the planning- and organizing-related competencies.

The controlling-related network competence comprises the ability of the company to assess the effort that their people put into the business relationships, and how well the usefulness of the partners for the company is monitored (Ritter et al., 2002). In Blancco, while prevalent, the controlling-related activities have not been and are not presently systematically measured:

“It’s being discussed [assessing the effort], I wouldn’t say that there are any scales [we use] for it...but we do discuss...for example, how much we invest in Malaysia when we enter there, how many working hours it takes, who will be responsible for it...”

The recent shift of the actors included in the business network towards subsidiaries has also enabled Blancco to develop practices to monitor and control the usefulness of each network partner:

“We have a few ways to do that. For example, the financial monitoring we do now is quite detailed...if there is no money is derived [from the network partners], we can now say that probably it is not a very long-term relationship ...now is also the first time that we are voting

between these regional offices, all the way from R&D to marketing, to see who is the best, who is the worst, and why.”

While the potential network partners were not evaluated critically by Blancco at the early phases of its internationalization process, as the company would accept almost any request for a business partnership they were offered, this has changed with the development of the business network recently:

“Presently, now it is so that we may sometimes be a bit too critical even. We will think if it will work out, is it worth doing, is it any good...”

Thus, while the usefulness of network partners to the company was not previously evaluated in any systemic manner before or after initiating the relationship, presently they are. The responses to the questions on controlling-related network competence further imply several things. Firstly, they suggest that controlling-related competence activities have been developed in the company at a rather late phase of their internationalization, and are still not quite as systematically applied as the other dimensions. Secondly, the increase in the amount of more controllable partnership types with subsidiary-type foreign operation modes seems to be in part a result of gradually increased efforts by the company to strive for increased analysis and critique when evaluating potential network partners.

Overall, the development process of cross-relational network competence in the company longitudinally (table 3) corresponds rather closely to the development of the relationship-specific type (table 2). Notably, the company has achieved high levels of cross-relational network competence only after forming of a proactive internationalization strategy encompassing more optimal foreign operation modes and network partner types, as well as increased financial resources available via ownership arrangements and growing international operations over the past ten years.

Table 3. Interpretation of the development of cross-relational network competence in Blancco over time.

Network competence type	Level when starting internationalization (1999-2001)	Level during the crisis (2001-2002)	Level during the shift in partnership strategy (2003-2007)	Level presently (2008-2013)
Planning	Low	Low	Medium	High
Organizing	Low	Medium	Medium	High
Staffing	Low	Low	Low	High
Controlling	Low	Low	Medium	Medium

The longitudinal development process of Blancco's network competence can be divided into distinct phases as described in Figure 2. It shows that the development of network competence in the company started late, several years after the internationalization process begun. In fact, the company was well internationalized before any clear signs of network competence could be identified. In the early phases of internationalization very few routines or systematic activities existed, and none of those were related to relationship-specific or cross-relational competence. All data sources repeatedly pointed out that collaborative activities were addressed in an ad-hoc manner. Thus, in the early years the network competence was on a low level.

From the viewpoint of network competence a critical event was the change of partnership strategy, starting in 2003, as it was the first clear attempt by the company to develop its network systematically. Additionally, non-profitable partnerships were terminated, indicating also an assessment and development on the level of individual relationships. That was also the phase in the internationalization process where the company had grown large enough to be able to afford the commitment of financial and personnel resources necessary to engage in not only relationship-specific but also cross-relational task execution activities. At this third phase in its internationalization process, Blancco was able to systematically develop and engage in some, but not all of these activities. In some cases, the thresholds for what constitutes high network competence were during this time achieved in some, but not all facets of the competence, thus presenting an intermediate level of network competence at the time. One example of this was with the exchange-related activities of relationship-specific network competence, where the level of information exchange achieved with partners far exceeded that within the company.

This fourth and most recent phase of the internationalization process (2008-2013) has further enabled the inclusion of much of the remaining routines comprising network competence activities. Namely, the planning, coordinating, organizing and staffing activities have during this phase been developed to a point which closely corresponds to the definition and description of high network competence. The exchange- and controlling-related challenges have remained, but overall the routines that underlie cross-relational and relationship-specific network competence are much more in place and adhered to than either in the beginning phases of the internationalization or the third phase where most of them gradually started to emerge.

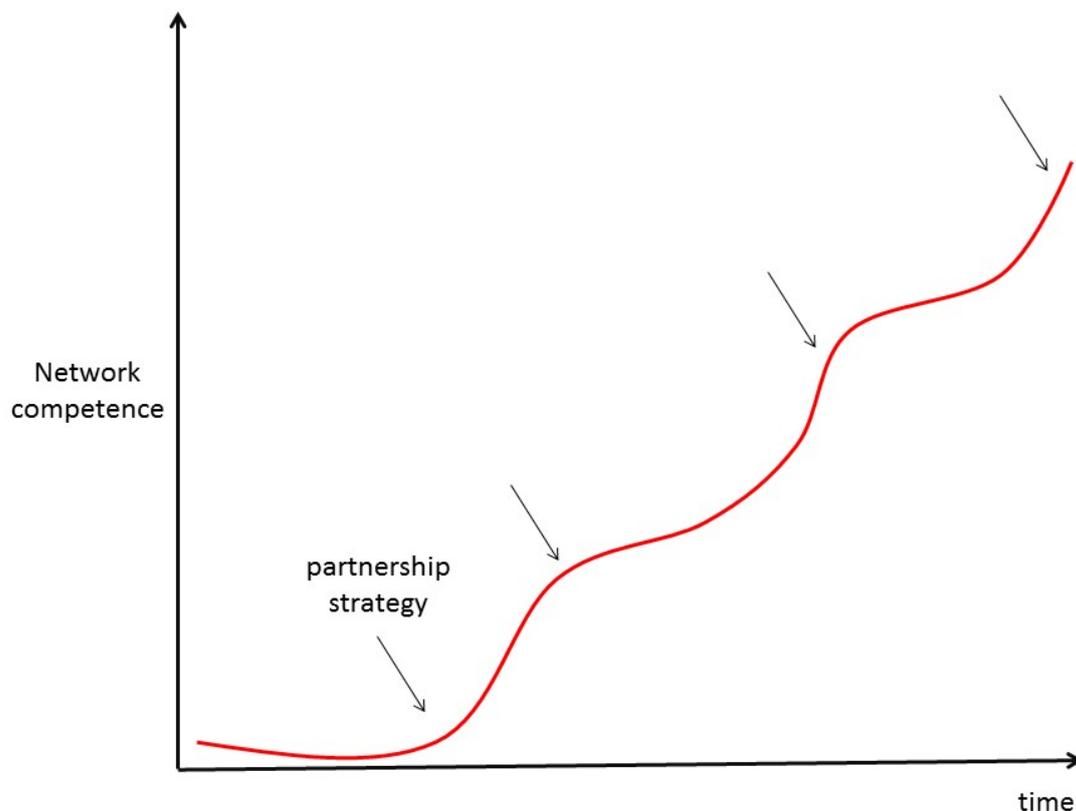
Figure 2. The development of network competence in Blancco 1999-2013.



Overall, a distinct pattern emerges when examining the development of network competence development across the internationalization process of the company: Precisely, that in the case company, the development of network competence does not precede the start of the internationalization process and is not developed alongside it until later phases of the internationalization, when a substantive degree of internationalization in terms of both scale and scope has already been established. This may be due to the characteristics of the company, as a born global may have to commit all its available resources to intensify its foreign operations, instead of systematically managing its network partners. Thus, the development depicted in figure 2 may arise due to the pressure to internationalize overriding that of committing to develop dynamic capabilities such as network competence.

Alternatively, it may also arise from lack of financial resources due to the strain that aggressive internationalization efforts put on the finances of a newly established small company such as Blancco in early 2000s. However, an identifiable relationship is evident between network competence and the internationalization process in this case: namely, the lack of network competence development in the early phases of the internationalization process of the company coincided with difficulties in controlling and making use of the business network, as well as with increased financial difficulties in the company. Figure 3 further illustrates the development process across time, when contrasted with the shift in partnership strategy within the company.

Figure 3. Illustration of the network competence process in Blancco in relation to its partnership strategy.



VII Discussion and Conclusion

This study focused on the question: “How does network competence emerge in an internationalizing SME?”. We studied closely the network competence of a Finnish SME in a longitudinal study which analysed the development in relation to company internationalization. We found that the company had no network competence prior to internationalization, neither did the network competence develop during the early years of internationalization. Instead, the small home market pushed the company rapidly to international markets where it sought rapid growth through ad-hoc business relationships. Thus, the network emergence was characterized by effectuation (Sarasvathy 2001).

The development of network competence did not start before the company encountered its first crisis – the cash flow crisis – which forced the company to think more strategically and allocate the limited resources in a cost-efficient way. In a way one could argue that the emergence of network competence was forced, not a voluntary act for the company. The cash-flow crisis was subsequently overcome with a combination of added resources allowed by the outside investor and with the gradually increasing financial resources allowed by the growth of the company abroad. These developments brought the case company the means to invest in developing network competence. In addition, the added incentive to do so was provided by the company reaching the limits of its preferred ad-hoc business networking strategy, as the increasing amount of low-commitment foreign partners presented the company with added challenges in trying to manage their international operations. As a result, the third phase of the internationalization process of Blancco was

characterized by both its decision to prefer increasingly high-commitment, controllable ways of developing its network, as well as starting to put effort into finding ways to manage the outcome of the network to its benefit – a development through which its network competence gradually emerged. The fourth and most recent stage of the company has enabled it to reap the benefits of those decisions, through both increasing financial success and growing global operations. Paralelly, the company has reached to a point where it can be described as one possessing high levels of both relationship-specific and cross-relational network competence. With the aid of that competence, the company should be able to better manage also its subsequent international growth, as its network competence will better allow it to select, include and deal with its subsequent new partnerships.

The results of the empirical case study contribute towards several implications. Firstly, they suggest that an internationalizing small company does not necessarily develop high levels of network competence -does not become competent in managing its network relationships- prior to starting its international operations, nor may it do so during the early phases of its foreign market expansion. As was the case with Blancco, an individual small company may face market and industrial pressures to seek rapid and intensive entry to market beyond its domestic partners immediately upon its foundation. Thus, it may have neither the time nor the resources necessary to engage in business networking and growth-seeking simultaneously as parallel strategies. This is to say that the outright survival of the company may require international growth utilizing any potential business and customer relationships, forgoing focusing on how the company is able to optimize its control of those relationships and the outcome of the overall business relationship network to its maximal benefit.

Secondly, we still note that when such an internationalizing small company does have the possibilities to engage in developing network competence, such a development may indeed be linked with increased control of network relationships, better strategic success and higher levels of financial prosperity. In Blancco's case, the notion of the company having neither the resources nor the time to develop network competence prior to foreign market entry was rather evident: the Finnish domestic market on data erasure software was by nature small and niche-oriented, and thus the long-term survival of the company required for the management to concentrate their efforts with on achieving rapid internationalization.

However, this strategic focus also coincided with substantial financial challenges and the inability to align the goals of its business network partners during the early 2000s. Once the resources for addressing the issues in its business networks became more widely available, the company was also able to plan its business networking more strategically and to develop network competence in order to manage its network relationships. Thus, the company was both willing and able to form a partner network through the types of network relationships it was able to control and the members of which had goals more closely aligned with Blancco (e.g., by gradually replacing the established distributor partner relationships with owned subsidiaries).

And thirdly, the empirical results imply that the timing of network competence development during small company internationalization may be linked to the characteristics of the industry and market from which it originates. Much of the extant research examining the relationship between business networking and small company internationalization has tended to focus on companies originating from small open economies such as New Zealand (Coviello & Cox, 2006; Coviello & Munro, 1995; 1997), Finland (Kuivalainen et al., 2007) and Ireland (Loane & Bell, 2006), and has tended to focus on rapidly internationalizing small companies in the software industry in particular (Bell, 1995; Ruokonen et al., 2006). These studies have tended to find the importance of business networks as enablers of such rapid internationalization by born globals to be heightened. The implication that the development of network competence in such a company may not be feasible until later phases of its

internationalization process therefore means that such networking may not be strategic enough to comprise a dynamic capability for the company, and may have adverse effects on the likelihood that the internationalization process will be successful.

In addition, these results add to our understanding on the tangibility and longitudinal development of network-related dynamic capabilities. While the ability and likelihood of small companies being able to conduct business outside their domestic markets has been repeatedly linked to the resources and opportunities gained through networked business relationships (Coviello & Munro, 1995; 1997; Holmlund & Kock, 1998; Coviello, 2006; Coviello & Cox, 2006; Wakkee, 2006; Al-Laham & Soutairis, 2008; Sasi & Arenius, 2008), the dynamic capability viewpoint has mostly been neglected until now. The empirical results of this study shed further light into this phenomenon, by presenting a holistic longitudinal view on the timing and ways of the development of network-related organizational capability, network competence. Furthermore, in addition to Weerawardena et al., 2007, this is one of the first studies examining the phenomenon of dynamic capabilities development in the context of small companies through their internationalization process.

In sum, we suggest the results implying that network competence is the ability to execute a concrete set of organizational routines, as evidenced by the specific events and policies established in Blancco over time (e.g., the Blancco strategy days). Furthermore, it seems that this development process is both observable and exists intertwined to the dynamics of the organizational strategy. One notable question related to such development is whether the network competence of SMEs emerges linearly throughout the internationalization process, or if it does so in bursts or specific stages. Our interpretation of the development process of network competence in Blancco suggests that one feasible route to its development may be a mostly linear process accelerating later in the internationalization process, as resources become increasingly available through financial and organizational growth which internationalization enables. However, future research should examine if such development could be expected across firm types and industry sectors: as our empirical context was limited to a single Finnish born global, we do not claim our results to cover other empirical contexts, nor do we assume generalizability across those contexts based on this case.

Consequently, as a small company is able to place resources and effort to create some of the organizational practices conducive to developing network competence, both network-specific (cross-relational) and dyadic (relationship-specific) types of competence are distinguishable. The development of both types is crucial for an internationally operating company, as it may be argued to enable a better control of one's business network partners, as well as being able to survive the internationalization process financially. Thus, while supporting the extant studies finding ways in which business networks enable small companies to internationalize, we suggest that companies additionally need to develop network competence to be able to gain those benefits optimally, and that their success may be determined in part by their effort and success in doing so.

Some limitations to these implications should still be noted, however. While a longitudinal single-case study can serve as a powerful example to illuminate a phenomenon (Siggelkow, 2007), a case study in general cannot allow for statistical generalization (Yin, 1994). Thus, we do not purport to claim that either the timing or the order of the network competence development process outlined here would apply throughout different environmental, market and industry contexts. However, approaching the phenomenon longitudinally allows for an in-depth explanation of change processes (see Pettigrew, 1990), such as the dynamics of network competence development. Still, our case company can be characterized as a "born global", and while the empirical data present a clear picture of time and resource constraints that may make early competence development unfeasible for such a

rapidly internationalizing company, we consider it possible that both larger companies and those in less dynamic industry environments may experience differing needs and thus, differing patterns of competence development.

While our interpretation of the empirical results is that internationalizing small companies should develop network competence as soon as it is financially feasible for them to do so, we note that it is still that -an interpretation of an empirical context entailing a multitude of possible contributing causes beyond the ability of a company to manage its business relationship network. However, this study does suggest that, while developing higher network competence earlier in its internationalization process might have helped the case company further, attributing systematic effort in developing network competence only occurred after the company possessed both the perceived need for network management as well as the resources necessary to engage in that effort. Thus, future research could aim to increase the brevity of understanding of the phenomenon, by examining companies across different environmental, market or industry contexts. In addition, the timing of such competence development could be examined in relation to not only the situation within the company, but also in relation to the position and success of its network partners. Finally, the seemingly complex dynamics between different types of competence development and organizational success could be clarified through panel or survey data that could provide possibilities for contrasting the causal relationships between business networks with particular financial and strategic outcomes.

Finally, the notion that the competence development process of the company seemed to adhere more to effectuation- rather than causation-based logic provides some potentially fruitful future research avenues. In particular, Sarasvathy (2001) distinguishes the two along the object of exploitation (exploiting knowledge in causation, exploiting contingencies in effectuation). As the traditional models of internationalization, in particular the U-model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; 1990) sees the process as knowledge- rather than contingency-based, it is possible that some company-dependent characteristics (such as seeking rapid internationalization) may determine whether internationalization occurs through causation or effectuation logic. However, as this is a single case study, we do cannot make far-reaching generalization as to the nature of such implications, and instead suggest the relationship be clarified through further research to increase our understanding of these differences.

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Appendix 1. Studies on evaluable network competencies and capabilities

Competence / capability	Source	Definition	Source	Theory
Network competence	Ritter et al., 2002	The ability of a firm to develop and manage relations with key suppliers, customers and other organizations and to deal effectively with the interactions among these relations	staff, organizational routine and policies	Industrial marketing
Network capability	Walter et al., 2006	the ability of a firm to develop and utilize inter-organizational relationships and to gain access to resources held by other actors	relationship-specific resource configurations and their management	Industrial marketing
Networking capability	Mitrega et al., 2012	Organizational ability oriented towards managing business relationships along their development stages.	the level of involvement in relationship management process	Industrial marketing
Co-operative competence	Sivadas & Dwyer, 2000	A property of the relationship among organizational entities, consisting of trust, communication, and coordination	staff, administrative mechanisms	strategic management
Relationship management capability	Jarratt, 2008	The infrastructure (i.e the relationship management system and processes, relationship memory and experience, and learning.	learning in, behavior of, and infrastructure of relationships	strategic management

Appendix 2: Interview Schema for examining network competence (2013).

A. Background questions
1. What do you consider the most important success factors for your firm?
2. How would you describe your vision on business networking in the Finnish context?
3. How would you describe your vision on business networking in the international context?
4. Could you describe your partnership activities with your technical and other business partners globally? For example the type of partners (technical/sales etc.) you have at the moment and where they are located?
5. Has the type or the amount of partners changed recently, and do you concentrate more on dealing with individual partners on their own or do you consider all the partners as one whole network?
B. Network competence
1. How does your firm evaluate the way your relationship with each partner helps your relations with other partners? Could you also tell when has the evaluation developed towards increasingly systematic ways and how it has happened?
2. How well does your firm compare our partners in terms of their technical knowledge? Could you also tell when has the comparing developed towards increasingly systematic ways and how it has happened?
3. How well would you say that your firm shares the same goals with your partners? How and at which point of internationalization have the goals developed to become more aligned?
4. How much does your firm initiate meetings and discussions among those in your firm involved in relationships with your partners? Could you also tell when and how has this developed and become more systematic in your firm?
5. How closely does your firm assign people to each relationship with your partners, do you? Has this developed towards more systematic practices and if so, at which point did it develop?
6. Does your firm assess how much effort your people put into relationships with partners? How has the assessment developed over time, and at when did the development occur?

<p>7. Does your firm coordinate the activities involved in different relationships with your partners? (for example, meetings, negotiations, etc.) Is it done systematically and how has that coordination developed over time?</p>
<p>8. How does your firm monitor the extent to which relationships with our partners work to your advantage? Is it done in a systematic way? How has this developed over time?</p>
<p>9. How actively does your firm search for new partners right now? Do you, for example, go and visit potential partners in order to get to know them? How has this developed over time?</p>
<p>10. How much does your firm exchange confidential information with your partners? How has this developed over time?</p>
<p>11. How do you inform others in your firm about the requirements of your partners? How has this developed over time?</p>
<p>12. How does your firm ensure, that people in your firm stay in contact with key people from your partners and vice versa? How has this developed over time?</p>