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Network model of internationalization
Kansainvälistymisen verkostomalli

Bachelor's thesis

Riina Hiltunen
Hanna Kuusisto

ABSTRACT

Authors: Riina Hiltunen and Hanna Kuusisto
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This paper is a Bachelor's degree thesis considering the network model of internationalization. The paper is presented in the program of Industrial Management and International Marketing at Lappeenranta University of Technology.

Globalization has increased the importance of internationalization process in which firms create business in networks. The internationalization of firms and establishment of business networks are known to be interconnected. For example, networks may help a firm to penetrate into new markets.

The objective in this thesis is to make a literature study to clarify what is meant by the network model of internationalization in academic discussion. How business networks are related to firm's internationalization, what are the reasons why the model was born and how the network theory differs from the earlier theory. Furthermore, we would like to know what are the possible advantages and disadvantages of internationalizing via networks for small and medium-sized enterprises.

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1 INTRODUCTION

Globalization has increased the importance of internationalization process in which firms create business in networks. The internationalization of firms and establishment of business networks are known to be interconnected. For example networks may help a firm to penetrate into new markets.

The objectives in this paper are to discuss what the network model of internationalization is, why it has born and how it differs from the earlier internationalization theories. Furthermore, the aim is to find out what are the advantages and disadvantages that small and medium-sized enterprises can gain through networking when they are looking for internationalization. We point out three research questions based on our pre-existing assumptions of the business networks and the network model.

RQ1: Why network model was born?

This question is to understand the reasons behind the birth of the network model. We want to clarify what changes there have been in 'the outside world' as well as in the academic world to understand the forces driving to the development of the model. By this question, we also want to link the network model to former and latter internationalization theories.

RQ2: What benefits small-and-medium sized enterprises (SMEs) can gain through establishing business networks in their internationalization process?

As we are interested in the operations of SMEs, we will concentrate on them and therefore we exclude MNEs. Besides, the inevitable biggest number of enterprises are SMEs in Finland and hence it seems more preferable choice. Focusing on SMEs seems also to be relevant from the perspective of the network model. Anyway born globals and service enterprises are excluded.

RQ3: What are the disadvantages for SMEs in establishing business networks in their internationalization process?

We pose this question to find a balance between pros and cons of networks. It would be exiting to form an idea of what can go wrong with the business networks of an SME. As in RQ2, we exclude born globals and service enterprises.

The first research question is covered in second and third chapters. In chapter 2, we first explain concepts of 'internationalization' and 'globalization' and then introduce earlier theories for the internationalization of enterprises and especially the Uppsala-model in more detail. In chapter 3 we proceed to the network model: the relationships in networks, development of relationships, network model itself, four cases of internationalization, how accurate the network model is nowadays and finally the differences between the network model and the Uppsala model.

Research questions two and three are covered in chapter 4 in which the networks will be viewed from the perspective of SMEs. We discuss what the internationalization of SMEs is like, which advantages networking can offer and which disadvantages it may cause. In chapter 6 we will discuss the research questions and draw conclusions. In chapter 7 we close our thesis with the summary.

2 INTERNATIONALIZATION

In this chapter there are two purposes: the first one is to define relevant terms such as 'internationalization' and 'globalization' and the second one is to introduce theories that describe hierarchical internationalization process. We also go through some background of the internationalization and discuss the motives for firms to internationalize.

2.1 Concept and background

According to the definition by Hollensen (2007, p. 5), internationalization can be considered as “Doing business in many countries of the world, but often limited to a certain region (e.g. Europe)”. The reason for the firm to internationalize is usually as Knight (2000, p. 12) states the initiative to extend business in foreign countries when the firm seeks to expand its sales to a new and more profitable markets. This is true in a growing number of cases, because the boundaries between domestic and international markets have been diminishing and the international competition has increased. Besides wider markets, internationalization may increase firm's profitability, attain latest technology and innovations in the product and manufacturing process. (Knight 2000, p. 12-13)

Altogether, this phenomenon of this kind of internationalization is called ‘globalization’: “Globalization reflects the trend of firms selling and distributing products and brands in many countries around the world. It is associated with governments reducing trade and investment barriers, large firms manufacturing in multiple countries, local firms sourcing raw materials or parts from cost-effective suppliers abroad, and foreign firms increasingly competing in domestic markets”. (Dunning 1993 cited in Knight 2000, p. 12)

The current era of globalization began after World War II when Western nations committed to global trade and investment and, in addition to suitable political environment, the further development has been driven by technological innovations, transportation and communication (Peng 2006, p. 19-20). Nowadays, globalization has led to “the growing interdependence of national economies – involving consumers, producers, suppliers and governments in different countries”. Globalization has encouraged firms to find new opportunities by internationalizing their operations and the greater amount of interconnections has made this possible. Many small and medium-sized technology-based companies are forced to adopt international perspectives, too, as global competition has increased (Litvak 1990 cited in Karagozoglu & Lindell 1998). Therefore, the need for globalization is not anymore what only MNEs have.

2.2 Earlier theories for internationalization

The internationalization of a firm has been discussed by a number of scholars. The early literature was influenced by general marketing theories, followed by a view of internationalization as a choice between exporting and Foreign Direct Investment (FDI) decisions. (Hollensen 2007, p. 61-62)

The traditional marketing approach, called also as the Penrosian tradition, had a strong marketing focus. It was originally introduced by Penrose in 1959 and further developed by Kindleberger in 1969 and Hymer in 1976 with the idea of having a compensating advantage to overcome the cost of foreignness. (Hollensen 2007, p. 61-62)

A sequential model of internationalization called Vernon product cycle hypothesis was introduced in 1966 and it explained internationalization as going through different phases of penetration into the target country. Product life cycle hypothesis introduced also the question between standardized products and product differentiation and where the manufacturing could be located. (Hollensen 2007, p. 61-62) The Transaction cost approach was created in 1976 by Buckley and Casson to drive the focus towards the decisions between firm's own operations and licensing (Hollensen 2007, p. 62). The Innovation-Related Internationalization Model in turn by Cavusgil (1980), Czinkota (1982) and Reid (1981) is considering internationalization as an innovation for the firm. In 1982 Caves and also Rugman were using the transaction cost explanation to explain the choice of foreign entry modes by firms. (Andersen 1993, p. 213, 218). Dunning's eclectic approach from 1988 explained the Ownership-Location-Internationalization (OLI) framework to take locational variables in FDI into consideration (Hollensen 2007, p. 62; Andersen 1993, p. 218).

Studies of the internationalization of Swedish companies resulted in formation of the Uppsala model by Johanson and Vahlne in 1977. In 1988, the network aspect was added to the model by Johanson and Mattson, which led to the network model of internationalization. (Hollensen 2007, p. 61-62) Research on internationalization has also showed that different theories and factors can be used on firms on different stages on their internationalization process. For example, some theories describe a firm in the early stage of the international development well whereas other theories describe a firm on late stages. (Andersson 2003, p. 852)

2.3 The Uppsala model

Model of internationalization process of the firm by Johanson and Wiedersheim-Paul was published first in 1975 and two years after that by Johanson and Vahlne (Andersen 1993, p. 210; Johanson and Vahlne 2009, p. 1411). In this chapter we discuss the theory of the Uppsala model and the critical views of it. The Uppsala model is in the background of the network model and that is why we consider it as important factor and pay more attention to it.

2.3.1 Theory behind the Uppsala model

The basic characteristic of the Uppsala internationalization model could be explained like this: “There is a loop process between the market and the firm whereby market knowledge leads to commitment decisions in the firm, the ensuing marketing activities in their turn leading to increased market commitment and knowledge, and so on” (Durrieu and Soldberg 2006, p. 60). In other words, learning process takes place primarily through experience in the market leading the company to be involved in international markets. The base for internationalization comes from managerial learning (Coviello and Munro 1997, p. 363). As Johanson and Vahlne (1990) is cited in Durrieu's and Soldberg's research (2006, p. 61) empirical knowledge is a driving force in the internationalization process generating business opportunities.

The Uppsala model presents that a company goes through four steps of gradual engagement during the internationalization process. In the beginning, the firm has no regular export activities. On the next phase, the firm engages in indirect exporting. Third phase is the establishment of a sales agency and finally, on the fourth phase, the company sets up a wholly owned foreign subsidiary. (Christofor 2008, p. 58-59; (Johanson and Wiedersheim-Paul 1975 cited in Andersen 1993, p. 210) Overpass through stages of the process is referred as the establishment chain. The selection of the target country depends on so called psychic distance which means the psychologically perceived difference between home and the target countries that the managers may have. It consists of factors that make it difficult to understand foreign environments (Johanson and Vahlne 2009, p. 1412). These factors can be such as language, political system, level of education and industrial development. An internationalizing firm seeks to find a target country where the psychic distance is low. Figure 1 represents how the firm’s degree of internationalization is increasing over the time as the firm learns from each step towards internationalization and therefore the psychic distance towards new markets gets smaller . (Christofor 2008, p. 58-61)

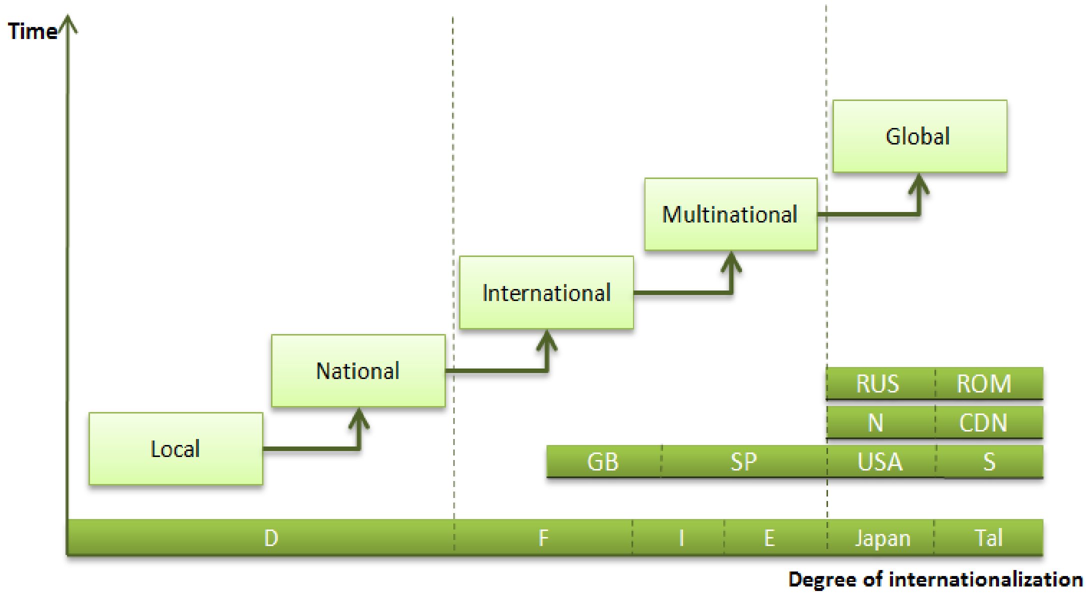

Figure 1. The concept of psychic distance (Christofor 2008, p. 61, original sources Johanson and Wieresheim-paul 1975, Johanson and Vahlne 1977, Luostarinen 1979)

The firms will proceed gradually into markets that are further away in psychic distance, because knowledge is developed gradually (Johanson and Vahlne 2009, p. 1412; Johanson and Vahlne 2003, p. 90). But the larger the psychic distance the larger is the liability of foreignness. The latter term explains why a foreign investor needs to have a firm-specific advantage to more than offset this liability. Penetrations into psychic distance markets with risks yet potential reward are made incrementally. It is because learning and commitment building take time. (Johanson and Vahlne 2009, p. 1412)

The Uppsala model has two change mechanisms that make it dynamic. First, firms change by learning from their experience of their current activities in foreign markets. Second, they change through the commitment decisions made for strengthening their position in the foreign market. Experience increases firm's market knowledge, which in turn influences decisions about the level of commitment and the activities that later grow out of them. Now the firm is in the next level of commitment, which stimulates more learning (Figure 2). (Johanson and Vahlne 2009, p. 1412) So naturally lack of knowledge concerning foreign markets is the main barrier to internationalization (Johanson and Vahlne 2003, p. 89). Hence to develop knowledge is crucial to a firm's internationalization and especially that knowledge that grows out of experience in current operations is decisive in the learning process (Johanson and Vahlne 2009, p. 1415).

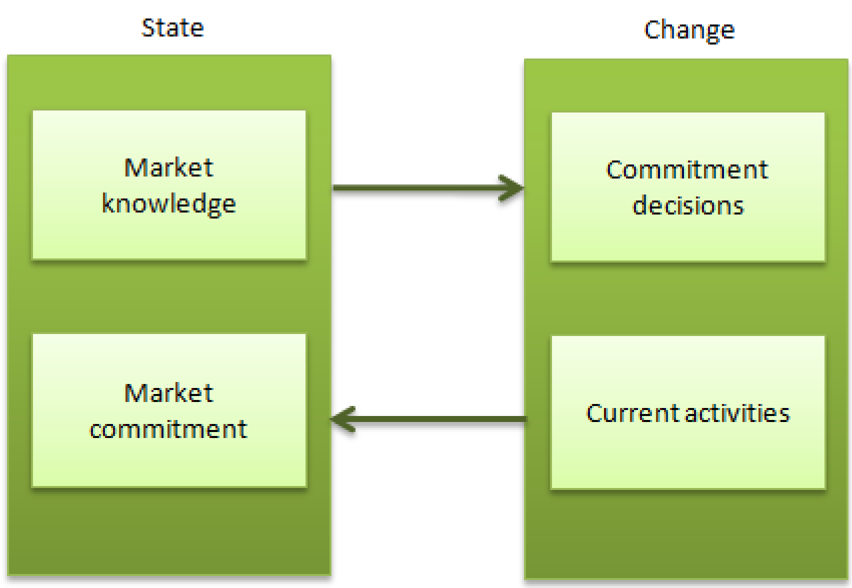

Figure 2. The basic mechanism of internationalization: aspects of state and change (original source Johanson and Vahlne 1977, p. 26, copy from Johanson and Vahlne 2009, p. 1412)

2.3.2 Critical views of the Uppsala model

The model is widely accepted in the literature, even though it has some downsides. According to Andersen (1993, p. 219-220) it has been criticised for lack of methodological rigour and that it does not have conceptual and theoretical frameworks to guide research. Furthermore Andersen does not find the congruence between theoretical and operational model (1993, p. 226). The authors defend their model anyway saying that it is a model of rational internationalization, and therefore it is better used for prescriptive intentions (Johanson and Vahlne 2009, p. 1413). Hollensen (2004, p. 55) writes in his book that the model is too deterministic. According to Johanson and Vahlne it however is not by any means deterministic. The internationalizing process can continue as long as the performance and prospects are favourable, but in other case it is possible to increase commitment or even cease. (Johanson and Vahlne 2009, p. 1412)

The Uppsala model neither takes into account interdependencies between different country markets as it views them as completely separate entities (Hollensen 2004, p. 55). The model either does not take into account mutual commitment in internationalization. Vice versa, successful internationalization indeed requires in particular a reciprocal commitment between the firm and its partner. (Johanson and Vahlne 2009, p. 1414) As the internationalization process has speeded up, some of the firms enter distant markets (in terms of psychic distance) already at an early stage (Hollensen 2004, p. 55).

There are arguments, that the Uppsala model is not valid in situations of highly internationalized firms and industries or for service industries. In the cases of former ones the psychic distance is replaced by competitive forces and factors as the main explanatory factor for the firm's internationalization process. The experience in knowledge of transaction is easy to transfer from one country to another - therefore firms with extensive international experience probably conceive the psychic distance relatively shorter than firms with little experience in international markets. As Nordström (1990) is cited in Hollensen, the concept 'psychic distance' has decreased in the explanatory value as the world has become much more homogenous. Recently also Johanson and Vahlne (2003, p. 98) admit, that the concept should be defined at the micro level, because the distance can change due to experiential learning and trust building. So it should be related to the individual relationships, too. This means in practice that recent starters can (and want to) enter directly into big markets. (Hollensen 2004, p. 55)

The way of building up knowledge in-house, in a slow and gradual, trial-and-error process, is outdated. Instead, firms nowadays have easier and faster access to knowledge in doing business abroad. The absolute number of people with experience of international business has increased; a firm can easily hire a skilled, experienced person to help with the internationalization process. Besides, universities, business schools and management training centres throughout the world have been putting more and more special weight on international business. There has also been a phenomenal development in information technology, which offers a lot of information about foreign markets making a 'leapfrog' strategy more realistic. (Hollensen 2004, p. 56)

3 THE NETWORK MODEL

The network model is a more recent internationalization theory (Hollensen 2007, p. 61-62). Originally, the International Marketing and Purchasing (IMP) project was started in the 1970's to research industrial marketing and purchasing emphasizing the networking aspect of firm's operations. IMP acknowledged the important role that long-term, stable relationships play in industrial markets which in turn led into the theory called the Industrial Networks Approach. (Axelsson and Easton 1992, xi)

3.1 Relationships in networks

The firms and the relationships must be studied to understand the networks (Axelsson and Easton 1992, p. 3). Johanson and Vahlne define business networks as "webs of connected relationships" meaning in practice that exchange in one relationship is linked to exchange in another (2009, p. 1414). In a similar way, Durrieu and Soldberg (2006, p. 59) define networks "as interlinked relationships both at the individual and the organizational level". These networks usually consist of independent agents or distributors, and sales subsidiaries at later stages of exporter life, and further down the chain local dealers making business with the final customer. To put it short: trading partners and the final customer (Durrieu and Soldberg 2006, p. 58). The same distinction has also been made by Ford (2002, p. 30) who states that the two most important examples of firm's networks are supplier networks and distribution networks.

Anderson & al (1994) think in turn that consideration of the individual relationships and what occurs within them many times is incomplete. Rather they define networks as "sets of connected relationships" including a focal firm and its partner in a focal relation that is connected with other relationships. (Anderson & al 1994, p. 1) The point is that two connected relationships of interest themselves can be both directly and indirectly in connection with other relationships that are part of a larger business network (Anderson & al 1994, p. 2).

The role of relationships in industrial networks can be best understood from the basic level where one firm has individual relationships with other firms. In a simplified manner, if those single relations are added together, that will provide massive opportunities for systemic structures yet the process of forming a network is not that simple or additive in a matter of fact. (Easton 1992, p. 8-21) The inter-firm relationships can be identified and put into two main categories: the firm may either seek to exploit the complementarities of an individual partner or enter into a relationship in order to exploit network access. That kind of relationship allows control over the other organization and therefore reduces the uncertainty and increases stability. (Easton 1992, p. 9)

A model of industrial networks by Håkansson and Johanson (1992, p. 28) presents the basic structure of the industrial network as combination of three variables: activities, actors and resources. All of these elements are linked together to describe the dimensions of industrial networks. To put it briefly, an actor can be anyone in the network who controls activities or resources. Activities occur when an actor combines, uses, develops, creates or exchanges resources in a way that creates value and finally, resources are anything that actor control. In an industrial network it is typical, that the relationships between actors are invisible and fluid and they cannot be seen from the outsider so that one, such as potential competitor, is unable to gain detailed idea of the network structure. Therefore making preparations such as pre-entry checklists to enter the market will be less useful for the outsider. (Axelsson and Johanson 1992, p. 221)

3.2 Development of relationships

According to IMP studies relationships develop through an experiential learning process by which firms learn about their partners' resources and capabilities and gradually increase their commitments. The relationship development is a bilateral process involving two parties who learn interactively and make a reciprocal commitment to the relationship. (Johanson and Vahlne 2009, p. 1414) According to Gulati & al (2000) also the social networks are significant because the economic actors are placed on them: development of inter-firm relationships is, in the final hand, a process of establishing individual relationships.

Relationships can develop in a network actively or passively. The basic difference is that seller is the one who takes the initiative in active networking whereas in passive networking the initiation comes from outside of the firm - buyer's side. It is widely pointed out, that active networking is important when a firm is willing to do learning, foreign expansion, knowledge acquisition, etc. So even without suitable network relationships the firm can take an active role and generate new connections to ease its market penetration. In the case of knowledge-intensive firms the internationalization many times occurs in a passive way. In that case their existing networks (such as customers, importers, intermediates, suppliers, etc.) lead them to foreign markets and open new opportunities. (Ojala 2009, p. 51)

3.3 The Network model

The network model of internationalization was born in the late 1980s by Johanson and Mattsson (Ojala 2009, p. 51). As Johanson and Mattsson (1989) is cited in Evers and Knight (2008, p. 545), to be able to survive in a business environment, firms need many organizational relationships extending the basic buyer-seller dyad. This wider network viewpoint was also supported by Axelsson and Easton (1992, p. 219) who state that “the way in which those in the entry market are utilized in the entry process becomes an important issue for research. It can also be assumed that, because of the cumulative nature of network processes, the sequential order of entry activities is important in research terms.” The need of considering networks in the internationalization process was later supported by Coviello and Munro (1995, p. 59) who confirm the need of the wider model by stating that the network theory offers a rich perspective into the international development patterns.

The internationalization processes of SMEs and MNEs are different. While the MNEs will follow the traditional hierarchical approach such as Uppsala model on their internationalization process, SMEs do not follow the same pattern. That is supported by Coviello and Munro (1995, p. 49) in the study of high-technology SMEs.

Networks have been studied quite a lot in the internationalization process. Since the first introduction of the network model some most significant studies have been made by Coviello and Munro (1995, 1997). They studied small software firms and found out that network relationships have an impact on foreign market selection and the entry mode in the context of ongoing network processes. Their model combines the process model and the network approach. Additionally in 1998 Martin, Swaminathan and Mitchell found that inter-organizational relationships of suppliers (especially those with buyers) affected international expansion pattern of the firm. There have been studies also on the networks in internationalization strategy (Welch and Welch 1996), the location of the foreign direct investment (FDI) (Chen and Chen 1998), the first step abroad (Ellis 2000), internationalization of small and medium-sized enterprises (SMEs) (Chetty and Blankenburg Holm 2000), rapid internationalization (Loane and Bell 2006) and internationalization of firms from emerging markets (Elango and Pattnaik 2007). The list is not complete, anyway. (Johanson and Vahlne 2009, p. 1413)

The network model puts the emphasis on the network of the firm - that is wider system than the firm itself or the individual relationship between two firms. In Johanson and Mattsson's model (1988) the focal firm is connected firstly in its own business network, but additionally the internationalization process also covers all the other relevant network structures in foreign markets (Johanson and Vahlne 2009, p. 1415). The existing domestic networks may also extend beyond country borders if a firm reaches to international markets. In some cases the company uses its domestic networks in order to form new networks in the foreign country. There are direct or indirect connections existing between firms and country networks which can be used in internationalization. (Hollensen 2007, p. 71)

Figure 3 illustrates the bounds between different network agents in home and the target countries. Country A is firm’s home country and the firm has subsupplier there. Anyway, the subsupplier has also established a subsidiary in country B and simultaneously, the firm has also its production subsidiary in country B. Since there is a pre-existing relationship between the firm and the subsupplier from the country A, it is easy for the firm’s production subsidiary to use subsupplier’s subsidiary in country B. There are similar linkages between other actors in the model as well. Generally, these linkages work as bridges between firms networks in one country and the networks in foreign country. (Hollensen 2007, p. 71).

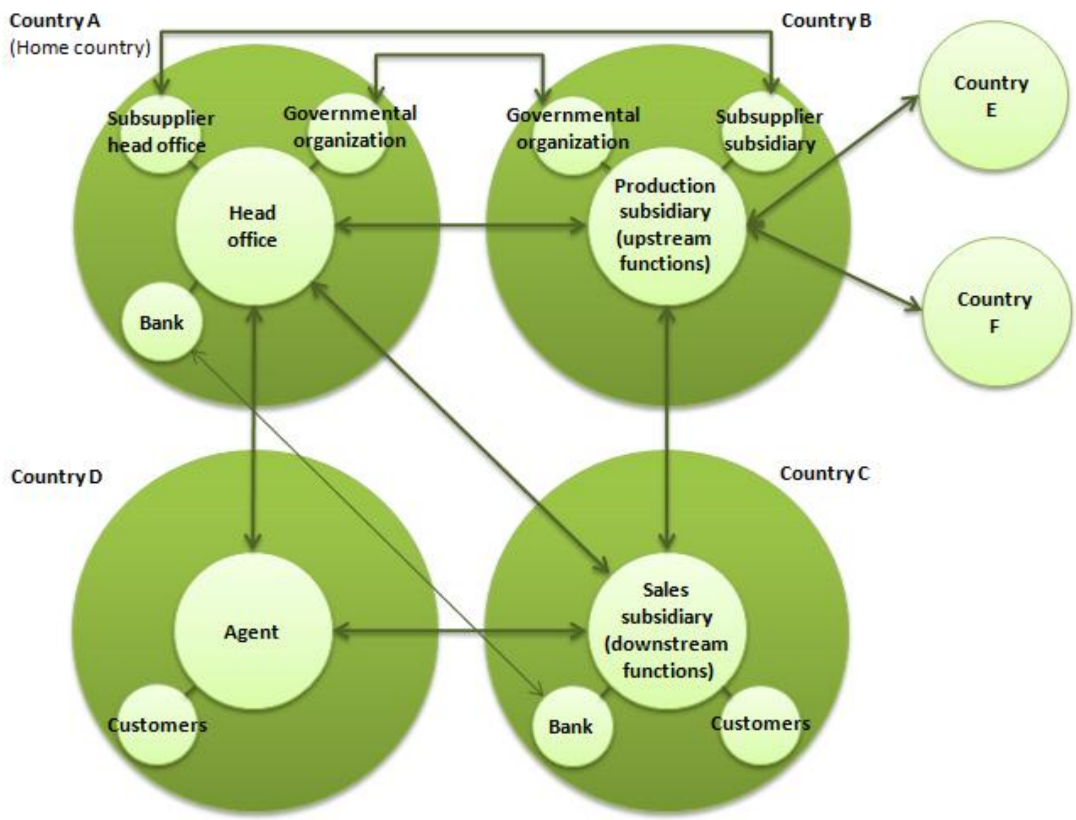

Figure 3. An example of an international network (Hollensen 2007, p. 71)

3.4 Four cases of internationalization

The network model can be viewed against the framework similar to the Uppsala model where four different situations are presented depending on the degree of internationalization of the firm and degree of internationalization of the market (the business or production networks). (Hollensen 2007, p. 71-72)

The internationalization of the firm depends also on firm’s current position in a network. The development of the internationalization process of the firm is dependent on two factors: the firm and the market influence. A highly internationalized firm may already have positions and be able to expand further internationally vis-à-vis a firm that has positions only in its domestic market and therefore the possibilities are more limited. In a similar way, the other firms have different market assets in the network structure depending on how internationalized they are. All in all, there are three ways to became international:

1. Establish positions in country-based networks that are new to the firm (international extension of foreign market entry)
2. Develop existing positions in country-based networks further (penetration)
3. Increase coordination between positions in different country-based networks (international integration)

   (Axelsson and Johanson 1992, p. 218)

The two factors, degree of internationalization of the firm and the degree of internationalization of the market are the basis for distinction between four internationalization cases in the model by Johansson and Mattsson. Those four cases are The Early Starter (1), the Late Starter (2), the Lonely International (3) and the International among Others (4) as shown in the Figure 4. Each case has different aspects in extension, penetration and integration in the firm's internationalization process. In the model, term 'internationalization' is described only loosely as it can mean procedures varying from an entry to a specific new market to the development of the whole production net. (Axelsson and Johansson 1992, p. 218-219) The firms on each stage differ also in the level of experiential knowledge (foreign institutional and foreign business knowledge). The size of the firm has a strong effect on internationalization knowledge (Hadley 2003, p. 697).

		Degree of Internationalization of the market	
		Low	*High*
Degree of internationalization of the firm	*Low*	The Early Starter	The Late Starter
	High	The Lonely International	The International among Others

Figure 4. Four cases of internationalization of a firm (original source Johanson and Mattsson 1988, copy from Hollensen 2007, p. 73)

3.4.1 The Early Starter

The Early Starter has few and unimportant relationships with firms abroad and the situation is the same with other firms in the production net. In practice, The Early Starter was the case for the firms that started their internationalization during the early 20th century (comparable to the situation presented in the Uppsala model phase "The Lonely International"). By entering a foreign market, the Early Starter was seeking balance between internal resources and external demands in the target market. (Johanson and Mattsson 1988, p. 252, 259)

At the stage of The Early Starter competitors, customers and suppliers of other firms in domestic and foreign markets do not have international relationships. The firm has little knowledge about foreign markets and there is no possibility to use domestic relationships to gain knowledge. Therefore the firm needs size and resources to be able to penetrate to the foreign market, which can be done by, for example, starting internationalization in nearby markets using agent which can reduce the need for investment and risk. (Johanson and Mattsson 1988, p. 252-253)

There are three strategic key points for the Early Starter to go abroad: (1) minimize the need for knowledge development, (2) minimize the demands for adjustments and (3) utilize the position in the existing market. An alternative strategy, which requires that the firm is already big in size, is via firm acquisitions or greenfield investments in subsidiaries, which requires more significant investments but may inforce long-term possibilities for knowledge development. (Johanson and Mattsson 1988, p. 252-253) According to Hollensen (2007, p. 72) involvement via agent is the beginning of founding own sales and manufacturing subsidiaries in foreign market.

The initiatives to start internationalization for the Early Starter come often from the counterparts such as distributors or users who already have position in the foreign market. In practice, the counterpart will then use its own markets assets to establish the new firm within its own network. (Johanson and Mattsson 1988, p. 252-253)

3.4.2 The Lonely International

In case of The Lonely International, the firm is highly internationalized while its market environment is not. This is the situation when the firm has internationalized before its competitors and therefore it already has structured nets and an existing market position in the foreign market. (Johanson and Mattsson 1988, p. 254) When the firm has knowledge and means to operate in the foreign country through relationships, the entrance is more favorable than operating in domestic country.

The reason for the internationalization of The Lonely International is to build up international integration, for example, to promote production net and firms engaged in it. That is the opposite to the situation of the Early Starter firms. (Hollensen 2007, p. 72) If the firm is internationalized but the environment of the firm is not, the further integration may be enforced (Johanson and Mattsson 1988, p. 256).

3.4.3 The Late Starter

As Hollensen (2007, p. 73) says, the situation of the Late Starter occurs when "the less internationalized firm can be 'pulled out' of the domestic market by its customers or complementary suppliers to the customers". Johanson and Mattsson (1988, p. 256) indicate that this happens because the firm already has indirect relationships to foreign networks through suppliers, customers and competitors. That is the case especially in big projects, when the complementary supplier is operating in the foreign market. The firm may use its domestic market assets in internationalization and the foreign market the firm enters can be more distant which makes the first step abroad large. That, in turn, can make the whole internationalization process faster.

In the case of the Late Starter, it may be difficult to establish position on the new market because of the existing tightly structured nets where the best distributors are already linked to competitors (Hollensen 2007, p. 73). Therefore the need for coordination is higher and the firm should establish sales subsidiaries earlier than in the case of the Early Starter (Johanson and Mattsson 1988, p. 256).

3.4.4 The International among Others

In the case of the International among Others both the firm and its environment are highly internationalized and further internationalization means only marginal extension and penetrations. The firm can use its positions in one net for building bridges over the other nets if the lateral relations within the firm are strong. Therefore, some kind of international integration is required. The case describes well a globally interdependent network where the driving forces and the obstacle are already closely related to the interdependence between firms. (Johanson and Mattsson 1988, p. 256)

The firm can utilize its production capacity for sales in other markets and do product specializations. That will help it to coordinate sales and increase intra-firm trade across borders. Another way to coordinate sales is to establish subsidiaries quickly. That is possible because the firm's level of international knowledge is high. (Hollensen 2007, p. 73-74) Establishments are made especially in those markets where the company aims as their main market. Own subsidiaries will discourage competitors and protect the company from predatory pricing. In the case when the firm wants to utilize its surplus production capacity from one market to expand sales into another, there must be strong international integration of operations in the firm. (Johansson and Mattsson 1988, p. 256, 259)

3.5 The network model in the 21st century

Nowadays, the development of information technology has had significant changes in the operational environment of firms'. Information and knowledge are more accessible and that makes information on suppliers, customers, products and prices available for all firms. The internet has made the global economy as global, continuously operating and increasingly automating process of buying, selling, producing and distributing. Moreover, competition has become more intense while uncertainty related to business operations has not increased. (Downes & Mui, 1998, Ekström & Persson, 1999 cited in Vahlne and Johansson 2002, p. 218). This has also created a need to update pre-existing internationalization theories. In all cases, these old theories are not sufficient to describe the internationalization process anymore. (Hollensen 2007, p. 75-81)

The creators of Uppsala model have developed revised model in 2009 which is taking into account also networks. Thus the firm is embedded in an enabling yet constraining business network where firms are engaged in many different interdependent relationships. In the model firms are acting for strengthening their positions in networks which results in internationalization. Existing business relationships have a considerable impact on the particular geographical market a firm will penetrate. Moreover the relationships impact which mode to use because they enable identifying and exploiting opportunities. Identifying opportunities is altogether essential and learning and commitment are strongly related to this. In order to create opportunities the firm has to create strong commitment in the network so that it has better access into the knowledge, which is told only to network insiders. (Johanson and Vahlne 2009, p. 1423)

Johanson and Vahlne have brought the familiar variables from the Uppsala model also to this network model: state variables and change variables (Figure 5). The variables affect each other - the current stage has an impact on change and the other way around. The model thereby describes dynamic, cumulative learning processes as well as trust and commitment building. An increased knowledge level may thereby have either a positive or a negative impact on building trust and commitment. It is also possible that the firm or its partner may reduce the commitment or even terminate the relationship. (Johanson and Vahlne 2009, p. 1423-1424)

In figure 5 you can see that in the state-box lays ‘opportunities’ under knowledge. It indicates that opportunities constitute a subset of knowledge. Needs, capabilities, strategies and networks are important factors as well. Market commitment has been changed since the 1977 model to be ‘network position’ as the internationalization process is pursued within a network. Relationships are all different in terms of knowledge, trust and commitment and hence they probably differ in how they promote successful internationalization. In case of potentially rewarding process the desirable result of learning, trust and commitment building will be that focal firm enjoys a companionship and a position in network. The last notable difference in the new model is that ‘current activities’ are put as ‘learning, creating and trust-building’ as they are more exact. (Johanson and Vahlne 2009, p. 1424)

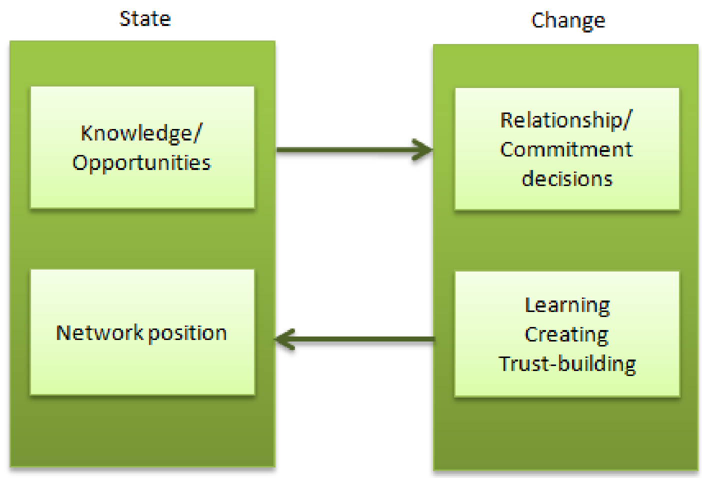

Figure 5. The business network internationalization process model (Johanson and Vahlne 2009, p. 1424)

According to Johanson and Vahlne (2009) "The speed, intensity and efficiency of the processes of learning, creating knowledge and building trust depend on the existing body of knowledge, trust and commitment, and particularly on the extent to which the partners find given opportunities appealing". Opportunity creation is a knowledge-producing dimension. Additionally developing opportunities is a critical part of any relationship. In addition, high levels of knowledge, trust and commitment in a relationship give more efficient creative process as a result. (Johanson and Vahlne 2009, p. 1424)

The 'relationship commitment decisions' implies that the focal firm decides whether it increases or decreases the level of commitment to one or more relationships in its network. Many times the decision is visible through changes in entry modes, the size of investments, organizational changes and most importantly in the level of dependence. Yet it can be invisible as it can be manifested only in a psychological level. Naturally the change in commitment will affect on relationship either by strengthening or weakening it. When talking about decisions from a network point of view- there are two different kinds of them. The first case is to develop new relationships, in most cases businesses, or build bridges to new networks and fill structural holes. The second case is to protect or support the firm's existing network or strategic relationships. To give an example to the latter case Volvo demanded few years ago that some of its important Swedish suppliers to build relationships with German car manufacturers willing to demonstrate that Volvo's suppliers had the same desirable skills and qualities as those of its German competitors. (Johanson and Vahlne 2009, p. 1424-1425)

According to Johanson and Vahlne (2009, p. 1425) networks have impacts on firm's internationalization and the internationalization process depends on the network it belongs to. Firstly, a focal firm is following its partner into foreign markets if that partner has a valuable network position there. The partner may be at home or abroad. There are two motivators for expanding into foreign markets this way. One is the possibility to find interesting business opportunities. Thus the initiative comes from the focal firm. The other possibility is that the partner wants the focal firm to follow it. Whether it already is in the foreign markets or plans on entering there. As the focal firm follows its partner, it demonstrates its commitment to the relationship.

Obviously, the partner has a big influence on where the focal company will go. It is easy option to follow the partner into a market where it has a strong position. But also the new market might be the one where both parties see opportunities. These could happen in the first step abroad, but as well in the later stages of internationalization. Anyway, the partner does not have to be involved in every penetration. If the focal firm sees opportunities in the markets where it does not have current partners or network, it may start building new connections with a firm which is operating in a network there. To give an example, it may link itself to a middleman such as a distributor or an agent. Finally, after establishing relationships with customers, it may bypass the middleman and set up its own subsidiary. Short psychic distance makes it easier to establish and develop relationships, which is necessary but not sufficient condition for identification and exploitation of opportunities. (Johanson and Vahlne 2009, p. 1425)

3.6 Differences between the network model and the Uppsala Model

The Uppsala model concentrates on the independent firm and its own actions in developing international marketing activity. The model implies that the firm and the individuals within it are the decision-makers when determining the target country for internationalization activities. That assumption was criticized first by Johanson and Mattsson in 1986 and by Turnbull on the same year. Johanson and Mattsson acclaimed that the model does not show the characteristics of the firm and the market it is operating, which is important in industrial systems and Turnbull stated that the model had one-sided focus on the firm's activities between manufacturers and intermediates. (Whitelock 2002, p. 344)

The principal difference between Uppsala model and network model is that the latter is not gradually progressing in nature. Furthermore there is no mention in the network model about psychic distance or the countries to be entered. Instead it conceptualizes the internationalization process as being related to relationships formation and building. (Ojala 2009, p. 51) In the Uppsala model the business environment is viewed as a neoclassical market with many independent suppliers and customers. Now, instead, the business environment is viewed as a web of relationships - a network. Moreover psychic distance valid in the 1970s as the root of uncertainty has changed into outsidership when it comes to the relevant network. (Johanson and Vahlne 2009, p. 1411)

In Table 1 the two previous models are compared in the most important areas: unit of analysis, basic assumptions about firm's behavior, explanatory variables affecting the development process and normative implications for international markets. The biggest difference in all fields is the strong presence of networks in the network model side. Networks are involved in every field of the comparison. Naturally Uppsala-model is lacking the network point of view. (Hollensen 2004, p. 76)

Table 1. Comparing the Uppsala model (U-model) and the network model (Hollensen 2004, p. 76)

	U-model	Network model
Unit of analysis	The firm	Multiple inter-organizational relationships between firms. Relationships between one group of firms and other groups of firms.
Basic assumptions about firm's behavior	A gradual learning-by-doing process. This model is based on behavioral theories and an incremental decision-making process with little influence from competitive market factors.	The 'glue' keeping the network together is based on technical, legal, economic and especially personal ties. Manager's personal influence on relationships is strongest in the early phases of the establishment of relationships whereas later in the process routines and systems will become more important.
Explanatory variables affecting the development process	The firm's knowledge and market commitment. Also psychic distance between home country and the firm's international markets.	The individual firms are autonomous and dependent on resources that other firms control. Business networks will emerge in fields where there is frequent coordination between specific actors and where conditions are changing rapidly.
Normative implications for international markets	Additional market commitment should be made in small incremental steps: 1) choose new geographic markets with small psychic distances from existing markets 2) choose an 'entry mode' with few marginal risks.	The relationships of a firm in a domestic network can be used as bridges to other networks in other countries. Such direct or indirect bridges to different country networks can be important in the initial steps abroad and in the subsequent entry of new markets. Sometimes an SME can be forced to enter foreign networks: for example, if a customer requires that the subsupplier follows it abroad.

4 NETWORKS FROM THE PERSPECTIVE OF SMES

In this chapter we will discuss the internationalization process of SMEs in more detail and cover the advantages and disadvantages the firm can confront when using its network connections as tools in the internationalization process.

4.1 The internationalization process of SMEs

SMEs often lack resources for internationalization such as capabilities and market power if compared with large multinational enterprises. An SME may use its connections in networks to complement that. (Knight 2000, p. 12-13) Therefore relationships in industrial networks are important for the internationalization process of the company. In some cases, it may be inevitable to have good relationships within the industry to be able to expand to the new country at all. The relationships the company has in the domestic country usually are important in the beginning of the international market development but the role becomes less meaningful in long term which happens especially when the company does not have existing knowledge of the target market. In those cases, the relationships within the domestic network offer the company both transfer of information and co-operation in product development. (Whitelock 2002, p. 344)

International expansion is a growth and development process for an entrepreneurial firm. It can provide benefits such as access to new and potentially profitable markets, increased competitiveness, innovations in products or manufacturing processes or latest technology. However, most entrepreneurial firms face challenges in internationalization with limited resources. To overcome these, adopting flexible, imaginative and innovative business practices may be necessary. Firm’s competences, experiences as well as needs and inadequacies create inward and outward links for the internationalization process. (Hollensen 2007, p. 74-75)

Studies made within 15 years (by Bell 1995; Coviello and Munro 1995, 1997; Coviello and Martin 1999; Sharma and Blomstermo 2003; Moen et al. 2004; Coviello 2006; Zain and Ng 2006) state that existing formal and informal network relationships drive firms to nearby markets (geographically and/or psychically) as the firms tend to choose their initial markets and entry modes by following their network contacts. In the case of entering distant markets, Ojala's (2009) study indicates that the firms more likely first select the target country and the entry mode without any influence of their partners in the network. After this they begin to develop new relationships or take use of existing ones to achieve the market penetration. All in all in this case the market entry and entry mode choice is more of a consequence of strategic arguments than of initiation by relationships in the network. (Ojala 2009, p. 58) So by these factors a firm is dependent on resources controlled by other firms and is able to get access to these resources by developing its position in that network. To develop and maintain relationships with each other is a common interest in a network, because it provides mutual benefits for the firms. (Ojala 2009, p. 51)

In the study of Etemad (2004) the influential forces for SME internationalization are put into forms as ‘The Push Factors’, ‘The Pull Factors’ and ‘The Interactive Push-Pull Factors’ (Figure 6). In the case of push forces the drivers are usually internal to the firm and are putting pressure on firm to internationalize. The motive is to exploit international opportunities. Characteristics of competition and strategy due to rapid response to customers' needs worldwide are one example. Also international partners providing additional resources and interdependent operations exploiting networks' strengths against others are good examples. (Etemad 2004, p. 5-7) There are a lot of factors in this category, but we only are interested in the ones which are related to networks. This concerns also the following factors.

Correspondingly the pull factors are external to the firm existing in the environment and they provide attractive incentives for the firm to internationalize. In the best case these pull factors can make the internationalizing process faster, easier and/or cheaper. Facilitating network operations that give advances in Information and Communication and Transportation Technologies (ICTTs) are example of pull factors. Additionally attraction and resources of partners that increase the speed of internationalization or allow for survival in competitive markets are pulling factors. Last but not least attraction of serving current buyers' and suppliers' international needs deserve to be mentioned. These could be such as responding to needs of previous domestic customers, saving established relations with internationalizing buyers and suppliers and keeping the competitors from getting previously domestic customers and suppliers. (Etemad 2004, p. 6, 8)

The interactive push-pull factors are for example learning from partners and competitors as well as taking advantage of partners' collaborative networks or responding to internationalization of customers. In the end, anyway, the firm is in the middle of pushing and pulling forces and the ultimate results depend on the firm's own internal decision-making, strategy formulation and implementation dynamics. (Etemad 2004, p. 9-10)

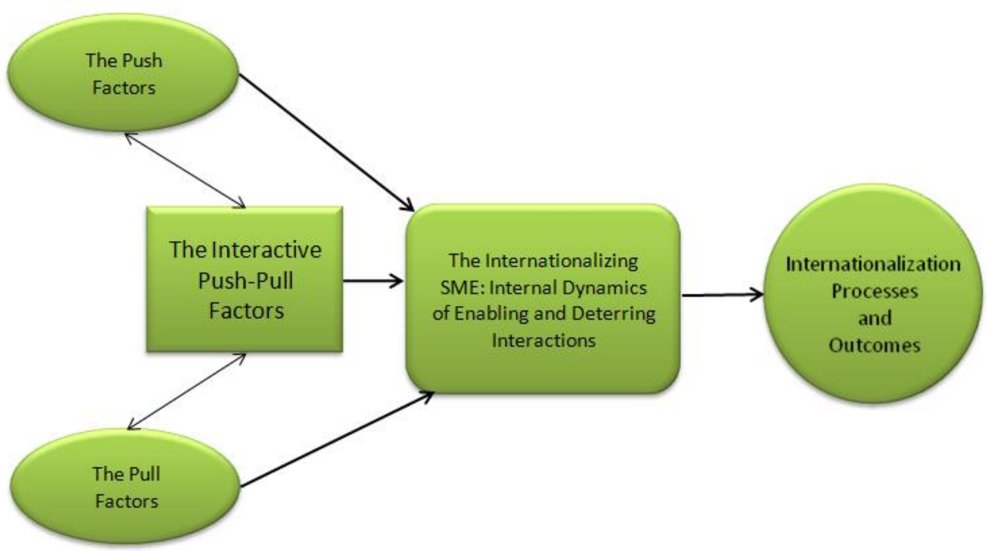

Figure 6. The inter-dynamic of forces and their influence on SME's internationalization process (Etemad 2004, p. 11)

4.2 Advantages in networking

In internationalization process international networks can help rapid and successful growth of a firm, because major partners often provide a mechanism for penetrating foreign market especially for young, small and resource-restrained firms (Coviello and Munro 1997, p. 372, 376; Loane and Bell 2006, p. 481). The network model states that internationalization occurs when a firm begins to develop relationships with another firm which belongs to a network in the target country. These relationships between firms operating in different countries act thereby as bridges to new markets. (Ojala 2009, p. 51)

A study of Swedish SMEs confirms that the relationships in business networks are important especially when the firm is seeking new markets where it could expand. In some cases the relationships within the industry are an essential factor to gain the access to the new market. On the other hand, the importance of the domestic networks varies depending on firm's international previous experience. If the firm is starting to internationalize, domestic relationships are important because they offer the firm information but when the firm gains knowledge of the foreign market, the domestic networks lose their importance. (Rundh 2001, p. 321-324)

Additionally, in a network the knowledge is in reach of all the companies. While a firm gains knowledge and experience from its business activities, so does all the other firms at the same time. Therefore the focal firm is indirectly committed in a knowledge creation process that spans far beyond its own field. In a network this knowledge can be shared and every member can enjoy extended knowledge base. In the knowledge base lies a lot of important information about relationship partners, including their resources, capabilities, needs, strategies and other relationships. So being in a network a firm gets relevant business information about its close partners as well as more distant actors in the network. (Johanson and Vahlne 2009, p. 1414) Meyer and Skak write about "knowledge-pool" that partners within a network form.

The information available in this pool offers each firm opportunities for developing business. Sometimes those opportunities occur randomly as they would not without the influence of the network. (Meyer and Skak 2002, p. 179)

The study of Meyer and Skak (2002) contacted Danish and Austrian firms reaching into the Russian market and the dynamics of networks in the internationalization process. Altogether, they examined 20 cases of small manufacturing and trading firms with up to 25 employees. In their study they found that the business networks those companies had were essential in the internationalization process. The network provided firms information, reinforced learning processes and offered positions to identify new business opportunities. Those firms had domestic partners who already had business activity in Eastern Europe, partners based on third country and countries based in the target market which shows that even the small firms are not dependent only on their national networks. Future partners were an important factor for those companies when they were seeking to expend to new regions. For small firms, the reason to enter Eastern Europe was mostly because of the opportunities that had arisen with old or new network partners and then, later on, added to the formal strategy plan. For the Danish firms, the events in the network resulted in the internationalization decision and the entry was also expected to introduce new partners by chance. (Meyer & al. 2002, p. 180-183, 186)

The importance of networks is also confirmed by a research by Coviello and Munro (1995, p. 50) whose study examined small entrepreneurial high-technology firms in New Zealand. Their study indicates that the internationalization process of those companies is relatively rapid and the country selection decisions and activities are influenced by the opportunities from network relationships (Coviello and Munro 1995, p. 58). In the more recent study by Coviello and Munro (1997) one New Zealand firm had a Japanese multinational firm as a partner, which worked as a leverage to market access. On the other hand, the Japanese partner harnessed the technological capabilities for product development by the firm. Moreover, the

Japanese partner provided directly or indirectly market development opportunities worldwide to the firm. It helped the firm to expand to Australia, UK, Hong Kong, Europe and Eastern Bloc countries through its international subsidiaries. (Coviello and Munro 1997, p. 372) According to the study of 1995, the relationships are beneficial for supplementing the marketing weaknesses of those companies and help entrants to gain market access. Nevertheless, in order to gain them, companies had to give up some control over their operations. The lost control was expected to return by developing internal marketing capabilities. (Coviello and Munro 1995, p. 58-59)

Another benefit the company gets from the network membership is reduced uncertainty. A company that has established a close relationship with its supplier, for example, knows better the good and bad characteristics of that supplier and therefore the firm can plan its operations better. Moreover, the company avoids risks and costs that would be related to constantly finding new counterparts. (Ford 2002, p. 7)

A firm can use its network connections also as entry barriers that protect from competitors. There are at least two ways for doing it. Firstly, a firm can strengthen its relationship through network connections with vertical partners by making more exclusive offers. Secondly, cooperation with potential competitors generates trust which can prevent firm’s partners from entering firm’s main markets. Nevertheless, it is hard to say all the long-term consequences that the network may impose. Making an alliance with potential foreign competitors or using extended network to find new opportunities too eagerly may erode the trust within the firm and its partners and weaken firm’s own position in long run. Networks as entry barriers are not only a way to ‘lock out’ competitors but it should be part of the strategy and relationship-building. (Johansson 2002, p. 393, 401; Söllner 1997, p. 228-230, 241)

4.3 Disadvantages in networking

The partner in a foreign market might have a big influence on firm's business abroad. Networking may require sacrificing marketing control in the target market which weakens the firms position within a network (Coviello and Munro 1995, p. 58). This may result as too much dependence on the partner. The relationship may limit the pursuit of other opportunities in foreign market. The network partner may also have enough control over the small firm to limit her market diversification and product opportunities. Sometimes market access and international reputation are strongly associated with network partner and if the firm is too dependent on its network partner, the problems will accompany. (Coviello and Munro 1997, p. 377, 381)

A firm may invest in wrong relationship, which causes problems in internationalization process. For example, the company can misunderstand the importance of the single relationship and therefore invest considerable effort in that but get little in turn. (Ford 1998, p. 11) Therefore, operating in an industrial network sets up managerial questions about relationships and networks: “managing in business market is very much about managing relationships in a network”. Company must decide how much it wants to invest in each single relationship, mostly based on what is the 'rate of return'. (Ford 1998, p. 268) Coviello and Munro (1995, p. 58) indicate that the managers of entrepreneurial firms should understand the impact of networks better and concentrate on how and with whom they should develop relationships. Even building up the relationships may cause obstacles for the firm’s internationalization process. This can be result of several factors: economic distance, psychological distance including language and cultural differences or administrative and legal affairs which is true especially outside Western Europe. Then, managing international relationships can be difficult as well yet necessary. (Rundh 2001, p. 326-328)

More over there is the risk of missing market opportunities. When a firm is only passively following its networks into new markets, it might miss market opportunities in the leading markets and instead end up in countries where the real market potential is low. (Ojala 2009, p. 58) The pre-existing relationships in a network may also lock firm into unproductive relationships and preclude partnering with other viable firms (Gulati & al. 2000, p. 203).

An SME can probably be a member in a network with a multinational firm. The power does not have to be distributed evenly between the members so that the network is dominated by just one firm. For example, IKEA is a powerful multinational company and dominant actor in its network. A network where there is only one dominant actor can highly beneficial for the actor itself but not necessarily for the long-term relationships for the network or society in larger perspective. That is the case, if there is no close business relationship between local enterprises and MNE, only arm’s length exchange of technology, so that knowledge spillovers do not occur. (Forsgren 2008, p. 110-120)

5 DISCUSSION AND CONCLUSIONS

To address the research questions developed previously, the reasons for the network model generation will be presented, followed by a discussion of the advantages and disadvantages that establishing business networks in internationalization process create.

RQ1: Why network model was born?

A firm's internationalization has been studied by a number of scholars since 1950's starting from Penrosian tradition, developing through for example Vernon product cycle hypothesis all the way to transaction cost approach and Uppsala model in 1970s. Since then the Uppsala model has been the base for many internationalization theories - also for the network model.

As the world of business has developed and globalization has resulted in increasing internationalization of enterprises, the Uppsala model is considered outdated. Especially SMEs are agile and the gradual learning-by-doing process is not describing many of the internationalization processes anymore. The Uppsala model only takes into account the firm in the process, whereas it has been realized that networks do have effect on the process, too. In other words, mutual commitment must be taken into account in enterprise's internationalization.

The Uppsala model is neither the best model for describing internationalization in rapidly changing environment, because it is too clumsy for that. It describes the internationalization process as taking small incremental steps with little risk. Whereas nowadays the competition and rapidly changing environment drive enterprises to take bigger risks and longer steps at once. In Uppsala model the internationalization process is viewed as a slow process, because learning and commitment building take time. But the network model considers learning to be faster, because the firm's network can be utilized. Moreover, enterprises have nowadays easier and faster access to knowledge in doing business abroad, because of the networks, but also thanks to skilled, experienced employees, international business education and developed information technology.

Additionally, there is a concept called ‘psychic distance’ in Uppsala model referring to the fact that enterprises start their internationalization process from close markets in terms of psychic distance. In reality, many modern SMEs actually may start their international business from psychically distant markets if they want. At the same time the psychic distance is experienced relatively shorter for enterprises with extensive international experience. Therefore the whole concept has decreased in the explanatory value.

So due to change in market environment and weaknesses of Uppsala model the network model was created. It is more suitable model for SMEs internationalization especially for high-technology enterprises. It also views the business environment as a web of relationships, not as a neoclassical market. The network model gives more flexibility to describing internationalization process as it may or may not be gradually progressing in time. The importance of networks in internationalization process is many times important and that is why Uppsala model was developed onward.

RQ2: What benefits small-and-medium sized enterprises (SMEs) can gain through establishing business networks in their internationalization process?

Networking can help rapid and successful growth of a firm, as major partners often provide a mechanism for penetrating international markets. They act as bridges to new markets as they offer positions to identify new business opportunities. Especially these networks are important when a firm is willing to penetrate into new market. Many times they also supplement the marketing weaknesses of the entrant. Domestic networks play more important role in the early steps of internationalization but their importance becomes minor during knowledge accumulation.

An important benefit is the gained knowledge, too. It means a focal firm is indirectly committed in a knowledge creation process spanning far beyond its own field. Every member of the network can therefore enjoy extended knowledge base - a knowledge pool. This information is many times very important and network outsiders cannot reach it. It helps a firm to develop one's business via randomly occurring opportunities. The partners may also reinforce learning process. Additionally the possibility to have new partners from the network (in which a focal firm is operating) is important motivator.

RQ3: What are the disadvantages for SMEs in establishing business networks in their internationalization process?

According to the studies, it seems clear that business networks are inevitable for establishing business at all. However, operating in network is also a strategic dilemma that causes complexity. Occasionally a firm has to work against its partner, through it or in spite of it. Thus operating in a network is not always just working with others. It is also true the other way around that a partner of a firm may work against it.

Networking may lead to other disadvantages. For instance, for gaining market access a firm has to give up some control over its operations, for example by sacrificing her marketing control in the target market. This may result as too much dependence on the partner and weakened network position. The relationship may even limit the pursuit of other opportunities in foreign market. If the partner gets strong hold over the smaller firm, it might limit her market diversification and product opportunities. And if problems arise in the reputation of the powerful partner, the smaller firm is strongly associated with it and will gain the same issues.

Then, there is a risk of investing in wrong relationships. Sometimes a firm invests considerable effort in the relationship but gets little in turn. Thus managers should pay attention for analyzing the relationships and managing them. They should understand the impact of networks better and concentrate on how and with whom they should develop relationships. Firms have to invest a reasonable amount of time and money in single relationships - many times based on what is the rate of return. Even though building relationships is many times necessary, it can be difficult. It may act as on obstacle for the firm's internationalization process. Economic and psychological distance may be the reasons. Language and cultural differences or administrative and legal affairs are for example factors complicating the process.

If a firm does not pay enough attention to operating in a network, it might miss market opportunities. If it is only passively following its networks into new markets, it may end up in the market where the real market potential is low. Thus the firm should observe the market opportunities and seek the leading markets and try to focus on them. That is why following a partner into new market is never self-evidence. Pre-existing network partners may also block the firm’s ability to create new network relationships.

To conclude our observation, the networks used in internationalization process are essential but at the same time there are certain risks. However, a firm can avoid fateful problems in foreign markets as long as it is wise in her actions and stands for herself.

6 SUMMARY

An internationalizing firm seeks to expand its markets and profitability by entering into foreign country. The national boundaries are diminishing due to globalization which has encouraged increasing amount of firms to go abroad. The early internationalization theories date back from the 1950's and the topic has been studied since that. So called Uppsala school started in Sweden and as a result, the Uppsala model of internationalization was born followed by the Network model of internationalization. The former sees internationalization as a stepwise learning progress to more and more distant foreign market whereas the latter implies that the firm rather uses the information from its network partners in order to choose foreign market. Development of information technology has changed global economy significantly. Revised Uppsala model has been created to update the original Uppsala model to answer the demands of the operating environment of the business in 21th century.

For an internationalizing SME the network connections can be essential to even establish business in foreign country at all. SME has limited resources for knowledge and higher risk of bad decision. It may utilize her existing network connections in internationalization and gain significant advantages: finding a target market, gaining knowledge and information, fortunate opportunities, reduced uncertainty and as protection from competitors. However, there can also be disadvantages in networking. Networking may require sacrificing firm's market control, market access and international reputation may be too dependent on the partner, the firm may invest in unfruitful relationship or even building them is challenging, there is a risk of missing market opportunities or that pre-existing relationships even block firm from taking them.

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