MARKET LINKING AND MARKET LEARNING: SOCIAL NETWORKS IN SMEs INTERNATIONALISATION

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Outline

1. Research questions

2. Literature Review: Market Linking and Learning in Internationalisation process

3. Method and Data Collection

4. Discussion

5. Conclusions
Market Linking: extension of firm’s international market scope

Market Learning: development of specific knowledge about particular markets
Taking into account a **longitudinal** perspective of the internationalisation of small firms and the process of **relationship learning** and **relationship commitment** (Johanson and Vahlne, 2003 and 2006), the following questions emerge:

**How do social networks influence:**

1. **market linking and market learning patterns?**

2. **the evolution of the inter-action between market linking and market learning?**
Literature Review

Early and later stages of internationalisation expected to involve different knowledge endowments and distinct social networks maturations (Dominguinhos and Simões, 2005; Harris and Wheeler 2005; Câmara and Simões, 2006).

Deployment of relationships more relevant than country psychic distance in shaping the geographic pattern of SMEs internationalisation (Johanson and Vahlne, 2003 and 2006).

- Internationalisation as a “bonding” or a “bridging” process (Adler and Kwon, 2002).
- The quality (Coleman, 1988) and the quantity (Burt, 2000) of available ties.
- Ties used differently according to their nature/strenght (Granovetter, 1973).

Market linking and market learning essential in SMEs internationalisation

Market linking ↔ weak ties
Market learning ↔ strong ties
Early Stage

- Firms often lack international experiential knowledge.
- The role played by relationship learning.
- Social networks facilitate and drive SMEs’ internationalization in three ways: information benefits, legitimacy and actor mobilisation.
- Search for new markets and resources influence relationship development (Buckley and Casson, 1988).
Proposition 1: At their early internationalisation stage, SMEs rely on social networks as an instrument to link to foreign markets.
Later Stage

- **Interaction as the basis of the relationship**; both at individual and collective levels (Hakansson and Snehota, 1995).

- **Relational exchange** involves the sharing or transfer of social, economic or psychological goods (Bagozzi, 1974; Granovetter, 1985; Coleman, 1988).

- **Exchange processes** between selling and buying firms are not faceless: emotional context or “atmosphere” (Håkansson, 1982).

- **Commitment as a driver for learning**: development of routines, systems of meaning and shared languages, (Caraça and Simões, 1995; Johanson and Vahlne, 2006).
Proposition 2: After entering new foreign markets, relationships previously used for market linking may become drivers for market learning.
Networking also has a potentially negative side

- **Strong ties** can reduce exposure to other actors (Presutti, Boari and Fratocchi, 2007).

- Keeping an “**open-minded inquiry**” may **not be compatible with** development of **closer relationships** (Day, 1994).

Proposition 3: At a later internationalisation stage, as the SME intends to deepen its international market learning, the utilisation of the same relationship for both market linking and market learning may become impossible.
**Method and Data Collection**

**Case Study Approach**

- Four exporting firms
- Different levels of international involvement
- Semi-structured personal interviews
- Content analysis of the interview data and documentation based on the cases narratives
The Case Studies

<table>
<thead>
<tr>
<th>Firm</th>
<th>CASE 1</th>
<th>CASE 2</th>
<th>CASE 3</th>
<th>CASE 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Product</td>
<td>Fresh fish</td>
<td>Cheese</td>
<td>Canned tuna fish</td>
<td>Flowers</td>
</tr>
<tr>
<td>Number of employees</td>
<td>11</td>
<td>11</td>
<td>109</td>
<td>11</td>
</tr>
<tr>
<td>Turnover (Million Euros)</td>
<td>8.5</td>
<td>0.5</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Exports (%)</td>
<td>30 to 40%</td>
<td>10%</td>
<td>50%</td>
<td>13%</td>
</tr>
<tr>
<td>Export destinations</td>
<td>USA, Canada, Spain, Japan, Italy, U.K., France and Switzerland</td>
<td>USA and Canada</td>
<td>Italy, USA Canada, Netherlands and China</td>
<td>Netherlands</td>
</tr>
</tbody>
</table>

* In 2002 the firm changed from publicly-owned to privately-owned firm. It, however, kept the same manager, as meanwhile he acquired the firm from its previous owner, the local city hall.
**Discussion**

|------|----------------|-----------------------------------|-------------------------------------|-------------------------------------|
| CASE 1 | USA, Spain | - relationship sediment activation  
- facilitate resource access | - interaction promotes the creation of strong ties: some of the customers are considered to be “as family” | - dependence: relies on customer’s information concerning market requirements  
- keep, an “open eye” attitude  
- reduces exposure to other actors :business network shaped to accommodate firm’s social network requirements: new customers may entail an hostile business environment with existing ones. |
|        | Canada, Japan, Italy, UK | - customer referral | - common language  
- mutual understandings. Example: the Japanese customer sushi requirements. | |
|        | France | - customer referral | - market-sensing tool | |
|        | Switzerland | - relationship sediment activation | | |

| CASE 2 | USA | - friend introduced to would-be partners  
- legitimation | - relationship-specific | - reduces exposure to other actors  
- risk of tensions in face of a learning intent |
|        | Canada | - business information and access to additional relationships | - market-sensing tool | |

| CASE 3 | Italy | - business information  
- facilitate resource access | - learning: business, institutional and internationalisation-specific  
- tensions in face of a learning intent | |
|        | USA | - introduction to would-be partners | - relationship-specific  
- “open-minded inquiry” not compatible with stronger relationship development |
|        | Canada | - customer referral | - strategy-specific  
- market-sensing tool |
|        | China | - access to additional relationships/referral | | |

| CASE 4 | Netherlands | - business information  
- facilitate resource access  
- access to additional relationships  
- legitimation | - learning: business, institutional and internationalisation-specific  
- relationship-specific  
- strategy-specific  
- market-sensing tool  
- creation of strong ties between specific actors  
- reduced exposure to other actors : French customer abandoned to avoid tensions  
- relationships convey norms | |
|        | France | - customer referral | | |

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1 The entrepreneur is also the manager of a cheese production plant.
Proposition 1 is supported

As social relationships were an instrument for the development of firm links into new markets.
Proposition 2 is supported

While displaying different levels of learning commitment, relationships earlier employed for market linking became, at a later stage, drivers for market learning.
Discussion

Proposition 3 is supported

- As time went by, tensions developed due to
  - perception of dependence relationship
  - perception of imbalances in sharing the benefits
  - former bridges used to overthrow partners

So...market linking and market learning became incompatible
Social networks were found to play important linking roles, providing firms with an instrument for international expansion:

- **Information** for the identification and selection of would-be partners
- **Legitimacy**
- **Mobilisation** of actors in different international markets

As firms learn how to coordinate and adapt their activities both interpersonal and inter-firm levels, bonds rise and may be used as market-sensing tools, thus allowing market learning.

At a later stage, the simultaneous use of both properties of market linking and market learning appeared to be unfeasible: they became mutually excluding leading to

- redefine partners’ roles, or
- break the existing connection.