

Liability of Outsidership

How do companies overcome liability of outsidership?

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Abstract

In the light of the discussions of internationalization and liability of foreignness, this research aims to explain how liability of outsidership is overcome. As outsidership from relevant business networks may be fatal for business, we examine how three Swedish sourcing companies have managed to overcome it when entering China. As we have chosen China as the penetrated market of our companies, with the importance of *guanxi* in mind, we have put liability of outsidership on its edge. Our findings suggest that the penetrations of relevant business networks are the results of inputs. These inputs have originated from already established relationships, divided into personal networks, business networks and other networks.

Introduction

As companies internationalize to expand their processes and markets across the world, the patterns of these movements have tried to be explained by economists during the last decades. Hand in hand with globalization, firms look to find opportunities to develop their business across borders. In China, both industrialization and heavy foreign direct investments along with production availability have grown steadily. The Chinese market has sprung up as an important player in regard to the internationalization process of the internationalizing companies. The internationalization process towards China can in some instances be considered similar to the one in other foreign markets. However, in several ways it does highly differ due to its cultural focus in business on seeing personal relationships and networks as the core base of successful business operations. As such, China is an extreme environment.

In the first article of the Uppsala-Model (Johanson & Vahlne, 1977), the patterns and rationale of internationalization were first described and developed. The model explains the gradual steps made by companies in their internationalization process as an ongoing learning process, in which market knowledge enforces commitment decisions, and where the current activities of a firm affect the market commitment. The model can be considered a model of rational internationalization, describing the pattern in which internationalization frequently

starts in foreign markets close to the local market in terms of psychic distance. The psychic distance is in turn defined as the factors that affect the difficulty of understanding a foreign environment, for example putting Germany closer to Sweden than China in more than just a geographical sense. Companies would gradually enter others markets further away, as the uncertainties were cleared and knowledge was developed.

The difficulties with the internationalization and entries in new countries have been discussed in the context of the *liability of foreignness*. Simply put, companies need to have a firm-specific advantage to offset the difficulties that will occur in a foreign market due to the liability-problems that a foreign company will face. In the light of the discussions of Johanson and Vahlne, a greater psychic distance implicates a higher degree of liability of foreignness. In the article “The Uppsala internationalization model revisited: From liability of foreignness to liability of outsidership” (Johanson & Vahlne, 2009), it is discussed that the problems and opportunities that may occur for a company in international business are becoming less and less matter of country-specificity question, but rather a matter of relationships and networks. To describe this, the process of entering a foreign market can be seen as the process of entering any new market. For example, a company having produced shirts and aiming for a new possible market of bags will see its success in relation to its relationships and networks. The lack of knowledge of who the business actors are, how they act and most importantly how they are linked to each other is crucial. As the liability of foreignness is the main problem with a foreign entry, the *liability of outsidership* is the main difficulty, and as the liability of foreignness is a problem of internationalization, the liability of outsidership can also be a difficulty in a home market. If not an insider, a company will suffer from lack of business opportunities as a consequence of the lack of relationships. The liability of outsidership plainly refers to the problems linked with being outside an important business network of relationships and contacts in a new market. In the same way as it is crucial and necessary to be part of a business network and enjoy relationships in your home market, it is essential to penetrate such networks in foreign markets to be successful. The business networks discussed in the discussion of outsidership does not necessarily refer to a single country, but can also be reflected in a wider perspective over regions and over markets.

As discussed and mentioned above, the internationalization process is often viewed as a step-by-step process of development and understanding. The business networks challenge these discussions by involving and adding the fact that there are people doing business and thereby

relationships are involved. Businesses may move and internationalize faster, and most importantly, adapt faster, due to a direct link into the network of the new environment. In the same way, a company following the theoretical, textbook, instructions of internationalization may find itself unsuccessful due the lack of relationships and trust that the role as an insider in a business network require. The challenge is simply to become an insider in each and every business network in which a company has activities.

Although the question of outsidership is relevant in worldwide business, certain cultures have the necessity of relationships already well implemented in their everyday business. Looking towards China and the Chinese business arena as a near perfect example, the term *guanxi* is a well-known term even though there is no specific or fully correct way to translate it. A direct translation would result in the English word for *relationship* but the meaning of it goes way beyond the words and is fundamental to the way Chinese business works and how the actors within the arena operates. *Guanxi* is the concept of social networking and business combined and many times argued to be the most crucial part when entering and operating inside China. Some even say that there is no point in even trying to enter if *guanxi* with the right persons, organizations and entities are not established (Collins & Block, 2007). The Chinese, populating a vast and diversified country having experienced a history of different dynasties and wars have suffered from a fragile legal system in terms of contractual agreements why they instead have had to rely fully on their own connections to have agreements honored. Having had weak support from legal entities one had to make sure to co-operate only with the ones closest to oneself such as family and family-related friends and relatives. This was the way to establish certainty in business operations and to have leverage if something went wrong. This frame of mind has stuck since why the Chinese today have a somewhat unique system based on a ‘you scratch my back, I scratch yours’ system founded on the idea of it’s not about what you know but who you know (Collins & Block, 2007). Developing *guanxi* may take years and is a never ending story but it is nonetheless vital to make sure to be on the “inside” of business networks and to have business carried on properly. *Guanxi* in this sense is the very core to the *liability of outsidership* that we will discuss throughout this thesis.

In the same way that you may face have difficulty in China due to lack of *guanxi* you will find yourself in the same situation in the light of *liability of outsidership*, both stating that you need to be on the inside to be successful. We also find it highly interesting due to the factor that it is people themselves within the organization being the ones who need to break the spell

that *liability of outsidership* may cast upon a internationalizing company through social connections, networking and building trust with their counterparts. Putting social behavior, interactions and its outcome into a school-book model creates difficulty why we wish to compare the experiences of three different companies having established operations in China to find similarities but also differences in the way their establishment and endeavors to move from “outsidership” to “insidership” have been undertaken.

Purpose and Intended Contributions

The purpose of this thesis is to contribute to internationalization literature in regard to a network approach highlighting the very experiences experienced by companies on site. In our research we have chosen to focus on the liability of outsidership and how to overcome it in China due to this country representing a market with a business culture fundamentally dependent on insidership itself. Our research question is based on the difficulties of penetrating a relevant business network, and how these difficulties are overcome. With this, the intended purpose of our research is to point out the importance of personal relationships, as well as the opportunities that arise from them. Due to the lack of prior research within the subject, we intend to put the concept of liability of outsidership into an extreme context that is the Chinese market. As explained earlier, the already implemented way of doing business in China will help distinguishing liability of outsidership by putting in on its’ edge.

As we present different case studies later in this thesis, having examined three different Swedish companies from the sourcing industry, we hope to see a similarity of the internationalization patterns, underlining our purpose. Such finding would contribute to the understanding of internationalization into China from not just a theoretical perspective but also from a relational one where it is people, not organizations, that are involved and the main drivers.

Research Question

Our thesis wishes to answer one research question that we cannot find a clear answer to in regard to previous research. Earlier contributed research has focused on the concept of *outsidership* and *foreignness* out of a theoretical perspective on why and how internationalization does occur and how networks influence these decisions (Johanson & Vahlne, 2009). Even though we have seen research by Axelsson and Johansson in 1992 into how individual companies have entered foreign markets, we construct our research question out of the lack of prior explanation of how the liability of outsidership is overcome (Axelsson & Johansson, 1992). The following research question may be considered out of a theoretical perspective but it is also meant to be provided with an answer that give insights into how the internationalization process cannot be seen from a solely theoretical approach and that it indeed is a question that may have different answers to different companies.

- How do companies overcome liability of outsidership?

Methodology

Scientific Approach

As the difficulties of overcoming outsidership are often pointed out as related to the informal concepts of trust, commitments and thereby relationships, our scientific approach towards this research is the same. Our approach is that real-life observations must be made to get a grip of the informal procedures that solve the difficulties, to further explain how liability of outsidership is overcome. In this presentation of the methodology of our research we will try to explain our choices and its' motives for this research, rather than explaining established concepts of methodology in general. It is important to point out that the theoretical framework of internationalization, as presented below, holds an essential part of the new concept of liability of outsidership. As its own subject however, the question of outsidership lacks relevant studies, further pointing out our purpose of this thesis. By conducting the concept of outsidership in a study with an informal approach, which we will explain further below, we hope to catch the essence of the problem and set guidelines for how it is overcome.

To be able to understand the formalities of internationalizing firms when successfully penetrating relevant business networks we find no other appropriate choice than to turn towards reality. As case studies present actual happenings of the firms of our choice, it is important to explain why we have chosen certain firms from a certain industry to ensure the liability of this thesis. We have chosen to work with case studies, as our implied understanding is that the overcoming of outsidership is an informal process. Therefore, we do not believe that any other research method would give us the opportunity to hear the informal stories of the chosen firms internationalization process, as the formal stories often are modified. As many internationalization decisions are explained with reason within the formal framework of the business society, we do believe that there are other underlying, informal reasons that have opened up the opportunities.

Research Design

Why case studies?

Our research has been designed by interviewing three Swedish companies within the sourcing industry with current activities in China. The three companies - Big Bear Sourcing, Harlequin Trade and Scandic Sourcing - have been asked to simply tell their story of internationalization, without any further instructions. As our choice fell on interviewing companies within the sourcing industry in the context of the Chinese market, the decision was based on multiple factors. First, we did not want to examine gigantic organizations such as H&M or IKEA, as we believe that such companies might internationalize beyond the theoretical framework, simply because they are so big that they can. Second, sourcing companies work within the role of a middleman between their home market and a foreign market. Therefore the role of not only one but many different business networks seem to be highly relevant. Third, we decided to choose firms from one certain industry to keep the main factor, that is, their industry, alike. If not so, different decisions and procedures might be observed that do not necessarily develop our core issue, which is the overcoming of outsidership. For example, companies in different industries might have industrial-specific reasons for going abroad which misleads our scientific purpose. Fourth, we decided to choose companies with current activities on the Chinese market. As we will discuss further throughout our thesis, the established term of *guanxi* in China puts the liability of outsidership in an extreme scenario, helping us to find methods of overcoming it. Fifth, our choice of

companies has been affected by the amount of access to information that different prospects for this thesis have had to offer. Simply put, we wanted to talk to key people within the organizations to be able to find more detailed and personal information, not often presented outwards in media and press releases. With that aim, our case studies have been based on interviews.

Why the chosen cases?

With these factors in mind we constructed our case studies presenting Big Bear Sourcing, Harlequin Trade and Scandic Sourcing and their overcoming of the barriers of outsidership. As the chosen companies all held the five criteria's presented above, also underlining our choice of case studies, the accessibility was also a determining factor. As we contacted a number of different companies for conducting this research, the choice fell on those taking their time and showing themselves to be accessible for our reserach.

Data collection

We contacted the companies via e-mail and telephone, presenting our research subject as a discussion of internationalization rather than one of outsidership. We tried to find key people within the organizations and as this was approved, we e-mailed a question sheet with general questions to the interviewee. The interviewees were given three days to look through the questions and on the fourth day, the interview was conducted.

Analysis

To analyze the case studies, we have originated from the established theoretical framework. However, since liability of outsidership is a fairly new concept, we have developed our own theoretical model, as we will present later in this thesis. Our model is based on the importance of inputs, and works as a hypothesis that we will challenge in our analysis in the context of the results from the case studies. We developed our model as a conceptualization before we conducted the case studies, and then, tested it against our results afterwards. We have depicted our research in three different steps. First presenting the different cases, second analyzing them separately as our results, and finally analyzing them all together as our overall analysis.

Critique of Sources

We are aware of the limitations and question marks that a study based on case studies might imply. First, we have decided to examine firms from only one industry, that is, the sourcing industry. With that, some might state that generalizing conclusions are not fair based on this kind of report. (Yin, 1984) Also, as also discussed by Yin (1984), case studies often lack some kind of liability due to the influence the investigators might have had on the findings and conclusions. In other words, findings risk to be interpreted in a certain way by us as investigators, too lead us to an expected conclusion. Further, with interviews as the source of information for our study, the questions asked must not in any way be leading or inductive. Hence, we have printed the scripts from the interviews and presented these for our supervisor. A general limitation of case studies is that they are only descriptive. However, in this study, we try to use these descriptive analyses to further deepen our understanding. Finally, maybe the vastest limitation of them all is the possibility that our chosen firms or people that we have interviewed have left out important information that could have been essential for our study. In the light of all this, we have conducted our research with the utmost precaution.

Reliability

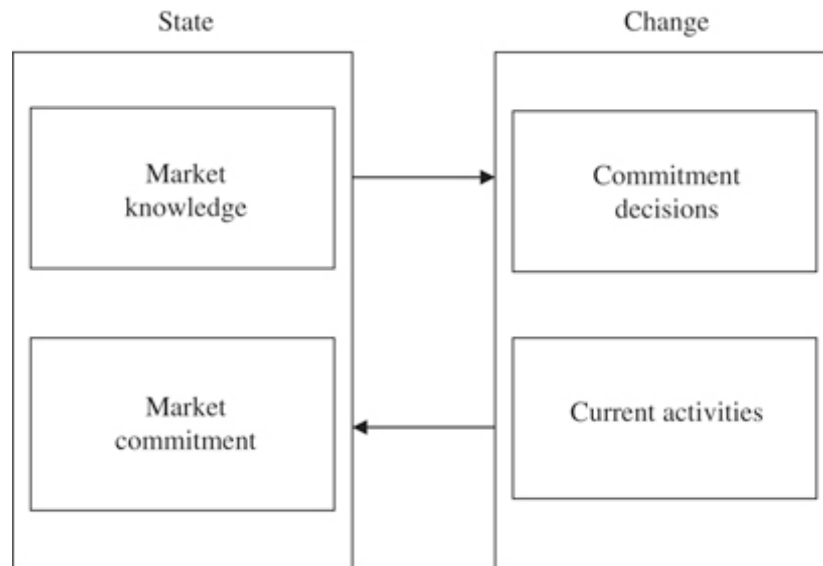
Our study originates from the established theoretical framework of internationalization. Even though not discussed in this thesis, the works of Smith, Ricardo, Heckscher-Ohlin, Porter, Dunning, have all been pillars of our knowledge. When further discussing the theories of internationalization in a more modern context, focusing on the view of Johanson & Vahlne, Coviello and other researchers, our aim is to keep close to the reality and thereby create a reliable study. To add trust and transparency to our study, the scripts of our interviews are presented to our supervisor. Also, the sound files from these interviews are kept. Moreover, we have presented sources on all statements throughout this thesis, except for those established by ourselves in the analysis. Finally, we would like to point out that the Karimi/Sinclair model presented further down is presented as a hypothesis and not as an established model, to not in any way challenge our reliability.

Theoretical Framework

Internationalization

At an early point of the increasing internationalization of companies, the established economics and normative international business literature of the time explained the patterns of internationalization as a cost-risk balance. According to those early observations, firms made their optimal choice of entry mode based on their costs and risks in relation to the market characteristics, with their own resources as a considering factor (Hood & Young, 1979). However, the Uppsala model published in 1977 challenged these observations. Having based and developed their original model on the prior empirical works of Penrose, Cyert and March, and Aharoni, Johansson and Vahlne presented internationalization as a learning oriented processes (Penrose, 1966; Cyert & March, 1963; Aharoni, 1966; Johanson & Vahlne, 1977). The model emphasized a gradual and incremental approach of internationalization with the underlying assumptions of uncertainty and bounded rationality (Johanson & Vahlne, 1977).

The study made by Johanson and Vahlne was based on four case studies of the Swedish companies Volvo, Sandvik, Atlas Copco and Facit, with operations in more than 20 countries. The authors divided the model into the two different mechanisms of state and change. With state as presented in the picture below, the market knowledge of a firm is explained and related to the mechanism of change in form of commitment decisions. Also, the state of market commitment is implicated and a relating factor of the current activities of a firm.



The basic mechanism of internationalization: state and change aspects.

(Johanson & Vahlne, 1977)

Johanson and Vahlne introduced “psychic distance” as a measurement of market foreignness. They defined the measure as a factor that make it difficult to understand foreign environments, including factors such as culture, politics, language, educational systems and language. Simply put and as mentioned in the introduction, psychic distance puts Germany closer to Sweden than China in not only a geographical way. To explain the state of market knowledge, companies enter the markets they know best, and only move into unfamiliar markets when sufficient knowledge is gained. In other terms, companies would gradually enter markets further away in terms of psychic distance as knowledge is gained (Johnson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973). Naturally, the market knowledge has a direct relation to a possible changing state when enforcing commitment decisions. In a similar way, the experience that firms gain in foreign markets implicates change and adjustment of the firm’s state, as a result of the learning. In other words, the current activities of a firm give back knowledge, allowing development and further market commitment (Johanson & Vahlne, 1977). The Uppsala model defines commitment as the product of the size of the investment times its degree of inflexibility. While local adaption to meet the needs of customers in a foreign market is a sign of dedication and commitment, large investments in saleable equipment does not. Since gained knowledge of a market influence commitment decisions and thereby also the activities of the firm within that certain market,

the state of the firm is strengthened with further market commitment. Hence, the Uppsala internationalization model is dynamic.

Since the Uppsala model was published, it has been evident that it needs to be developed further due to research conducted by, among others, Coviello and Munro (Coviello & Munro, 1995; Coviello & Munro, 1997). In their findings they saw that it was not solely market knowledge affecting the commitment decisions regarding entry but also network relationships in an inter-organizational pattern. The importance of networks was clear and Coviello's continued work is interesting in the sense that she created a model showing how networks evolve and many times even before the entry into the new market is made or the firm is even established (Coviello, 2006). It showed the importance of "insidership" and its distinctive relation to the decisions made by the firm when internationalizing. Martin, Swaminathan and Mitchell had found that this pattern was particularly evident with suppliers having buyers moving abroad (Martin, Swaminathan, Mitchell, 1998). Hallén did also find that relationships were important between buyers and suppliers both within one or many countries, and the results discovered were emphasized further by Majkgård and Sharma who showed the importance of relationships in light of client-following strategy (Hallén, 1986; Majkgård & Sharma, 1998). Johanson & Vahlne did in 2009 however conclude that even though much research had been done in the area of how networks power internationalization, not much has been said regarding how these bonds and relationships were actually created (Johanson & Vahlne, 2009). According to Kelley and Thibaut these networks appear to be created via social exchanges and via the building of trust a bigger commitment is allowed and commitment decisions are made (Kelley & Thibaut, 1978).

The process of networking has been shown to be part of experimental learning as companies get themselves out there, get to know one another and the network they are connected to and progressively increase their commitments (Hägg & Johansson, 1982). It was this network approach that Johanson and Vahlne did not consider in the 1977 Uppsala model why they agree to its need of transformation (Johanson & Vahlne, 2009). The networking landscape is one that is difficult to tackle out of a schoolbook approach as forming relationships and building networks is virtually a highly informal and social procedure made between people (Powell, 1990). These companies are involved and connected to a number of networks as virtually no-one is connected only to one network but inter-connected to numerous as one counterpart is connected to another relationship too and along it goes. As such, companies

conduct their operations in a networking environment (Andersson, Håkansson, Johansson, 1994). Naturally, the knowledge being created within the networks is not a special part of a company's operations but it is more than anything embedded in the whole process. With that, the companies might not include the networking of its personnel among its daily activities, even though it indeed is highly relevant.

As knowledge builds trust and trust builds commitment and commitment builds internationalization along with further commitment it is not just a question of knowledge and relationships between the counterparts closest to you that matter but throughout the whole supply chain from producer to buyer as well as competitors (Hägg & Johansson, 1982). With a wide network of relationships the knowledge base increases and it is these relationship partners that create an indirect web of relevant business information in terms of possibilities, needs and capabilities of others firms in the surrounding environment. Johanson and Mattsson underlined these findings when developing an internationalization model based on networks but not only of the network that the firm was directly connected to but instead the networks outside the company's own formation (Johanson & Matsson, 1988). As such, Johanson and Vahlne considered the firm to be a unit involved in exchange processes with other units of the same kind (Johanson & Vahlne, 2009). Thus, by having a wide network with other units or entities, a company can be considered to be an "insider" and if it doesn't it is an "outsider". As an outsider it is impossible to conduct business as it is via relationships that firms gain knowledge, trust and commit to further commitment hence being of the essence in the internationalization process. A company trying to enter a market where no network or "insidership" is established will suffer from the *liability of outsidership* where *liability of foreignness* is a factor making it more difficult to get on the inside (Johanson & Vahlne, 2009).

Network Models

In light of the importance of building networks in regard to the internationalization process we wish to illustrate previous research conducted in the subject to see how theoretical framework is consistent with reality in the conducted case studies. When looking specifically at networking models we find that the work of Tolstoy in his illustration of network knowledge combinations throughout three different stages presents a clear picture of how a company progress in their networking efforts. It provides a picture of how knowledge flows between the different actors throughout the knowledge chain. In the very first stage

knowledge between actors flow in an obvious top to bottom approach. It is at this point travelling from supplier to customers, via intermediaries. In such a structure, called current setup, agreements of a more formal nature may be entered where a company with the product knowledge hire or employ an agent with the right market knowledge to promote the product and provide it to the market. In such a setup there is no obvious need for interaction as the actors do what they do best and stick to their contractual agreement.

The next scenario involve knowledge combination as knowledge does not only flow one way but instead may pass back from customers up to the actor with the product knowledge in a chain of product feedback. It is at this stage that an actor may identify an opportunity in a new foreign market due to the interaction that now has been made. In the third scenario we see a flow of complex complementarities that created a continual flow of knowledge spill over between different actors both within the network but also outside the very network via indirect connected relationships as the discovered opportunity is further analysed. At this stage the firm is exposed to information from all types of actors that they can take in, analyse and make commitments according to but they do also have to find themselves in a situation where they may stumble upon situations as well as opportunities that they could not foresee (Kirzner, 1973) Hence, such implementation of knowledge over barriers demand for a high grade of interaction between actors. According to the model, the opportunity earlier found is now implemented and the firm is leading an interactional approach via multiple networks (Tolstoy, 2010).

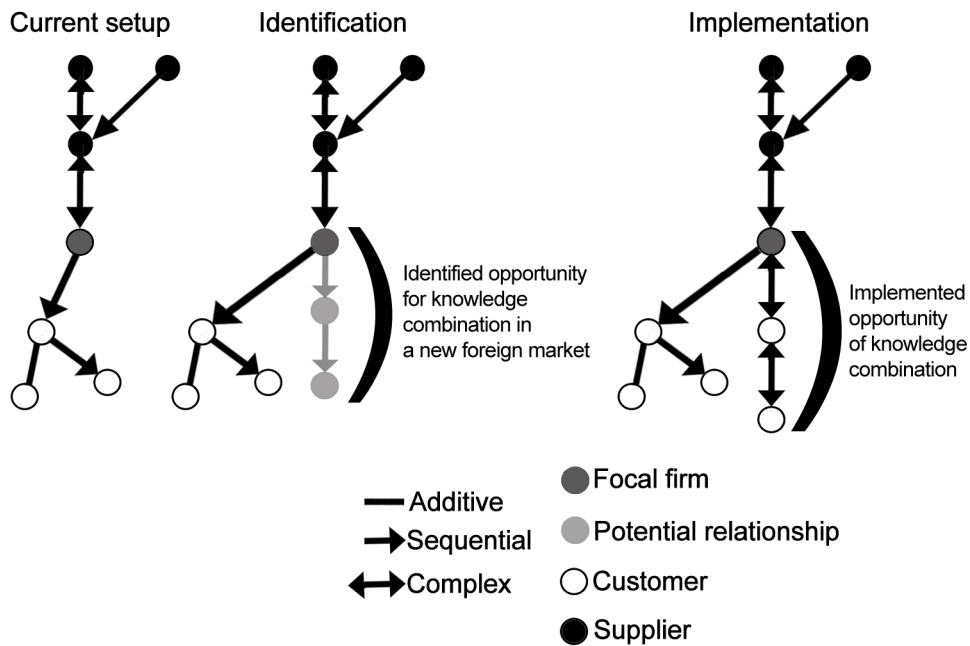
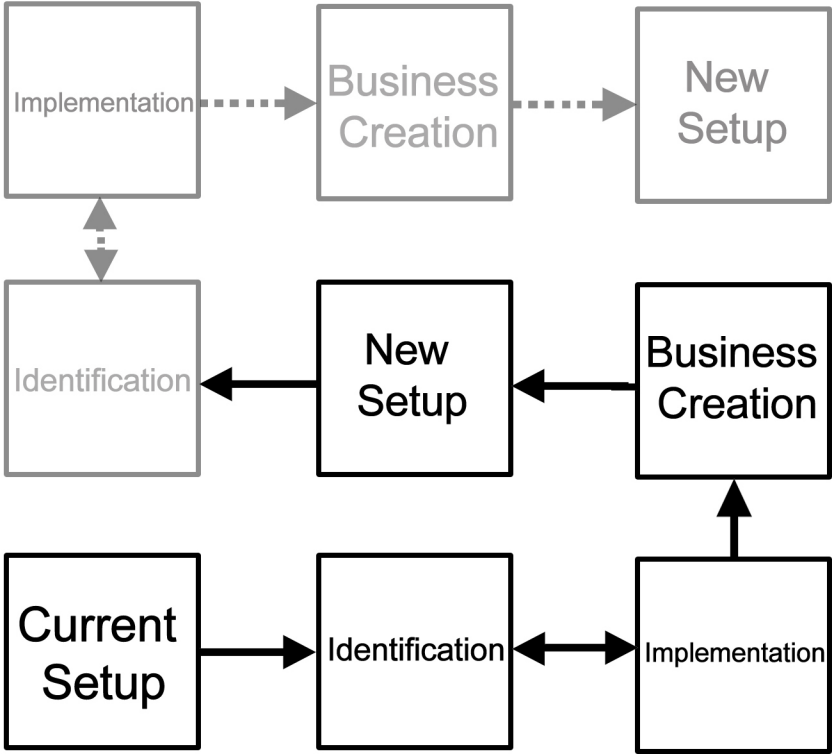


Illustration of network knowledge combination
(Tolstoy, 2010)

We do also find Tolstoy's model in network knowledge combination as a determinant of business creation in international SMEs (Small and Medium Enterprises) as an important contributor in terms of how internationalization is dependant on knowledge transaction and relationship creation (Tolstoy, 2010). Tolstoy does imply that it is knowledge synergies that open up new possibilities and business creation. As firms operate in an ever-changing environment it is knowledge transaction and information that is considered to balance these changes and give firms control again. With information, companies are able to reassess their practices and customer segmentation to keep their competitive advantage in the international market (Prashantham, 2008). It is hence stated that knowledge combination is synergized with business creation. With a vast network of relationships, more information flows between different actors, providing a firm in this network with the opportunity to see opportunities early on and hedge for risks that they may otherwise not see.

In the model it is stipulated that a company develops its business via a flow of knowledge, similar to the previous model. Their current status in the network, the current setup, will decide which level of knowledge they will have access too and therefore be more or less informed. When an opportunity is spotted, the correct information needs to be taken in from

the network as to make the correct commitments and strategic decisions. What the move from current setup to identification to implementation will look like is very hard to predict and is on a firm-individual level. It can therefore be said that a firm needs to move from the identification phase to the implementation phase before any new business will be concluded. In turn it is the firm's ability to access knowledge and combine this very knowledge that created the structure of how the firm will gain access to new opportunities. This approach goes very well in hand with the scenario that firms experience due to *liability of outsidership*. Identification of opportunities is based on knowledge and knowledge is gained from existing relationships. Without relationships no opportunities are made available and networks are hence the key to business success (Tolstoy, 2010).



The relationship between network knowledge combination and business creation (faded boxes illustrate the continuation of this process) (Tolstoy, 2010).

Knowledge & Trust

As Johanson & Vahlne established the term *liability of outsidership* in their original model it was founded on the idea that it is knowledge that is crucial to the internationalization process and that it is the lack of knowledge that is disruptive and time-consuming in the internationalization process. Axelsson and Johansson revealed the difficulties when entering a new market in terms of learning due to the process of establishing which ones the relevant market actors are. (Axelsson & Johanson, 1992) This is in line with the *liability of outsidership*. It is the lack of knowledge about language, laws and culture that necessitates a longer period of time to establish a presence. In the same way it is knowledge about institutional market factors that are needed to do things right and without knowing who or how internationalization costs will increase (Eriksson, Johansson, Majkgård, Sharma, 1997). It has also been showed that different core knowledge about the internationalization process itself is important too and not just a general know-how about the market where the coordination of existing relationships become important, *relationship-specific knowledge* (Johanson & Vahlne, 2009). Johanson and Vahlne did not include any emotional aspects in their model when looking at the internationalization process even though it constitutes a big part of the actual networking dimension (Johanson & Vahlne, 2009). These aspects have been shown to play a big part in relationship development, as trust is a big part on the road to a fully functional business relationship (Morgan & Hunt, 1994). It can also be argued that trust may at times substitute market knowledge when a firm lacks specific market knowledge why it may instead hand over its operations to a trusted middleman abroad. Morgan and Hunt stated, “trust is a major determinant of commitment” (Morgan & Hunt, 1994). As it is trust that allows a company to be progressively dependent on a partner, its operations are allowed to progress in the new market. As dependency increases and trust is built more information is shared, strategies are discussed and commitments are made.

Liability of Outsidership

To easily depict the problem of outsidership, we can put the problem in a situation out of its original context. Of course, presenting such an example may generate further discussions regarding the specific subject itself, but we present it exclusively with the original context in mind. If we think of a classroom with 10 students, groupings will most surely occur. If we imagine the class as consistent one big group of 9 students, 9 students out of a total of 10 are

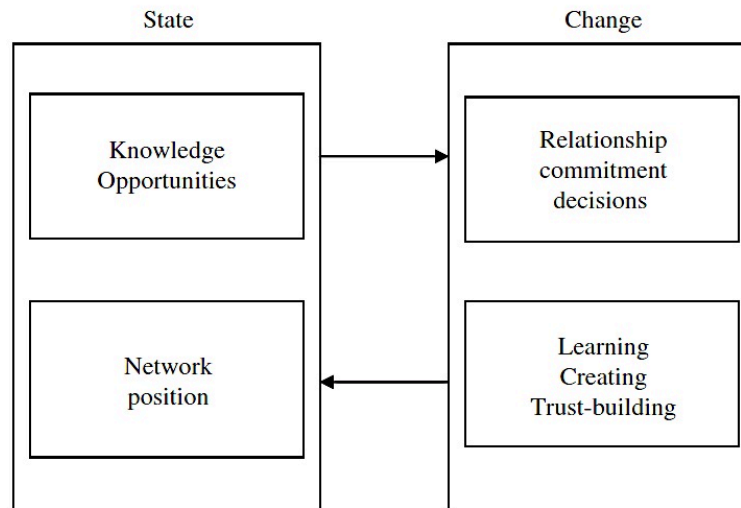
insiders in a certain group. The last student however, does not consider him- or herself as a member of any group. If we consider it favorable to be a group member, as groups often share activities and mutual understanding, we can suppose that the outsider strive to become an insider. In this context, the insidership in the relevant network will offer the positives that group members enjoy. To become an insider however certain activities or strategies from the outsider will be demanded. The main problem of liability of outsidership is how to become a group member, or in other words, an insider. To continue our example, the outsider from the group may have a relationship with one of the insiders and has therefore the opportunity to develop this relationship to become a member of his or her network, in this case the group. In another scenario where the last student does not have any relationship to any members, he or she might try to establish such a relationship to one of the insiders to gain access to the membership. In the very same way, the liability of outsidership is a difficulty for companies that are outsiders of a relevant business network.

As networks are borderless, the difference between entry and expansion in a foreign market is less relevant. As an entry is not possible without certain knowledge of a market, expansion is not either without the same. Hence, the liability of outsidership is a question of gaining knowledge and thereby opportunities as a result of relationships. (Johanson & Vahlne, 2009) In the revisited article of the Uppsala-Model published in 2009, Johanson & Vahlne update and further describe their view of internationalization in the light of the business network views that researchers have presented as relevant since the first model. Their view is mainly based on two different arguments. First, markets are networks of relationships built up by complex and to a considerable extent invisible, links between firms. In this light, insidership is essential for successful both core business and also internationalization. Consequently, there is also a liability of outsidership. Second, relationship between people and thereby firms offer the possibility of learning, trust building and commitment, all of which are preconditions for internationalization (Johanson & Vahlne, 2009).

The revisited Uppsala model was presented as a developed model of its original, however with the same structure as the 1977 model. As presented below, first, the recognition of opportunities was added in addition to the box of knowledge. Johanson & Vahlne imply that opportunities are the most important element of knowledge, and drive the process of developing the state. Other important elements of knowledge are strategies, needs, capabilities and networks of firms, directly or indirectly related to each other. (Johanson & Vahlne, 2009)

The lower left-hand box of the developed model, originally stating the market commitment as a variable of the state, is now labeled network position. The revisited model assume that the internationalization process is practiced within a network, and therefore pointing out the position in a network in relation to the lower right box, which presents the learning, creating and trust-building. The learning, creating and trust building replaced the current activities from the original model as a further development of the relationship-based view. Prior, the current activities were seen as the daily operations of a firm that in a longer run will lead to increased knowledge, trust and commitment. Nevertheless, the revisited model presents learning at a higher level of abstraction, presenting it as more than experiential learning. The final variable in the upper right box of the model has seen “relationships” as added to its name. The added word intends to clarify the direction of the commitment decisions towards relationships and networks. The change in commitment will either develop and thereby strengthen relationships, or in the opposite weaken them.

The revisited model of Johanson & Vahlne has some important implications. First, internationalization is in direct relation to a firm’s relationships and networks. Thus, a firm is much likely to go abroad based on its relationships with its partners, committed to develop the business. A firm is also likely to follow a partner abroad if the partner has a valuable position in a foreign network. Such following is either based on the possibility of finding new opportunities as an outcome of the internationalization, or on the partner firm, wanting the focal firm to follow. The general answer to where a firm will go is where it sees opportunities. With relationships, these are much more likely to arise than without. But if no relevant relationships are intact, a firm is likely to go where it might be easy to find such partner. For example, an initial step might be to link itself with a middleman such as an agent or a distributor. When relationships are established, the firm might bypass its initial contact and establish its own subsidiary. This development of relationships, based on the development of knowledge, commitment and trust-building, is the very foundation of the internationalization process in the view of Johanson & Vahlne. (Johanson & Vahlne, 2009)



The business network internationalization process model (the 2009 version).
(Johanson & Vahlne, 2009)

As prior works, such as those of Coviello presented above, have discussed the evolving of networks, Johanson & Vahlne have somewhat a different aim. They focus on business networks as a market structure, highly relevant for an internationalizing firm as it tries to penetrate it on a foreign market. However, as acknowledged also by Johanson & Vahlne, Coviello shows that insidership in networks developed before a foreign entry, and even before the foundation of a firm is influential for the specific internationalization ahead. (Coviello, 2006; Johanson & Vahlne, 2009) Prior, studies and projects have shown the importance of close and lasting business relationships between suppliers and customers. (Hallén, 1986; Ford, 1997; Håkansson, 1982; Turnbull & Valla, 1986) Also, a number of studies have shown the patterns of internationalization as a process of client-following and thereby as a further sign of the importance of relationships. (Bonaccorsi, 1992; Erramilli & Rao 1990; Majkgård & Sharma, 1998; Sharma & Johanson, 1987) The relationships discussed in these studies seem to develop as a result of a social exchange process. The involved firms endorse these relationships step by step and enjoy a trade of knowledge, trust and greater commitment as a result. (Kelley & Thibaut, 1978) As presented by Anderson & Weitz, the development of a relationship is a bilateral process between two counterparts who sequentially commit, trust and learn from one another (Anderson & Weitz, 1992). This point is one of the most essential updates in the revisited model of Johanson & Vahlne, as the original Uppsala-model did not include the importance of mutual commitment for successful internationalization. While there might occur some formal aspect, the process of relationship building is essentially informal.

As relationships are informal and socially constructed, it is impossible to value the scope of the investment for anyone not personally involved in a certain project. (Powell, 1990) To further integrate the term psychic distance as explained earlier in this thesis, the difficulty of building new relationships is set in relation to the mutual understanding between the counterparts. Therefore, as presented in the revisited article of the Uppsala model, a greater psychic distance implicates a greater difficulty of new relationships, all other things being equal. (Johanson & Vahlne, 2009)

In the light of these conclusions stated, outsidership from a relevant business network makes it difficult, if not impossible, for a firm to internationalize. Johanson & Vahlne argue that insidership is a necessary but insufficient variable for a successful development of a business (Johanson & Vahlne, 2009). If a firm tries to enter a market in which it does not have an insider position within the relevant business network, the liability of outsidership will be the suffering factor. The problem of liability of foreignness will however be a further more complicating factor in trying to penetrate the relevant network and becoming an insider. To refer back to our original explanation of the outsidership problem in the context of a classroom, the relationship building might evolve when one of the insiders starts a relationship with the outsider. In the very same way, an outsider of a relevant business network might see its chance to become an insider as soon a potential relationship is developing with an insider. As Johanson & Vahlne put as an example, such scenario can be if a potential partner within the targeted market requests a product or service from the outsider-company. Then, the learning, trust-building and commitment-building process can start and hopefully, the position as an outsider can be turned into a position as an insider (Johanson & Vahlne, 2009).

Conceptualization

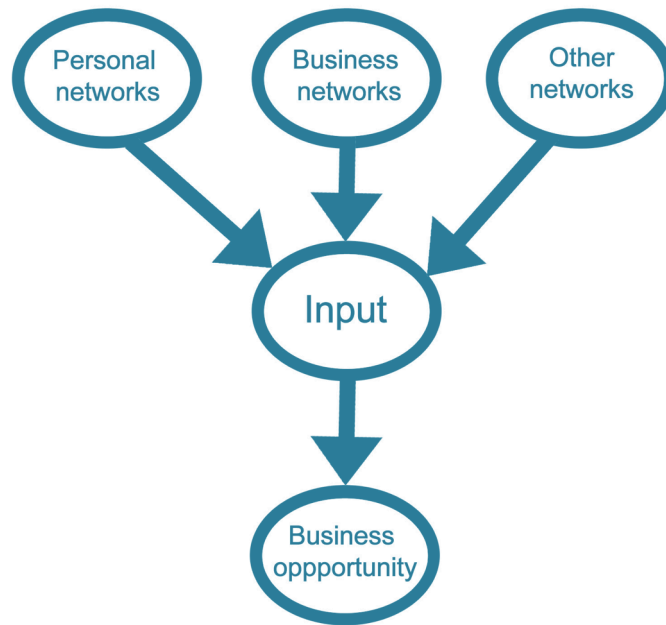
The Karimi/Sinclair Model of Opportunity Creation

In the light of the established theoretical framework as presented above, in combination with the network models highlighted in the prior paragraph, we have developed a descriptive

model of the arising of business opportunities. Our model aims at giving a brief overview of opportunity development in the context of the established theoretical background. In theory, it can also be considered as a summarizing model of the discussions of opportunity exploitation as a tool of becoming an insider in a relevant business network. However, we find it essential to point out that, as earlier mentioned, this model is presented as a tool of hypothesis, to be tested against the findings of our research. We do not imply that our model holds, if not successful in the light of this thesis.

As explained by Johanson & Vahlne (2009), the relationships between actors in business network are built on an exchange of knowledge, trust, and commitment, of which opportunities arise. As noted by earlier studies, entrepreneurial discovery of different opportunities play a key role in market progress. Being a result of the alertness of entrepreneurs, the recognition of opportunities is rather related to ongoing business activities of which these arise, than of specific opportunity-seeking activities. (Kirzner, 1973) As findings from other studies presented above also have acknowledged, the internationalization of companies might also occur due to a follower strategy of its business relations, as companies for example follow their customers or competitors. Thereby, we can conclude that opportunities also arise from business relations. (Hallén, 1986; Majkgård & Sharma, 1998)

As the problem of outsidership calls for certain activities to become an insider, no prior research has presented any general steps for such achievement. As that lack of study opens a hole for further researchers to fill, we conceive the solution to become an insider as a result of opportunity exploitation. Therefore, the Karimi/Sinclair model of Opportunity Creation is not intended to present the gradual steps to undertake to become an insider, but rather as a model of how different business opportunities occur, creating a possible springboard towards insidership.



The Karimi/Sinclair Model of Opportunity Creation, 2011

Based on the prior studies, highlighting those of Coviello, Kirzner, Tolstoy, our model aims to present how business related opportunities occur (Coviello, 2006; Kirzner, 1973; Tolstoy, 2010). We have presented “Input”, as the central figure. With this, we state that the occurring opportunities are all a direct effect of a previous input. The input itself, which of course is essential for the possibility of an opportunity to originate, is induced by a relationship of any kind. For an input to arise, some sort of contact or relationship must be intact. Such a contact, based on knowledge, trust and commitment can be divided into different types, as presented in our model. Our first type is presented as the “Personal Networks”. Our definition of the Personal Networks stretches over such as those with family, relatives, friends and other connections outside of a business context. As relationships are discussed in the context of networks, the focal type of personal relationships must be taken into account as these offer as much possibilities as others. Hence, business opportunities might arise from sibling’s relation to someone, as well as a family member’s position within a company creating an input. Second, the business networks in which one is active might indeed also create such input. For example, the relationships built during a project of a firm or a co-worker might further lead to an input, implicating possible opportunities. Also, a network of business connections might offer inputs in personal matters as a way of developing further knowledge, commitment and trust between the parties. Further, a business network might offer inputs in other ways such as

when a business partner recommends an external firm as a good business partner, offering an input. Third, we have put “Other Networks” as a tool of getting a certain input. As personal and business networks of course are more common to lead to an input than anything else, other situations might also create inputs. “Other Networks” might also be seen as “Networks of Coincidence” in which an input has been created due to luck or an unplanned situation. Simply put, our model suggests that some kind of relationship, whatever it might be or however it might have developed, can offer a certain input. Consequently, such input can lead up to and offer important business opportunities.

Case Studies

Big Bear Sourcing

Big Bear sourcing is a newly founded family-run sourcing company founded by the Swedish Wetterström family who today live in Shanghai, running Big Bear Sourcing on site with their main customers in Sweden and Slovakia. With 20 years of experience in China they have a wide network of manufacturers and suppliers throughout China and do today assist buyers with purchasing and manufacturing of products ranging from bank safety products such as safes to kayaks and LED-screens.

The background of Big Bear can be traced back to the father Åke Wetterström who, 20 years ago, worked within the Swedish Gothenburg-based Gunnebo Group at a sister-company called Rosengrens. The company was manufacturing safes along with bank security products and as they were looking towards the East for production possibilities they needed someone to take charge of their China operations. Åke Wetterström signed up on a 6-month contract, which came to be extended to 6 years with the whole family, including the son Björn Wetterström, moving to Hong Kong.

The Åke Wetterström did also have a background of having worked in Slovakia 20 years earlier where he founded a company along with a Slovakian resident. He left the company 5 years later on good terms and his partner at the time went along to become a very successful businessman on the Slovakian business scene. It was this relationship that led up to the same partner contacting Åke Wetterström 15 years later, asking him for assistance on manufacturing of the products they brought in to Slovakia as they were dissatisfied with the

quality. He saw it fit to give the task to the son Björn Wetterström who at this point had been living in China for many years himself, were very familiar with the culture and was especially talented in speaking Mandarin, creating a great advantage when negotiating with the Chinese manufacturers. He took charge of the project and it did soon become apparent that it was communication that was the main problem between the two parties manufacturing the LED-screens. The problems had reached its peak as a new screen, being 13 inches wider than the standard 42-inch screen was to be manufactured in the Chinese factory. The buyer was confident that the manufacturer had produced the screen before but it was not until Björn Wetterström himself visited the factory that it became apparent that such a screen had not been made earlier. The moulding used for the screen was too small and the product would not be ready on time. It led up to a 2-month production delay due to the fact that no one at the factory had notified the buyer that there was a production problem.

To Björn Wetterström, this was a classical example of the cultural differences between China and the West that few Westerners understand. “In the West, we are taught that it is ok to make mistakes. In China, they are schooled that it’s not. This is one of the main problems when communicating with the Chinese. I can take an example with one of my father’s contacts here in China who is working for Volvo. He says that the whole point of his position in Volvo and his trips to China is to teach the Chinese that it is ok to make mistakes.” In China the real key to functional business operations is *guanxi* and personal relationships according to Wetterström. It is for this reason that he always makes sure to be at the factories where Big Bear Sourcing is producing a couple of days a week and he feels that for this reason the factory manager makes sure to let him know if anything has gone wrong. “For those of us working in China we have one great advantage compared to others and that is that we can keep the face-to-face contact. To me, personally, one of my big advantages is that I can speak Chinese (Mandarin), which is rare for people working in the sourcing business. The advantage I receive compared to non-Chinese speakers is that I reach a higher level of management within a Chinese company right away. I will sit down with the CEO or the manager of the factory and discuss business whilst non-Chinese foreigners will have to conduct their business with someone not authorized to make decisions. My advantage becomes my connection upwards.”

According to Wetterström one would not be totally out of the business scene without any contacts but he states that it is extremely helpful if you have them and that many of the

partnerships that he has with Chinese companies today has sprung up from old connections. Once a month he plays golf with 20-30 Taiwanese businessmen, being a business network in itself. At the court they recommend manufacturers to each other and help each other out if someone is looking for a product or service. This is Björn Wetterström's strongest networking card in China and it has been vital to Big Bear Sourcing. "The connections that I make is to a large extent due to this network and via them the networks of the network is a never-ending story. When we are playing golf next week and I have a question about a specific product, someone will say "Yeah, I know X down there and he is working with that". That's how it works, it's the networks of the network." Wetterström also makes sure to point out that much of it all is due to his father Åke Wetterström as he has been in China back and forth since 1996. Many connections in the manufacturing networks are "old contacts" that Åke Wetterström has had for many years and there are these contacts that are mainly used for new projects being conducted within Big Bear Sourcing.

Harlequin Trade

Harlequin Trade was established in 1985 in Sweden with its operations in China and with more than 25 years of experience in trade, production and imports the company does today comprise a wide network of factories and manufacturers in China, producing everything from toys to kitchenware. The company deliver products to some of the biggest companies in Scandinavia, Europe and North America such as Disney, Yves Rocher and Cadbury in all different sectors ranging from healthcare and beauty, finance, food and beverage throughout to the retail sector.

With their headquarters in Malmö, Sweden, they are close to the European continent but are further backed up by a buying office in Hong Kong, allowing them to be closer to factories and shipping locations as they are constantly looking for new products. With knowledge of the Chinese business culture, the language and their experience in Asian imports they make sure to assist their customers in every step from production to delivery of the product.

The reason to why Harlequin Trade entered China was simple; they had to. When working in this line of business it is a must to be present in China due to the vast opportunities being present there and it was in China that Harlequin found their best partners to co-operate with. However, it was not only due to the opportunities but also due to the experience of the founder Hans Brefelt, who had been working for another Swedish company in China at the time, in a pure import-firm. Within this company he developed the skills, knowledge and

know-how to, a few years later, set up Harlequin Trade. Brefelt decided that the company would not stick to a business model of stocking products for its customers but instead make sure to produce and import on demand why a close relationship between both customers, suppliers and themselves were necessary.

Even though contacts and an input into a Chinese business network existed due to its founder as Harlequin launched it was clear that business relations were key to success for the company and at the start it was trade shows that was the most commonly used way to expand the business network in China to find producers. It was also at these venues that it was easier to find English-speaking Chinese as this was not the easiest to find thirty years ago. With the trade shows leading up to the initial contact, relationships were further developed to develop a form of trust and *guanxi*. It was not until *guanxi* was established that products and business possibilities were considered. If Harlequin did not do the job themselves they turned to the use of agents, already having an input with networks of possible manufacturers and producers.

The employees at Harlequin did never see any good use in assistance from Swedish state run organizations such as the Trade Council as they entered or at present. “No, nothing. We look at the use of the Trade Council as a waste of time for us. We do not require that kind of assistance. You may possibly have good use of them if you wish to establish a new business contact or network in China today, but we’ve had our connections for more than 30 years now. I would say that, more than anything, it is us who could help the Trade Council”.

The importance of personal relationships has been key to the business success of Harlequin and they state that without them, business would not be possible. As Harlequin is working within so many different product areas it is crucial to have someone you can trust in every line because if you do not, you can run into serious trouble. Trust is maintained by a constant contact between Harlequin and its producers, often many times a day and often by both managers and employees. The employees do also visit China a couple of times every year for some “gambei” (empty the glass), in other words dinner banquets and drinking which is a common feature in Chinese business culture.

Maintaining trust and relations in China is a full time job but there was no real difficulty in initially establishing these relationships. “No, it has not been too difficult. We wanted to buy and they wanted to sell. It is more about sorting all the different contacts to end up at the right

producer, and that's something you do not know until you have made a business deal. You develop contacts in China the same way you do in Sweden. You test them, you talk, you buy and you evaluate. There's no difference between that over there or here." However, even though it is said that the initial contacts were not too hard to develop it is stressed that it is the personal, and individual, relationship that is the real relationship. Harlequin looks at Asia as being a culture where politeness is key and this is something you have to live up to where customer relations is just as important as supplier relations.

Today Harlequin is working solely out of Sweden and as a new customer arrives looking for a new product it is first and foremost earlier established Chinese business contacts that are being used. The company does still have three Chinese agents under its umbrella but is looking to downsize this co-operation due to the fact that they do not wish to work with anyone who may be liable to bribery, something being common throughout Chinese business. At present Harlequin is mostly working with publishing companies and catalogue retailers. It is an open company that often does bring along its customers to trade fairs and out to different factories, often raising the question to why a middleman is required and why they shouldn't be able to do the production job themselves. As stated by Harlequin themselves: "Many times we do take our customers to trade fairs so that they get to meet the suppliers themselves, see the factories etc. Many of them then do believe that they can take care of it themselves but I can tell you, not many can. Even though this is not brain surgery, it's enough to keep track of to keep you fully occupied. You may say that the 30 years of experience of what we have built in relationships and trust is what keeps an external party closed out, thinking they could do what we do. It's a nicer way in saying that the external party does not have a clue about what they are doing. This takes time, just like everything else. It takes time to learn, and it doesn't go fast".

Scandic Sourcing

Scandic Sourcing is a sourcing company located in Shanghai, China, founded and owned by the Swede Per Lindén. The company is today assisting its clients in developing, controlling and finding Chinese suppliers along with building new factories. They do also assist its clients in running them along with supplier searching, CSR work, recruitment and auditing. Founder Lindén is working with his employees solely out of China and their office in Shanghai

with his 6 engineers, 2-3 HR-employees and 3 more working in the financial department. At present, Scandic Sourcing have customers in 12 countries throughout the world.

The company finds its background in the many experiences of founder Per Lindén who founded the company in 2006. As Per was working for the Swedish industry company Sandvik he was head of one of the company's Asia divisions in Singapore to where he had been moving in 1996, just having spent 9 years in the US. In Singapore he was responsible for setting up Sandvik's operations. When the task was completed he was transferred to Japan where he was to set up a factory and find a CEO to take over after he left. At the time Sandvik saw great synergies in the Asian region where Chinese factories could be used to supply, among others, the Japanese market. It was also an objective of Sandvik to have different factories on different continents to be able to control production flows in regard to currency fluctuations. As Lindén's mission in Japan was completed, the next one was hence to move to China and set up a new Sandvik factory there why he moved to China in the fall of 2002. In 2006 it was once again time to move on and Sandvik requested Lindén in South Africa to take charge of operations over there. However, Lindén felt that this was nothing of great interest to him. He had spent 21 years working within the Sandvik Group and he now wished to stay in China why he saw the possibility of setting up his own company. In certain Asian countries such as Japan it is difficult to set up a company as a foreigner but in China Lindén knew it was quite easily done why he set up the company without being perfectly certain about what he wished to do with it more than to be able to jump on interesting possibilities coming his way. He started off by performing the same kind of work that he had been conducting at Sandvik. As he had set up Sandvik's own factory in China he realized that he could help others with the same task. One day he got hold of a man at Sandvik's purchasing department who complained that he had 2000 men working for him in China but not one who could help him with finding new suppliers according to information that consultancy firm McKinsey had just brought forth to Sandvik. The task to find a new supplier was given to Lindén who was opened to the world of sourcing with its vast possibilities. It was this situation that also made Lindén name the company Scandic Sourcing instead of something else having to do with factory set-ups. Since then sourcing has been at the heart of Scandic Sourcing.

It was the 4 years of experience in China along with the contacts that Lindén already had made that was essential to Scandic Sourcing as it started. The 4 previous years had provided Lindén with experience in China and the know-how of how to set up factories and conduct

business on the Chinese business scene. He did also have great assistance from two other ex-Sandvik employees who had left the company who were now working alongside Lindén on a couple of missions for Scandic Sourcing. These were his head of HR and his engineering manager. The engineering manager turned out to be of great contribution in the sourcing operations as he had been present in China, working with construction of industry products, for 35 years. He therefore had a huge network in China. Lindén also got hold of a Chinese contact that could find excellent factories around China by just making a couple of phone calls. "These contacts are very, very important. I have been working a lot with newly graduated employees and that's working fine as long as everything is standardized and simple but as soon as it gets a little more complicated it is very important to have people with the right experience and the right age with the right contacts to get good results." Due to this possibility Scandic Sourcing and Lindén decided to focus on products that were more technically complicated but could still be made in smaller quantities, even though most factories prefer simpler products in big quantities. With input in a network of specialized factories with industrial know-how, Scandic began building its business.

Lindén values the possibility of being able to jump on new possibilities as they pop up, many times by coincidence. This has made Scandic Sourcing taken quite a different approach compared to many other sourcing companies as they do also import products to China from the West. Their latest venture has been the imports of bottled water from the Swedish region of Västmanland. Lindén had an old friend in Sweden working within the food industry who was also driving around in Sweden selling the services of Scandic Sourcing. This man in turn knew a man who ran a company bottling water, which Lindén realized could be sold to the Chinese middle and upper class. A container was loaded in Sweden and shipped to China and even though it was not without customs problems, Lindén made sure the container got into China and the water was sold. "Valuable knowledge to build business in the future", Lindén says. Lindén says it is quite easy to build networks and contacts as a buyer as you are always popular and interesting in these situations. It is however much more difficult when you are in China to sell a product instead. In these situations it is essential to have relationships where you trust one another. "The way it is, is that if you buy something from someone you trust you will minimize your risks. In the same way there are many time quality issues that are resolved much easier if you know one another. Then there is also the language aspect. Here you have a clear advantage if you have people who can speak the language and discuss

directly with the one making the decision. If you have someone with experience in the industry, who speaks Chinese, it will give you a lot.”

The suppliers used by Scandic Sourcing today are almost always very old established contacts where relations have existed for years. However, there are times when customers require innovations in their products when Lindén and his employees need to find a new supplier and he does then use his existing suppliers to recommend new suppliers. ”Naturally, contacts and recommendations are very important in these situations”. The employees at Scandic do also attend trade fairs but these are first and foremost today used as a way to sell services. It was however at these venues that Lindén found most of his existing suppliers during the company’s first 2 years.

Results

Big Bear Sourcing

When analysing the case of Big Bear Sourcing it becomes apparent that it is the local know-how and the experience of culture, language and importance of understanding differences that are essential to business operations of founder Björn Wetterström. In our analysis we will analyse the background leading up to the actual business opportunity as this is of the greatest interest to our research in how to overcome *liability of outsidership*. In this case it is the development of Big Bear Sourcing providing quality control and manufacturing services to the Slovakian buyer that we focus on. Looking at the very foundation of the opportunity it is traced back many years earlier to father Åke Wetterström’s experiences in Slovakia with a man who contacted him years later. This created the first proper business opportunity for Big Bear Sourcing. Putting this situation in light of the Karimi/Sinclair model it is consistent with our theory of an input into a business network which in turn leads up to a business opportunity. However, at the same time it is not certain that the father Åke Wetterström would have had the same opportunities as the son Björn Wetterström to take on the project as it is his flexibility in travelling to different factories and locations, speaking the language and understanding the cultural differences that is key to the daily operations. In light of this we wish to look at the case of Big Bear Sourcing from three different perspectives; Björn

Wetterström's, the Slovakian buyer's and Åke Wetterström's. By doing so we will recognize the network structures and relationships that have led up to the creation of the very business opportunity.

Looking at Björn Wetterström's perspective it can be concluded that he is part of a personal network where his father, via his existing contacts in both China and Slovakia, provides him a business opportunity. It is a scenario of the networks of the network. When testing the Big Bear case against Tolstoy's figure 6 it is not properly consistent with this reality as the opportunity is handed directly to Björn Wetterström via his personal networks. Instead, Tolstoy's model is much more in line with the Slovakian buyer's who is the one to identify, due to his business network reaching back 15 years, that there is an opportunity of having someone within his network on location in China. He contacts his old business partner Åke Wetterström who in turn hands over the project to Björn Wetterström. Out of a theoretical perspective there has been a current setup where quality has been poor. The Slovakian buyer has identified an opportunity in changing the situation and with this implemented it by handing over the responsibility of quality control management to Big Bear Sourcing. The outcome is that business creation has been performed along with a new setup where quality is high, in line with Tolstoy's figure 6 model and network knowledge combination model. The third perspective is the one of father where he is the "middle-man" or the networker, connecting two parties. As he is part of both a business network with the Slovakian buyer and a personal network with his son he has an opportunity to connect the two.

However, Björn Wetterström would not be able to assist the Slovakian buyer without manufacturing contacts inside China and to create these connections he makes sure to surround himself with people having wide networks to create "network of the network" effects. This is done on a highly personal level by playing golf with businessmen in the same line of business, which further emphasises our theory that it is people that create relationships and that this is done on a highly social and relaxed level. In this perspective Björn Wetterström is both part of a Personal network providing him with buyers and a business network providing him with manufacturers, in line with the Karimi/Sinclair model.

Harlequin Trade

Just like with Big Bear Sourcing, Harlequin has many years of experience in China and this, too, is the foundation of its operations. It was the know-how of the founder Hans Brefelt, his experiences and his networks in China that made the company possible. Looking at a difference compared to Big Bear Sourcing they are not themselves present in China to the same extent why the need for trust among all parties involved in daily business operations chains are even more important as a face-to-face contact only occurs a few times a year. Further, it is clearly stated by the employees at Harlequin that it is their vast experience, relationships and networks that makes it possible for them to conduct business the way they do in the same way there are these very factors that keep their clients away from being able to perform the same tasks themselves. This is even though they are brought along to trade fairs and factories to meet the manufacturers themselves etc. We recognize in our analysis that this shows that even if you are shown the very factory where your products are being made as a buyer, you will not be able to undertake the manufacturing yourself due to the relations that Harlequin already have with the factory at hand and its co-operations within this network. Putting the situation of Harlequin in light of the Karimi/Sinclair-model, Brefelt was part of a business network due to the company he was previously working for and this business network gave him the possibilities to conduct his own business. Being present in China more and more business networks were built and this has led up to given business opportunities in the form of Harlequin Trade.

A different approach in creating these manufacturing networks was taken by Harlequin compared to Big Bear too. Whilst Big Bear builds its manufacturing networks on a social level such as at the golf course and via older, established networks, Harlequin started out by attending trade fairs. These networks are today more than 30 years old and the employees inform that it is these relationships, built on trust, that makes it possible for them to trade as they need someone they can trust throughout the whole chain. Analysing this situation we recognize that it is people that stand behind these relationships, not companies as organizations. At an early stage Hans Brefelt made sure to become part of a business network, according to the Karimi/Sinclair model. Harlequin had a clear way of looking at business procedures when finding manufacturers and that was that a relationship, or *guanxi*, was established before purchasing was even considered. This idea is consistent with our

theoretical approach that networks based on trust have to be built before actual business is conducted and that these relationships are needed to move from outsidership to insidership. As explained, when Brefelt did not already have or could not find the input into a production network where he was an outsider himself he turned to the use of agents, already being part of a required network with the necessary contacts.

Summarizing our analysis on Harlequin Trade it was the founder's initial employment in a company already present in China that made Harlequin possible as he got to know the trade and establish networks and know-how. As he started Harlequin more business networks were built by attending trade fairs, which gave him an input with different manufacturers that in turn created business opportunities.

Scandic Sourcing

Scandic Sourcing, too, is a company that has the foundation of its operations in the experiences of its founder and in this case they go far back in Per Lindén's time at Swedish industry company Sandvik. It can be said that founder Per Lindén overcame the liability of outsidership during his time at Sandvik as it was this time that made him build local know how along with networks inside China. He therefore had a great advantage when he started his own operations and one of them was that existing contacts in Sandvik turned to him as they were looking for new suppliers, allowing Scandic Sourcing to start of. Even more obviously so it was Lindén's connections with the former engineer manager at Sandvik and the head of HR that opened him up to wider networks in a network-of-the-network manner. With centuries of experience in China of constructing industry equipment the engineer manager was part of both personal networks as well as business networks in China that Lindén could take advantage of. This was the reason as to why Scandic could differ itself from most sourcing companies as they started working with localized suppliers with more technically complicated products, still being manufactured in smaller quantities. In line with the Karimi/Sinclair-model Per had an input into a network, in turn connected to another network, that created business opportunity and even though the relationships had been established on the business scene they were highly personal and among people themselves. We conclude that this shows the very personal level that is required for companies to move from outsidership to insidership. In the given scenario the different parties do all have input into different networks and together they, due to relationships built on trust, create business opportunities.

Just like in the case of Harlequin, Scandic Sourcing did also build its networks via trade fairs during its first two years of operations. One of the company's many advantages today is that the employees are in China themselves and therefore have the local know how and can keep the face-to-face contact previously discussed in the case of Big Bear Sourcing. As Lindén has made sure to also employ Chinese residents, speaking Chinese, it has given the company further advantage in creating networks on site on both personal and business levels but also in a more easy way overcome liability of outsidership as we know it out of a theoretical perspective.

The case of Scandic Sourcing going the other way around and importing Swedish products to China and selling them there is of especial investigating importance. First, with the case of bottled water being sold in China, it shows how other networks, or networks based on coincidence, directly affect business opportunities. Second, it is of theoretical importance as the scenario of selling in China instead of buying is posing much greater difficulty according to Per Lindén. In our finding we have seen that, as a buyer, building networks and move towards insidership from being an outsider is quite possible but when you are selling, the situation is even more dependent on trust among parties. The very relationships are ways to risk minimize your purchasing and without these relationships you will have a difficult time bringing your product to the market. We conclude that this is in line with our theoretical approach on the importance of networks to overcome liability of outsidership.

Analysis

In our analysis we will look at the three different cases of Big Bear Sourcing, Scandic Sourcing and Harlequin Trade in a combined manner to draw conclusions on how liability of outsidership, in reality, has been overcome. We will look at parallels between the different cases to analyze similarities on how the gradual re-positioning from outsidership to insidership has been performed and put these factors in light of our theoretical framework in regard to our discussed models and hypothesis. We will finish with our conclusion stating what key points we have reached in our research.

Primarily, what we have seen in all three cases is that the business opportunities of the companies depend on the earlier experiences of its founders. Scandic Sourcing was founded because of the founder's long-term experiences and work in Asia that he had practiced over many years within the Sandvik Group, Harlequin Trade started as the founder left the company he had been working for in China for many years and hence had the experience to start his own business with a different business model and Big Bear Sourcing was the combined result of the years spent in China by a father who could pass the sourcing task on to his son, the son having himself lived in China for a number of years and being especially talented in mandarin and the cultural aspects of Chinese business. This shows us that not one of the companies was founded without experience and knowledge of the business arena in which they were to operate. In other words, they had already started their transition and were not complete outsiders as they launched their businesses but did instead have know-how of the market in which they were to set up business operations. We recognize this as a first step in the transition from outsidership to insidership.

The second similarity is that they all, apart from the initial know-how of the market along with experience in the field, did have important inputs leading up to the various different business opportunities. The input of Big Bear Sourcing could be traced back 15 years to a contact made at the time by father Åke Wetterström who gave the task to his son Björn Wetterström. The two did together already have a network of factories and relationships inside China and Björn Wetterström could now keep on building it via various forms of social interaction. Harlequin Trade took a different approach but did instead attend trade fairs 30 years ago to expand their network and did soon have a sufficient network to get their business up and running with relationships they still keep in good use today. For Per Lindén at Sandvik it was the contact at the Sandvik purchasing department that gave him the initial opportunity to go into sourcing and it was his relationships with the former engineering manager, the head of HR and his Chinese contact that provided him with vital contacts inside China. With a combination of 35 years of experience of industry work inside China from the engineering manager and a wide business network of Per Lindén's Chinese contact, Lindén had inputs into networks that allowed his business to take off.

We find that the question of outsidership is one of perception. In the same way as we do not believe that liability of outsidership can be said to have a clear, world-wide, definition the perception of whether or not you are an insider or an outsider yourself may be discussed. An

outsider believing he or she is an insider may act as such and an insider having the perception of being an outsider may act in the opposite way. With the initial step in the transitioning from outsidership to insidership being prior experience and know-how of the market we conclude that none of the companies were actual outsiders as they launched from the start. However, this type of initial insidership is limited in the sense that further relationships are needed to establish own business operations. As such, we recognize networking as the second step to overcome liability of outsidership. All three companies have emphasized the importance of these relationships that they work closely with. Björn Wetterström at Big Bear Sourcing stated: “You do not have to know the right people to do business, but it will be very helpful. Many of the companies that I do business with have been recommended to me by other people and the networks of the network are endless”. The employees at Harlequin Trade agreed saying that it is vital to have someone you trust in every part of the supply chain as you may otherwise run into serious problems and that it is this factor that will keep outsiders out as the time required is enough to keep you fully occupied. They also applied the rule of trust from the start as no business was conducted unless *guanxi* had been established. Per Lindén at Scandic Sourcing did, too, state: “Naturally, contacts and recommendations are very important in these types of situations”.

We can see in our research that it is these networks that are necessary to position yourself on the business scene in a foreign environment but how these relationships are established are highly erratic. That is because liability of outsidership does, too, have a different meaning and impact to different people and organizations. We do not believe that there can be a universal description of the term liability of outsidership as people are affected by it in different ways depending on past experiences, connections and sometimes coincidence. In the same way it has been shown that the ways in which liability of outsidership is overcome highly differs as well. In our research we have found examples of highly social interactions such as the golf course as the key input, to a more pure form of business contacts to trade fair connections. What we can establish by certainty, however, is that it is inputs that are crucial regardless of if it is with buyers, manufacturers, competitors or networks recommending you or informing you about possible business opportunities to overcome liability of outsidership. It diverges how these inputs are created and the aim of our research is not to focus on relationship building and knowledge transfer in regard to how to “make friends”, socially interact or create social networks as a base for business ventures as it is not our topic of study. As we are economists focusing on overcoming liability of outsidership out of a business perspective we

can simply observe that a vital part in the process is to create or make use of already existing inputs into essential networks.

Analysing the three different cases together in light of the already conducted theoretical framework and models we can establish that the three cases are consistent with the Karimi/Sinclair model in regard to the various forms of inputs in personal, business and other networks leading up to business opportunities. All three companies have experienced the gradual transition in overcoming liability of outsidership in various ways but we recognize that an essential part leading up to the outcome has been the very networks created by its founders and its employees, many times on a highly personal level where it is people interacting together to form different forms of networks.

Conclusion

Based on our separate analyses of our cases presented above as our results, in combination with our overall analysis in the previous section, we can conclude that the liability of outsidership is overcome as a result of inputs. These inputs offer a way into relevant business networks and thereby create business opportunities that would not have been possible without these inputs. In line with our hypothesis, the Karimi/Sinclair model, these inputs are created by already established contacts. These contacts originate from different established networks that we chose to divide into personal networks, business networks and other networks. Based on our research, we can conclude that our hypothesis hold fast. All three examined cases in this research had penetrated and established relevant positions in business networks core for their activities as a result of already established networks. Nevertheless, the inputs exposed in the different cases seem to origin from different networks, further underlining the division into personal, business and other networks of the Karimi/Sinclair model. We believe our results can be applied to other industries and markets as well, as we have conducted our research in a highly extreme context. That is, China in combination with the relationship-based industry of sourcing.

To further develop the questions of overcoming outsidership, suggested areas of further research might touch upon the sociological development of relationships, creating our

suggested networks. Also, suggested areas of research could present cases of unsuccessful internationalization cases, due to lack of relations and as such insidership.

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