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THE IMPORTANCE OF SOCIAL FACTORS FOR RAPID INTERNATIONALISATION – THE CASE OF A HIGH-TECH COMPANY

Summary: Network relationships are critical for companies' internationalisation processes and their importance is documented within research. However, it seems that insufficient attention has been paid to identifying the social variables that stand behind the process of rapid internationalisation. The purpose of this article is to indicate the social factors that shape relationships and their impact on the dynamics of the internationalisation process. To achieve this goal we analyse pertinent literature in order to clarify the relationships between rapid internationalisation and social variables. These findings allow us to conduct a case study of a small IT company located in Poland covering an eight year period during of its domestic and foreign relationships development. We focus on phases of rapid transformation from a purely local company to highly internationalised organisation. The key contribution of this paper is a detailed assessment of social variables and their role in the acceleration of the internationalisation process.

Keywords: internationalisation, rapid internationalisation, social, relationship, high-technology, case study.

Introduction¹

Network relationships are critical for companies' internationalisation processes, which is underlined by both the network model of internationalisation [Johanson and Mattsson, 1988] and the Uppsala model. Relationships are

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deemed to be a factor for the initiation of the internationalisation process as well as foreign market and mode selection [Johanson and Vahlne, 2009].

The importance of relationships is broadly underlined in numerous studies within the rapid or accelerated internationalisation [Kalinic and Forza, 2012]. “The real research question around networks should be «how do small firms develop and maintain those relationships that facilitate internationalisation? [Johanson, Vahlne, 2003]. This is particularly important in the case of rapidly internationalising entrepreneurial firms that may have no pre-existing networks and little or no experience of the international market (...)” [Loane and Bell, 2006, p. 479]. For this reason we examine in what way relationships and specifically the social variables which characterise them influence the acceleration of internationalisation. The relationships are characterised by the occurrence of both social and economic variables [Barry, Dion and Johnson, 2008, p. 115]. Social variables include trust, commitment, interpersonal contacts, shared norms and values, quality of communication, customer satisfaction [Richard, Huff and Thirkell, 2007]. Just as the importance of network relationships, including interpersonal relationships, is documented within research, it seems that insufficient attention is paid to the actual particular social variables that stand behind the process of rapid internationalisation. For this reason the aim of the article is to highlight the importance of social factors in shaping network relationships as well as their impact on the dynamics of the internationalisation process.

This issue was examined based upon the example of small Polish IT company and its transformation from a firm operating solely on the domestic market to a highly internationalised company. We selected an example from the high-tech industry as these companies are believed to be forced to be active on international scale.

1. Theoretical background

Rapid internationalisation

Rapid internationalisation applies to firms characterised as young and which “internationalise at an accelerated pace during the early stage of their development” [Bangara, Freeman and Schroder, 2012, p. 624]. In reality research into accelerated internationalisation [Kalinic and Forza, 2012] applies above all to companies born global and new international ventures [McDougall, Oviatt and Shrader, 2003]. Few studies in to rapid internationalisation include small

and medium enterprises thereby adopting a more holistic approach to the subject [Chandra, Styles and Wilkinson, 2012].

Speed is an important characteristic describing rapid internationalisation which in the case of most studies is treated as the time between company's setup and the moment when it begins operating on foreign markets. It should be noted that this definition of the tempo of internationalisation requires a researcher to focus on the pre-internationalisation phase and not on the presence and operation on foreign markets itself. In reality this is the tempo of initiating foreign operations and not the flow of the whole process. The important matter of post-entry speed of the process itself, when the firm is already present on foreign markets, is still addressed in only a few studies [Chetty, Johanson and Martín, 2014].

Among the factors influencing rapid internationalisation, the domestic market is underlined as being important as it is perceived as too small to achieve financial viability as are unique technologies [Freeman, Edwards and Schroder, 2006], the attitudinal orientations of senior management including specific strategic focus [Kalinic and Forza, 2012] as well as a strong commitment to the idea of internationalisation [Freeman, Edwards and Schroder, 2006].

The perspective which dominates is the one which acknowledges the importance of all types of networks and relationships for rapid internationalisation. An international network helps in "spotting the opportunities, establishing international relationships, and accessing information" [Kalinic and Forza, 2012, p. 696], filling the resource deficits including knowledge and funding [Loane and Bell, 2006].

The importance of intra-firm networks and partnerships with both suppliers and distribution partners are underlined within the subject literature [Bangara, Freeman and Schroder, 2012]. It is noted, however, that the personal contacts of managerial staff and social networks are also important [Loane and Bell, 2006]. Personal networks provide the basis for establishing partnerships and alliances [Freeman, Edwards and Schroder, 2006]. It is believed that "managers within the focal firm translate their micro personal links with managers in other firms into improved macro organisational performance, in this case international growth" [Loane and Bell, 2006, p. 479].

2. Social variables characterising network relationships

The development of inter-organisational relationships can be viewed on different levels of analysis. Firstly at an industry, then inter-organisational level, emphasising the management of the relationships portfolio, single, dyadic and finally at an interpersonal level.

At the most basic level, which is an interpersonal relationship, this phenomenon is treated as a result of individual interactions, which underline the social content of cooperation [Morgan, 2000]. The importance of social variables in relationships is especially significant in business-to-business studies and has been explored broadly in research [e.g. Wilson, 1995; Bolton, Smith and Wagner, 2003]. The most important social variables fostering development of relationships are trust, commitment, frequent interpersonal contacts, shared norms and values, quality of communication and customer satisfaction [Hausman, 2001; Richard, Huff and Thirkell, 2007]. Most academics confirm that “personal relationships and reputations between boundary-spanning members play an important role in facilitating and enhancing inter-organisational exchange” [Weitz and Jap, 1995, p. 316].

An important perspective in analysing the social variables of relationships development are interpersonal relationships which can be divided into three different types: “strictly business, business friends and personal” [Haytko, 2004]. There is a possibility of switching from one type of a relationship to another and usually it is from “business friends” to “personal”. In effect “becoming intensely personal with time and the building of knowledge base about the client through reciprocal self-disclosure and relationship-building strategies” [Haytko, 2004, p. 326].

Furthermore, when analysing the influence of social aspects of relationships, social bonding is of crucial importance [Weitz and Jap, 1995]. Social bonding is defined as “the degree of mutual personal friendship and liking” shared by two individuals [Wilson, 1995, p. 339]. The most important aspects of social bonding in business relationships are personal confidence, familiarity, friendship [Rodríguez and Wilson, 2002], feeling of acceptance, social interactivity, trust, personal contacts, liking and social reputation [Abosagand, Naude, 2007].

Of the above variables, trust can be seen as being of crucial importance, as it is an aggregate of other factors and is a determinant of a strong and successful relationship [Morgan and Hunt, 1994]. However, trust between actors is created over a longer time period and by consistent confirmation of both sides’ ability, reliability and integrity [Ellram, 1990]. These confirmations will appear when constant and detailed exchanges of information are developed which in turn reduces the uncertainty of operations and favours the building of commitment [Morgan and Hunt, 1994]. When subsequent transactions are completed with a mutual positive experience for both actors, the level of trust increases [Dwyer, Schurr and Oh, 1987] and over time, this leads to a better development of cooperative behaviour. Also a high level of trust within relationships reduces the perception of risk and opportunistic behaviour and decreases the transaction costs in an exchange [Ganeson, 1994].

3. Methodology of the study

In the article we analyse a case study of a small IT company in Poland – previously Gridia, now nSense Poland. An exploratory qualitative research method allows using the experience of people with regard to the analysed phenomenon [Bazeley, 2007].

Data was collected in Poland using semi-structured, in-depth, face-to-face and Skype interviews [Punch, 2005]. 3 detailed interviews were carried out with the CEO of an IT company in Poland, 1 with the COO of the company's internal customer (the COO of the Group located in Denmark) and 1 with the representative of the Poznan University of Technology. The analysed entities represented the only important, directly related actors in the IT company's network, as the company doesn't have suppliers other direct customers.

The interviews were carried out during the period from January till December 2014. Over 260 minutes of interviews were recorded and transcribed. After the fifth interview, we achieved data saturation, when no new or relevant information concerning the analysed process emerged.

The case study adopts the perspective of the focal Polish IT company, however, verified using information obtained from the other entities. For this reason, unless otherwise indicated, the quoted testimonials are made by CEO of the IT company.

4. Case study analysis

The IT company began its operations on the Polish market in 2006 as a two-person company name Gridia, and for two years it was operating as „purely domestic”. During this time the market was becoming increasingly competitive and the company was not able to deliver its assumed growth strategy.

An important step for from the further growth of the company was finding a first big customer on the Polish market – a branch of a Danish company. This was possible thanks to personal relationships („I have a friend [...] He said »I'll suggest you as a contact at our headquarters in Denmark, maybe they'll need something«”). The relationship with this acquired customer was of specific importance: “We became business friends with one of the company's managers which proposed that perhaps we could do something together. After a while he left the company and became our partner.” The partner had knowledge of the Danish IT market and had contacts there: “[...] our partner acquired customers. So he had local contacts and generated business, whilst we made sure deliver results.” Developing

a relationship with the Danish partner was crucial for Gridia's starting its internationalisation process as the company obtains foreign customers.

Most important customer acquired by the Danish partner was nSense Group. The nSense Group was founded in 2003 in Denmark and specialises in providing IT security services for the B2B market (penetration testing, vulnerability assessment, security consulting). The company's end-customers are medium/large enterprises and institutions, mainly from financial, insurance, ICT industries.

Acquiring the Danish customer dealing directly with security of IT systems required the Polish company to take various steps. "Generally these are very sensitive issues which are not usually outsourced. This required several trips and face-to-face discussions to make contact and to become sure that they could commission us to this type of work". Initially the cooperation was typically business related and concentrates on testing skills. Completing trial orders were checked in extreme detail in terms of quality. After confirming the high quality of services which were also delivered at a low cost, there was a gradual expansion of the profile of the orders as well as an increase in trust between representatives. It was during this phase that the business friendship between nSense and Gridia appeared.

„After a period of great cooperation we began discussing with our counterparties to create one company". The negotiations were not straight-forward and they lasted a relatively long time. Aside from strictly business issues, strong informal interpersonal relationships were quickly formed ("we quickly became friends with nSense's management"). A favourable atmosphere, good communication as well as cohesion in terms of the values adopted by both sides led to the strengthening of the relationship ("Due to the fact that the atmosphere in the company [...] this is something which means that we really wanted to be a part of this").

In 2010 the nSense management board took the decision to create nSense Poland S.A. which became a new entity in the nSense Group („we merged with our customer, however, let's not confuse this with an acquisition, because we were not actually bought"). Joining the group meant that Gridia had to formally cease trading. To the new entity everyone, including the employees, was transferred. The Polish owners have stakes in Denmark and not Poland. One of the nSense Poland's important assets within the group is its cooperation with the Poznan University of Technology that enables informal recruit of new employees. Hence the relationship with the PTU within the local market translates into economic factors further determining the rapid internationalisation of the company.

Currently, the nSense Group is made up of several branches located in Finland, Denmark and Poland, which together employ over 50 people (as of December 2014). It can be assumed that from this moment the Polish IT company became „highly internationalised".

A strong relationship has developed between nSense Poland and the other members of the Group, characterised by well-developed social variables. Many relationships between senior management of the Group are quite intimate and informal which in turn means that they can be treated as either a „personal” or “business” friendship. Thanks to the existence of a favourable atmosphere, the consistency in standards and values as well as objectives, nSense Poland together with the entire Group were able to concentrate on their mutual development. There was a focus on improving the efficiency of individual department’s resources, coordination and internal communication. These activities were important due to the specific nature and value of the Polish branch which differs from the other branches in terms of its significant cost advantages, the ability to acquire new human resources and its rapid development. As stated by the COO of the nSense Group: “within the last year, the whole relationship has changed however. Now the Polish team has grown [...] that they are also adding a lot of extra value added [...]”.

Conclusions

The analysed company is an example of the development of rapid internationalisation. Over the course of four years, the company transformed from serving local customers to being part of an international group with only foreign, internal customers.

Whilst analysing the rapid internationalisation of the Polish IT Company, it should be noted that this is not a born global company. In fact the company was created as a “purely domestic” company. It was a coincidence as well as a strong ability to take advantage of market opportunities and social networks, along with knowledge and technical competencies which allowed the company to begin operating on the international market. The company is therefore an example of an entity which went through a phase of rapid internationalisation immediately after setting up its operations. Particularly important from the perspective of the aim of the article is the analysis of social variables and their influence on the rapid internationalisation process (see table 1). In the table below, social variables that are causative for the development of the internationalisation process are indicated marked with an „X”. These variables are categorised starting from factors applying to the whole organisation to those relevant for relationships at an individual (personal) level. Furthermore, by marking **in bold**, we emphasise the dominant factors responsible for the acceleration of the internationalisation process.

Table 1. Social variables as factors accelerating the process of internationalization in the IT company

Development phase in the internationalisation process	Variables impacting internationalisation						
	Organizational variables			Personal variables			
	quality of communication	shared norms and values	commitment	mutual satisfaction	interpersonal contacts	trust	social bonding
Establishing contacts with the future Danish partner on the Polish market, who facilitated the initiation of the internationalisation.					x	x	X
	Thanks to an interpersonal relationship between the Danish partner and the management of Gridia, it was possible to gain access to the foreign market and new customers [Harris and Wheeler, 2005]. Also as a result recommendations and transactions guaranteeing were given throughout the network members [Burt, 1997].						
Internationalisation – outsourcing of services to foreign customer (nSense Group). This phase focuses on setting terms of cooperation and assessment of both parties competence.	quality of communication	shared norms and values	commitment	mutual satisfaction	interpersonal contacts	trust	social bonding
	x			x			
Key success factors were economic variables including competitive prices, a high level of professionalism and service quality. Consistent confirmation of quality created mutual satisfaction between partners. These also reduced transaction and information-acquisition costs [Peng, Lee and Wang, 2005] as well as uncertainty [Zain and Ng, 2006] during entry on to a foreign market.							
Relationship building with foreign nSense Group. After cooperation with many other foreign entities, company focused on most beneficial actor – nSense Group. This allows acceleration from being a “purely local” to “highly internationalised” company.	quality of communication	shared norms and values	commitment	mutual satisfaction	interpersonal contacts	trust	social bonding
		x	x	x		x	x
An important issue in this phase was the adjustment and development of both parties resources needed for further internationalisation. There were two major activities: transfer of knowledge and know-how as well as the rapid growth of employment of highly qualified specialists [Zhu, Hitt and Tihanyi, 2006]. These operations were mutually beneficial and contributed to achieving satisfaction and strengthening commitment [Richard, Huff and Thirkell, 2007].							
Being fully internationalised (100% of production is exported) and focusing on relationship development within nSense Group and with final foreign customers.	quality of communication	shared norms and values	commitment	mutual satisfaction	interpersonal contacts	trust	social bonding
	x	x	x	x	x	x	x
Due to existence of strong social variables between individuals from different branches of the nSense Group, the company was able to focus on improving efficiency of resource utilisation, coordination of activities and internal communication [Ratajczak-Mrozek, 2014].							

Source: Own elaboration.

An assessment of the whole process shows that the tempo of internationalisation was determined by the ability to derive business opportunities resulting from social relationships. However, economic factors constitute a solid basis and a necessary condition without which relationships and their development would not occur. Economic factors were especially important at the beginning of the internationalisation process. The quality of the services provided and the possession of unique knowledge were obligatory conditions. In this respect, it was crucial for both social and economic variables to coexist as was their dynamic and systematic development.

However, social variables constituted a milestone in the internationalisation process and accelerated its course. At a pre-internationalisation stage the development of social variables at an interpersonal level played a key role. These included interpersonal contacts, social bonding and trust. With time and as a result of the development of relationships there was a further growth in the level of trust and commitment. Such a rapid internationalisation was the result of “definitely non-business issues – trust and interpersonal aspects were crucial”. In the final phase of the internationalisation the relationships were increasingly more dependent on social variables which blossomed throughout the whole organisation (nSense Group) rather than only at the level of specific individuals. The systematic development of mutual norms and values as well as ensuring effective communication between individual branches of the group became more important. In turn this allowed the organisation to increase efficiency at an international level and created prospects for its further growth.

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ROLA CZYNNIKÓW SPOŁECZNYCH W PRZYSPIESZENIU PROCESU INTERNACJONALIZACJI – PRZYPADEK FIRMY HIGH-TECH

Streszczenie: Relacje biznesowe mają kluczowe znaczenie dla przebiegu procesu internacjonalizacji, a związek ten stanowi przedmiot licznych badań. Jednakże wciąż istnieje luka poznawcza odnosząca się do wpływu czynników społecznych na przyspieszenie procesu internacjonalizacji. Celem artykułu jest ocena czynników społecznych pod kątem ich oddziaływania na przebieg i tempo procesu internacjonalizacji. Po dokonaniu przeglądu literatury badane zależności zostały opisane na podstawie studium przypadku małej polskiej firmy z branży IT, obejmującego okres ośmiu lat rozwoju od relacji wyłącznie o zasięgu krajowym aż po wysoki poziom umiędzynarodowienia.

Słowa kluczowe: internacjonalizacja, szybka internacjonalizacja, relacje społeczne, high-tech, studium przypadku.