MARKET LINKING AND MARKET LEARNING:

SOCIAL NETWORKS IN SMEs' INTERNATIONALIZATION.

Abstract:

This paper follows a longitudinal perspective to explore how social networks influence market linking and market learning patterns, as well as their inter-action.

Social networks were found to play important linking roles, providing the firms with an instrument for international expansion. It was found that these may be used as market-sensing tools, allowing relationships previously used for market linking to become drivers for market learning. The paper contributes to behavioural approaches on internationalization and, more specifically, to the argument that social networks play a key role in SMEs' internationalization, linking them to new markets and providing the instruments for learning about those markets deemed to be relevant. In particular, the paper offers two contributions to the behavioural literature on internationalization: (1) after entering new foreign markets, relationships previously used for market linking may become drivers for market learning; and (2) at a later stage, as the SME intends to deepen its international market learning, the recourse to the same relationship for both market linking and market learning may become impossible.

Keywords: social networks, internationalization, market linking, market learning

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INTRODUCTION

The network perspective has gained an increasing relevance in international business studies. In today's rapidly evolving and challenging economic environment, network-like governance approaches are often envisaged as better suited than more traditional, hierarchy-based, forms (Snow, Miles and Coleman, 1992; Nohria and Ghoshal, 1997; Törnroos, 2002). Multinational firms are conceptualised as integrated (Bartlett and Ghoshal, 1987) as well as differentiated (Nohria and Ghoshal, 1997) networks. Their business units act as specialised entities coordinating activities in shared knowledge and decision-taking organisational contexts. The concept of business networks has been used by the IMP tradition to portray the type of inter-firm relationships dominant in international industrial markets; such networks may take the form of activity chains, encompassing manufacturers, intermediaries and end-customers (Hakansson and Snehota, 1995). More recently, Hagel and Seely-Brown (2005) introduced the concept of process networks to express the coordination of activities across multiple tiers of companies within a business process.

However, although these approaches recognize the importance of social interaction for business success, they model relationships not as specific to individuals, but rather as formalised within particular business units or departments in the firm or firms concerned (Harris and Wheeler, 2005). If this view may be acceptable when dealing with large firms, it may not be suitable to depict the specific features of networking in small business internationalisation. In this case businesses often rely on a wider network, a social one, where the manager's experience and his or her social ties facilitate the internationalization process (Chetty and Blankenburg-Holm, 2000; Ellis, 2000).

In fact, international business literature has underlined the important role played by managers' social ties in SMEs' internationalization (Ellis, 2000; Johanson and Vahlne, 2003 and 2006; Andersen, 2006). Extant literature recognizes small firms' specificities, and addresses SMEs peculiar power structures and decision processes. The roles of the manager, founder and entrepreneur overlap presenting blurred boundaries (McGaughey, Welch and Welch, 1997; Ellis and Pecotich, 2001; Zain and Ng, 2006). Boter and Holmquist (1996) depict small firms as having reduced organizational structures, both vertically and horizontally, and strongly depending on the manager's personality. Concurrently with its flat structure, the lack of functional resources steer these firms towards the use of more focused and flexible internationalization approaches (Li, Li and Dalgic, 2004). Hence, managers rely on existing social ties, which provide trust and reliability and allow coping with market uncertainty, while reducing information costs (Wong and Ellis, 2002). Social networks not only frame how individuals perceive new opportunities (Arenius and Clercq, 2005), namely the international reality (McDougall *et al*, 1994; Mathews and Zander, 2007), but also act as credibility providers (Dominguinhos and Simões, 2005; Komulainen, Mainela and Tähtinen, 2006). Furthermore, manager's social networks are an important instrument for resource access (Jenssen and Koening, 2002), namely market knowledge (Agndal and Chetty, 2005).

The present paper is focussed on the role of social networks in market entry and development. Social networks facilitate **market linking**, that is the extension of firm's international market scope: they provide references that may be mobilised by small firms to reduce the perceived risks of venturing into an unknown territory (Welch, 1996; McGaughey, Welch and Welch, 1997; Ellis and Pecotich, 2001) ; they enable controlled experiments in distant but culturally similar market environments (Björkman and Köck, 1995; Coviello and Macauley, 1999; Câmara and Simões, 2006;) ; and they may lead to the reactivation of "relationship sediments" to explore new markets (Agndal and Axelsson, 2002). But social networks may also foster **market learning**, that is the development of specific knowledge about particular markets, to better understand customers' preferences, competitors' moves, suppliers' capabilities and environmental opportunities and challenges (Illia, 2003; Harris and Wheeler, 2005). Experiential market learning involves namely: (1) the deepening of knowledge about customers, (2) the understanding and responsiveness to rules, norms, values and government decision-making process in foreign locations, and (3) the firm's development of capabilities to engage and to gather resources for international operations.

Adopting a longitudinal perspective of small firms' internationalisation and taking into account the process of relationship learning (Johansson and Vahlne, 2003 and 2006), the paper is aimed at understanding how social networks influence market linking and market learning patterns, as well as their inter-action. The influence of social networks in such strategies will be assessed for both early and later stages of international development, as to each stage will correspond different knowledge endowment and distinct social networks maturations (Dominguinhos and Simões, 2005; Harris and Wheeler, 2005; Câmara and Simões, 2006). The analysis will be based on the study of four exporting SMEs.

The paper includes five sections, excluding the present introduction. The first section discusses how social networks are used for market linking and learning. Methodological issues, including the choice of the case study method, are addressed in section two. Subsequently, the case studies are presented: a brief overview of each firm and a longitudinal perspective of its international involvement are developed in section three. The main findings are discussed in section four. In the final section, the conclusions and issues for further research are presented.

MARKET LINKING AND LEARNING IN INTERNATIONALISATION PROCESSES

Johanson and Vahlne (2003 and 2006) argue that relationship commitment is a central driver in SMEs internationalization processes. In contrast to their original stance (Johanson and Vahlne, 1977), they suggest that nowadays the deployment of relationships is more relevant than country psychic distance in shaping the geographic pattern of SMEs internationalisation. This argument leads to put the focus on the nature of the ties connecting actors. According to Adler and Kwon (2002), internationalization may be a "bonding" or a "bridging" process, calling the attention to both the quality (Coleman, 1988) and the quantity (Burt, 2000) of available ties, and their consequences in terms of outcome. In fact, Granovetter (1973) points out that the way ties are used differs according to their nature or, in other words, according to their strength. While week ties enable to access new information and link social clusters otherwise disconnected, strong ties provide redundant information and the deepening of existing learning trajectories. In the international context, whilst week ties are used in the process of search and detection of new partners, and business opportunities, strong ties provide a sounder basis for final partner selection and cooperation (Wong and Ellis, 2002; Rangan, 2000). This perspective has close connections to the rationale behind the concepts of market linking and market learning introduced in the previous section. Market linking is to a large extent undertaken through the mobilisation of weak links, while strong links appear to be instrumental for market learning. Behavioural international business literature stresses the importance of building harmonious relationships with overseas customers as an instrument for international growth (Leonidas, Katsikeas and Hadjimarcou, 2002). Similar views stem from the IMP tradition, underlining the advantages of good buyer-seller relationships (Ford, 1980, Håkansson and Snehota, 1995).

It is therefore consensual that both market linking and market learning are essential to foster SMEs' internationalisation. The question remains, however, on the mix of the recourse to those approaches. In many instances the firm is faced with options regarding such mix, for instance due to the sheer costs of keeping relationships alive or as a consequence of changes in the competitive environment (Hakanson and Snehota, 1995). Harris and Wheeler (2005) highlight the important strategic roles of inter-personal relationships in internationalization as well as the operationally functional roles of linking new markets and learning about them. While sharing the same view, it is argued that the option is better understood taking a longitudinal perspective of SMEs internationalisation process. For this reason, a distinction between different internationalisation stages will be considered for hypotheses development.

Early Stage

In the initial stage of international development, firms often lack international experiential knowledge. However, this type of knowledge is essential to allow the firm to establish close market contacts and to improve the performance of foreign operations (Hunt and Morgan, 1995). In the absence of such knowledge, the likelihood of failure could be very high (Erramilli, 1991).

Not surprisingly, traditional internationalization approaches indicate that in the early phases of the internationalization process, firms tend to prefer entry modes without investment, gradually moving to other more sophisticated, resource-demanding, entry modes (Johanson and Vahlne, 1977, 1990). According to Uppsala's model, commitment and market learning will contribute to decrease the perception of psychic distance and uncertainty, leading to a virtuous cycle of increased learning and commitment to the markets concerned (Johanson and Vahlne, 1977). Subsequently these authors (Johanson and Vahlne, 1990, 2003 and 2006) have underlined the role played by relationship learning in this pattern. Likewise, Chetty and Patterson (2002) argued that the uncertainty brought up by psychic distance may be reduced by means of inter-firm cooperation. Such cooperation can also ease the access to resources otherwise unavailable (Jenssen and Koening, 2002) and further promote the interaction between firms. Interaction can foster the development of inter- personal ties, strengthening social networks between those involved in the international process.

Indeed, operating through a network offers multiple advantages. As an example, the coordination of activities between buyer and seller can open the door to new markets (Johanson and Mattsson, 1988; Chetty and Campbell-Hunt, 2000; Komulainen, Mainela and Tahtinen, 2006). Other advantages may include the access to market knowledge, risk reduction or scale economies (Li, 2001). Social networks can also provide valuable information and motivation to enter new international markets (Korhonen, Luostarinen and

Welch, 1996; Ellis, 2000; Andersen, 2006). Actually, when a firm enters a new foreign market, it may lack specific knowledge and financial resources to establish its own distribution chain (Eriksson, Johanson and Majkgard, 1997; Coviello and Munro, 1997). Relying on others to access foreign markets, allows firms to mitigate resources scarcity, to focus on the activities they are best at, while acquiring new knowledge and capabilities (Achrol and Kotler, 1999). Due to this division of labour, implying a smaller number of activities and thus requiring less financial resources, firms become less vulnerable to market instability, reducing the risk of loss (Miller, 1992). Furthermore, division of labour, while allowing firms to focus on a particular activity, facilitates deeper learning and enables "dynamic specialisation" (Hagel and Seely-Brown, 2005). Networks flexibility allow firms to shape the organization on the basis of business core tasks, quickly responding to market changes (Johnston and Lawrence, 1988; Hakansson and Johanson, 1992), thereby providing a buffer against market turbulence (Achrol and Kotler, 1999).

To sum up, and as previously discussed, social networks may facilitate and drive SMEs' internationalization in three ways: information benefits, legitimacy and actor mobilisation.

Hence, international business literature points out that the search for new markets and resources can influence relationships' development (Buckley and Casson, 1988). These may be envisaged as linking devices, allowing the firm to gain access to new markets (Agndal and Axelsson, 2002; Harris and Wheeler, 2005; Andersen, 2006).

Social Networks and Market Linking

Internationalization is a complex decision for SME's due to the variety of available options and the risks it entails (Zain and Ng, 2006). To carry it out, firms rely on relationships with customers, suppliers and other stakeholders, which can influence and support such decisions (Bell, 1995). Export-support organizations and even competitors can be an extremely important source of information for the internationalizing firm (Chetty and Blankenburg-Holm, 2000).

By pointing out market opportunities and providing the means of entry (Coviello and Munro, 1997), partners set up bridges between, otherwise disconnected, parties. This comes in line with Burt's (2000) structural holes theory and with the findings of international business literature on the importance of third parties mediating role to link international partners (Li, 2001; Ellis, 2003; Havila, Johanson and Thilenius, 2004). The contacts between individuals typically extend beyond the boundaries of formal company links, for which reason key individuals may play a central role in establishing, maintaining and developing networks (Welch and Welch, 1993 and 1995; McGaughey, Welch and Welch, 1997).

In the SMEs setting, where the entrepreneur typically centralises marketing (and, thereby, export) functions, these connections are fundamental for the establishment of social ties (Jack, 2005; Welch, 1996). Entrepreneurs' social ties enable the creation of social capital (Nahapiet and Ghoshal, 1998) while exposing the firm to events and opportunities, which can materialize in the carrying out of international businesses in the markets concerned (Andersen, 2006). Entrepreneurs' relationships are often characterised by richness of content, fast mobilisation and geographical reach, corresponding to what Agndal and Axelsson (2002) call the firm's opportunity network.

Mutual trust built between partners allows that initial relationships open the doors to new opportunities, with the actual partners providing business information and introducing would-be partners (Ellis, 2000; Komulainen, Mainela e Tahtinen, 2006). Furthermore, not only can social relationships help in the identification of potential buyers (Bjorkman and Kock, 1995) but also ease the international entry, as they provide access to additional relationships (Welch, 1992) and resources (Boissevain, 1974).

In this line of thought, Agndal and Chetty (2005) confirm the importance of social relationships in SMEs strategic options for the process of choosing and entering international markets. This importance materialize in the legitimation provided by social ties (Ellis, 2000; Komulainen, Mainela and Tahtinen, 2006), in the allay they offer to the burden of operational tasks (McGaughey, Welch and Welch, 1997) or even in easing up resource access (Jenssen, and Koening, 2002; Câmara, 2006; Câmara e Simões, 2006). Such setting is especially relevant for the internationally inexperienced firms, whose resource endowment and experiential knowledge are particularly weak (Erramilli, 1991; Leonidas, Katsikeas and Hadjimarcou, 2002).

The literature revision carried out above leads to the following proposition:

*Proposition 1****: At their early internationalization stage, SMEs rely on social networks as an instrument to link to foreign markets.***

Later Stage

Interaction is the basis of any relationship. According to the social exchange theory, interaction is defined as a process of continuous connections and associations between actors that, in turn, creates the motivation to new interactions along time (Cook and Emerson, 1978).

Specifically in the internationalization context, Hakansson and Snehota (1995) claim that interactions between individuals put together the bridges that, in a later stage, deepen the relationships between firms. These relationships may result in an intricate combination of bonds, both at individual and collective levels. This circumstance underlines the importance of the quality of the links, referring to the bonding effect in Coleman’s (1988) terminology. Bonds set up by individuals impact the quality of future interactions, while developing as a result of interactions.

Interactions encompass three processes: exchange, coordination and adaptation (Moller and Wilson, 1985; Johanson and Mattsson, 1988). Exchange is the core of interaction, where resources like production goods, capital, and technological, organisational and marketing information and knowledge are transferred or shared for the benefit of both parties. Exchange processes refer to episodes comprising the transfer of value between two parties. In more enduring relationships, the actors do not usually focus on just one single deal. Instead, they seek out for potential ways to develop the relationship on a long-term basis. The term relational exchange refers to interlinked exchange episodes embedded into interactive relationships, characterized by economic, social, legal, technical, informational and procedural bonds.

Coordination arises from the division of labour within networks, meaning that firms are dependent on each other, calling for ways by which the interacting organizations match their actions and decisions in order to achieve the expected benefits from the business relationship. Such processes include decisions on the terms of exchange between participant parties, norms and procedures concerning how the exchange processes are to be carried out, and unplanned responses to conflicts and relevant environmental changes. Adaptation takes place from the need of undertaking adjustments between interdependent firms, while strengthening the bonds between them. Adaptations may be needed in the elements exchanged or in the process of exchange, for example in products or services, in financial arrangements, and in information routines or social relations.

As relational exchange is largely governed by the structural elements of a business relationship rather than by open market forces, it can involve the sharing or transfer of social, economic or psychological goods or a combination of them (Bagozzi, 1974; Granovetter, 1985; Coleman, 1988). Actually, Håkansson (1982) points out that exchange processes between selling and buying firms are not faceless but do take place within an emotional context or “atmosphere”. Leonidas, Katsikeas, and Hadjimarcou, (2002) claim that the nature of such “atmosphere” becomes even more critical in the case of international business activities, as interaction takes place among people with different backgrounds, cultures and expectations. The attributes characterizing the international business atmosphere focus on feelings about the relationship and emphasize actions taken within the relationship. Trust, understanding, dependence, uncertainty, distance or adaptation, communication, commitment, conflict and cooperation are features of such emotional context.

Trust is an essential element for enduring relationships (Dwyer et al, 1987) as each part believes that the other part will not take deliberate measures to damage the partner. Trust performs a key role in the relationship development as it refers to the attitudes and predictability of the partners involved. In this vein, commitment complements trust, leading partners to believe that the relationship will continue over time (Dwyer et al, 1987). Conceivably, commitment develops along time as parties incrementally invest in the relationship, thus strengthening the bonds among them (Ford, 1980).

In the international environment, commitment is a driver to learning. Due to relationship commitment, the development of routines, systems of meaning and shared languages, which foster knowledge creation and opportunity development, can take place (Johanson and Vahlne, 2006). As time passes, relationship amongst members of the involved firms becomes a key resource for international value creation, providing support to the view of learning as a social and relational practice (Dyer and Singh, 1998; Brown and Duguid, 1991, 2001). Accordingly, social practice allows partners to deepen their knowledge about the markets concerned (Harris and Wheeler, 2005).

Social Networks and Market Learning

According to Eriksson, Majkgard and Sharma (2000), at a later stage of their international processes, firms can benefit from three types of experiential learning: business, institutional and internationalisation-specific. While business learning enables the deepening of knowledge about customers, competitors, operational activities and business conditions in the relevant foreign locations, institutional learning relates to the understanding of, and responsiveness to, the rules, norms, values and government decision-making approaches prevailing in those foreign locations. Ultimately, internationalisation-specific knowledge is associated to enhancing firms' capabilities to engage in and to raise resources required for international operations. Extant internationalization literature points out both relationship-specific (Merriles, Tiessen and Miller, 2001; Leonidas, Katsikeas and Hadjimarcou, 2002) and strategy-specific (Harris and Wheeler, 2005) reasons for carrying out such learning processes.

Therefore, at a later stage of international development, social relationships role is not limited to market linking, that is, to the extension of firms' international business geographical scope. They may also be used as a market-sensing tool (Li, 2001). In other words, social networks may be envisaged not only as an instrument to amplify the geographic reach of firm's contacts, creating bridges to foreign costumers, but also as an instrument to better understand foreign markets and the idiosyncratic features of undertaking operations there. Relationships formerly used to enter new foreign markets are now mobilised to enable learning about market characteristics.

Accordingly, the following proposition is introduced:

Proposition 2: ***After entering new foreign markets, relationships previously used for market linking may become drivers for market learning.***

Relational quality has been mentioned as an important requirement for performance, not just for strategic alliances (Ariño and De la Torre, 1998) but also for international business in general (Leonidas, Katsikeas, and Hadjimarcou, 2002; Johanson e Vahlne, 2006). In fact, both the industrial networks and the social networks approaches to international business point out good and harmonious relationships between buyer and seller (Hakansson and Snehota, 1995) or social partners (Ellis, 2000; Ellis and Pecotich, 2001) as crucial to internationalization's success.

It should be recognised, however, that networking also has its potential negative side. Actually, social structure may present either positive or constraining influence on the development of relationships (Yamagishi, Gillmore and Cook, 1988). The ability to keep an "open-minded inquiry" approach praised by Day (1994), collecting and checking information from several sources on multiple dimensions, may not be compatible with stronger relationship development, since some relationships may me destructive or convey some restrictions. Existing relationships may hinder the establishment of new relationships or may limit the span of accessible partners. Relationships convey norms, either explicit or implicit, moral and social obligations and even expectations. If not taken into account, they can damage the relationship, leading to internal network tension (Jack, 2005). As Presutti, Boari and Fratocchi (2007) conclude, the creation of strong ties between specific actors can reduce exposure to other actors.

In some instances strong relationships may generate dependence, not interdependence. The literature on alliances has shown that the division of labour within the alliance may lead to imbalances in sharing the benefits stemming from the cooperation (Doz and Hamel, 1998).

Similar findings have been mentioned in the case of licensing relationships (Killing, 1975; Atamer, 1983). The literature on buyer-seller relationships has also pointed out that dependence situations may emerge (Dwyer, Schurr and Oh, 1987; Håkansson and Snehota, 1995). The risk of tensions increases when the junior partner has a learning intent (Hamel, 1991; Das and Teng, 2000 and 2002). In SMEs internationalisation, situations occur where business opportunities may be better dealt by an intermediary (Ellis, 2003; Havila, 1996; Havila and Thilenius, 2004), strategically positioned to fill the structural hole between the partners (Burt, 1992 and 2000). When those SMEs wish to deepen their market learning, they may face the opposition of the intermediaries. Tensions may develop and the conflict may not be easily accommodated in the context of the existing relationship. As a result, firms' objectives of undertaking a harmonious relationship and of strengthening market learning may become contradictory.

Therefore, we suggest the following:

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

METHOD

The three propositions will be empirically analysed through the study of the internationalization process of four Azores islands[1]-based firms, specifically on their approach to foreign markets. Before setting about the case studies, a justification of the method used is presented.

Due to its singular property of supplying new perspectives and theories, the qualitative methods have a vast tradition in international businesses (Marschan-Piekkari and Welch, 2004). Within the scope of these methods, we have the case study method (Eisenhardt, 1989; Yin, 2003) which was used in this paper in order to gain a deeper understanding of the internationalization process of the selected firms. In the cases under study, we aim to understand how and why (Yin, 2003) social networks were used to provide different market approaches strategies and which reasons (Ghauri, 2004) led to differentiated decisions. As this is a relatively under researched subject, the case study method is particularly useful (Ghauri, 2004). In addition, it follows the claims of bringing new realities for the study of the small

[1] The Azores Islands are an autonomous Portuguese archipelago in the North Atlantic, some 900 miles from the European mainland.

firms (Perren and Ram, 2004), namely through the integration of diverse theoretical approaches (Dunning, 1989; Coviello and McAuley, 1999).

Multiple cases were used, as such option is pointed as possessing theory building properties (Eisenhardt, 1989; Merrilees and Tiessen, 1999; Yin, 2003) making it possible to study common values (Eisenhardt, 1989). On the other hand, the use of multiple cases diminishes the risk of fortuitous associations (Eisenhardt, 1989). Each company was chosen in replication logic, without the intention of statistic representation of the population under study, having in mind the circumstance that they could contribute for the theoretical replication (Yin, 2003). Therefore, the results obtained can only be used for theoretical generalization.

The choice of the studied units fell over exporting firms, who even so are in different levels of international involvement. However, they had in common the particularity of actively pursuing the internationalization process (export). Such situation results in one fabric of analysis characterized by different export intensities, varying between 5% and 50% over firm's turnover. The choice of firms with the enunciated characteristics allows the comparison between different strategies, and, consequently to study the reasons under such differentiation. According to Pettigrew (1990), the study of extreme situations allows the subjects of interest to emerge easier. Hence, the author recommends the choice of polar cases that resulted in levels of differentiated performance allowing surpassing the limitations of the relative comparisons.

Data was collected through in-depth, semi-structured, personal interviews with the firm owners or their representatives. Using interviews, helps gathering detailed information, of variable content, showing the world on the respondents' perspective (Patton, 1990). Interviews took place between 2005 and 2006, lasted between one and two hours and were tape recorded, allowing their transcription and later analysis. Though in a short period of time, the carrying out of two interviews enables to better follow the development of the firms as well as to obtain additional information. A short version of the case study was forwarded to the firms' managers. Triangulation of information was difficult having in mind the specificity of qualitative data collected and the lack access to foreign partners. Nevertheless, triangulation with publicly available information, namely that published in the local press, available on the firms' sites, and administrative data was undertaken. Content analysis of the interview data and documentation were based on the cases narratives and structured following the two stages of the internationalization process, early and later stage, according to the literature review.

THE CASES STUDIED

A perspective of the cases studied will be undertaken in this section. A comparative summary of the key information on the firms is provided on Table 1. The presentation of the individual cases will follow. A brief overview of each firm and business characteristics is provided and a longitudinal perspective of its international involvement and internationalisation process is developed.

Firm	CASE 1	CASE 2	CASE 3	CASE 4
Founded	1983	2001	1995*	1993
Export initiation date	1983	2002	1996	2001
Main Product	Fresh fish	Cheese	Canned tuna fish	Flowers
Number of employess	11	11	109	11
Turnover (Million Euros)	8.5 M	0.5	5	1
Export destinations	USA, Canada, Spain, Japan, Italy, U.K., France and Switzerland	USA and Canada	Italy, USA Canada, Netherlands and China	Netherlands
Exports (%)	30 to 40%	10%	50%	13%

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

Table 1- Basic information on firms' characteristics

CASE 1

The firm was founded with the intent to commercialize Azorean fresh fish in the local market. Firm's founder relied on the help of close friends to gather the necessary financial resources for the company's set up. The firm has its headquarters at São Miguel Island, though reaching all the archipelago's islands. On the remaining eight islands, the firm uses commissionists that buy, prepare and whenever possible, dispatch the fresh fish to the final customer, according to central office's instructions.

The firm accounts for 60% of the total fresh fish business at the Azores Islands[2], supplying both local and international customers.

Firm founder was committed to export and actively engaged in identifying potential customers abroad. In this process, he received an inquiry from a prospective North American

[2] As of June, 2006.

customer, an Azorean emigrant living at the U.S.A. The inquiry led to launching exports towards this country. Just after that event, the firm received an order from a Spanish fresh fish importer, and also started export to Spain. This customer was also a long time acquaintance of the Azorean firm founder. The remaining export markets were entered via existing customers' information and referrals.

Relationship with customers seems to be characterized by a high level of trust and tacit understanding, including the development of a shared language, built up by many years of mutual interaction and coordination. Firm strategy is based on both the Azorean fresh fish high quality and costumer's positive association to its clean, unpolluted origin.

In 1995 the firm became a partnership between its founder, his wife and his two sons. At present, the export process is predominantly managed by one of the founder's sons.

CASE 2

When the firm was founded, the aim was to produce cheese and to commercialize it in the Portuguese mainland market. The firm founder had a long experience of cheese production as he worked, for about ten years, as production director at a major local firm.

Shortly after its creation, the firm developed distinct cheeses, both in flavour and appearance, aiming top quality products to delight demanding costumers. However, commercialization in the envisaged market did not perform as projected, and the entrepreneur started to look for new markets. The USA and Canada came as targets, taking into consideration the large immigrant Azorean community living in those countries. When the firm owner got a visit from a friend, living at the USA, this friend, knowing the entrepreneur's wish to sell abroad, motivated him and helped in getting a costumer in this market. On a similar process, the firm was able to establish relationships with a costumer in Canada, when the entrepreneur was contacted by a friend living in this country, calling for the participation on a local trade fair.

In the meantime, the founder received the help of his recently graduated daughter who embraces the marketing tasks and provides the firm with English proficiency, an owner's declared handicap as an obstacle for the internationalization process.

CASE 3

The firm is developed based on an industrial unit, bought by city hall from a tuna fish processing company. City hall's acquisition was driven by the objective of maintaining the existing jobs, against the tuna fish processing company's announced plan of closing down the industrial plant. Later on, the entrepreneur bought the industrial plant and heavily invested on its modernization.

Since its inception, the firm objective is to produce high quality canned tuna fish, to export to top quality demanding international markets. The production process is labour-intensive and environment conscientious[3]. The Italian market was envisaged as the most suited, since there is a long tradition of exporting Azorean canned tuna fish to Italy. An Italian intermediary was contacted through entrepreneur's friends living in this country. Almost at the same time, due to long-time personal close contacts in the USA, the firm starts exporting to North America.

Although, the firm also sells to other foreign countries in some cases due to costumer's referrals, Italy does hold most of the export share. Actually, the relationship with the Italian intermediary endorsed market learning, materialized in the acquaintance with end costumers and market-specific details, namely marketing knowledge. This circumstance led to a closer market presence and to the dismissal of the Italian intermediary.

CASE 4

The firm was built up as a cooperative effort of small honey, fruit and flower producers. The purpose was to obtain a higher production scale while developing high quality standards otherwise cost prohibitive.

Just after the firm setup, its president realizes that flowers could be a suitable product to sell in international markets. Information received from friends pointed out towards the existence of excellent opportunities for prothea flower producers. With the help of long time acquaintances, a South-African scientist and an Israeli entrepreneur are invited to visit the island to meet the Azorean producers as well as to assess the conditions offered by Azores for a larger scale prothea production. A good personal relationship was established between the firm president and the South-African scientist. As a corollary, a prothea field trial plantation was set up on Terceira island and firm started to enter the international prothea business circles, including the attendance of international conferences on flower issues. This participation was due to a recommendation of the Israeli entrepreneur and the South-African scientist, aiming to bring visibility to the Azorean producers.

Just after, the firm starts selling to domestic and international markets. However, business with Portugal mainland flower shops was found to be too resource consuming as florists only

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[3] The firm displays the Dolphin Safe symbol as a result of the adoption of dolphin protection measures during tuna fish captures.

buy small quantities, leading to high logistics and transportation costs. As for the international costumers, the Azorean firm realized that it had little or no control over price setting and that it fully depended on market information filtered by its international partners, leading to increased tensions in the relationship with its main Dutch costumer. The awareness of its dependence led the Azorean firm to commit itself on the Dutch market. It did so arranging for more market visits and caring other customers in the Dutch market, allowing counterbalancing the main costumer's power and deepening its experiential knowledge about the market concerned. The knowledge therefore obtained allowed the firm to renegotiate the contract with its main Dutch costumer, and to achieve a redefinition of partner's roles in the business relationship: instead of selling to this costumer, the firm now uses its services and directly sells in the Netherlands under its own brand.

DISCUSSION

The four cases studied provide interesting information and insights to validate the propositions derived from the literature. A synopsis of the main findings from the empirical analysis regarding the contribution of social networks towards market linking and market learning, organised according to the propositions developed in the second section, is presented on Table 2. To ensure consistency with the approach followed in proposition development, the text below will keep the distinction between the earlier and the later stages of firms' internationalisation processes.

(Table 2 about here)

Early Stage

It was not surprising to find exporting to be the first internationalisation step taken by all the firms studied, since it is the entry mode that entails less risk. This finding comes in line with Johanson and Vahlne's (1977, 1990) indications regarding entry mode selection. All the companies decision makers interviewed wanted to internationalize but lacked the resources to use formal-type sources of information. Again, this approach is consistent with SMEs internationalization literature (Harris and Wheeler, 2005; Anderson, 2006). Furthermore, managers felt more confident using information obtained from someone they knew and trusted. All these factors justify why the four managers relied on members of their social networks to start the internationalization process. This preference is also mentioned on the literature (Ellis, 2000; Ellis and Pecotich, 2002).

Case 1 is a good example of such preference. Here the entrepreneur's social network was important not only to provide the funds for the business set up, but also to launch the internationalization process after he was contacted, almost simultaneously, by two previous business partners from the time he worked for another firm as a commissionist. Such leveraging of previous business links is in accordance with Agndal and Axelsson's (2002) findings on the influence of relationship sediments in international market entry. Another illustration is provided by Case 3. The entrepreneur explains the search leading to the arrangement with the Italian representative in the following terms: *"I made a research using friends working in Italy, and they prepared a list of persons that could become our agent"*. Besides the provision of information, social ties may contribute to strengthen the basic motivation to enter international markets. In Case 2, the entrepreneur underlines the role played by a friend: *"He came here and he said he would like to help sell my cheese over there [the U.S. market]."*

The above illustrations are examples of the importance of relational resources at the early stages of firms' internationalization. However, its importance is not confined to these few examples. Rather it has a more encompassing and cross-cutting nature that is found to occur in all the four cases. In general, our findings on this regard are not surprising at all. They confirm the literature referring to the importance of present and/or past inter-personal relationships for the firms to overcome resource scarcity (Araujo and Easton, 1996; Eriksson, Johanson and Majkgard, 1997; Coviello and Munro, 1997; Jenssen and Koening, 2002) and to motivate and to supply relevant information for internationalisation moves (Korhonen, Luostarinen and Welch, 1996; Ellis, 2000; Andersen, 2006).

Market Linking

In line with the findings previously reported by Ellis (2000), the four exporting firms studied show that managers' social ties were essential for the firms to enter new markets. For each of the firms' first international moves, a chain of events relating to manager's social ties was identified. In Case 1 and Case 2 previous relationship sediments prompted international opportunities, while in Case 3 and Case 4 social ties were used to gather information about potential new costumers or international representatives.

A look at Table 2 confirms those events. However, one can also observe that in several cases, in particular Case 1 and Case 3, another observable fact occurs. It relates to another of social networks benefits: referral. It can be observed, for example, when in Case 1 the Spanish costumer refers the Azorean firm to would-be Japanese, Italian and U.K. costumers, leading to international expansion. This fact comes in line with extant literature on the importance of social networks for international expansion (Welch and Luostarinen, 1993; Jones, 1999; Liesch *et al*, 2002), allowing introduction to potential new partners (Komulainen, Mainela and Tahtinen, 2006). In this referral process the new member is legitimised by its patron, providing him or she with the social capital required to enter business relationships with previously unknown partners abroad (Björkman and Kock, 1995).

One may therefore conclude that network ties, in the form of social relationships, are an instrument for the development of firm links into new markets. In other words, it is found that social networks foster market linking, thereby providing support for Proposition 1.

Later Stage

The analysis of the four cases evidences that the managers concerned, although displaying different engagement patterns, commit to the relationship with their business partners. That happens at both inter-personal and business levels. Company interactions allowed a growing number of face-to-face contacts, which contributed to an increased perception of personal proximity, leading in some cases to the development of personal trust. At the business level, firms' relationships were strengthened as a result of frequent transactions. This is consistent with Hakansson and Snehota's (1995) claim that interactions between individuals set up the bridges that, in a later stage, deepen the relationships between firms. So, as an outcome of multiple exchange events, firms learn to coordinate and adapt to partners. This very reasoning is behind the concept of relative absorptive capacity, coined by Lane and Lubatkin (1998).

The inter-firm adaptation process is noticeable in Case 1, when our interviewee refers to the benefits of coordination that result from numerous contacts along time: *"When we call [the costumer], saying we have this or that [referring to the type of captured fish], the costumer already knows the product, so it's easy"*. Coordination calls for ways by which the interacting organizations match their actions and decisions in order to achieve the expected benefits from the business relationship. In Case 2 the relevance of personal inter-action is acknowledged by remarking that *"after a visit [to the costumer] we have a sales increase"*. But, as times goes by, firms also adapt to each other.

Social Networks and Market Learning

The literature points that social practice allows partners to deepen their knowledge about the markets concerned (Harris and Wheeler, 2005). Case 3 provides a good illustration: the Azorean manager used the good relationship established with the Italian middleman to get introduced to end-costumers and to gather market-specific information. A similar situation happened in Case 4, where the relationship with the main Dutch costumer was instrumental to learn about the Aalsmeer auction market and to launch an independent brand. These two illustrations underline the importance of social networks as tools for market learning. In these cases both firms developed a closer proximity to the markets, obtaining institutional and internationalisation-specific knowledge as an outcome of the same relationships that were used to enter the market concerned.

However, one might argue that the same learning attitude was not adopted by the other firms studied. The reasons for that can be better understood with the help of the following statement (Case 2): *"In first place we need to understand the market and our partner; as our partner knows the market, he can do the rest for us."*

Therefore, the evidence collected and discussed above, while showing the existence of different levels of learning commitment, generally supports Proposition 2. In fact, relationships earlier employed for market linking may become, at a later stage, drivers of market learning.

Market Linking and Market Learning

One may turn now to Proposition 3: can the same relationship be utilised simultaneously for both market linking and market learning?

It was mentioned in Case 1 above that costumers were considered as family. Our informants in Case 2 remarked that there was no need to undertake marketing functions (or to acquire further knowledge about the market concerned) since these were already performed by the customers. As an outcome, both firms recognize that their knowledge about the markets is limited, so they depended on their costumers. This dependence relationship, already found in buyer-seller relationships (Dwyer, Schurr and Oh, 1987; Håkansson and Snehota, 1995) is also noted here. In these two cases, the handshake between market linking and market learning is a difficult one.

In Case 3, the Italian intermediary, initially envisaged as an instrument to link to new costumers, was progressively used to provide market knowledge. As time went by, those functions become incompatible: while providing knowledge about the markets, the relationship with the intermediary was also loosing its linking capabilities. As the Azorean manager put it, after a certain point keeping "*it [the intermediary] was no longer making sense*". That comes very much in line with Li's (2001) claim on the risks intermediaries face as they are setting up bridges that may, later on, be used by the partners to overthrow them.

As for Case 4, it was the knowledge gap and the division of labour between the flower producers and the main Dutch costumer that led to imbalances in sharing the benefits stemming from the cooperation (Doz and Hamel, 1998). So, it became evident that the main Dutch costumer could not be used to create linkages and to provide market knowledge. There was a need for new partners to be brought in to the Azorean flower producer international business network. This circumstance reshaped the relationship between the Azorean producer and its Dutch costumer, as alternatives counterbalanced power and placed the relationship at a different level, with the Dutch firm empowering its Azorean partner. This behaviour comes in accordance with the social exchange literature, on the importance of alliances between weaker members to reduce power imbalances (Bonacich, 2000; Cook, Cheshire and Gerbasi, 2006).

So, it may be concluded that, at a later internationalization stage, as the SMEs intend to deepen its international market learning, the utilisation of the same relationship for both market linking and market learning may become impossible. This lends support to Proposition 3.

CONCLUSIONS

Research on small firms' internationalisation has increasingly recognized the role of social networks in fostering the process. This paper intended to follow a longitudinal perspective to explore how social networks influence market linking and market learning patterns, as well as their inter-action.

Social networks were found to play important linking roles, providing the firms with an instrument for international expansion. At their early stage of internationalization, firms often lack both the experiential knowledge and the resources allowing them to venture in the international markets through the use of more demanding entry modes. Therefore, managers' social networks can provide the instruments to counter the problems indicated above. Such networks may play three roles in this regard: they provide information for the identification and selection of would-be partners; they provide legitimacy to the new entrants vis-à-vis existing partners; and they may enable the mobilisation of actors in different international markets, establishing links to the markets concerned.

At a later stage of internationalization, a number of transactions are expected to have occurred between partners. Due to this exchange process, firms learn how to coordinate and adapt their activities, thereby giving rise to a mix of bonds, at both inter-personal and inter-firm levels. It was found that these may be used as market-sensing tools, allowing relationships previously used for market linking to become drivers for market learning.

Taking a closer look at the role of social networks in market entry and development, the research made a contribution to improve the understanding of the market linking and market learning properties of those networks. At first, market linking is dominant, but as time goes by market linking may lead to market learning. However, the simultaneous use of both properties appeared to be unfeasible: they become mutually excluding. Indeed, the utilisation of the same relationship for both market linking and market learning may be faced with unsurmountable difficulties.

In addition, the results point that moving from linking to learning stances may lead to rethink the relationship. There are instances where the relationship is kept alive, through the redefinition of partners' roles. In other, more dramatic, situations, however, such reshaping is not feasible, leading to break the existing connection.

The research undertaken has some limitations. These concern both the depth and the width of the approach and the characteristics of the firms studied. The study included four cases only and, more importantly, they concerned firms located in the same region. However, the paper contributes to behavioural approaches on internationalization and, more specifically, to the argument that social networks play a key role in SMEs' internationalization, linking them to new markets and providing the instruments for learning about those markets deemed to be relevant. In particular, the paper offers two contributions to the behavioural literature on internationalization: (1) after entering new foreign markets, relationships previously used for market linking may become drivers for market learning; and (2) at a later stage, as the SME intends to deepen its international market learning, the recourse to the same relationship for both market linking and market learning may become impossible.

		Social networks and market linking	Social networks and market learning.	Market linking and market learning
CASE 1	USA, Spain Canada, Japan, Italy, UK France Switzerland	Relationship from the time entrepreneur was a commissionist USA costumer referral Spanish costumer referral Portuguese costumer referral Relationship from the time entrepreneur was a commissionist	The firm exports to the array of countries although ignores what are the final costumers to its fish. Interaction led to the creation of strong ties, based on a common language and mutual understandings. As an example, the company knows the Japanese costumer sushi requirements, that way sending the appropriate tuna fish. Some of the costumers, like the Spanish costumer, are considered to be "as family".	The firm relies on costumer's information concerning market requirements. It keeps, however, an "open eye" attitude. Firm's business network is shaped to accommodate firm's social network requirements: bringing on new costumers is seen as possibly creating a hostile business environment with existing ones.
CASE 2	USA Canada	Immigrant friend motivated and help obtaining an US costumer Immigrant friend invited to attend trade fair and activated his own contacts to obtain a costumer.	Relationship with these costumers lacked more interaction. However management sees no need of undertaking market functions that can be performed in their name by its costumers.	Although management feels that both costumer and market knowledge are important, there is a preference towards costumer knowledge as it can provide the linking with the concerned markets, allowing the firm to focus on production.
CASE 3[4]	Italy USA Canada China	Obtained through friends that elaborated a short-list of possible intermediaries. Good personal relationships with US cheese importers help obtain a costumer[5]. USA costumer referral Friends refer the company to a Portugal mainland firm which invites to export to China.	The firm was founded with the intent to export to international niche markets. The Italian intermediary provides market knowledge as he provides joint visits to costumers and information about marketing details.	Final costumers didn't like the intermediary as he knows the market, leaving them fewer chances to negotiate better price conditions. Final costumers also see the intermediary as an added cost they will have to pay for.
CASE 4	Netherlands (present main costumer) Netherlands (remaining costumers) France	Met in a conference; later on visited the producer's island. Relationship was considered to be good but also tense. A certain notion of unfair treatment was derived from the price stipulation process. Two other costumers were obtained due to firm's market exposure, as new costumers detected firms address at flower transportation boxes. Portugal mainland costumer referral.	Relationship tension with main Dutch costumer brought up the sense of need of learning about the international markets, and particularly about the Dutch market as it was envisaged as the most important one in this area of business. Bad operational results with Portugal's mainland market enforced the need to deepen international involvement.	The firm brings new actors into its business network in order to counterbalance its relationship with its main Dutch costumer. The French market was abandoned when that costumer started negotiating with the Dutch costumer in order to avoid any sort of tension and to focus resources in a single market.

Table 2 – Social networks as market linking and market learning instruments.

[4] Only countries where social networks played a role on its entry are displayed. Here we ignore the Dutch market as it was obtained through a fair participation, without the help of previous inter-personal relationship or referrals.

[5] The entrepreneur is also the manager of a cheese production plant.

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