Business Service Firms’ Foreign Market Network Development at the Early Post-entry Stage

ABSTRACT

This conceptual paper concerns the network development of business service firms in a foreign market at the early post-entry stage. It focuses on the interactional features of networks and pays attention to three dyadic level evolutionary primitives, i.e. tie creation, tie strengthening, and tie deletion. Internationalised service firms can be categorised as client-following and market-seeking. They are further interpreted as exploitative and explorative, respectively. Propositions are developed, and argue that the two types of firms may go through distinct network developmental processes. Firms’ original internationalisation strategic intents impact their local network development within this particular time-frame.

KEY WORDS:

Service firms’ internationalisation, client-following and market-seeking, post-entry network development, exploitative and explorative.

INTRODUCTION

Networks is an important topic in organisational studies. The impacts of relationship networks on organisations' decision-making, market behaviour, and performance are researched widely (e.g. Gulati, 1999; Kenis and Knoke, 2002; Gulati and Higgins, 2003). From the early 1990s onwards, scholars have devoted considerable efforts into revealing the nature of network evolution. Much attention is paid to the antecedents of a network's relationship initiation, factors influencing the relationship building process, and so on. However, apart from these initial conditions and determinants, the network developmental process, which also plays a significant role in network evolution (Doz, 1996), remains under-researched (Tsai, 2000).

The network approach is also well accepted in the international business literature. The primary research focus in this discipline is on how networks influence firms' decisions on foreign market entry, such as country selection and entry mode (e.g. Coviello and Munro, 1995/1997; Ellis, 2000), while the firms' post-entry local network development is often overlooked. This is striking, because a firm's internationalisation process is essentially one of building relationships with customers and other actors in a foreign local market (Johanson and Mattsson, 1987). Establishing a solid local network should thus be a key mission at the post-entry stage (Rundh, 2001), in order to overcome the liability of newness or foreignness (Lu and Beamish, 2004). More recently, in the context of MNCs, the importance of foreign market network development has been increasingly acknowledged. For example, in their latest book *'Managing the Embedded Multinational'*, Forsgren, Holm and Johanson (2005) advance the MNC as a network, and part of network theory, and propose the concept of 'internationalisation of the subsidiary's external business network' (p.80). This highlights the significance of subsidiaries' local market network development from an embeddedness perspective.

Nohria (1992:15) raised the question of 'How networks evolve and change over time'. In this paper, we are interested in addressing this question from the context of the embedded multinational business service firm – in particular, in its network development after entering a foreign market. Business service firms tend to have a high dependence on the local networks in markets in which they operate (O'Farrel, Wood and Zheng, 1998). Post-entry network development is therefore a key to their foreign market survival and business success. Because networks evolve, it is crucial that network studies are time-sensitive (Coviello, 2006), and cognisant of the particular stage of development in question. The current paper looks at the initial stage after a firms' formal market entry, by which we mean having clear local presence, such as a marketing or sales office. In addition, we aim to show that the firm's foreign market presence is determined by, and consistent with, its original strategic objective of entering this particular country.

BACKGROUND LITERATURE

This section starts with a brief review of the services internationalisation literature, and then outlines two key aspects relating to strategic network development, culminating in a brief review two strategy concepts, exploitation and exploration.

Services Internationalisation

The literature does not offer a precise definition for business services. Here, we adopt Roberts' (1999) classification, which includes advertising, accountancy, computer services and management consultancy services. According to Roberts, these are 'knowledge and skill intensive and share common characteristics of personal contact between the producer and client, importance of quality and reputation, long-term buyer-seller relationship, human capital and information intensiveness and high cultural sensitivity' (p.69). Business services are a main component of the service sector. They are becoming increasingly international, but the internationalisation of those firms has not yet been fully explored (Roberts, 1999).

Due to the specific characteristics of business services, i.e. intangibility, simultaneity of production and consumption, and perishability of inventories (e.g. Carman and Langeard, 1980; Knight, 1999), service providers often need to deal directly with local customers (Carman and Langeard, 1980), and a local presence is a prerequisite to their foreign market development (Li, 1994). The services internationalisation literature has mainly emphasised the issues of foreign market entry, such as entry mode and country selection, and has, to a large extent, ignored firms' post-entry behaviour, as well as market development (O'Farrel et al., 1998). Indeed, the transition from initial presence to subsequent development is more crucial and difficult for foreign business service firms compared to manufacturers (O'Farrell et al., 1998). Business service firms must, therefore, pay attention to local network development in their foreign markets.

The services literature documents two types of internationalised service firms according to their strategic motives toward internationalisation (Erramilli and Rao, 1990). One type is mainly driven by the demand of existing customer(s). In order to service their already internationalised clients, this type of service firm is pulled out to go international. The other type undertakes a more aggressive approach. To them, access to international markets in order to explore for more revenue sources appears to be the major incentive for internationalisation. These two types of firms are termed client-following and market-seeking respectively. Although a few scholars point out that these two strategic motives could influence a firm's internationalisation simultaneously (Alavarez-Gil, Cardone-Riportella, Lado-Couste, and

Smartin-Saena, 2003), empirical research reports the eminent impact of one particular strategy over the other in service firms' internationalisation (e.g. Lu and Beamish, 2004). Therefore, we regard that both strategic approaches may play a role in firms' decision-making processes, but one often appears to be more influential and overwhelming relative to the other. In other words, at the early stage of internationalisation, a service firm will generally be either client-following or market-seeking, subject to its primary strategic objective.

We consider that a firm's strategy in a foreign market at the initial stage after entry is consistent with its original strategic motive for internationalisation. This means that firms characterised by the two different strategies are likely to experience distinct market development process during the early post-entry period.

The Focused Network

A firm's business network consists of business relationships and nodes, and it is often physically unbounded (Forsgren et al., 2005). An important issue for a network study is to define specific boundaries. Such decisions can be made subject to an analyst's research interest (Kenis and Knoke, 2002), which implies that researchers may selectively choose the most relevant networks, while safely ignoring those that are out of the research scope. For instance, Trimarchi and Tamaschke (2004) studied the triadic network among Hongkong agents, western buyers, and mainland Chinese manufacturers. Peng and Zhou (2005) discuss firms' networks with business partners and government departments.

In this paper, we focus on a focal firm's egocentric business network. A firm's egocentric network consists of direct dyadic ties, and the connections between these ties, and the firm sits the central position of the network as the focal actor (Hite and Hesterly, 2001). Although a broader view of a network is adopted in other studies (e.g. Kenis and Knoke, 2002), the egocentric network is critical, because it directly influences the firm's resource flows across its boundaries (Hite and Hesterly, 2001). It is a popular focus of research, as the focal firm exerts control over all relationships with its partners (Todeva, 2006).

Strategy and Networks

A network's development can be influenced by its current features. Some scholars underline a network's tendency towards self-maintenance. As Larson (1992: 97) describes, 'The history of interactions set down mutual obligations and expectations that are organisationally structured: Individuals can come and go from particular positions and roles, but their behaviour is framed and shaped by the history of exchange and the roles and identities of current participants'. In line with this, many researchers are interested in why firms behave as they do under the impact of the current network. The early social network literature, for example, represents this school of thought.

Nonetheless, other scholars criticise this research stream for its subliminal impact on the study of networks as a whole, because networks are not 'as given' and how networks originate should not be ignored (Gulati and Gargiulo, 1999). For example, critics of the social network literature note that, '(they) either do not systematically examine the determinants of informal network ties between managers, or such ties are assumed to emerge naturally through the course of doing business' (Westphal, Boivie and Chng, 2006: 441).

Empirical research reports that firms employ network strategy deliberately to achieve organisational goals (e.g. Trimarchi and Tamaschke, 2004; Westphal et al., 2006). Many scholars underline the significance of designing and managing networks to pursue individual and collective aims (Koza and Lewin, 1999). For example, terms like ‘network orchestration’ (Venkatraman and Lee, 2004) and ‘network reengineer’ (Madhavan, Koka, and Prescott 1998) are proposed to claim the necessity of shaping networks to contribute to firms’ maximal performance. Particularly in the international business context, it is considered that networking should be a natural part of company’s business strategy and development of a local network in a foreign country is a key task for internationalised firms (Rundh, 2001).

From an integrated perspective, it can be argued that a firm’s current network acts as a platform, as well as selection mechanism, for the firm to further develop its network (Walker, Kogut and Shan, 1997; Gulati and Gargiulo, 1999). Firm strategy plays an important role because ‘Managerial action can potentially shape networks so as to provide a favourable context for future action’ (Madhavan et al., 1998: 440). Since a firm’s network development is the result of both environmental context and strategic action, we argue that both the firm’s current external network and its strategic objectives need to be taken into account in the analysis of their network development.

Exploitation and Exploration

Initially developed to reveal the nature of firms’ learning activities (March, 1991), exploration and exploitation are now regarded as two generic strategies by many scholars (e.g. Lavie and Rosenkopf, 2006). According to March (1991), ‘exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation. Exploitation includes such things as refinement, choice, production, efficiency, selection, implementation, execution’ (p.71). Koza and Lewin (1998) further explain that exploration refers to experimenting with or establishing new assets and capabilities, and the strategic intent of exploration is the discovery of new opportunities. By contrast, exploitation refers to the elaboration or deepening of existing capabilities and to incremental improvements in efficiencies. The strategic intent of exploitation is to obtain residual revenue and enhancement of other capabilities from the extension of existing assets and capabilities.

A firm's strategic context significantly influences its networking activities (Doz, 1996; Li, 2005). Koza and Lewin (1999) apply exploitation/exploration into the network context, and identify that professional service firms' networking activities can be coded either explorative or exploitative. Other empirical studies also report similar findings (e.g. Lu and Beamish, 2004).

We link these two generic strategies with the two types of service firms' internationalisation strategies. Arguably, the approach of client-following service firms seems to be primarily exploitative, because they mainly intend to continue servicing their existing customer(s) that has internationalised into new markets. The approach of market-seeking service firms appears to be largely explorative, as they explore the business opportunities in new foreign markets.

PROPOSITION DEVELOPMENT

In this section we begin by justifying an interactional approach to analysing network development, and then we develop three propositions in regard to business service firms' network evolution in a foreign market at the early post-entry stage. We assume that a firm's strategy employed in a foreign market during this period is largely consistent with its original internationalisation motive – that is, client-following, or market-seeking. As part of cycle of learning, that is, 'from revaluation to readjustment' (Doz, 1996: 72), firms may dramatically reformulate their foreign market strategy. However, strategic readjustment usually happens after firms accumulate adequate local knowledge and realise that the current strategy is not functioning well (Doz, 1996); this takes a relatively long period of time after market entry.

Analysing Network Development: An Interactional Approach

According to Todeva (2006), the network analysis literature contains three main approaches. Apart from the cultural approach that has not yet become a strong domain in the literature, the other two, i.e. structural and relational approaches are well documented. For instance, Coviello (2006) states that network studies can be generally categorised into two dimensions, structural and interactional.

The structural dimension research sheds light on the network pattern and firms' network positions. This research stream includes, for example, network structural analysis. The interactional dimension research looks at the dyads between and among firms. The conventional relationship development literature, for instance, falls into this category. The two approaches are also perceived as macro logic and micro logic network processes respectively (Venkatraman and Lee, 2004). This paper is concerned with the interactional dimension only, because the subject for study is network ties, which are relational dyads within the network. Also, the interactional dimension is appropriate to investigate network change on a firm basis, because network properties at the meso and macro level are built up from dyadic relations among network members (Kenis and Knoke, 2002). Koka, Madhavan, and Prescott (2006) also justify the significance of capturing the interactional dimension to study network evolution, and they believe individual firms' network activities are 'collectively necessary and sufficient to describe the basic processes of network change' (p.721).

In the recent literature, Koka et al. (2006) propose two network evolutionary primitives from the interactional perspective, i.e. tie creation and tie deletion. They regard that network change can be ‘operationally viewed as change in a bundle comprising the two evolutionary primitives’, and ‘a change in the levels of tie creation and tie deletion will result in changes in network structural features’ (p. 726). Specifically, tie creation, or tie formation, refers to the initiation of a connection between two strange actors, or in other words, virgin ties (Kenis and Knoke, 2002). It is the beginning of an entire relationship development process. Meanwhile, its counterpart – tie deletion – also draws attention from academics. This is because throughout network development, ‘as much as change is about adapting to the new, it is about detaching from the old’ (Burt, 2000: 1).

A relationship also needs to be analysed in terms of its strength (Peng and Zhou, 2005). The relationship development literature describes a path from arm’s-length to embedded, or from few economic transactions and little social attachment (e.g. trust and reciprocity) to a higher level, i.e. a business corporative relationship (Forsgren et al., 2005), over time. Koka et al. (2006) indicate this in their paper but do not explicate it as a primitive, mainly because their particular research focus is on tie existence. Since we are interested in the network developmental process, including what happens after a tie is created, we propose *tie strengthening* as a third network evolutionary primitive in addition to the previous two. From a procedural perspective, this refers to the development of an existing tie, and implies a reinforcement of both economic exchange and social bond dimensions. Firms strengthen ties in their network, which then shape the network pattern over time.

We note that by proposing the three primitives, we are not dealing with a linear approach; that is, a process starting from creation, through strengthening, toward deletion. Rather, we assume that firms are engaged in the three types of networking activities, i.e. tie creation, tie strengthening, and tie deletion simultaneously in the market during a period of time. From a business network perspective, firms are establishing, maintaining, developing and breaking their relationships constantly in order to achieve short-term economic return, to create a desired network position, and to secure their long-term development, as well as survival (Johanson and Mattsson, 1987).

Propositions

In the following discussion, we consider firms' service characteristics, current network features, and firms' specific strategic intent to develop propositions. Network development is conceptualised along the interactional dimension, with a focus on the three network primitives i.e. tie creation, tie strengthening and tie deletion.

Tie creation

Service firms have to pay attention to local adaptation in a foreign market. For them, high local responsiveness is the key strategic focus in order to perform well (Li and Guisinger, 1992). Service firms are sensitive to the institutional environment in the countries they enter. They need to develop knowledge of social positions, social acceptance, roles and group identification to secure their market performance (Nicoulaud, 1988). Also, they must be aware of the surrounding networks, particularly social networks, to gather information, seek new partners, acquire customer-related knowledge, and adjust their networks to meet new tasks (O'Farrell et al., 1998).

Business service firms are generally small in size, and both client-following and market-seeking firms may struggle for positions in small and limited local networks after arrival. In line with the resource-based view, external networks provide firms with extra resources as well as competitive advantage (Zaheer and Bell, 2005; Dyer and Singh, 1998). Specifically, it is argued that a key goal for a foreign firm is to establish network exchange structures with outsiders that are identified as critical resource suppliers who can stabilise the new firm as a player in the recently entered market (Larson, 1992). In addition, the lack of local resources often forces foreign firms to build up ties with local firms (Westphal et al., 2006).

Network development is, to a certain extent, influenced by the network's current situation. The literature tells us that an embedded network acts as a mechanism for a firm's networking behaviour (Gulati and Gargiulo, 1999). From a business network point of view, firms may possess some local relationships before entering a foreign market (Coviello and Munro, 1997; Ellis, 2000). But this is insufficient to provide them with an ideal and complete embeddedness platform. During the very early post-entry period, firms' short time in the market does not help, as the age of relationship significantly affects the degree of its embeddedness (Forsgren et al., 2005). Without strong embeddedness, firms lack clear guidance for their network development (Gulati and Gargiulo, 1999), which leads to a high level of uncertainty from the firms' point of view. And this, according to the literature, may result in increase of tie creation (Westphal et al., 2006; Koka et al., 2006).

It can be seen that firms generally have to be engaged in creating new ties for market development. We now consider the impact of firms' strategic intent on their networking activities in foreign markets, particularly from a service firm perspective.

Client-following firms are exploitative. They intend to focus on the existing strategic assets and capabilities, through an incremental approach, to achieve refinement and higher efficiency (March, 1991; Koza and Lewin, 1998). With a strong purpose of servicing existing customers with whom they already have good relationships, client-following firms may not view servicing new local customers as a priority, at least during the very early stage after their foreign market entry. Rather, they are likely to advocate a relatively incremental, or even conservative, approach to securing their market performance soon after entry. Although market uncertainty generally leads to creating new ties, it may also push the client-following firms closer to their existing customers in the first instance, instead of seeking new ties that are unfamiliar and potentially risky. In contrast, market-seeking firms are explorative. They are independent and demanding, and are more willing to take the risk, search for new assets, and discover new opportunities (March, 1991; Koza and Lewin, 1998). On this basis, they would be expected to take every opportunity to develop local networks and connect with local actors. Thus, lack of local resource and high market uncertainty may drive them to create new ties in the local environment.

The means of tie formation of these two types of firms may illustrate an interesting difference. Sociologists consider the role of strong ties in network expansion. Granovetter (1973) proposes the concept of network transitivity, which highlights the fact that a firm's strong ties play a role of bridging the firm with new nodes as well as strengthening weak ties. It refers to 'how a link initiated by an actor passes through a number of other actors to reach a distant node' (Todeva, 2006:42). Uzzi and Gillespie (2002) advance 'network transitivity' as a strategic process that 'explicates a mechanism by which a focal actor gains competencies and resources from one network tie to create value in exchanges with a third tie' (p. 613). Business network theorists also identify the phenomenon that firms often convert a 'second-order' relationship, which is indirectly connected, into a direct first-order relationship, through a common third-party (Forsgren et al., 2005). From a social network point of view, a focal firm may favour this approach, because the nodes introduced by a cooperative partner are likely to be perceived as trustful and reliable compared to other nodes (Uzzi, 1996/7).

From this discussion, we can assume that a function of a strong tie is to contribute to a focal firm's direct tie creation within its egocentric network. It follows that the utilisation of their pre-entry relationships as a bridge to connect with new nodes could be an important path of client-following firms' network development. In comparison, market-seeking firms are unlikely to adopt this approach because they lack existing strong embedded ties that could adopt a role as intermediate third-parties. This leads to the first proposition.

> *Proposition 1*
>
> *During the early stage after entry, both client-following and market-seeking business service firms pay attention to tie creation in the foreign market, but undertake different approaches. Client-following firms create new ties conservatively and primarily based upon their relationships with their followed customers, while market-seeking firms tend to create new ties much more actively and on a diverse basis.*

Tie strengthening

Firms need strong ties to assist them in managing change and market uncertainty (Granovetter, 1982). Tie creation is the initiation of a relationship. It creates potential for further strengthening through which a solid network can be achieved. Over a period of time, firms are also engaged in converting some recently created new ties into embedded business cooperative relationships.

Tie strengthening is critical to service firms. Empirical studies show that the service firms often have to deal with an inability to understand foreign customers' needs and wants (Reardon, Erramilli, and Dsouza, 1996). Firms arriving in a new market are, therefore, forced to acquire market-specific knowledge. They may be in pursuit of strong ties that may facilitate knowledge transfer (Uzzi and Lancaster, 2003). Further, service firms are characterised by intensive customer contact, extensive customisation requirements, and cultural adaptation (Knight, 1999). They usually favour experimental interaction to produce knowledge (O'Farrell and Wood, 1999). The interaction with a foreign partner particularly requires a firm to adapt more strongly, through a cooperative relationship, rather than arm's-length transactions (Doz, 1996). Since social relationships are key to business service firms' success (Alon and McKee, 1999), tie strengthening needs to be an important networking activity.

Experience and expertise of working with clients are one of the most critical resources of service firms (O'Farrell and Wood, 1999). Client-following firms are advantaged in this respect, and are able to continue exploiting the knowledge gained from their followed customer. The network literature suggests further tie development between parties with prior economic relationships or social ties are promising for the firms concerned (Ring and Van de Ven, 1994). Client-following firms often have years of cooperation with their clients prior to their market entry, which may also create a strong relationship commitment (Holm, Eriksson and Johansson, 1996; Gulati, 1999), and a mutual strategic dependence that may further reinforce their relationship (Tsai, 2000). In addition, service firms generally tend to rely on their business partners as the primary source of knowledge at an early entry stage after internationalisation (Andersson, Johanson and Vahlne, 1997). Therefore, we may argue that the tie between client-following firms and their followed customers will continue to strengthen after foreign market entry.

Both client-following and market-seeking firms need to strengthen their new created ties at the early post-entry stage. For client-following firms, the client would introduce its own trusted and strategically related local actors to the service firm. Business network theory suggests that a positive relationship of a firm may enhance the firm's other relationship development due to the existing interrelation or connection between them (Holm, Eriksson, and Johanson, 1999; Forsgren et al., 2005). In this paper (*see Figure 1*) we propose that the development of a new relationship (B) between the service firm and a new node in the network (bridged by the client) may be positively impacted by the well-established relationship (A) between the service firm and the client, and the relationship (C) between the client and the new node. Thus, for client-following service firms, new ties may be strengthened by relationships already established by the client firm with the new node, as well as by the existing relationship between client firm and service firm follower.

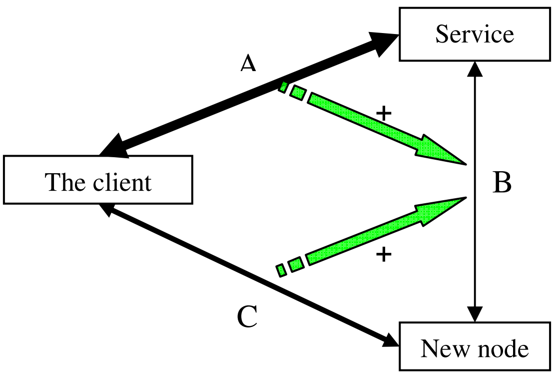

Figure 1

Market-seeking firms are, however, in a quite different situation in terms of the strengthening of new ties. Unlike client-following firms, their network expansion is explorative. Most their new ties are not recommended by a well embedded third-party. The development of those new ties often starts with a low level of both economic transactions and social connection.

Relationship development is not cost-free, and may involve risk. Even though explorative firms tend to be risk-taking, their networking activities might be moderated by internal capabilities and managerial rational. Market-seeking firms often have less local knowledge compared to client-following firms (Eramilli and Rao, 1990). This probably would force them to be cautious of tie strengthening. It can be argued that, being explorative, market-seeking firms' network developmental process is essentially experimental. Empirical research also lends support to this view. For example, it has been shown that exploration oriented firms are more careful about the behaviour and process controls over the cooperation, as no one can really foresee what could arise in an interfirm relationship (Koza and Lewin, 1998). From the above discussion, we present the second proposition.

> *Proposition 2*
>
> *Client-following firms continue to reinforce relationships with their followed customers. With respect to new created ties, client-following firms are more likely to develop their new ties from those developed by the followed customer, while market-seeking firms appear to be cautious of further tie strengthening.*

Tie deletion

Network change can also be defined as 'the dissolution or replacement of an interorganisational network tie' (Kim, Oh and Swaminathan, 2006: 706). A network study cannot be only restricted to the creation of virgin ties (Kenis and Knoke, 2002), and tie deletion has to be considered as one primitive.

Relationship partners re-evaluate their partnership on the basis of perceived efficiency, equity, and adaptability (Doz, 1996). From an economics point of view, organisations' networking activities may contain errors which imply that the results do not meet at least one party's original expectation, and a tie that is considered as an error should be deleted from a firm's network (Jackson and Watts, 2001). Generally speaking, termination of a tie takes place if some or all the firms' needs are gone unfulfilled (Ring and Van de Ven, 1994). It is significant to firms because, by deleting some dysfunctional existing ties, they are able to free up resources for tie creation and tie strengthening and compete more effectively (Koka et al., 2006). Service firms must cope with tie deletion as a critical networking task.

Physically, tie deletion means that a connected node in a focal firm's egocentric network becomes unconnected and is no longer part of the network. Before this happens, the relationship has to go through a dissolution process. Sociologists offer insights into the nature of this procedure. Using the term 'tie decay', Burt (2000) points out that it is slow between two parties with strong prior ties and shared cognitive elements, and the probability of decay decreases with tie age. It means that the more ties are embedded, the more unlikely they dissolve. The relationship development literature presents a similar viewpoint. For instance, relationships are often developed and strengthened based upon both parties' frequent interactions and increasing trust (Ring and Van de Ven, 1994). Ties become stable and strong once there are social elements involved. To a certain extent, even if the economic results are not satisfactory, dissolution may be buffered by the social bonds between two firms. For example they may choose to remain in their relationship in a dormant state instead of dissolving it, so that they can reactivate it whenever needed (Batonda and Perry, 2003).

Strong ties bridge firms with new nodes and strengthen weak ties (Granovetter, 1973). Client-following firms' networks are likely to be developed from the basis of embedded pre-entry customer relationships. Exploitive firms favour this path while expanding their network. As argued earlier, they would not easily create a new tie unless they know the potential partner reasonably well, or the partner is recommended by a trusted third-party. But once the tie is created, they are inclined to devote resources and commitment to develop it, and do not expect a high probability of dissolution. Through this ‘third-party go-between’ approach to developing a referral network (Uzzi, 1997), only reasonably reliable actors become connected with the service firm, and the initial relationships start with a relatively high social bond and strategic relatedness. This facilitates a positive relationship development, because shared values and cognition between the two parties may assist them with the adaptive process after tie creation, which, in turn, reduces the likelihood of tie deletion (Doz, 1996; Uzzi, 1997).

The network development of market-seeking service firms is essentially experimental. These firms may also be disadvantaged by their limited experience of dealing with their new partners. As mentioned earlier, market-seeking firms tend to engage in tie creation but are cautious of strengthening ties. Relationship development concerns risk and involves a reliance on trust (Ring and Van de Ven, 1992). Cooperative interfirm ties among strangers emerge incrementally and begin with small deals that initially request only little trust and are associated with little risk (Ring and Van de Ven, 1994). Market-seeking firms hardly develop a referral network on the basis of embedded ties (Uzzi, 1997). Their new ties are generally at a very basic level at their inception, and the challenge of developing a stable relationship suggests a greater probability of dissolution. Further, during the initial period after entry, foreign firms would tend not have enough time to achieve network embeddedness. Without adequate social capital, firms’ relationships are unlikely to be strong and durable (Tsai, 2000). These factors suggest that the development of market-seeking firms’ new ties in general seems to be fragile compared to client-following firms. This leads to the third proposition.

Proposition 3

Tie deletion is unlikely to happen between a client-following firm and its followed client(s). As for the new created ties, market-seeking firms are more likely to deal with a higher level tie deletion than client-following firms at the early stage after foreign market country.

DISCUSSION

Implications of this paper are twofold. First, service firms' internationalisation is under-researched compared to manufacturing firms. This paper pays attention to the business service sector and specifically focuses on the early post-entry stage that is critical to firms' subsequent market development in a foreign country. The propositions are about firms' post-entry behaviour, which correspond to the call for research attention in the literature as well (O'Farrell et al., 1998). Moreover, they describe the different post-entry network development processes of two well-documented types of service firms, i.e. client-following and market-seeking service firms. This comparison approach may provide an interesting angle for future research. Second, network evolution has become increasingly important and deserves much more research attention. This paper undertakes a process-based view, and attempts to reveal the dynamics of firms' networking activities over a period of time. The propositions explore a focal firm's networking activities in terms of the three primitives: tie creation, tie strengthening and tie deletion. Arguably this approach is appropriate to gain insights into firms' activities while they build their egocentric business networks. Overall, this conceptual paper offers new thoughts on researching how foreign business service firms develop their local foreign market from a network perspective.

The paper has a number of limitations. To begin with, our framework is developed using two key assumptions. First, firms' foreign market strategy at the early post-entry stage follows the firms' original strategic intent in entering the particular market. This is mainly because we are interested in network development and evolution, and this type of study needs to be time-sensitive. However, it is important to establish a clear view on what constitutes 'early post-entry'. Empirical research to establish an understanding of the temporal nature of network evolution is needed. Second, we interpret client-following and market-seeking as examples of exploitative and explorative strategy, respectively, but these links do not appear to have been made clearly elsewhere in the literature. We look forward to support from future research that spans the strategic management and international business literatures.

Further, this paper sheds light on the impacts of a focal firm's egocentric network situation and strategic intent on its network development. The literature also suggests other factors that significantly impact firms' network development, e.g. firm characteristics and internal resources (Shipilov, 2006), institutional environment (Peng and Zhou, 2005), industrial characteristics and external event (Sydow, Van Well and Windeler 1997/8; Madhavan et al., 1998). Although they are beyond the scope of the current paper, we agree that the propositions require more elaboration and encourage researchers to pay attention to those aspects while designing their work.

Finally, the paper focuses on the interactional dimension of network analysis, which is a relational approach to network study. But this does not mean that we ignore the importance of network structure. In fact, we would like to suggest future research to also consider how the two types of service firms' network structure may evolve as a result of different interactional dynamics (e.g. Koka et al., 2006). In addition, the recent network literature starts to recognise the necessity of network typology (e.g. Heracleous and Murray, 2001), and empirical research identifies that firms at specific development stages strategically require different types of networks (Lechner, Dowling, and Welpe, 2006). This notion is crucial to understand how firms stabilise their position in a foreign market after entry.

CONCLUSION

This conceptual paper addresses the question of how foreign business service firms with distinct strategic intents may develop their networks during the early period after foreign market entry. Based on an integration of the internationalisation and strategic management literature, we make that assumption that client-following firms are exploitative, and market-seeking firms are explorative. With a particular focus on comparisons between the two types of firms, propositions are developed to suggest the firms' networking dynamics in terms of three network evolutionary primitives, i.e. tie creation, tie strengthening, and tie deletion.

The paper concerns the early stage after entry, because one of its main goals is to conceptualise the impact of firms' original internationalisation strategic intent on their network development. Overall we propose that, at the early post-entry stage, without strong guidance from a third-party, explorative market-seeking firms tend to undertake an active, but opportunistic, approach to forming new ties, but remain cautious of further tie strengthening because of perceived uncertainty and risk; they may deal with more tie deletion due to a higher likelihood of relationship failure. Client-following firms, however, tend to rely on their embedded followed client(s) to develop a local referral network in the foreign market. Utilising strong ties, they are more likely to connect with appropriate actors in the market, and then to devote themselves to strengthening these relationships. For client-following firms, the probability of tie deletion is lower than for market-seeking firms.

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