Rauni Seppola

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CONFIRMING A UNIQUE TYPE OF GOVERNANCE STRUCTURE

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Helsinki, September 15th , 2004

Rauni Seppola

Abstract

The primary objective of the study was to explain experiential market knowledge acquisition in international business relationships. One important way of learning is to learn from your international business relationships**.** International Business can be defined as an exchange process that involves relationships between actors located in different countries. In these relationships social capital emerges. Most research on social capital has focused ties on inside the firm. However, this study argues that business networks play an important role in tying a focal actor to other actors. Accordingly, activities link heterogeneous resources by combining them with other resources, and new knowledge emerges (Håkansson 1987, Håkansson and Johanson 1992). Focusing on external relations international exchange links a focal actor to its foreign partner and these business relationships increase opportunities to acquire knowledge. Social capital theory was used as a tool because it focuses on the significance of relationships as a resource for social action (Nahapiet and Ghoshal 1998, see also Baker 1990, Bourdieu 1986, Burt 1992, Coleman 1988, 1990, Putnam 1995). The original dimensions of social capital were applied in this research in a network setting (IMP) and analysed rigorously. Apart from the three dimensions of social capital, which are the structural, the relational, and the cognitive, this study emphasized the relational dimension as a two-dimensional construct, comprising trust and commitment. Experiential market knowledge consists of experiential business and institutional knowledge. Based on the discussion of social capital, the network approach and the concept of the knowledge of the firm, the following main arguments were put forward:

(1) Networks as governance structures are conducive to the development of social capital.
(2) Social capital increases experiential market knowledge.

As the study deals with different concepts that stem from different research traditions, an integrated framework was needed. Hence, the phenomenon under investigation was modelled and tested empirically. The interrelations between social capital and experiential knowledge acquisition were analysed with a sample of 280 Finnish exporting firms. The data were analysed with LISREL 8.5 (Jöreskog and Sörbom 1993), which is a statistical structural method. In the first stage, factor analysis provides a confirmatory measurement model that specifies the properties of the constructs. Then the causal relations between the constructs were analysed. In the LISREL program these separate analyses were conducted simultaneously.

The results indicate that (1) networks as a unique type of governance structure proved to be conducive to experiential market knowledge acquisition. This means that the means of communication are relational; actors develop business relationships through exchange. As a result of these relationships, the environment is shaped and mutual interests fulfilled. This interacted and enacted environment means that markets must be seen as dynamic networks. (2) The empirical part indicated that the main constructs are commitment and cognition and experiential business and institutional knowledge. Commitment plays an important role in international business relationships. Commitment and cognition have a positive influence on experiential business and cognition on experiential institutional knowledge. However, an unexpected result was obtained as the construct of trust was not significant. Nevertheless, commitment and trust are correlated, and collinearity was demonstrated between them.

Key words: Social capital, International Business Networks, Commitment, Experiential Market Knowledge, Governance Structure, LISREL

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1. Introduction

1.1 Discussion the problem area

The main thesis of this study is that social capital in a network setting is a valuable source of experiential knowledge acquisition. Networks as a unique type of structure constitute a valuable source of experiential knowledge. In this kind of structures, relation-specific aspects such as commitment and trust are of the utmost importance.

Social capital has been a fashionable topic lately. Many studies have used this concept (Barner-Rasmussen 2003, Yli-Renko, Autio & Tontti 2002, Nahapiet and Ghoshal 1998) in the context of management research. Most often, its use has been proposed in the context of networks. However, as there are over ten different network approaches with different focuses, more precise definitions of network are needed. Few studies have applied social capital in a network setting with the IMP group approach (Industrial Marketing and Purchasing Group, IMP[1]) and tested it rigously.

This is without doubt an important omission, as the IMP Group has collected data from approximately 1000 business relationships between industrial suppliers and customers in five European countries (Ford 1990, Håkansson 1982; Turnbull & Valla 1986). IMP-centred work is carried out mainly in Europe, and its basic goal was originally to understand and explain dyadic behaviour processes (Möller1994). However, it has broadened its focus to view any company’s business context in a holistic way.

In an attempt to contribute a better explanation for the social capital concept in the context of international business, this study demonstrates a model that explains experiential knowledge acquisition in a network setting. The choice of

[1] The IMP (Industrial Marketing and Purchasing) Group was formed in 1976 by researchers from five European countries. Based on the cornerstone of the interaction approach (1982), the Group has worked since then with issues of business relationships and the wider networks of which they form part.

the IMP Group's network approach to business relationships is based on the three arguments described below: firstly, business networks are viewed as structures that are built of three main building blocks: business actors, activities, and resources. Interdependency is created in this structure by actor bonds, activity links, and resource ties that bind the companies together (Halinen, Salmi & Havila 1999.) In networks, value is created by combining heterogeneous resources controlled by actors. Secondly, social exchange creates actor bonds, which in turn influence cooperation positively. Actor bonds, trust and commitment, are processes that constitute an organized structure in networks. This structure is important for knowledge flows. Finally, relationships are most often long-term and are based on mutual commitment between parties. Hence, networks form a unique type of governance structure. As the development of business relationships is a long-term process, it offers space for experience and knowledge acquisition.

Based on these arguments, a model that explains experiential market knowledge acquisition in a network setting and confirms relations between explaining and explained variables was built. The emphasis is on relational governance. The data are cross-sectional, consisting of Finnish exporting firms. They represent all sizes, except the very small. The data confirmed that both the relational aspects, such as commitment, and cognitive aspect such as cognition, influence experiential market knowledge acquisition positively.

This study made three significant contributions to international business literature. First, it discussed international exchange and addressed creation of social capital. Secondly, a significant contribution has been made by integrating social capital, its dimensions, a modified network perspective, and experiential market knowledge into the framework. Finally, the role of international relationships in the acquisition of experiential market knowledge has been examined empirically and networks as a unique type of structure was confirmed.

The main methodological contribution of this study is modelling phenomenon that explains the phenomenon experiential knowledge acquisition. Moreover, it succeeds in identifying the relational dimension as two separate constructs. Trust and commitment are relational dimensions, but only commitment appeared to be significant in relation to experiential business knowledge. However, strong interdependency between these two dimensions was confirmed. Moreover, empirical tests confirmed that the influence of cognition was strongest. The study provided 18 measurement models, six regression models, and two structural equations. All these were tested empirically.

1.2 Nature of the research phenomenon

To shed light on the general research area of this study, the following quote by Penrose (1959: 53) is still topical.

"*Knowledge comes to people in two different ways. One kind can be formally taught, can be learned from other people, or from the written word, and can, if necessary, be formally expressed and transmitted to others. The other kind is also the result of learning, but learning in the form of personal experience.*"

Learning from other people takes place through social action and interaction. Thus, new knowledge is created through two processes: combination and exchange Schumpeter (1934, Moran & Ghoshal 1996). The concept of social capital (Bourdieu 1986, 1993, Putnam 1995, Nahapiet & Ghoshal 1998) is used in this study as it provides a fruitful conceptual tool for analysing relationships as a resource for social action. Accordingly, the main concepts and the relations between them are social capital, exchange, and experiential knowledge. All these concepts are applied in a network setting according to the IMP group (Industrial Marketing and Purchasing Group, IMP).

One important way of learning for firms is to acquire knowledge from international business relationships. Hence, business relationships in network settings offer an important frame for explaining knowledge acquisition. Even though knowledge acquisition is theoretically well illustrated for example by Nahapiet and Ghoshal (1998), empirical proof of this process seems to be lacking.

1.3 The research problem, questions and the aim of the study

Thus, the key problem addressed in this study is the real-life relevance of knowledge acquisition through network relationships within the context of international business. An exchange relationship within which knowledge acquisition takes place is examined in the context of international business relationship. From the focal firm's point of view, the context is the relationship that it perceives to be relevant and to which it is connected (Halinen, Salmi & Havila 1999; Anderson, Håkansson & Johanson 1994). There is a difference between the two basic levels. On the one hand, the network approach treats individual exchange relationships as interconnected, and on the other hand the dyad focuses attention on a single relationship (Mattsson 1997). However, every single relationship is part of the wider network horizon in which the firm is embedded. The nature of interconnectedness is important as knowledge flows from different levels without any resource inputs. From the network perspective markets are seen as interactive, responsive, reactive, and interconnected exchange relationships (Johanson & Mattsson 1993). International business relationships are important for knowledge acquisition since they are bridges for knowledge. In order to obtain knowledge, a firm has to know how to handle these international business relationships.

In spite of the huge amount of research in the field of network and experiential knowledge acquisition, a coherent theory for explaining the interrelation between attributes of business networks and experiential knowledge acquisition is still lacking. This research seeks to contribute to the discussion of social capital by developing the model that describes the relation between social capital and experiential knowledge acquisition in an international network setting by developing the following arguments based on the contention that social capital in a network setting is conceptualized according to the structural, relational, and cognitive dimension. This study argues that the social capital approach in a network setting will reveal more profoundly that the relational and the cognitive are the most important dimensions of social capital. In addition to the three dimensions, structural, relational, and cognitive, the relational dimension of social capital has two main constructs in a network setting, namely trust and commitment.

As the networks form a unique type of governance structure, trust makes possible a third type of governance mechanism in addition to markets and hierarchies. According to Håkansson and Snehota (1995), informal mechanisms through which activities are directed in the field might be more effective than markets and hierarchies. As networks are characterized by interconnectedness and mutuality, they form benevolent conditions for creating social capital. As actors are connected to each other and their behaviour is based on mutuality, it is likely that in addition to the elements of social exchange, there are also financial, product, services, and knowledge that are exchanged.

Social capital in turn is created in business relationships. Relational interdependence is the outcome of exchange. Social capital increases interactions and accordingly creates new social capital. During these interactions actors learn about each other. Thus, these relationships provide a platform for knowledge acquisition. Based on these facts the following arguments are put forward:

(1) Networks as governance structures are conducive to the development of social capital.
(2) Social capital increases experiential market knowledge.

Social capital is a multidimensional, consisting of a structural, relational, and cognitive dimension. They are important for experiential market knowledge acquisition. However, in a network setting, relational and cognitive dimensions are of the utmost importance. Experiential market knowledge has two aspects, business and institutional.

The above broad issues are the focus of this research and we ask how can we most effectively capture the phenomenon of experiential knowledge acquisition in international business relationships? This broad question is divided into specific questions:

1. How can experiential market knowledge acquisition in international business relationships be modelled?
2. What factors explain experiential market knowledge acquisition in international business relationships?

This study tries to answer these research questions by developing constructs of social capital and experiential market knowledge and then combining these constructs first into the hypothetical model. First factors are identified and then the model is built step by step. This final model is intended to capture essential features of the phenomenon under investigation. The essential features are those factors that are confirmed most relevant for experiential knowledge acquisition. The perspective that is used in this study anchors social capital theory and the network perspective. Accordingly, the social capital framework is adapted to a network setting. The purpose of this study is to develop a model that describes experiential knowledge acquisition in international network setting.

To answer the research questions given above, the concepts related to the research phenomenon have first to be identified. This is done by developing the theoretical framework that is based on synthesized literature, the concepts, and the linkages between them. A tool for developing this framework is called conceptual analysis.

Conceptual analysis is a process that aims to solve a conceptual problem; the outcome can be a new concept, refinement of existing concepts, or a new conceptual system (Näsi 1980). For the conceptual analysis, a framework is built. On this framework, a hypothesized structural equation model is built. According to Näsi (1980: 10), the outcomes of a conceptual analysis are new concepts that the researcher has developed or the refinement of previous concepts particularly when the researcher finds previous concepts ungrounded or unjustified. The ultimate goal of this deductive study is to confirm the hypotheses postulated from the framework. By confirming the hypotheses a model is built. Accordingly, the aim is to model the phenomenon.

1.4 Positioning the Study

The phenomenon of exchange is a key concept in many social sciences, and the phenomenon is seen as a relational process in the field of International Business [2] (Mattsson 1997).

Furthermore, there has been increasingly widespread interest in researching international business relationships and networks. The dominant paradigms of IB are based on extension and cross-border management paradigms (Toyne & Nigh 1998). The focus of these paradigms has been on examining single firms that operate internationally or globally. The unit of analysis is a firm, separated from the environment by a distinct boundary. In contrast to this view, exchange relationships can also be used as a unit of analysis because a better understanding can be obtained by examining the other party's contribution to a joint action. This Emerging Interaction Paradigm (ibid.) presents international business as a multi-level, expansive, and socially constructed process that evolves over time. This is a sharp contrast to the view that sees business and social processes as separate phenomena. International involvement and activities of the firm are a social phenomenon called International Business. Toyne (1989: 3) sees international exchange as the foundation for theory building and states the following: *"International business is an <u>exchange process</u> involving relationships, inputs, and outputs, between social actors located in different countries."*

Most importantly, international business is not solely the result of unsatisfied needs and wants, but a result of relationships (ibid.). He argues that the concept of exchange can be used as a bridge between the micro issues of behaviour and the macro issues concerning the structure and behaviour of international

[2] International Business=IB

industries and markets. He contends that exchange is a key concept, and as a concept it is broader in scope and of higher abstraction than a firm.

Social capital is the result of social relations between individuals. Social capital theory focuses on the significance of relationships as a resource for social action (Nahapiet and Ghoshal 1998, see also Baker 1990, Bourdieu [986], Burts 1992, Coleman 1988, 1990, Putman 1995). Relational issues have been studied extensively by using Social Exchange Theory (SET). This theory helps to explain the dynamics of social exchange. The basic assumption of SET is that the outcome of exchange is either economic or social. Relationships are the positive outcome of a social exchange process during which trust and commitment are developed. Relational exchange is used to describe interactive business relationships, which are characterized by different kinds of bonds. The Industrial Network Perspective is used in this study and it has been advanced by the IMP Group (Ford 1979, 1980, 1982, 1984, 1990, 2002, Easton 1992, Easton and Araujo 1996, Håkansson & Snehota 1995, Mattsson 1985, 1986, 1997, 2003). According to the IMP (The Industrial Marketing and Purchasing) perspective, business events can only be understood in their social, cultural, and historical context.

The disciplinary background of network and interaction approach lies in social exchange theory. In addition, the network theory is also based on systems theory and the theory of social structure (Möller 1994). This study makes a contribution by combining social capital (Nahapiet & Ghoshal 1998) with the Industrial Networks Approach (Mattsson 1985, Håkansson 1987, 1989, Axelsson and Easton 1992). The interrelationship between social capital, its main dimensions and experiential market knowledge acquisition is examined. This provides a model for testing and further elaboration and finally a new model is presented.

However, this study focuses on the exporter side of business relationships. Accordingly, an individual firm is a basic analysis level. Prior research on the internationalisation of firms has examined the process as if it were implicitly interactive, as it is driven by "experiential learning" (Korhonen, Luostarinen, &

Welch 1996). However, interorganizational learning takes place between actors located in different countries. Taking one side of exchange relationships as a unit of analysis, the outcome of interaction can be assessed.

Hence, the relation between experiential market knowledge acquisition and the dimensions of social capital is not explicitly examined. Accordingly, a model that incorporates the overall argument in the form of a set of hypothesized relationships between different dimensions of social capital and two different dimensions of experiential knowledge is presented, developed, and finally confirmed.

1.5 Contribution of the study

The main theoretical contribution of this study is to present a model that describes experiential knowledge acquisition. It succeeded in combining different schools of thought into a cohesive model. It also succeeded in identifying the most relevant factors influencing experiential knowledge acquisition. As early as 1990, Ricks, Toyne and Martinez [3]argued*: "Gone are the days when purely descriptive or explorative pieces of work can be expected to make major contributions."* According to them, theory building occurs in international business and they found reasons for this in growing appreciation for international issues and the ability to undertake more complex and rigorous empirical studies. Following these guidelines and principle, this study seeks to meet these challenges.

The overarching contribution of the thesis lies (1) in developing a tool for analyzing social capital and its impact on experiential market knowledge and (2) in expanding the conceptual framework by integrating social capital theory into network approach. More specifically, this study argues that the social capital framework has been biased, more often taking consideration of the structural dimension as an expense of relational dimension as trust and commitment, and the cognitive dimension. In particular, the relational aspects

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[3] Recent Developments in International Management Research, 1990, Vol 16, No 2, p 239

of trust and commitment in a network setting are important. In this setting, commitment plays an important role. The commitment is to relationships and the future, which in a network setting has an important role. These relationship-specific concepts trust and commitment are of the utmost importance for understanding how the actors behave. (3) The main empirical contribution is verification of the relational and the cognitive dimensions as the most important factors influencing experiential market knowledge in the context of Finnish exporting firms. (4) Using a network approach, the research integrates all aspects that are proved important. Firstly, the structural aspect as interconnectedness; heterogeneous resources are combined in networks. In networks, structural and relational embeddedness is important. Secondly, actor bonds are the result of interaction and connect actors. Thirdly, human beings behave on behalf of organizations. Each actor carries an interpretation of the characteristics of the network. This interpretation forms the cognitive dimension of social capital. (5) Adopting the Evolving (or Emerging) Interaction Paradigm as a research paradigm (Toyne & Nigh 1998: 863-876), the phenomenon is analyzed by using a focal actor as the unit of analysis and is combined into a single framework.

1.6 Limitations of the study

As the focus of this study is business relationships and networks in the context of international business, the following limitations were made:

In many studies, some ten different network approaches have been identified. The most common approach is social networks (Wellman and Berkowitz 1988, Alba 1982, Burt 1988, Cook and Emerson 1984 as cited in Iacobucci, 1996), because it is generally acknowledged to be the precursor of all other approaches. But as social networks are dominated by actors and their social exchange relations, a shift in focus to business activities is also needed. Accordingly, a network can be studied from many angles and perspectives. The Industrial Networks perspective has been chosen because this approach has the three main elements, actors, resources and activities and it is also used in an international context (Mattsson, 1985, Håkansson, 1987, Axelsson and Easton, 1992, Håkansson & Snehota, 1995).

In the empirical part, the following limitations and deficiencies are acknowledged. Firstly, sample size is small, however effective sample size exceeds Critical N. Moreover the response rate was low. However firms which operate in industrial markets are not categorized as such. For this reason, a random sample technique was used to obtain a response from those who are expected to have international industrial business relationships. The data have been analyzed by using the LISREL method; it is a modelling method that uses a structural equation technique. The LISREL 8.5-program has both advantages and also disadvantages. The primary advantages of LISREL lie in its ability to test the significance of indicators and constructs simultaneously across the model (Berggren, Olofsson & Silver 2000). The program indicates relations that are not suggested and the necessary modifications can be made. In the first phase, factor analysis is used to build up proper constructs. In the second phase, causal relations are analyzed. This study also used explorative factor analyses to identify the proper constructs. This phase was needed as the constructs must be solid. The LISREL program is based on an assumption that is not necessarily always met when studying social phenomenon. There are several estimation methods that do not assume that data is multinormally distributed. However, they do not deliver the fit indexes, t-values and equations that are important for identifying the model that best describes the phenomenon. By using the LISREL program, the data can be analyzed from different perspectives. However, the ultimate goal is to present model in which these assumptions are also fulfilled.

1.7 Outline of the study

The study is divided into five main chapters: (1) Introduction, (2) Theoretical and Conceptual Foundations, (3) Framework, (4) Method and Empirical Analysis and finally (5) Concluding Discussion. Every chapter is also divided into several sections. This first chapter, the introduction, presents the research design. The research phenomenon is described, along with its relevance to the research.

Chapter two lays the theoretical and conceptual foundations for the study. The aim of chapter two is to position this study in terms of the concepts and perspectives of interest within the relevant scientific discussions in order to specify and justify the theoretical model. Hence, the chapter includes a discussion of the theoretical basis of the variables to be used and develops the latent variables. First, the concept of social capital is introduced. Then, the social exchange theory introduced as for the basis of network thinking originates from this theory. In section 2.3, the discussion is directed to the network approach. The discussion of networks is built on the Industrial Network approach, (Mattson 1985, Håkansson 1987, Axelsson & Easton 1992, Håkansson & Snehota 1995). The disciplinary background of the Industrial Network approach is based on research of the Industrial Marketing and Purchasing Group. After section 2.3, section 2.4 discusses the concept of knowledge, by first focusing on knowledge creation and then on internationalization process models. The discussion of this chapter is combined into a framework (chapter 3) that paves the way for analyses in the rest of study.

Chapter four consists of the empirical part and method by presenting a Confirmatory Factor Analysis. Section 4.3.1 describes the data collection. Sections from 4.3.2 to 4.3.8 are devoted to empirical analysis. The empirical research is based on data from 280 Finnish exporting firms. These firms represent all industries and all sizes except the very small. Hence, the data are cross-sectional.

Chapter five is devoted to a concluding discussion. It presents the main results, compares them with previous studies, and summarizes the contributions of the study. In addition, it suggests ways in which the findings made in this study may be applied to future studies.

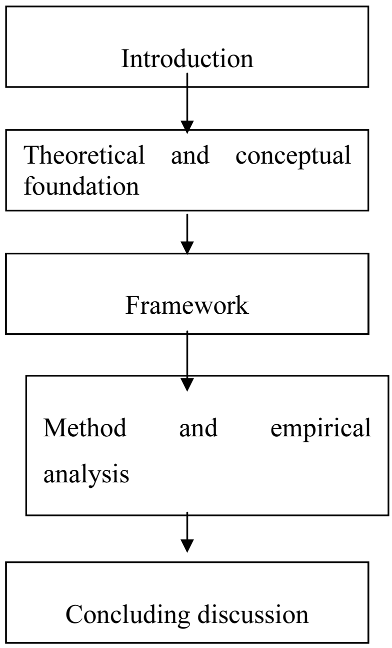

Figure 1: Structure of the study

2. Theoretical and Conceptual Foundations

2.1 Introduction

Chapter two discusses the theoretical basis of the study. Chapter three integrates concepts into a holistic framework. A theoretical framework is based (chapter two) on synthesized literature and the concepts and linkages between them. In addition, chapter three presents the arguments, and hypotheses. Conceptual analysis is a process that aims to solve a conceptual problem; the solution can be a new concept, refinement of existing concepts, or a new conceptual system (Näsi 1980). Based on the conceptual analysis, a framework is built. According to Näsi, the basic elements in a conceptual analysis are concepts that others have developed as well the concept that the researcher has developed. The main function of conceptual analysis is to provide a framework of constructs and links between the constructs. The main objectives, limitations, identification of the main phenomenon, and postulation of the hypotheses are carried out with the framework.

There has been a long tradition of treating social relations and business relations separately. The concept of economic man treats actors of the firms separately from the social environment. In sociology, the environment has an effect on human behaviour and in economics firms act in an environment. However, between these polar types of structures, the 'oversocialized' and 'undersocialized' (Granovetter 1985) systems, there is a third type based on Oliver Williamson's "market and hierarchies" research program (1975; 1981). The basic feature is the embedded nature of firms and actors. This concept refers to the fact that firms and actors are embedded in different social, political, cultural, economical, technological, and historical contexts. This context is meaningful for understanding human behaviour and in this study firms' behaviour. Thus, the concept of embeddednes extends the analysis into a broader social context, of which the firm is part. Accordingly, the basic argument is that firms are constrained by the broader social relations in which they are embedded. For this reason, the concept of social capital is introduced to capture both social and economic aspects. It can be used as an umbrella for analysing firms' behaviour in its wider context.

The aim of this study is to integrate different perspective into a cohesive whole. Thus, the concept of social capital is a tool for this purpose. The next section of this study presents it first from a broader perspective and then in terms of management studies in particular. The whole study proves its usefulness. The main concepts of this study are: social capital, social and relational exchange, networks perspective, and experiential market knowledge. These concepts are discussed in logical order as described below.

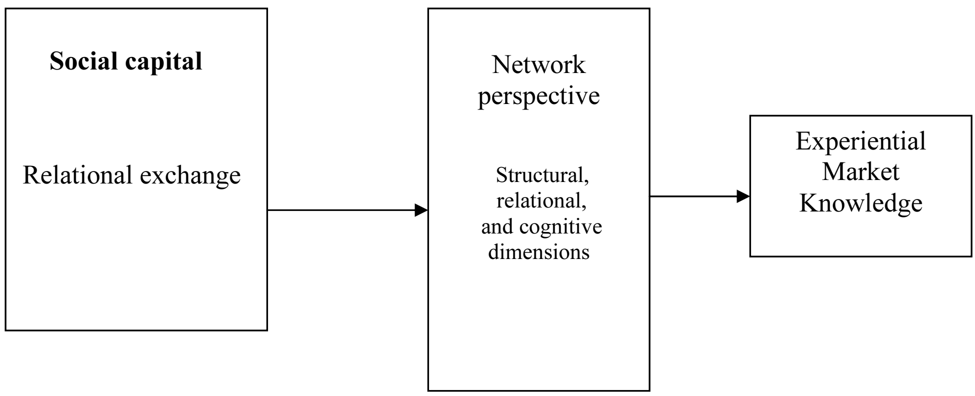

Figure 2: Rationale for chapter two

2.2 Social Capital

Social capital has been examined in many sciences. Especially political science, economics, and sociology (Coleman 1990, Putnam 2000, Burt 1992) have examined social capital in different contexts and lately other social sciences like management studies (Nahapiet & Ghoshal 1998) have also used this concept. The section mentions them briefly and concludes by examining social capital in the management context.

There are many forms of capital: physical, financial, human, and social capital. The French sociologist Pierre Bourdieu (1986) was one of the first scholars to use social capital in the context of networks. In his book"Forms of Capital", Bourdieu expands the notion of capital beyond its economic conception to include immaterial and non-economic forms of capital, particularly cultural and symbolic capital. According to Bourdieu (1986), an individual's social capital is determined by the social group to which he belongs. He has approached social capital from the perspective of social differences in society.

Physical capital is wholly tangible: human capital is less tangible being embodied in individuals' skills and knowledge. Social capital is even less tangible: it is embodied in relations between people (Coleman 1990). The first two forms differ from the latter in respect to ownership. Social capital is jointly owned, whereas financial and human capital is mainly owned individually. In addition, individually owned social capital is also aggregated into the social capital of organisation (Burt 1992). Social capital, however, is a public good (Coleman 1990). Good relationships with neighbours are something in which you cannot invest and expect to receive a return. They, however, increase your welfare. Like other forms of capital, social capital, is also productive and is inherent in the social structure that exists between people (ibid.)

The term social capital was introduced by Loury (1977; 1987 [Coleman 1990: 300]) to refer to resources and stems from social relations that are beneficial for people. It is the result of social relations between individuals. Empirical evidence shows that people develop relations with people like themselves [Burts 1992: 12] e.g. Fischer 1982, Marsden 1987, Burt 1990). How people vote seemed to be related to their contacts and friends. This kind of thinking originates from social capital thinking. (Lazarsfeld, Berelson, & Gaudet 1944, as cited in Burt 1992). People tend to develop relations with people like themselves. It is obvious that people who share the same social background, have similar status, and live in the same neighbourhoods usually meet each other often. Relationships tend to emerge. Further, they continue to meet more regularly if they share the same values and interests; hence they develop friendships. They continue to maintain their relationships. Thus, social networks emerge as groups that tend to be similar in attitudes and values and different from external groups. (Burt 1992)

Different ties between people are the result of interaction and they vary between people according to their strength. Hence the 'strength' of the tie (Granovetter 1973) is a combination of the amount of time, emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterise the tie. In addition to strong ties, people are connected into a wider environment by so - called weak ties, which mean that they are influenced by the wider social structure in which they embedded (ibid.). Granovetter (1973) argued in his dissertation that men almost never found a job from a close contact, but instead quite often through a distant acquaintance. Thus, in 1973 he published the widely cited article "The Strength of Weak Ties".

Some aspects of the social structure are always important in social capital. Coleman paid attention (1990) to closure of networks. Close closure tends to create more trust, whereas open structures tend to decrease social capital; trust and norms are violated. In contrast to Coleman's argument about closure, Burt (1992) contends that a sparse network provides more benefits than a dense network. This is based on a structural hole - a relationship of no redundancy between two contacts, acting as a buffer; hence the benefits are additive rather than overlapping (ibid.) How the structure of networks influence economic activities is illustrated by Granovetter (1973), Coleman (1990), and Burt (1992). Granovetter's concept of embeddedness refers to the fact that actors (firms) are part of wider social, political, and cultural environments. All these influence an actor's behaviour. Burt argues that social capital is the final arbiter for competitive success (1992: 9) as competition is never perfect; a company needs both financial investment and investment in social capital to make a profit. Capital movements are complex and in those movements knowledge about actors is needed. This knowledge is gained from relations with other actors.

Putnam (1995, 2000) made the concept of social capital internationally well-known and widely recognized. He was the first to import the concept into economic studies by noticing its relevance for economic development; social capital made it possible to establish a higher level of output (Helliwell & Putnam [Putman 1993, 1995] 2000: 253) His work is based on Coleman's ideas. In his work in 1993, Putnam argues that social capital is a feature of successful communities. These communities are reflected by trust, reciprocity, and strong social norms (Kostova & Roth 2003). Putnam's 2000 seminal work "Bowling alone" showed the decline in social capital in quantitative figures since the 1960s. His work shows how social bonds predict life satisfaction. The decline in social capital can be perceived by lower educational performance, child suicides, and more teen-age pregnancy. It also predicts crime rates and poor health. Countertrends emerged through the growth in political, civic, and religious tie, and connections at the workplace and informal connections. He believes that these, will offset the decline in social capital.

Social capital has been studied in many fields of science, and as a result, its definitions vary. All these definitions share the common view that social capital is a positive concept that facilitates all kinds of activities including the acquisition, transfer, and combining of knowledge. Social capital concerns the significance of relationships as a resource for social action. Social capital thus comprises both networks and assets that can be set into motion (Nahapiet & Ghoshal 1998). As the focus of this study is international business relationships in the context of International Business, the definition [Bourdieu 1986, 1993, Putnam 1995] as cited in Nahapiet and Ghoshal (1998:243) is adopted. According to them, social capital can be defined as *'the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit '.*

In the context of organizational studies, social capital deals with sources of organizational advantages. Social capital is conceptualised in terms of three dimensions: the structural, relational, and cognitive dimensions. (Granovetter 1992; Nahapiet et al. 1998; Putnam 1995) The structural dimension is an overall pattern of connections between actors. The relational dimension is the history of interactions of the people who constitute the network. Concepts such as trust and trustworthiness (Putnam 1995), norms and sanctions (Coleman 1990), expectations, identity and identification (Burt 1992) are proposed. Lastly, the cognitive dimension includes shared representations, interpretations, and systems of meaning among parties. Concepts such as “alignment” or “shared mental models” have been recognized within strategic management. [4]

Organizational advantage is social, according to Nahapiet and Ghoshal (1998). They focus on interrelationships between the above mentioned dimensions and intellectual capital. The consequences of social capital are the following aspects: increase in efficiency, decrease in the costs of transactions, and cooperative behaviour (ibid.). Finally, social capital has been shown to be an important factor in the development of human capital Schumpeter [1934, Coleman 1988], as cited in Nahapiet et al. (1998)]. They (ibid.) implicitly suggest that social capital reduces costs (see also Putnam 1993). When opportunistic behaviour diminishes and trust increases, the costs are reduced. Moran and Ghoshal (1996, cited ibid.) claim that new knowledge as a resource is created through two generic processes: namely, combination and exchange.

The differences between the definitions of social capital depend on whether we analyze it within an individual firm or between firms. The first group of definitions focuses on internal ties within an individual firm collectively, whereas in the second group the focus is on external relations. The main difference between these two types of definitions is that the first one is a bonding view, which focuses on actor’s internal characteristics. The second bridging view sees social capital as a resource that links a focal actor inside the firm to other external actors. (Adler,& Kwon 2002) Social capital increases opportunities to enter networks. By occupying a central position, a firm is able to access resources, one of which is knowledge. Social capital theory focuses on the significance of relationships as a resource for social action (Nahapiet et

[4] This study uses IMP (Industrial Marketing and Purchasing Group) terminology from here forward when defining and using the concept concerning these dimensions. (The concepts, Figure 3, are examined in detail in section 2.3)

al 1998, see also Baker 1990, Bourdieu 1986, Burt 1992, Coleman 1988, 1990, Putman 1995).

Based on discussions of embeddedness (Granovetter 1992, as cited in Nahapiet et al. 1998), relational embeddedness refers to a whole set of relationships that actors have developed as a result of exchanges. The relationships take time to develop. No company is an island in today's business world. Each one is locked into a complex network of relationships (Ford, Gadde, Håkansson & Snehota 2003). These aspects will be dealt with in the sections in detail. The next section starts by examining the social exchange theory.

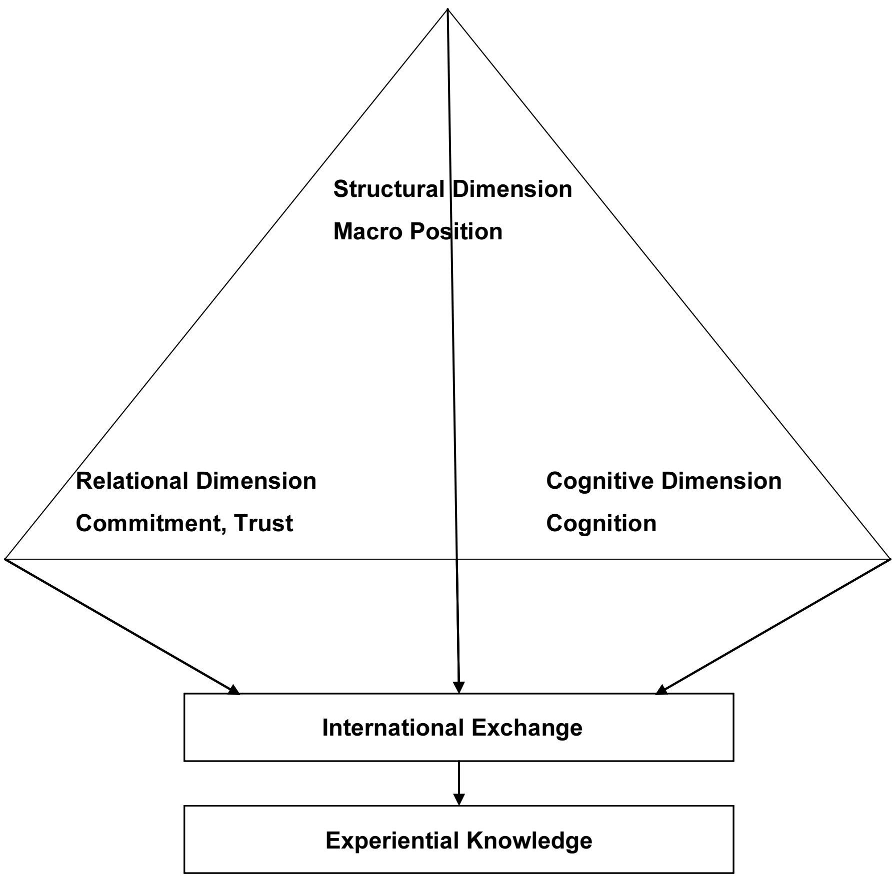

Figure 3: Social capital

2.2.1 Social Exchange Theory

Toyne (1989: 3) argues that International Business is an exchange process that involves relationships, inputs, and outputs, between social actors located in different countries. In his discussion he uses exchange as a unifying construct since it is on a broader and higher level of abstraction than the firm. International business relationships require developing business relationships across national borders. It is surprising that in spite of the fact that the conceptual domain of International Business is to a large extent about cross-border exchanges, there has not been much research on studies of international business relationships. International exchange is a very common form of international business. Therefore, many scholars have recently focused on the relational concepts of trust and commitment.

Social Exchange Theory (SET), which is a social behaviour theory, has been used extensively by marketing scholars to explain business-to-business[5] relational exchange (Lambe, Wittman & Spekman, 2001). Blau (as cited in Lambe et al. [1964]: 4) was the first person to use the term ”theory of social exchange” to describe social interaction as an exchange process.

Social Exchange Theory helps us to understand the dynamics of the exchange process. It focuses on the relationship between exchange parties. Resources that are exchanged are not only tangible, but also intangible. The basic assumption is that parties enter into and maintain relationships and they expect to get rewards (as cited in ibid [Blau 1968, Homans 1958]. Besides economic outcomes, social aspects are also involved. Thus, the outcome of social exchange is a relationship during which trust and commitment have developed. According to Blau (cited in Lambe et al.) [1964], reciprocal actions create trust and commitment. Trust and commitment indicates of successful exchange process. During this process, interdependence also develops. These attributes of trust and commitment are examined in more detail in section 2.3.7.

[5] business-to-business=BtoB

The core of SET is firstly the relational interdependence that develops over time through the interactions of the exchange partners. (see also Dwyer, Schurr & Oh 1987; Hallen, Johanson, and Seyed-Mohamed 1991) Secondly, it explains relationship-based governance. (Lambe et al. 2001). Social exchange involves individuals, which in this research setting is important for firms' behaviour. Individuals behave on behalf of organisations. Social Exchange Theory focuses on relationships that are also of interest to this research, since key variables such as trust and commitment are developed in them.

2.3 Network Approach

2.3.1 Introduction

The aim of this chapter is to present the basic features of networks of interorganisational relationships that are examined in this study. The roots of network thinking can be traced back to the mid- 1970s.

Approximately ten different network approaches have been identified. Accordingly, networks can be studied from many perspectives. The approach which is most often referred to is social networks (Wellman & Berkowitz 1988, Alba 1982, Burt 1988, Cook & Emerson 1984 in Iacobucci, 1996), because it is generally acknowledged to be the precursor of all other approaches. However, this study adopts the Industrial Networks perspective, because this approach examines business to business relationships in industrial markets and it can also be applied to business processes in international settings (Mattsson, 1985, Håkansson, 1987, Axelsson & Easton, 1992, Håkansson & Snehota, 1995).

The study of networks in the context of internationalisation started in the 1960s and early 1970s. According to a number of researchers (Carlson 1966; Luostarinen 1968, Håkansson & Wootz 1975a-c; Korhonen 1999) exchange is a joint act. It is foreign cooperation, in which both the buyer and the seller are equally important.

The paradigm shift from distribution and relationship marketing studies to examining networks started in Uppsala (Carlson 1966). There are two reasons for this. Firstly, in the 1960s Swedish industry started to internationalise and also discussions about European integration, the European Economic Communities (EEC), and the European Free Trade Area (EFTA) started. Hence, the importance of knowledge about international operations and markets was also widely recognised. Furthermore, the observations that firms gain such knowledge only through experience and conducting such activities also increased (Luostarinen 1970, 1979, Hörnell, Vahlne, & Wiedersheim-Paul 1973, Johanson & Vahlne 1977 as cited in Johanson & Mattsson 1993). The impulse for the network approach was obtained from the observation that in Swedish industrial markets, relationships were long-lasting with a small number of customers. This observation was based on the fact that Swedish international business consisted mainly of industrial and organisational buyers (Johanson & Mattsson 1993).

Internationalisation, technology, the adaptation of innovations, and the overall efficiency of industry were recognized as important factors that influence not only the welfare of society, but also the competitive advantages of firms. Thus, the Swedish government and private sector promoted ideas and researches related to these issues.

As early as 1975 in Uppsala, Håkansson and Wootz (1975a) also started to study interaction based on social exchange theory. In their studies both buyers and sellers proved to be active. In the first phase of their research the problems were regarded as intraorganisational instead of interorganisational, where the focus should be. However, the shift to an interactional approach was advanced by the IMP Group, which collected data from approximately 1000 business relationships between industrial suppliers and customers in five European countries (Ford 1990, Håkansson 1982; Turnbull & Valla 1986). IMP-centred work is carried out mainly in Europe and its basic goal is to understand and explain dyadic behaviour processes (Möller1994). However, it is recognised that a relationship is also influenced by the network of each actor. The main goal of the network approach is to understand systems of relationships from a positional perspective (Möller 1994).

As the perspective chosen for this study is the interaction and network approach, the basic assumptions of these theoretical frameworks must be discussed. Hence, literature that is relevant for this study and written by the IMP group is discussed in this section. Even though relationships need two interacting parties, each company has relationships with several companies and they all influence the acting company. This study focuses on the relationship from one company's point of view. This means that a survey is conducted in the context of Finnish exporting firms. Even though the focus is on the individual company level, relationship and network levels also have to be understood and accordingly these levels are described. This study further argues that the social and business aspects of relationships are intertwined and cannot be separated from each other.

To understand the complex phenomenon, four analysis levels are identified according to the managerial perspective (Möller & Halinen 1999). However, here these levels are also considered for conceptual purposes. Level one, the basic network model, forms the basic conceptual tools integrating three key constructs: actors, activities, and resources. Level two forms the basis (position) for analysis of strategic action. Level three is the dyad level, in which two interacting parties form the basis for analysing the relationship. In level four, individual customers form the basic unit of analysis. For developing the basic capability of the company, exchange relationships are of the utmost importance (Håkansson & Snehota 1995). This study focuses on a relationship from a single company perspective. To understand the dynamics of networks, all levels and the nature of characteristics that increase understanding are discussed. Accordingly, the following section combines managerial logic, different levels, (Möller & Halinen 1999) with a conceptual framework called scheme analysis (Håkansson & Snehota 1995).

2.3.2 Network as Governance Structures

Networks are contrasted with market and hierarchical governance structures. Governance is seen as the organizational forms and processes through which activities are directed in the field (Håkanson & Johanson 1993). In contrast to specific governance (Campbell, Hollingsworth & Lindberg 1991), Mattsson (1997) sees networks as an intermediate form of governance between markets and hierarchies and emphasizes the “embedded” nature of the individual relationships and of networks of interconnected actors. According to Håkansson and Johanson (1993), networks form unique type of governance mode. Networks can be perceived by participating actors. Thus, networks are governed by the interests of a number of different actors. Accordingly, actors are linked to other specific actors through exchange relations, and not by market forces. Business organisations operate in various environments with limited number identifiable actors (Håkansson & Snehota 1989). A distinction is made between the internal forces that are based on one’s own interest and external forces that are mediated through specific relations and based on total interplay among actors. (Håkansson & Johanson 1993)

Different analysis levels can be identified in networks: micro, meso and macro levels. In the hierarchy as governance, the basic unit of analysis is a firm, while in the market as governance, arm’s length transactions are theoretically anchored in monopolistic competition. In the relationship approach, the dyad constitutes the micro level unit. When moving to upper levels, we are talking about a network that is defined from a focal firm’s point of view. At the macro level, we see market-as-networks, as networks of interorganisational relationships. The network approach thus focuses on the interdependencies between relationships, and also between more than two actors. (Mattsson, 1997)

The basic difference of the exchange between “market” and “relationship” is the following: in the marketing mix approach, exchange can be analysed without taking other actors into consideration, whereas in relationship-network approach exchange is considered by an actor itself and also by the other actors in the market (market-as-networks) and the nature of exchange is exclusively business in "market" while in "relationship" it is both business and social.[6] (Matsson 1997) Trust makes it possible to have a third governance mechanism in which flexible decision-making is possible (Huemer 1998: 296-297).

[6] See appendix 4

Table 1: Comparison between different types of governance structure in economic systems

Form Key Feature	Market	Hierarchy	*Network*
Micro level	Arm's length transaction	Firm as a unit	*Exchange relationships, Dyad (levels 4,3)*
Meso level	Submarket, segment	Centralised organisation	*Net: The portfolio/similar relationships: a single firm (the focal firm) as a starting point (level 2)*
Macro level/ Nature of Markets	A market is the context in which buyers and sellers confront each other to work out how goods and services are exchanged for money.[7]	Centrally planned economy	*Markets-as-networks Enacted environment (level 1)* *Markets are described as sets of interconnected exchange relationships between actors controlling resources for production.*
Means of Communication	Prices	Routines	*Relational*
Nature of exchange	Business		*Business and social Exchange combines heterogeneous resources.*
Amount of Commitment/trust	Low	Medium to High	*Medium to High*
Resources	Heterogeneous on demand side		*Heterogeneous on both supply and demand side.*
Actor Preferences of Choices	Independent	Dependent	*Interdependent*
External force is based on	General relations Supply and demand		*Consequence of the total interplay among actors, through specific relations.*
Internal force is based on	*Own interest*	*In specific relations, norms*	*In specific relation,* *In ones own interest*

Source: Modified and combined from the following sources: Powell W., W. 1990, Johanson and Mattsson 1993 and Mattsson 1997, Håkansson and Johanson 1993 , Möller and Halinen 1999, Cole 1973

This study argues that the network is a unique type of governance structure that is based on the following arguments: Firstly, business networks are

[7] Cole 1973: 203

viewed as structures that have built of three main building blocks: business actors, activities, and resources. Interdependency is created in this structure by actor bonds, activity links, and resource ties that bind the companies together (Halinen, Salmi & Havila 1999.) Secondly, social exchange creates actor bonds which in turn influence cooperation positively. Finally, relationships are most often long-term and are based on mutual commitment between parties. As developing business relationships is a long-term process, it offers space for experience and knowledge acquisition. Industrial networks dominated by actors and social exchange of actors establish trust and commitment as a result of interactions. Building on relational governance, the aim is to confirm relational specific attributes as important factors in a network setting.

2.3.3 Network Model

The network model is illustrated in this section. The basic network models comprise with three main blocks. These blocks are interact and are interdependent. This model is called ARA (the actors-resources-activities model) (Håkansson & Johanson 1992).

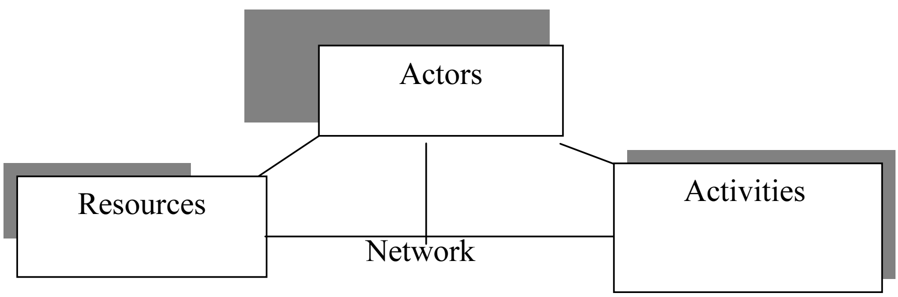

Figure 4: ARA-Model

Source: Håkansson (1987: 17)

The model has three components: actors, activities, and resources. These components are interrelated and they perform complementary or competitive industrial activities. As a result, value is added to resources through the consumption of resources. Actors control resources, some alone and others jointly, and they have certain knowledge of resources. They perform activities and have certain knowledge of activities. Activities link resources and change or exchange resources through the use of other resources. (Gadde & Håkansson 1993)

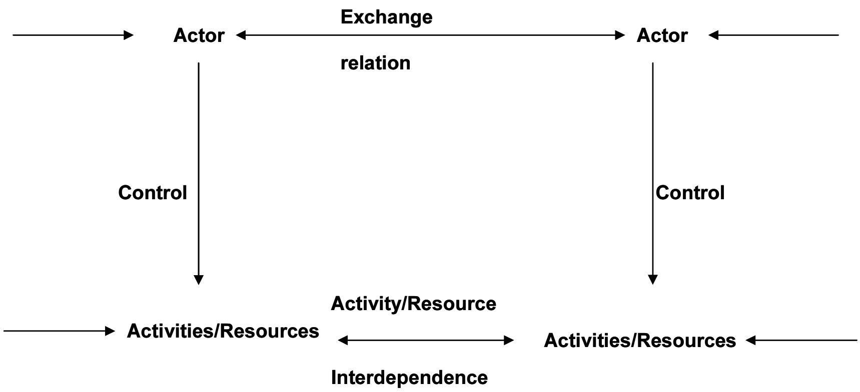

Figure 5: Relations between actors and activities/resources

Source: Håkansson and Johanson 1993: 36

There are two basic types of connection as Figure 5 illustrates. The upper level operates via actors as exchange between actors takes place. "*The role of exchange is to create valuable relationships.*" (Mattson 1997: 454). The other operates via activities. The basic feature is that all activities are interdependent. This means that every activity precedes or follows other activities. Besides physical activities, there may be mental, social, or financial activities. In networks, activities are not delimited, but they form a chain of activities.

The second type of connection operates via actors, through network perceptions or 'network theories', which consists in addition to present relations between actors and activities but also expectations and intentions regarding future relations (ibid.). Actors are theoretical constructs, which can be an individual or a group of individuals, acting on behalf of the company. According to Håkansson and Johanson (1993), actors are assumed to have some basic properties. Firstly they control and perform activities, and they have certain knowledge of activities (Gadde & Håkansson 1993, Håkansson & Johanson 1993). But their knowledge is bounded. The actors' purposeful action is based on their mutuality between them (ibid.).

Time is related to activity connections by emphasising the importance of short-run activities, but as the 'network theories' gain more importance the relations between actors increase their strength. 'Network theory' is the mental map possessed by actors and it is influenced by the total information channelled by actors through exchange relationships (Håkansson & Johanson 1993).

The network model operates under the following conditions: (Håkansson and Snehota 1989: 192)

1. *Business organizations often operate in a context in which their behaviour is conditioned by a limited number of counterparts, each of which is unique and engaged in pursuing its own goals.*
2. *In relation to these entities, an organization engages in continuous interactions that constitute a framework for exchange processes. Relationships make it possible to access and exploit the resources of other parties and to link the parties' activities together.*
3. *The distinctive capabilities of an organization are developed through its interactions in the relationships that it maintains with other parties. The identity of the organization is thus created through relations with others.*
4. *Since the other parties to the interaction also operate under similar condition, an organization's performance is conditioned by the totality of the network as a context, i.e. even by interdependencies among third parties.*

2.3.4 Business Relationships

This section discusses how a relationship is developed. The concept of relationship describes a long-term relation between actors, whereas exchange and interactions refer to short-term aspects.

When two actors start interacting, a relationship develops over time as a result of repeated interactions. Accordingly, a relationship is mutually oriented interaction between two reciprocally committed parties (Håkansson & Snehota 1995). Parties may be individuals or organizations (Håkansson 1982). To examine international relationships we use a framework (Figure 6). Even though every relationship is unique, they share some common features. It is the substance of relationships that is affected.

There are three interrelated layers in the substance of relationships: an activity layer, a resource layer, and an actor layer. First a relationship links activities, then it ties resources and actors become connected. (Håkansson & Snehota 1995) According to Håkansson and Snehota (1995: 26), a relationship between two companies has a profile in terms of activity links, resource ties, and actor bonds.

- *"Activity links regard technical, administrative, commercial, and other activities of a company that can be connected in different ways to those of another company, as a relationship develops.*
- *Resource ties connect various resource elements (technological, material, knowledge resources, and other intangibles) of two companies. Resource ties result from how the relationship has developed and represent in it a resource for a company.*
- *Actor bonds connect actors and influence how the two actors perceive each other and form identities in relation to each other. Bonds become established in interaction and they reflect the interaction process".*

Mattson (1985: 265) identified six different types of bonds. As the focus of this research is experiential knowledge acquisition, his definition is cited: *"Knowledge-based bonds develop through the exchange of information over time two organizations build up knowledge about each other's structure and processes, strengths and weaknesses, problems and opportunities. This knowledge is developed during information exchange as a part of current activities i.e., it is basically a question of experiential learning from both parties' point of view."* He further argues that social bonds takes place between persons and they can be seen as substitutes or complements for formal contracts. In these social bonds mutual trust evolves. (Mattsson 1985)

Bonds arise when actors orientate their attention to each other and start interacting. As this interaction develops further, they learn about each other and mutuality between interacting parties develops. This is a start for developing commitment and trust. Commitment and trust form the qualitative aspects of relationship, and the degree of these aspects varies in every phase and every relationship, since they all are unique. A relationship is a result of activity links, resource ties, or actor bonds between two companies. This kind of structure can be regarded as 'quasi-organization'. (Håkansson & Snehota 1995)

Håkansson and Snehota (1995: 32) claim that relationships between firms have a similar effect to those between persons. Bonds are defined as constraints between firms and such bonds between two interacting parties influence on the company's organizational structure (see Figure 6). Commitment, trust, and identity are defined as processes during which bonds are developed. Organizational structure, actor bonds and a web of actors are intertwined and influence each other direct and indirectly. (Figure 6). Thus, interdependencies, dynamics, and interrelations are crucial.

	Company (Column 1)	Relationship (Column 2)	Network (Column 3)
Activities	Activity structure (1)	Activity links (2)	Activity pattern (3)
Actors	Organizational structure (4)	Actor bonds (5)	Web of actors (6)
Resources	Resource collection (7)	Resource ties (8)	Resource constellation (9)

Figure 6: Scheme of analysis of development effects of business relationships

Source: Håkansson and Snehota, 1995: 45

For every company, the counterpart is important; instead of focusing on the dyad, a single company's view can be examined (Figure 6, column 1). Each relationship affects a company's activity structure, organizational structure, and resource collection. They are not influenced linearly. Instead, all the relationships and the network affect the individual company. It must be noted that an every relationship is unique and qualitatively different.

Firms that become involved with each other through a business relationship do not have any experience of their new partner in the beginning. Thus, there are social, cultural, technological, temporal, and geographical distances between them. In the international context, all these distances may be large. In addition to these business distances, there is what is generally known as psychic distance. It refers to factors preventing or disturbing the flows of information between firm and market. Such factors are differences in language, culture, political systems, level of education, and level of industrial development (Johanson & Wiedersheim 1975). International companies are increasingly part of international networks, which they join and exit.

Besides experience of focal relationships, other networks with which a focal firm has direct or indirect relationships affect the firm. International Business studies cross-border activities in a multicultural context. Thus, psychic distance plays an important role on the international level. Also, the concept has received great attention in network settings (Hallen & Wiedersheim-Paul 1984).

Cultural distance has been proved to be an important factor in the development of relationships. Hallen and Wiedersheim-Paul (1984) suggest three components of psychic distance that have an influence on different levels: cultural affinity, trust, and experience. Furthermore, the following components have proved to be essential for successful relationships, especially in an international context: commitment, trust, customer orientation, experience and communication (Gupta, 1983; Jüttner & Wehrli, 1994; Dion et al., 1995; Dawar et al., 1996; Holm et al., 1996; Conway , 1996; Selnes, 1998; Ali & Birley, 1998; Lin & Germain, 1998 [as cited in Conway, 1999]). International business relationships develop in a process which is influenced by different elements of the interaction process. Interaction takes place in the international environment and distances between the actors consist of different dimensions.

Hallen and Wiedersheim (1984) suggest that the change in psychic distance is a continuous process. They divided the process into the following stages: pre-contact, initial interaction, break-off, development, and mature relation. Moreover, they identified at each stage which of the three determinants of psychic distance has the greatest influence. These determinants exert effects on different levels. Cultural affinity is the most important at the national level, trust on the organizational level, and experience on the individual level (ibid.). Relationships based on trust cause "futurization of the present" (Macneil 1974 as cited in Hallen & Wiedersheim 1984) However, because of the connectedness of different levels in networks, organisational and individual levels are also intertwined. This basic feature is emphasized further in the next section.

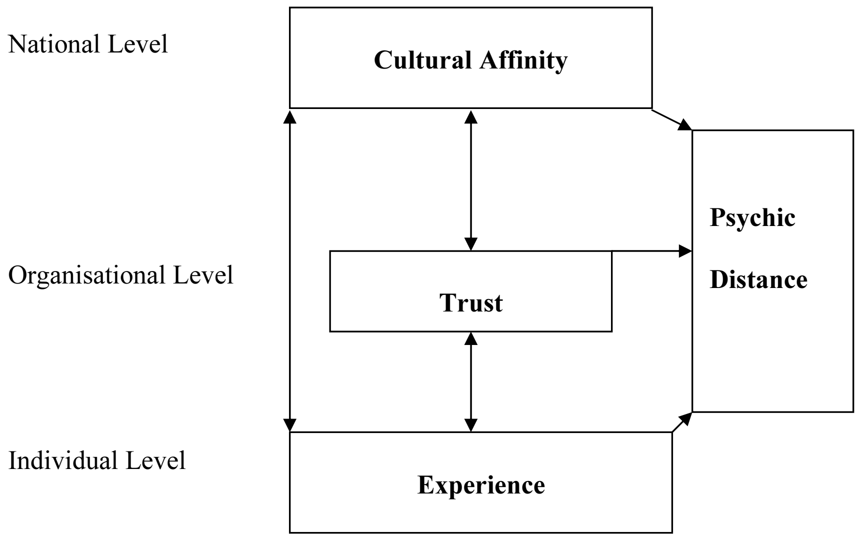

Figure 7: Determinants of psychic distance between firms

Source: Hallen and Wiedersheim-Paul 1984: 18

2.3.5 Relationships as Asset

Relationships are more often seen as an asset (Anderson, Havila & Salmi 2001, Ford et al. 2003). However, investing in relationships is a long-term social process, as a relationship has two levels or aspects, business and social. These two aspects are intertwined (Håkansson 1982, Håkansson & Snehota 1995). Because of the intangible nature of relationships, investment is not easy. Relationships are a multifaceted concept consisting of different hierarchical levels.

Johanson and Mattson (1986) see relationships as an investment: "*Investments are processes in which resources are committed in order to create, build, or* *acquire assets, which can be used in the future."* In addition to what is most often understood as conventional or 'hard' investments, they are more likely to be resources such as people and their time. Such investments render the transaction and accumulation of knowledge more efficient (Hägg & Johanson 1983). "If the partners have a mutual understanding concerning how to coordinate their exchange activities, they are prepared to invest in the relationships and to extend cooperation by including other activities as well. (Holm, Eriksson & Johanson 1996)

Developing business relationships takes time. In 1980, Ford described the development of buyer-seller relationships. He proposed five stages through which buyer-seller relationships proceed. Throughout the evolution, the variables of experience, uncertainty, distance, commitment and adaptation vary. Accordingly, relationships change. These changes occur at the following stages: pre-relationship, early, development, long-term, and final stage. Relationships are first born, then they mature, and finally they die. In their lifecycles there are periods of increasing and decreasing integration.

Instead of focusing on short-term aspects, more and more attention is paid to long-term aspects. Several studies have found out that in industrial markets, firms prefer dealing with known counterparts (Anderson, Håkansson, & Johanson, 1994; Holmlund 2004). Holmlund (1997, 2004) analyzed business relationships and distinguished different interaction levels based on their interconnectedness. She identified five different hierarchical levels, starting from the lowest level, action. She labelled five types of interactions as follows: actions, episodes, sequences, relationships, and partner base. They all exist on five different aggregation levels. Single episodes are important as they may totally change or even disrupt the whole relationship. (Holmlund 1997, 2004)

Interaction involves exchange and adaptation processes. Adaptation is important in several aspects. Bonds between actors strengthen and thus actors become interdependent. There are seldom relationships without problems or conflict; thus parties have to learn resolve problems. Adaptation means change, taking into consideration the other party's perspective. Adaptation also means also mutual orientation and mutual learning. It is the origin of knowledge. (Johanson & Mattsson 1987)

Besides being an economic process, a relationship development is also a social process during which interacting parties build trust and commitment (Håkansson & Snehota 1995). Thorelli (1986) argues that trust is based on past performance and most importantly it is built by personal friendship and social bonds, which are established in day-to-day interaction. The same phenomenon is supported by the study Seppola [8] (2003). Individuals act on behalf of an organisation; they have memory, feelings, and attitudes. Social bonds are the outcome of commitment and in some markets like China, social bonds precede business bonds (Björkman & Kock 1995, cited in Holmlund & Kock 1998). Social exchange is important in reducing uncertainty between parties and it is also critical for the build-up of long-term relationships (Håkansson, 1982, Holmlund 1997). Many aspects in relationships can be spelled out, but mutual trust is more difficult to define. "Building up trust is a social process which takes time and must be based on personal experience, and on the successful execution of the three other elements of exchange." Besides social exchange the other elements of episodes are product or service, information, and financial exchange (Håkansson 1982).

Personal contacts play an important role in gaining knowledge in the Uppsala Model and experience in the market is especially important. Bartels 1968 (cited in Turnbull 1979) argues that marketing is a two-fold process, involving both technical and social process. He further argues that social processes differ between different countries. This difference is due to cultural distances between countries. Also in the Russian context, good existing personal contacts with Russian counterparts are of the utmost importance for successful market entry (Salmi 1996). On the other hand, Salmi and Bäckman (1999: 145) emphasize that research on personal networks in business markets has separated company-related social relations from personal-related ones.

[8] Friendships and trust indicated the most important factors for developing successful international business relationships (see appendix 4)

Turnbull (1979) identifies six different roles for personal contacts. Personal contacts are of the utmost importance in international business relationships, as great psychic distance exists. Especially in the early stages of internationalisation it is important that the parties understand differences in culture, education and social aspects in order to create atmosphere that promotes mutual understanding between them.

Building up a relationship is a long-term process; it is a learning and adaptation process during which social bonds between actors are created. The outcome of change process are trust and commitment (Van de Ven 1976, as cited in Snellman 2001). As bonds arise, actors become mutually committed and this commitment is related to the identity that an actor acquires in that relationship. These constructs are part of the relationship. Levels of trust and commitment vary during the development of the relationships. By employing the lens of the IMP approach, analytical framework, linked more to the behavioural and relational aspects, is provided. These aspects are taken into consideration in the following sections.

Based on the discussion above, two issues are important: Firstly, a relationship evolves as interactive exchange. Secondly, every relationship is part of a connected exchange relationship and markets are defined though these connected relationships. Accordingly, from a focal firm perspective, markets are constituted with the identifiable actors that are perceived as relevant. "*The market is considered as networks of multidimensional, dynamic exchange relationships between economic actors, who control resources and carry out activities*" (Mattsson 2003: 6).

In the previous section, relationships as an asset where discussed; this can be summarized as follows. Seeing relationships as assets emphasized relationships as a process that involves two intertwined aspects, social and business. Moreover, the outcomes of a process are trust and commitment and finally different interconnected interaction levels are identified. All these features underline that a relationship is based on repeated interactions, it has a complex structure, and the different hierarchical levels in the relationship are interconnected. As individual unique relationships are difficult to analyse the outcomes of relationships may be perceived by actor bonds.

2.3.6 The Concept of Macro Position

In network approach there are two basic levels, the dyad (relationship), and the network level. We now move up to the network level, which describes how an individual actor is positioned in the network. It is the product of firm's history and describes its capacity to act in the future.

Every actor occupies a position in a network. This position is strategically important, because it describes how an individual actor is related to the environment. Moreover, this position is a result of investments in exchange relationships (Johanson & Mattsson 1985, 1992). This environment is the result of the firm's own action and it is enacted (Weick 1969). Thus, the environment is seen as interactive, reactive, and responsive.

Building a relationship takes time, and thus a firm must see it as an investment process (Håkansson 1982, Easton 1992). Networks represent structures of relationships, that are resource holders and resource-users (as cited in Anderson, Havila, Andersen and Halinen 1998: 168, [Snehota 1990], and therefore positions are a consequence of the cumulative process during which resources are established, maintained, and developed through exchange relationships. The position of an actor also describes the links to other actors that connect the separate, individual relationships with each other.

A focal business net consists of actors with whom the firms that form the focal dyad have direct or indirect relationships (Aldrich & Whetten 1981, Anderson et al. 1994, in Alajoutsijärvi et al. 1999). These relationships establish position and roles within the business network. (e.g., Håkansson & Snehota 1989, Havila 1996, Mattsson 1985, in Alajoutsijärvi et al. 1999) Every focal firm has a unique position compared with other firms. From a position developed by developing relationships, a firm is able to compete, act, and react in the markets. Thus the position of a firm is linked to its strategic behaviour and it is closely related to the concept of strategic effectiveness. But in a network setting, effectiveness is the outcome of relationships. Thus, interaction results from the firm's effectiveness.

A company's focal net is embedded in a larger network. From an individual firm's point of view a focal network consists of all the relationships perceived relevant by management. The purpose of a focal network is to help understand the systems of relationships from a focal firm's perspective. A focal firm is a perspective from an individual firm's point of view. (Möller 1994: 416)

Mattsson (1985) outlines four characteristics of position. The first is function, which comprises the main activities that a firm is supposed to undertake. The second characteristic is identity, and the third relative importance of the firm in its network, which can be measured by size or other correlates of power. The fourth characteristic is positions, which may be analysed at different levels.

According to Johanson and Mattsson (1988: 307) micro and macro position concepts can be used as subordinate variables. They are described in the following way:

Micro positions are characterized by:

1) The role of the firm in relation to the (other) firm(s), 2) its importance to the other firm, and 3) the strength of the relationship with the other firm.

Macro positions are characterized by:

1) the identity of the other firms with which the firm has direct relationships and indirect relations in the network 2) the role of the firm in the network 3) the importance of the firm in the network and 4) the strength of the relationships with other firms.

Mattson emphasizes that macro position and micro position are different concepts; macro position is not linearly the sum of the micro position (Johanson & Mattsson 1986). As macro position is a network-level concept, it is affected by the interdependencies of networks, while micro position comprises the relationships between two firms. By position, the nature of network connections is revealed. These connections may vary according to a firm's size and field of industry.

Johanson and Mattsson (1988: 307) argue that due to the cumulative nature of market activities, market position is an important concept. Position is a result of earlier activities. It provides development opportunities and also constrains the firm in a network. Håkansson and Ford (2002) argued that while networks tie up the firms in their current position and provide opportunities to grow, they at the same time prevent them from changing. Thus, it is a concept that can be used for analysing market strategies (ibid.).

At this point it may be useful to review the major points that have so far emerged. They can be summarized as follows. Macro position refers to four issues: (1) it is a strategically meaningful concept (2) the concept of position describes the firm's history, (3) the concept of macro position offers opportunities as well as constraints, and (4) network positions are the result of investments in exchange relationships (Johanson & Mattsson 1985) .

2.3.7 The Concepts of Trust and Commitment

Trust

Trust and commitment are distinct dimensions. They both affect business relationships positively. However, they are distinct from each other and also have an effect on each other. Trust and commitment are examined simultaneously in the context of marketing channel studies.

The concepts of trust and commitment are fairly new issues in interorganisational settings, and trust is also a new issue in International Business studies (Hagen & Choe 1998, Doney, Cannon and Mullen 1998). As was emphasized previously, the concepts of trust and commitment have been adopted from social-exchange theory, and have then been applied to channel members' commitment (Morgan & Hunt 1994). According to the literature (Conway 2000, Johanson et al. 1990, Wilson 1995, Hocutt 1998, Ford 1984), especially in the context of international business some factors have proved more important than others and among these factors are commitment and trust. Blois (1997) argues that commitment and trust are key components of relationships primarily because they encourage partners to make investments in relationships and also to resist taking advantages of alternatives which provide short-term benefits. Huemer argues (1998: 299) that trust promotes efficient exchange by reducing or even avoiding the need for safeguards. Additionally he adds that trust leads to relationship commitment.

Morgan and Hunt (1994) developed the commitment-trust theory of relationship marketing. They argue that relationship marketing refers *"to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges.*" Social Exchange Theory suggests that individuals may be motivated by rewards other than money. The outcomes of social exchange are trust and commitment [Blau 1964]. Morgan and Hunt (1994) found that there is a positive relation acquaintance and cooperation and commitment. On the other hand, cooperation and increasing functionality conflict are also outcomes of trust. They further define shared values as precursors of trust and relationship commitment and they also see communication as a precursor of trust. According to the commitment-trust theory, relationships that are characterized by relationship commitment and trust engender cooperation, acquiescence, a reduced tendency to leave the network, a belief that conflict is functional, and reduced uncertainty.

Trust is one of the key components of social capital and it is rooted in two different bases. However, trust is multidimensional and faceted construct. Jones and George (1998, p 542) found positive relationships between trust and cooperation The reasons why cooperation does and does not occur are rooted in interactions among values, attitudes, values, moods, and emotions. The effect of conditional trust promotes cooperation does not entail significant cost, but if effort is needed, unconditional trust does not promote cooperation (Jones & George 1998 p 542).

Blomqvist (2002) argues that it is only an individual who can trust, but she adds that individuals, teams, and organisations may be the objects of trust. Moreover, the components of the definition of trust are valid at all levels. Trust can be seen as a bridge between past experience and anticipated future (as cited in Blomqvist 2002 p. 158 [Salmond 1994]). Thus, it has a strong time dimension.

Cross-disciplinary definition for trust is (Rousseau, Sitkin, Burt and Camerer 1998: 395) *"Trust is a psychological state comprising the intention to accept vulnarability based upon positive expectations of the intentions or behaviour of another."* This definition is valid for a different context, however the operationalisation may differ according to the context (ibid.)

There are some common conditions that must exist between different disciplines for trust to arise. Firstly, there is also a certain amount of risk or uncertainty. The second condition is that there is interdependency between parties. Trust may act in different causal roles such as cause, outcome, or moderator.

The concept of trust is central in many sciences and in economics several kinds of trust have been identified, for example goodwill-based trust (Jones and George 1998, Blomqvist 2002 p.195,O'Brian 1995: 195), behavioural-based trust, (Mishra 1996, , Boersma et al. 2003, Blomqvist 2002) and competence-based trust(O'Brian 1995, Mishra 1996, as cited in Blomqvist 2002: 193, Bolmqvist 1997:. 282).

Blomqvist (2002: 183) also identifies active and passive components of trust. The active components are behaviour and goodwill. The passive components are capability and self-reference. However, the division of trust into goodwill-, behaviour-, and competence-based trust will cover wide range sources of trust in the business context. We will deal with each of them shortly below.

Goodwill

Goodwill implies positive intentions toward each other. Blomqvist (2002 p. 195) argues that typical goodwill-based trust can be perceived in "actors' expectation of the other party's competence and goodwill." She (2002) argues that goodwill can be perceived as moral responsibility and positive intentions toward the other. Values have been pinpointed as a sign of trust. Barber (1983 as cited in Jones & George 1998: 532) mentions that shared values help create relationships characterized by trust. Shared values are believed to promote synergic social behaviour (Jones & George 1998: 542).

Accordingly, proxies for goodwill-based trust centring on three characteristics are used: shared values (Jones & George 1998), moral responsibility, and reliability (O'Brian 1995, Mishra 1996).

Behaviour

According to Jones and George (1998: 541), information and communication are sources of trust. Knowledge and information can be shared freely when actors trust each other. According to Luhmann (1979, 1990 cited in Blomqvist

2002: 194), proactive, open, and prompt communication indicates the existence of trust, so trust is possible to perceive though behaviour. Das and Teng (1998: 504) claim that there are three main reasons for this. Firstly, open and prompt communication among partners is believed to indicate trusting relationships (Kanter, 1994; Larson 1992, as cited in Das and Teng 1998: 504). As relationships develop, intimate and sensitive information sharing starts a circuit between partners, and this facilitates collecting information about their credibility and trustworthiness. Finally, communication further develops the relationships and trust is accordingly reinforced (Das and Teng 1998: 405). Nonaka and Takeuchi (1995) describe knowledge creation as a conversion process between tacit and explicit knowledge. They emphasize the role of human interaction during which tacit knowledge becomes shared in a socialisation process. In this process, mutual understanding and trust are developed through direct experiences ((Nonaka et al. 2000: 13).

Coleman (1990 p. 91) discussed the difference between the transactions in the perfect market and social actions. The role of time plays an important role. In real life, there is a time difference between transactions and their consummation. That time period involves risk. Trust is related to risk: the greater the risk is, the higher the confidence threshold required to engage in trusting action. “Trust and risk taking are believed to form a reciprocal relationship: trust leads to risk taking, and risk taking, in turn, buttresses a sense of trust, given that the expected behaviour materializes.” (Boon & Holmes, 1991; Madhok, 1995; Rempel, Holmes & Zanna, 1985 as cited in Das and Teng 1998: 503)

Competence

Business and meta-capability indicate the existence of trust. In business relationships, business partners are evaluated on the basis of their competence in the business. Sitkin and Roth (1993 , as cited in Bigley and Pearce 1998: 407) define trust as “ a belief in a person’s competence to perform a specific task under specific circumstances. “ Reputation also plays an important role in evaluating especially new partner's competence (Barney and Hansen 1994, as cited in Blomqvist 2002:195)

To sum up, trust is built through exchange. Interaction refers to a short-term aspect in contrast to a long-term aspect in the form of relationships. The concept of trust is a sign of a long-term relation. Trust is an important element of an actor bond, which is a key lubricant for business relations. In trusted relationships, actors override short-term problems and orientate their actions for their mutual goals. By combining heterogeneous resources through business and social exchange new values are created, one of which is knowledge. Trust is necessary for interaction and it promotes efficient exchange.

On the basis of numerous studies representing different aspects of trust and also different schools of thought, the following dimensions of trust will be used as latent variables: goodwill-based, behaviour-based and competence-based. These dimensions are widely recognized and they can also be adopted in the context of this study on Finnish exporters and their supplier–customer business relationships. High–trust relationships are characterised by open communication, hence information is shared openly in trusted relationships. Based on what is said above, the latent variable of trust is proposed to be based on goodwill, behaviour, and competence. The latent variable of trust can be observed by the following indicators: shared values, information sharing, goodwill, reliability, and partnership competence.

Commitment

Even though the concept of commitment has been studied by numerous scholars in many fields, there are still deficiencies in several respects (Reichers 1985). Especially in International Business studies, the concept of commitment and commitment decision play an important role in internationalisation processes (Johanson & Vahlne 1977). Most importantly, however, the concept of commitment plays an important role in the Uppsala Model, and it is defined as resource commitment to foreign markets (Johanson et al 1977). Thus market commitment – amount of resources committed - is said to be approximate the extent of the investment in the market. The network approach, on the other hand, emphasizes the relational aspect of commitment (Johanson et al. 1990). Relationships are fundamentally one kind of resource (Easton & Araujo 1996). This kind of commitment is more attached to the psychological aspects of commitment.

Originally, IMP research focused on distribution channels in Europe and the USA and it was concerned with relationships between channel members (Easton1992). Much of the early research dealt with purchasing, but later this research tradition has broadened its scope to concern also other relationships in industrial and international markets. In the network approach, which can be regarded as an extended version of the Uppsala Model, the concepts of commitment and trust must be viewed as multilateral (Johanson et al. 1990).

Moreover, the amount of resources and the degree of commitment are assumed to be interrelated. In the Uppsala Internationalisation model, commitment decisions play a central role in investment behaviour and these decisions are based on several kinds of knowledge (Johanson et al. 1977). The concept of commitment is more attached to the individual level or the organisational level, but most importantly it should be on interorganisational level, as the experiences are gained in interactions. However, inconsistency obviously exists since the concept of commitment is more or less on the individual or organisation level, rather than on the national level. One can easily notice the deficiencies related to the mechanism of internationalisation processes. It is important to identify and to spell out clearly how organisations are understood. A shift in focus to interorganisational commitment instead of intraoranisational and a shift in focus to lower levels instead of national - level commitment are needed. Commitment comes rather from personal experience than from national level behaviour. Commitment has also been found to be the key for producing significant benefits in marketing channel research in interorganisational settings Two types of commitment have been characterized in interfirm relationships. Affective commitments refer to the degree channel that members *like* to maintain in the relationship, whereas calculative commitment measures the *need* to maintain the relationship. (Geyskens et al. 1996) These two types originate from different motivations, but they both represent psychological states (Huston and Robins 1982, in Geyskens et al. 1996). However, it is important to identify what kind of commitment is in question, because the magnitude and direction of the effects of trust depend on it. Trust has a stronger effect on affective commitment than calculative commitment. (Geyskens et al) .

Since there have been many studies about the concept of commitment, the definitions vary accordingly. The most usual way of defining it is to divide it into attitude and behaviour types. However, in addition to behavioural commitment, there has been increasing interest in studying attitudinal commitment. An example of attitudinal commitment is an intention to continue a current relationship (Sharma, Young & Wilkinson, 2001.) Commitment may be perceived by the desire to maintain the relationships. According to Moorman, Zaltman, and Deshpande (1992:316 as cited in Morgan &Hunt 1994) " *Commitment to relationship is defined as an enduring desire to maintain a valued relationship*." This statement captures future orientation. Valued relationships are considered important and they (Morgan et al 1994, see Cook & Emerson 1978) characterize commitment as a central concept that distinguishes social exchange from economic exchange. Tuominen (1999) argues that behaviour commitment postulates that partners' actions commit them to each other over time. He further adds that the greater the degree of investments made in the relationships, the stronger the commitment. Several studies (Hunt et al. 1994, Achrol, 1991) have demonstrated that trust is a major determinant of relationship commitment. Interaction-exchange processes and adaptation processes constitute the dynamic aspect of relationships, and they are also indicators of commitment (Johanson & Mattsson 1987).

Reichers (1985) argues that commitment is a multifaceted concept and that commitment differs from one individual to another. However, he claims that individual experience is neglected in vast amount of literature. Thus individual experience is important; it calls for looking at an interaction level where individuals experiences and develop their commitment based on their own experiences. As the focus of this research is business relationships in an international context, the attitudinal and behavioural dimensions of commitment have been adopted in this study. This classification was developed originally by Reichers (1985), but it was adopted later by a number of other researchers as well.

Previous studies indicate that commitment is a multifaceted and multidimensional concept, and moreover, it may be antecedent of trust or trust may be antecedent of commitment. However, proxies for commitment are characteristic of behaviour and attitudes towards the partner.

Accordingly, the concept of commitment is divided into attitudinal and behavioural types (Reichers 1985, Nummela 2000). The former type refers to a positive attitude, which can be based on different kinds of bonds, and a desire to maintain valued relationships. On the other hand, behavioural commitment results from the binding of actors to current activities (Reichers 1985) Accordingly, the latter type is observed as concrete behaviour such as adaptation, and investment in valued relationships. Adaptation means to adapt product technically, e.g. taking into consideration the product's usability. In this sense it means to fit another actor's product another actor's production processes to produce a new product that fits both actors' interests. This is an example of an experiential learning process. In this way, a new asset is also created.

Behavioural commitment results from the binding of individuals to behavioural acts (Reichers 1985: 468). Instead of the mere promise of future actions, actors demonstrate their positive state of mind in taking up acting. Through co-operation, commitment becomes explicit, as it also demands resource investments from both sides.

Besides it is (Mowday et al. 1982 as cited in Reichers 1985)) argued that there is a cyclical relationship between these two types of commitment. This kind of relation is quite obvious in other context, too. Accordingly, attitude leads to behaviour and vice versa. Commitment as attitudinal type can be observed by attitude and behaviour type can be perceived by actual behaviour. Several authors have claimed that these two types of commitment are intertwined, which this study agrees with. Still the construct of commitment is analysed as one construct.

Proxies to the behaviour types are product and technological adaptation and investment in relationships. According to the attitudinal type, a relationship is found important; actors want to carry on the relationship and have future expectations in respect to it. In a network setting, there are always three intertwined concepts: actors, activities, and resources. It must be emphasized that the concept of actor is a theoretical construct, which may be an individual, group of individuals acting on behalf of the company. Thus, the definition and operationalisation of concept of the commitment reflects how the organization is understood.

2.3.8 The Concept of Cognition

Nahapiet and Ghoshal (1998: 253) proposed the cognitive as the third dimension of social capital. The cognitive has both a strong cognitive and a strong social aspect. However, the IMP Group's focuses on industrial relations, despite recognition for the importance of social bonds. Nahapiet and Ghoshal proposed shared language and codes to be used for cognitive dimension. For an equivalent concept this study proposes 'network theory' which is defined each actor's interpretation of characteristics of the network (Johanson & Mattsson 1992). This 'network theory 'is all information channelled by the actors in network. As the basic characteristic of networks is interconnectedness i.e. exchange in one relationship is conditioned by exchange in others of the network. Thus information is channelled via those actors that the actor in question is in contact with. By this interpretation actor may orientate its action strategically meaningful goals. For this concept of 'network theory' this study simplifies the concept by labelling it as cognition. Based on the view of

Johanson and Mattsson (1992) this study proposes that cognition variables be measured by such observed variables as perception, past experience, and misunderstandings between actors. The first one is the ability to perceive how markets and actors interact, react, and respond in shaping cognition. The actors' experience of the past activities and the actors will have an impact on the present cognition. The actors act on the basis of this past experiences. All misunderstandings increase the knowledge about the partner and will influence the cognition. A lack of misunderstanding between actors indicates that actors capture the actor's motives, ways of acting, and interests.

2.4 The Concept of Knowledge

Like physical resources knowledge is also viewed as one of the key resources of a firm. Nahapiet and Ghoshal (1998) speak of intellectual capital, which according to them refers to the knowledge and knowing capability of the social collectivist. They argue that the term has its clear parallel with the concept of human capital, which in turn consists of the acquired knowledge, skills, and capabilities that enable people to act in new ways (see also Coleman 1988).

As early as 1959, Penrose discussed the concept of knowledge and divided knowledge into two categories according to how it is acquired. The first type of knowledge can be taught, but the second can only be obtained from personal experience. The first type of knowledge is objective, whereas the latter is experiential and therefore difficult to transmit to others. "Experience can never be transmitted, it produces a change-frequently a subtle change- in individuals and cannot be separated from them" (Penrose 1959, 53).

Michael Polanyi (as cited in Nonaka 1994: 16, [1966, p.4]) stated that " We can know more than we can tell". He divided the concept of knowledge into two dimensions: tacit and explicit knowledge. According to Polanyi (in Nonaka 1994, [1966], "explicit" or codified knowledge refers to knowledge that is transmittable in formal, systematic language. "Tacit" knowledge, on the other hand, has a personal quality that makes it hard to formalize and communicate. It is deeply rooted in action, commitment, and involvement in a specific context. According to Polanyi, tacit knowledge "indwells" in a comprehensive cognisance of human mind and body. (See more Nonaka 1994) Tacit knowledge has a strong cognitive element, and it refers to how an actor perceives the world.

Initially, when actors start interacting, they have a large psychic distance (Johanson and Wiedersheim-Paul 1975) between them. This means that in spite of geographical proximity, actors may have a large mental distance between them. They perceive the world differently because of their different specificities (e.g. experience, cultures, knowledge). Moreover, the duration of the development of a long-term relationship may vary, depending on the psychic distance between actors. But when they start to interact, they learn about each other and acquire information and knowledge about each other's environment, and thus reduce the psychic distance. The concept of distance is multidimensional; for example, there are social, cultural technological, and time distances (Ford, Gadde, Håkansson & Snehota, 2003). Actors involved in international business relationships find it necessary to bridge these distances.

2.4.1 Knowledge creation

"K*nowledge creation is seen as a process of sequences of events and as an interplay between the creator(s) and context; knowledge creation is thus defined to be an outcome of a contextuality dependent interactive and prosessual phenomenon."*

- Seija Kulkki (1999: 43)-

The model of knowledge creation by Nonaka and Takeuchi (1995) presents knowledge creation process as complex, multilevel and interactive process. Nonaka (1994) argues that knowledge held by individuals, organizations, and societies can be simultaneously enlarged and enriched through the spiral, interactive amplification of tacit and explicit knowledge. He claims that knowledge creation process can be viewed as an upward going spiral from individual, group, organisation and sometimes into interorganisational level (Nonaka 1994: 20). Knowledge is created jointly. People have to experience the creation process and in this way a synergic expansion of knowledge is possible. As people are involved in knowledge creation it is a social process. (Nonaka 1994)

As knowledge is created through action and interaction it is dynamic. Nonaka (et al.2000) describes the knowledge creation process as involving three elements (i) the SECI process, the process of knowledge creation through conversion between tacit and explicit knowledge (ii) '*ba'* a shared context (platform for learning between actors), in which the learning takes place, and (iii) knowledge assets inputs, outputs, and the moderator of the knowledge-creating process. The three elements of knowledge creation have to interact with each other to form the spiral that creates knowledge. (Nonaka, Toyama & Konno 2000)

Nonaka (1994) states that individuals create knowledge. Thus knowledge of organization is created by individuals. Both tacit and explicit knowledge are important for the knowledge creation process. The knowledge creation process involves four modes of interactions, or conversions, between explicit and tacit knowledge: socialization from tacit to tacit, externalisation (from tacit to explicit), combination (from explicit to explicit), and internalisation (from explicit to tacit). These four modes of knowledge conversion form a continuous spiral process, the SECI process, out of which new knowledge is created. Socialisation is a process of converting new tacit knowledge through shared experiences. (Nonaka et. al. 2000) In the socialization process the process of knowledge acquisition is supported through direct interaction between suppliers and customers and it is captured through the physic proximity. Socialization as a term emphasizes that tacit knowledge is exchanged through joint activities. (Nonaka, and Konno 1998; Nonaka and Takeuchi 1995) Whereas internalisation is close to the concept of "learning by doing". "*The SECI process takes place inside the firm or between the firms"*(Nonaka et. al..)

People working together combine their knowledge through shared experiences. They are creating knowledge that was described by Nonaka et al. (1995, 2000) in the SECI-process. Quite often, two parties have heterogeneous resources e.g. knowledge, and that knowledge is made common by working together. However, combining resources into the existing resource base requires exchange.

Nonaka (et al. 2000) argues that the interactive spiral is widening as it moves up through the ontological levels. Knowledge created through the SECI process can trigger a new spiral of knowledge creation, expanding horizontally and vertically across organizations. The interactive spiral process also takes place interorganisationally. (Nonaka et al. 2000). IB is concerned with business activities across national borders. The longer the psychic distance between countries becomes, the more difficult it is for firms to collect knowledge. The concept of psychic distance between countries is defined as the factors preventing flows of information between firm and market. Such factors are differences in language, culture, and political systems (Johanson & Wiedersheim-Paul 1975). As this distance decreases, it affects market selection and choice of entry mode (Eriksson et al. 1997). Accordingly, there is a need for both internationalization knowledge and knowledge of the foreign markets in which the firm intend to operate (more see Yu 1990). As the focus of this research is not internationalization process, but modelling of the interrelation between social capital and experiential market knowledge, this study uses only the concept of experiential market knowledge. This pertains to two different aspects: business and institutional knowledge. As the context of this research is a network, the concepts of social capital and intellectual capital are applied according to IMP and IB traditions.

2.4.2 Knowledge in Nordic Internationalisation Models

In spite of the fact that the focus of this study is not internationalisation, but international exchange, the behavioural models dealing with the internationalisation process are dealt with here for the following reasons. Firstly, for the Nordic countries internationalisation has been an important factor in the economy, as the countries are small and dependent on foreign trade. Secondly, knowledge plays an important role when firms approach foreign markets. Thirdly, in Finland Luostarinen (1979, 1980, 1989 and his colleagues) and in Sweden Johanson and Wiedersheim-Paul, (1975) and

Johanson and Vahlne (1977) made major contributions in the field of development of behavioural models. These models that describe internationalisation process are described briefly below.

Luostarinen published his initial basic model of internationalisation in 1970 and he finalised the model in 1979. In his model, which is called the Helsinki Model[9], the concept of lateral rigidity plays an important role. Most importantly, lateral rigidity is assumed to be dependent on the level of the stock of knowledge. There are differences between countries, and thus firms operate in different environments. These differences between nations are understood to influence cross-border activities. The implicit assumption lies in the fact that the borders of nation states formed trade barriers between different nations. These barriers might be legal or psychic[10] and Luostarinen (1970) used the term institutional distance and later (1977) adopted the concept of business distance. "As to the target market determination, the distance is assumed to have an impact on the level of knowledge" (Luostarinen, 1979, 1980, 1989). Thus, knowledge is a central factor in international business decision-making processes because an increase in knowledge will decrease lateral rigidity and give firms the choice of selecting new international markets. Luostarinen (1979) identifies experiential and non-experiential knowledge. Because of the incremental learning process, the internationalisation process is also a gradual one.

The imperfection of the knowledge factor causes lateral rigidity and therefore plays a key role in every stage of the internationalisation process. There is a time lag between the different phases of the process. The time lag in limited perception is caused by an unfavourable impulse expose position and a limited span of attention. Lag in a restrictive reaction is caused by inability and unwillingness to react. Selective search is characterized by a problem-

[9] Luostarinen developed his seminal model in Helsinki=HM. Since then several researchers have contributed the field of IB, especially at the Helsinki School of Economics.

[10] Beckerman introduced the concept of "psychic distance" in his study on Intra-European trade, Beckerman, W.; Distance and Pattern of Intra-European Trade, The Review of Economics and Statistics, Vol. 28. 28, No. 1, 1956/February, p. 38; Vahlne and Wiedersheim-Paul based their study on the Swedish export of selected goods mainly on this concept, see Vahlne-Wiedersheim-Paul (1977/2).

oriented and biased search. Finally, the concept of confined choice, uncertainty avoidance, and risk escape contribute to the time lag. All these phases are influenced by a stock of knowledge and learning is a process of accumulation through either experience or non-experience. The degrees of lateral rigidity and organizational learning are closely related. (Luostarinen 1979)

Luostarinen (1979) points out in his laterally rigid decision-making framework that cognitive factors play a major role and actually determine the initiation, nature, structure, and shaping of the whole decision-making process. Through the concept of learning, he (ibid.) introduces a dynamic element into the decision-making process in which the past, the present and the future are interlinked. The degree of lateral rigidity and organizational learning are interrelated. According to Luostarinen (1989: 201;16), one conclusion of his study on internationalization is the following : " *internationalization is characterized by lateral rigidity which is especially high at the beginning of the internationalization process but which may gradually decrease through organizational learning causing a transition from the starting stage towards more mature stages of internationalization.* (Luostarinen 1979)

The Uppsala Model (UM) (Johanson & Wiedersheim-Paul, 1975, Johanson & Vahlne 1977) shares the same basic assumption with the HM a lack of knowledge and resources is the most important obstacle to internationalisation and it can be reduced through learning about foreign markets. Like the Helsinki Model, the Uppsala Model also sees the existence of psychic distance as an important factor for internationalisation. Psychic distance refers to differences in language, culture, political systems, etc, which disturb the flow of information between a firm and the market (Vahlne and Wiedersheim-Paul 1973). They (ibid.) refer to an attitude that firms have towards foreign countries.

Essentially the Uppsala Model describes an internationalisation process during which a firm increases its international involvement. This process is an interplay between the development of knowledge about foreign markets and operations and an increasing commitment of resources to foreign markets (Johanson & Vahlne 1990).

Johanson and Vahlne (1977) describe how they understand the concept of knowledge. They make a distinction between general knowledge and market-specific knowledge. The latter kind of knowledge can be obtained only through personal experience in the market, whereas operation-specific knowledge can be transferred from one country to another.

Moreover, they state that experiential knowledge is market-specific and concerns the characteristics of a specific national market - its business climate, cultural patterns, structure of the market system, and most importantly the individual customer firms and their personnel. Experiential knowledge is more difficult to obtain. It is directly related to market knowledge and commitment. Market knowledge can be considered a resource (or perhaps preferably, a dimension of human resources) (ibid. 1977).

The Uppsala Model integrates learning with ongoing activities and experiences in specific markets. Market-specific knowledge is difficult to translate to other markets and it develops at the operational level, whereas general knowledge is expected to exist at higher levels. (Forsgren 2002)

Learning and knowledge acquisition as described in the Uppsala Model are one kind of learning, namely experiential learning inside the firm. In addition to this kind of learning, firms have opportunities to learn from their international partners. While the UM examines intraorganisational learning, this study focuses on learning between organisations, thereby viewing learning interorganisationally.

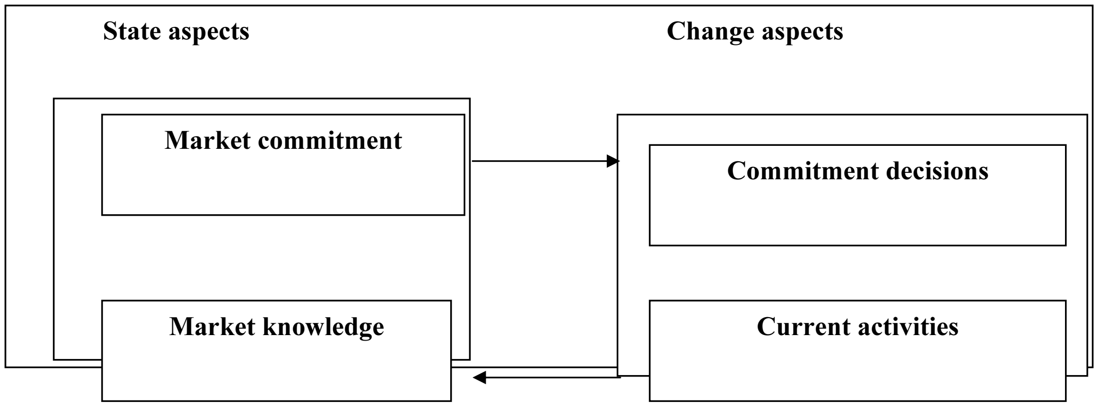

Figure 8: The Internationalization Process of a Firm

Source: Johanson J & Vahlne J-E 1990

According to the network approach, internationalisation is a process in which actors in interactions develop position in domestic and international networks. Relationships are developed through interaction in which the parties build mutual trust and knowledge, and such interaction means a strong commitment to relationships (Ford 1979, Axelsson et al.1992). Thus knowledge is based on experience from current business interactions and knowledge concerns business relationships and networks.

Psychic distance has been the focus of much attention (Hallen and Wiedersheim-Paul 1984) and it is seen as a consequence of both cultural and social distance. Cultural distance is a particularly important determinant of the way relationships develop (Conway 2000). Hallen and Wiedersheim (1984) have suggested three component elements of psychic distance in terms of the different levels on which they develop: (1) At a national level cultural affinity, (2) at an organisational level mutual trust and (3) at an individual level the experience of individuals. Consequently, it is important to pay attention to the different levels at which learning takes place. In relation to the internationalisation process model, it can be assumed that market (i.e. network) knowledge is based on experience from current business activities or current business interaction. As figure 8 shows, market commitment leads to commitment decision. This decision is made on the basis of future plans. Expectation for future explains interdependence between market commitment and commitment decision; moreover it explains the process nature of the model. It represents the latent variable of the original model. It is the missing link in the model (Hadjikhani & Johanson 2002) .

Concepts of Experiential Business and Institutional Knowledge

Previous research indicates that knowledge is an important factor in international business. As has been pointed out earlier, current business activities play an important role in acquiring international business knowledge. These activities are thus regarded as the main source of knowledge.

However, a number of empirical studies have demonstrated that a firm is able to acquire relevant international business knowledge from its network. (Holm, et al. 1996; Chetty & Erikson, 2002, Kogut & Zander 1992, 1993). Moreover Forsgren (2002: 269) emphasizes the role of people in gaining market knowledge: "People involved in foreign operations are holders of market knowledge and are the ones that experience commitments to other actors in the markets." Moreover, Eriksson (et al.1997) argue that experiential knowledge of foreign markets requires durable and repetitive interactions abroad.

A recent study (Seppola 2002) proposed that social capital affects experiential knowledge positively. Furthermore, an extension of the internationalisation process model also takes into account the network aspect and should consequently make the concepts ”commitment, knowledge, current activities and commitment decisions" multilateral rather than unilateral as in the original model. Hence, the process is also inter-organizational and not just intra-organisational. (Johanson & Vahlne 1990)

There has also been discussion among scholars about what is actually meant by the word “experiential knowledge”. The concept is defined by Eriksson et al. (1997: 343) as follows: “ by foreign business knowledge, we mean experiential knowledge of clients, the market, and competitors. Foreign institutional knowledge refers to experiential knowledge of government, institutional framework, rules, norms, and values”.

On the basis of the previous discussion, this study proposes two latent variables for the concept of experiential market knowledge : 1) experiential business knowledge consisting of knowledge about clients, markets, and competitors and 2) experiential institutional knowledge consisting of knowledge about institutional frameworks, values, rules, and norms. (ibid.) These two types of knowledge are acquired mainly through interaction and relational exchange.

A proxy for experiential business knowledge is adopted as follows: Foreign business knowledge means experiential knowledge of clients, the market, and competitors. A proxy for experiential institutional knowledge means: foreign institutional knowledge about experiential knowledge of government, institutional frameworks, rules, norms, and values. As discussed earlier, the concept of experiential market knowledge is divided into two overlapping, but different dimensions of knowledge: experiential business knowledge and experiential institutional knowledge.

3. Framework

3.1 Building the Framework

The purpose of a conceptual framework is to integrate a set of perspectives with aspects relevant to the study problem and question. The framework can be said to reflect the main broad concepts and the relationships between them. This chapter builds a framework based on existing theories, integration of key concepts, refinements of existing concepts, and it has also created a new conceptual system. This system is outcome of theoretical and conceptual analysis, but its role is antecedent of nomothetic research. The proposed framework consists of social capital, its dimensions, and experiential market knowledge. Social capital is divided into three different dimensions (Nahapiet and Ghoshal 1998): structural, relational, and cognitive dimension. The equivalent network (IMP) concepts that was discussed in chapter two are applied. Social capital, which is gained in business relationships or networks, provides space for experiential knowledge acquisition.

Social capital stems from business relationships. Relational interdependence is an outcome of exchange. Social capital increases interactions and accordingly creates new social capital. In these interactions actors learn about each other. Thus, such relationships provide a platform for knowledge acquisition. Based on these facts the following arguments are put forward and the argument (2) is divided into three hypotheses.

(1) Networks as governance structures are conducive to the development of social capital.
(2) Social capital increases experiential market knowledge.

Social capital (Nahapiet and Ghoshal 1998)	**Social capital (Network perspective)**
Structural dimension, Network ties, pattern of connections	Macro position
Relational dimension, ***trust***	***Trust***
Relational dimension, ***obligation***	***Commitment***
Cognitive dimension, ***shared codes and language, shared narratives representations, interpretations and system of meanings***	***Cognition, 'Network theory'***
New intellectual capital created through combination and exchange	**Experiential market knowledge** • **Experiential business knowledge** • **Experiential institutional knowledge**

Figure 9: Network perspective to social capital

Source: Modified from Nahapiet & Ghoshal 1998 by Rauni Seppola

Structural dimension

Greater exposure results in more experiential knowledge. The fundamental feature in industrial systems is that firms are interdependent in forming a structure. The interplay between actor bonds, activity links, and resource ties bind firms together; accordingly, interdependence will emerge. The greater the dependence the more important the network is to the behaviour of the firm. Another basic assumption is related to the heterogeneousness of resources. Also, different network levels are interconnected. Interdependencies and interconnectedness form linkages for knowledge flows. A special feature of networks is the connectedness of business relationships in a wider environment. This environment is borderless as the borders form those actors that are relevant to the firm; thus environment is created by the actor itself. This structure provides the channels for knowledge flows. Interconnectedness and interdependence in network structure make knowledge to flow.

Network positions represent opportunities to *access* new knowledge, as knowledge is spread unevenly in networks. The more strong and weak ties the actor has the more probably he/she has access to knowledge (Granovetter 1973). As a focal firm transmits, creates, develops, and combines knowledge, the more the relationships and ties, the easier it is to gain access to knowledge. The macro concept characterizes the cumulative number of relationships development. Moreover the macro-position concept affected by interdependencies in the whole network (Johanson & Mattsson 1988: 307). Interdependencies are vital for knowledge acquisition for a number of reasons. First, interdependencies are created because of heterogeneous resources. In relationships, resources are combined and new resource combinations are created (Håkansson & Snehota 1995: 30-31) Relationships are bridges to resources; thus actors are motivated to interact. In networks different levels are interconnected, which help knowledge flows. Secondly, the types of relationships are vital for knowledge acquisition.

Relational Dimension

Trust and commitment are usually seen as positive outcome of a process. Higher levels of trust and commitment result in higher experiential market knowledge. The initial interaction is prerequisite for relationships development. However without experiential knowledge and experience about each other no relationship can never develop. Experience in business interaction is social process and in this process actor bonds trust and commitment are developed. In high trusted relationships 1) synergic behaviour is promoted 2) communication is open 3) actors believe partner's reliability and goodwill and finally 4) belief in partner's competence. On the general level, researchers argue that trust and commitment influence cooperation positively. The relational dimension of social capital emphasizes the strength of the personal relationships among actors. Nahapiet and Ghoshal (1998) use the term obligations, which according to them represent a commitment or duty to undertake some activity in the future. The equivalent concept in the network approach is an actor bonds; commitment. The bonds, trust and commitment arise in relationships between two companies and as they direct a certain amount of attention and interest towards one another. They become mutually committed (Håkansson & Snehota 1995: 32.) Trust and commitment are outcomes of experience and learning processes.

Trust develops gradually; to foster trust, actors need to have experience about each other. Trust is sensitive to context and situation. Several researchers have found that goodwill is a sign of trust (Mishra 1996, Jones and George, 1998). Goodwil-based trust is said to promote synergic behaviour; it is manifested by one partner's responsibility and positive intention towards another partner. However, trust is associated most often in behaviour dimension such as communication (Zucker 1986). In contrast to goodwill based trust, behaviour – based trust arises from communication. Social interaction is sensitive to communication. It is obvious that sensitive information is shared in trusted relationships. Accordingly, trust can be perceived by open communication. Most importantly in business studies partnership competence is an important attribute. O'Brian (1995) Mishra (1996) and Blomqvist (2002) speak of competence as a source of trust. This kind of trust is manifested by the capability to act as a competent partner in business. Competence in turn increases trust. An actor may have a reputation for competence (Barney and Hansen 1994, as cited in Blomqvist 2002: 193). In trusted relationships, a confidential atmosphere enhances knowledge exchange. In exchange business relationships, interacting, acting, and reacting actors build up trust and commitment; this can be done only if they increase the knowledge needed to do business. Most often, this knowledge is tacit, but it may become explicit (Nonaka, 1994, Nonaka et al. 2000) . Trust is said to diminish opportunistic behaviour. Thus, it makes economic sense to build up trust and commitment.

In section 2.3.7, two dimensions were identified in the construct of commitment: attitudinal and behavioural. Commitment is a key concept in business relations, as it indicates a state of devotion. However, it is elusive, since it is viewed from many perspectives. This study suggests that both attitudinal and behavioural commitment is likely to influence experiential knowledge acquisition positively. Attitudinal commitment appears in a positive attitude, which is indicated by positive state of mind and orientation towards the partner. It is concerned with the quality aspect of relationships that bind actors involved together. This actor bond differs from a behavioural commitment, which is concerned with actual action such as different kind of adaptation between partners. Adaptation may be product or technological adaptation. In processes like adaptation, experiential knowledge increases. Several authors have argued that both attitudinal and behavioural commitment is intertwined (Reichers 1985, Mowday et al. 1982, Nummela 2000, Sharma, Young & Wilkinson 2001). However, this study treats it as one construct, though it is aware of the interdependence and causal relations. To be committed and an actor needs to make decision and an actor cannot make any decision without knowledge. Accordingly, this study argues that there is a causal relation between commitment and knowledge.

Cognitive dimension

The greater the ability to perceive other actors, the higher the level of experiential knowledge will be. This study suggests that the ability gather information through business relations is related positively to the degrees of experiential market knowledge. Connections operate via actors by exchange; every actor in the network has a 'network theory', an interpretation of the characteristics of the network (Johanson & Mattsson 1992). The network theory is largely based on the information channeled through exchange relationships, accordingly in similar situations actors tend to have similar network theories. This interpretation is information channeled by other actors in the networks. Thus, the way in which an actor is able to absorb information forms its 'network theory'. This ability influences how an actor is able to acquire knowledge.

Burt (1992) suggests that *referrals* are important in benefiting from information. He points out the importance of personal contacts as they are a positive force for future opportunities. Awareness of the environment is important. The environment is only meaningful if it is relevant and can be observed. Consciousness is important as the environment consists of a set of different networks, but only a few are relevant to an actor. It is important with whom the actor is in contact with. Thus, only the meaningful actors are relevant. The environment is the relevant context in which the actor is embedded. This context is a result of their action. It is enacted; in other words, it is created by the organisation itself (Håkansson & Snehota 1989)

International Exchange

The basic function of social exchange is to interlock the two firms. Social exchange is critical to the building up of long-term relationships. Relationships are based on trust, which is a social process and it takes time and is based on personal experience (Håkansson 1982: 17). Resources are activated and combined through exchange. In international business relationships, exchange is both business and social and it takes place across national borders. In exchange, resources are confronted and combined. Thus new value is created.

Experiential Market Knowledge

As knowledge is a resource, it creates value. Market knowledge is gained mainly by operating in a market; it is gained through a firm's own experience from a firm's own activities. Experiential market knowledge is divided into experiential business knowledge and institutional knowledge. These dimensions have been described previously.

This study argues that networks as governance structures are conducive to the development of social capital.

Social capital that is gained in business relationships influences experiential knowledge acquisition positively. The following dimensions of social capital are identified: the structural, the relational, and the cognitive. The relational dimension has two constructs, trust, and commitment.

Main Dimensions of Social Capital

As the previous concept of social capital, which is defined above, is a source of acquiring and integrating knowledge, we introduced the three overlapping and interrelated dimensions: namely the structural, the relational and the cognitive, (Nahapiet & Ghoshal 1998) as they represent different aspects of the phenomenon. As this study adopts the network perspective as the research approach, equivalent constructs are applied according to the IMP tradition. In the IMP perspective, trust is needed at every level. It is present in both the structural and the process features of a business relationship and it represents a substitute for institutional arrangements (Huemer 1998: 297-299)

According to social capital theory, relationships are significant as a resource for social action. Experiential knowledge can only be acquired by interaction in relationships, which in turn is social action. Accordingly, this study adopts the three dimensions (Nahapiet & Ghoshal 1998) and applies them in a network setting.

The main thesis developed in chapter two is that business relationships influence experiential knowledge acquisition. Moreover, there are conditions that are necessary for creating and maintaining relationships. These conditions provide opportunities for interaction and development of long-term relationships. This section has emphasized short and long-term aspects in business relationships. Both are important in building business relationships, which form a unique type of governance structure. The essential glue in these structures is trust and commitment.

At this point it may be useful to review the major preconditions that have so far emerged in previous chapters.

The required conditions are:

- The existence of current business activities or interaction between the parties involved
- Experiences
- Mutual commitment to the relationship
- Mutual trust between parties
- Interdependencies and interconnectedness

To develop relationships, actors should have experience about each other. Actors are able to develop relationships based on their experience. All these conditions are supposed to influence the development of long-term relationships, which suggests that they may be characterised by a friendly atmosphere, which in turn may increase confidential knowledge acquisition .

3.2 Operationalisation of variables

The preceding framework leads us to define following items: theoretical construct conceptual and operational equivalents. Operationalisation is based on the discussions (chapter 2) and the framework (3) on the following topics: Social capital, network perspective and the concept of experiential market knowledge. Through these discussions we were able to develop the variables used in the structural equation models that are described in the following chapter (4). The hypotheses are based on the links between explaining variables and explained variables. The former are actor bonds as trust and commitment and cognition. The latter (explained variables) includes experiential market knowledge, which in turn has two dimensions, experiential business knowledge and institutional knowledge.

Hypotheses form linkages between the concepts; these linkages are in turn based on the proposed interrelations between the concepts. The proposed relations that will be tested exist between trust, commitment, cognition, and experiential business and institutional knowledge. Table 2 on the following page summarizes the choice for operationalisation.

Table 2: Operational Definitions

Theoretical construct	Definition	Operational definitions
Actor bond ,Trust	*"Trust is expectancy of positive (or nonnegative) outcomes that one can receive based on the expected action of another party in an interaction characterized by uncertainty." (Bhattacharya, Devinney and Pillutla 1998, p 46).*	1. uncertainty 2. expectancy 3. degree of trust is related to the magnitude of expectancy 4. confidence is related to individual 5. requires mutuality 6. trust is related to good (or nonnegative outcomes)
Goodwill-based trust	Promotes synergic social behaviour.	Q17, Shared values
Behaviour-based trust	Open communication reflects trust.	Q18, Information sharing
Goodwill-based trust	"Partner's moral responsibility and positive intentions toward another" (Blomqvist 2002)	Q19, Goodwill
Goodwill-based trust		Q20, Reliability, keeping promises
Competence-based trust	Competence is the capability to perform business activities in a desired manner.	Q21, Partnership competence
Commitment, Behavioural commitment	Interaction involves an adaptation process during which the parties test fitness with each other (Johanson and Mattsson 1987)	Q22, Product, technological adaptation
Commitment, attitudinal commitment	Commitment is regarding the relationships important or valued."*Future expectation describes why firms maintain commitments when they have little or even no experiential knowledge*." (Hadjikhani and Johanson, 2002, p 300.)	Q23, Relationship value Q27, Future expectation
Commitment, behavioural commitment	Relationship can be regarded as an investment.	Q24, Investment in relationships
Cognition,	Actors' interpretation of the characteristics of the network.	Q25, Perception, ability to interpret the environment
		Q26, Perception based on past experience
		Q28. Misunderstandings
Experiential business knowledge,	Knowledge that is acquired by experience in the market.	Q29, Knowledge about clients.
		Q30, Knowledge about markets.
		Q31, knowledge about competitors.
Experiential institutional knowledge	Knowledge about organizational routines, procedures, and structures that is gained trough exchange relationships.	Q32, Knowledge related to institutions.
		Q33, Knowledge related to values of market area.
		Q34, Knowledge about the rules and norms.

The three dimensions of social capital, trust, commitment, and cognition capture the quality of a business relationship. A relationship can be defined as a mutually oriented interaction between two reciprocally committed parties (Håkansson and Snehota 1995:25). A relationship has a history and a future as it is developed over time as a chain of interactions and sequence of acts and counteracts. (ibid.) ”*In a relationship resources of two companies are brought together, confronted and combined.” (Håkansson & Snehota 1995: 30)* Thus it is a cumulative, social process. Bonds are born in a relationship as two companies direct their attention to each other; they start to become mutually committed. When they start interacting the actor bonds, trust and commitment emerge. (Håkansson and Snehota 1995) As trust increases during this exchange process the companies also learn about each other.

On the basis of numerous studies that represent different aspects of trust , the following dimensions of trust will be used as latent variables: goodwill-based, behaviour-based and competence-based. Goodwill-based trust promotes synergic social behaviour and it is indicated by shared values. It can also be perceived by partner’s moral responsibility and positive intentions towards each other. In relationships that are characterized by goodwill-based trust partners tend to keep their promises. Behaviour type of trust relationships are characterised by open communication, hence in trusted relationships information is shared openly. In addition, partners’ competence which is indicated by capability to perform mutual business in desired manner tend to increase trust. Hence partnership competence indicates of competence - based trust. Based on what is said above, the latent variable of trust is proposed to be based on goodwill, behaviour, and competence. The latent variable of trust can be observed by the following indicators: shared values, information sharing, goodwill, reliability, and partnership competence.

Likewise, the concept of commitment is divided into attitudinal and behavioural types (Reichers 1985, Nummela 2000). The former type refers to a positive attitude, which can be based on different kinds of bonds and a desire to maintain current relationship and future expectations, whereas the latter type is manifested by concrete behaviour such as adaptation, investment in valued relationships, and a desire to maintain the relationships. Future expectations explain commitment without knowledge.

During these exchange processes, actors develop cognitive structures and perceive other actors and networks which influence their behaviour. For the purpose of this study, this concept is adopted for the cognitive dimension of social capital. As a result, the concept 'network theory' is used to interpret the characteristics of a network specific to each actor. Furthermore, the term cognition will henceforth be used in this study as a proxy for 'network theory'. Every actor in a network carries their own 'network theory', which is based on his own interpretation of network. A proxy for cognition is adopted as follows: ability to interpret the environment, perception based on past experience, and lack of misunderstandings.

The concept of knowledge is dealt with in section 2.4. Similarly, this study applies the concept of experiential market knowledge that has two constructs: business knowledge and institutional knowledge. On the basis of the discussion in 2.4, this study proposes two latent variables for the concept of experiential market knowledge: 1) business knowledge consisting of knowledge about clients, markets, and competitors and 2) institutional knowledge consisting of knowledge about institutional frameworks, values, rules, and norms. (ibid.) These two types of knowledge are acquired mainly through interaction and relational exchange.

A proxy for experiential business knowledge is adopted as follows: foreign business knowledge means experiential knowledge of clients, the market, and competitors. A proxy for experiential institutional knowledge means foreign institutional knowledge about experiential knowledge of government, institutional frameworks, rules, norms, and values. As discussed earlier, the concept of knowledge is divided into two overlapping, but different dimensions of knowledge: experiential business knowledge and institutional knowledge.

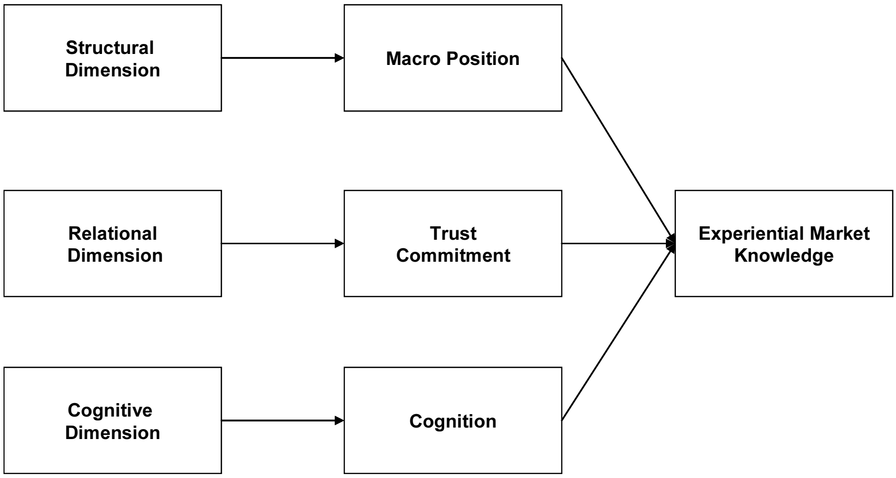

Figure 10: Framework for social capital

The main conclusion is that actor bonds trust and commitment and cognition are binding actors more closely together. As involvement between actors increase it is good reason to believe that also sensitive and other knowledge is exchanged based on actors' mutual experience.

Based on previous discussion and arguments, the following hypotheses are formulated and tested in chapter 4 to obtain evidence. The hypotheses are tested between actor bonds as trust and commitment and experiential market knowledge and between cognition and experiential market knowledge.

The first dimension of social capital, the structural dimension is omitted, as macro position concept according to IMP is a proxy for the strategic concept, and that is not the focus of this research.

The following hypotheses concern the links between relational and cognitive dimensions and experiential market knowledge.

Hypotheses:

Hypothesis 1a: The higher the level of trust is the higher the level of experiential business knowledge will be.
Hypothesis1 b: The higher the level of trust is the higher the level of experiential institutional knowledge will be.

Hypothesis 2a: The higher the level of commitment is the higher the level of experiential business knowledge will be.
Hypothesis 2 b: The higher the level of commitment is the higher the level of experiential institutional knowledge will be.

Hypothesis 3a: The higher the level of cognition is the higher the level of experiential business knowledge will be.
Hypothesis 3b: The higher the level of cognition is the higher the level of experiential institutional knowledge will be.

We now proceed (chapter 4) to examine and to test these hypotheses. Thus next chapter deals with empirical proof of proposed links between exogenous and endogenous variables.

4. Method and Empirical Analysis

4.1 Introduction

Social science has always been interested in methodological, epistemological, and ontological issues. International Business is no exception. However, only a few scholars (e.g. Sullivan 1998a, b, Toyne & Nigh 1998, Toyne 1989) have paid attention to these questions.

It is convenient to classify IB research into three main paradigms: the extension paradigm, the cross-border management paradigm, and the interaction paradigm. This study employs the last one. International marketing and international financing management employ the extension paradigm, but their focus extends to international contexts. The cross-border management paradigm deals with problems associated with the movement of goods and capital across national borders (Toyne and Nigh 1997). According to the interaction paradigm International Business is an "emerging vision."

> *"INTERNATIONAL BUSINESS is an emerging, hierarchical social process that is the result of the interaction of national business processes and their outputs. The output of this IB process is indeterminate."* (Toyne & Nigh 1997: 16)

This study positions the network approach in an 'emerging' interaction paradigm, which examines relationships and networks among international companies. The research methods used in Europe are mainly based on case studies, and the aim has been to provide a better and deeper understanding of IB. In this respect it has succeeded. However, another method can be applied. Hypothetical-deductive reasoning provides results that can be generalized into a broader context. Thus there is a call for a conceptual, integrative analysis and rigorous use of quantitative methods.

Burrell and Morgan (1979) argue that it is convenient to conceptualise social science in terms of four sets of assumptions related to (1) the nature of the focal phenomena (ontology), (2) the nature of knowledge of those phenomena (epistemology), (3) the nature of man, and (4) the nature of ways to study those phenomena (methodology).

According to Burrell and Morgan [1979], metatheoretical orientations may be defined as either subjectivist or objectivist. The first one combines a subjective worldview with an anti-positivist epistemology assuming a voluntary human nature and relying on idiographic methodology for individual level measurement, whereas the latter objectivist orientation assumes a realistic world with positivist or logical-empiricist epistemology. The aim is to identify law-like generalizations by using standardized measurement. (as cited in Möller 1994)

However, in contrast to the 'naive' realism of positivism, postpositivism has a "real" reality "out there," but takes a critical standpoint to it. It is real but only imperfectly so, and probabilistically apprehensive (Denzin et al. 2000). The positivist paradigm uses deductions and analogies, tries to verify the hypothesis, and generates theories and models. Deductive logic is about confirming a hypothesis postulated on the basis of earlier theories. Accordingly, positivist epistemology seeks to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements (Burrel and Morgan 1979). In contrast, inductive logic is an approach in which the patterns, themes, and categories of analysis come from the data, and it starts with data, generating profound understanding by interpretation. Furthermore, it is a process of deriving general rules of theories from individual cases. (Patton 1990)

Abductive reasoning lies between these polar opposites of inductive and deductive logic. In adductive studies, the close connection between the choice and development of theoretical models, the basic research design, the research and operational methodological issues, and analysis and interpretation are emphasized (Dupois and Gadde 1999). This is in contrast to studies grounded in inductive or deductive logic. The reasoning process of generating ideas is labelled abductive[11] Coffey and Atkinson (1996). New concepts are developed as the result of abductive reasoning. Charles Peirce (1839-1914) was the first person to present this approach. Abductive reasoning is based on the idea that the development of a new theory is possible only if there is a guiding principle for perceptions. A new theory cannot be born only on the basis of perceptions, as is assumed in inductive logic. The guiding principle may be a slight idea or a well developed hypothesis. The guiding principle is based on the assumption that human experiences are always logical, and it is science's task to get into touch with the logic. Different ontology and epistemologies tend to incline the scientists to different methodologies.

This study assumes, according to the basic beliefs of alternative inquiry paradigm, that positivism is the most appropriate approach as the study question is what-type and tries to determine the factors explaining the increase in experiential knowledge. Accordingly, the positivist paradigm is adopted, and this means that the epistelomological position of this study is objectivist and that ontolology is naïve realism (Denzin & Lincoln 2000). In the pre-study phase, the researcher chose the concepts and relations between these concepts (Seppola 2002). However, the broad framework needs to be developed further and therefore, a new framework , which is partly based on previous studies (Seppola 2002), but mostly on new ideas, will be developed. Positivism argues that the findings are true. Thus, this study uses chiefly quantitative methods and tries to confirm the hypothetical model.

This study analyses international business relationship between suppliers and buyers with the LISREL program. It uses the structural equation modelling technique. Theory suggests that social capital has a positive effect on experiential knowledge. The social capital framework is conceptualised as

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[11] Abductive logic is a syllogism whose major premise is certain, but whose minor premise is probable (Webster 1989)

three dimensions: the structural, the relational, and the cognitive. The relation- specific dimensions are analysed, accordingly the relation between trust, commitment and cognition and experiential market knowledge. A hypothesized structural model was built and six hypotheses were tested on a sample consisting of 280 Finnish exporting firms of various sizes. After the empirical tests, a final model is presented.

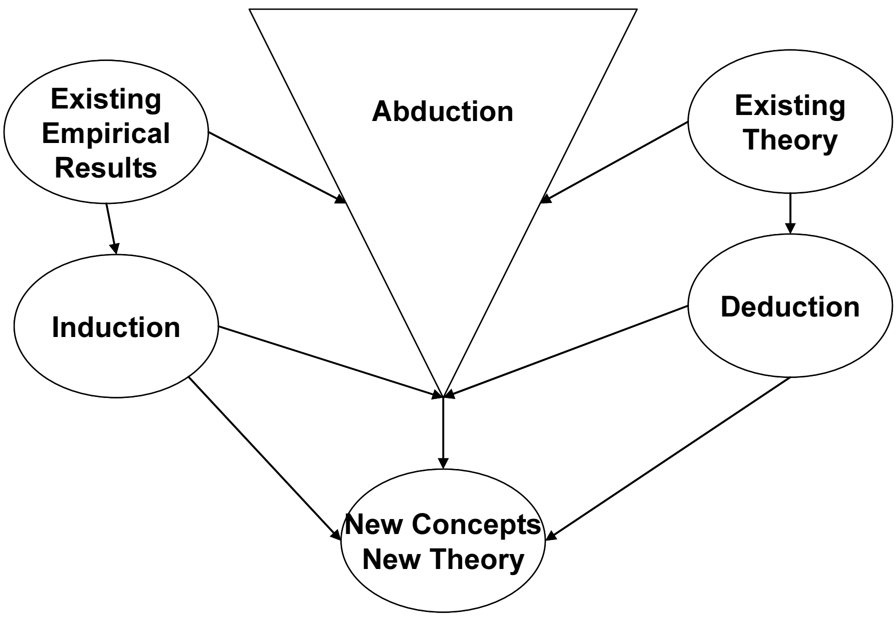

Figure 11: Different directions of reasoning

Source: Adopted and modified from Inger Roos 1999

4.2 Confirmatory Factor Analysis

The aim of this section is to discuss modelling in the social and behavioural sciences and particularly in this study on international business. Most theories and models in the social and behavioural sciences are formulated in terms of theoretical or hypothetical concepts or in terms of constructs or latent variables that are not directly measurable or observable. First, the development of observed and latent variables is needed. This is done in chapter two and three. Then three latent variables are labelled as explaining variables (exogenous) and two variables are labelled as explained variables (endogenous) or factors. After having established the variables, the researcher has to impose substantial constraints. This means that it has to be indicated 1) which pairs of latent factors are correlated and 2) which observed variables are affected by which latent factors. After having set the constraints, the researcher has to establish the causal relationships between the latent variables. Then it is important to establish the constructs for the latent variables. To measure each latent variable, three to five observed variables are needed. A number of indicators or symbols of these variables can be used to measure each latent variable. Such operationalisation, however, is extremely demanding, since human behaviour is so complex and multidimensional and cannot easily be measured objectively.

The confirmatory factor (CFA) analysis (Jöreskog & Sörbom 1993, 2001, Jöreskog, Sörbom, d Toit and du Toit, S and du Toit, M 2000, 2001) is used. In this analysis, the structural model is confirmed by the data. CFA is often called SEM Structural Equation Modelling, SEM (Metsämuuronen, 2003). The SEM analysis has the following five steps:

1. Specification of the model
2. Identification of the theoretical model
3. Estimation of parameters
4. Testing the hypothesis of the model
5. Assessment of Goodness of Fit in the Confirmatory Factor Model

The hypothesized causal relations were investigated by using the LISREL program, which is an estimation software program. LISREL can be used for both explorative factor analysis and hypothesis-testing (Jöreskog and Sörbom 1993). Accordingly, there are explorative and confirmatory factor analysis methods. This study applies both of them as it is usually necessary to include an element of explorative analysis, in the form of a check that the constructs are solid (4.3.2). The main analysis is conducted by using confirmatory factor analysis.

In the first phase, the model is specified and identified. This is done by defining and specifying the latent and observed variables and the relationships between them. The confirmatory factor model requires that formal and explicit statements be made about (1) the number of latent variables, (2) the number of observed factors, (3) the variances and covariance among latent variables[12] , (Long, 1986), (4) the relationships between observed factors and latent variables, (5) the relationships between unique factors and observed variables, and (6) the variances and covariance among the unique factors (Long 1986).

The model used in this study has five latent variables, of which three, ξ, are explaining (independent) variables and two ,η, are explained variables (dependent) (Figure 12). Three to five observed variables are needed to measure each latent variable. The number of these measurement constructs may vary. In empirical phase 4.3.2, explorative factor analysis is first conducted. In confirmatory factor analysis, researchers have the knowledge of the factorial nature of the variables needed to specify how each latent variable can be measured. Moreover, causal relationships between explaining and explained variables need to be established. Then a hypothetical model is proposed. The model building starts with identifying factors. First, the operational items are presented (Table 2). Then explorative factor analysis is conducted to establish solid constructs (Table 6).

This empirical part starts estimating the measurements models for each constructs separately, then each latent factor is examined in turn. Accordingly, single factor models are built (4.3.2). Then a multiple factor measurement model with correlated factors is built for the explained variables (4.3.3). Then the regression models for of each independent factor are examined in turn (4.3.4). The goal of this process is to eliminate those independent variables that are not explaining dependent variables. After this phase the created model presented (4.3.6) and then model is developed. Furthermore, the hypotheses are

[12] This study adopts to use latent variable or factor for common factors

tested (4.3.7) and finally section 4.3.8 assesses goodness of fit and the validity and reliability are discussed.

4.2.1 Latent Variables, Constructs and their Indicators

The basic idea is that certain variables cannot be observed directly. These variables are called latent variables ξ_1, ξ_2, and ξ_3 and η_1 and η_2 the first three are explaining variables and the latter two are explained variables. The construct of "social capital" is meant to capture the dimensions that have an influence on experiential market knowledge acquisition. This concept consists of three different latent variables, all of which consist of a minimum of three to five (observed variables) different measurement items.(TABLE 3)

The unobserved variables are referred to as latent factors (common factors). While the latent variables cannot be observed directly, information about them can be obtained indirectly by noting their effects on the observed variables. Figure 12 illustrates the factor model, which is called the hypothesized structural equation model. In this figure, circles represent latent variables and squares represent observed variables. A straight arrow pointing from a latent variable to an observed variable indicates the causal effect of the latent variable on the observed variable. The circles on the left correspond to the latent variables of trust ξ_1, commitment ξ_2, and cognition ξ_3, which are the dimensions of social capital.

Experiential market knowledge is divided into two categories: experiential business knowledge η_1 and institutional knowledge η_2. The term foreign business knowledge refers to experiential knowledge of clients, the market, and competitors. The term foreign institutional knowledge, however, refers to experiential knowledge of government, institutional frameworks, rules, norms, and values. (Eriksson et al. 1997)

Table 3: Latent and Observed Variables

Factor name and measurement items

Trust ξ_1
Q17 shared values
Q18 information sharing
Q19 goodwill
Q20 reliability
Q21 partnership competence
Commitment ξ_2
Q22 product, technological adaptation
Q23 relationship value
Q24 investment in relationships
Q27 future expectation
Cognition ξ_3
Q25 perception
Q26 experience
Q28 misunderstanding
Experiential market knowledge
Experiential business knowledge η_1
Q29 knowledge about clients
Q30 knowledge about markets
Q31 knowledge about competitors
Experiential institutional knowledge η_2
Q32 knowledge about institutional framework
Q33 knowledge about values
Q34 knowledge about rules and norms

4.2.2 LISREL Variables, Estimates and Structural Equations

As noted above Table 3, five latent variables are used in the first phase. For each variable, at least three measures were used. Statement-style items were measured on a five-point Likert-scale. Latent variables were developed and discussed in chapter two, and operationalisation was defined in chapter three, but measurements items will be described in the following sections. Since the model is hypothetical, generic names Y_1 – Y_6, X_1 – X_{12}, are used to represent the observed variables and Eta_1, Eta_2, Ksi_1, Ksi_2 and Ksi_3 to represent the latent variables. In the real model, the names would be replaced by names associated with the content of the variables. Each group of variables had already been classified before the names of the variables were chosen.

Classification of variables according to LISREL 8:

- Eta (η) - variables: Eta_1, Eta_2. These are dependent latent (endogenous) – variables. All latent variables appearing on the left hand side of the equation are Eta-variables. In the path diagram, they are recognized as the variables in ellipses.
- Ksi (ξ) – variables: Ksi_1, Ksi_2, and Ksi_3. These are independent (exogenous) variables appearing on the right hand side of the equation. These variables are recognized as those variables in ellipses that do not have one-way (unidirectional) arrows pointing to them.
- Y- variables: Y_1, Y_2, Y_3, Y_4, Y_5, Y_6. These are observed variables which depend on the Eta-variables.
- X-variables: X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9, X_{10}, X_{11}, and X_{12}. These are observed variables which depend on Ksi-variables.
- Zeta (ς)- variables : $Zeta_1$, $Zeta_2$. These are the error terms in the structural equation, i.e., the error terms on Eta1 and Eta2.
- Epsilon (ε) – variables. $Epsilon_1$, $Epsilon_2$, $Epsilon_3$, $Epsilon_4$, $Epsilon_5$, $Epsilon_6$. These are measurement errors in the Y-variables. In the path diagram they are represented by one-way (unidirectional) arrows on the right side.
- Delta (δ) – variables: $Delta_1$ – $Delta_{12}$. These are measurement errors in the X-variables, unique factors. In the path diagram, they are represented by one-way (unidirectional) arrows on the left side.

A path from one Eta-variable to another Eta-variable is called a BETA (β)-parameter, a path from a Ksi-variable to an Eta-variable is called a GAMMA (γ)-parameter, a path from a Eta-variable to a Y-variable is called a LAMBDA-Y, LY parameter, and a path from a Ksi-variable to a X-variable is called a LAMBDA-X, LX. Each parameter has two subscripts, the first being the index of the variable to which the path is going and the second being the index of the variable from which the path is coming. Thus BETA (1,2) (β_{12})

is the parameter associated with the path from Eta2 (η_2) to Eta1 (η_1). GAMMA (1,1) (γ_{11}) is the parameter associated with the path from Ksi1 (ξ_1) to Eta1 (η_1). (Jöreskog and Sörbom 1993 :136-137)

Structural equations:

$$\eta_1 = \beta_{12}\,\eta_2 + \gamma_{11}\,\xi_1 + \gamma_{12}\,\xi_2 + \gamma_{13}\,\xi_3 + \zeta_1$$

$$\eta_2 = \gamma_{21}\,\xi_1 + \gamma_{22}\,\xi_2 + \gamma_{23}\,\xi_3 + \zeta_2$$

In addition to the usual parameter estimates, LISREL 8 gives standard errors of the estimates, and *t*-values and squared multiple correlations for each equation in the model. The estimated joint covariance matrix is also given. Estimating parameters (*t*-test) the value of a parameter is divided by the error variance. For each parameter we are able to count R^2, which describes how well the study has succeeded in measuring each parameter.

$R^2 = 1 - \theta_{ii} \;/\; \sigma_1^2$

A hypothesized structural model was built on the framework that is developed in chapter two. The framework is described in chapter 3. The most important qualitative dimensions of social capital are the relational and cognitive dimensions. Accordingly, these dimensions are examined and tested empirically in following sections.

Table 4: Measurement Model Describing Latent and Observed variables

Trust	ξ_1
Q17 shared values	X_1
Q18 information sharing	X_2
Q19 goodwill	X_3
Q20 reliability	X_4
Q21 partnership competence	X_5
Commitment	ξ_2
Q22 product, technological adaptation	X_6
Q23 relationship value	X_7
Q24 investment in relationships	X_8
Q27 future expectation	X_9
Cognition	ξ_3
Q25 perception	X_{10}
Q26 experience	X_{11}
Q28 misunderstanding	X_{12}
Experiential business knowledge	η_1
Q29 knowledge about clients	Y_1
Q30 knowledge about markets	Y_2
Q31 knowledge about competitors	Y_3
Experiential Institutional knowledge/	η_2
Q32 knowledge about institutional framework	Y_4
Q33 knowledge about values	Y_5
Q34 knowledge about rules and norms	Y_6

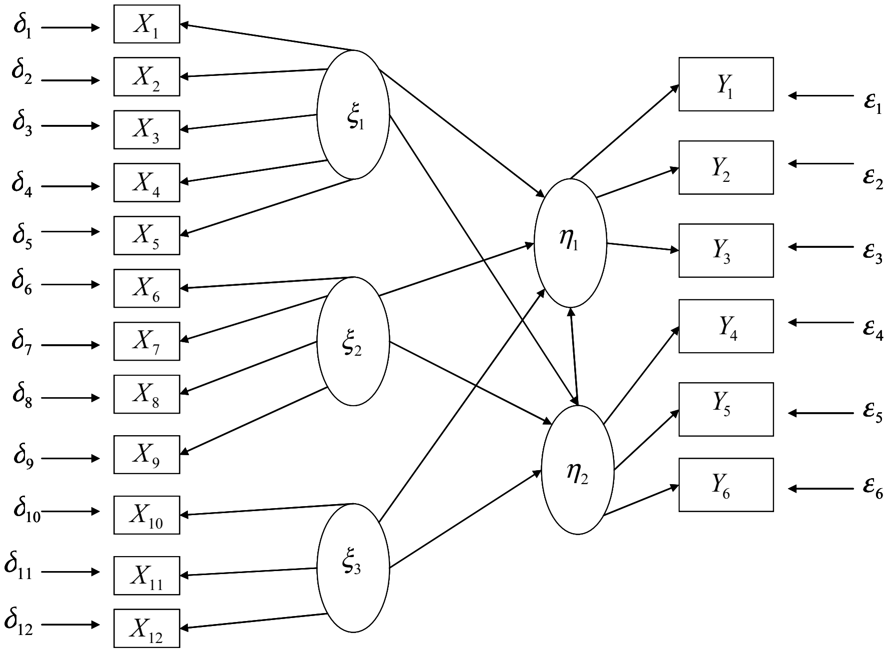

Figure 12: A hypothesized structural equation model

Structural equations:

$\eta_1 = \beta_{12}\ \eta_2 + \gamma_{11}\ \xi_1 + \gamma_{12}\ \xi_2 + \gamma_{13}\ \xi_3 + \zeta_1$

$\eta_2 = \gamma_{21}\ \xi_1 + \gamma_{22}\ \xi_2 + \gamma_{23}\ \xi_3 + \zeta_2$

Measurement Models:

$X_1 = \lambda_{11}\ \xi_1 + \delta_1$

$X_2 = \lambda_{21}\ \xi_1 + \delta_2$

$X_3 = \lambda_{31}\ \xi_1 + \delta_3$

$X_4 = \lambda_{41}\ \xi_1 + \delta_4$

$X_5 = \lambda_{51}\ \xi_1 + \delta_5$

$X_6 = \lambda_{62}\ \xi_2 + \delta_6$

$X_7 = \lambda_{72}\ \xi_2 + \delta_7$

$X_8 = \lambda_{82}\ \xi_2 + \delta_8$

$X_9 = \lambda_{92}\ \xi_2 + \delta_9$

$X_{10} = \lambda_{103}\ \xi_3 + \delta_{10}$

$X_{11} = \lambda_{113}\ \xi_3 + \delta_{11}$

$X_{12} = \lambda_{123}\ \xi_3 + \delta_{12}$

$Y_1 = \lambda_{11}\ \eta_1 + \varepsilon_1$

$Y_2 = \lambda_{21}\ \eta_1 + \varepsilon_2$

$Y_3 = \lambda_{31}\ \eta_1 + \varepsilon_3$

$Y_4 = \lambda_{42}\ \eta_2 + \varepsilon_4$

$Y_5 = \lambda_{52}\ \eta_2 + \varepsilon_5$

$Y_6 = \lambda_{62}\ \eta_2 + \varepsilon_6$

The results of this phase, concerning measurement, models are presented in appendix 5. In order to establish solid constructs, the measurement models need to explain the intended latent factor. This is important for further development of the single factor and structural models. However, as can be noted on the basis of factor loadings, the *t* –values and R^2, this study has mainly succeeded in measurement models.

4.3 Empirical Analysis

4.3.1 Sample Design

We can now proceed to examine how the data were obtained. The data were gathered from the Blue Book web site. The Blue Book is a leading business and marketing information provider in Finland. Its systemic company database covers 191,000 companies. It belongs to the Nordic TDC Directories group. In the Blue Book, firms are categorized according to type of operations, and as a result, not all of the firms that were categorized as exporters actually were exporters. The cover letter emphasized that the firm should operate in industrial markets and should have permanent, trust-based business relationships. For this reason, those firms that could not meet the requirements did not respond. This source of data was used because the information was available free of charge to the researcher. The aim was to identify enough international firms to build a model that describes experiential knowledge acquisition.

In Finland, the Blue Book categorized 5711 firms as exporters; 1690 of these were very small, and were therefore excluded. The number of exporters that operate in industrial markets is smaller than the total number of exporters. There were some 3000 addresses available in the Blue Book, and thus 2894 survey questionnaires were sent out. In 54 cases the address was wrong, 31 stated they did not export, and 8 did not wish to participate. The effective sample size was about 2801, of which 280 questionnaires were returned. Thus, the response rate was low, approximately 10%. The survey was mailed twice. Apparently one reason for the low response rate is that the firms categorized as exporters do not operate on a business-to-business basis. Such firms did not participate in the survey. In spite of the low response rate, the results that were obtained were also applied in this research setting and the empirical data were analysed. Before sending out the questionnaires, Professors Hannu Seristö and Antti Kanto from the Helsinki School of Economics, research fellows from Centre for International Business research and from the Centre for the

Doctoral Programme were consulted and asked for opinions on the survey questions. After discussion with these experts, the questionnaire was modified and developed further. All Finnish industrial sectors are included in study. Moreover, the firms represent all sizes and only very small firms, those employing 1 to 4 persons, were excluded. The data are cross-sectional. Unlike in other multivariable methods, in the SEM - analysis the validity of the research is not dependent on the size of the sample, or on the number of variables, but on the estimated parameters. The sample size was, however, large enough and also representative. The validity of the model is based on Chi-Square. Jöreskog proposed to use (1969) Chi square/ degrees of freedom. Hoelter (1983a) on the other hand proposed to use the size of N /Critical number) instead. These indexes are used to test the model. However, the sample size has to exceed 200 observations in small- and medium-size models. The effective sample size was 263 - hence it is sufficient in the created model.

Each firm was asked to make statements based on a LIKERT-type scale with the following anchor: The survey is in appendix – 2:

1 =	SD=	Strongly Disagree
2 =	D=	Disagree
3 =	SA =	Somewhat Agree
4 =	A=	Agree
5 =	SA=	Strongly Agree

The questions tested were ordinal. The missing values were imputed by means.

The Number of missing values was as follows: in the original model.

Table 5: Missing Values of Structural Model

Questions	Number of Missing Values
Q17	1
Q18	1
Q19	1
Q20	1
Q21	0
Q22	0
Q23	5
Q24	4
Q25	2
Q26	1
Q27	7
Q28	2
Q29	2
Q30	1
Q31	1
Q32	2
Q33	1
Q34	1

4.3.2 Single Factor Measurement Models

Before going to consider the whole model important observations concerning single factor models need to make here. If single constructs will appear not significant as defined below, they can be omitted in this first step.

Accordingly we proceed to examine each latent construct. Each of them was examined one at a time. First, the study examined how well each construct (observed variable) measured the intended latent factor. R^2 was used; the closer the value of R^2 is to one, the better the measurement. It also indicates reliability. However, if the index is less than 0.30, the indicator is not necessarily a good one. Using the Maximum Likelihood estimation method, it is assumed that the data are normally distributed. This assumption was also examined from output files. As the items are measured by the Likert scale, the correlations are examined with polychoric correlations. In the first phase, every parameter is examined with respect to R^2 and t-values.

There is a clear-cut difference between explorative and confirmatory factor analysis. In practice, however, it is obvious that the assumption about perfect fit can seldom be demonstrated without adjustment of the measurement items. Therefore, it is usually necessary to include an element of explorative analysis, by using Promax-Rotated Factor loadings. Thus the factor solution was sought after PROMAX rotation. This is done before proceeding to the confirmatory factor analysis. It must be emphasized that explorative factor analysis has been conducted to pinpoint those variables that mainly load on one factor at a time.

Table 6: Explorative Factor Analysis

Promax-Rotated Factor Loadings

	Factor 1	Factor 2	Factor 3	Unique Var
Q17	**0.513**	0.195	-0.079	0.634
Q18	**0.704**	0.007	0.090	0.438
Q19	**0.825**	-0.081	-0.131	0.444
Q20	**0.766**	0.019	-0.013	0.405
Q21	0.343	0.321	0.184	0.509
Q22	0.014	**0.525**	0.156	0.599
Q23	0.085	**1.030**	-0.161	0.000
Q24	-0.086	**0.853**	0.110	0.238
Q25	0.023	-0.041	**0.674**	0.563
Q26	-0.176	-0.040	**0.721**	0.574
Q27	0.081	**0.601**	0.135	0.462
Q28	0.345	-0.157	**0.413**	0.701

Factor 1: Q17, Q18, Q19, and Q20 this factor 1 is labelled trust.
Factor 2: Q22, Q23, Q24, and Q27 this factor 2 is labelled commitment.
Factor 3: Q25, Q26, and Q28 this factor 3 is labelled cognition.

In order to find proper measurement items for each factor, explorative factor analysis was used. There is one measurement item that is complex. Q21 seems to be loaded in each factor. Moreover, based on correlation analysis, Q21 correlates more with Q22, Q23, and Q24 than with Q17, Q18, Q19, and Q20.

Q21 seems so complex that it loads almost equally on every factor. For this reason, it is omitted because each factor has enough measurement items (the minimum is three indicators for one construct)

Table 7: Factor Correlations

	Factor 1	Factor 2	Factor 3
Factor 1	1.000		
Factor 2	0.546	1.000	
Factor 3	0.406	0.551	1.000

The above analysis makes it clear that the construct of partnership competence (Q21) is omitted from further analysis. We now proceed to examine each construct.

Construct Analysis

In this first phase we have five different constructs, which are representing earlier mentioned latent variables. A construct that consists of valid indicators constitute a valid construct. Factor loadings and the coefficients for causal relations are measures of construct validity. Factor loading measures the extent to which the variation of one indicator explains the variation of the latent variable. The highest factor loading is the most valid indicator of its latent variable. Hence, high factor loadings are good indicators of the convergent validity of constructs. Every construct also needs to be examined in turn with respect to R^2 and *t*-values. First, the construct of trust is examined. Then commitment, cognition, and finally experiential market knowledge are analysed. All theoretical constructs and operational items were defined earlier in Table 2.

Table 8: Trust

Indicator	FACTOR LOADING	*t– value*	R^2
Q17	0.56	9.78	0.37
Q18	0.59	11.28	0.48
Q19	0.64	11.76	0.52
Q20	0.53	10.25	0.41

Chi-Square=9.40, df=2, P-value=0.00911, RMSEA=0.115

Initially, the construct of trust consisted of five indicators. However, on the basis of the explorative factor analysis, Q21 is excluded, and hence there are four indicators. There was one complex variable: Q21 partnership competence, which is loaded on all three factors. Accordingly, it was omitted. As shown in Table 8, all indicators load quite evenly on trust, all *t*-values are significant, and all R^2 values are above 0.30. Thus all indicators of the construct of trust suggest good convergent validity for the construct.

As many studies have dealt with the concept of trust, the concept is easy to operationalise. However, one of the respondents explained that there is trust in one country, but not in another. Nevertheless, the respondents were asked to consider one particular business customer in the instructions. This instruction is also valid with respect to nationality or market area.

Table 9: Commitment

Indicator	FACTOR LOADING	*t– value*	R^2
Q22	0.52	10.13	0.34
Q23	0.66	17.86	0.82
Q24	0.64	15.34	0.66
Q27	0.53	12.83	0.50

Chi-Square=0.50, df=2, P-value=0.78034, RMSEA=0.000

All indicators load on commitment and the factor loadings are also high. Based on *t* – values and R^2, the construct of commitment is significant (Table 9).

Table 10: Cognition

Indicator	FACTOR LOADING	*t– value*	R^2
Q25	0.46	5.52	0.34
Q26	0.60	5.65	0.39
Q28	0.30	4.48	0.13

Chi-Square=-0.00, df=0, P-value=1.00000 RMSEA=0.000

As Table 10 above shows, factor loadings are lower in respect to Q28 than to Q25 and Q26, the t-values are significant, and R^2 shows that operationalisation has succeeded for Q25 and Q26. However R^2 of Q 28 remains low. The *t*-values are lower than those of trust and commitment, but are nevertheless significant. One of the dimensions of social capital is cognitive. In this study, the concept that is generally known as ‘network theory’ will be used for that dimension. In the network approach according to the IMP Group, there are few concepts that can be used for measuring cognition.

Table 11: Experiential business knowledge

Indicator	FACTOR LOADING	*t– value*	R^2
Q29	0.63	12.38	0.54
Q30	0.72	14.59	0.73
Q31	0.64	11.41	0.46

Chi-Square=0.00, df=0, P-value=1.00, RMSEA=0.000

As factor loadings are high, and are also based on the *t*-values and the R^2, (Table 11) the construct of experiential business knowledge suggests good convergent validity.

Table 12: Experiential institutional knowledge

Indicator	FACTOR LOADING	*t– value*	R^2
Q32	0.65	10.83	0.47
Q33	0.70	11.98	0.58
Q34	0.65	10.94	0.47

Chi-Square=0.00, df=0, P-value=1.00000, RMSEA=0.000

Factor loadings are high, and based on t-values and $R^{2,}$ the construct of experiential institutional knowledge is acceptable.

This study has used only one source regarding operationalisation of the latent variable of experiential market knowledge. The researchers, however, are well-known (Eriksson, Johanson, Majkgård & Sharma1997). Accordingly, the constructs of foreign business knowledge and foreign institutional knowledge have been widely acknowledged. The R^2 values , factor loadings, and t-values indicated that the operationalisation was successful. However, one deficiency is that the concepts of experiential business and institutional knowledge are relatively narrow and do not capture all the knowledge needed to operate in foreign markets. Nevertheless, the survey cannot be too extensive since the number of questions has to be limited.

The preceding analysis makes it clear that all constructs are satisfactory. Based on factor loadings, *t*-values and R^2 , all constructs are acceptable. These key statistical measures indicate good convergent validity. As the key statistical measures provided acceptable variables, the following sections can turn to analysis of each relation within the model.

4.3.3 Explained Factors

Before going on to regression models, one important observation needs to be made here: the correlation between explained factors. Hence, the explained factors are examined by means of structural equations with correlated factors.

$$\eta_1 = \beta_{12}\, \eta_2 + \zeta_1$$

RMSEA =0.055 Chi-Square 14.79 df=8 P-value 0.06342

The correlation between explained correlated factors β_{12} is estimated to be 0.67 and a *t*-value of 8.50 and ζ_1 is 0.55. The factor loading is extremely high, which indicates that experiential business knowledge is highly affected by experiential institutional knowledge. The high R^2 (0.45) indicates a strong linear relation and the high *t*-value indicates significance.

The main conclusion is thus that there a strong linear relation between two kinds of knowledge, they are correlated.

4.3.4 Regression Models

We now proceed to examine the linear relationships between dependent and independent variables. A single regression equation is used to describe the linear relationships between the dependent variables experiential business knowledge η_1 and experiential institutional knowledge η_2 and in turn each of the independent variables of social capital, namely trust ξ_1, commitment ξ_2 and cognition ξ_3.

Trust

1. $\eta_1 = \gamma_{11}\, \xi_1 + \zeta_1$

2. $\eta_2 = \gamma_{21}\, \xi_1 + \zeta_2$

RMSEA 0.060 Chi-Square=63.82 df=32 P-value 0.00069
Chi-Square/ df=2.

Commitment

3. $\eta_1 = \gamma_{12}\, \xi_2 + \zeta_1$
4. $\eta_2 = \gamma_{22}\, \xi_2 + \zeta_2$

RMSEA=0.052 Chi-Square=56.19 df=32, P-value 0.00518
Chi-Square/df= 1.75

Cognition

5. $\eta_1 = \gamma_{13}\, \xi_3 + \zeta_1$
6. $\eta_2 = \gamma_{23}\, \xi_3 + \zeta_2$

RMSEA=0.034 Chi-square=31.68, df=24 P-value=0.13525
Chi-Square/df=1.32

Table 13: Regression model: Parameter estimates

Model	γ	t -value	R^2	ζ
1.Trust	0.36	4.71	0.13	0.87
2. Trust	0.28	3.51	0.078	0.92
3. Commitment	0.42	5.85	0.18	0.82
4. Commitment	0.23	3.09	0.052	0.95
5. Cognition	0.55	6.11	0.30	0.70
6. Cognition	0.41	4.45	0.17	0.83

Table 13 presents three explaining variables: trust, commitment, and cognition in respect to experiential business η_1 (in odd lines, 1, 3, 5) and institutional knowledge η_2 (in even lines 2, 4, 6). The parameter estimates are first presented for experiential business knowledge and then for experiential institutional knowledge.

Based on (5) regression parameter γ_{13} (0.55) between experiential business knowledge and cognition, ξ_3 it seems to explain experiential business knowledge (η_1) better than (3) regression parameter γ_{12} (0.42) between experiential business knowledge and commitment (ξ_2) and than (1) regression parameter γ_{11} (0.36) between experiential business knowledge and trust (ξ_1). Nevertheless all regression parameters are relatively high. Also, t-values demonstrate that all relations are significant. R^2 is highest (5) and best 0.30.

The regression parameter γ_{23} (0.41) between experiential institutional knowledge η_2 and cognition (ξ_3) indicates (6) that experiential institutional knowledge is better explained by cognition ξ_3 than by trust ξ_1 (2) and commitment ξ_2 (4) as the equivalent regression parameters are γ_{21} (0.28) and γ_{22} 0.23. Also, the t- values support this order. It is higher in respect to cognition (4.45), then in respect to trust (3.51) and it remains smallest with respect to commitment (3.09). Results of this sort suggest that cognition will prove to be significant in the final model.

Based on the regression equations above, all *t*-values indicate that experiential business and institutional knowledge depend on trust, commitment, and cognition. All the *t*-values are significant. In the regression models, regression parameter γ indicate causal relations. Together with R^2 and the *t* –values, the construct of cognition seems to explain both experiential business and institutional knowledge better than trust and commitment. Also, the ratio between Chi-Square and the degree of freedom suggests that the construct of cognition is a good explaining variable for experiential market knowledge, which consists of experiential business and institutional knowledge.

The conclusion to be drawn here is that all regression equations show linear relationships and are significant. This kind of evidence tends to support the proposed structural model. However, this analysis needs to examine in more detail. As the model is quite extensive in respect to sample size it lays open the final model.

4.3.5 Structural Model

Before going to consider the created model, the model with all latent variables is presented in appendix 6. Accordingly, the structural model, which was arrived at after estimates of all three explaining and two explained variables is presented.

Structural Equations:

1. $\eta_1 = \beta_{12}\,\eta_2 + \gamma_{11}\,\xi_1 + \gamma_{12}\,\xi_2 + \gamma_{13}\,\xi_3 + \zeta_1$
2. $\eta_2 = \gamma_{21}\,\xi_1 + \gamma_{22}\,\xi_2 + \gamma_{23}\,\xi_3 + \zeta_2$

The obtained evidence (see appendix 6) shows that not all variables are significant. Two points need to be made here. First, the problem of multicollinearity that is caused by correlation between explaining factors. This appeared to be moderate high in respect to trust and commitment. Second, the model has five latent and 17 instead of original 18 (as Q21 was omitted) observed variables in respect to sample size. Hence the model is quite large. Problems of this sort may suggest that some variables will appear not significant in the final model. We can now proceed to examine the model that was obtained after several processes. Hence, we proceed to develop our model, which will be presented in the next section.

4.3.6 Created Model

This section presents the model[13] that has obtained after several output of LISREL- parameter estimates.

An unexpected effect was obtained concerning the latent variable of trust (ξ_1). Based on the estimation and the *t*-values, it did not appear to be significant. Stem leaf plot reveals that residual are around zero, but not quite symmetrical. The largest negative standardised residual for Q27 and Q31 remains. Based on the *t*-values, the latent variable of trust was omitted from the final model.

Accordingly, the structural model has the following two explaining variables: the latent variables of commitment ξ_2, and cognition ξ_3, which are dimensions of social capital. Experiential market knowledge has two aspects: business knowledge η_1 and institutional knowledge η_2 (Sharma et al. 1997), which remain as explained variables.

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[13] The model is labelled 'created' instead of final, because of the nature of the concept and the context. The social capital concept is dynamic and sensitive to its context. Social capital is emerges in its context.

The output files reveals the following results: firstly complete structural equations and the reduced forms.

We now proceed in the following way. First each constructs and the equivalent measurement (mathematical form) models are presented (Table 14), then parameter estimates for these measurement models are presented (15). Finally, we proceed to examine the structural equations (Table 16 and 17) and the reduced form equations (Table 18 and 19) lead us to the final point.

Table 14: Measurement models for the created model

Commitment, ξ_2	Measurement models (Mathematical models)
Q22: product, technological adaptation	$X_6 = \lambda_{62}\ \xi_2 + \delta_6$
Q23 relationships value	$X_7 = \lambda_{72}\ \xi_2 + \delta_7$
Q24 investment in relationships	$X_8 = \lambda_{82}\ \xi_2 + \delta_8$
Q27 future expectation	$X_9 = \lambda_{92}\ \xi_2 + \delta_9$
Cognition, ξ_3	
Q25 perception	$X_{10} = \lambda_{103}\ \xi_3 + \delta_{10}$
Q26 experience	$X_{11} = \lambda_{113}\ \xi_3 + \delta_{11}$
Q28 misunderstanding	$X_{12} = \lambda_{123}\ \xi_3 + \delta_{12}$
Experiential business knowledge, η_1	
Q29 knowledge about clients	$Y_1 = \lambda_{11}\ \eta_1 + \varepsilon_1$
Q30 knowledge about markets	$Y_2 = \lambda_{21}\ \eta_1 + \varepsilon_2$
Q31 knowledge about competitors	$Y_3 = \lambda_{31}\ \eta_1 + \varepsilon_3$
Experiential institutional knowledge, η_2	
Q32 knowledge about institutional framework	$Y_4 = \lambda_{42}\ \eta_2 + \varepsilon_4$
Q33 knowledge about values	$Y_5 = \lambda_{52}\ \eta_2 + \varepsilon_5$
Q34 knowledge about rules and norms	$Y_6 = \lambda_{62}\ \eta_2 + \varepsilon_6$

Table 15: Parameter estimates for measurement models

Parameter	Loading (λ_{ij})	***t*-value**	R^2	Error term (δ and ε)
Q22	0,51	10.11	0,34	0.51
Q23	0.65	17.73	0.80	0.11
Q24	0.65	15.62	0.67	0.21
Q27	0.53	12.89	0.51	0.28
Q25	0.55	9.17	0.47	0.34
Q26	0.48	7.09	0.26	0.67
Q28	0.31	5.05	0.13	0.62
Q29	0.63	n.a.	0.53	0.35
Q30	0.72	11.98	0.74	0.18
Q31	0.64	10.25	0.45	0.49
Q32	0.64	n.a.	0.45	0.50
Q33	0.72	9.52	0.62	0.32
Q34	0.64	8.90	0.45	0.49

The parameter estimates for measurement models above (Table 15) show that the factor loadings are excellent (satisfactory) and *t*-values are significant. The *t* -values are given in the output file and in the t-diagram for every estimated parameter. As the *t*-value is a standardised measure of the statistical significance of variables, all *t*-values are significant. R^2 describes how well each indicator measures each parameter. Accordingly, operationalisation has succeeded with respect to R^2 except for Q28, since all other estimates exceed 0.30 (or are near 0.30, Q26), which was defined earlier as a requirement for a good construct. This leads to further issue of presenting created model as below.

Before proceeding to present the created model two points need to made here. LISREL gives two forms of equations: first one presents all variables in it and the second one is called reduced form. In the following the first type is in Tables 16 and 17 and this latter form is presented in Tables 18 and 19.

Table 16: Created Model

Endogenous constructs	**Exogenous constructs**	**Error**
$\eta_1 =$	$\beta_{12}\,\eta_2 + \gamma_{12}\,\xi_2 + \gamma_{13}\,\xi_3$	$+\zeta_1$
$\eta_2 =$	$\gamma_{23}\,\xi_3$	$+\zeta_2$

Table 17: Parameter Estimates for Created Model

	Parameter Estimate	***t*-statistics**	R^2
Experiential business knowledge, η_1 **:**			0.56
β_{12}	0.52^{***}	5.99	
γ_{12}	0.17^{*}	2.29	
γ_{13}	0.25^{*}	2.46	
ζ_1	0.44^{***}	5.27	
Experiential institutional knowledge, η_2			0.18
γ_{23}	0.42^{***}	4.73	
ζ_2	0.82^{***}	5.29	

*** p< 0.1 %, ** p< 1%, * p< 5%, f=60

η_1 =construct representing ‘experiential business knowledge’

η_2 =construct representing ‘experiential institutional knowledge’

$\beta_{12=}$ the parameter associated with the path from Eta2 (η_2) to Eta1 (η_1)

ξ_2 =construct representing ‘commitment’

ξ_3 =construct representing ‘cognition’

γ_{11} - γ_{23} =parameters estimating the relationship between exogenous and endogenous constructs

ζ_1 - ζ_2 =error terms

As table 17 shows, experiential institutional knowledge, η_2, commitment, ξ_2, and cognition, ξ_3, affect experiential business knowledge, η_1. Based on factor loading, the influence of experiential institutional knowledge is strongest. The high value of R^2 indicates the strength of the linear relation. All these relations are significant (*t*-values are good).

As table 17 equation in previous page shows, all *t*-values are significant and R^2 is high (0.56). The equation η_1 shows that there are linear relations between experiential business knowledge, institutional knowledge, commitment, and cognition. It shows that experiential business knowledge is affected by experiential institutional knowledge, commitment, and cognition

However, as Tables 18 and 19 (Figure 13 below) demonstrate cognition, ξ_3 affects both, η_1, η_2, kinds of knowledge. Moreover, commitment, ξ_2, plays an important role in experiential business knowledge, η_1. In addition to the direct influence γ_{13} (0.25), the data proved that cognition has an indirect influence on experiential business knowledge via experiential institutional knowledge (0.42 x.52=0.22). Together, these effects make cognition to have a strongest effect (0.47) on experiential business knowledge. The rest of the relation β_{12} (0.52) is caused by hidden factors (0,30), which will be interesting topics for future research.

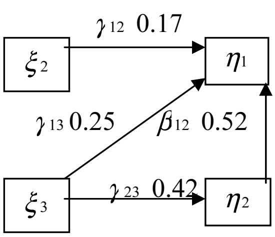

Figure 13: Structural Model

Table 18: Created Model (Reduced forms)

Endogenous constructs	**Exogenous constructs**	**Error**
$\eta_1 =$	$+\gamma_{12}\ \xi_2 + \gamma_{13}\ \xi_3$	$+\zeta_1$
$\eta_2 =$	$\gamma_{23}\ \xi_3$	$+\zeta_2$

Table 19: Parameter Estimates for Created Model (reduced forms)

	Parameter Estimate	***t*-statistics**	**R^2**
Experiential business knowledge, η_1:			0.33
γ_{12}	0.17^{*}	2.29	
γ_{13}	0.47^{***}	4.69	
ζ_1	0.67		
Experiential institutional knowledge, η_2			0.18
γ_{22}	0.00		
γ_{23}	0.42^{***}	4.73	
ζ_2	0.82		

***p< 0.1 %, ** p< 1%, * p< 5%, f=60

η_1 =construct representing ‘experiential business knowledge’

η_2 =construct representing ‘experiential institutional knowledge’

ξ_2 =construct representing ‘ commitment’

ξ_3 =construct representing ‘ cognition’

γ_{11} - γ_{23} =parameters estimating the relationship between exogenous and endogenous constructs

ζ_1 - ζ_2 =error terms

Table 20: Correlation Matrix of Independent Variables

	Commitment	Cognition
Commitment	1	
Cognition	0.51	1

Table 21: Covariance Matrix of Latent Variables

	Business [a]	Institutional [b]	Commitment	Cognition
Business	1.00			
Institutional	0.66	1.00		
Commitment	0.41	0.21	1.00	
Cognition	0.56	0.42	0.51	1.00

a = experiential business knowledge
b = experiential institutional knowledge

The correlation between commitment and cognition is estimated to be 0.51 (Table 20) with a standard error of 0.07 and a *t*-value of 7.30. The high *t*-value indicates that the correlation is not zero, but very significant. Table 21 shows covariance matrix of latent variables. Secondly, each relation is examined. This is done by analyzing *t* –values and R^2 –values. The *t*-value is a standard measure of the significance of variables and it is used to measure each relation in the model, whereas R^2 is a measure of the strength of the relationship. Accordingly, a high R^2 corresponds to a strong linear relation, which together with a significant *t*-value indicates good convergent validity.

According to Table 18 and Table 19, the equation of the construct of experiential business knowledge η_1 shows that there are linear relations between experiential business knowledge and commitment and cognition ($R^2 = 0.33$). These relations are also significant when based on *t*-values. Accordingly, experiential business knowledge is affected by commitment and cognition.

According to table 18 and table 19, the equation of the construct of experiential institutional knowledge (η_2) shows that there are linear relation between experiential institutional knowledge and cognition (R^2 = 0.18) and the *t*-value indicates that this relation is significant. Accordingly, both experiential business and institutional knowledge are affected by cognition.

Examination of the factor loadings shows that cognition has the strongest effect on experiential business and institutional knowledge. Also, commitment is significant for experiential business knowledge.

The above analysis makes it clear that a significant model is built. This model has four latent variables instead of original five. However, this kind of evidence tends to support some hypotheses and reject some of them. In next section we will examine the set of hypotheses.

4.3.7 Testing the Hypotheses of the Structural Model

Hypotheses:

The first set of hypotheses examines the extent to which trust influences the two dimensions of knowledge.

Hypothesis 1a: The higher the level of trust is the higher the level of experiential business knowledge will be.

Hypothesis 1 b: The higher the level of trust is the higher the level of experiential institutional knowledge will be.

An unexpected effect was obtained, as the construct of trust did not appear to be significant.

Accordingly, H_0 was not rejected.

Furthermore, the latent variable of commitment is used for the relational dimension. The following set of hypotheses examines the extent to which commitment affects the two dimensions of knowledge

Hypothesis 2a: The higher the level of commitment is the higher the level of experiential business knowledge will be.

Hypothesis 2 b: The higher the level of commitment is the higher the level of experiential institutional knowledge will be.

In international business relationships, the relationship commitment has a positive effect on experiential business knowledge. Here the result is significant , γ_{12}=0.17, and t-value 2.29, which indicates that there is strong support for this hypothesis. Thus this hypothesis, 2**a,** is accepted and H_0 is rejected.

In international business relationships, commitment increases experiential institutional knowledge. The result is not significant, γ_{22}=0.00. This indicates that the data do not support this hypothesis. Hence, the null hypothesis H_0 cannot be rejected **(2b).**

Finally, the next set of hypotheses examines the extent to which cognition affects the two dimensions of experiential market knowledge.

Hypothesis 3a: The higher the level of cognition is the higher the level of experiential business knowledge will be.
Hypothesis 3b: The higher the level of cognition is the higher the level of experiential institutional knowledge will be.

In international business relationships, the cognitive aspect in a relationship has a positive effect on experiential market knowledge. First 3a, which concerns experiential business knowledge, is examined. Here again, the result is significant, γ_{13}=0.47 and t-value 4.69, which indicates that there is strong support for this hypothesis. Hence this hypothesis, **3a**, is accepted and H_0 is accordingly rejected.

In international business relationships, the cognitive dimension increases experiential institutional knowledge. The result is significant; γ_{23} = 0.42 and a *t*-value of 4.73 indicate that there is strong support from the data for this hypothesis. The null hypothesis, H_0, is accordingly rejected and 3b accepted.

The other relational dimension, namely commitment, has a positive effect on experiential business knowledge, but not on institutional knowledge. Furthermore, in many studies, commitment was found to be an important factor in relation to knowledge. Most importantly, the data supported the idea that social capital increases experiential business knowledge. It develops in long-term business relationships; it is a cumulative, interactive, and social process.

This study, which was carried out in February and March 2003, showed that a firm's commitment to relationships and cognitive aspects between actors affect experiential business knowledge positively. Furthermore cognitive dimension also influences on experiential institutional knowledge positively. As both of these aspects are dimensions of social capital, it can be deducted that social capital has a positive effect on experiential market knowledge.

The chi-square-degrees of freedom ratio (χ^2 /df= 1.57) showed satisfactory results. The overall fit measures suggest that the model provides a good fit for the data.

The data supported hypotheses 2a, 3a, and 3b of the created model, but the null hypotheses for 1a, and 1b, 2b were not rejected. The first hypotheses concern the relation between trust and experiential knowledge. Both of these hypotheses were rejected. The following hypotheses concern the relation between commitment and experiential market knowledge. The hypothesis of 2a, which concerns the relation between commitment experiential business knowledge, was accepted. The following hypotheses concern the relationship between cognition and experiential market knowledge; experiential business and institutional knowledge. These hypotheses were accepted. The hypotheses concern the relationship between the dimensions of social capital and experiential market knowledge. The dimensions of social capital are commitment and cognition.

The model's key statistical estimates are good since $\chi^2 = 94.44$ (df = 60) and p= 0.00302. All the *t*-values are at least above 1.96. The analysis shows that the causal relations between commitment and cognition and experiential business knowledge and also the relation between cognition and experiential institutional are strong. Experiential business knowledge is dependent on experiential institutional knowledge. Cognition has an effect on both experiential business and institutional knowledge, whereas commitment affects experiential business knowledge alone.

The following arguments were put forward:

1. Networks as governance structures are conducive to the development of social capital.
2. Social capital increases experiential market knowledge.

At this point it may be useful to review the major points that have now emerged. They can be summarized as follows. As in table 1 comparison between different types of governance structure was made. The preceding analysis makes it clear that networks as a unique type of governance structure was demonstrated. The arguments are based on the assumptions that are written in the column of networks. These aspects are firstly discussed theoretically (chapter 2) and in addition to theory also empirical proof was demonstrated (chapter 4).

1. Previously, chapter two emphasized that commitment and cognition are outcomes of network relationships. Commitment and cognition are dimensions of social capital. Consequently, networks as governance structures appeared to be conducive to development of social capital.
2. As was previously confirmed, there is a positive linear relation between commitment and experiential business knowledge and between cognition and experiential business and institutional knowledge. Commitment and cognition are dimensions of social capital. Thus, social capital increases experiential knowledge.

To conclude, based on these deductions, both arguments are demonstrated.

4.3.8 Assessment of Goodness of Fit in Confirmatory Model

In the LISREL models, validity is supposed to be estimated with three different levels of testing; the nomological validity is the validity of entire model. This was done by using the overall fit of the LISREL model, χ^2 and a degree of freedom and a significance test in the form of a probability estimate (p-value). Together, they measure the distance between the data and the model. Based on the validity testing, the study argues that above model is valid.

Discriminant validity checks for independence of constructs, the extent of separation between constructs, and the homogeneity of constructs. The discriminant and convergent validity are measured by examining the *t*-values and R^2 of each relation in the model. The latter provides a measurement of the strength of a linear relationship. As shown previously, the R^2 values are a tool for measurement of the strength of linear relationships, the t-values are a test of significance and are suggested to be at least 1.96 (Jöreskog & Sörbom, 1993). These validity checks were presented previously. In section 4.3.2 the constructs were analyzed; each of them was coherent in a given construct. Moreover, they are part of a valid model based on nomological validity.

The validity of the entire model is measured by the *chi*-square and probability measure, which are fit between the data and the model (Jöreskog and Sörbom 1993). Chi-square test is testing the model against the alternative that the covariance matrix of the variables are not constrained (Jöreskog et al.1993:121) Assessment of model is not entirely statistical matter the model needs to be reasonable in substance. As can be seen estimate of RMSEA = 0.045 90 percent confidence interval for RMSEA lies in interval between 0.027 – 0.062. Accordingly the model fits with the population. The chi-square-degrees of freedom ratio (χ^2 /d.f= 1.57) showed satisfactory results, the ratio is less than two. P-value is 0.00302. This is the probability of the model.

Critical N (CN) = 256.19 . Hoelter (1983a) proposes using the size of critical N. ‘ Critical N’ . Hence effective sample size is 263. The data of this size suggest that they are sufficient and meets the requirements suggested by Hoelter.

The hypothesized model was estimated with the help of LISREL 8.5 program (Jöreskog Sörbom, 1993, Jöreskog et al. 2001, Jöreskog et al. 1996-2001, Toit and Toit, 2001) and by using a structural equation modeling technique). The overall fit measures suggest that the model provides a good fit for the data. The key index RMSEA 0.045 meets the requirements suggested in relevant literature (e.g., Metsämuuronen, 2003).

5. Concluding discussion

5.1 Results of the study

Scientific contribution is ultimately assessed by scientific criteria. Such criteria are examined with respect to the contribution of the study and to whether the results are new and interesting. This section discusses the results and the next section concentrates on both theoretical contribution to international business 5.2.1 and in section 5.2.2. methodological contributions are discussed.

As the study dealt with different concepts from different research traditions, an integrating framework was needed. It consisted of three dimensions of social capital, integrated with a network perspective and experiential market knowledge.

The thesis started with the research problem of determining the real-life relevance of knowledge acquisition through network relationships within the context of international business. It focused on experiential knowledge acquisition in international business relationships, and modelled the phenomenon in order to capture it. Therefore, the conceptual framework and concepts needed to be developed. This was achieved in chapters two and three.

Then the study proceeded to a description of the method and an empirical analysis in chapter four. This research succeeded in answering the following research questions:

1. How can experiential market knowledge acquisition in international business relationships be modelled?
2. What factors explain experiential market knowledge acquisition in international business relationships?

In order to answer the first question, this study first identified the solid constructs, then examined the linear relations between the explaining and explained variables, and finally built a structural model. This original model has three explaining variables and two explained variables.

In order to answer the second question, a confirmatory factor analysis was conducted and two explaining and two explained variables were confirmed. Accordingly, the constructs of commitment and cognition emerged as the most important factors explaining experiential market knowledge acquisition.

The results can now be summarized. Based on discussions and empirical evidence, the study supports the proposition that social capital increases experiential market knowledge. The empirical evidence is presented in a network setting, but first the contribution to social capital is also discussed. In this study, the three original dimensions of social capital suggested by Nahapiet and Ghoshal (1998) were applied in a network setting. The two dimensions of social capital, the relational and the cognitive, were adapted to a network perspective and tested empirically. Thus, the equivalent constructs were trust, commitment and cognition, and experiential market knowledge. The study chose the relational view of social capital and focused on how an individual actor can leverage its external relationship via exchange for experiential market knowledge acquisition. Thus the focus was on the firm's external relationships. This bridging view sees social capital as a resource that links an actor to an external actor, thereby providing access to external resources. In contrast to this bridging view, the bonding view of social capital focuses on actors' internal characteristics by limiting the focus inside the firm.

In this view, external resources are outside the firm. Business relationships can be observed through social bonds. Social bonds trust and commitment, and cognition are abstract levels and contribute much to change in business relationships and networks. In contrast, concrete levels are activities and resources, and these abstract and concrete levels are interrelated (Tähtinen & Mainela 2003). Both trust and commitment are outcomes of exchange relationships and they develop over time. These abstract levels stem from the social capital framework that was operationalized into a network setting (IMP). In conclusion, it can be stated that there are abstract levels between actors and concrete levels between activities. The actor bonds trust and commitment and the cognition are abstract levels in business relationships. Activities are concrete levels. These two levels are intertwined and cannot be separated.

Networks as unique type of governance emphasize the close relations between actors that are the outcome of repeated interactions. In these structures experiential knowledge acquisition takes place. This kind of structure is characterized by a long-term aspect in contrast to short-term benefits. It is recognized that in industrial markets, firms prefer dealing with a trusted and well-known counterpart. In such structures, communication is relational and trust makes it possible. Hence, networks, as a unique type of governance structure, represent that kind of structure. Business actors also have social and human aspects. Social capital framework forms links with the broader and larger social structure and society in which the firms are embedded. Social embeddedness refers to the fact that actors are embedded in the various social structures that affect them. Also, these actors have different roles in different contexts. All these affect business even when the actor is unaware of it. This kind of embeddedness has an effect on the evolution and dynamics of networks. Knowledge is mediated by human, social, and business relationships into business networks. The social and business aspects of the actors are intertwined and cannot be separated from each other. Accordingly, they affect each other. Thus, networks are structures of social and business relations that emerge through a continuous interactive process between actors. Accordingly, the central features of a network as a structure are the interconnectedness and dynamics that provides conditions conducive to flows of knowledge between actors.

In a real-life setting hypotheses concerning processes that influence knowledge acquisition and the types of knowledge acquired were posited. Thus hypotheses concerning the links between relational and cognitive dimensions and experiential market knowledge were tested and the following causal relations were confirmed. The effects of the relational dimension of commitment and cognitive on experiential market knowledge appeared significant. As early as 1977, Johanson and Vahlne emphasized the importance of how knowledge is gained. This study showed that experiential market knowledge is gained from experience of interactions in business relationships. Bonds that are established in interaction are trust and commitment. Cognition in turn is based on information channelled through exchange relationships and it influences how an actor behaves.

Thus the factors that explain experiential market knowledge acquisition are commitment and cognition. Accordingly, commitment and cognition increase experiential market knowledge in international business relationships. Both commitment and cognition influence experiential business knowledge. Nevertheless, the effect of cognition on experiential market knowledge remains the strongest. Commitment means adaptation, investment in relationships, and future expectation. These concepts are dynamic by nature. Although the study was cross-sectional, the result indicates that development of business relationships is a dynamic process. Attitudinal and behavioural commitment is a significant factor in business relationships. However, as every relation is unique, the individual and common interest of the actor influences the extent of commitment. Commitment can be perceived by actual behaviour. It can be concluded that commitment depends on past experience of the interaction and future expectation, the actors' own interest, and the context. The cognitive aspect in turn indicates the experience and ability to see, in other words sensitizing. It also affects experiential institutional knowledge. Cognition between actors means that actors know important players in the industry and their action is guided by the experience of that industry. Moreover, there is mutual understanding between the partners. Such mutuality is important to relationships and reduces the number of misunderstandings between the actors. This may be the result of successful interactions.

However, an unexpected result was obtained, as trust did not appear to be significant. Special attention is paid to the concepts of trust and commitment and their interrelations in section 2.3.7. This unexpected result does not mean that the construct of trust is not an important variable in a business relationship context. However, there were several factors in the model in this setting, and it was not as powerful as commitment and cognition. This study argued first that the relational dimension has two aspects, commitment and trust. Secondly, it argued that trust and commitment are distinct constructs. The data showed the collinearity between commitment and trust. These actor bonds are the processes that emerge during development of the relationship. As the collinearity between these two constructs was noticed, it can be theoretically interpreted that there is a cyclical relation between them. Based on regression models 4.3.4, trust appeared to be an important construct, explaining both experiential business and institutional knowledge. Many researchers (e.g. Morgan et al. 1994) have noted the interdependence between commitment and trust. This was not the focus of the present research, but as the correlation between these two concepts showed up at such a high level, special attention will be paid to these issues in future research, and special attention should be paid to operationalisation. Accordingly, in the created model trust did not appear significant in this setting. There are also some other reasons for this. The model is quite extensive with many variables and a large number of estimating parameters with respect to sample size. Also, the problem of multicollinearity arose between explaining variables. For these reasons only some of the variables appeared to be significant in the created model. Hence trust was not significant in the created model.

Most importantly, experiential business knowledge is also dependent on experiential institutional knowledge. This means that the two aspects of knowledge are intertwined. Before acquiring experiential business knowledge in most cases actors have already obtained experiential institutional knowledge.

This is quite obvious as experiential knowledge concerning the institutional framework is crucial when actors operate in foreign markets where there are great cultural differences. This means that the psychic distance is also great. The first knowledge they obtain obviously concerns institutions, values, rules, and norms. Nevertheless, these two constructs are distinct from each other.

Experiential business knowledge acquisition in international business relationships is a social process. It is the development of long-term business relationships during which commitment also develops. Resources can be combined in relationships that provide actors with access resources, one of which is knowledge. Relationships and knowledge can be regarded as resources. This confirms the earlier studies (Håkansson & Snehota 1995). These two kinds of resources are combined via exchange in business relationships. Accordingly, relationships have an important value-creating function.

5.2 Main Contributions to International Business

5.2.1 Main Theoretical Contributions

The main thesis of this study was that social capital in a network setting is a valuable source for knowledge acquisition. This study argued that many aspects of international business would be better understood if they were viewed from a network perspective. The reason for using different perspectives is that they tend to provide a better explanation of the phenomenon examined. Different perspectives focus on different aspects and they make different assumptions. For two decades, the network perspective (IMP) has demonstrated its power to analyse phenomena such as technological development, industrial change, and foreign market entry. Based on the discussion in chapter two, a totally different governance structure is provided. Hence, this study proposes that networks are a unique type of governance structure.

This study further argued that networks as a unique type of governance structure constitute a valuable source of experiential knowledge. Governance structure is interesting, because it defines how activities are directed in the field. Accordingly, it is a basic concept of the firm. Although several arguments were presented (Table 1) two basic issues stand out as the most relevant: firstly, the nature of exchange, is both social and business and these two aspects are intertwined. Secondly relational communication emphasizes actor bonds trust and commitment important for knowledge acquisition.

As early as 1988, Toyne suggested that international exchange should be a foundation for theory building in international business. This study in turn propose that international exchange, if adopted as a foundation for theory building, should be seen in a broader setting. By adopting networks as a unique type of governance structures, both short- and long-term aspects can be analyzed. Interaction is short-term, while a relationship is long-term. Also, two basic levels can be identified, the dyad and network levels. As mentioned earlier, this study focused on the IMP approach and adopted markets-as-networks as the theoretical approach. Relation-specific attributes are in this approach emphasized. Networks are neither markets nor hierarchies where information is captured by prices and routines. They are governed instead by network relations where trust and commitment develop.

According to the markets-as-networks approach, not only exchange but also individual market transactions take place within identifiable dynamic exchange relationships between actors. (Mattson 2003). Accordingly, the environment is constituted by a set of other active organizations (Håkansson & Snehota 1989). Hence, actors perform in the context and boundaries are formed by those counterparts that a focal actor finds relevant. Behavior is thus based on past interaction and future expectation. Hence, it is through exchange relationships that different links are developed. An unique feature is that the actors, i.e. the buyers and sellers, are both active, and their behaviour is based on 'network theory', i.e. cognition. This means that their actions are based on previous interaction and experience. During exchange, trust and commitment are developed; This indicates a successful relationship. Such relationships with counterparts are created of experience on the past and are based on a perception of the counterparts. In this setting, the actor in focus was a Finnish exporting firm and the counterpart was the foreign buyer. The focal relationship was cross-cultural and the activity concerned exporting. Based on the findings, it can be concluded that networks as governance structures are unique. In these structures, commitment and cognition aspects are important. Commitment is important because it shapes and strengthens the relationships and this in turn shapes the network structures. Trust in turn is a process that interlocks partners. It makes possible a unique type of governance structure that is based on relational aspects in which actors are interdependent. This kind of governance structure is characterized by openness and mutuality. The open atmosphere allows knowledge to flow freely. This kind of structure makes firms create new value together, thereby combining resources.

In contrast, markets networks are never in balance. There is always change. When there is change, there is always a dimension along which this change takes place. These are social bonds, of which trust and commitment have been observed as important factors. As a result of interactions, actors develop business relationships that are due to mutual actions and also to external events. Their dynamic nature is conceptualized by adaptation and an investment process, both of which mean change.

Accordingly, actors who control heterogeneous resources, act in their own interest. External forces are mediated by exchange relations that are in turn influenced by total interplay among all the actors in the network. Thus every relation is unique and different from other relations. The IMP approach is concerned about business relations, but also admits the importance of social relations implicitly. Social networks deal with social actors and their embeddedness in different social environments, while in industrial networks there are also always activities and resources in addition to actors. Accordingly, actors and their social relations also have an impact on business relations. This study paid attention to both of these aspects and argued that they are intertwined and cannot be separated. Accordingly, the social capital concept was adopted. The Industrial Network approach has pointed out that events can only be understood in their social, cultural, and historical frame (Möller 1994). Also, Toyne and Nigh (1998) emphasized that business is embedded in society and that international business involves "businesses in societies." The results of this study indicated that experiential market knowledge acquisition takes place through business relationships during which commitment and cognition are developed. This is line with IMP research emphasizing managerial and organizational learning through actions (Weick's enactement argument 1969).

The fact that relational and cognitive components are the most powerful factors influencing experiential business knowledge emphasizes the importance of the role of relational governance. This means that instead of asset specificity, bounded rationality and fear of opportunism, actors behave on the basis of experience and commitment.

Social capital in turn increases experiential knowledge acquisition. Commitment and trust constitute the main relational dimensions of social capital and emphasize its dual nature. Networks as governance structures are unique; a high level of trust and commitment is involved. These two aspects are intertwined and they are the outcome of exchange relationships. During development of these relationships, experiential market knowledge is also acquired.

Above discussion has been made clear that three significant contributions to International Business studies have been made in this study. Firstly, the study discussed exchange within an international context integrating the creation of social capital and experiential market knowledge (chapter 2). Secondly, a significant contribution has been made by integrating social capital, its dimensions, a modified network perspective, and experiential market knowledge into the framework (chapter 3). Finally, the role of international relationships in the acquisition of experiential market knowledge has been examined empirically (chapter 4) and networks as a unique type of structure was confirmed.

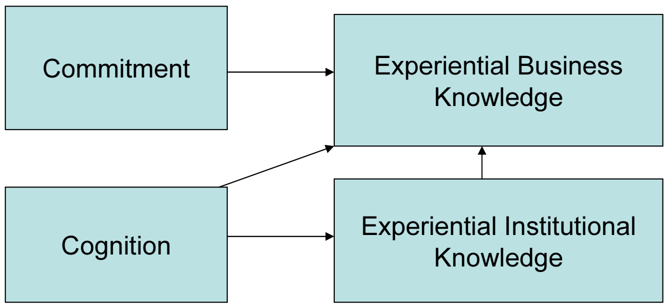

Figure 14: Experiential knowledge acquisition in international business networks

In this empirical phase also significant methodological contributions has been made. Let us now in next section turn to these contributions.

5.2.2 Main Methodological Contributions

Structural equation modelling (SEM) is a complex, demanding and challenging technique. It requires several complicated choices, insight, and judgement in every phase of research. First the hypothesized model had to be built. However, as the constructs have to be solid, more often explorative factor analysis is needed.

This study has made the following methodological contributions. First, it established a hypothetical model. Second, it established measurement models, each of which it tested empirically. This phase lays the foundation for the whole study. Then explorative analysis was carried out to generate a functioning model and to make sure that all the constructs are solid. Then it proceeded to construct analysis and onwards into regression analysis. The objective of the latter was to show that linear relationships between dependent variables, (endogenous factors), and independent variables (exogenous factors). All these relations appeared significant. Hence, they supports the hypothetical model. However, in the final (created) model all variables did not appear as significant. Hence, the created model has only those variables that appeared significant.

The major significant methodological contributions are as follows; first, operationalisation of the variables and establishment of the measurement models, second building the structural equations, third establishing single factor models, and finally building the created model. The relations between explaining and explained variables were tested empirically and confirmed by using rigorous analysis (LISREL).

5.3 Evaluation of the study

This section examines how well the study has succeeded in meeting its objectives and the criteria for reliability and validity. According to the LISREL models, validity is supposed to be estimated with three different levels of testing: nomological, discriminant, and convergent. All three are examined in section 4.3. Here the focus is more general, and concerns choices of method and how well the results can be generalised.

This study started almost from scratch by developing the framework, building the model on it, and then confirming the final model. It set out to build a model to explain experiential knowledge acquisition in international business relationships in the context of Finnish exporting firms. This was done with confirmatory factor analysis. First, the hypothesized model was built, then the hypotheses were tested, and finally the created model was presented. The data used in this study confirmed that social capital increases in experiential market knowledge. Social capital has two important dimensions, the relational and the cognitive, commitment and cognition. Experiential market knowledge has two different aspects, i.e. business and institutional knowledge.

The main concern was the relationship between the variety of concepts provided by the theory and the equivalent constructs. Also, the diverse literature concerning the concepts used in this study, integrating them into a framework, and finally testing them rigorously were challenges. Based on what is said above, it can be concluded that this study is a pioneer in the field of international business.

The study consisted of three main parts, which are all important for the rationale of this study. The purpose of the first part (chapters 2) was to lay the theoretical basis for the whole study. It succeeded in integrating different schools of thought into a holistic entity. The framework of chapter three constitutes a bridge between the theory and empirical parts. In this empirical part (chapter 4), all phases are extremely important. As the hypothetical model was presented, it needed to be demonstrated as well. However, it is the nature of SEM (structural equation modelling) that procedures should follow a sequential order, starting with the estimation single factor models and then proceeding through regression models onward building the structural models and finally confirm a valid model.

This study used structural equation modelling (SEM) technique, which is complex, but nevertheless powerful. The use of SEM has increased dramatically. However, in the context of international business research, there are only a few studies that have used this analytical technique. The key constructs are multidimensional such as social capital and experiential knowledge; hence the relationships between them are complex. SEM offers vast potential as a tool for diagnosing the links between them. Most constructs were 'soft', and thus several items were needed. LISREL is suitable when latent variables are measured with multiple items. This study showed that SEM has many advantages. However, the research method requires that the research is well designed and conducted. Especially in the pre-study phase, the researcher has to master the conceptual domain in order to establish proper constructs. In the first phase, it is better to have several latent variables and constructs in the event that there are some unsuccessful items.

The findings can be generalized to some extent, but as Ricks (et al 1990) state, many international management researchers are generalists rather than specialists. However, as the issues are mapped out, specialists are required. The aim of this deductive study was to build a model that describes experiential market knowledge acquisition. Since the data were cross-sectional and represented extremely different industries, the results would be different if the study were conducted in another country and in a specific industry. But as there are many explorative studies concerning social capital, networks and knowledge acquisition, the moment was ripe for using a quantitative method instead. The results obtained in this study can be generalized to a similar context and to a context where similar conditions prevail. Such conditions are similar in small and open European economies, where the cultures and the economic and political climate are close to Finland. In this respect, the other Scandinavian countries are close to Finland. However, in business research results that can be generalized across time and cultures tend to remain empty and without relevance (Lukka & Kasanen 1993). According to them, usable results are more in the form of abstract frameworks, thus providing tools for capturing the central features of the phenomenon and not law-like generalizations.

During the research I have learned a lot. It showed up the research questions were interesting and phenomenon under investigation important. I have learned about the phenomenon and method as well. I found the results significant compared with earlier studies. In addition to this research drove me to discuss also alternative perspectives, however the chosen approach proved to the right choice.

Based on what was said above, this study has made both conceptual and a methodological contributions.

5.4 Discussion

This final chapter draws together the research findings, assesses the research approach and methodology, makes explicit the theoretical and empirical contribution of the study to the past research, and finally makes suggestions for future research and managerial implications.

The basic problem set out in this research concerned the problem of real life proof of interrelation between social capital and experiential market knowledge. This kind of problem led to building of a model that describes concepts related to the phenomenon and relations between these concepts. This study confirmed that the relational and cognitive dimensions are important. They are the results of experience and exchange between actors.

In contrast to previous research, this study focused on quantitative analysis. Also, many researchers have tested complex models by using structural equation systems (SEM). However, reporting the results has been less than ideal in nine prominent journals from 1984 to 2002, based on several studies published. According to Shook et al. (2004), the authors may have drawn erroneous conclusions. Based on these articles, readers were not able to assess their power. Accordingly, this study tried to report according to the checklist suggested by Shook et al.

The result of this study is in line with Evolving Interaction Paradigm (Toyne & Nigh 1998) that presents international business as a multi-level, hierarchical process which evolves over time as a consequence of the interaction of two or more socially embedded, multi-level business processes. They emphasized that differences should be explained at the national, and subsequently the international level. Every cross-cultural relationship is unique; no firm is an island (Håkansson & Snehota 1989) and how well the firm (actor) succeeds depends on whom it interacts with. Every firm has developed its own position. From the strategy point of view, the problem is how to develop a position that enables a firm to act and react in best possible way.

The IMP Group has done a vast amount of seminal and mainly qualitative and explorative research. However, some concepts are difficult to operationalise. The problem concerns the structural concept, the relational concept of competence, and the trust and time dimension. Since (IMP) network research is mainly inductive, the IMP scholars do not have to deduce the basic assumptions about the concepts. Although the concept of trust in particular is dealt with in several studies, it is still difficult to find one-dimensional constructs between different schools of thoughts.

In relation to previous studies, the concepts used in this study have been studied widely, e.g. the concepts of trust (Blomqvist 2002), commitment (Nummela 2000) and social capital (Nahapiet & Ghoshal 1998, Barner-Rasmussen 2003). A comprehensive model based on Finnish data that have produced positive results was lacking. This study has proved empirically with Finnish data that the social capital gained in international business results in a higher level of experiential business and institutional knowledge.

5.5 Managerial Implications

This study used a modelling technique to examine social capital and its influence on experiential market knowledge acquisition. This kind of approach is suitable when broad generalisations are needed; for a deeper understanding of the processes behind theses factors a qualitative research approach is recommended. However, two issues are important; first to understand complex interactive markets as such and second to understand the importance of social capital. In order to understand its importance, this study presented the factors that are relevant in spite of the industry and in spite of the sizes of the firms and where their business relationships took place.

Managers face complex markets. These complex markets are seen as the outcome of interactions and managers should know how to manage these relationships. Developing and maintaining relationships demand resources, thus investment in relationships is also investment in the future. A firm’s relationships are the outcome of its own action, but also the product of those relationships. Most importantly, every relationship is result of interactions between two interacting parties. (Ford, Håkansson, & Johanson 1999). The central question is how to manage and direct interactive behaviour. By managing these business relationships, benefits could be gained. In order to develop business relationships through which knowledge acquisition is possible, mutuality and trust between actors are needed. Mutuality means that actors possess a common goal. In order to attain this goal, actors have to abandon their own individual goals to benefit both actors. This means that each actor has to be aware of the needs of the other actor. How to create and maintain trusted relationships is a very important question. However, it takes time to build up trusted relations. As experiential knowledge is costly, current business relationships offer opportunities to obtain that knowledge through international exchange.

5.6 Suggestion for Further Research

Future research should focus on defining and examining the concept of cognition in greater depth. Operational items such as competence and future aspects are suggested for further development. Relation and interdependence between constructs of trust and commitment should be paid attention in future research. In addition, comparative studies between different cultures could be one avenue. I would recommend modelling and the use of quantitative methods, as there are plenty of good constructs to be tested. The model developed in this study can be used in different contexts.

As this study has referred to social networks, future research could focus more on the role of social networks in different cultural settings. There is good reason to believe that the role of social networks is important and that different roles exist in different cultures.

As the basic model is fit, the model could be developed by taking a few more variables. Social capital provides several attributes to be tested. This kind of model can also be broadened outside the business studies. Several dependent variables, like welfare and wellbeing in the general sense, offer possibilities.

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*A*ppendix 1: Saatekirje

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TUTKIMUS

28.2.2003

Arvoisa vientiyrityksen johtaja

Olen laatimassa väitöskirjatutkimusta yritysten kansainvälisistä suhteista ja verkostoista. Kokemukset osoittavat, että nämä vaikuttavat ratkaisevalla tavalla liiketoiminnan kehittymiseen. Kuitenkaan tätä ilmiötä ei ole tutkittu kovinkaan paljon. Asiantuntemuksenne ja näkemyksenne voivat tuottaa arvokasta tietoa tähän tutkimukseeni.

Tutkimukseni kohteena ovat suomalaiset vientiä harjoittavat yritykset, joilla on useinkin pitkäaikaisia, luottamukseen perustuvia liiketoimintasuhteita. Kohteena ovat sellaiset kansainväliset myyjä-ostaja suhteet teollisilla markkinoilla, joissa molempina osapuolina ovat yritykset. Kysely lähetetään noin 2500 yritykselle. Yrityskohtaiset tiedot kerätään luottamuksellisina, ja tulokset julkaistaan siten, etteivät yksittäisen yrityksen tiedot käy niistä ilmi. Tietoja ei käytetä muuhun tarkoitukseen. Suurin osa kysymyksistä on nopeita ympyröintikysymyksiä, ja vastaaminen vie noin kymmenen minuuttia.

Tekeillä oleva tutkimus tehdään Helsingin kauppakorkeakoulun markkinoinnin laitoksella ja se kuuluu kansainvälisen liiketoiminnan alaan. Tutkimuksen ohjaajana toimii professori Hannu Seristö (seristo@hkkk.fi, 09-43138667). Mikäli haluatte tutkimuksestani lisätietoa, vastaan mielihyvin kysymyksiinne. Kiitän jo etukäteen myönteisestä suhtautumisestanne tutkimustani kohtaan.

Kyselyyn voi myös vastata elektronisesti. Kyselylomake löytyy osoitteessa: www.hkkk.fi/kvliiketoiminta ja siellä kohdassa ajankohtaista. Sen voi myös lähettää faxina: 09-43138691. Toivomme saavamme vastaukset 14.3.2003 mennessä. Mikäli ette halua osallistua kyselyyn, voitte ilmoittaa siitä, etten vaivaisi Teitä myöhemmin uudelleen.

Ystävällisesti

Rauni Seppola
Kauppat.lis, tutkija

Appendix 2:
Kyselylomake:
KYSELYLOMAKE

Yleisohjeet vastaajalle: Tutkimuksen kohteena ovat kansainväliset pienet tai keskisuuret suomalaiset, vientiä harjoittavat yritykset. Kysely on tarkoitettu yrityksen ylimmän johdon tai markkinointijohtajan vastattavaksi. Mikäli katsotte, että kysely sopii eri sektoreiden vastaavien vastattavaksi, toivomme saavamme vastauksen heiltä. Lomake käsittää kolme eri osiota, joista ensimmäinen koskee yrityksen taustatietoja, toinen osio käsittää tutkimuksen aihepiiriin kuuluvia kysymyksiä ja kolmas osio on laadullista analysointia varten vapaavalintainen osio. **Kysely koskee teidän ja ulkomaisen yritysasiakkaanne välistä liikesuhdettanne.**

Vastaaminen vie noin kymmenen minuuttia.

Osio 1: Yritystiedot

1. Yrityksen nimi:____

2. Vastaajan nimi ja asema organisaatiossa:________________________________

3. Yrityksen perustamisvuosi:____

4. Toimiala:____

5. Päävientialue:____

6. Viennin aloittamisvuosi:_____________

7. Vienti ulkomaille vuonna 2002 oli:___________________________EUROA

8. Vienti ulkomaisiin tytäryrityksiin vuonna 2002 oli:___________EUROA

9. Kokonaisliikevaihto vuonna 2002 oli:_______________________EUROA

10. Yrityksen henkilöstömäärä:______11. Henkilöstömäärä ulkomailla: _____

Osio 2: Seuraavissa kolmessa kysymyksessä kysytään liikesuhteiden yhteenlaskettuja lukumääriä sekä koti- että ulkomailla (kysymykset 12-14).

12. Arvioikaa, kuinka paljon yrityksellänne on suoria ja välillisiä suhteita tavarantoimittajiin. __________

13. Arvioikaa yritysasiakkaittenne määrä.____________

14. Arvioikaa, kuinka paljon yrityksellänne on suhteita kilpailijoihin ja muihin yrityksiin._________

Pyydämme teitä vastaamaan alla oleviin väittämiin asteikolla 1-5 ympyröimällä lähinnä oikea vaihtoehto.

1 = olen täysin eri mieltä
2 = olen jokseenkin eri mieltä
3 = olen joiltakin osin samaa mieltä
4 = olen samaa mieltä
5 = olen täysin samaa mieltä

	täysin eri mieltä ... täysin samaa mieltä
15. Olemme asiakkaamme päätoimittaja.	1 2 3 4 5
16. Olemme alan markkinajohtaja. (markkinaosuutemme on yli 50% päävientialueellamme)	1 2 3 4 5
17. Liikesuhteemme perustuu yhteiseen arvoperustaan.	1 2 3 4 5
18. Tietojen vaihtaminen asiakkaamme kanssa on avointa.	1 2 3 4 5
19. Uskomme asiakkaamme toimivan etujemme mukaisesti.	1 2 3 4 5

20. Luotamme asiakkaamme lupaukseen pitää sovitut sitoumukset. 1 2 3 4 5

21. Uskomme asiakkaamme olevan pätevä kauppakumppani. 1 2 3 4 5

22. Olemme mukauttaneet tuotteemme asiakkaittemme tarpeisiin soveltuviksi. (esim. teknisesti ja/tai huomioon ottaen tuotteen käytettävyys) 1 2 3 4 5

23. Pidämme tätä asiakassuhdetta tärkeänä. 1 2 3 4 5

24. Olemme valmiita panostamaan sekä aikaa että rahaa kehittääksemme tätä asiakassuhdetta. 1 2 3 4 5

25. Tunnemme alallamme vaikuttavat keskeiset toimijat. 1 2 3 4 5

26. Toimintaamme ohjaa alan toimijoista saatu kokemus. 1 2 3 4 5

27. Olemme halukkaita jatkamaan tätä asiakassuhdetta. 1 2 3 4 5

28. Väärinymmärrykset ovat harvinaisia välillämme. 1 2 3 4 5

29. Saamme asiakassuhteittemme kautta hyödyllistä tietoa asiakkaistamme. 1 2 3 4 5

30. Saamme asiakassuhteittemme kautta hyödyllistä markkinoihin liittyvää tietoa. 1 2 3 4 5

31. Saamme asiakassuhteittemme kautta tietoa kilpailijoistamme. 1 2 3 4 5

32. Saamme asiakassuhteittemme kautta instituutioihin liittyvää tietoa. 1 2 3 4 5

33. Saamme asiakassuhteittemme kautta tietoa markkina-alueeseen liittyvistä arvoista. 1 2 3 4 5

34. Saamme asiakassuhteittemme kautta hyödyllistä tietoa eri säännöistä ja muista noudatettavista normeista. 1 2 3 4 5

Osio 3: Kuvailkaa keskeisiä tekijöitä, jotka edesauttavat myönteisen suhteen kehittymistä viejäyrityksen ja kansainvälisen yritysasiakkaan välillä.

Kiitokset vaivannäöstänne!

Rauni Seppola

Tutkija

Appendix 3: Survey questions in English

Survey questions in English:

Likert-type scale with the following anchors:

1 =	SD=	Strongly disagree
2 =	D=	Disagree
3 =	SA =	Somewhat agree
4 =	A=	Agree
5 =	SA=	Strongly agree

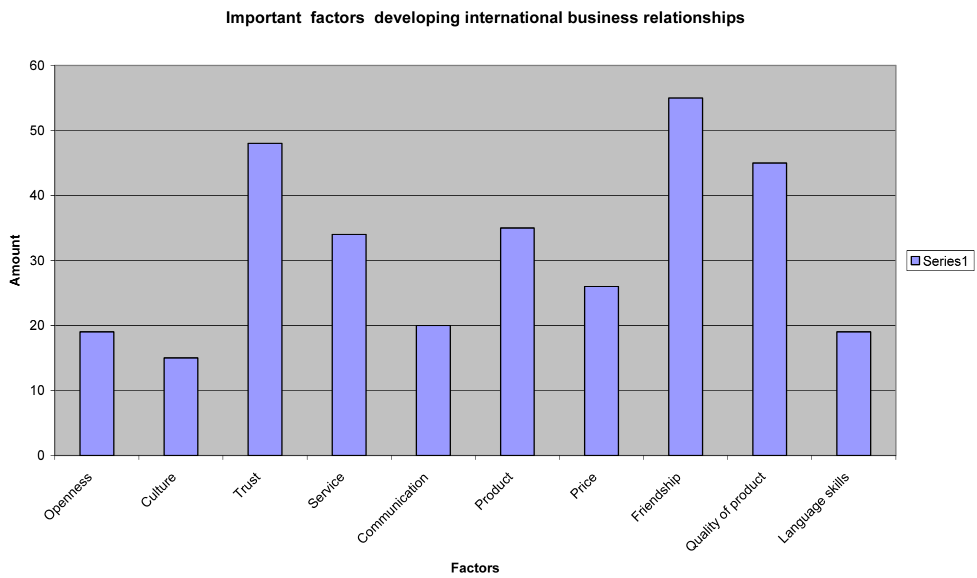
Q12. Please estimate how many direct and indirect relations your firm has with its suppliers.

Q13. Please estimate the number of your business-to-business customers.
Q14. Please estimate the number of relations to the competitors or other firms

The statements were:

Q 15. We are the main supplier of our customer.
Q16. We hold the position of the market leader in our market.
Q17. Our business relation is based on shared values.
Q18. Information is exchanged openly between us and our customer.
Q19. We believe our customer acts in our mutual interest.
Q20. We trust that our customer will keep his promises.
Q21. We regard our customer as a competent partner.
Q22. We have adapted our products according to our customer's needs (i.e. technically, and/or taking into consideration the usability of the product).
Q23. We consider this customer relationships important for us.
Q24. We are ready to invest both time and money in developing this customer relationship.
Q25. We know the dominant actors in the industry.
Q26. Experience of the actors in the industry leads us.
Q27. We are willing to continue this relationship.
Q28. There is seldom misunderstanding between us.
Q29. We acquire useful knowledge about our clients via our customer relationships.
Q30. We acquire useful information concerning markets via our customer relationships.
Q31. We acquire knowledge about our competitors via our customer relationships.
Q32. We acquire knowledge about institutions via our customer relationships.
Q33. We acquire knowledge about values concerning the market area via our customer relationships.
Q34. Via our customer relationships, we are able to obtain useful knowledge about rules and other norms that have to be taken into consideration.

Appendix 4. Osion 3:n avoimen kysymyksen tulokset.



Appendix 5: Parameter estimates of the original model consisting all variables.

Parameter	Loading (λ_{ij})	*t*-**value**	R^2	Error term (δ and ε)
Q17	0.53	9.46	0.33	0.56
Q18	0.57	11.26	0.44	0.41
Q19	0.54	10.12	0.37	0.49
Q20	0.59	12.16	0.50	0.35
Q21	0.46	10.38	0.38	0.34
Q22	0.51	10.17	0.34	0.51
Q23	0.66	18.30	0.82	0.098
Q24	0.64	15.52	0.65	0.22
Q27	0.54	13.00	0.51	0.28
Q25	0.53	8.85	0.44	0.36
Q26	0.46	6.82	0.24	0.69
Q28	0.35	5.75	0.17	0.59
Q29	0.63	n.a.	0.53	0.35
Q30	0.72	12.03	0.74	0.18
Q31	0.64	10.25	0.45	0.50
Q32	0.64	n.a.	0.45	0.50
Q33	0.72	9.53	0.62	0.31
Q34	0.63	8.88	0.45	0.49

Appendix 6: The results of the original model.

Below the results are given about the original model, which consists of all five latent variables, only Q21 is omitted based on explorative analysis. (Table 6) Following results were obtained:

Table 22: Structural model

Endogenous constructs	Exogenous constructs	error
$\eta_1 =$	$\beta_{12}\,\eta_2 + \gamma_{11}\,\xi_1 + \gamma_{12}\,\xi_2 + \gamma_{13}\,\xi_3$	$+\zeta_1$
$\eta_2 =$	$\gamma_{21}\,\xi_1 + \gamma_{22}\,\xi_2 + \gamma_{23}\,\xi_3$	$+\zeta_2$

Table 23 : Parameter estimates for structural model

	Parameter Estimate	*t*-statistics	R^2
Experiential business knowledge, η_1 :			0.56
β_{12}	0.52^{***}	5.97	
γ_{11}	0.031	0.38	
γ_{12}	0.16	1.84	
γ_{13}	0.25^{*}	2.50	
ζ_1	0.44^{***}	5.27	
Experiential institutional knowledge, η_2			0.19
γ_{21}	0.15	1.51	
γ_{22}	-0.045	-0.42	
γ_{23}	0.37^{**}	3.23	
ζ_2	0.81^{***}	5.28	

*** p< 0.1 %, ** p< 1%, * p< 5%, f=109

η_1 =construct representing 'experiential business knowledge'

η_2 =construct representing 'experiential institutional knowledge'

$\beta_{12=}$ the parameter associated with the path from Eta2 (η_2) to Eta1 (η_1)

ξ_1 = construct representing 'trust'

ξ_2 =construct representing ' commitment'

ξ_3 =construct representing ' cognition'

γ_{11} - γ_{23} =parameters estimating the relationship between exogenous and endogenous constructs

ζ_1 - ζ_2 =error terms

As table 23 shows factor loadings are high and *t*- values are significant in respect to experiential business knowledge (η_1) and cognition (ξ_3) and experiential institutional knowledge (η_2) and cognition (ξ_3). Table 23 also shows that in this phase trust (ξ_1) and commitment (ξ_2) appeared not significant.

Unexpected effect was obtained in case of commitment (ξ_2) as it gave negative results. This means as there is increase in experiential institutional knowledge there decrease in commitment. The problem of collinearity between two variables (multicollinearity between several variables) occurred as Table 24 below shows that trust and commitment are correlated (in case of perfect correlations r = 1.0). Correlation is 0.57, which is relatively high. All explaining factors are correlated with each another. This might be one of the reasons that all linear relations do not appear in the final model. It must also be noted that the model with many variables and parameters to be estimated are large in respect to sample size.

Table 24 : Correlation Matrix of Independent Variables

	Trust	**Commitment**	**Cognition**
Trust	1.00		
Commitment	0.57	1.00	
Cognition	0.40	0.50	1.00

Chi-Square=205,93, df=109, P-value= 0.00000 , RMSEA=0.056

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