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POSITIVE AND NEGATIVE EFFECTS OF A COMPANY'S RELATIONSHIPS IN THE INTERNATIONALIZATION PROCESS

The main purpose of this article is to propose a conceptual framework combining both the scope and strength of a company's relationships thereby allowing it to achieve better results in terms of the effects accompanying the company's internationalisation. We propose a conceptual model of four types of relationships in the internationalisation process. We call them: domestic contacts, domestic embeddedness, international exploration and international exploitation, as internationalisation does not mean that a company gives up contacts with domestic entities at the same time. These types of relationships generate positive and negative effects depending on the scope of the relationship (domestic/international) and its strength (weak/strong). By looking at internationalisation from the complex perspective of both domestic and foreign relationships, we point to the need for a comprehensive look at the internationalisation process, its accompanying effects and the related problems of relationship management. To achieve this purpose we primarily adopt the network model of internationalisation and integrate it with the strategic approach to network analysis. Our proposal allows us to analyse the effects of interdependencies in a global business landscape including the conditions under which relationships management and internationalisation lead to improved performance.

Keywords: internationalisation, network model of internationalisation, relationship strength, relationship management, internationalisation effects, company performance

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1. INTRODUCTION

Companies undertake international activities in order to gain specific benefits and at the same time to improve or at least sustain overall company performance. This search for specific benefits such as new growth possibilities or the potential to reduce costs, means that they internationalise their activities and also that their relationships with suppliers and customers are becoming increasingly international. This in turn causes that the analysis of the effects and the performance resulting from internationalisation should

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include the analysis of the relationships. As Holm et al. (1996, p. 1049) stated: “while most research on foreign market entry has focused on entry mode selection, (...) the development of cooperative relationships with customers, suppliers or other business partners may be critical.” Emphasis of this phenomena is especially important in the network model of internationalisation proposed initially by Johanson and Mattsson (1988), meaning the establishment, maintenance and extension of relationships with entities on foreign markets. Analysis of the internationalisation process as part of the network approach concentrates however mainly on the description of the structure of international networks, the entry phase in the process of a company penetrating a new foreign market as well as the description of this process (Johanson, Pao 2012). There is a lack of a detailed, holistic analyses in areas other than the aforementioned and above all of those problems directly tied to the management and efficiency of the internationalisation process. In turn these issues are directly associated with the question of the effects resulting from a company’s internationalisation and their impact on a company’s performance.

The analysis of the effects of the internationalisation process as well as the impact of internationalisation on a company’s performance are tackled in certain studies, but largely outside of the network model of internationalisation. A number of moderating factors which affect the relation between internationalisation and a company’s performance are analysed. These include experiential knowledge and organisational learning, also in the network context (Blomstermo et al. 2004; Hsu, Pereira 2008; Lindstrand et al. 2009; Assaf et al. 2012), resource allocation (Chen, Hsu 2010), CEO attributes (Hsu et al. 2013) and marketing capabilities (Zhou et al. 2012). There is still, however, the question of how to cover the issue of the effects of internationalisation and their influence on a company’s performance from the perspective of the network model of internationalisation and above all, relationships management. We believe the concept of relationship strength is a factor which allows us to link these elements (i.e. internationalisation, its effects and performance and management). Relationship strength is a multidimensional and complex phenomenon and thus can be revealed by analysing its variables as contextual or background dependences rather than setting a key driver of relationship performance (Morgan, Hunt 1994). It may be noted that relationships in a foreign market are not equally important, in the sense that

not all of them have the same impact on a company's performance. We argue that mostly strong inter-organisational relationships in international markets will generate different results than weak inter-organisational relationships in these markets (the same applies to the domestic market). However, the analysis included as a part of the available research regarding relationships as a moderating factor that affects the link between a company's internationalisation and its performance is focused on the embeddedness of social capital and the importance of strong personal relationships (Blankenburg et al. 1999; Zhou et al. 2007; Musteen et al. 2010; Kenny, Fahy 2011; Sigfusson, Harris 2013). It does not take into account the broader inter-organisational relationship context. This concept may bring an enriching input into the network internationalisation analysis by demonstrating the dependence between aggregated variables and indicated effects. Optimised and contextual relationship management based on the concept of relationship strength may foster the process of internationalisation and improve company performance.

Based upon the above mentioned premise, the purpose of our article is to propose a conceptual framework combining both the scope and strength of a company's relationships, thereby allowing it to achieve better results in terms of the effects accompanying the company's internationalisation. The basic moderating factors in the proposed concept are the relationship strength and scope. As derived variants of activities we propose a conceptual model of four types of relationships.

We primarily adopt a theoretical, conceptual approach to the problem based upon a critical review of the pertinent literature and research results. Deductive work is based upon a critical analysis of the studies of the main theoretical approaches concerning the network approach to internationalisation as well as the relationship strength including the resource-based view, the industrial network approach and relationship marketing. The analysis focuses on the identification of the relation between variables and their influence on the effects of the internationalisation process and a company's performance. This multidimensional analysis requires the utilisation of an elimination process in order to obtain the key determinants of the phenomena. The main issue concerns the presentation of continuous variables (the level of internationalisation and the level of relationship strength) as dichotomous variables. This allows us to analyse specific sets of the positive and negative effects accompanying each identified relationship type according to its described characteristics.

2. THEORETICAL PRELIMINARIES

2.1. Internationalisation and a company's performance

Internationalisation is defined as “the process of increasing involvement in international operations” (Welch, Luostarinen 1988), being mainly an activity driven by the desire to penetrate overseas markets (Fletcher, Barrett 2001).

The scope or the degree (level) of a company's internationalisation may be measured by different variables, usually assuming the gradual increase in the commitment to international markets. The adopted measures that may be grouped into structural, performance and attitudinal (Sullivan 1994; Dorrenbacher 2000), include among other things the proportion of foreign sales, the number of overseas markets, turnover in overseas markets, the proportion of employees working abroad, and investment made in overseas markets (Sullivan 1994; Collins 1990; Sambharya 1995; Ramaswamy et al. 1996; Daniels et al. 2004; Barcellos et al. 2010; Pangarkar 2008). These measures take into account the outward connections within internationalisation.

In internationalisation research, the analysis of the effects of internationalisation concentrates on the positive relationship between internationalisation and a company's performance (Hitt et al. 1997; Gomes, Ramaswamy 1999; Contractor 2007; Pangarkar 2008; Assaf et al. 2012). The main positive effects for companies resulting from internationalisation include economies of scale and scope, the efficient utilisation of resources and access to cheaper or scarce resources, market expansion, and the diversification of activities and benefits of reputation (Contractor et al. 2003; Elango, Sethi 2007; Barcellos et al. 2010). Other benefits of international expansion cover knowledge increase, product development, increase of operational flexibility and stability as well as organisational advantages and tax arbitrage (Harris et al. 1991, Mitchell et al. 1993). However, internationalisation does not always result in improved performance (Hitt et al. 1997; Delios, Beamish 1999). The positive effects of the internationalisation process are opposed to negative effects such as increased risk and the transaction costs arising from the operation in markets with different characteristics and an increase in the overall costs of coordination and governance (Zaheer 1995; Barcellos et al. 2010).

The relation between internationalisation and a company's performance is said to be linear (Brewer 1981; Ramaswamy 1992), J or U-shaped (Capar, Kotabe 2003; Lu, Beamish 2004; Assaf et al. 2012), inverted J or inverted

U-shaped based on an increase of costs in coordination and communication as the diversity of the company grows beyond the optimal level (Gomes, Ramaswamy 1999, Hitt et al. 1997), or inverted S-shaped (Thomas 2006, Chiang, Yu 2005; Contractor, 2007; Ruigrok et al. 2007). These inconsistent results suggest that the relationship is far from a simple linear one and there are a number of different factors affecting the performance of the internationalisation process. These factors include experiential knowledge and organisational learning, also in a network context (Blomstermo et al. 2004; Hsu, Pereira 2008; Lindstrand et al. 2009; Assaf et al. 2012), resource allocation (Chen, Hsu 2010), CEO attributes (Hsu et al. 2013) and marketing capabilities (Zhou et al. 2012; Fonfara 2012). The analysis in the context of relationships as a moderating factor that affects the relation between a company's internationalisation and its performance is focused mainly on social capital embeddedness and the importance of strong personal relationships (Blankenburg et al. 1999; Zhou et al. 2007; Musteen et al. 2010; Kenny, Fahy 2011; Sigfusson, Harris 2013). It does not take into account the broader inter-organisational relationship context.

2.2. Network model of internationalisation

The network approach is the way to analyse interrelations and interactions between companies. It accepts the importance of companies' interconnectedness and focuses on the analysis of the formal and informal, direct and indirect links, ties, and network relationships a company has with the entities in its surrounding environment. There may be distinguished two main theoretical trends relating to the formation and management of networks and relationships – the network approach consistent with the main Industrial Marketing and Purchasing (IMP) Group research stream and the concept of strategic network.

According to the network approach consistent with the main IMP Group research stream, a relationship is an effect of historical, mainly long-term close cooperation and a series of interactions going beyond single buy-sell transactions, which in turn create cooperation norms and build trust (Turnbull et al. 1996; Ford et al. 1986). A system of relationships is often characterised as being decentralised which means that “one can manage within a network but cannot manage a network” (Ford et. al. 2011), and none of the entities play a dominant role. A business network is “a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors” (Emerson 1981).

The strategic approach to the creation of network relationships stresses the active and conscious development of a network of a company's relationships and the presence of one main entity (a flagship firm) intentionally building a strategic network (D'Cruz, Rugman 1993; Jarillo 1995). The strategic approach is based on the assumption that the company can solely plan and implement its business goals considering the development of long-lasting relationships in both the external and internal environment (Fonfara 2012, pp. 20-21). It involves formalised and planned operations with other entities which in fact are formally and legally independent.

Both of the approaches regarding the creation of relationships and networks are not opposed to each other and rather should be considered complementary as two ways of analysing the same interconnections (Ratajczak-Mrozek, 2010, pp. 14-15, Ratajczak-Mrozek, 2012).

If we look at a company's internationalisation from the perspective of the network approach (network model of internationalisation, network approach to internationalisation), then this process "means that the firm establishes and develops positions in relation to counterparts in foreign networks" (Johanson, Mattsson 1988, p. 296). This can be achieved through international extension – relationships with new foreign counterparts, penetration – developing positions in those networks abroad in which the company is already present or integration – coordination between positions in different national networks (Johanson, Mattsson 1988, p. 296), so it is the establishment, maintenance or extension of relationships with actors (entities) in foreign markets. The internationalisation process itself is determined by the entity-diverse foreign environment and the establishment of long-term formal and informal interactions with the entities in it (Axelsson, Johanson 1992, Chetty, Blankenburg Holm 2000; Hadley, Wilson 2003; Fletcher 2008). Many analyses that utilise the network approach to tackle internationalisation issues deal with the problem of the impact of various factors on the course of the internationalisation process itself, whilst the main factor under analysis is knowledge (Hadley, Wilson 2003; Johanson, Vahlne 2009; Lindstrand et al. 2009; Hohenthal et al. 2014), which links the network model of internationalisation with the Uppsala model of internationalisation. In terms of the course of the process, network analyses are often used to analyse the activities of international new ventures or companies born globally (Oviat, McDougall 1994; Coviello, Munro 1997; Chetty, Blankenburg Holm 2000; Sharma, Blomstermo 2003), these analyses also take into account the knowledge factor. There is however a lack of

complex analyses which would tackle the problems tied directly to the coordination, management and efficiency of the internationalisation process from the network perspective.

2.3. Relationship strength

Relationship strength is defined as the ability of partners to maintain an existing relationship despite internal and external challenges (Hausman 2001, p. 602). As a result, strong relationships give rise to the commitment and willingness to continue cooperation between the actors. This sets the relationship strength as an aggregate of the factors and determinants of inter-organisational ties. Synergies between different aspects and dimensions of a relationship as well as the optimisation of its performance, can be only achieved when the relationship is sufficiently strong for all critical aspects (Palmatier et al. 2006, p. 149).

Relationship strength is a multidimensional and complex phenomenon, thus can be revealed by analysing its variables as contextual or background dependences, rather than setting a key driver of relationship performance (Morgan, Hunt 1994). Over the last decades, based on the theoretical background, three main approaches to the analysis of business relationships have emerged: the resource-based view, relationship marketing based on social exchange and network theories, derived from sociology, and interpersonal relationships – founded on evolutionary psychology and sociology (Palmatier 2008, pp. 11-16). Researchers explore and develop different concepts of strength. Based on a background of social capital (Frezen and Davies, 1990) analyse strength of ties in terms of market embeddedness. On the interpersonal level, dependence on communication and relationships was analysed from the perspective of: market information diffusion (Frezen, Nakamoto 1993), purchasing decisions (Money et al. 1998; Broad 2012), and building customer satisfaction, trust and commitment (Miyamoto et al. 2002). Research based on a resource-based view concentrates on the terms of relationship strength and the business performance of actors (Medlin 2003), organisational learning (Rindfleisch, Moorman 2001), and product development (Rindfleisch, Moorman 2003).

The strongest relationships are characterised by the existence of both behavioural and economic variables (Donaldson, O'Toole 2000, p. 496; Barry et al. 2008). Behavioural variables include trust, commitment, shared norms and values, quality of communication, customer satisfaction (Hausman 2001; Richard et al. 2007; Storbacka et al. 1994). Economic

variables include a firm's orientation, technological orientation, sales turnover, calculative commitment, bargaining power of actors, common business goals, possibility of changing partners, dependency and service quality (Broad 2012, p. 6; Geyskens et al. 1996, pp. 303-317; Håkansson, Snehota 1995, p. 25; Richard et al. 2007, p. 130). In this way, relationship strength may be measured and is perceived as more complex than just strong ties on an interpersonal level, volume or frequency of transactions.

Commitment is a willingness to continue and further strengthen a relationship (Morgan, Hunt 1994, p. 23; Hausman 2001, p. 119). It can be a result of the psychological interaction between individual actors. Calculative commitment is based on the sum of the total profits and losses achieved during transactions (Geyskens et al. 1996, pp. 303-317) and the possibilities of finding alternative partners (Wilson, Mummalaneni 1986, pp. 50-51). The dependence of an organisation can be a result of an advantage in resources and strategic positions within a network and/or industry. If a relationship is important to an organisation and cannot be substituted, then that relationship is significant to the organisation. As an aggregate of behavioural and economic variables, the significance of a relationship is the first component of a relationship strength.

Another aspect of a strong relationship is inter-organisational trust. This is based on a partner's reliability and confidence that they will avoid opportunistic behaviour (Anderson, Narus 1990, pp. 42-48; Hausman 2001, p. 604). Trust has an advantage over institutional regulation because it is hard to predict and secures all the possible negative effects of transactions (Håkansson, Gadde 1992, pp. 59-77). However trust is rather a side-effect that characterises a strong relationship, rather than a particular variable. This can be achieved by providing mutual benefits for the actors. Mutuality is a willingness to cooperate and the expectation of commitment by both parties (Easton 1992, p.4). In mutual relationships the costs and benefits of cooperation are shared equally by both actors (Hausman 2001, p. 605). Asymmetry in a relationship affects its stability and unilateral relationships are more likely to break (Anderson, Weitz 1992, pp. 25-30). Mutuality is a result of the involvement of both actors based on the pursuit of performance through a bilateral resource transfer. Thus mutuality combines both social and economic variables and is a second component of relationship strength. A strong relationship, characterised by a combination of significance and mutuality, tends to be the result of trust and greater commitment, as well as the division of costs and benefits of the relationship between the actors involved.

2.4. Relationship strength and a company's performance

Relationship strength conduces the probability of achieving the reciprocal satisfaction of actors resulting in tangible outcomes and better performance (Hausman 2001, pp. 602-603). Those effects which contribute to better performance can be observed on both a company and an inter-organisational level (see Figure 1). The development of a long-lasting strong relationship is the result of the interdependencies between the actions taken by the organisation and the behaviour of its partners. By continuously shaping mutual satisfaction from each subsequent transaction, there is a rise in the level of commitment and trust among the partners. In this manner, relationship strength can be treated as a coupled phenomenon that initially influences the performance of a company and its partner, and then through its intensification fosters better conditions for further development and for achieving better results.

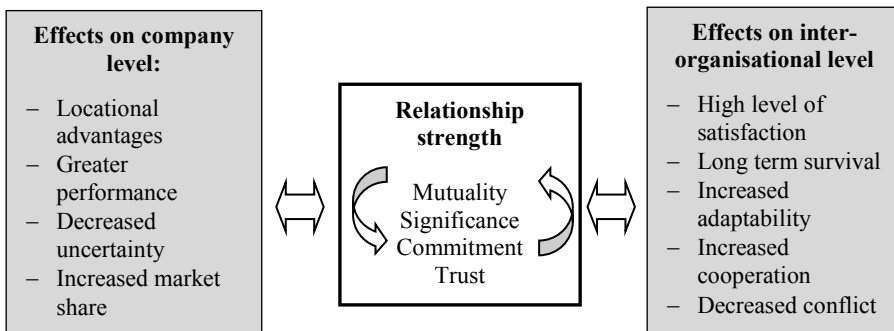


Figure 1. Relationship's strength and its effects on a company's performance.

Source: based on: (Hausman 2001, p. 603).

By developing a strong relationship a company achieves three types of benefits that influence each other. First is the reduction in uncertainty, risk and possible conflicts that can appear in a dyadic relationship (Hausman 2001, Palmatier et al. 2013). This is especially important in developing relationships with key customers and suppliers that have a crucial influence on a company's performance. Developing strong relationships between partners supports the ability of a relationship to withstand conflicts and became less fragile when facing turbulence within the surrounding environment. The creation of a strong relationship decreases the risk of

opportunistic behaviour, for instance knowledge leaks or building barriers for further cooperation or access to different partners or markets.

A second group of the positive effects of strong relationships concentrates on the higher efficiency of operational activities carried out within the relationships. Better results can be achieved by mutual adaptation which creates a more efficient and optimal configuration of actions and resources in terms of scope and scale (Palmatier, et al. 2006). In the longer perspective, these investments contribute to a decrease in transactional costs (Dwyer, Shurr, Oh 1987; Barry et al. 2008). To support adaptation, companies have to create a context with specific conditions such as trust and commitment between the involved partners that support the long-term perspective of developing relationships as well as a high level of predictability of a partner's behaviour.

The last type of effect of strong relationships is the expansion of the strategic potential for a company's growth. Strong relationships create access to new markets, foster the quicker development of new products (Rindfleisch, Moorman 2003) and learning by an organisation (Rindfleisch, Moorman 2001). This set of benefits differs from the previous group mainly by its importance for a company's performance. Decreasing transaction costs is of course advantageous, but gaining access to different markets and the introduction of new products creates new streams of income that are crucial for a company's long-term survival.

However, the analysis of effects resulting from relationships cannot be limited solely to benefits. It is also necessary to take in to consideration the negative effects on companies (Mitreęa, Zolkiewski 2011). Although strong relationships usually minimise the risk of negative effects, thanks to trust and mutual dedication it is possible that threats may come from third parties. Disruptions arising outside of the dyadic relationship indirectly impact other actors through the "domino effect" (Dahlin et al. 2005, p. 2). Dependencies arising between actors include mutual adaptation in terms of the development of resource bases, market position and specialisation. In this sense the growing strength of the relationships between the actors can lead to the loss of autonomy or the reduction of elasticity and swiftness. Additionally, mutual adaptation and resource sharing can lead to the loss of competitive advantage due to the exclusiveness of possessing know-how or a unique market offering (Mitreęa, Zolkiewski 2012). Equally important is the actual nature of the problem. Changes of an incremental nature occurring by mutual consent are less threatening than those radically exceeding the ability of a relationship to adapt (Tähtinen, Halinen 2002). Depending on the

significance of the threat as well as the way in which the actors perceive the problem, it may be ignored, solved or cause the relationship to be terminated. In the case of changes in the prevailing system as a result of interdependencies, there is a reconfiguration of the actors' resource bases, their positions and bargaining powers (Ford et al. 2003, p. 11).

Based on the above discussion, the question arises of how should a company develop its strong relationships to achieve a better performance. To create the context needed for this phenomena it is necessary to adapt a multidimensional analysis approach (see Table 1). A company has to create the capabilities and the capacity for developing its relationships on three coupled levels of activity. The first and most basic level is the development of a relationship portfolio based on specific criteria, allowing the company to assess why, with whom and how it should build its relationships and in particular its strong relationship. This dimension of company activity has a long-term perspective and hence a strategic value for its performance.

Table 1

Key issues and capabilities for creating company's performance from its relationship

| Level of effects | Nature of value | Key issue | Key capabilities |
|---|--|--|---|
| Single organization in the relationship | Immediate | Any action by a relationship participant will have a number of direct effects in that relationship. The perceived value to the participants of these effects relate to the transactions that will unfold as a consequence of the decision. | Delivering mutual benefits from each transaction based upon an overall agreement between the actors involved. |
| Dyadic relationship | Change to the state of the relationship | The trade-off between effects in a relationship and effects on that relationship is a key issue in buyer-seller relationship. | Creating, managing and concluding important relationships. |
| Relationship portfolio | Change in the total relationship portfolio | The firm is a nexus of resources and activities. Some of these activities are carried out internally and some through different types of exchange relationships is a core strategic issue. | The management of a portfolio of exchange relationships in an integrated manner is required. |

Source: based on: Ford, McDowell 1999; Möller, Halinen 1999.

The next level is the development of a dyad relationship that is concentrated on the consistent development of mutual satisfaction from each transaction completed by the partners. From this perspective, a company

should build capabilities and adjust its tangible and intangible resources to create a framework for developing strong relationships. Examples of intangible elements fostering relationship strength include setting goals and norms which are accepted by both partners, the support and development of an interface between the companies forming the relationship, which is usually a combination of skilled personnel and proper tools (i.e. CRM software responsible for maintaining the relationship). This allows to cope with frequent and intensive informal communication and creates the capacity for a flexible, less coercive approach to cooperation (Hasuman 2001). As a result this context enables other entities to facilitate and create strong relationships oriented on building value and supporting the mutual satisfaction of the actors. In the longer perspective, by increasing investment as well as the level of adjustment, an involved partner is more committed (firstly based on calculative commitment) and the relationship is less likely to loosen or break. Thanks to reciprocal informal communication, the sharing of business norms, values and goals also increase affective commitment which mitigates opportunistic behaviour.

The last level of activity is focused on maintaining the effectiveness of operational tasks and supporting the successful management of each individual transaction. At this level we can observe an approach based on a quick cause – effect response. However, thanks to the increasing strength of the relationship, the economic assessment criteria of subsequent transactions are gradually supplemented by social variables (i.e. affective commitment, trust). This creates a more flexible and robust relationship which as a result allows a company to achieve better performance.

3. CONCEPTUAL MODEL – THE THREE-DIMENSIONAL PERSPECTIVE

3.1. Assumptions

In the article the network approach to the analysis of a company's activities is adopted. In accordance with the complementary approach to the network analysis we assume the network view of a market and the impact of complex interactions and interconnections on a company's performance. A company cannot simply select and focus on managing just one individual relationship, as each change in one relationship influences the company's other relationships. Starting a new relationship with a foreign customer requires time and material resources that were previously dedicated to other

domestic customers. But along with the strategic approach we assume that a company may manage the selected relationships and thus actively influence its surrounding network of relationships in a significant manner.

The adoption of the network approach makes us assume that companies (actors) may be embedded in multiple networks, relationships and positions (Johanson, Mattsson 1988). For this reason we argue that internationalisation means a company's coexistence among domestic and international relationships, as entering the foreign market and establishing international relationships does not mean the disappearance of the relationships in the domestic market. The emergence of new foreign relationships may change, however, the existing arrangement of domestic relationships (whereby loosening the latter is only an extreme solution). Moreover, the company may utilise the relationships in the domestic market in its internationalisation process or should it not be active in a foreign market (by not having foreign customers), possess a relationship of an international nature, for example with suppliers (inward connections). A company can belong to various different domestic (i.e. when the relationships are only within the local, country framework), international and global networks of relationships (i.e. when the relationships are extended to varying degrees beyond the domestic, country framework) which all overlap (Ratajczak-Mrozek 2013). This in turn means that the internationalisation process cannot be understood as building and managing a relationship with only one foreign counterpart, for example a foreign customer or dealer, but rather as managing a set of different domestic and international relationships, where each of them is characterised by a different level of strength. This gives rise to interdependencies and cross-effects among these different relationships which in turn cause increasing complex problems associated with management. We therefore believe that in order to maintain legibility, in our concept specific effects are presented from the perspective of each individual type of relationships which are accompanied by a set of various effects (positive and negative). However, we emphasise only the crucial results for company's performance, as based on the literature review we believe them to be the most important. The remaining effects are aggregated.

A company's relationships are analysed from the perspective of its wide range of operations with different types of entities (that is customers, distributors, but also suppliers or other influential entities) and based upon this, the specific types of relationships are defined.

We also assume the moderating role of the complex concept of an inter-organisational relationship strength in terms of internationalisation, its

positive and negative effects and a company's performance. In this way we highlight two variables: the scope of the relationships (domestic/international) as well as the relationship strength (weak/strong). The main issue concerns the presentation of continuous variables (the level of internationalisation, the level of relationship strength) as dichotomous variables. This allows us to perform a separation of the specific effects observed in each network type and states of enterprise engagement.

3.2. Positive and negative effects of relationships from the perspective of their scope and strength – a conceptual framework

The main proposition of our model is the juxtaposition of the positive and negative effects of a company's relationships accompanying the internationalisation process and affecting its performance depending on the relationships' strength and scope. The scope of the relationship is a measurement of the internationalisation process and the strength of the relationship is a measurement of the development of each relationship. As a result of the composition of these criteria, we identify four specific types of relationships serving as a conceptual model for the analysis of relationship interdependencies and management in an international context from a performance perspective. As a consequence of involvement in a specific type of relationship, a company is able to achieve a unique combination of the positive and negative effects which in turn have an impact on its performance. These four relationships variants are as follows (see Figure 2):

- domestic contacts,
- domestic embeddedness,
- international exploration,
- international exploitation.

Developing *domestic contacts* allows for the utilisation of local resources and market opportunities. An advantage is achieved through a transactional approach, so there is no need to engage in long-term interpersonal and informal relationships. Moreover *domestic contacts* are characterised by the high flexibility of activities. This phenomenon is fostered by a relatively shorter response time for domestic market signals and a higher degree of control and autonomy in the decision-making process. These positive effects are accompanied by specific negative ones. An obstacle for increasing a company's performance based upon *domestic contacts* can be the limitation of activities solely to exchange transactions, without the development of solid relationships based on commitment, trust and mutual adjustment. As

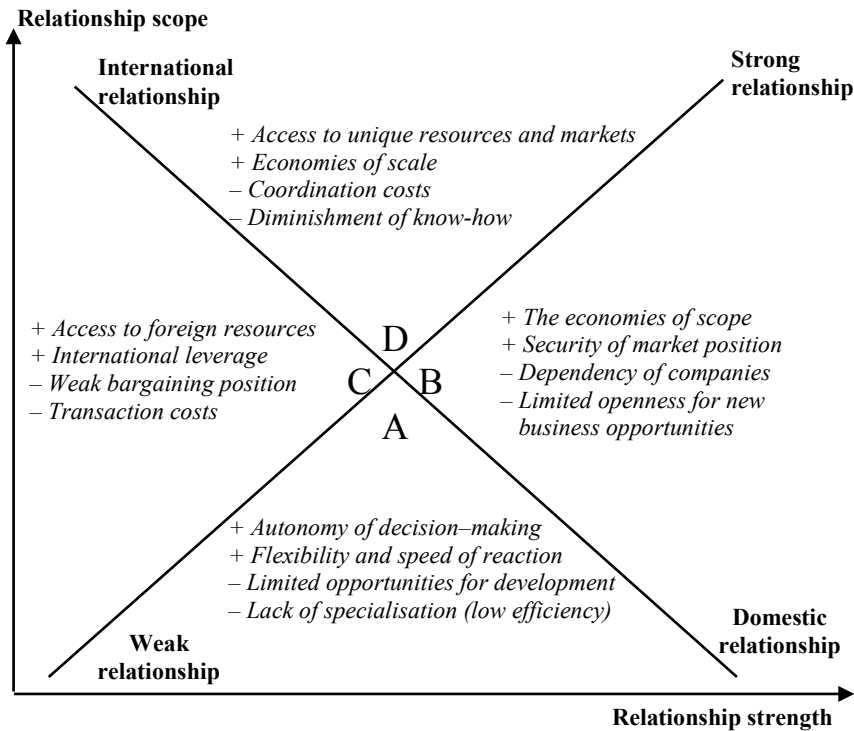


Figure 2. The effects of a company's relationships in the internationalisation process – the perspective of relationship strength and scope.

Source: own work.

a result, managing temporary and weak relationships with key actors can reduce the capacity for development and hamper the process of increasing the level of specialisation. In most of the cases, *domestic contacts* dominate at the early stage of a company's development (the exceptions are the born global companies), when the main obstacle is the lack of necessary resources as well as skills to manage a relationship. Moreover, these relationships accompany the whole process of a company's development, regardless of the level of internationalisation as they allow flexibility and ad hoc actions. This type of relationship may help to overcome challenges caused by the instability in a company's surrounding environment, for instance rapid changes in technology or economic conditions.

Domestic embeddedness means a strong relationship in the domestic market which allows a company to secure its position and enables the exchange of unique resources. This needs a continuous dyadic adjustment in terms of actions, resource scope and the matching of market positions. Increasing specialisation requires a focus on the key resources and a reduction of their capacity in other areas. In *domestic embeddedness*, key advantages are achieved as a result of developing unique combinations of resources, activities and skills which are highly efficient and generate synergies. The most important obstacle for relationships which are *domestically embedded* are mutual dependencies which result in high exit costs of the particular relationship and the possible vulnerability to negative events (opportunistic behaviour within a dyadic relationship and risk caused by external factors). Also in a relationship which is *domestically embedded*, specialisation is achieved at the cost of limiting openness for new foreign business opportunities. This barrier is a result of a strong dependence on other actors in terms of a company's business profile and position in the value chain. *Domestic embeddedness* can be beneficial in the case of utilising strong relationships with local suppliers which assist other relationships with local and foreign customers. Such relationships with suppliers, due to the structure of operating costs, are created by companies operating in markets that are typical for a local economy, such as those based on the unique production – handicrafts. *Domestic embeddedness* can be utilised not only by firms which are solely locally engaged, but also by local subsidiaries of business groups with a high level of foreign presence, mainly as a way of gaining access to specialised resources which can be distributed on an international scale.

An *international exploration relationship* is focused on creating access to certain unique resources and to new market opportunities. This set of advantages based on access to foreign markets can be called “international leverage.” These effects based on utilising differences in production costs, regulations and advantages arises from the varying levels of development of individual economies. In *international exploration*, the negative effects result from the psychic distance between markets and the higher transaction costs resulting from the lack of informal ties and communications. This translates into a lack of trust and low commitment and therefore mutual transactions are dominated by the pursuit of short-term profit and a weak bargaining position. However, some companies tend to choose this approach as a purposeful and consistent long-term strategy for managing relationships. This is mainly due to the desire to stay independent and to solely discount

their investments. These ties with foreign customers are also typical for the early stage of the internationalisation process when the transactional approach dominates over building long-term strong relationships. This is, among others, due to insufficient access to resources and the skills required to support relationship management or due to concerns over the potential risk of knowledge and know-how leakages to competitors.

International exploitation is a strong relationship developed with a foreign partner. Overcoming the psychic distance and cross-cultural differences requires a higher degree of adaptation and adjustment than in the case of *domestic embeddedness*. As a result it allows a company to gain access to unique resources and markets on an international scale. Expanding a strong relationship on an international scale favours cost savings thanks to economies of scale (due to an increase in sales) but also, due to the development of trust and commitment, enables a more efficient transfer of specialised resources and skills. This mutual sharing of crucial resources fosters learning and the development of an organisation and due to the strength of the relationship, in many cases it allows access to new markets. On the other hand, engaging in an *international exploitation* relationship can diminish the benefits resulting from sharing unique resources and decrease the innovator's rent (not being the first firm to commercialise the product or a given solution due to cooperation). Building too many *international exploitation* relationships is limited by coordination costs and the high risk of managing strong relationships in a diverse multinational environment. In this relationship it is harder to respond quickly to market signals and the performance of the company becomes increasingly dependent on the activities of third parties.

CONCLUSIONS AND FURTHER RESEARCH

The outcome of the analysis is a conceptual model with four specific types of relationships characterised by two dimensions: the scope of the relationship as a measurement of the internationalisation process (allowing for the identification of domestic and international relationships) and the relationships' strength as a measurement of its development (thereby indicating weak and strong relationships). Every type of identified relationship involves its own positive and negative effects which are determined by specific factors and circumstances. In this sense the key contribution of this concept is to indicate the effects of each distinctive type of relationship which allows for comprehensive relationship management

focused on increasing a company's performance. Managers may build a company's advantage by optimising the composition of the scope and strength of the relationships according to their specific needs. A profitable combination of effects can be achieved through appropriate relationship management including the whole portfolio of the company's relationships in foreign and domestic markets, as in most cases internationalisation means the continuation of activities on the domestic market (at least with suppliers). Companies undergoing the internationalisation process have at least a few relationships on both the foreign and domestic markets, so the impact of the effects described here on a company's performance should be seen as the result of the effects of all the company's relationships and additional factors arising from within the company (e.g. resources) as well as its environment (e.g. regulations). However, the knowledge regarding the effects associated with these relationships allows a company to manage its portfolio of relationships in order to maximize its performance stemming from internationalisation. In this way this concept can be also used as a context for an analysis of the whole company, taking into account the benefits, risks and the effects of bilateral and purposeful relationships development. This facilitates the selection and evaluation of the management strategy, as well as its influence on the performance of the engaged actors.

The concept presented here, in comparison to previous research, identifies the complex conditions under which internationalisation and relationships management determines a company's performance. The findings extend prior research by moving the centre of interest from concepts concerning the establishment of the linear process of the various stages of internationalisation development to a more complex approach which enables the management of a company embedded in different international and local markets coping with many diverse relationships. The addition of a moderating factor to relationship strength leads to the distinction of an optimal combination of relationships to gain improved performance in an international business landscape. It also allows us to analyse the positive and negative effects, which are missing in previous network internationalisation analyses. In this way we propose going beyond the "entry stage" (internationalisation level) to the "exit stage" – the way in which internationalisation impacts on management and a company's results.

Of course the presented analysis is not free of certain limitations, which at the same time point out the direction of further research. Above all, the presented concept requires further empirical verification using a set of firms of a different size, industry and level of technological advancement as

examples. This requires, among others, the determination of comprehensive measures and components for the two variables under analysis (relationship scope and strength). Moreover, the presented model of four different types of relationship is a static view and is based on only two dimensions. This raises the question of how firms perceive the issue of growth continuity from the perspective of each of these relationships types (including the dependence of changes in the internationalisation process over time). Also it is crucial to answer how a company should be managed in order to improve performance by utilising a different relationships portfolio.

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