Roles of Knowledge and Networks in SME Internationalisation

by

Taeko Kumakura

A thesis submitted to the University of Birmingham for the Degree of Master of Science by Research

Department of Marketing

Birmingham Business School

The University of Birmingham

September 2012

Abstract

The objective of this research is to examine the roles of experiential knowledge and networks which are being developed by Japanese SMEs in the process of internationalisation. The internationalisation of firms, in general, has been recognised as a gradual process, referred to as the Uppsala model. However, the recent research has provided significant evidence of rapid and efficient internationalisation by small entrepreneurial firms, as well. Thus, this research intends to explain the phenomenon of the recent firm's internationalisation more effectively by integrating the Uppsala model and other recent perspectives.

The qualitative method was employed, and 13 Japanese SMEs participated in this study. The findings in this study suggest that even SMEs lacking sufficient international experience internationalise, by using their networks. This is because their networks provide SMEs with experiential knowledge that actors in the networks have developed. SMEs utilise their networks not only at the beginning of internationalisation, but also after successfully penetrating several markets. The networks and knowledge acquired thereby result in the acquisition of new knowledge and resources, the establishment of credibility, the reduction of uncertainty and risk, and the creation of new network links. The end result is that SMEs can internationalise more efficiently.

Acknowledgements

This study would not have been possible without all people that encouraged and supported me in writing this thesis. Having said this, I am sorry that the space is limited and only a chosen sew are mentioned here.

First of all, I would like to thank my supervisors, Dr Sheena Leek and Dr Linda Hsieh, for their great patience and support throughout the writing of my thesis. They provided me with invaluable advice and gave great guidance during this time. At the beginning of my study in the University of Birmingham, writing up the thesis seemed to be huge challenge. However, my supervisors gave me necessary input for my research and encouraged me to achieve my goals. Dr Sheena Leek always guided me in the right direction by her appropriate suggestions, and the suggestions increased my confidence for the study. Dr Linda Hsieh gave me a wide range of insight that was essential for the academic research. In addition, she always answered my questions with great patience. I would like to express my heartfelt gratitude to them.

Furthermore, this research could not be achieved without the cooperation of the 13 Japanese firms that were willing to participate in my research. In spite of their workload, they allowed me to interview them. Therefore, I owe the CEOs and the Directors of these firms my sincerest gratitude.

Finally, I would also like to thank my family that supported me to complete the study abroad and friends that encouraged each other in the Muirhead tower of the University.

Table of Contents

List of Tables

List of Figures

List of Abbreviations

CEO	Chief Executive Officer
INV	International New Venture
KBV	Knowledge-Based View
SME	Small- and Medium-sized Enterprise
TBNF	Technology-Based New Firm
UK	United Kingdom
US	United States
USA	United States of America

Chapter One

Introduction

1.1 Introduction

Internationalisation research has focused on large multinational enterprises so far. However, recently many scholars are becoming interested in the internationalisation of small- and medium-sized enterprises (SME) as well. Internationalisation means that a firm expands their business beyond a country's border (Ruzzier et al. 2006). Previously, SMEs seemed a passive player in internationalization rather than a leading actor, but evidence from recent research reveals that this view is no longer valid. Shuman and Seeger (1986) also argued that internationalization is no longer an issue only for multinational corporations, and that many SMEs are undergoing international expansion as well. Furthermore, Shuman and Seeger (1986) explained that an SME is not a small version of a large business; that there are several differences in behaviour, strategies and environment between large multinational firms and SMEs. Researchers in the Nordic countries started investigating the small firm's internationalisation in the early 1970s. This resulted in building their theory (Ruzzier et al. 2006) which in time led to the so-called Uppsala model. Johanson and Vahlne (1977) argued that by developing the Uppsala model, the firm's internationalisation is a process, by which it increases involvement in foreign markets through accumulating knowledge.

By their very nature, SMEs have limited resources or capabilities compared to large enterprises, and therefore SMEs need to use their resources and capabilities more effectively. A new research stream emerged in the literature in the early 1990s that demonstrated small entrepreneurial firms, called *born global firms* or *international new ventures*, had been impacted by the effects of globalisation and new technologies, such as the Internet, and enhanced transportation methods (Knight & Cavusgil 1996). Oviatt and McDougall's (1994) study identified the international new ventures that had internationalised from their inception, or soon after founding which had had a significant influence on international business research and challenged the Uppsala model. Recent studies of the firm's internationalisation have focused on small firms and have been investigated by both international business and international entrepreneurship researchers (Oviatt & McDougall 2005). These scholars have contributed to the development of the firm's internationalisation research significantly, but the phenomenon has not been well addressed yet in the literature (Andersen 1993, Prashantham 2005). In addition, it is interesting that the knowledge-based view has argued that knowledge that is the most important resource for the firm's surviving and developing enables a firm to remove uncertainties in business and to determine the firm's growth and the speed of internationalisation (Grant 1996), whereas the Uppsala model and the INV theory have emphasised that knowledge is one of critical factors to understand the firm's internationalisation.

Therefore, the aim of this research is to explain the phenomenon of the small firm's internationalisation by drawing insights from the Uppsala model and the international new venture model. Furthermore, in order to understand the phenomenon of internationalisation, the knowledge-based view of the firm's internationalisation, and the role of the network of relationships that the firms have and develop in the process of internationalisation, are also considered.

Few studies about Japanese SMEs' internationalisation have been conducted. Lu and Beamish (2006) emphasised that the internationalisation of Japanese small firms is a recent phenomenon, compared to American and European small firms. Therefore, the aim of this research is to understand the internationalisation process of Japanese SMEs in greater depth.

1.2 Research questions

This study focuses on the internationalisation of Japanese SME, especially on the effects of the firm's network relationships and knowledge that influence international business opportunity recognition and internationalisation. Although many researchers have tried to explain internationalisation by using various theories and perspectives, there are fragmentary points in the literature of the firm's internationalisation. Therefore, this study intends to examine the recent SME's internationalisation process. It is not clear how an international new venture and a traditional SME recognise an international business opportunity and then internationalise by utilising their network ties with other firms, organisations, and individuals, and knowledge. Thus, the research questions in this thesis are:

Research question 1 - What triggers Japanese SME's recognition of a potential business opportunity in a foreign market?

Research question 2 – How do new networks that are developed in the process of internationalisation help Japanese SMEs to internationalise further?

1.3 Research design for this study

The aim of this research is to understand the internationalisation process of Japanese SMEs, and therefore the case study method is employed. This is because the case study is suitable for explaining the phenomenon and causal relationships (de Vaus 2009). Data will be collected through in–depth interviews, documentation and the firm's Web sites. The main strength of an interview is that it enables the researcher to focus in depth on the topic directly and to obtain explanations and causal conjecture (Yin 2009). This researcher conducted interviews with CEOs and directors in 13 Japanese SMEs. In the interviews, the researcher focused on the process of internationalisation, especially the networks with other firms or individuals, the firms' knowledge, and their experiences that influence the process. After collecting the data, the researcher examined whether the data supported the hypothesis.

1.4 Outline of this research

This introduction chapter provided an overview of the research question and the research design employed in this study. The structure of the following chapters is below:

Chapter 2: Literature Review

Chapter 3: Research Methodology

Chapter 4: Data Analysis

Chapter 5: Discussion and Conclusion

Chapter Two

Literature Review

2.1 Uppsala Model (Stage model)

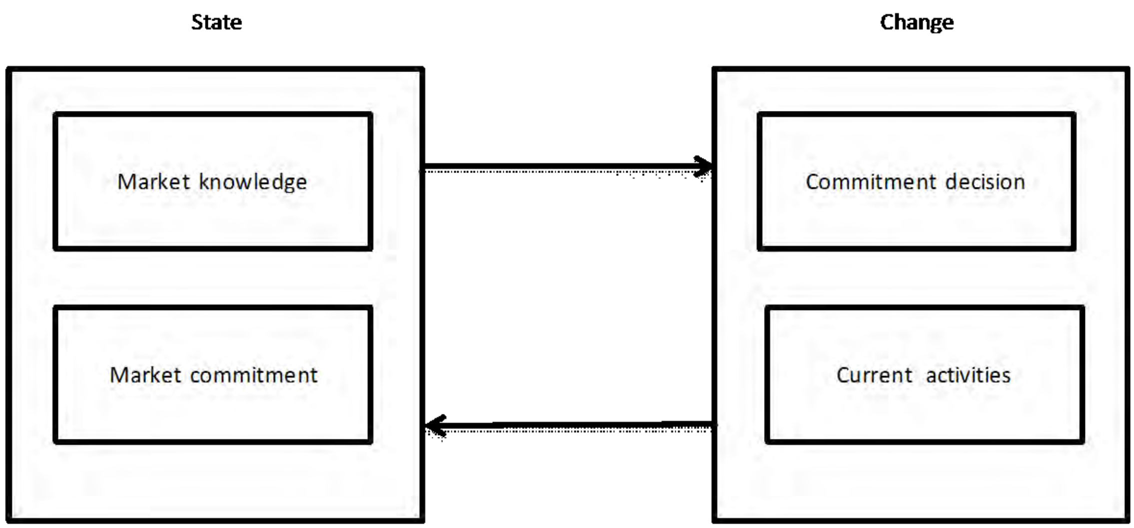
Economic globalisation has influenced not only large multinational corporations but also small and medium-sized enterprises (SME) significantly. Internationalisation as defined by Beamish (1990, p.77) is "the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries". As various firms have internationalised, numerous efforts to understand the process of internationalisation have been made by scholars.

The notion that a firm expands its international operation incrementally is well addressed in the literature. This model of internationalisation, referred to as the stage model or Uppsala model, stemmed from the Department of Business Studies at Uppsala University, Sweden, in the 1970s. The common consensus is that Johanson and Wiedersheim-Paul (1975) first developed this internationalisation framework (Mtigwe 2006). Through analysis of four Swedish firms, Johanson and Wiedersheim-Paul (1975) found that these firms went through a series of incremental steps, referred to as an "establishment chain", in the process of internationalisation. In their model, a firm usually manages business in a domestic market, and then enters a foreign market. They emphasised that the most significant barriers against internationalisation are twofold: lack of knowledge and resources. However, making decisions and learning about foreign markets gradually enables a firm to minimise the obstacles. They divided the internationalisation process into four stages, (1) No regular export activities, (2) Export via independent agents, (3) Establishment of a foreign sales subsidiary, and (4) Establishment of a foreign manufacturing plant.

This first stage means that a firm does not make any commitment to a market and has little information about it. At the second stage, a firm can access information regularly. At the third stage, a firm acquires the ability to control the type and the amount of information that comes from a market to the firm. At the fourth stage, a firm has significant commitment in the market. This in turn means that a firm is getting involved in a foreign market and can acquire information about a foreign market gradually.

Johanson and Vahlne (1977) refined and further developed Johanson and Wiedersheim-Paul's model by suggesting that, based on incremental learning about foreign markets and operations, firms successively increase commitment to internationalisation activities. The Johanson and Vahlne's (1977) internationalisation model consists of two aspects. They explained that "the present state of internationalization is one important factor explaining the course of following internationalization" (1977, p.26). In their model, knowledge about foreign markets and resources committed to foreign markets (these two are state aspects) influence commitment decision and current business activities (latter two are change aspects). This model proposed that internationalisation results from the interplay between market knowledge, market commitment, commitment decisions and current activities (Mtigwe 2006). The mechanism for this internationalisation process is explained in Table 2.1. The change aspects develop market knowledge and affect further resource commitment to foreign markets, as well (Andersen 1993). Thus, this model is dynamic.

Figure 2.1



The Johanson and Vahlne's basic mechanism of internationalisation (1977)

Market Commitment – Market commitment consists of two factors. One is the amount of resources committed, and another is the degree of commitment to foreign markets. The amount of resources committed is identified as the size of investment in the market. The degree of commitment means how the resources committed to the market are difficult to transfer to another use. For example, even though some resources are very useful in a specific market, in another market they might not be as useful. This is because the resources are so particular to a specified market. Forsgren (2002) argued that operating in a foreign market enables a firm not only to get information about the market but also to have a closer link to the market, and therefore a firm has difficulties using the resources for other purposes.

Market knowledge - Another state aspect is market knowledge. In the Uppsala model, a lack of knowledge about foreign markets prevents a firm from internationalising. Johanson and Vahlne

(1977, p.27) argued that “knowledge of opportunities or problems is assumed to initiate decisions” and “evaluation of alternatives is based on some knowledge about relevant parts of the market environment and about performance of various activities”.

It could be helpful to classify knowledge according to effects in foreign markets in order to understand the process of internationalisation. For example, Johanson and Vahlne (1977) emphasised that experiential knowledge, learned from personal experience, is important in the context of international business, whereas objective knowledge can be taught by other people. Experiential knowledge also leads to perceiving and formulating opportunities and enables people to recognize concrete opportunities such as feeling that they match the current and future activities in foreign markets, while objective knowledge provides the trigger to formulate only theoretical opportunities. While people can depend on basic experience to which they can add in domestic market, people do not have such a fundamental knowledge initially in foreign markets. Therefore, a firm needs to obtain experiential knowledge in order to internationalise in the process of internationalisation.

In addition to the experiential knowledge, Johanson and Vahlne (1977) suggested that international activities require both general knowledge and market-specific knowledge. Whereas market-specific knowledge especially can be learned mainly from experience in the market, general knowledge can be transferred from one place to another place. They argued that market knowledge that directly affects market commitments is identified as a resource. As a result, they emphasised that “the better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market” (1977, p.28). The implication is that general knowledge is less important for a firm to internationalise than market-specific knowledge which is a driving force for the firm’s internationalisation process.

Current business activities – Current business activities (one of the change aspects) are the prime source of experience, but there is a lag between the firm's current activities and their outcomes (Johanson & Vahlne 1977). This means that marketing activities do not affect the sales quickly, for instance. It is important to repeat these marketing activities in order to increase the sales. However, there are alternative ways to obtain the experience. Hiring a person with experience is a way to acquire market knowledge quickly, for example (ibid). Without hiring such a person, a firm usually does not have necessary knowledge for internationalisation. Thus, it takes a long time to acquire the knowledge through a long learning process that is related to current activities (ibid).

Commitment decisions - Another change aspect is commitment decisions. Johanson and Vahlne (1977) estimated that these decisions rely on what alternatives to the decisions exist and how they are selected and how the decisions are conducted according to perceived opportunities and problems. The opportunities and problems that a firm can perceive in foreign markets then depend on the firm's experiences.

Another key point of this model is concerned with psychic distance that was mentioned by Johanson and Vahlne (1977). The psychic distance is identified as "the sum of factors preventing the flow of information from and to the market", such as language, education, business practices, culture, and industrial development (Johanson & Vahlne 1977, p.24). Greater differences between a home country and a host country generate uncertainty that may discourage a firm from entering a foreign market. Johanson and Vahlne (1977) argued that basically a firm first enters psychically close markets and gradually moves into markets that are psychically distant. The process of internationalisation is seen to be gradual, because it takes a long time for a firm to obtain suitable knowledge, information, and resources to enter foreign markets. Since a firm has increased experiential knowledge through international activities, the influence of the psychic distance decreases gradually. The model emphasises that the bigger the psychic distance between a home market and a host market, the more difficult it is for a firm to collect and understand information (Eriksson et al. 1997). The experiential knowledge that firms accumulate from their domestic markets cannot be transferred and applied to internationalisation in psychically distant markets.

Mtigwe (2006) argued that this model has been so influential that many international business studies were affected. However, in recent years some firms do not follow this approach which is a big challenge to the Uppsala model. Some firms internationalise from inception or at the very beginning of their founding and have been referred to as *international new ventures* (INV) (Oviatt & McDougall 1994), *born global firms* (Knight & Cavusgil 1996), and *global start-ups* (Oviatt & McDougall 1995).

2.1.1 Critique of the Uppsala model

The Uppsala model argued that the firm's internationalisation process is through step by step development, and that firms increase market knowledge and commitment gradually. However, criticisms of this model argued that it overlooks the context of people and company and therefore does not pay much attention to the role of entrepreneurship and top management in making decisions that affect a firm's strategies (Turnbull 1987). Moreover, the Uppsala model is not geared to understanding the firm's strategic change that entrepreneurs and top managers influence significantly

Andersen (1993) emphasised that the boundaries between the stages of the Uppsala model are vague and the model does not explain how a firm moves to the next stage in sufficient detail. Andersen (1993) also emphasised that the core concept of the Uppsala model is that increased market knowledge results in market commitment and vice versa. However, in the Uppsala model, it is not indicated why and how the process of internationalisation starts and what the conditions are. In addition, the Uppsala model does not explain factors that affect the internationalisation process or consider the firm's strategic decisions after the internationalisation process starts.

It is well known that much empirical research supports the Uppsala model, but in the 1990s various new streams have emerged and challenged the Uppsala model.

For example, small high-tech firms internationalise very rapidly rather than gradually (Oviatt & McDougall 1994). This is because these firms have significant high-tech products or add special value to products. As a consequence, these firms focus on the global market from inception and they can ignore psychic distance (Madsen & Servais 1997). On the other hand, some researchers (e.g. Johanson & Mattsson 1988, Chetty & Holm 2000) found that a firm internationalises by using their networks in business, because these networks provide a firm with information, financial capital, and human capital. Furthermore, the firm whose process of internationalisation is well explained by their networks does not follow the Uppsala model either.

After various streams have emerged, Johanson and Vahlne (2009) revised their Uppsala model. In the revised model, they focused more on business networks, because they understand that a market means a network of relationships and in the markets firms are connected to each other. Therefore, they revised their model from the view of business networks. This revised model will be explained later in this chapter.

2.2 Born Global/ INV literature

In the last decade, several scholars have identified an increasing number of SMEs that enter foreign markets immediately, or very soon after, they are founded (Rialp et al. 2005). This new focus on the internationalisation process has emerged in born global firms (Madsen & Servais 1997), Also known as international new ventures (McDougall et al. 1994), these firms are likely to be small firms that are established by active entrepreneurs (Bell et al. 2004).

Oviatt and McDougall (1997, p.88) stated that "the emergence of significant numbers of international new ventures (INVs) in the 1990s is a sign that important dimensions of the internationalisation process may have changed since the 1970s, when the Uppsala model was developed." Zahra et al. (2005) identified INVs as an important set of companies that have had a major impact on the world economy. INVs are defined as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of output in multiple countries" (Oviatt and McDougall 1994, p.49), whereas traditional firms develop initially in the domestic markets, and subsequently get involved in foreign markets. Several scholars have provided evidence that the stage model had limitations in explaining the internationalisation process of INVs in their research. For instance, McDougall et al. (1994), through the case study of 24 INVs, found that none of them followed the stage model of internationalisation and concluded that the stage theory cannot explain the phenomenon of INVs. Dramatic change in the speed, quality, and efficiency of international communication as well as the development of transportation has reduced companies' transaction costs significantly and also lowered barriers enabling born global firms to enter international markets (Oviatt & McDougall 1994). Moreover, homogenisation of many markets in the world makes it easier for firms to conduct international business. Therefore, each market links more closely and more efficiently than before, and well-established and large companies cannot enjoy their competitive advantages in international business anymore (ibid).

Madsen and Servais (1997) also indicated that technological development of transportation and communication is one of reasons that has led to an increase in INVs. Furthermore, as specialisation is increasing, many niche markets have been created. Consequently, the firms producing highly specialised products are forced to sell their products or service in international markets, because demand in the domestic markets is quite small, even in a large county (Madsen and Servais 1997). On the other hand, firms conduct their business by using their networks all over the world, and therefore innovative products can easily penetrate these global markets. Madsen and Servais (1997) emphasised that a unique product or service enables born global firms to internationalise rapidly and create value for the founders.

Oviatt and McDougall (2005) suggested that “environmental influences”, “industry conditions” and “the thinking of entrepreneurial actors” are said to be fundamental factors determining the speed of international involvement. Their model proposed that internationalisation starts with a potential entrepreneurial opportunity. Furthermore, faster transportation, effective communication and digital technology enable firms to internationalise rapidly. Therefore, the phenomenon of emerging INVs is not explained only by the firms’ capabilities, but also by the changing business environment and technological developments.

Bell (1995) investigated small computer software firms in Finland, Ireland and Norway, and found that the internationalisation process of these firms did not support the stage theory very well. These software firms’ internationalisation processes were affected by client followership and focusing on niche markets rather than the psychic distance. Moreover, these small firms did not move from exporting to the next step systematically and firms did not always develop in the domestic markets before entering foreign markets. They also concluded that the stage theory has limitations in explaining the internationalisation process of high-technology and service-intensive sectors, such as the computer software or biotechnology sector.

2.2.1 Company characteristics of INVs

While INVs are unique, they are often characterised by their limited finance and human resources, and moreover lack physical resources such as plants or equipment (Knight & Cavusgil 2004), precisely because of their newness and smallness. Due to these disadvantages, INVs can face difficulties in the process of internationalisation. Westhead et al. (2002) indicated that the process of internationalisation includes a high risk element, and added that owners of small firms are more unfamiliar with uncertainty and risk than large and well- established firms. Therefore, Born Globals should overcome these obstacles by leveraging their intangible capabilities - accumulated knowledge, in foreign markets, for instance (Knight & Cavusgil 2004).

While the external driving factors that are related to the born global rapid internationalisation have been investigated, the internal factors that influence the accelerated internationalisation have also been examined by several born global scholars. Rialp et al. (2005) explained the features of a born global firm in contrast to a traditional firm. They emphasised that the essential difference is that a born global firm usually uses advanced technology to develop specialised products that are needed in niche global markets. As a consequence, these born global firms with significant value added products enter multiple foreign markets from inception or soon after their founding, whereas a traditional firm accumulates knowledge about foreign markets and business and enters foreign markets gradually. They also indicated that a born global firm utilises personal or business networks effectively to accelerate the rate of internationalisation. The networks provide a born global with new resources for internationalisation such as accesses to local and international networks in the form of distributors, customers, or partners (Rialp et al. 2005).

Freeman et al. (2006) argued that several factors played crucial roles, namely, top management, team characteristics (Bloodgood et al. 1996), international networks (Oviatt & McDougall 1995), knowledge, and the firm's culture (Knight & Cavusgil 2004); these enable born global firms to outstrip their competitors and internationalise rapidly. For example, if a member of a management team has experience in international business, the firm can manage uncertainties in foreign markets by using their networks and experiential knowledge. These organisational resources facilitate born globals' early and rapid internationalisation into several foreign markets simultaneously. Thus, the process of the born global firms' internationalisation does not depend on psychic distance, but is more influenced by the founder's or partner's experience and/or networks (Rialp et al. 2005).

However, smaller born global firms can still face challenges and difficulties in the course of internationalisation. Freeman et al. (2006) identified three constraints: (1) lack of economies of scale, (2) lack of financial and knowledge resources, and (3) risk aversion. Firstly, a small firm by dint of its size does not buy as great a volume of products, compared to a large company, and therefore unit costs for a small firm are higher than for a large company. As a result, a small firm cannot access economies of scales. Limited financial resources impose further limitations on the small firm's international expansion. Moreover, insufficient experience of international business and a lack of experienced employees that have significant knowledge about international activities and skill to identify business opportunities in foreign markets create further uncertainties and challenges for the firm. Therefore, small firms are more risk averse than large companies. To overcome these constraints, Freeman et al. (2006) found that born global firms used personal network contacts and strong relationships with large foreign customers and suppliers, followed existing clients to foreign markets, and utilised advanced technology as well as multiple modes of entry- strategic alliances and joint ventures. Some managers in the case firms went into partnerships with large companies and these collaborations allowed the SMEs to achieve economies of scales and to secure foreign customers with large orders. In addition to that, unique advanced technologies became the firms' competitive advantage which in turn facilitated economies of scales. Born global firms also achieved economies of scale and lowered the financial burden by using multiple entry modes such as strategic alliances, joint ventures, and client followership, and accessed the knowledge resources by linking to various collaborative partners through joint ventures and alliances. The use of multiple entry modes thereby reduced the risk for the small firms compared to depending on a single entry mode.

Moreover, in the context of international business, knowledge also plays an important role (Autio et al. 2000). Grant (1996) underscored that a firm should have unique, inimitable, and immobile knowledge. Firstly, unique knowledge allows a firm to price a product high, while inimitable knowledge reduces the need to compete, and finally immobile knowledge releases a firm from the anxiety that important knowledge might be imitated by rivals (Nelson& Winter 1982). Firms' capabilities are created through integrating individual knowledge, and are related to the development of firm's competences and routines (Teece & Pisano 1994). Another distinctive characteristic of born global firms is that they compete on the basis of knowledge. Knight and Cavusgil (1996, p.11) defined born global firms as "small technology-oriented companies that operate in international markets from the earliest days of their establishment".

Such firms can leverage their innovation capability and their knowledge in the innovation process to accelerate their process of internationalisation.

While long-established firms are more bureaucratic and less innovative, small and young firms are more flexible, less bureaucratic, and more willing to be innovative (Penrose 1959). Knight and Cavusgil (2004) argued that young and innovative firms which focused on international markets tended to internationalise rapidly, and moreover this innovativeness enabled a firm to acquire new knowledge. This is because innovation leads to new capabilities that become a firm's driving force. Whereas well-established firms depend on their tangible resources to conduct business in foreign markets, born global firms facilitate their international business by using intangible knowledge-based capabilities (Knight & Cavusgil 2004).Furthermore, born global firms do not have deeply rooted routines which characterise, and therefore eliminating the their routines is more difficult for older firms. New knowledge provides a firm with new routines that clash with established procedures (Autio et al. 2000). Old firms are not usually willing to change their existing practices, because it is costly to change these routines and this tendency inhibits old firms from being innovative. Knight and Cavusgil (2004) stressed that the condition in which there are few organisational routines enables and even facilitates a firm in developing new knowledge. The end result is that born global firms that have few routines are more likely to obtain new knowledge about international markets precisely because they are more flexible in outlook and mode of operation.

Scholars in the field of international entrepreneurship (e.g. McDougall et al. 1994) have highlighted that entrepreneur's characteristics and experience empower firms to internationalise swiftly.

McDougall et al. (1994) argued that the founders of INVs are able to recognise the possibilities of combining resources from different foreign markets earlier than other entrepreneurs, because of their competences in discovering these possibilities. Similarly, Madsen and Servais (1997) also stressed that the entrepreneurs of INVs have extensive international experience and that the geographical expansion of INVs are dependent on the founders' or partners' experience. One founder in McDougall et al.'s (1994) case study commented that "proprietary networks" that he and employees had developed in their previous business were the sources of the firm's competitive advantage and consequently helped found a new firm. This was because their networks had already been worldwide and had been connected to successful entrepreneurs. The network members identified business opportunities for clients, and gave advice. These abilities are essential for the founders of INVs.

As mentioned above, entrepreneurs in INVs play an important role in the process of internationalisation. Some scholars (e.g. Knight 2000, Lu & Beamish 2006) stressed that INV's internationalisation is largely related to entrepreneurial activity. This perspective is concerned with international entrepreneurship theory. International entrepreneurship theory emphasises that individual and entrepreneurial behaviour influences the basis of foreign market entry (Mtigwe 2006). Oviatt and McDougall (2005, p.540) defined international entrepreneurship as "the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services. It follows, therefore, that the scholarly field of international entrepreneurship examines and compares – across national borders – how, by whom, and with what effect those opportunities are acted upon." The stage model describes the process of internationalisation well, but ignores the capabilities of individuals (e.g. entrepreneurs or managers). On the other hand, international entrepreneurial theory explains a firm's internationalisation from an entrepreneurial point of view that integrates the approaches to entrepreneurial internationalisation (Ruzzier et al. 2006).

Knight and Cavusgil (2004) argued that one of most essential organisational culture attributes in INVs is international entrepreneurial orientation. Having an international entrepreneurial orientation means that firms enter foreign markets because of entrepreneurial competences and vision (Autio et al. 2000). Through analysing born global firms, Knight and Cavusgil (2004) found that an international entrepreneurial orientation reflects the born globals' innovation-focused attitude to pursue strategies, targeted for maximizing international performance. The orientation is essential to the firms, because it leads to developing high-quality goods that enable born globals to succeed in international markets (ibid).

McDougall and Oviatt (2000, p.903) argued that a founder of a born global firm intends to internationalise from inception or soon after founding, and they identified the study of such behaviour as international entrepreneurship. Their definition of international entrepreneurship is "a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations." Knight (2001) also argued that international entrepreneurial orientation is an essential corporate posture, influencing the international performance of SMEs. By means of the cases studied, he found that having an international entrepreneurial orientation affected the international performance of the firm positively. Moreover, it is likely that having such an orientation leads to proactive opportunity-seeking behaviour. He emphasised that entrepreneurial activities provide the means to extend corporate capabilities and to keep up with or surpass competitors.

Having an international entrepreneurial orientation means seeking new opportunities proactively. Mathews and Zander (2007) argued that one of the entrepreneurial roles in the process of the firm’s internationalisation is to discover new business opportunities. It is said that discovering new opportunities is related to previous experiences and attention to events or the environment around individuals. Therefore, the geographic movement of individuals and entrepreneurs makes it possible to recognize these opportunities (Ellis 2000). As the extant literature explained, the international experience of entrepreneurs or managers affects the firm’s internationalisation process and international perspective (Mathews & Zander 2007). Similarly, entrepreneurs’ participation in social and business networks enables them to recognise new business opportunities (Coviello & Munro 1997, Johanson & Mattsson 1988). Social networks are relationships that link a person with other people (Burt 1992), while business networks are relationships that link a firm with other firms (Johanson & Mattsson 1988).

Therefore, not only strong international entrepreneurial orientation, but also networks in which entrepreneurs are involved have a pronounced influence on born globals.

2.2.2 Critique of the Born Globals

As described above, many scholars have researched the phenomenon of born global firms/ INVs in the last decades. Nevertheless, there are several critiques in the literature that maintain that the born global literature is insufficient to explain the phenomenon. Madsen and Servais (1997, p.573) argued that “the Born Global phenomenon does not represent any revolutionary pattern of internationalization; also Born Globals may behave according to an evolutionary framework.” This means that a born global firm can be said to be new in a legal sense, but many born global firms have roots that the founders and the managers developed in their previous jobs or experience. Hence, it seems doubtful that born global firms are new companies and could be said to represent revolutionary patterns of internationalisation. Furthermore, Madsen and Servais (1997) suggested that it is more reasonable to analyse born global firms in conjunction with the collaborating firms that influence the internationalisation process of these same born globals.

In addition, Zahra et al. (2005) emphasised that the INV study of Oviatt and McDougall (1994) did not consider the influence of the institutional environment or economic geography, when INVs create competitive advantage. It is important to understand how history and geography influence the evolution of industries and competition in a particular foreign market, as these activities take time to complete. Therefore, Zahra et al. (2005) argued that even though INVs recognise a business opportunity in a foreign market, they might face some difficulties conducting business there because of a lack of knowledge about the environment and geography. Consequently, it is suggested that the INV theory might be enhanced by incorporating the perspective above.

Additionally, recent research (Majumdar 2000) has disputed that it is more difficult for old firms to change routines and adapt to a new environment, whereas the INV theory argues that INVs have the advantage of being able to internationalise speedily, because younger firms can change their habits easily and adapt to a new environment quickly (Oviatt & McDougall 1994). Therefore, Zahra et al. (2005) suggested that a researcher needs to consider the sources of competitive advantage that INVs build, and how INVs protect the advantage from other firms.

Recently Bell et al. (2001) identified 'born-again' global firms through their case studies in the UK, Australia and New Zealand. These firms were well established in their home countries without the motivation to internationalise, but suddenly internationalised nevertheless due to a critical incident or episode. They called these firms *born-again* global firms. According to their research, the most common reason of “born-again” global firms was a change of ownership or management. The change brought new decision-makers with a significant international orientation to a firm. Another reason for the change is that the focal firm took over other firms that had conducted international business actively. It provided the focal firm with an opportunity to launch their product into new markets. Moreover, some firms in their research needed to enter foreign markets, because their domestic clients decided to enter the foreign markets.

2.3 Network theory

Madsen and Servais (1997) suggested that it is sensible to learn the international context in which a firm operates, such as the environment and the firm’s relationships with other firms or individuals, in order to understand the process of the firm’s internationalisation in depth. The network approach considers a firm as an actor in business networks; this is also an appropriate way to analyse the phenomenon (Johanson & Mattson 1988). The network approach identifies market exchange as the outcome of interaction between exchange relationships with market actors (Tikkanen 1998). A firm’s internationalisation results from the development of a network of relationships with individuals and firms in foreign markets (Johanson & Mattsson 1988). Furthermore, the firm’s network leads to sources of information and knowledge about foreign markets that takes time and cost for the firms to develop. Therefore, the firm’s networks are valuable for internationalisation.

Johanson and Mattsson (1988) emphasised that firms can learn and develop their market knowledge by interacting with members in networks. In the process of internationalisation, firms intend to establish relationships with other members in country networks that are new (international extension), develop relationships in the networks (penetration), and connect networks in other countries (international integration). By networking, a firm can build up relationships, enabling the firm to access resources and markets, with other actors. Moreover, they suggested that the firm's position in networks is important to successfully enter foreign markets. Therefore, network theory argued that the firm's internationalisation is not achieved solely by itself. For example, foreign partners, distributors, or marketing agents help firms to internationalise. They identified four different situations in relation to firms' internationalisation and analysed each situation.

Early Starter - The first category is "the Early Starter". The firm in this category has few international relationships, and also other competitors and suppliers in the domestic market and foreign markets. Therefore, the firm has obtained little knowledge about foreign markets and seldom gains knowledge from other network members. Consequently, the firm uses an agent in foreign countries in order to enter international markets. Distributors and customers in foreign countries usually push the firms to internationalise.

Lonely International - The second is "the Lonely International". This firm has already internationalised and has experience of relationships in the domestic and foreign markets. However, the degree of internationalisation of the market is low. Therefore, the firm with international knowledge and experience has an advantage in entering foreign markets, because the firm already has a good position in business networks.

Late Starter - The third one is "the Late Starter". This firm is involved in the environment that is already internationalised. The competitors, suppliers, and customers with whom the firm has relationships, have established business networks in foreign markets. These relationships facilitate the firm's internationalisation process. However, close foreign markets could be substantially formed and already dominated by other competitors. Therefore, establishing a new position in the market is difficult for the Late Starter, because distributors and customers in the market already have relationships with the competitors. As a consequence, there are high barriers for the firm to overcome. Hence, the Late Starter has to enter the more distant foreign markets. On the other hand, it might be less difficult to gain trust in the foreign markets than the Early Starter and the Lonely Starter, because the markets have experience of doing business with foreign partners.

International Among Others - The final one is "the International Among Others". The firm has become highly internationalised, and the market environment is highly internationalised as well. This means that the International Among Others has entered several foreign markets and is involved in many networks. Johanson and Mattson (1988, p304) explained that "The operations in one market may make it possible to utilise production capacity for sales in other markets." The firm might export their products to a subsidiary in another foreign market in which the demands are increasing. The International Among Others has already entered several foreign markets, and the situation enables the firm to get access to external resources.

Pursuing these four categories, Chetty and Holm (2000) investigated the internationalisation of four firms in New Zealand. They found that business networks are very important for the firms in each category, and if they had not become involved in useful networks, it was difficult to enter new foreign markets. Chetty and Holm's four cases indicated that the actors in the firm's business networks influence the firm's internationalisation. In the process of internationalisation, the firms learned about their customers, competitors, and distributors. Moreover, Chetty and Holm (2000) underlined that business networks became bridges to new markets, and the actors in the firms' networks provided the firms with opportunities to learn new knowledge.

2.3.1 Social and Business networks and internationalisation

Types of network ties

It is well known that network ties enable a firm to internationalise more smoothly. The network ties help especially SMEs that have limited resources to start internationalisation (Crick & Spence 2005). Many scholars have categorised network ties in various ways. Kontinen and Ojala (2011) divided network ties into formal ties and informal ties in their research. Formal ties are considered as existing ties with individual business partners with which a firm exchanges products and services through these ties (Adler & Kwon 2002), whereas informal ties are more close to social relationships such as ties with friends and families. However, the division between formal ties and informal ties is not clear, and many formal ties are located in social networks (ibid). Moreover, formal ties could become informal ties, and informal ties might become formal ties. In addition to formal and informal ties, Kontinen and Ojala (2011) indicated other ties, such as, intermediary ties, as an important link in internationalisation. A seller and a buyer do not exchange their products and services, but an organiser of international exhibitions or sales promoters exists in these ties; this third party then connects a seller to a buyer, or provides an opportunity of internationalisation to a firm.

Ibeh and Kasem (2010) argued that the main focused networks in the literature are business networks, and highlighted three types of ties. The first is exchange networks, in which a firm transacts with other organisations. The second is social networks that are ties with families and friends, and include the decision-maker's personal networks. The final one is symbolic networks in which a community shares values and cultural standards. The prior studies (e.g. Johanson & Mattsson 1988, Sharma & Blomstermo 2003) were more focused on business ties, because these studies were conducted in Western cultures where networks are identified as a resource for developing business.

However, many researchers (e.g. Ellis 2000) have focused on social ties recently, and argued that social ties influence the process of the firm's internationalisation significantly in both Eastern and Western cultures. Networks are viewed as an essential component of society. Moreover, especially in a small firm, the decision maker's personal networks overlap with the firm's networks. This is because friends or acquaintances of the decision makers provide necessary information to a firm and enables a firm to recognise a new opportunity in foreign markets (Hauschildt 1992).

Strength of ties

The strength of ties is divided into two types; one is a weak tie, and the other is a strong tie. In addition, "the strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity (mutual confiding), and the reciprocal services which characterize the tie" (Granovetter 1973, p1361). The strength or weakness of the tie is not related to the type of tie (formal/ informal/ intermediary) exactly, but it is considered that many strong ties could be connected to informal ties (Kontinen & Ojala 2011). McEvily and Zaheer (1999) argued that strong ties are identified as thick groups of actors connected to each other. For example, Davidsson and Honig (2003) mentioned that ties with members of families could be strong ties that provide access to some free resource (e.g. financial), especially to a start-up firm. Actors within strong ties communicate with each other frequently, but there is considerable overlap within the exchanged information in the ties (McEvily & Zaheer 1999).

On the other hand, Davidsson and Honig (2003) argued that weak ties are loose relationships but useful in getting new information that firms cannot get within the immediate networks. In addition, the benefit of weak ties is that they bridge structural holes. The holes are defined as "the absence of ties between actors" by Hoang and Antoncic (2003, p.171). Bridging the structural holes enables actors in networks to get profit from building ties that create new relationships (Burt 1992). Granovetter (1973) presumed that new information is gained through weak ties rather than through strong ties such as ties with close friends, referred to as strong ties. Sharma and Blomstermo (2003) also emphasised that weak ties are important for born globals to internationalise. While strong ties are costly to maintain (Han 2006), it is more practical to maintain a large number of weak ties than strong ties (Sharma & Blomstermo 2003). Furthermore, the knowledge in weak ties is dissimilar, and therefore weak ties provide more new knowledge (ibid). In the process of the firm's internationalisation, weak ties work effectively. Sharma and Blomstermo (2003) researched a born global firm as their sample firm and analysed the internationalisation therein. They revealed that the born global firms collect country specific knowledge from their weak ties (e.g. distributors and agents), and through these weak ties the firm learned about the potential client abroad, for example the product quality and reliability required. Loane and Bell (2006) also supported the importance of weak ties in the internationalisation process. From their analysis, they recognised that a weak tie worked as a bridge to other networks that were related to a new foreign market, because one of the sample firms was invited to a new foreign market by their client that was a weak tie.

Prashantham and McNaughton (2006) explained the importance of weak ties in the SME's internationalisation. They examined how the ties between multinational subsidiaries and SMEs have an impact on the SME's internationalisation. This is because the ties with dissimilar firms include different resources, and these ties are identified as bridging ties (McEvily & Zaheer 1999). McEvily and Zaheer (1999) concluded that the notion of bridging ties is based on theories of social networks which explained that new information is acquired through weak ties and defined a bridging tie (the opposite is a bonding tie) as a tie that links a firm to sources of information and opportunities that a firm cannot acquire from other networks. The size of a firm is an important bonding dimension, and similar objectives and challenges of a firm make it easy to form a bonding tie. On the other hand, a bridging tie links disparate firms and provides non-redundant information to them (Prashantham & McNaughton 2006). McEvily and Zaheer (1999) also mentioned that the concept of a bridging tie is based on the idea that new information circulates among weak ties, but bridging ties and weak ties are not always the same. In McEvily and Zaheer's (1999) view, the bridging tie is "how an actor exploits those (information) opportunities to realize certain benefit" (p1137).

Network relationship as mechanisms for internationalisation

Recently a challenge to the Uppsala model of internationalisation has derived from network theorists who argue that many modern firms internationalise rapidly, rather than gradually, because of the entrepreneur's or manager's experience and network partners (Madsen & Servais 1997). As mentioned above, the feature of INVs is that they intend to internationalise from/ or near inception and commit their resources to international activities (Oviatt & McDougall 1994). In addition, INVs are by their very nature involved in networks that encourage them to internationalise rapidly (Coviello & Munro 1995). Through case studies of New Zealand SMEs, Coviello and Munro (1995) found that participating in international network triggered internationalisation. Moreover, the network provided the firms with new market opportunities and players, for example distributors that the firms might use in a new foreign market. On the other hand, by establishing and using relationships with other firms, these SMEs utilise the partner’s marketing infrastructure and marketing capabilities such as market research, customer education and service, and market intelligence. As a consequence, these SMEs could focus on their core work of developing their products. Therefore, it can be said that networks provide a firm not only with opportunities to internationalise rapidly, but also with useful information such as marketing capabilities. SMEs do not need to have these capabilities initially.

Coviello and Munro (1997) also found through case studies of small software firms that the network influences the firm’s choice of foreign market and entry mode. While networks work effectively in the process of a firm’s internationalisation, Coviello and Munro (1997) identified negative impacts of the network. They postulated that networks prevent the pursuit of other opportunities. For example, one of the case firms struggled to establish an independent relationship with a new firm, because this case firm over- relied on the network tie with the large company. When the large firm faced financial difficulties, the case firm had to build up new relationships with new partners.

Many scholars have argued that network relationships can provide firms with access to strategically important resources that the firms do not have namely, knowledge, technology, and market contacts (e.g. Eriksson et al. 1997). Moreover, it is seen that the network perspective is an integral part of the international new venture theory, because established networks are essential for early internationalisation of INVs (Coviello 2006). Similarly Oviatt and McDougall (2005) argued that networks enable entrepreneurs to identify international opportunities, establish credibility, sometimes resulting in strategic alliance and cooperative strategies.

Another important role of the network is to enable a firm to recognise a business opportunity in foreign markets. Ellis (2010) defined international opportunity recognition as a chance to exchange new information with new partners. Several studies have confirmed that although there is an opportunity in a foreign market, some firms can recognise an opportunity and some firms fail to recognise an opportunity. This disparity is related to whether an entrepreneur or a management team have network ties that facilitate access to that information or not (Ellis 2010). An entrepreneur or a management team with the ties can recognise the opportunity more easily than an entrepreneur and a management team without the ties (Burn 2004). Furthermore, the opportunity recognition leads to success in foreign markets and rapid internationalisation (Oviatt & McDougall 2005).

Child et al. (2002) found that the managers' formal network from previous business and their informal friends' network enabled firms to recognise business opportunities in foreign markets. In addition, Ozgen and Baron (2007) and Ellis (2000) argued that ties with business conferences and exhibitions also play an important role in recognising an international business opportunity. This is because information related to international business opportunities is circulating at such events and a participating firm can get access to the information there.

On the other hand, Chandra et al. (2009) discussed international business opportunity recognition from the perspective of weak ties and strong ties. They emphasised that both weak ties and strong ties have considerable impact on the firm's opportunity recognition in foreign markets. A firm can acquire marketing knowledge through weak ties that provide an actor among the ties with different knowledge, whereas strong ties are useful in diffusing information to relevant actors within the ties (Chandra et al. 2009).

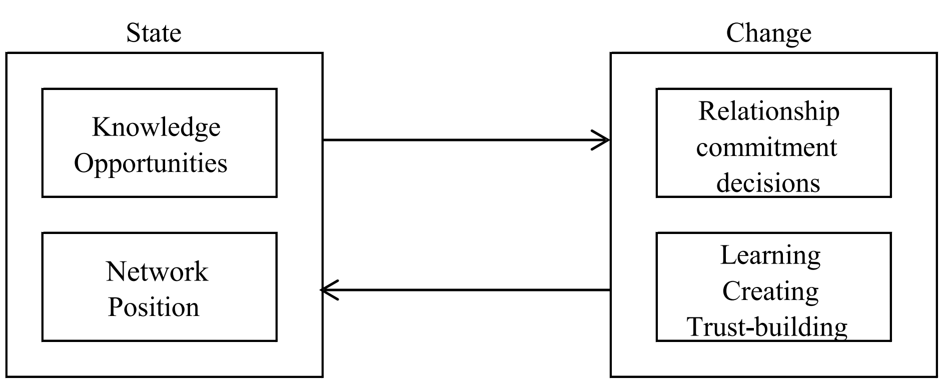
Hoang and Antoncic (2003) contended that one of the important features of networks for the entrepreneurial process is that the networks can provide firms with information and advice. Ties to venture capitalists and service organisations are efficient tools to get and use key talent and market information. Moreover, they argued that entrepreneurs use their networks not only at the beginning of business, but also in the process of managing firms, the entrepreneurs utilise the networks to obtain business information and advice. On the other hand, relationships of networks involve reputational and signalling contents (Stuart et al. 1999). Entrepreneurs look for legitimacy to reduce the perceived risk through getting certification from well-known individuals or organisations (Hoang & Antoncic 2003). Human and Provan (2000) also found that legitimacy is essential in order to attract resources and opportunities and understand network success, because legitimacy represents the status and credibility of the network. Therefore, especially for INVs that have limited resources and credibility, it is expedient to utilise legitimacy of the networks to gain more support, commitment, and resources from outside the firms.

Johanson and Vahlne's revised business network model

Johanson and Vahlne (2009) proposed a new revised model of the internationalisation process based on their previous model incorporating the business network view. The key concept in their new model is that "markets are networks of relationships in which firms are linked to each other in various, complex and to a considerable extent, invisible patterns. Hence insidership in relevant network(s) is necessary for successful internationalization, and so by the same token there is a liability of outsidership" (2009, p. 1411). Relationships can provide a chance for learning, and building trust and commitment that are necessary conditions for internationalisation.

As shown in Figure 2.2 below, Johanson and Vahlne (2009) claimed in their new model that a firm is involved in an enabling and constraining business network in which there are actors, embedded in interdependent relationships. They added "recognition of opportunity" in the upper left box, because they consider that opportunities comprise a part of knowledge. "Network position" is another state variable. They exchanged market commitment in the previous model with "network position", because the internationalisation process is carried out within networks. In addition, a label of "current activities" was changed to "learning, creating, and trust-building" in order to describe the detail of current activities. Another changed variable is "relationship commitment decisions". They added the word "relationship" to the previous label, "commitment decisions" to make clear that the commitment is to relationships or to networks.

Figure 2.2



The Johanson and Vahlne's revised model (2009)

By proposing this new model, Johanson and Vahlne (2009) implied that the firm's relationships and networks have a important impact on the process of the firm's internationalisation, and therefore a firm enters foreign markets according to the relationships with key partners that expand their business through internationalisation. The reasons why a firm goes abroad is that they find lucrative business opportunities there or because key partners which are already conducting business in foreign markets want a firm to follow them (Johanson & Vahlne 2009). Furthermore, they contended that a firm's problems and opportunities in foreign markets depend more on relationship-specificity and network-specificity rather than country-specificity. In other words, it is referred to as "from liability of foreignness to liability of outsidership" (Johanson & Vahlne 2009, p. 1426). This is because relationships can provide a firm with business partners' unique resources that are useful for internationalisation, and therefore national borders are losing their relevance.

Social capital and networks

As mentioned above, SMEs have limited resources compared to large firms, which poses an obstacle in their internationalisation. In order to overcome the resource constraints, SMEs need to develop and implement effective strategies.

Networks of relationships enable a firm to acquire resources, referred to as social capital (Adler & Kwon 2002). This is because the actors within the networks use the social ties for various aims and the ties provide the firm with benefits (Nahapiet & Ghoshal 1998).

There are many scholars that have tried to create an appropriate definition of social capital. Researchers have provided many definitions of social capital, but there is not a common definition that they agree upon unanimously. Chetty and Agndal (2006) indicated that these definitions stress the value of social context through social exchange theory which analyses networks in terms of society and business. For example, Adler and Kwon (2002) claimed that social capital constitutes relationships between people and organizations in order to facilitate activity and add value. Inkpen and Tsang (2005, p151) "defined social capital as the aggregate of resources embedded within, available through, and derived from the network of relationship possessed by an individual or organization – a definition that accommodates both the private and public good perspective of social capital". Similarly, Nahapiet and Ghoshal (1998) stated that social capital is "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" and "comprises both the network and the assets that may be mobilized through that network" (p.243). Nahapiet and Ghoshal (1998) analysed the role of social capital in terms of three clusters: the structural, the relational, and the cognitive dimensions. They identified the structural dimension of social capital as "the overall pattern of connections between actors", the relational dimension as "assets created and leveraged through relationships". The key, in their view, is trust, and the cognitive dimension as resources providing shared meaning and understanding between actors. They concluded that creating and maintaining social capital, particularly the relational and cognitive dimensions, is costly.

Prashantham (2008) mentioned that Nahapiet and Ghoshal's definition integrated various views for social capital and made a link between social capital and knowledge. Information, influence and solidarity are benefits of social capital (Adler & Kwon 2002), while information is the most significant benefit (Prashantham 2005). One of benefits related to information is obtaining access to new information and referrals (Burt 1992). Therefore, it is important to understand how actors within ties develop and organise information. The relationship is the social capital (Porters 1998). The studies on external relations, that is to say bridging ties, focuses on how an actor has relationship with actors outside of his or her networks, while the studies on relations within actors focuses on internal or bonding social capital (Adler and Kwon 2002).

Internationalisation and social capital

Social capital has many assets, and some studies have suggested that social capital may help a firm enter foreign markets (e.g. Coviello & Munro 1997, Yli-Renko et al. 2002). Prashantham and Dhanaraj (2010) found through their longitudinal case study that drawing benefits from social capital is essential for new ventures to expand into international markets. They emphasised three benefits obtained from social capital. First, the successful ventures learn about new international markets. Second, the firms obtained technological knowledge. Third, the firms utilized their ties to obtain knowledge about alliance practices, such as partner choice, negotiation, and monitoring. Therefore, they claimed that social capital provides a firm with benefits that are related to knowledge through learning from other actors in networks. Furthermore, they proposed that through their case study that network learning is useful for the international growth of the venture, but the importance of initial social capital decreases over time. Thus, a firm should be able to expand network relationships to gain new benefits that are necessary for further internationalisation.

Hitt and Ireland (2002) suggested that business leaders should consider carefully social capital within and outside a firm. There are scholars that have divided social capital into internal social capital and external social capital so as to research the impact of social capital on a firm with a view to analysing the influences. Yli-Renko et al. (2002, p.293, 283) referred to "the extent and the quality of relationships between individuals and units within a given firm" as internal social capital, and "the exchange relationships between firms and individuals" as external social capital. They maintained that internal social capital leads to improvement of efficient communication in a firm, rapid evaluation of new information and efficient problem-solving. As a result, knowledge-intensity occurs in a firm. Moreover, they found that there were positive relationships between knowledge-intensity and international growth. This strongly suggests that improvement of knowledge is a key for firms' internationalisation.

On the other hand, external social capital also has significant influence on SMEs. Yli-Renko, Autio and Tontti (2002) researched Finnish technology-based new firms (TBNF) and found that external social capital has considerable impact on acquisition of TBNF's foreign market knowledge. This means that personal networks of entrepreneurs and employees enable firms to get information such as market trends, competition and the new technological development. However forming such relationships takes a long time, and it is costly and risky (Chetty & Agndal 2006). Some scholars emphasised that firms which have internationalised since their inception results from their greater social capital. As Prashantham (2008) observed, external networks play a crucial role in SMEs because they lead to the identification of opportunities where firms learn new capabilities. New opportunities for entering a new foreign market might be found easily through personal contacts (McDougall et al. 1994). This is because firms that can get knowledge through relationships are able to recognise serendipitous events as opportunities for them (Chetty & Agndal 2006). Firms with more relationships can get more knowledge and create more opportunities. Ellis and Pecotich (2001) also emphasised that social networks are essential to identifying new opportunities that enable firms to gain access to foreign market.

2.3.2 Critique of the Network theory

Many network theory researchers on international business highlight the management of international relationships of a firm. Ruzzier et al. (2006) proposed that the firm is identified as a set of relationships that link the firm with other firms. Moreover, the studies in network theory include not only the various types of networks and their properties, but also factors such as resources, trust, and interdependency between firms. However, Ruzzier et al. (2006, p.485) argued that it neglected "strategic position and influence of individuals, especially entrepreneurs, in the SME's internationalization." Knowledge that was built up in long term relationships is preserved in one person in a firm, and this person will have an impact on the firm's internationalisation through his/her social relationships with other people. Davidsson and Honig (2003) argued that these relationships are useful for entrepreneurs, because these relationships provide the firm with resources and opportunities. Therefore, network theory with international entrepreneurship theory describes the forefront of international business thought (Mtigwe 2006). It might suggest that the firm's internationalisation should be analysed from the perspective of both network theory and international entrepreneurship theory.

Hoang and Antoncic (2003) argued that few studies paid attention to how firm's networks are developing over time, compared to what the networks provide a firm in the process of internationalisation. Coviello (2006) also emphasised that the research of network dynamics is important to understand the firm's internationalisation and explained network dynamics is how the firm's networks are developing over time. However, she argued that there are few studies about network dynamics as well, and suggested that the studies about the process of network development are required in order to develop the network theory. This is because the research of the firm's networks is a process oriented study (Hoang & Antoncic 2003), and that therefore the process is not static, but dynamic (Coviello 2006). Coviello (2006), particularly, proposed that investigation of the firm's networks should be started not from the time when a firm enters foreign markets, but from the beginning of a firm's life cycle. This means that it is more advantageous to examine the organisational process of new ventures and young firms than to utilise the network theory in order to conceptualise the firm's internationalisation process. Furthermore, Hoang and Antoncic (2003) emphasised that research on the firm's network can be richer by integrating the topic of network effects with the topic of network dynamics.

2.4 Toward an integrative model of internationalisation

Knowledge-based view

Many scholars have intended to build up a new perspective to explain the firm's internationalisation by integrating a number of existing perspectives. This is because the phenomenon of the firm's internationalisation is quite complex and each perspective can explain only a part of the phenomenon (Mejri & Umemoto 2010).

For instance, Prashantham (2005) attempted to propose a knowledge-based view of internationalisation that is founded on the firm's network of relationships and social capital. As mentioned earlier, knowledge is an important resource for the firm's internationalisation. Both the Uppsala model and INV perspective also view knowledge as a central issue in explaining the internationalisation of firms. Johanson and Vahlne (1977) indicated a lack of knowledge about foreign markets as a barrier to expand abroad, because firms are likely to restrict their business within the area, about which they have knowledge. Therefore, a firm accelerates the speed of internationalisation, if it can accumulate knowledge. Oviatt and McDougall (2005) argued that knowledge in entrepreneurial firms is likely to be individualised to the entrepreneur or entrepreneurial team. Moreover, they emphasised that entrepreneurial firms operated by entrepreneurs with knowledge about international business and international experience tend to recognise entrepreneurial opportunity earlier. In view of the above, knowledge is a driving force in the firm's internationalisation, because knowledge enables a firm to deal with uncertainties and determine market selection and speed of internationalisation.

The origin of the knowledge-based view (KBV) came from the work of Penrose (1959) about the firm's growth. In her work, she stressed the importance of the firm's internal resources, especially the experience of management within a firm. Moreover, she argued that how a firm integrates various resources into useful capabilities is a key factor in determining the firm's growth. This means that coordination of several resources is important. In actual fact, the useful outline of KBV was provided by Grant (1996). He indicated some assumptions about the basis of the view; (1) Knowledge is the significant productive resource, (2) Explicit knowledge is easy to transfer to another place, whereas tacit knowledge, for example skills and know-how, is more difficult to transfer, (3) Knowledge is more expensive to create rather than replicate. Grant (2002,

p. 135) argued that “The emerging ‘knowledge-based view of the firm is not a theory of the firm in any formal sense. It is more a set of ideas about the existence and nature of the firm that emphasize the role of knowledge.”

Autio et al. (2000) suggested two reasons to explain the influence of knowledge intensity on internationalisation. The first reason is that firms that focus on creating and exploiting knowledge as a source of competitive advantage tend to develop learning skills enabling them to grow successfully in new environments. The second one is that knowledge is a mobile resource, and therefore it yields a significant platform for internationalising firms. Thus, entrepreneurs need to find new ways of blending internal and external knowledge that provide their firms with sustainable competitive advantages (Saarenketo et al. 2004).

Mejri and Umemoto (2010) claimed that the KBV is a more integrative model to explain the recent firm’s internationalisation phenomenon, because many explanations are based on the lens of knowledge. They argued that the reason why the KBV serves as a good explanation for SME internationalisation is that SMEs have limited resources, compared to large firms. Consequently, knowledge is essential for SMEs to survive and develop. Likewise, they added that knowledge has been a major human achievement and they identified internationalisation as the result of knowledge; and that it is seen as a central factor in order to understand SME internationalisation in literature. Mejri and Umemoto (2010) also divided the internationalisation process into three stages; pre-internationalisation (no experience), novice internationalisation (short experience), and experienced internationalisation (long experience), and identified four kinds of knowledge which influence these stages: market knowledge, network knowledge, cultural knowledge, and entrepreneurial knowledge. Market knowledge is objective information about foreign markets, which a firm acquires during the pre-internationalisation stage. Experiential knowledge is divided into network knowledge and cultural knowledge that are acquired from experience. Network knowledge represents social and business networks that help a firm to internationalise (Mejri & Umemoto 2010). Blomstermo et al. (2004) contended that both a firm with international experience and a firm with less experience utilise network experiential knowledge effectively in the process of entering foreign markets. Cultural knowledge is the knowledge of the values, manners and attitudes of people in the market (Mejri & Umemoto 2010). Furthermore, entrepreneurial knowledge is the knowledge about opportunity recognition and exploitation (ibid).

Mejri and Umemoto (2010) suggest that experiential knowledge in terms of network, cultural and entrepreneurial knowledge are important for SMEs, as they continue experiencing and entering foreign markets. Similarly, Eriksson et al. (1997) emphasised that experiential knowledge is important for the firm's internationalisation, because the knowledge not only reduces risk in entering foreign markets, but also enables a firm to acquire knowledge about various resources and opportunities for integrating these resources. Conducting business in foreign markets provides a firm with more efficient and differentiated knowledge about the clients and markets. As a firm acquires experiential knowledge of clients and markets, the firm can recognise opportunities in foreign markets. While objective knowledge, which is less important for the firm's internationalisation, can be acquired by a standardised method such as market research and is easily transferred to other countries, experiential knowledge is country-specific, and accumulating such knowledge is costly (Eriksson et al. 1997). Specific situations in foreign markets enable a firm to accumulate experiential knowledge, and therefore current activities abroad are the source of that knowledge (ibid).

Prior international experience of the firm's founder or a management team might influence the firm's internationalisation. Oviatt and McDougall (2005) argued that it is also necessary to consider the existing knowledge of a firm. This is because the knowledge of an entrepreneurial firm is likely to be included in the founder's or management team's stock of knowledge. If the founder or the management team has lived abroad or worked in international markets, the firm can enter or commit to an international market more rapidly (McDougall & Oviatt 2000). To sum up, the Uppsala model does not give suitable explanation of how a firm develops knowledge in the process of internationalisation. On the other hand, the network model focuses more on the sources of knowledge. Yli-Renko et al. (2002) examined how high-technology ventures in the UK acquired new knowledge through relationships with key customers. The relationships with the key customers provide not only knowledge that the customers have, but also links to a new marketplaces or other new customers to a firm (Yli-Renko et al. 2001). A wide range of customer ties from the key customers support the firm in acquiring new external knowledge. As a consequence, by exposure to various customers, a firm enhanced its abilities to evaluate the knowledge by interacting with the customers. In addition, knowledge from key customers enabled the firm to select a suitable business partner (ibid). This is because various networks that are introduced by the key customers allow a firm to acquire necessary knowledge about the potential customer which they can then evaluate. Furthermore, Yli-Renko et al. (2001) underscored another contribution of knowledge acquisition. They argued that knowledge acquisition leads to new product development. This is because successful new product development needs appropriate integration of knowledge from several areas and acquired knowledge from the network relationships of the customers; market, design and manufacturing are all essential elements for such development. Prashantham (2005) explained that network relationships which create social capital result in knowledge acquisition, and therefore it has a great meaning to incorporate knowledge and social capital view into one conceptualisation. He emphasised that knowledge-based view can be an effective basis for integrating these different models.

2.5 Conceptual Framework

As discussed above, the Uppsala model has long been the dominant theory for internationalisation, in which a firm internationalises gradually and increases commitment to foreign markets. However, recent research provides clear evidence that some firms internationalise rapidly, even from inception, and do not follow the Uppsala model by using their networks or/ and knowledge effectively. There are many academic streams that aim to establish alternative models to explain the firm's internationalisation, such as the born global theory, the network theory, and the knowledge-based perspective, but none of them comprehensively describe the SME 's internationalisation and there is not a noteworthy single model. Therefore, the objective of this study is to explain the internationalisation process of recent SMEs by drawing insight from the Uppsala model and the INV theory.

Through the existing literature and the findings in this research, the model that is proposed in this research is based on the knowledge-based view that has emerged in the recent literature; as well as the network perspective that social capital leads to knowledge acquisition, and enables SME to recognise an international business opportunity. As the conceptual framework in Figure 2.3 described, in this research, it is assumed that even if SMEs have little or no international experience and knowledge, network ties with other firms and individuals facilitate and accelerate recognition of new business opportunities in foreign markets. These ties often include knowledge that other firms and individuals have accumulated in foreign markets, and therefore SMEs can increase and acquire experiential knowledge through the connections with other firms in their networks. However, when experiential knowledge of SMEs and their network ties are insufficient for new business opportunity recognition, SMEs may have to establish new network links to obtain relevant and useful knowledge in the process of internationalisation and the new relationships lead to further internationalisation. In addition, established and developed network ties of SMEs lead to accumulation and/ or acquisition of experiential knowledge and result in further internationalisation. These network ties enable SMEs to bridge their gap of knowledge required for penetrating into foreign markets or entering new markets. This is because new network ties provide SME with specific knowledge that is required for further internationalisation, and moreover acquiring such knowledge through networks, encourages SMEs to internationalise. There interrelationships between key concepts and variables are depicted in Figure 2.3.

2.5.1. International opportunity recognition and networks

International business opportunity recognition comes from outside of a firm, and it results from market imperfection and insufficient introduction of new information (Eckhardt & Shane 2003). Ellis (2010, p.101) defined international opportunity as "the chance to conduct exchange with new partners in new foreign markets." Arenius and De Clercq (2005) emphasised that opportunities stem from individual access to information. Therefore, people notice the opportunities by recognising the value of the information that they are exposed to (Shane 2000).

Recognising business opportunities is one of the entrepreneurial processes in the firm's internationalisation and is concerned with the process by which individuals can discover unknown combinations of resources and customer demands (Mathews & Zander 2007). Numerous scholars (e.g. Coviello & Munro1997, Loane & Bell 2006) have attempted to answer the question how and why some people manage to unearth opportunities and others never achieve this. It is a widely held view that the answer is, that entrepreneurs' participation in social and business networks affects opportunity recognition.

Network ties could become conduits for information about new opportunity (Burt 1992). Even if opportunities exist in foreign markets, an entrepreneur without recognition of opportunity and its value cannot exploit the opportunities (Shane & Venkataraman 2000). This opportunity recognition results in rapid internationalisation (Oviatt & McDougall 2005).

Johanson and Vahlne (2003) emphasised that experience from foreign markets and operations enables a firm to realise internationalisation opportunities, and therefore the opportunities are realized by experience; while on the other hand, a born global firm utilises the founder's or partners' networks effectively in order to acquire new information and recognise a business opportunity in a foreign market (Freeman et al. 2006).

Many scholars have argued that existing ties with other firms and individuals help a firm to recognise international opportunities (e.g. Crick & Spence 2005, Sharma & Blomstermo 2003). Zain and Ng (2006) found Malaysian software firms entered several foreign markets by using information obtained from their managers' networks. Social network studies emphasised that social structure influences competition by creating opportunities for some people, as people get different information from exclusive ties to distant clusters (Ellis 2000). Ellis and Pecotich (2001) also found that the ties that link entrepreneurs with former employees, customers and family members enable the firms to identify exchange partners. It could be said that even though many researchers in the born global literature have emphasised the importance of networks, few studies have examined how traditional, non-born global SMEs utilise their networks effectively to recognise a business opportunity in foreign markets.

Research question 1: What triggers Japanese SME's recognition of a potential business opportunity in a foreign market?

The hypothesis that is related to Research question 1 is investigated in this research.

H1. Through networks SME with little or no international business experience have a chance to identify a business opportunity in a foreign market.

2.5.2 Experiential Knowledge and Opportunity Recognition

As mentioned above, the Uppsala model argues that the internationalisation process is influenced by the firm's knowledge base (Johanson & Vahlne 1977). If a firm does not have knowledge about foreign markets and operations, it becomes the main obstacle to internationalisation (Johanson & Vahlne 2003). This is because knowledge can be increased by experience in foreign markets. Moreover, experiential knowledge is a driving force in the firm's internationalisation

(Johanson & Vahlne 1977). The acquisition of the knowledge leads to the firm's involvement in foreign markets.

Also in the INV literature, knowledge is a critical source for the firm's internationalisation. Accumulated knowledge in foreign markets is an enabling resource that provides a firm with a global offering in markets (Prashantham 2005). Moreover, Prashantham (2005) emphasised that the perspective of born global firms sees the entrepreneur as an essential source of knowledge resources for the firm's internationalisation. Therefore, a successful entrepreneur can recognise these opportunities sooner than others and understand how to exploit them. However, people without information related to the opportunities cannot recognize them (Venkataraman 1997). This is because information is built up through people's differential experience, and thus people's knowledge stock is different (Shane 2000). The idiosyncratic prior knowledge enables an entrepreneur to recognise certain opportunities, and the prior knowledge consists of work experience, personal events, and education (ibid). As a firm experiences international activities and increases the knowledge, the decision maker in the firm can utilise their ability to discover and exploit the opportunities (Mejri & Umemoto 2010).

In this research, the definition of experiential knowledge that Mejri and Umemoto (2010) have identified is used. Experiential knowledge is identified as "network knowledge (social and business network; knowledge as the network itself), cultural knowledge (knowledge of language, habits, norms, laws, behaviour...), and the entrepreneurial knowledge (knowledge of the existence of opportunities and exploiting them)" (Mejri & Umemoto 2010, p.163). It is said that a firm can acculturate experiential knowledge from experience abroad in international business and marketing literature, whereas objective knowledge such as the market size, the competitors, and the regulations can be learned by documents (e.g. Penrose 1959, Johanson & Vahlne 1977).

However, Rialp et al. (2005) through their research argued that a firm can obtain experiential knowledge and internationalise more rapidly through their developed networks. Although accumulating experiential knowledge itself takes a longer time, a firm utilise their partner's experiential knowledge for rapid internationalisation. Therefore, it might be said that experiential knowledge can be accumulated by their network ties and it leads to rapid international business opportunity recognition. However, few studies have examined this point.

Another hypothesis that is related to Research question 1 is below.

Hypothesis 2: SMEs can accumulate experiential knowledge about a foreign market through networks, and the knowledge leads to opportunity recognition.

2.5.3 Network ties and internationalisation

Participating in international networks triggers internationalisation, and these networks enable a firm to identify new market knowledge and a potential business partner (Coviello & Munro 1995). On the other hand, getting involved in foreign markets enables a firm to establish new networks. A firm is required to develop its network at each stage of internationalisation.

It is said that bonding social capital is a relationship that occurs with similar, homogenous firms. For example, ties with family members and close friends are bonding ties (Sharma & Blomstermo, 2003). New ideas usually derive from bridging ties that connect people in another separate social cluster (Granovetter 1973). McEvily and Zaheer (1999) pointed out the importance of bridging social capital for a firm. They argued that bridging ties can generate new information, ideas, and opportunities, because there are less common links among dissimilar actors and information does not overlap. In the process of the firm's internationalisation, network ties play several important roles such as helping a firm to develop strategies and products for internationalisation, motivating them to internationalise (Prashantham and Dhanaraj 2010). It means that interacting with other firms enables a firm to access external knowledge and internationalise through integrating the new knowledge with existing knowledge.

Moreover, network ties provide a firm with knowledge about alliance practices such as partner choice and negotiation. Established relationships with others enable a firm to utilise their partner's marketing infrastructure and marketing capabilities (Coviello & Munro 1995). A firm reduces risk of newness in the process of internationalisation by exploiting their networks, because the networks obtain reputational and signalling contents (Hoang & Antoncic 2003). Networks enable a firm to establish legitimacy in a foreign market and to attract another resources and opportunities (Human & Provan 2000).

Yli-Renko et al. (2001) also argued that exposure to various firms enhances the firm's ability to develop their products effectively, because acquired knowledge through network ties enables a firm to integrate various knowledge, and it leads to smooth new product development. In other words, interacting with various firms in the process of internationalisation leads to further internationalisation. In addition, interaction with other firms reveals customer's needs and demands. Nevertheless, few studies have yet analysed how network ties that generate social capital help SME to internationalise.

Research question 2: How do new networks that are developed in the process of internationalisation help Japanese SMEs to internationalise further?

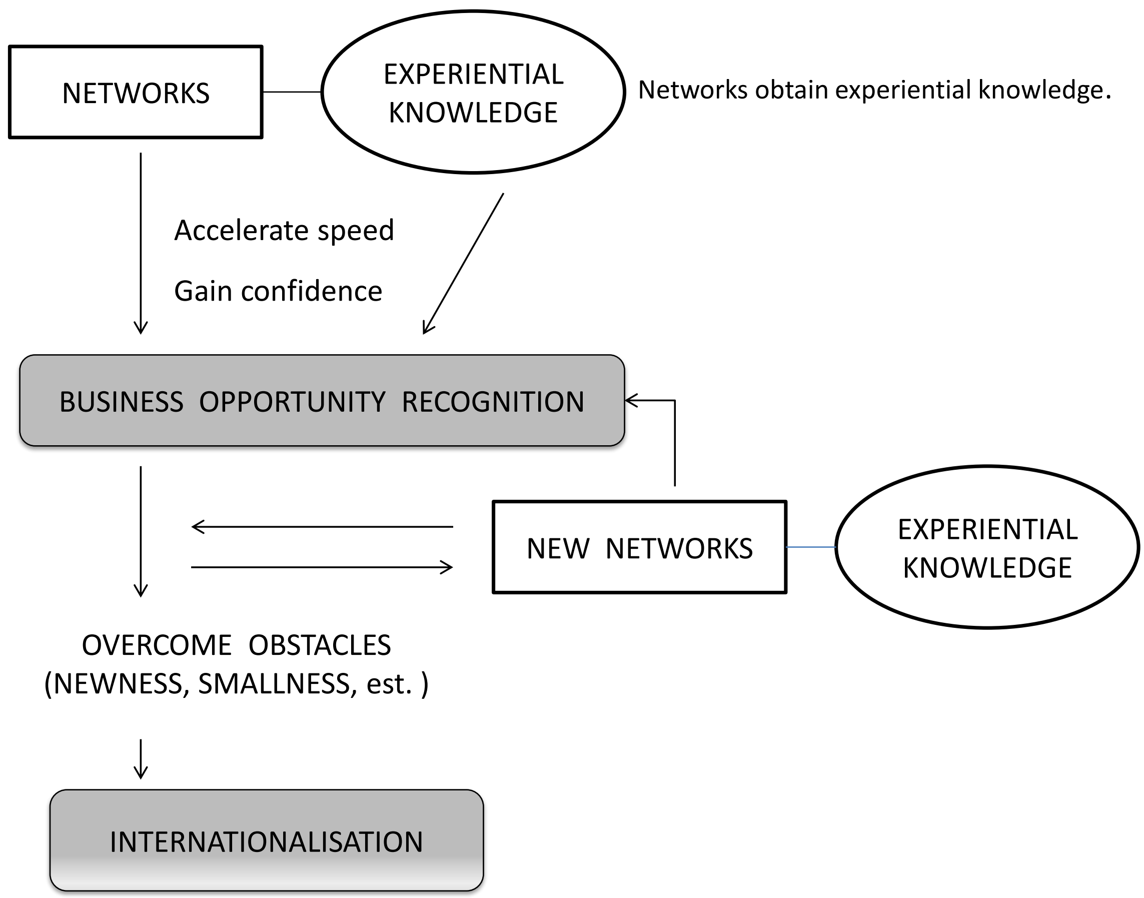
Hypotheses that are related to Research question 2 are below.

Hypothesis 3: Further internationalisation enables SMEs with limited resources to establish new networks that provide them with new knowledge about international business.

Hypothesis 4: SMEs utilise networks to bridge their gaps of knowledge required for further internationalisation.

The proposed conceptual framework is described below.

Figure 2.3 Conceptual Framework



Source: The author

Chapter Three

Research Methodology

3.1 Research Approach

It is important to understand the philosophy of the research, because it helps clarify research designs, and enables determination of the appropriate method (Easterby-Smith et al. 2002). By understanding the research philosophy, researchers can recognise what evidence is needed, how it should be collected, and how it answers the research questions that they intended to investigate (ibid). Saunders et al. (2009) also proposed that the philosophy includes essential assumptions of how researchers examine the world, which leads to the choice of research strategies and methods. Thus, researchers should consider the research philosophy at the early stage of the research. Although practical considerations affect the philosophical approach chosen, a researcher‘s view of the relationship between knowledge and the research process influences it fundamentally.

3.2 Research Strategy

3.2.1 Deductive or Inductive

There are two research approaches; deductive and inductive, the choice of which depends on how the researcher approaches theories. With the deductive approach the researcher uses theories, develops a hypothesis and employs a suitable strategy to test the hypothesis. On the other hand, with the inductive approach the researcher gathers the data and builds up theories through analysing the data.

It is said that the deductive approach is more often employed by scientific research. This is because this approach requires developing theories through rigorous testing (Saunders et al. 2009). Saunders et al. (2009) indicated the features of deductive approach. At first, there is a phenomenon for which the researcher should prove causal relationships. To test a hypothesis that a researcher makes, he or she uses the collection of quantitative data. Moreover, in order to certify reliability of the hypothesis, the researcher should use a structured methodology. Finally, the research needs to gather a sufficient number of respondents to generalise the findings to the population.

Induction is the opposite of deduction. The aim of induction is to examine the data, and to use it to formulate theories (Saunders et al. 2009). Thus, theories emerge from the data analysis, unlike deduction. It is more appropriate to analyse a small sample rather than a large sample (ibid). The researchers claim that a deductive approach is likely to be quite rigid and less open to finding an alternative understanding of the phenomenon.

Moreover, it is said that inductive research requires a longer time to complete. This is because "often the ideas, based on a much longer period of data collection and analysis, have to emerge gradually" (ibid, p.127).

This research adopts both deductive and inductive approaches. The researcher has deducted some hypotheses in the previous chapter. These hypotheses help a researcher to uncover relevant evidence (Yin 2009). However, the researcher employed the multiple-case study, and some of the cases might be different from the hypotheses. Then, it is necessary to revise the hypotheses, in light of these cases, and retest the revised hypotheses. Therefore, this research intends to use both deductive and inductive approaches.

3.2.2 Epistemological considerations

Epistemology is concerned with acceptable knowledge that researchers regard in their field of study (Bryman & Bell 2007). One epistemological position is positivism. The main concept of positivism is that "the social world exists externally and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition" (Easterby-Smith et al. 2002, p.57). A researcher who adopts the philosophy of positivism is likely to work with observing social reality, and only phenomena that a researcher can observe becomes valuable data in a study (Saunders et al. 2009). On the other hand, there are researchers that are critical of positivism, because they think that it is difficult to theorise from phenomena in the social world "by definite 'laws' in the same way as the physical sciences" (Saunders et al. 2009, p.115). The position of interpretivism is opposite to positivism. Interpretivism emphasises that a researcher has to understand the differences between people as social actors. This means that social actors add the meanings to their roles that they play in the real world. In addition, Saunders et al. (2009) emphasised that a researcher that adopts interpretivism takes an empathetic posture and tries to understand the social world of research targets by getting close to the world.

Realism is another epistemological position. The important stance of this position is "what the senses show us as reality is the truth" (Saunders et al. 2009, p.114).

In this research, the researcher intends to explore the process of the firm's internationalisation in depth. It seems that these phenomena in the business field are complex and difficult to understand in a highly structured way. Moreover, the researcher would like to focus on the details of each situation. Each founder and each manager thinks differently about internationalisation which adds meanings to their actions, and also various circumstances motivate them. By examining their world from their point of view, the researcher can obtain valuable information. As described above, the epistemological position in this research can be said to be interpretivism. In order to try not to miss fruitful insights, it is important to investigate each case carefully through an interpretivist position.

3.2.3 Ontological considerations

Ontology is concerned with the nature of social entities. The central point is "the question of whether social entities can and should be considered objective entities that have a reality external to social actors, or whether they can and should be considered social constructions, built up from the perceptions and actions of social actors"(Bryman & Bell 2007, p.22).

One of the ontological positions is objectivism. This position believes that social phenomena occur as external facts that are not concerned with social actors (Saunders et al. 2009). If researchers think in their studies that management is an entity that is independent of managers in organisations, their ontological stance is said to be objectivism. Contrary to the position of objectivism, subjectivism represents the position that the perception and activities of social actors affect social phenomena (ibid). For example, a researcher that adopts this philosophy thinks that customer service is created by interactions between organisations and customers and is always being renewed through these interactions. Therefore, a researcher tries to understand the subjective meanings that motivate social actors.

In this study, the researcher would like to understand the process of the firms' internationalisation. In order to do so, the researcher thinks that it is necessary to investigate how a founder or a manager influences the process. In addition, exploring the meaning that motivates the founder or the manager to undertake international activities is also important for this study. Each founder and manager might have different perceptions, experiences, knowledge and networks that affect their internationalisation.

Therefore, it can be said that the ontological position that the researcher adopts in this research is subjectivism. This view perceives internationalisation as being a result of complex phenomena which includes relationships with others and other factors such as experiences and knowledge. It is helpful to comprehend the meanings of a founder's or a manager's actions in the process of their internationalisation.

3.3 Research Design

3.3.1 Cross sectional versus Longitudinal

It is also important to consider the time horizon for this study, because this research project is conducted for an academic course it can be said that there is a time constraint.

Cross-sectional studies are said to be a snapshot of the time horizon, while longitudinal studies are close to a diary (Saunders et al. 2009). It is difficult for this study to conduct a longitudinal study as the process of the firm's internationalisation is relatively slow and cannot be studied within the time constraints. On the other hand, cross-sectional studies are suitable for "the study of a particular phenomenon (or phenomena) at a particular time" (ibid, p.155). Therefore, the researcher plans to conduct interviews with SMEs' founders or managers in the time available and investigate firms that are at various stages of internationalisation, for example, early internationalisation or mature internationalisation.

It is important to contain a longitudinal element in this study of internationalisation. The researcher will ask participants to recall the process and ask them about the details, and will also study the firm's history through brochures and other available promotional literature. Through these methods, it is possible to investigate the development of the firm's internationalisation.

3.4 Research Methodology

3.4.1 Qualitative or Quantitative

From epistemological and ontological positions that the researcher adopted, it was fit to employ a qualitative research strategy, rather than a quantitative research strategy, in this study. This was because the study aimed to reveal how relationships with other firms, experience, and knowledge affect the internationalisation of Japanese SMEs, and why the founder or the manager decided to internationalise. It is said that the features of qualitative research are that the researcher focuses on words rather than numbers (Bryman & Bell, 2007). Moreover, qualitative research basically sees the social world through the eyes of the participants in a study (ibid). For example, the survey strategy, one of quantitative research, which provides a researcher with a large amount of data in a highly economic way, can tell possible reasons for certain relationships between variables and subsequently create models of these relationships (Saunders et al. 2009). However, there is an opinion that the survey strategy is statistical and therefore is likely to omit some meaningful questions (de Vaus 1999). This is because surveys focus on certain aspects of people's behaviours and opinions without investigating the content around them, and it might lead to inadvertent misunderstanding the meaning of the behaviours and opinions (ibid).

In this research, it is important to understand not only outcomes, but also the contexts that are related to these outcomes, and examine why the founder or the manager made such decisions at each stage of the process of the firm's internationalisation. Thus, the researcher needs to go close to the participants and see the phenomenon from their position. As a consequence, it can be said that the quantitative research method is not suitable for this study.

On the other hand, qualitative researchers emphasise the importance of the context and tend to gather many descriptive details, because the behaviours and values of social actors have to be understood in context in order to answer 'why' questions (Bryman & Bell 2007). Moreover, qualitative researchers are likely to observe social events and patterns in terms of process to reveal change. The researcher in this study also thinks that there is much to be gained in viewing the process of the firm's internationalisation. This is because it enables the researcher to understand meanings of decisions and actions over time.

Another feature of qualitative research is its loosely structured approach to the collection of data. It is said that qualitative researchers prefer keeping structure to a minimum, because it provides them with the opportunity to realise the perspectives of social actors that they are investigating (ibid). In other words, a highly structured approach could prevent researchers from revealing such perspectives. For example, if a researcher adopts a structured approach, he or she decides on the questions that are to be asked in advance. This approach might reduce the opportunity of obtaining new perspectives.

In this research, as the participants' types of industry differ and they each have their own specific advantages the researcher cannot adopt a highly structured approach. The researcher needs to ask questions that are suitable to each participant in order to understand their specific processes of internationalisation. Moreover, qualitative researchers can be more flexible in their research questions than quantitative researchers (ibid). The number of participants in qualitative research is much smaller than in quantitative research such as surveys, for instance. After sending questionnaires to many people, it would be very difficult to change the research direction. However, qualitative research enables a researcher to be flexible and it is an advantage. In this research, the researcher needs to ask the participants details of their internationalising process, and therefore the researcher cannot expect their answers to adhere to a rigid structure. Totally unexpected answers may be given in the course of the investigation, which could force the researcher to change the direction. Thus, the flexibility of qualitative research is suitable for this study.

3.4.2 What methodology is employed in this research?

As the research strategy in this study, the researcher intends to use a case study. Robson's (1993, p.146) definition of the case study is "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence". Moreover, it is said that the case study strategy enables a researcher to use a variety of evidence such as interviews, observation, documents and artefacts, which can provide a rich understanding of the context and process (Morris & Wood 1991). Thus, a researcher that employs the case study strategy can see a complete and more fully rounded picture of the causal process surrounding a phenomenon (de Vaus 2009). Through studying the context, a researcher can understand the meaning as to why the phenomenon or behaviours occurs in the context. Yin (2003, p.2) also emphasised that "the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, organizational and managerial processes, neighbourhood change, international relations, and the maturation of industries".

As mentioned above, one of the objectives in this research is to investigate the process of the firm's internationalisation. The researcher needs to fully understand the issues and behaviours that influence internationalisation. Therefore, it can be said that the case study strategy is appropriate for this research.

Moreover, Halinen and Tornroos (2005) mentioned that studies of business networks are becoming complicated in many ways, for example, research designs, the identification of cases, and collecting the data. It is common in network research, focused on firm's internationalisation, to use a qualitative interview approach (Bell et al. 2004). This is because the case study strategy gives the researcher the opportunity to get close to researched objects and gain insightful evidence. Moreover, Halinen and Tornroos (2005, p.1286) emphasised that the case study approach "allows the study of a contemporary phenomenon, which is difficult to separate from its context, but necessary to study within it to understand the dynamics involved in the setting".

The case study approach that this research adopts is an explanatory case study. It aims to reach significant explanations of phenomenon and provide causal explanations (de Vaus 2009). The unit of analysis in this research is an organisation, especially a Japanese SME, and each individual case is holistic.

The most common evidence that a researcher collects in doing case studies are documentation, archival records, interviews, direct observation, participant-observation, and physical artefacts, and one of the most important pieces of evidences is the interview (Yin 2009). The strengths of the interview are to enable a researcher to focus on the topic directly and to provide causal conjecture and explanations (ibid). Therefore, for this research a qualitative in-depth interview approach is being used to search for deeper and richer understandings of the complex phenomena (Yin 2003).

In addition, there are two types of case study, the single case study and the multiple case study. Each type has advantages and disadvantages. It is said that the single case study merely provides one replication and is not suitable to test a theory, however it is good when the case represents a "critical case in testing a well-formulated theory", "an extreme or unique case", "a representative or typical case", "a revelatory case", or "a longitudinal case". On the other hand, multiple cases enable investigators to test a theory (de Vaus 2009), but it takes a longer time to deal with the multiple cases.

The researcher in this study intends to make some hypotheses and test them, and has therefore chosen to conduct multiple case studies in order to reach more reliable outcomes.

In qualitative research such as case studies, there are some methods by which a researcher gathers the data for his or her study. However, it is said that interviewing and participant observationare the most popular methods of data collection (Bryman & Bell 2007). The researcher in this study intends to employ interviewing as the data collection method. One of advantages of interviewing is that it enables a researcher to ask the interviewee to recall events that have affected the current situation, which a researcher might have some difficulty doing through participant observation (ibid). The researcher of this study will have to ask the participants to reconstruct the events that are related to their internationalisation.

Another reason why interviewing is suitable for this research is that it allows starting research with specific points that a researcher would like to understand. Bryman and Bell (2007) emphasised that in the case of qualitative interviewing, it might be convenient to start with specific focus, because the interview allows a researcher going directly to that point and the research questions.

In addition, Bell et al. (2004) emphasised that interviewing is suitable for small business research, because it might be one of limited ways to gain information from the key person in a small firm. SMEs, compared to large firms, typically do not have sufficient published information (e.g. shareholder reports, commercial analyses), internal data (Carson et al. 1995). Thus, in-depth interviews are appropriate for understanding the phenomenon in SMEs, rather than other approaches. However, in addition to the interviews, the researcher collected relevant documents from newspapers and the Internet.

The interview is a common way to collect data both in qualitative research and quantitative research. There are some kinds of interviews for each research strategy, and therefore a researcher needs to consider which one conforms to his or her research. The structured interview usually used in quantitative research, especially survey research, requires each participant to answer exactly the same questions, often choosing from an answer from a fixed range (Bryman & Bell 2007). As a consequence, it enables the researcher to process the data easily. On the other hand, semi-structured and unstructured interviews, often used in qualitative research, enable the researcher to understand the interviewees' point of view and therefore provide more detailed and rich data. It is said that the unstructured interview is more conversational and an interviewer might prepare memoranda that remind him or her of topics (ibid). However, when a researcher has a certain focus from the beginning of investigation, it would be better to use the semi-structured interview. In the semi-structured interview, a researcher has a list of questions that are concerned with certain topics but the researcher may pursue unexpected issues that arise. Therefore, the semi-structured interview allows the researcher to investigate the more specified issues, whereas unstructured interview provides an opportunity to reveal data of interest to the researcher (ibid). As a multiple-case study requires a researcher to discover differences and commonalities among cases, the interviews require some structure. For all these reasons, the semi-structured interview is suitable for this research.

3.4.3 Interview Schedule

In the interviews, the researcher gathers basic information about the participants firms, for example their products and service, the founders, firms' history, and employees. The data that the researcher intended to collect information on the business networks in which each firm was involved. Especially, how these networks influenced the process of internationalisation, and how they started and developed over time. In addition, the researcher aimed to examine what kind of relationships with other firms or individuals had a positive impact on internationalisation, and how information or knowledge that the firms obtained from their networks was used effectively at each stage of internationalisation.

After collecting the data was analysed. The researcher used the pattern matching method as the analytic technique as suggested by Yin (2009). In this logic, a researcher assesses whether a set of propositions works in the real world situation or not. Therefore, the researcher investigated what actually happened in comparison to the theoretical framework of internationalisation. If the data did not match the theoretical framework the researcher needs to seek the reason, for instance, it might be that the research proposition is wrong, or it is only appropriate for specific cases. As each case is located in a different city in Japan which is geographically distant from the United Kingdom all interviews were conducted by telephone. Furthermore, the telephone interviews are more convenient and less costly. However, there are also some disadvantages in telephone interviews. For example, a researcher cannot observe non-verbal behaviour of the interviewees which might assist understanding. Hence, a researcher should pay attention to the tone of voice to understand the interviewees. The interviews were audio-recorded and notes were taken. This is because audio-recording enables a researcher to analyse reliable data and might serve as a back-up, and taking notes helps a researcher to concentrate and make sure all issues are covered during the interviews. Bryman and Bell (2007) emphasised that audio-recording enables a researcher to examine the interview data more thoroughly, and check the interviewee's answer again whenever a researcher needs to do so. All the interviews were transcribed. The researcher conducted the interviews in Japanese, and therefore the first transcripts are in Japanese. These transcripts were translated to English by the researcher in order to examine the data in depth.

3.5 Sampling

3.5.1 Target population

As mentioned before, the research target in this study is SMEs in Japan. The selected Japanese-based firms need to meet three criteria. The first one is (1) they should be categorized as SMEs by the Japanese government standards. These standards mean that a firm with less than three hundred million yen capital, and with less than three hundred employees, is a SME in Japan. In addition, the firms in this study have to meet the following criteria, (2) their headquarters should be located in Japan and (3) they are conducting their business in international markets. The researcher identified Japanese SMEs as the firms that are located in Japan, because all Japanese censuses use this standard. Therefore, the firm that has its headquarter in foreign countries is not the target in this research. Furthermore, the firms should have been doing international activities to some extent, because the aim of this research is to explore the process of internationalisation. However, the researcher does not place any limitation whether the firm should be at certain stages of internationalisation. The researcher would like to investigate various firms that are not only at the beginning of internationalisation, but also at middle and mature stages. In order to get the correct participants, it was checked whether each firm meets the criteria by examining the firm's document or the homepage before arranging the interviews.

In addition to these criteria, it is important for this study to include the participants in the biotechnology and IT fields. SMEs in these sectors are called knowledge-intensive SMEs, and much research has highlighted the importance of network relationships in these sectors as potential triggers of internationalisation (e.g. Coviello 2006, Coviello & Munro 1995, Sharma & Blomstermo 2003). Moreover, in order to compare the firms in these sectors with the firms that are not in these sectors, it is necessary to involve firms in non-knowledge-intensive sectors. Moreover, the researcher would like to examine the process of internationalisation in various firms, not only IT and a biotechnology firms, but also traditional manufacturing firms, and therefore the participants of this study are selected from various industries and backgrounds. Comparing the internationalisation processes in various types of firms might provide more useful interpretation for this research.

In this study, the researcher intends to focus on the process on internationalisation, especially networks with other firms or individuals, the firms' knowledge, and their experiences that influence the process

The interviews are conducted with CEOs or directors in Japanese SMEs. Although it is better to interview two people, the CEO and the director, the society in Japan is quite hierarchical and the CEO and the director have authority for all their works. Moreover, they are not willing to allow other employees to participate in the interview, and employees are not willing to do what CEO or a manager does not like either. Therefore, if the researcher cannot interview two people in a firm, it is the most reasonable to interview the CEOs. This is because they must know entire activities about their firm and they can talk about their activities and relationships with other firms without any constraint. Hierarchy in a firm might prevent other employees from answering questions, because they do not have responsibility to do so.

At first, the researcher tried to interview the CEOs. However, SMEs usually suffer from a shortage of human resources, and the CEO is often pressed for time. Thus, if the CEO could not be interviewed, the researcher asked the CEO to suggest another employee. It was more comfortable for the employee that was interviewed to have permission from the CEO. As a consequence, interviewees in this research are 9 CEOs and 4 directors that have been involved in international activities and played a core role in decisions that are related to internationalisation. Interviews averaged about 70 minutes in duration.

3.5.2 Recruiting participants in this study

In this research, a non-probability sample was used. Yin (2009) argued that the replication logic is really suitable to use in multiple case design, and therefore each case should be selected carefully "so that it either (a) predicts similar results (a literal replication) or (b) predicts contrasting results but for predictable reasons (theoretical replication)." That is why the samples in this study have to be selected strategically, and probability samples are not useful.

The researcher intends to use both a convenience sampling technique to obtain the cases available to the researcher, and snowball sampling by which the researcher contacts a small group of people that are concerned with the research topic and asks them to identify other participants. The researcher, who knows some SMEs through a previous job's network, asked them to participate, but the number of SMEs known through these networks was not abundant. Thus, in order to recruit participants, the researcher contacted industrial guilds firstly and asked them to introduce the researcher to appropriate SMEs. If the researcher tried to contact SMEs directly, they might be afraid to reply as they do not know the researcher. The communication from the industrial guild is a more reliable introduction for the SMEs than from a researcher is not known to them, and therefore the possibility of obtaining participants was stronger. Each industrial guild has a list of members and can introduce suitable firms. Therefore, this way is reasonable and rapid way to find participants.

The number of cases to recruit needed to be considered. Bryman and Bell (2007) stated that there is no correct answer how many cases should be researched. However, the researcher employs the multiple case study design and replication logic. Repeated replications enable a researcher to have more confidence than a single replication (de Vaus 2009). Although it is clear that a large number of cases provide a researcher with more robust outcomes, a large number of cases require more time and incurs greater costs (Bryman & Bell 2007). As discussed above, there was a time constraint for this research, and therefore it was difficult to conduct a large number of case and deal with a large amount of data in a limited time. The goal was to recruit around 15 firms as participants, and the researcher tried to reach this goal for three months, June, July, and August during 2011. As a consequence, 13 firms agreed to take part in this research, and the researcher conducted interviews with 13 CEOs and directors.

Table 3.1 SMEs Participating in the Study.

	Name	**Category of Business**	**Interviewee**
1	Firm Bi	a biotechnology firm	CEO
2	Firm Ki	a traditional Japanese alcohol firm	CEO
3	Firm Ta	a knife maker	managing director
4	Firm Yo	a knife maker	CEO
5	Firm Sa	a trading firm	managing director

6	Firm T	a machine maker	marketing director
7	Firm So	a staffing firm	CEO
8	Firm Su	an IT firm	CEO
9	Firm Me	a medical device maker	CEO
10	Firm Te	an IT firm	CEO
11	Firm Cy	an IT firm	CEO
12	Firm Ka	a car dealer	managing director
13	Firm Am	an IT firm	CEO

Source: The author

3.6 Validity

For a high quality research, a researcher should consider the internal and external validity of the research. The research design that supports the causal conclusion reflects the internal validity (de Vaus 2009).

The case study strategy employed in this research enables the researcher to accomplish internal validity, because this strategy can develop a well sophisticated causal account (ibid). Through getting rich data, it is clearer which causal factors are more important under the situation and that many causes are interrelated. A researcher can understand explanations through building a picture of the process of the events. On the other hand, Yin (2009) indicated some threats about internal validity of the case study design. One is that a researcher might misunderstand causal relationships and reach incorrect conclusions. Furthermore, a researcher is in danger of achieving an incorrect inference. A researcher is not able to observe an event that is concerned with research every time. In order to avoid these mistakes, the researcher intends to use the pattern matching analytic tactic that Yin (2009) suggested. If the patterns that a researcher has predicted are supported by observed patterns, internal validity can be strengthened.

While the case study can achieve internal validity more easily, it is said that it lacks external validity, compared with other designs (de Vaus 2009). External validity is identified as the extent to which outcomes can be generalised beyond the particular cases (ibid). Unlike the survey strategy, the case study strategy relies on analytic generalisation, and the researcher tries to generalise particular finding to wider theories (Yin 2009). For generalisation, it is necessary to replicate the findings in a second or a third case in which the same outcomes happen. Therefore, employing a multiple case study strategy is one of tactics to avoid a lack of external validity. In order to achieve external validity, a case study researcher has to test theories by replicating the findings. In this study, the researcher employs this strategy and then tries to achieve external validity.

Summaries about participants

There are 13 Japanese SMEs that participated in this research. Before moving to the data analysis section, the summary of each participant is described below. Six of them are high-tech firm and others are traditional firms.

(1) Firm Bi

This is a biotechnological firm that was founded in 1994. Their major products are fermented food for diabetes patients that are made with lactic acid bacteria originating from plants and fungus bodies. The first attempt to internationalise was in 2006. Firm Bi has done international activities with the Italy, the Belgium, the South Korean, and the Chinese firms so far. Now they are exporting their products to China through the Japanese wholesaler. In addition, they are preparing to enter the market in the US. The proportion of this firm's sales revenues coming from overseas is about 1%.

(2) Firm Ki

Firm Ki is a Japanese traditional alcohol, called "SAKE", brewery, and the current CEO is the seventh. It was established in 1843. They are exporting their alcohol to several foreign countries such as China, USA, Europe, and other Asian countries. The proportion of Firm Ki sales revenue coming from overseas is about 1.5%. This firm started exporting products to China almost ten years ago, and it was their first international activity.

(3) Firm Ta

Firm Ta is a knife maker that was founded in 1948. The current CEO is the second, and the next one is the sales manager that was interviewed by the researcher. Their knives are all hand-made and are exported to foreign countries through a wholesaler. The first export was about 6 years ago. The proportion of this firm's sales revenue coming from overseas is about 7%, and is increasing gradually.

(4) Firm Yo

This firm, founded in 1954, is a knife maker that is exporting their products to about 50 foreign markets. They started exporting about thirty years ago, and the proportion of the sales revenue coming from overseas is 72%. This proportion is increasing, and they get many offers from potential clients all over the world every year. Now the demands are higher than the supply. When they started exporting their products to certain foreign market, they make a contract with one wholesaler there. In order to catch the trend and exchange information with the wholesaler, this firm goes to one of the biggest exhibition that is held every year in Germany.

(5) Firm Sa

This firm founded about 60 years ago and is a specialized trading company. They are dealing with the Japanese machines such as plant equipment. They first entered foreign markets, because their clients did. Now they are establishing subsidiaries in Indonesia and Thailand in order to get more jobs and survive.

(6) Firm T

It was established in 1954 and is producing machines for production lines. The family of the founder is managing the firm. They entered Chinese market about 13 years ago, and now have a plant and offices in China in order to sell their machines to clients there. About 10% of their revenue comes from overseas. Now they have a plan to build a new plant in China.

(7) Firm So

This is a firm fostering human resources, founded in 2008. They provide clients with human resource development programs. They started their international activities from inception. Their international activities were single-shot jobs. However, they intend to get involved in international activities more by founding a new firm that will focus on the activities.

(8) Firm Su

Firm Su is an IT firm, founded in 2000. They are producing software. Their first international activity was offshore business, started four years ago, with the Chinese IT firm. They accept Chinese employees from their partner firm regularly and also outsource a part of the jobs. On the other hand, now they are trying to sell their software to foreign markets, specifically China.

(9) Firm Me

They are a maker of artificial respirators. This firm, founded in 1984, is exporting their products to about 13 countries. The founder came from Vietnam and graduated from a Japanese university. He used to work in a Japanese medical maker as an engineer. 30 % of their revenue comes from overseas. They cooperated with a Japanese medical manufacturer in order to spread their respirators all over the world. Because of this cooperation, they concentrate on the research and development of their products more than before.

(10) Firm Te

This firm is an IT firm, founded in 1991. Their business is mainly to design and develop information systems. Their software is usually used in big organizations or companies. They are now doing offshore business with a Chinese firm and a Vietnamese firm. The first offshore business started in 2005, and it was with a Chinese firm. They outsource a part of their jobs to these firms. In addition to offshore business, they are trying to sell their software to foreign clients.

(11) Firm Cy

Firm Cy is an IT firm, founded in 2003. They are producing custom-made computer systems. They are doing offshore business with a Chinese firm, and now they are preparing to build a subsidiary in Myanmar in order to reduce the development cost.

(12) Firm Ka

They are a used-car seller, founded in 1969, and mainly dealing with Japanese cars. They have exported car parts and used cars to about 70 countries so far. They founded subsidiaries in various countries with local firms in order to explore new clients and get useful information. The latest international activity is to establish a new firm in Nigeria with a local firm.

(13) Firm Am

They are an IT firm, founded in 1996 and sell network systems for companies. They have experience selling software that American firms made to Japanese clients, but they have not sold their software to foreign clients yet. Recently they made a contract with a Taiwanese IT firm. Their aim is to sell software in China in the future. They began with selling software that this Taiwanese firm made in Japan. Now they are deciding how to enter Chinese firm with this firm.

Chapter Four

Data Analysis

4. Data Analysis

According to the conceptual framework shown in Chapter Two, this research aims to study (1) what triggers Japanese SME's the recognition of a potential business opportunity in a foreign market and (2) how do new networks that are developed in the process of internationalisation help Japanese SMEs to internationalise further. To answer the above questions, the main findings from 13 Japanese SMEs are presented next. Table 4.1 provides profiles of participants.

Table 4.1 Profiles of participants

Case	Products	Type of a firm	Internationalisation
Firm Bi	A lactic acid bacteria	A venture firm	Exporting to China
Firm Ki	Japanese traditional alcohol	A traditional firm	Exporting to China, South Korea, USA, and Singapore
Firm Ta	A knife maker	A traditional firm	Exporting to the UK, Germany, and Russia
Firm Yo	A knife maker	A traditional firm	Exporting to over 50 countries
Firm Sa	A trading firm	A traditional firm	Exporting to Asian countries, establishing subsidiaries in Thailand and Indonesia.

Firm T	A machine maker	A traditional firm	Subsidiary in China and Hong Kong, and Plant in China
Firm So	A plan for human resource development	A venture firm	Some projects in foreign countries to develop human resource in Asia
Firm Su	Computer software	A venture firm	Offshore business with the Chinese IT firm, preparing to sell software in China
Firm Me	A respirator maker	A born global firm	Exporting to over 10 countries included Asia and Europe
Firm Te	Computer software	A venture firm	Offshore business with the Chinese IT firm and Vietnamese IT firm, preparing to sell to the US and Chinese markets
Firm Cy	Computer software	A venture firm	Establishing a subsidiary in Myanmar
Firm Ka	A Japanese used car and parts dealer	A traditional firm	Exporting to over 60 countries such as Russia, Africa, and Middle East
Firm Am	Computer software	A venture firm	Cooperating with the Taiwanese IT firm to sell each other's software in each country

4.1 What triggers Japanese SME's recognition of a potential business opportunity in a foreign market.

This section intends to identify what triggers Japanese SME's the recognition of a potential business opportunity in a foreign market, and also the role of experiential knowledge and network ties that are related to the opportunity recognition.

4.1.1 Effects of networks in the process of opportunity recognition

Prior job experience has an impact on the opportunity recognition

The case of Firm Me (a medical equipment maker) shows that the founder's prior job position had a great impact on international business opportunity recognition. Firm Me in Japan was founded by the current CEO that came from Vietnam. He came to Japan as an international student and after working in a Japanese medical equipment maker he established his own medical device firm. He said that:

> "I had a desire to found a firm since being a child, although I started working in a Japanese firm after graduation from university. Moreover, I am from Vietnam and started my own business in Japan, not Vietnam. Therefore, I didn't feel a big obstacle to enter foreign markets, especially Asian market. In our firm, there are many foreign workers. This is also affected by my background and characteristics."

The founder of this firm used to work in a famous medical equipment maker as an engineer, and at the same time he was developing networks in that industry. Because of this, he got a chance soon after founding the firm to participate in a big project that the US government conducted in order to investigate new technology in a respirator. He made a high-tech respirator, and other medical makers and engineers in his networks knew his respirator. Therefore, his respirator was known by the US government through his network by chance. He said;

> "I was very surprised that I received a letter from the project in the US. But I have confidence about my respirator very much and decided to apply to this project. Therefore,

the first sale of my respirator was to the project in the US. To be honest, I had no idea to sell our products to foreign market at that time at all."

This firm that got involved in an international market from inception can be said to be a "Born global" firm. The founder's prior job position as an engineer in a medical equipment maker, affected the process of his firm's opportunity recognition. This is because he has obtained necessary knowledge, for example knowledge about the industrial situation, technological knowledge, and important connections from this prior job experience helped his firm to internationalise rapidly. His first international activity was to be involved in the research project about a respirator in the US.

He was in charge of the development of the medical devices in the Japanese equipment maker, and he was famous in this business field. Therefore, he was suggested to take part in this project in the US. When he started his own business, he did not think about the firm's internationalisation. However, the prior job experience led to international business opportunity recognition soon after founding the firm. After this project, he understood that his firm's respirator had a competitive advantage not only in the domestic market, but also in foreign markets which gave him confidence to sell respirators all over the world.

Firm So (a human resource developing firm) also utilised the founder's prior job networks in order to recognise an opportunity in foreign markets. This founder had previous experience working in a consulting firm and a media firm. The founder said that especially the experience working in a consulting firm was useful, when she works with a foreign partner. She explained:

> "I think it is more important to have experience working with a big and famous company in our business field. When we talk to foreign clients about human resource development business, my experience that I participated in the project for Nissan, a big Japanese car maker, attracts these clients."

In this case, the prior job of the founder that was participating in the project for a big car maker helped this firm to internationalise. This firm is not big, but they could get an opportunity to do business with foreign firms, because the founder's past job made a foreign partner trust this firm. As a consequence, that kind of connections enabled this firm to realise that they can do business in foreign countries, even though they are a small firm. This existing network did not affect Firm So's international business opportunity recognition directly but attracted potential clients in foreign markets. Therefore, it led to international business with a Chinese client and a Sri Lankan client.

The headhunted employees provides opportunities to accelerate internationalisation

On the other hand, there are SMEs that headhunted skilled or experienced people to accelerate internationalisation, because these firms understood that they lacked international networks and experience that affect opportunity recognition in foreign markets.

Firm T (a machine maker) provided good evidence of this idea. This firm headhunted the person that had useful networks and knowledge about the process of internationalisation and especially international financing. He is now a manager of international business in Firm T and manages the money flow in the office of Hong Kong. This manager said:

> "When our firm starts new business, we almost always headhunt people that know about that new business and have networks with various firms in that business field. This is because it is more reasonable to headhunt skilled people rather than to develop human resource in own firm. We think that it is risky that non-skilled people do new business. I used to work in a bank and when the firm established the office in Hong Kong, the current chairman asked me to join the firm."

Firm So (a human resource developing firm) has a corporate advisor that provides necessary information about other firms to Firm So for internationalisation. The founder of Firm So met this advisor that used to work in a bank, in an entrepreneurial association, and asked him to be an advisor. This is because he has rich networks with various firms through his previous job experience. The founder said that:

> "It is very useful to get information about other firms from our corporate advisor, because he can introduce us other firms that are needed to do business in a foreign market very rapidly. His working experience in a bank enabled him to accumulate such network knowledge. Because of him, we gather other firms for certain international business. "

This firm is now at the early stage of internationalisation and relies on the corporate advisor, a key person for this firm's internationalisation. This firm understands that they do not have an adequate network or enough knowledge about internationalisation, and moreover it takes a long time to get such knowledge. Therefore, this firm asked him to be an advisor.

As SMEs have limited human resources, firms sometime internationalise by headhunting skilled people from other firms. This is because it is more rapid to internationalise by hiring these people rather than by developing employees' skill and accumulate necessary knowledge.

Thus, existing networks such as past position or job can help SMEs to recognize international business opportunities more easily and to internationalise more rapidly. Firm Me, a born global firm, got a chance to sell their products in a foreign market because of the founder's networks. Even though this firm did not have enough experience and developed networks, the founder's previous job networks made this firm realise an opportunity for international business. Consequently, Firm Me could internationalise from inception. Furthermore, in the process of internationalisation, SMEs understand that these networks have significant impact on its speed, and therefore they headhunt experienced people. This is because they can get useful networks more rapidly, and it leads to international business opportunity recognition.

Networks that are developed in the domestic market help a firm to recognise an opportunity

In addition to the prior job networks and the networks that headhunted people have, the firms' domestic business networks affected the internationalising process as well. For example, Firm Ki (a Japanese alcohol brewery) has good relationships in their industry and belongs to the Japanese alcohol guild in their prefecture. One of members in this guild received an MBA degree in USA and started consulting business there to introduce Japanese alcohol to the US market. At the same time, he introduced other members in this guild to the US market. The CEO of Firm Ki said that;

> "After he introduced us the US market, we started thinking about this market. He knows about Japanese alcohol very well, because his family is running Japanese alcohol business. Moreover, he has got an MBA degree in the US. So his information about the US market was very reliable for us. And also he can provide correct information about Japanese alcohol to distributors or restaurants there. So we decided to enter this market with his support."

The member in their network that has got an MBA degree and started a business in the US was a trigger for Firm Ki to enter the US market. It could be said that this was serendipity, but now Firm Ki appreciate the member, because they expect that this market has big potential for Japanese alcohol. In addition, the relationship with this member enabled Firm Ki to enter this market more easily and rapidly.

Moreover, this firm also got a chance to enter the Chinese market through their domestic network. The prefecture in which this firm is located is famous for production of rice and Japanese alcohol, and therefore the local government supports these industries in order to create employment and attract tourists. As a result, this firm had a good relationship with the local government. When the government planned a study tour to a food exhibition in China, Firm Ki was invited to attend the tour. By attending this tour, this firm established new networks there and entered the Chinese market. Therefore, it seems that the invitation from a member in their network was a trigger to enter a new foreign market. In addition, this firm was introduced to a Korean distributor by the Japanese distributor with which they are doing business, and the

Korean market is becoming the third biggest market for them. The start of this business was that the Korean distributor was interested in Japanese traditional alcohol and contacted the Japanese distributor. By suggestion of the Japanese distributor, Firm Ki realised the business opportunity in the Korean market.

Firm Ta (a knife maker) also has got a chance to start exporting to the UK by attending a study tour that was organised by the Japanese local government. The network tie with this local government was developed in the process of domestic business in Japan, because the prefecture in which this firm is located is famous for the industry of tableware manufacturing. The aim of this tour was to participate in an exhibition in Germany. After going back to Japan, German and British distributors contacted this firm through the Japanese local government. The manager of international business said;

> "We got a chance to export our products to the UK market by attending a study tour. We did not expect so much, but the distributor in the UK saw our products in the exhibition. Exporting to the UK started by chance"

A small firm has limited employees, and a CEO and a manager are basically in charge of various jobs. Therefore, if they are interested in a foreign market, it is difficult to arrange an observation tour by them. On the other hand, a study tour that is organised by other association such as the local government is an attractive way for the firms to participate, because they do not need to waste a time to arrange a tour and the government supports them financially to go there.

Firm Am (an IT firm) also started international business by attending an international conference in Taiwan that a leader in their guild of IT industry suggested they participate in. The CEO said;

> "The leader of international business in our guild and I attended the same golf game that was organised by the guild and talked about international business. I was too busy to attend such kind of activities before, but at this time I could do. And I got information that international conference would be held in Taiwan. This golf even was a trigger to start business with a Taiwanese firm. Now we are preparing with this partner to sell our products in Taiwan."

This case indicated that even a guild in the domestic market gave a chance to recognise an opportunity in Taiwanese market.

The CEO thought that they needed to expand their business into foreign markets, because the market in Japan is shrinking. However, his busy routine prevented him from starting that business. Networks in the domestic guild helped him to discover an opportunity in a foreign market.

In addition, Firm Su (an IT firm) also started their first international business with the Chinese firm by attending a study tour that the Japanese local government organised. The city in which Firm Su is located has a sister city relationship with Shenyang in China, and therefore the local governments and the Information and Technology Association that this firm belongs to, organised a study tour to that Chinese city. The CEO of this firm said:

> "I had not been interested in international business and thought it was difficult for a small firm like us. So at first, I did not want to attend this study tour. But the local government recommended us to join that tour strongly, and therefore I decided to take part in that. Of course, it is very popular to do business with Chinese IT firms in our industry, but I was

> not willing to do it very much. Because I did not have experience to do that, and there are a lot of uncertainties about the market and business. I attended that but actually did not expect much about this tour. However, by visiting there and meeting several Chinese IT firms, my opinion has changed. I realised that Chinese firms were very active to do business with Japanese firms and more reliable than I thought."

The network with the local government and Information and Technology Association gave Firm Su an opportunity to realise that Chinese IT firms could be business partners. As a consequence, Firm Su was asked by one of the Chinese IT firms to do business together after coming back home and now is doing offshore business with the Chinese IT firm now. It can be said that this firm got a chance to do business with the foreign partner, because they were involved in the Information and Technology Association.

The networks that are developed in the domestic market sometimes enable a firm to overcome the liabilities of a small firm. SMEs usually struggle with a lack of credibility, because the firm is small, and other companies do not know about them. However, networks help SMEs to overcome it.

A firm can utilise business partners' resources, knowledge, and reputation in foreign markets through their networks. The case, Firm Bi (a biotechnology venture firm), provides evidence that a firm used the partner's reputation in a foreign market and got a chance to do business with a foreign firm. Firm Bi got a chance to do business with an Italian food maker that a business partner of Firm Bi in Japan introduced Firm Bi to. The CEO of Firm Bi said that;

> "This Japanese firm is a big well-known maker and has been doing business with this Italian firm. Without this Japanese firm's introduction, I think that we could not meet this Italian firm. It means that the reputation of the Japanese firm made the Italian firm trust in us. You know, our firm is not big, very small. So sometimes I feel the liability of smallness."

Thus, the network enabled Firm Bi to gain legitimacy in the foreign market. It is said that SMEs try to get legitimacy in order to avoid risk by getting certification from popular companies (Hoang & Antoncic 2003). This case supports the Hoang and Antoncic's idea. Firm Bi got a chance to do business with the Italian firm by getting certification from the Japanese big firm. Without the network relationship with a big maker, this firm could not realise that there was an opportunity to do business with this Italian firm.

As discussed above, networks can help SME's internationalisation. This is because the networks enable a firm to enter a foreign market more rapidly, to acquire experienced people that are useful for internationalisation, and to overcome the liability of smallness and newness. As a consequence, a firm can realise that there are business opportunities in foreign markets where they can enter. All the findings in 4.1 are described in Table 4.2.

Table 4.2 Effects of networks in the process of opportunity recognition

Case	Network/ Effect	Summary of the comments
Firm Me	Prior job's network/ Spread establishment of the firm and product	After founding my firm, I received a letter from the project in the US. It was a trigger to get involved in the US market. My prior job is in the same industry as the current business, and other companies in the world know me, and it led to a chance to the project.
Firm So	Prior job's network/ Acquire reliability	I had experience to working with a Japanese famous company, and the network enables a potential client to trust our firm.
Firms T	Networks headhunted person has/ acquire knowledge rapidly	We headhunted experienced people from other firms, because we think it is a more rapid way to get necessary networks and knowledge in targeted foreign markets.
Firm So	Networks headhunted person has/ acquire necessary networks for international business	We don't have enough knowledge for international business, and therefore headhunted an experienced person that has significant network ties with other firms. When we consider new international business, we always ask this person about the business. He introduces us some necessary firms and people to do that.
Firm Ki	Networks developed in the domestic market/ bridge to a new foreign market	The member of the guild got an MBA degree in the US and found a consulting firm there to introduce Japanese alcohols. He also asked the other members of the guild to export their products to the US market.
Firm Ki	Networks developed in the domestic market/ get a chance to go to and research a foreign market	The local government asked us to attend a study tour to China, and we met some important people and firms there to start business in China.
Firm Ta	Networks developed in the domestic market/ get a chance to go to and research a foreign market	The local government organized a study tour to German, and we participated in the tour. By attending an exhibition in Germen, we received orders from foreign distributors that also took part in the exhibition.
Firm Am	Network developed in the domestic market/ get a chance to go to and research a foreign market	The member of the guild introduced a study tour to Taiwan, and it led business opportunity recognition in Taiwan.
Firm Su	Network developed in the domestic market/ get a chance to go to and research a foreign market	The local government arranged a study tour to China, and they asked us to attend it. Actually, we didn't have interest in international business, but going to China made me change my mind, and I realized that there are opportunities that we can try.
Firm Bi	Network with a famous domestic company/ help get reliability from a potential client	We are doing business with a big Japanese maker. When we tried to do business with a foreign partner, the tie with the big maker makes the partner trust us. Without the tie, we could not get a chance to meet the foreign partner.

4.1.2 Effects of experiential knowledge in the process of opportunity recognition.

Basically, acquiring experiential knowledge is costly, because a firm accumulates it through activities in foreign markets, and moreover it requires money to collect and transfer knowledge, and to change routines in firms (Eriksson et al. 1997). However, SMEs can develop their experiential knowledge by managing their networks well. As Coviello and Munro (1997) mentioned, a firm can get knowledge, financial and marketing resources through network partners in domestic and foreign markets. As a consequence, the knowledge encourages a firm to internationalise.

Firm Bi (a biotechnology venture firm) has a good relationship with a Japanese supplier that has a subsidiary in the US. Firm Bi has a business plan to enter the US market in the future, and therefore appreciates this subsidiary giving useful knowledge about the US market, for example trends, economic situation and competitors, which enabled the firm to remove uncertainties about the US market. Furthermore, Firm Bi realised that their tangible and intangible resources are limited, compared to a big company, and therefore they had to collect essential knowledge in order to enter the foreign market through their networks. The CEO of Firm Bi said

> "Our human and financial resources are limited, and even if we employed skilled staff, it was costly. Therefore, through our experience of international activities, we think that market knowledge and institutional knowledge is essential to do business in foreign markets, and we have to gather such kind of knowledge efficiently. So we try to get that knowledge from the Japanese supplier's subsidiary. We trust them and their information.

> Of course, we can get the same high-quality information from a consultant, but it would be expensive."

It is said that accumulating experiential knowledge is costly and time consuming, but through networks a firm can acquire the knowledge. By obtaining such knowledge, the firm realised that there was a business opportunity for them, and the knowledge encouraged the firm to enter the market. It could be said that collecting the knowledge through networks is more cost-effective and useful especially for SMEs. Moreover, it prevents a firm from spending a long time accumulating the knowledge. By getting experiential knowledge from a partner in the US, this firm was becoming confident of entering this market. Especially confidence is an important factor for this firm, because uncertainties about a targeted market and a lack of confidence led to failure of international business before.

Firm Cy (an IT firm, a venture firm) that obtained some necessary knowledge about a new foreign market, Myanmar, from their acquaintance (a Japanese experienced IT firm), recognised that there was an opportunity to succeed in that market, and as a consequence, decided to enter that market. Although many IT firms in Japan are doing offshore business with Chinese firms, Firm Cy was not interested in the business and had never thought of the market in Myanmar. In other words, this firm felt no interest in international business. The CEO said;

> "It is very popular among our industry to do business with Chinese firms, because Japanese firms can reduce the cost of development by outsourcing the job. However, I heard that recently the cost of outsourcing is rising, and therefore firms hardly get

> benefit from outsourcing. So I was not interested in business with Chinese firms. At the same time, my acquaintance introduced us to Myanmar as a potential market to enter. I had never thought business there and felt uncertainty about this country. Because I did not have any knowledge about Myanmar and nobody around me conducts business there. But after visiting there, my mind totally changed. I felt comfortable there. Maybe this country is Buddhism, same in Japan. Moreover, employment cost is still low, compared to China. Therefore, I felt big potential in Myanmar. One of reasons is that my acquaintance that used to work in IBM, a big multinational IT company, is doing IT business in Myanmar and provided knowledge to me. Before visiting, I didn't have any knowledge about Myanmar and never thought about business with Myanmar firms. After seeing how my acquaintance is doing business there, I like there. Now I am building a subsidiary there. My acquaintance is also helping us. I think that because of their help our procedure is going more smoothly."

At first, this firm acquired knowledge about business in Myanmar from the acquaintance, and then started getting interested in this market. However, there is a psychic distance between Japan and Myanmar, and the CEO still had uncertainties about the market. Visiting Myanmar and obtaining more knowledge enabled him to have confidence to do business. Therefore, it can be said that experiential knowledge, obtained from the network, encouraged the firm to enter a new foreign market as well as helped to overcome the psychic distance. Moreover, the CEO mentioned that the procedure entering this market was shorter than expected. It is also the effect of knowledge from networks. The CEO said;

> "We can get general information about Myanmar from a bank or a Japanese governmental agency. However, it is not enough to enter a foreign market, especially at a psychic distance. I heard from my acquaintance about the market in Myanmar, for example, the level of employees, culture, business habit, and business environment. It made me remove uncertainties about this market and feel confidence to do business there."

Experiential knowledge through networks also convinced Firm Ta (a knife maker) to do business with a new foreign partner. This firm has an important acquaintance (a trusted distributor in Japan) that was introduced from the trade and with who they have a good relationship. Firm Ta sometimes asks this acquaintance about potential foreign business partners, and decide whether it is a real business opportunity or not. This is because this acquaintance is knowledgeable about foreign distributors, and the firm trusts him very much through a long-term relationship. The manager of international trade in this firm said;

> "We thought that Russian market was one of attractive foreign markets, but it looked so dangerous for us to business with Russian firms, because we did not have any trigger and knowledge. But there were several chances to meet Russian distributors that were interested in Japanese knives, in international exhibitions. However, I could not start business with them, because we could not recognise which distributor was reliable, and there was uncertainty about that market. My acquaintance, a trusted distributor in Japan, has kept contact with one Russian distributor over a year by email and other ways, and after that he introduced us the Russian distributor. Moreover, we have met each other in

the exhibition in Germany. Therefore, I could believe in the distributor and decided to do business with him."

This trusted distributor told Firm Ta about the character of the Russian distributor, the trends and business habits in Russia from their experience. This case provides evidence that experiential knowledge from a trusted acquaintance makes a firm realise a reliable opportunity in a foreign market.

Moreover, it might be said that even if a firm feels a psychic distance, the firm's networks help to overcome this distance. This acquaintance had gathered information about the distributor and Russian market over a year. The knowledge from reliable acquaintance encouraged Firm Ta to enter the Russian market.

In addition to that, this evidence supports Oviatt and McDougall (1994) mentioned that dynamic improvement of the speed, quality, and efficiency international communication reduces barriers to enter foreign markets. The acquaintance used communication tools such as email effectively and built up good relationship with the Russian distributor. These activities enabled Firm Ta to enter the Russian market at a great distance. As Bell et al. (1995) emphasise, improvement of transportation and global communication has decreased the influence of "psychic distance". The evidence of this case supports it as well.

Both Firm Cy and Firm Ta did not have any plan to do business in the countries in which they recognised opportunities. However, knowledge through their networks made the firms realise opportunities in foreign markets. Therefore, it can be said that networks help a firm to accumulate experiential knowledge and to identify opportunities in foreign markets where they had never thought about business before.

Experience of living abroad helps a firm to recognise a business opportunity in a foreign market

The founder of Firm Te (an IT firm) has experience of living in a developing country, when he participated in a Japan Overseas Cooperation Volunteer activity, and he said that this experience affects the firm's internationalisation. He went to Jordan and felt that there are big differences between Jordan and Japan. He explained that:

> "The reason why we started international business was a trend of our industry. However, I didn't feel big barriers to enter foreign countries in the process of internationalisation, compared to the founders of other IT firms. I think that I am willing to understand differences between us and people in other countries. Maybe, it is related to doing a volunteer activity in a foreign country. "

This case indicated that the experience of living abroad led to the willingness to understand differences between Jordan and Japan, and moreover affected the open-minded attitude of the founder to international business. Through an international activity in Jordan, this founder has experienced how to understand a foreign country and people that are quite different from his home country, and he is open to entering foreign markets that are located far from his home country. Now his firm is doing business with a Chinese firm and a Vietnamese firm, but he did not have feelings of resistance to doing business with these firms. This case implies that the founder's experience of living abroad pushed his firm to be involved in international business. After the first international business with the foreign partner, his firm has conducted business with various foreign firms. He also mentioned that;

> "My experience of a volunteer activity in Jordan might affect decision to do international business. I think it sometimes pushes me to do something new in foreign markets. "

Therefore, it could be said that his international experience had a good influence on the firm's internationalisation and pushed this firm to be involved in international activities more deeply.

In addition to the case above, the founder of Firm Me also have experience of living abroad. He is Vietnamese, but came to Japan for his study and found his own firm in Japan. His international experience of living in Japan pushed him to be open-minded for entering foreign markets He felt fewer barriers toward foreign markets especially in Asian countries than other founders in Japan. It is international experience for him to live in Japan, and this experience affected the process of this firm's internationalisation. Now this firm is exporting their products to Asian and European markets. He said that he is not from Japan, and therefore his nationality enabled him to recognise a foreign market as an attractive place to sell their respirators. It might be said that living in Japan made him overcome some difficulties of doing business in a foreign country.

A lack of experiential knowledge prevents a firm from opportunity recognition in foreign markets.

In contrast, there are some of participants in this research that were struggling with uncertainties in foreign markets and foreign partners and could not enter foreign markets, because they did not have enough knowledge. These cases emphasised that knowledge is an essential factor for internationalisation. For example, Firm Ta (a knife maker) has exported their products to foreign countries through the Japanese wholesaler. They would like to sell their products to foreign market directly, but they do not have experience to do that and do not have extra employees that are in charge of the work. The sales manager in this firm said;

> "We do not have any plan to export products by ourselves, because SMEs like us basically have minimum employees and don't want to increase extra jobs. Moreover, we don't know the detail of the situation about foreign markets and have no idea how we decided the price of our products. And also it is difficult for us to know which firm in foreign markets is reliable and with which one we can do business."

This case explains that a lack of experiential knowledge is one reason why this firm does not export their product by themselves, even though they would like to do it in the future. Moreover, a lack of human capital is a problem for this firm to internationalise. Therefore, they are willing to keep exporting products through the Japanese wholesaler, because it is easy. Sometimes they get offers from foreign distributors directly, but they basically reject these offers. This is because they do not have knowledge about foreign distributors and therefore cannot judge whether a foreign distributor is reliable or not. However, if they had enough experiential knowledge, it might lead to great international business opportunities. Therefore, a lack of experiential knowledge prevents a firm to meet a business opportunity in foreign markets.

Firm Bi (a biotechnology firm) also sees a lack of experiential knowledge as an obstacle to internationalise. Actually they have got some offers from foreign companies to do business together, but several uncertainties about the countries and the companies prevented this firm from starting business with them. This might be because they had never done business with foreign partners. The CEO said;

> "When we tried to start business with the Belgian firm, there were too many uncertainties. For example, the style of contract is very different from Japanese one. We worried about many things. To be honest, we made a pre-contract with them, but we could not make a real contract."

As a consequence, they are now exporting their product to China through a reliable Japanese wholesaler. They think that this is the safest way for them, because they do not need to do any difficult deals, just provide products to the wholesaler. However, the CEO does not expect this business so much. He thinks that as long as they export products through the Japanese wholesaler, they do not need to take a risk so much. It was a first step for them to export products to China. Thus, this case emphasised that a firm without experiential knowledge has difficulty to internationalise. This is because a firm worries about uncertainties and has no idea how to deal with that situation

By struggling to enter foreign markets, this firm realised that it is the best way to get experiential knowledge that is hard to learn in Japan, from a Japanese firm's subsidiary abroad in order to prepare for entering there. This is because they could not get enough information from a bank and a governmental agency about the foreign markets and as a consequence, they gave up entering the market. Through some failures and unsuccessful activities, this firm found out the way to overcome the lack of experiential knowledge. The CEO explained;

> "I have done my own business for 14 years and I realised that specific knowledge and about a targeted foreign market is essential to internationalise. However, it is difficult for a firm, like us, without enough experience and a subsidiary in foreign countries to get such knowledge. So a partner that knows it very well is necessary for us. Of course, we can get such information from a bank and a governmental agency, but the information

> from business partners is more reliable and minute, because they are familiar with us and our industry. Moreover, it can be said that that a consulting firm also can give us such information, but it is costly. SMEs like us has limited resources, compared to a big company. Thus, it is more important to find out the reasonable way.”

In the process of internationalisation, this firm realised that experiential knowledge was essential and it was the best way for them to get such knowledge from the business partner that has a subsidiary in the US market that this firm targets. They have not succeeded in internationalisation very much so far, but their unsuccessful experience made this firm realise the best and reasonable way for them to get useful information is to keep in contact with the subsidiary of the business partner in the US.

There are many uncertainties in the process of internationalisation, and SMEs that have limited experience and resources can face a great number of difficulties. Therefore, it is quite natural that SMEs fail to get a chance to internationalise. However, it can be said that Firm Bi learned some ideas from failure and accumulated experiential knowledge that is useful for internationalisation. Now they trust information from the subsidiary of their business partner in the US and believed that the US market has great potential for their business. It can be said that experience of failure and recognition of the best way to gather information enabled this firm to realise that there is a attractive business opportunity in the US market, because they are accumulating necessary knowledge from the supplier’s subsidiary in the US.

All the findings in 4.1.2 are described in Table 4.3 below.

Table 4.3 Effects of experiential knowledge in the process of opportunity recognition

Case	Effect of experiential knowledge	Summary of the comments
Firm Bi	Experiential knowledge through networks/ encourage to enter a new market	We didn't have enough knowledge about the US market and any effective ways to gather such knowledge. However, we realized the importance of the existing ties with a Japanese business partner's subsidiary in the US, and the experiential knowledge from the subsidiary is useful for us to prepare for entry to the market. The knowledge enables us to have confidence to view the US market as a beneficial market for us.
Firm Cy	Experiential knowledge through networks/ encourage to enter a new market	Our targeted market is Myanmar, but we didn't have any knowledge about the market. Our acquaintance, an experienced IT firm, helped accumulate experiential knowledge such as an important organization and a college that provides excellent employees. The accumulated knowledge through the network made us realize a business opportunity in the Myanmar market.
Firm Ta	Experiential knowledge through networks/ encourage to enter a new market	We received an offer from the Russian distributor, but we could not see the Russian market as a beneficial market for us. We have an important network tie with the experienced distributor, and this distributor met the Russian distributor in exhibitions several times. The Japanese distributor told us the situation of the Russian market and characteristics of the Russian distributors, and the knowledge enabled us to trust the Russian distributor and the Russian market.
Firm Te	Experiential knowledge through living abroad/ overcome barriers to foreign markets	I participated in a Japan Overseas Cooperation Volunteer activity, and this experience influences our international business indirectly. Because living in Jordan that are located far from the home country as a volunteer activity taught me how to understand different culture and different people from Japan. Therefore, when we think of a new foreign market, we don't feel a big barrier. And I think that it enables us to recognize an opportunity rapidly.

Firm Ta (a paradoxical case)	A lack of experiential knowledge/ prevent from recognizing a new opportunity	We don't have extra employees, and therefore it is difficult for us to do a new job. Therefore, now we are exporting products through the Japanese distributors. If we have enough employees to do international business by us, we could accumulate experiential knowledge more. However, now we don't have enough experiential knowledge and enough employees, and it might be a reason that we cannot recognize a business opportunity in foreign markets.
Firm Bi (a paradoxical case	A lack of experiential knowledge/ prevent a firm from encouraging to enter a foreign market	We got an offer from the Belgian firm, and tried to start a new business with this partner. However, there were too many uncertainties for this business, and we lost confident to enter the foreign market. Actually, we could not see the Belgian market as a business opportunity for us, because of a lack of enough experiential knowledge. If we had had enough knowledge, we could have caught forward the procedure of this business.

4.2 How do new networks that are developed in the process of internationalisation help Japanese SMEs to internationalise further?

In the process of internationalisation, a firm has been developing various networks, because networks enable SMEs to enter international markets easily and to overcome SME's specific constraints, for example a lack of knowledge and a lack of resources, to internationalise (e.g. Coviello & Munro 1995, 1997). Each firm in this research recognised the importance of their networks in order to get involved in foreign markets. While new networks help SMEs to internationalise further, internationalisation influences establishment of new networks as well.

Providing knowledge to a firm is an important effect of networks. This is because the knowledge could encourage a firm to internationalise or enter foreign markets (e.g. Hoang & Antoncic 2003), or to recognise opportunities to enter new foreign markets (Ellis 2010). Furthermore, experiential knowledge, leading to the firm's internationalisation, is essential especially for SMEs to internationalise rapidly and smoothly, while a firm can get objective knowledge that can be transferred to other country and be imitated by other firms, more easily than experiential knowledge (Eriksson et al. 1997). Thus, this part especially focuses on new networks that emerge in the process of internationalisation and provide SMEs with experiential knowledge. Furthermore, it is highlighted how the firms have been internationalising smoothly by getting that kind of knowledge. The founder of Firm Me (a medical equipment maker) said "While we are doing business, we are developing and establishing networks in the domestic market and foreign markets. I think that these networks are the most important property in a small firm like us."

4.2.1 Internationalisation generates new networks in a foreign market

Many scholars emphasised that by obtaining experiential knowledge in foreign markets, a firm can be involved in the markets more deeply (Johanson & Vahlne, 1997, 2009). Experience to operate in foreign markets helps a firm to accumulate useful knowledge for internationalisation. Some of participants in this research provide reasonable evidence for that. After opportunity recognition in a foreign market, firms established new networks in order to get involved in the market more deeply. It means that internationalisation forces a firm to establish new networks that provide a firm with necessary knowledge for further internationalisation. Firm Ki (a Japanese traditional alcohol brewery) participated in a study tour to China that was organised by the Japanese local government, and then they established new networks in the Chinese market in order to conduct business there. The aim of this study tour was to run a booth at the food exhibition in China. The CEO of Firm Ki said;

> "I thought it was not so useful to stay at this exhibition, because there were various products there, and the visitors were not interested in Japanese alcohol so much. Therefore, I visited a Japanese restaurant manager that I have known in a famous hotel. At this moment, I had no idea about Chinese market. But I got meaningful information from this manager. He gave me advice that it was important to do business with a reliable and powerful distributor in China. Moreover, he introduced us one of distributors with whom he was working. It resulted in our exporting to China."

Before the study tour, this CEO was interested in Chinese market, because Chinese economy is growing. By visiting China and the manager in the famous restaurant, he got experiential knowledge about the market and the reliable and powerful distributor from the manager, the manager suggested that it is impossible to succeed there without a reliable and powerful distributor. The new network with the distributor that was introduced by the manager, gave this firm the necessary knowledge to enter Chinese market, for example market knowledge and customer's demand. Finally, this firm started exporting to China.

There is another case where opportunity recognition led to the establishment of new networks that was necessary to do business in the targeted market. Firm Cy (an IT firm) realised that there was a business opportunity in the Myanmar market that was introduced from their acquaintance (an experienced IT firm). After recognition, they visited the acquaintance in Myanmar. As a result, they decided to establish a subsidiary in Myanmar. The CEO said;

> "My acquaintance has useful networks in IT industry and the computer association in Myanmar, and these relationships are needed for business there. They introduced us people there. As a consequence, we could understand where skilled people are educated in Myanmar and how we get business visa more smoothly. There are not such employees in our firm that have skills to conduct business under international environment. So getting useful information from an experienced acquaintance in my network is very important for our international activities. When I found a subsidiary in Myanmar, this acquaintance's knowledge enabled us to do it rapidly. Because they know who is a key person to do business there. I think that if we have not got such information from him, we

would have faced some difficulties in the process of establishment and needed more time to do the same things."

Through these cases above, it can be said that useful knowledge through their networks is more influential for both a traditional firm and a venture firm, when a firm choose a foreign market to enter. Experiential knowledge that is provided by people that have already succeeded in the foreign market is more reliable and encourages a firm to enter the same market. Moreover, the knowledge leads to development of networks in foreign markets.

The case of Firm Me (a medical equipment maker) showed evidence that further internationalisation leads to establishment of new networks. As this firm established new network ties with foreign distributors and increased the sales from foreign markets, the CEO of this firm realised that they cannot accelerate the speed of internationalisation drastically by themselves. This is because it takes time to discover a reliable distributor and start business with the distributor. The CEO of this firm said that;

"Now we are exporting our respirators to about 13 countries such as the UK, Germany, South Korea, and so on. We have great confidence about our respirators and want to sell them to more countries. We believe that it leads to the saving of human lives more. However, our firm is small and has limited human resource. So we decided to cooperate with the Japanese big medical equipment maker in order to expand our respirators in the world through their sales network. Because their network is much bigger than ours, and we can diffuse our products in the world more rapidly than we do it by ourselves. We have known the maker for a long time, because we are in the same industry and the maker is very famous, but we did not do any business together before. So I asked the maker to cooperate with us in order to diffuse our respirators . There is another merit that we can concentrate on research and development of our respirator by the cooperation. I think that it is a better way for us to ask that maker to sell our products in the world."

There were two merits for Firm Me by using the business partner's sales network. The first one was that they could expand the sales network through the Japanese big maker. The second one was that Firm Me could focus on product development and did not need to have extra employees to increase the sales rapidly in the world. The CEO thought that it enabled Firm Me to keep its competitive advantage in the foreign and the domestic markets. By using a partner's network, they could get an opportunity to spread their respirator all over the world. Thus, it can be said that SMEs are required to establish new networks that are necessary for further internationalisation, because their knowledge and resources are limited and therefore they seek to new networks that provide important resources and knowledge to survive in foreign markets.

As Freeman et al. (2006) argued that network relationships with a large foreign supplier and use of advanced technology have good influence on the SME's international strategies and help SMEs to overcome the SME's specific constraints. Firm Me supports his idea. In the process of internationalisation, Firm Me could diffuse their products by utilising the business partner' sales network.

All the findings in 4.2.1 are described in Table 4.4 below

Table 4.4 Internationalisation generates new networks in a foreign market

Case	Effect of new networks	Summary of the comments
Firm Ki	Provide more specific knowledge	When I attended a study tour in China, I met a Japanese restaurant manager to get advice about the business in China. Then, this manager introduced us the reliable distributor.
Firm Cy	Provide more specific knowledge and new human resource	Our acquaintance, an experienced IT firm, introduced us the market in Myanmar, and also this firm told us the local IT industry association that would gave us the necessary information and the IT college in which we found out well educated employees.
Firm Me	Allow the firm to utilise partner's sales networks	For further internationalisation, we needed more solid sales networks. However, making such networks by ourselves takes a long time. Therefore, we decided to cooperate with a Japanese big company to utilise their sales networks.

4.2.2 Knowledge through networks leads to new insights about international business

Provide new international business strategies or new opportunity

In the process of internationalisation, a firm accumulated experiential knowledge by themselves and through new established networks, and the knowledge enables a firm to internationalise further. The findings in this research suggest that SMEs can acquire experiential knowledge about a foreign market and customers more efficiently through new networks, and the knowledge plays several important roles in the firm's internationalisation.

The case of Firm Sa (a specialised trading firm) provides a suitable example to explain the usefulness of experiential knowledge. Firm Sa is dealing with Japanese machines that are used in a plant, and has exported the machines to foreign countries such as Indonesia, China, India, and Philippine by customers' demands. By exporting products to these countries, this firm noticed that they could get offers from foreign firms by establishing a subsidiary there. This firm sometimes heard that foreign customers wanted this firm to repair the machine and to advise them to restructure plants, and moreover these customers told that there were many local companies in Asia that were willing to buy their machines, if Firm Sa had a subsidiary there and provided after-sales service. Not one customer, but several customers emphasised that there were many opportunities for this firm. Firm Sa was gaining confidence for establishment of a subsidiary.

It means that experiential knowledge that the firm acquired through exporting products and through their networks made this firm realise that they can get new business chances by establishing a subsidiary. The sales and international operating manager of Firm Sa said;

> "As long as we do business only in the domestic market, we cannot know the detail about foreign markets. Establishing subsidiaries in foreign countries enables us to understand the client's demands there more deeply. I think our customers provided knowledge about the potential customers' demands and the market situation with us, and the knowledge pushed us to go forward. And we can support them and give them effective advice more timely. I think that it will be our advantage to establish a subsidiary in foreign markets"

It can be said that Firms Sa had known foreign markets to some extent, because they have already exported machines to these countries. However, through exporting they understood that there were more opportunities that they can obtain, because their customers in foreign countries asked them to repair the machines and give advice about the machines, and these customers also told them about more potential customers in the foreign markets. Thus, Firm Sa decided to establish a subsidiary in Indonesia and Thailand. It seems that experiential knowledge that was accumulated by them and through their networks encouraged this firm to establish a subsidiary and get more business opportunities there.

Firm Sa is a traditional firm, founded almost sixty years ago, but they are now making a big step into foreign markets. This step means that they are now building two subsidiaries in Indonesia and Thailand at the same time. The manager in this firm explained their business environment;

> "The budget of salaries is expensive in Japan, so many Japanese firms move to foreign countries in order to reduce the budget. Our customers also founded plants in foreign countries. Thus, we need to support them to set up machines there, and we have to provide after-the-sale service to them. The Japanese market is shrinking step by step, and therefore the competition is getting severe. Because of it, we decided to build subsidiaries in Indonesia and Thailand to which we have already exported machines. At first, our target is Japanese firms' subsidiaries there, but we would like to sell machines to local firms in the future."

This case emphasised that even a traditional firm can make big steps in the process of internationalisation by accumulating experiential knowledge through operation in foreign markets and their networks. Both networks and experiential knowledge encouraged a firm to make a big step. In addition, the environment in Japan also pushed a firm to internationalise rapidly.

Firm Su (an IT firm) also accumulated experiential knowledge through their networks and tried to internationalise further. This is because accumulated knowledge encouraged the firm and this firm also worries about the economic situation in Japan. They perceive the Japanese market as very highly competitive and getting smaller and therefore they are trying to sell their software to Chinese firms. They think that they have to sell their products to foreign market in order to survive. They have been doing offshore business with a Chinese IT firm for four years, because this offshore business was useful to reduce the developing cost. By working with the Chinese firm, Firm Su accumulated experiential knowledge about Chinese people and market, and also this Chinese firm provided experiential knowledge about other Chinese firms' demands and preferences to Firm Su. The CEO of Firm Su said;

> "The aim of offshore business with the Chinese firm is to reduce the developing cost and to make engineers in Japan concentrate on developing new software. There is a rule to have a meeting with the Chinese firm once a week by TV telephone. Even if we do not have a topic to talk with them, we do not cancel it. We can understand their way of thinking and habit through face-to face conversation. The economic situation has changed since we started offshore business with the Chinese firm, and we think the way to survive in this industry is to do business with foreign partner and be involved in international markets. For that reason, I send our Japanese employees to the Chinese firm regularly in order to understand the situation there and Chinese people. We are thinking China as a market, not a place that provided reasonable employees anymore."

Accumulated knowledge about the market and people enabled Firm Su to identify China as a market. Through experience, the CEO understood the importance of experiential knowledge for internationalisation, and therefore not only the CEO, but also employees go to the Chinese firm in order to prepare for selling products in China. Moreover, they obtained experiential knowledge from the Chinese business partner and removed the uncertainties about the Chinese market gradually. The economic situation in China is also changing, and Firm Su thought that China has big potential to become their customers. The Chinese business partner provided Firm Su with information that Chinese firms started to buy expensive software to reduce employment cost. It made this firm identify China as an attractive market.

Firm Ki is now exporting their products to South Korea, China, Singapore, Taiwan, USA, and Europe. This firm has limited human and financial resources as well as other SMEs. Basically, they started to export their products, when they got offers from reliable distributors. Therefore, their international activities can be said to be passive and unplanned.

As this firm got involved in several international markets, they have obtained experiential knowledge such as the character, preferences and situation of each market and compared these markets. In addition, a reliable consulting firm that introduced them the US market brought this firm into contact with the local distributors and restaurants, and these new networks provided Firm Ki with new knowledge about the market situation and customer's demands. In the process of that, Firm Ki realised that the distributors in the US are interested in Japanese alcohol and have rich knowledge about it. Therefore, this firm analysed that the market in the US has much more potential for their products rather than other markets. The CEO said;

> “We visit restaurants in the US that buy our products and exchange information regularly. Through these business trips, I understood that the market in USA is more familiar with Japanese food and alcohol, and not only a high-income person but also general citizen know Japanese alcohol, whereas Asian people go to high-end restaurants to drink Japanese traditional alcohol. The reasons why people in USA are more familiar are that Japanese food is now trend there, because of its healthiness. Moreover, not Japanese restaurants, for example Italian and American restaurants, also provide Japanese alcohol. It can be said that Japanese food culture is penetrating into American market. Therefore, we feel that the market in USA is more attractive and suitable for Japanese alcohol, and we decided to focus on this market.”

Establishing various networks in foreign markets provided Firm Ki with knowledge about market situations and customers’ preferences that allowed this firm to evaluate each market. It means that knowledge enabled this firm to have more clear vision of their internationalisation strategy than before and to realise that there were more opportunities to sell their products rather than in other countries. Thus, now they think that they have to focus on the market in USA.

Firm Te (an IT firm) started a new offshore business with a new partner in Vietnam after the first business in Vietnam. At first, this firm entered Vietnamese market with other Japanese IT firms, and started business there. The reason why Firm Te started business in Vietnam with other Japanese IT firms was that there were many uncertainties about this market, and therefore doing the business with other Japanese firms reduced the risk. After several years, Firm Te started another offshore business with a Vietnamese firm in Vietnam, and the CEO of Firm Te explained the reason,

> "We started new business with another Vietnamese firm. This is because through the first cooperation, we have learned people's character, the habit, and the culture of Vietnam. And we have confidence to work with Vietnamese. Moreover, through the networks with Vietnamese firms gave us knowledge about potential business partners and reliable people. Because of the knowledge and experience, we decided to start another business in Vietnam."

In the process of doing first business in Vietnam, this firm accumulated experiential knowledge, reduced uncertainties about Vietnamese market, and developing networks there. At the same time, experiential knowledge was provided through the networks as well. As a result, the networks introduced Firm Te a reliable person that was going to establish an IT firm soon. The CEO of Firm Te heard about it through their networks and decided to do business with that firm. The CEO said;

> "The first cooperation gave us confidence to do business with a Vietnamese firm, because now we know Vietnamese habit and character. We did not feel a big barrier at this time, compared to the first time. Also we know the CEO of the new firm, and therefore we realised that he would start his own business."

Therefore, it can be said that networks that were developed in foreign markets led to another new business opportunity in the foreign markets.

Reduce perceived risks and uncertainties in foreign markets

It is seen that another effect of obtaining knowledge through the firm's networks is to reduce risks and uncertainties in the process of internationalisation. Usually SMEs are not willing to be involved in uncertain and risky situations, because they have limited knowledge and information, and need a big effort to cope with that situation (Westhead et al. 2002). Therefore, SMEs tend to prefer strategies for survival to risky strategies. However, the process of internationalisation includes many complicated and uncertain situations, and a firm that intends to internationalise has to overcome these obstacles. Some of the participant firms removed uncertainty and risk in foreign markets by using knowledge through their networks. For example, Firm Ta and Firm Yo (both are knife makers, traditional firms) tried to reduce risks by getting information from business partners in their networks. The international sales manager of Firm Ta said that;

> "Communication technology has been developed, and now we have own homepage and can easily contact with foreign firms by email or telephone. Sometimes we get emails from unknown foreign distributors directly. However, we don't have much experience of international business, and it is very difficult for us to identify which one is reliable and which one is risky. At this moment, I always ask my acquaintance (a trusted distributor) about these foreign distributors and get some advice. Because of his advice, we decided whether to start new business or not."

It is said that basically small firms have limited knowledge about foreign markets and have few skilled employees, compared to large firms, and therefore this situation might prevent small firms from coping with the uncertainty of the internationalisation process (Child et al. 2009). However, the case of Firm Ta showed how SMEs reduce risk by getting useful advice through networks, for example whether a distributor in foreign markets is reliable or not, from the acquaintance in their network.

The case of Firm Yo also provided good evidence about risk and uncertainties. The CEO of Firm Yo also said that;

> "We are exporting our products through over 50 distributors in the world with which we made contract. But we do not have a subsidiary abroad, and are satisfied to sell products through these reliable foreign distributors. To be honest, we are receiving so many offers from these distributors and have to focus on production of knives now. Our knife is getting popular abroad, and therefore we often receive offers from unknown distributors in the world. However, we have little knowledge about foreign distributors. Thus, when we receive an offer from an unknown distributor, we ask our existing distributors whether this potential one is reliable or not. We believe in them and their answers are always appropriate."

Both Firm Ta and Firm Yo do not have a subsidiary abroad, and it is difficult for them to obtain knowledge about potential foreign distributors. Moreover, it is even risky to start business with such unknown distributors. On the other hand, if the firms try to obtain such knowledge by themselves, it could take a longer time. They might lose a great business chance, while they are collecting information about the distributors and evaluating the information. In that situation, the firm's networks worked effectively and helped the firm to manage these difficulties and reduce risks and uncertainties. Experiential knowledge through networks prevents a firm from doing business in a risky situation and enables a firm to recognise a more secure opportunity in foreign markets rapidly.

For preparation of business with a foreign partner, Firm Te (an IT venture firm) tried to get useful knowledge by employing foreign workers which grew in targeted countries and understand cultural gaps between Japan and the countries. This is also one of ways to avoid risks that are related to cultural differences in the process of internationalisation. The CEO on Firm Te said that;

> "In our firm, there are employees from China, and there used to be employees from Vietnam. When I get interested in some foreign countries which I want to enter in the future, I look for foreign workers who came from these countries to Japan. I think that it is a very useful way and a good preparation of entering foreign markets to understand these foreign countries and cultures. Because we have got knowledge through these foreign workers such as habit, the way of thinking, a sense of responsibility, honesty of purpose and so on. I think that we cannot acquire such knowledge from books and documents."

Thus, this is another way to avoid risk. Firm Te acquired experiential knowledge that foreign employees learned through living in Japan. Therefore, it seems that ties with foreign workers allow a firm to accumulate knowledge about their culture and their characteristics that are required to conduct business with firms of the foreign countries.

In addition, through almost all cases (Firm B, K, SU, SA, C, Ka and TE) it is said that information from banks and governmental agencies is useful at the very early stage of internationalisation, but the information became too general for penetrating foreign markets. Therefore, in order to get involved in foreign markets more deeply, a firm needs to expand their networks and get the detail about the markets. The cases above suggested that SMEs can get necessary knowledge from their networks and also the knowledge helped both a traditional firm and a venture firm to avoid risk. As discussed above, useful experiential knowledge is usually provided by distributors, a consulting firm, and a supplier, but according to circumstance, a competitor might give knowledge to a firm. For example, the CEO of Firm Ki (a traditional brewery) said that;

> "Sometimes we can get information from the bank and governmental support agencies, but the information is too general. So if we want to get the more detail, we have to ask other breweries that have been doing business there. We are competitors in the domestic market, but the competition is not so sever in foreign markets. Thus, we can exchange information about foreign business. The information from other breweries is very fresh and helpful."

Moreover, Firm Me (a medical device firm) also mentioned the usefulness of networks in the same industry. The respirator industry is small, and therefore respirator firms in the world know each firm very well. The CEO of this firm said;

> "Our industry is small and we know each firm's advantage and disadvantage very well. And also new entry is not so many, so it can be said that the habitat segregation is ensured. Therefore, we sometimes introduce a distributor that wants to deal with certain respirators that are not our products, to a suitable maker, and vice versa. Moreover, when we meet a distributor in a foreign market about which we have any knowledge, we ask

> other respirator makers in the world. Some of them should know the distributor. It is a very convenient and rapid way to get information from other respirator makers in the world. ”

Therefore, it can be said that basically competitors cannot be useful actors in the firm’s network, but in certain situations such as when the market is too small to hide competitive advantages or there are not so many competitors yet in a foreign market, competitors can be useful actors in the firm’s networks.

Product development

A firm that does not have a subsidiary abroad has difficulties of obtaining information about the latest trends or customers’ demands and reflecting them on their products and service. However, networks in which a firm is involved help a firm to develop new products by using business partners’ knowledge. Firm Ki and Ta (both traditional firms) that do not have a subsidiary abroad explained why that information is significant for them. The CEO of Firm Ki said that;

> “Foreign distributors know the markets and customers very well and sometimes they give us some advices about our products from their experience. For example, they said that the colour of the bottle was better to change for the Chinese market. Also the size and the

price of products that are required by foreign customers are different. That kind of knowledge is very difficult for us to collect, because we are not there."

It was difficult for them to decide the price, the size, and the bottle colour of products, because they did not have experience to conduct business there. Therefore, there is not such know-how in this firm. They trust the business partner in China and rely on their marketing capabilities. By producing new products according to knowledge from foreign partners, they can get an opportunity to increase the sales there. It might lead to acceleration of internationalisation.

Also the manager of international trade of Firm Ta said that;

> "The distributor that exports our products to foreign markets sometimes gives us useful information about the trend. For example, they suggested us to produce a set of knives as a gift for Christmas, because these products are getting popular before Christmas.
>
> Moreover, the most difficult thing for us is price setting in foreign markets. We don't know the situation in foreign markets such as how the prices of other makers' knives. So we ask the reliable acquaintance, a trader, about price setting. That kind of information is quite useful for us. We export our products to foreign markets through a Japanese distributor. Because it is easy for us to export products through a distributor. However, I can get information about that through networks and I try to keep good relationships with useful actors in the networks."

Therefore, it is difficult for a firm that does not have a subsidiary abroad to get the latest information about a foreign market, but in both cases the firms obtained knowledge through their networks. These cases showed how knowledge through networks enabled firms to acquire knowledge that was necessary for product development in foreign markets.

All the findings in 4.2.2 are described in Table 4.5 of the next page.

Table 4.5 Knowledge through networks leads to new insights about international business

Case	Effect of Knowledge	Summary of the comments
Firm Sa	Provide a new strategy	Through exporting to Asian countries, we realized that the local customer required us to do after-sales service and advise them about the allocation of the machines. As we got the same requests from various customers, we have confidence to establish a subsidiary in Asian countries.
Firm Su	Provide a new strategy	We are doing offshore business with the Chinese IT firm, but we didn’t see China as a market that we sell software. However, as interacting with the Chinese firm, we got knowledge about the Chinese market, and our mid was changing. We now see the Chinese market as a beneficial one and are preparing to enter the market.
Firm Ki	Provide a new strategy	In the process of internationalisation, we established various new network ties, and these ties provided us useful knowledge about our international business. Through the knowledge, we realised that the US market is more suitable for us, and we decided to focus on the market rather than other foreign markets.
Firm Te	Provide a chance for new business	We were doing business with Vietnamese IT firm, and a manager of the IT firm decided to establish his own firm. Therefore, I thought that it might be a good time to start another new business, because we already know the business habit and culture. Accumulated knowledge enabled us to have confidence.
Firm Ta	Prevent a firm to take a risk	We often receive an offer from a foreign distributor, but we cannot judge whether the offer is reliable or not. We just don’t have enough knowledge. However, a network tie with the experienced distributor provides us with knowledge to judge it. Due to the knowledge, we can avoid risk in international business.

Firm Yo	Prevent a firm to take a risk	We have network ties with over 50 distributors over the world. Thus, when we receive a offer from a new distributor, we ask our distributors about it. They know various distributors in foreign markets better than us and always give us correct advice.
Firm Me	Prevent a firm to take a risk	We have good relationships with competitors in the world, and this might be because our market is quite narrow and we must know each other very well. Thus, when we have uncertainty about a potential business partner, we ask the competitors about it, and they give us suggestion.
Firm Ki	Provide an idea for new products	The tie with the foreign distributor provides an idea about new products, because they know the foreign markets and foreign customer better than us. According to their suggestion, we produce new products for the foreign market.
Firm Ta	Provide an idea for new products	The distributor that exports our products to several foreign markets have knowledge about the markets that we don't have. For example, market trends, customers' demands, and cultural differences. Sometimes they give us suggestions about the products. These suggestions lead to new product development.

Chapter Five

Discussion and Conclusion

5.1 Summary of findings and discussion

Research question 1: What triggers Japanese SME's recognition of potential business opportunity in a foreign market?

According to the findings in this study, SMEs' network ties with other firms and individuals and experiential knowledge have many positive influences on their business opportunity recognition in foreign markets. In this research, it is of particular note that five SMEs (Firm Ki, Ta, Am, Su, and Bi) provided evidence that network ties, developed in the domestic market helped SMEs to recognise a business opportunity. The evidence supports Crick & Spence (2005) and Sharma & Blomstermo (2003) studies that existing ties with others help a firm to recognise international opportunities.

Firstly, Firm Ki (a traditional Japanese alcohol brewery), Firm Ta (a knife maker), and Firm Su (an IT firm) got a chance to recognise business opportunities in foreign markets from network ties with the Japanese local governments. These three firms did not have any experience of international business before, and therefore they did not have sufficient knowledge about international business. However, they recognise opportunities in foreign makers by attending the study tours that were organised by the local governments and it led to new foreign market entry.

The CEOs of these SMEs emphasised that basically they do not have enough time to do extra jobs such as preparation of international business and are pressed by daily work. Therefore, even though they are interested in international business, they cannot research foreign business and interesting market, and go to foreign market for research. These ties with the local governments are referred to as intermediary tie, because these third parties connected sellers to buyers that they did not have any connections before. Thus, the evidence supports Kontinen and Ojala (2011) idea that intermediary ties help a firm to recognise an opportunity in foreign markets. It could be said that it is useful especially for SMEs that have not entered any foreign markets to have network ties with a third party such as a local government in order to recognise a business opportunity there. Such organisations provide a chance to identify the opportunity, for example by organising a study tour in foreign markets.

Thus, the cases of these three firms support Hypothesis 1 (Through networks SMEs with little or no international business experience have a chance to identify a business opportunity in a foreign market).

The industrial guilds also played a similar role in Firm Am (an IT firm) and Firm Ki. Both firms gained chances to identify business opportunities in foreign markets through network ties with their industrial guilds. The ties connected these firms to potential business partners that did not have any links to the firms and provided useful information about international business with the firms. Therefore, these two firms also support Hypothesis 1. The first entry to a foreign market is especially a big challenge for SMEs, and there are many uncertainties. These firms did not know what to do first in order to enter a foreign market. However, by attending a study tour that the local governments or other organisations planned, SMEs could remove the uncertainties to some extent and have confidence to conduct international business, because the local governments provided necessary information about international business and the markets. In addition, attending a study tour that is organised by actors in their network is a time saving and convenient way for SMEs to meet a business opportunity in foreign markets. This is because SMEs do not have enough time to plan a research trip to foreign markets by themselves, because they are pressed by daily work due to limitation of human resources. Thus, it could be said that intermediate ties provide SMEs at the early stage of internationalisation with an efficient opportunity that SMEs realise the possibility of foreign markets more smoothly.

As Kontinen and Ojala (2011) argued, the findings above indicated that intermediary ties are useful for SMEs to recognise a business opportunity in foreign markets. Moreover, these findings emphasised that SMEs at the early stage of internationalisation are more influenced by intermediary ties than SMEs that have already experienced several foreign markets. This is because these ties include wide information about foreign markets, distributors, business habits that are required to start business. Therefore, it could be said that intermediary ties are more useful for SMEs that have no or little experience of international business than for SMEs that have already experienced several foreign markets. This might be because intermediary ties include more objective knowledge than experiential knowledge.

Furthermore, six firms in this study argued that intermediary ties were becoming useless and information from these ties was too general for them to penetrate in foreign markets. These firms that recognised business opportunities in foreign markets by utilising their intermediary ties were required to establish new networks that provided the firms with more specific knowledge about the targeted markets after the business opportunity recognition.

In addition to these cases, Firm Bi provided interesting evidence that the network tie with a big company attracts a new international business opportunity. This is because the tie allowed this firm to gain reliability and to attract a potential foreign client. As a consequence, Firm Bi that had little international business experience received an offer from an Italian firm. It can be said that network ties with a big and/ or famous company attract a new business opportunity in foreign markets. It is clear that this case well supports the idea of Yli-Renko et al. (2002) that a business partner that has a good reputation in foreign markets helps SMEs to mitigate the liabilities of newness and foreignness in entering a new international market. The network tie with a famous company enables SME to recognise a business opportunity and acquire necessary knowledge rapidly, because such companies have sufficient international business experience, knowledge and a good reputation in international markets, and the reputation attracts potential foreign clients. This case also supports Hypothesis 1 correctly. Moreover, it might be said that ties with a big and famous company that has wide experience of international business includes objective knowledge and experiential knowledge that SMEs need in order to start business abroad, and therefore SMEs do not need to gather knowledge from other companies or organisations. Therefore, a tie with a big company with wide experience helps SMEs not only to mitigate the liabilities of newness and foreignness, but also to collect necessary knowledge efficiently and rapidly.

Firm So also has a tie with a big company, and this tie also attracted potential clients in foreign markets. However, other case firms in this research do not provide the evidence about the ties with a famous company. Therefore, it implied that SMEs have some difficulties to establish a tie with a big and famous company rather than a tie with a similar small firm. The evidence supports the idea of McEvily and Zaheer (1999) that the ties with dissimilar firms that include different resources have an impact on the SME’s internationalisation, but it is more difficult for SMEs to establish such ties than ties with similar firms.

Moreover, many SMEs in this study understand that network ties with various firms are necessary for their international growth, but establishing ties takes a time. Therefore, in order to get these useful ties rapidly, two (Firm T and Firm So) of the case firms headhunted skilled and experienced people outside of their firms, and the ties that these people have were working very well in the process of these firms’ internationalisation. The evidence of these two firms that recognised business opportunities through networks that headhunted employees have also supports Hypothesis 1 correctly. One of these firms headhunted a person that has enough network ties with other firms and people and knowledge about international finance. The other firm headhunted an experienced person that used to work in a bank and has many network ties in various industries. These two SMEs have obtained knowledge about targeted foreign markets and networks with foreign companies or organisations. The findings above emphasised that the advantage of headhunting is that SMEs can obtain necessary networks and information at once by headhunting skilled and experienced people, and the speed of internationalisation accelerates by headhunting. However, it could be said that it is difficult to discover such people that accept an offer from SMEs, and therefore there are only two SMEs that headhunted skilled and experienced people in this research.

On the other hand, the case firm (Firm Me) indicated that prior job’s network ties can provide SMEs with new business opportunities in foreign markets. Firm Me (a medical equipment maker) has got a chance to sell their products in a foreign market through the founder’s previous job’s network ties. As a result, this firm entered a foreign market soon after founding and became a born global firm. This process can be said typical born global firm's behaviour, and this firm with high-tech respirator could enter the foreign markets without any effort. The evidence supports the idea of Mathews and Zander (2007) that discovering new opportunities is related to previous experience and attention to events or environment around individuals. Especially, the prior job's network ties of the Firm Me founder worked effectively in the process of opportunity recognition, and furthermore this firm has internationalised smoothly by utilising the founder's international knowledge and experience, compared to other case firms. This firm also supports Hypothesis 1, and this firm followed the process of a born global firm's internationalisation that has been well researched in the literature. On the other hand, the other case firms did not have experience of international business and therefore did not have any network ties with foreign firms and organisations before first entry to foreign markets. If a firm has network ties with foreign firms, organisations, and individuals, the process of internationalisation might be more rapid and smooth. However, SMEs without such network ties have to establish a new network tie to obtain necessary knowledge. The network ties that have been developed in foreign markets are useful even after opportunity recognition, because these ties include important knowledge about the targeted foreign markets.

These finding suggests that the network ties with foreign firms are becoming useful and important for SME's internationalisation, but establishing these ties is difficult for SMEs that have never experienced international business. Usually, a founder of a born global firm has these ties with foreign firms companies, and the ties help a born global firm to recognise a business opportunity and to internationalise. Thus, the process of the born global firm's internationalisation is more rapid than other firms.

In addition to networks, experiential knowledge also plays an important role in SME's opportunity recognition. It is clear through the findings in this research that experiential knowledge that SME accumulate in the process of internationalisation helps SME to internationalise efficiently.

Three firms (Firm Bi, Firm Cy and Firm Ta) provided suitable examples that experiential knowledge helps SME to recognise a business opportunity in foreign markets. All these three firms did not have a subsidiary abroad and were in the early stage of internationalisation. Thus, they did not have enough experience and knowledge about foreign markets and international business. However, these SMEs realised that they had to accumulate experiential knowledge for internationalisation through interacting with internationalised and experienced firms in their networks. The SMEs accumulated experiential knowledge through the ties with the internationalised and experienced firms, and the accumulated knowledge encouraged these firms to enter a foreign market. As a result, these firms realised that there were business opportunities that they could get benefit from the foreign markets. The CEOs of these firms emphasised that it was impossible to acquire such experiential knowledge rapidly by them and to realise a business opportunity in foreign markets without the knowledge. In the process of internationalisation, the most of SMEs realised that experiential knowledge is vital and they had to collect the knowledge efficiently by them. These three firms above found out the appropriate way for them to accumulate experiential knowledge. The way was to accumulate the knowledge through their networks. Accumulating experiential knowledge encouraged SMEs to identify a business opportunity in foreign markets. It can be said that one of the important roles of network ties is to provide SMEs that have limited knowledge about foreign market and business with experiential knowledge. Therefore, SMEs can internationalise more rapidly and efficiently by using their network ties that provide experiential knowledge to SMEs. This is because SME without the knowledge cannot identify the opportunity that provides them with benefits.

Thus, it can be said that the evidence supports Hypothesis 2 (SMEs accumulate experiential knowledge about a foreign markets through their networks, and the knowledge leads to opportunity recognition.). Although it takes a time and cost to accumulate experiential knowledge that is acquired through activities in foreign countries (Eriksson et al. 1997), these firms above utilised their network ties effectively in order to accumulate experiential knowledge. Scholars in the field of born global firms especially emphasised that a born global firm internationalise rapidly by utilising their network (e.g. Freeman et al. 2006 and Sharma &Blomstermo 2003). However, the findings suggest that non-global firms such as a traditional manufacturing firm and a venture firm that had no or little experience of international business also utilise their networks that they have developed in order to recognise business opportunities.

Moreover, the evidence also supports Shane and Venkarataman's (2000) study that even if opportunities exist in foreign markets, an entrepreneur without recognition of opportunity and its value cannot exploit the opportunities. For example, Firm Ta could not see the Russian market as a beneficial market first. Though accumulating knowledge, the firm realised that there was a business opportunity for them in the Russian market. SMEs without any international activities cannot understand that experiential knowledge is vital for the firms' internationalisation.

On the other hand, there are two case firms (Firm Bi and Firm Ta) that support Hypothesis 2 paradoxically. These firms had experience that they could not enter foreign markets because of lack of experiential knowledge. The CEOs of these firms explained that there were many uncertainties that they could not remove in the markets, because they did not have enough experiential knowledge about business habit, cultural differences, market trend, and customer's preference. As a consequence, these firms gave up entering the foreign markets in which they could not find out a business chance that they challenge. As discussed before, Firm Bi tried to enter a foreign market without sufficient knowledge, and as a result a lack of knowledge led to failure of market entry. After the failure, this firm has tried to accumulate knowledge about the targeted foreign market actively.

Sharma and Blomstermo (2003) suggested that a firm that does not have routines to obtain the knowledge concerned with foreign markets needs time to understand the importance of knowledge in entering a foreign market. However, the findings above suggested that once SMEs realise the importance of experiential knowledge in order to enter a targeted foreign market, they change their routines to obtain the knowledge flexibly and try to gain experiential knowledge actively. This is because the knowledge helps SME to remove uncertainties in foreign markets and encourage them to do international activities. It might be said that SMEs have to realise the importance of experiential knowledge by interacting with various experienced firms and individuals in their networks, and it leads to rapid international business opportunity recognition.

To sum up, SMEs without enough international experience and knowledge need time to realise that they have to accumulate experiential knowledge for internationalisation. However, the network ties with internationalised and experienced firms stimulate SMEs and provide necessary experiential knowledge to SMEs. Moreover, the flexibility of SMEs is one of advantages, compared to a big company. In order to utilise the advantage, SMEs have to realise the importance of experiential knowledge by developing their networks in foreign markets and accumulate the knowledge rapidly.

Research question 2: How do new networks that are developed in the process of internationalisation help Japanese SMEs to internationalise further?

After recognising a business opportunity in foreign markets, many firms established new network ties for further internationalisation, and then these ties helped SMEs to internationalise and to accelerate the speed of internationalisation.

After opportunity recognition, Firm Ki and Firm Cy established new network ties in the targeted foreign markets to acquire more specific knowledge about the markets. The knowledge helped these firms to remove uncertainties about the markets and provided them with new resources that were necessary for their internationalisation. As a result, the new network ties encouraged them to internationalise further. Therefore, these cases support the Oviatt and McDougall's idea (2005) that knowledge enables a firm to deal with uncertainties. Internationalisation made these firms realise the need of new networks that helped them to remove uncertainties in the markets.

Moreover, these cases provide the good evidence for Hypothesis 3 (Further internationalisation enables SME to establish new networks that provide them with new knowledge). The opportunity recognition led to establishment of new networks that provide necessary knowledge to them. It can be said that one of important roles of knowledge is to remove uncertainties, and networks provide the knowledge to a firm.

In addition, the case of Firm Me well supports Hypothesis 3 as well. In the process of internationalisation, this firm decided to cooperate with a big company in order to utilise the sales network of this big company. Thus, internationalisation made Firm Me realise the usefulness of the big company's sales network and establish a tie with the big company. As a result, Firm Me acquired the new resource, referred to as the sales network, by establishing new network tie. This case supports the Rialp et al.'s idea (2005) that networks provide a firm with new resources for internationalisation as well. Moreover, the findings in this study indicated that these three firms above realised what kind of knowledge they needed for further internationalisation. This means that although SMEs without experience of international business do not understand what knowledge is necessary for internationalisation, SMEs that have experienced some international activities can recognise what knowledge they need more clearly and try to establish new networks in order to obtain the knowledge. Basically firms in this research were not active to establish networks at the very early stage of internationalisation. However, they became very active to establish new networks after business opportunity recognition and then focused on the networks that provided them with new important knowledge, for example knowledge about specific customers' demands and preferences, and specific business habit in a certain area. As a result, they increased international sales or met new business partners in foreign markets.

To sum up, it can be said that SMEs need to establish new networks over the process of internationalisation. This is because each stage of internationalisation requires different types of network ties. The findings suggest that firms after international business opportunity recognition need more specific knowledge and therefore tried to focus on the networks that provide them with such knowledge.

On the contrary, new networks pushed SMEs in this research to internationalise further. While internationalisation required the firms above to establish new networks, new networks that provided knowledge to SMEs lead to further internationalisation.

Firm Sa, Su, Ki and Te give evidence for Hypothesis 4 (SMEs utilise networks to bridge their gap of knowledge required for further internationalisation). These firms have already entered several foreign markets, and the ties that were established in the markets made these firms realise new business strategy or opportunities in new foreign markets. Moreover, these cases provided the evidence for the Prashantham and Dhanaraj's idea (2010) that networks help a firm to develop strategies for internationalisation. In the cases above, networks played a role of introducing a new insight to their strategy or new business. Interacting with business partners in the foreign markets enabled the firms to realise potential business opportunities. For example, Firm Sa realised that establishment of subsidiaries allowed them to gain more benefits from the foreign markets. Accumulated knowledge enabled this firm to make a big step to further internationalisation. In addition, Firm Ki understood that they should focus on the US market that is more familiar with the Japanese culture and food. Therefore, the evidence above also supports the findings of Yli-Renko et al. (2001) that interacting with various firms leads to new knowledge acquisition. The network ties with distributors or clients in foreign markets provided these SMEs with knowledge about the details of markets' trends or situation, and the knowledge led to further internationalisation.

Moreover, the findings suggested that new networks that have been developed in foreign markets provide SMEs with knowledge that cannot be acquired in the domestic market and is necessary to penetrate foreign markets in depth. These SMEs recognised that they lacked knowledge about foreign markets by exporting their products and interacting with foreign distributors and clients. At this moment SMEs understood from experience which networks were useful for their internationalisation, because these networks provided them with knowledge that was important to penetrate into foreign markets. Thus, they tried to strengthen the ties by inviting foreign business partners to Japan or organising parties abroad, for instance. It implied that SMEs that have already experienced some international business have an ability to focus on networks that provide them with knowledge that is important for further internationalisation.

In addition, the cases of Firm Ta, Yo (both are knife makers), and Me (a medical equipment maker) also support Hypothesis 4 correctly. In the process of internationalisation, these firms faced uncertainties about potential foreign distributors that made orders to these firms by emails. These firms utilised their networks in order to reduce risk of the uncertainties, because experienced business partners in their networks provided them with knowledge about distributors in the world. Therefore, the evidence supports the idea of Eriksson et al. (1997) that knowledge enables a firm to reduce risk. These firms exported their products through distributors and did not have a subsidiary abroad. Thus, knowledge about foreign markets through their networks is more important for them than for a firm with subsidiaries. Because of their networks, these firms can judge whether the distributor was reliable or not. Therefore, it can be said that even an SME without sufficient knowledge about international business can enter foreign markets by utilising their networks.

The cases of Firm Ki and Ta also provided the suitable evidence for Hypothesis 4. These firms acquired knowledge that was concerned with their product development through their networks in foreign markets, and the knowledge led to further internationalisation. These firms did not have subsidiaries in foreign markets, and therefore they utilised their networks in order to acquire knowledge about the markets. Interacting with the foreign distributors made them realise that the preferences were different from the domestic customers. Consequently, they made new products for the foreign markets. Thus, the findings support the idea of Yli-Renko et al. (2001) that knowledge through networks contributes to successful product development. Moreover, it could be said that SMEs that do not have subsidiaries recognise that it is important for them to keep the network, provided knowledge about foreign markets to them. This is because these firms have fewer opportunities to obtain the knowledge than SMEs with subsidiaries, and the knowledge is necessary to compete with rivals in foreign markets. It also suggests that SMEs rely on knowledge that a reliable business partner with a long lasting relationship in their network provides them with.

To sum up, the findings in this research explained that SMEs intends to establish new networks that provide necessary knowledge for further internationalisation with them. These networks played several important roles that were related to recognition of new business opportunity, reduction of risks, and product development. Moreover, SMEs had confidence to penetrate into foreign markets by acquiring new knowledge though networks in foreign markets. This is because the ties with firms and individuals in foreign markets provided more specific knowledge about targeted markets. It is notable that even a traditional SME can internationalise rapidly through acquisition of new knowledge by utilising their networks. It implied that SMEs can focus on certain networks that provide them with specific knowledge that they would like to obtain in order to get involved in foreign markets or/ and to accelerate the speed of their internationalisation.

5.2 Limitations

It should be highlighted that there are several limitations in this research. It might be helpful for further research and expansion of the ideas in this research to represent the limitations.

First of all, the case study strategy is employed in this research, and the data was collected mainly through interviews with CEOs or managers of Japanese SMEs. In addition, other materials such as the firm's brochures and the firm's Web sites were utilised for the investigation. Although it is the better way to conduct interviews with two people in one firm in order to strengthen the validity of the data, it did not allow the researcher to conduct two interviews in one firm. This is because a Japanese firm is hierarchical, and a CEO is not willing for other employees to be interviewed. However, the researcher tried to ask the interviewees to provide evidence or reasons of their actions or decisions, and these helped enhance the reliability of the interviewees' statements. Furthermore, in investigating network relationships with other firms, the researcher examined only the participants' views, and did not gather the views of the firms that the participants said they were connected with. In other words, this study employed a one-sided approach to network relationship research. Further research might resolve and develop this issue.

In addition, this research employs a qualitative research method, and therefore the accuracy of the research might depend on the skills and interpretation of the researcher, whereas the quantitative research analyses the data by a computer and it does not have such problem. However, the issue could be mitigated, because the researcher does not have any stake in the participants.

Finally, all the participants in this research are Japanese SMEs, and therefore there are limitations to generalise the finding of this research. The research can identify only one firm as a born global firm, and others as a traditional firm or a venture firm. As a result, the findings that are related to the differences between a born global firm and a non born global firm might be weak to generalise widely. Therefore, it is expected that further quantitative research would be carried out to support the findings in this research.

5.4 Conclusion and Implications

There are many interesting findings in this research. Firstly, the born global firm could get a chance to be involved in the first foreign market rapidly by utilising the founder's prior job networks or experience. However, non born global firms (both a traditional firm and a venture firm) that had little or no international experience also recognised business opportunities in foreign markets through their networks effectively. All firms emphasised that network ties with other firms, organisations, and individuals were important resources for SMEs that have limited resources and knowledge in order to enter foreign markets.

Most of triggers to enter foreign markets were brought through their networks. It implies that basically the SME's internationalisation process is not well planned, but brought by actors in their networks serendipitously. This is because it takes a long time for SMEs to plan international strategies by themselves, but it is easier for them to follow the chances provided through networks to enter foreign markets. The findings indicated that especially intermediary ties, for example ties with governments and industrial guilds, are useful for SMEs with little or no international business experience to recognise a business opportunity in foreign markets, because these ties tend to connect sellers to buyers that they do not have any links before and to provide necessary knowledge to SMEs. Majority of the CEOs in this research emphasised that they did not have enough time to research foreign business and markets by themselves and therefore appreciated meeting the chances through networks.

In addition, the findings suggested that ties with a big company are very useful for SMEs' internationalisation, because a big company basically has enough international experience and knowledge that basically SMEs do not have. Moreover, the ties with a big company allow SMEs to gain legitimacy in foreign markets. These ties attract potential clients, because the ties guarantee quality of SME's skills and products. The ties with dissimilar firms like a big company can be said to be bridging ties that enable access to different resources from the ties with similar firms (McEvily & Zaheer 1999). Therefore, it might be said that bridging ties are more useful for SMEs with little or no international experience. It is said that establishing bridging ties is more difficult for an SME than establishing bonding ties. However, the data in this research did not allow analysing the effects of bridging ties, because of lack of the data. Thus, further research is required to examine the effects of bridging ties and bonding ties that influence the internationalisation process of SME with little or no international experience.

On the other hand, the findings indicated that experiential knowledge also helps SMEs to recognise a business opportunity in foreign markets. As described in the literature, the founder of a born global firm in this research already had such knowledge before founding, and therefore the speed of internationalisation was more rapid than other SMEs. One of effects of experiential knowledge is to make SMEs identify a business opportunity in foreign markets. The findings emphasised that SMEs, not born global firms, could recognise a business opportunity in foreign markets by accumulating experiential knowledge about the markets and foreign business. The interesting point is that many of the case firms obtained experiential knowledge through the existing networks, and the CEOs claimed that this way to accumulate the knowledge was rapid and cost-effective.

On the contrary, it could be said that even though there are business opportunities, SMEs without experiential knowledge about foreign business and foreign markets cannot recognise the opportunities or cannot see the opportunities as business chances for them. Experiential knowledge helps SMEs to remove uncertainties in the markets, and consequently SMEs realises that there are business opportunities that they can challenge. However, the SMEs in this research could not recognise the importance of experiential knowledge at the beginning of the internationalisation process. Therefore, they did not try to accumulate it actively. However, they understood the importance of the knowledge gradually and tried to accumulate it actively.

The findings suggested that SMEs need time to understand the importance. However, once they realise it, they start analysing what kind of knowledge is necessary and what is a better way to accumulate it. As a consequence, they realise that it is rapid, effective and reliable to obtain the knowledge through their networks.

Moreover, it might be said that the economic situation in Japan influences the Japanese SME's international business strategy. Majority of the CEOs in this research argued that basically they were not willing to enter foreign markets, because there were many uncertainties that they have never faced and they did not have experience of international business. These firms preferred to stay in the domestic market rather than to exploit foreign markets. Therefore, they did not have confidence in international business. However, the economic situation in Japan has been harsh these days, and the population is decreasing. Thus, even SMEs are forced to think of international expansion in order to survive. It could be said that the economic situation in Japan forced SMEs to think of their international strategies. They might have thought that they could cover a decline in the domestic sales by entering foreign markets. It implies that the economic situation is one of the typical factors that forces Japanese SMEs to internationalise and Japanese SMEs become more sensitive to a business opportunity that they can challenge in order to increase a turnover than before.

Moreover, new networks that are established in foreign markets encourage the SMEs' further internationalisation. New networks enable SMEs to internationalise more deeply. The findings in this research explain that SMEs get involved in foreign markets by acquiring new knowledge through a new network in foreign markets, although existing networks in the domestic market also help SMEs to realise a business opportunity and obtain experiential knowledge at the early stage of internationalisation. In the process of internationalisation, the important ties for SMEs are changing. The intermediary ties that include general and basic information are becoming useless gradually. As mentioned above, SMEs that have already recognised a business opportunity in a foreign market prefer ties with firms in foreign markets to intermediary ties in order to penetrate into the foreign markets. They need to establish new networks that provide more specific knowledge that enables a firm to overcome their disadvantages.

SMEs in this research that have already experienced international business understood what they need for further internationalisation, and what they should do in order to resolve the deficiency. Therefore, they were more active to establish new networks and to obtain knowledge. This is because they understood the importance of network and knowledge at this moment and knew where they can meet necessary networks to some extent. The findings suggested that new networks in foreign markets play several important roles that are related to reduction of risks and uncertainties, acquisition of new resources, recognition of new business opportunities, and product development. At this stage SMEs concentrate on certain networks that provided them with more specific knowledge that they need for further internationalisation. It implies that SMEs become more sensitive to business opportunities in foreign markets by developing their networks and know how to utilise their developed networks in order to obtain knowledge and to internationalise more deeply.

The findings in this research described that traditional manufacturing firms and non-born global venture firms utilise their networks effectively in order to acquire necessary knowledge for internationalisation as well, although it has been well described in the field of network theory that small firms that have specialised skills and technologies, for instance born global firms, utilise their networks effectively in order to internationalise rapidly. This is an interesting point that non-born global firms in this research made a drastic step, such as establishing subsidiaries and selling their products abroad in addition to offshore business in foreign markets, by acquiring experiential knowledge through their networks that gave the firm confidence. This means that even non-born global firms can internationalise smoothly by using their networks, and the knowledge obtained through networks provides SMEs with confidence to internationalise. Moreover, it might be said that the economic situation discussed above also affects their activities in foreign markets. However, what kind of ties has a great impact on SME's further internationalisation cannot be examined in this research. Therefore, further research is expected to answer the question.

To sum up, networks and knowledge influence the SME internationalisation significantly, because these two factors lead to rapid and smooth internationalisation, and these factors interact. Even though SME does not have sufficient international experience, these factors help SMEs to overcome several disadvantages and lack of resources for internationalisation. However, SMEs needs different networks at the each stage of internationalisation. Therefore, SMEs have to develop their networks and accumulate knowledge, according to each firm's level of internationalisation.

References

Adler, P. A. and Kwon, S. (2002) Social capital: Prospects for a new concept. **Academy of Management**, 27(1): 17-40.

Andersen, O. (1993) On the internationalization process of firms: a critical analysis. **Journal of International Business Studies**, 24 (2): 209-231.

Arenius, P. and De Clercq, D. (2005) A Network-Based Approach on Opportunity Recognition. **Small Business Economics**, 24: 249-265

Autio, E., Sapienza, H. J. and Almeida, J. G. (2000) Effect of age at entry knowledge intensity, and imitability of international growth. **Academy of Management Review**, 43 (5): 909-924

Beamish, P. W. (1990) The internationalization process for smaller Ontario firms: a research agenda, In: Rugman, A.(ed.) **Research in global business management**, Greenwich: JAI Press, pp. 77-92.

Bell, J. (1995) The internationalisation of small computer software firms: A futher challenge to “stage” theories. **European Journal of Marketing**. 29(8): 60-75

Bell, J., McNaughton, R. and Young, S. (2001) ‘Born-again global’ firms, An extension to the ‘born-global’ phenomenon. **Journal of InternationalManagemen**. 7: 173-189

Bell, J, Crick, D. and Young, S. (2004) Small Firm Internationalization and Business Strategy. **International Small Business Journal**. 22(1): 23-56.

Blomstermo, A., Eriksson, K. , Lindstrand, A. and Sharma, D.D. (2004) The perceived usefulness of network experiential knowledge in the internationalizing firm. **Journal of International Management**. 10: 355-373

Bloodgood, J. M., Harry, J. S. and James, G. A. (1996) The internationalization of New High-Potential U. S. Venture: Antecedents and Outcomes. **Entrepreneurship Theory and Practice**, 20(4) 61-76

Bryman, A. and Bell, E. (2007) **Business Research Methods.** Oxford: Oxford University Press.

Burt, R. S. (1992) **Structural Holes: The social structure of competition**. London: Harvard University Press

Chandra, Y., Styles, C. and Wilkinson, I. (2009) The recognition of first time international entrepreneurial opportunities: Evidence from firms in knowledge-based industries, **International Marketing Review**, 26(1): 30-61

Chettym, S. and Agndal, H. (2006) Social Capital and Its influence on Changes in Internationalization Mode Among Small and Medium-sized Enterprises. **Journal of International Marketing**. 15(1): 1-29

Chetty, S. and Blankenburg Holm, D. (2000) Internationalisation of small to medium-sized manufacturing firms: a network approach. I**nternational Busienss Review**. 9: 77-93

Child, J., Ng, S. H. and Wong, C. (2002) Psychic distance and internationalization: Evidence from Hong Kong firms. **International Studies and Management**, 32(1): 36-56

Coviello, N. E. (2006) The network dynamics of international new ventures. **Journal of International Business Studies**, 37: 713-731

Coviello, N. E. and Munro H. J. (1995) Growing the entrepreneurial firm. **European Journal of Marketing**. 29(7): 49-61

Coviello, N. E. and Munro H. J. (1997) Network Relationships and the Internationalisation Process of Small Software Firms. **International Business Review**. 6(4): 361-386

Crick, D. and Spence, M. (2005) The internationalisation of 'high performing' UK high-tech SMEs: a study of planned and unplanned strategies. **International Business Review**. 14: 167-185

Davidsson, P. and Honig, B. (2003) The role of social and human capital among nascent entrepreneurs. **Journal of Business Venturing**, 18(3): 301-331

de Vaus, D. (2009) Research Design in Social Redearch. London: Sage

Easterby-Smith, M., Thorpe, R. and Lowe, A. (2002) **Management Research**. London: SAGA

Eckhardt, J. T. and Shane, S. A. (2003) Opportunities and Entrepreneurship. **Journal of Management**, 29(3): 333-349

Ellis, P. (2000) Social ties and foreign market entry. **Journal of International Business Studies**, 31: 443-470.

Ellis, P. and Pecotich, A. (2001) Social Factors Influencing Export Initiation in Small and Medium Sized Enterprises. **Journal of Marketing Research**, 38(1): 119-130

Ellis, P. D. (2010) Social ties and international entrepreneurship: Opportunities and constraints affecting firm internationalization, **Journal of International Business Studies**, 42: 99-127

Eriksson, K., Majkgard, A. and Sharma, D. D. (2000) Path Dependence and Knowledge Development in the Internationalization Process. **Management Internatioanl Review**. 40 (4): 307-328.

Freeman, S., Edwards, R. and Schroder, B. (2006) How Smaller Born Global Firms Use Networks and Alliances to Overcome Constraints to Rapid Internationalization. **Journal of International Marketing**, 14(3): 33-63

Forsgren, M. (2002) The concept of learning in the Uppsala internationalization process model: a critical review. **International Business Review**, 11: 257-277

Gill, J. and Johnson, P. (2010) **Research Methods for Managers**. London: Sage

Grant, R. M. (1996) Proposing in Dynamically-Competitive Environments: Organizational Capability as Knowledge Integration. **Organization Science**, 7: 375-387

Grant, R. M. (2002) Toward a Knowledge-Based View of the Firm, In: Choo, C. W. and Bontis, N.(ed.), **The Strategic Management of Intellectual Capital and Organizational Knowledge**, Oxford: Oxford University Press, pp.133-148

Granovetter, M. (1973) The strength of Weak Ties, **American Journal of Sociology**,78(6): 1360-1380

Halinen, A. and Tornroos, J. (2005) Using case methods in the study of contemporary business networks. **Journal of Business Research**, 15: 1285-1297

Han, M. (2006) Developing social capital to achieve superior internationalization: A conceptual model. **Journal of International Entrepreneurship**, 4: 99-112

Hauschildt, T. (1992) External acquisition of knowledge for innovations- A research agenda. **R and D Management**, 22(2): 105-111

Hitt, M. A. and Ireland, R.D.(2002) The Essence of Strategic Leadership: Managing Human and Social Capital. **The Journal of Leadership and Organizational Studies**. 9(1): 3-14

Hoang, H. and Antoncic, B. (2003) Network-based research in entrepreneurship, A critical review, **Journal of Business Venturing**, 18: 165-187

Human, S.E. and Provan, K.G. (2000) Legitimacy Building in the Evolution of Small Firm Multilateral Networks. **Administrative science Quarterly**, 45: 327-365

Ibeh,K. and Kasem, L. (2010) The network perspective and the internationalization of small and medium sized software firms from Syria. **Industrial Marketing Management**. 40(3): 368-367

Inkpen, A. C. and Tsai, E. W. K. (2005) Social capital, networks, and knowledge transter. **Academy of Management Review**. 30(1): 146-165

Johanson, J. and Mattsson, L.-G. (1988) Internationalization in industrial system- a network approach. **Strategies for Global Competition**, In: Hood, N. and Vahlne, J. E.(ed.), London: Croom Helm, pp.287-314

Johanson, J. and Vahlne, J. (1977) The internationalization process of the firm- a model of knowledge development and increasing foreign market commitments. J**ournal of International Business Studies**. 8(1): 23-32

Johanson, J. and Vahlne, J. (2003) Business Relationship Learning and Commitment in the Internationalization Process. **Journal of International Entrepreneurship**. 1(1): 83-101

Johanson, J. and Vahlne, J. (2009) The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. **Journal of International Business Studies**. 40: 1411-1431

Johanson, J. and Wiedersheim-Paul, F. (1975) The internationalization of the firm – for Swedish cases, **The Journal of Management Study**, 12: 305-322

Knight, G.A. and Cavusgil, S. T. (1996) The Born Global Firm: A Challenge to Traditional Internationalisation Theory. **Advances in International Marketing**, 8: 11-26

Knight, G. (2000) Entrepreneurship and Marketing Strategy: The SME Under Globalization. **Journal of International Marketing**, 8(2): 12-32

Knight, G. A. (2001) Entrepreneurship and strategy in the international SME. **Journal of International Management**, 7: 155-171

Knight, G. A. and Cavusgil S. T. (2004) Innovation, organizational capabilities, and the born-global firm. **Journal of International Business Studies**, 35:124-141

Kontinen, T. and Ojala, A. (2011) Network ties in the international opportunity recognition of family SMEs, **International Business Review**, 20: 440-453

Loane, S. and Bell, J. (2006) Rapid internationalisation among entrepreneurial firms in Australia, Canada, Ireland and New Zealand, extension to the network approach, **International Marketing Review**, 23(5): 467-485

Lu, J. W. and Beamish. P. W. (2006) SME internationalization and performance: Growth vs. profitability. **Journal of International Entrepreneurship**, 4: 27-48

Madsen, T. K. and Servais, P. (1997) The internationalization of Born Globals: an Evolutionary Process?, **International Business Review**, 6(6): 561-583

Majumdar, S. K. (2000) Sluggish giants, sticky cultures, and dynamic capability transformation. **Journal of Business Venturing**, 15 (1): 59-78

Mathews, J.A. and Zander, I. (2007) The international entrepreneurial dynamics of accelerated internationalisation. **Journal of International Business Studies**. 38: 387-403

McDougall P.P, and Oviatt,B.M. (2000) International entrepreneurship: the intersection of two research paths. **Academy of Management Journal** 43 (5): 902‑906

McDougall, P.P., Shane, S. and Oviatt, B. M. (1994) Explaining the formation of international new ventures: the limits of theories from international business research. **Journal of Business Venturing**. 9: 469-487

McEvily, B. and Zaheer, A. (1999) Bridging ties: source of Firm heterogeneity in competitive capabilities. **Strategic Management Journal**. 20: 1133-1156

Mejri,K.and Umemoto, K. (2010) Small- and medium-sized enterprise internationalization: Toward the knowledge-based model. **Journal of International Entrepreneurship**, 8: 156-167

Morris, T. and Wood, S. (1991) Testing the survey method: continuity and change in British industrial relation. **Work, Employment and Society**, 5 (2): 259-285

Mtigwe, B. (2006) Theoretical milestones in international business: The journey to international entrepreneurship theory. **Journal of International Entrepreneurship**, 4(1): 5-25.

Nanapiet, J. and Ghoshal, S. (1998) Social capital, intellectual capital, and the organizational advantage. **Academy of Management Review**. 23 (2): 242-266

Nelson, R. and Winter, S. (1982) **An evolutionary Theory of Economic Change**. London: Belknap Press

Oviatt, B. M. and McDougall, P. P. (1994) Toward a theory of international new ventures, **Journal of International Business Studies**, 25(1): 45-64

Oviatt, B. M. and McDougall, P. P. (1995) Global start-ups: Entrepreneurs on a worldwide stage. **Academy of Management Executive**. 9(2): 30-43

Oviatt, B. M. and McDougall,P. P.(1997) Challenges for Internationalization Process Theory: The Case of International New Ventures. **Management International Review**. 37: 85-99

Oviatt, B. M. and McDougall,P. P. (2005) Defining International Entrepreneurship and Modeling the Speed of Internationalization. **Entrepreneurship Theory and practice**. 29(5): 537-553

Ozgen, E. and Baron, R. A. (2007) Social sources of information in opportunity recognition: Effects of mentors, industry networks, and professional forums, **Journal of Business Venturing**, 22 (2): 174-192

Penrose, E. (1959) **The Theory of the Growth of the Firm**. New York: Wiley

Porters, A. (1998) Social Capital: Its origins and applications in modern society. **Annual Review of Sociology**, 24: 1-24

Prashantham, S. (2005) Toward a Knowledge-based Conceptualization of Internationalization, **Journal of International Entrepreneurship**, 3: 27-52

Prashantham, S. and McNaughton, R. B. (2006) Facilitation of links between multinational subsidiaries and SMEs: The Scottish Technology and Collaboration (STAC) initiative. **International Business Review**. 15: 447-462

Prashantham, S. (2008) New venture internatioanlization as strategic renewal. **European Management Journal**. 26: 378-387

Prashantham, S. and Dhanaraj, C. (2010) The Dynamic Influence of Social Capital on the International Growth of New Venture, **Journal of Management Studies**, 47(6): 967-994

Putnam, R.D. (2000) **Bowling alone**. New York: Simon and Schuser

Rialp, A., Rialp, J., Urbeno, D. and Vaillant, Y. (2005) The born global phenomenon: A comparative Case Study Research, **Journal of International Entrepreneurship**, 14: 147-166

Robson, C. (1993) **Real World Research**. Oxford: Blackwell.

Ruzzier, M., Hisrich, R. D. and Antoncic, B. (2006) SME internationalization research: past, present, and future, **Journal of Small Business and Enterprise Development**, 13(4): 476-497

Saarenketo, S., Puumalainen, K, Kuivalainen, O. and Kylaheiko,K. (2004) Dynamic Knowledge-related learning processes in internationalizing high-tech SMEs. **International Journal of Production Economics**. 89(3): 363-378 Saunders, M., Lewis, P. and Thornhill, A. (2009) **Research Methods for Business Students**. London: Prentice Hall.

Shane, S. (2000) Prior Knowledge and the Discovery of Entrepreneurial Opportunities. **Organization Science**. 11(4): 448-469

Shane, S. and Venkataraman, S. (2000) The Promise of Entrepreneurship as a Field of Research. **Academy of Management**, 25(1): 217-226

Sharma, D. D. and Blomstermo,A. (2003) The internationalization process of Born Globals: a network view. **International Business Review**. 12: 739-753

Shuman, J.C. and Seeger J. A. (1986) The theory and practice of strategic management in smaller rapid growth firms. **American Journal of Small Business**. 3: 7-18

Stuart, T. E., Hoang, G. And Hybels, R. C. (1999) Interorganizational endorsements and the performance of entrepreneurial Ventures. **Administrative Science Quarterly**, 44: 315-349

Teece, D. and Pisano, G. (1994) The Dynamic Capabilities of Firms: An Introduction. **Industrial and Corporate Change**, 3(3): 537-556

Tikkanen, H. (1998) The network approach in analyzing international marketing and purchasing operations: a case study of a European SME's focal net 1992-95, **Journal of Business and industrial marketing**, 13 (2): 109-131

Turnbull, P. W. (1987) A challenge to the stages theory of the internationalization process. In: Rosson, P. J. and Reid, S. D. (ed.) **Managing Export Entry and Expansion**. New York: Praeger. pp.21-40.

Westhead, P., Binks, M., Ucbasaran, D. and Wright, M. (2002) Internationalization of SMEs: a research note, **Journal of Small Business and Enterprise Development**, 9(1): 38-48

Yin, R. K. (2003) **Case Study Research – Design and Methods (3th edition)**, London: Sage.

Yin, R. K. (2009) **Case Study Research – Design and Methods (4th edition)**, London: Sage.

Yli-Renko, H., Autio,E.and Sapienza, H. J. (2001) Social Capital, Knowledge Acquisition, and Knowledge Exploitation in Young Technology-based firms, **Strategic Management Journal**, 22: 587-613

Yli-Renko,H., Autio, E. and Tontti, V. (2002) Social Capital, Knowledge and the International Growth of Technology-Based New Firms. **International Business Review**, 11: 279-304

Zahra, S. A., Korri, J.S. and Yu, J. (2005) Cognition and International entrepreneurship: implications for research on international opportunity recognition and exploitation. **International Business Review**, 14:129-146

Zain, M. and Ng, S. I. (2006) The Impacts of Network Relationship on SMEs' Internationalization Process. **Thunderbird International Business Review**, 48(2): 183-205

Appendix One

Questions to the participants

Questions to the participants

1. When was this company founded? What led to its creation?
2. What is the nature of the business of your firm?
3. Could you briefly describe the main cross-border activities to date that your firm has been involved in? Which countries are the main markets for your products/ service by value of sales?
4. What is the proportion of your firm's sales revenues coming from overseas market? Considering the last 5 years, what has been the trend in the percentage of your firm's sales revenues coming from outside the home market?
5. In your view, does the company feel vulnerable because it is small?

6. Could you talk about your most recent internationalisation activities? And what triggered it?
7. How uncertain did you judge this new market to be? Was it unfamiliar to you?
8. How did your firm prepare for it?
9. How successful has it been?
10. Did your firm look at other market alternatives? What has led you to choose this market?
11. What knowledge/ resources did you perceive to be relevant/ necessary to do business in this market? Were there gaps in the information, resources, experience that you judged had to be filled in order to carry through this internationalisation?

12. Did you talk to anybody outside the firm about entering this market? If yes, with whom and which institution or organisation does he/ she belong to?
13. How long have you known this external contact? How was relationship initiated and developed overtime?
14. What would you say are the most important relationships for internationalisation

that you or your firm have with other companies/ organisations or individuals today?

15. What contributions have each of these contacts made to your firm's internationalising activities?