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**THE IMPACT OF SUPPLIER RELATIONSHIPS ON BORN GLOBAL FIRMS`
INTERNATIONALIZATION**

Master`s Thesis in
International Business

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ABSTRACT

Purpose: Building on the resource-based perspective and the network theory of the firm, this thesis explores how supplier relationships facilitate the internationalization of born global firms. The study examines what kind of relationships born globals develop with their suppliers and how those specific relationships contribute to the firms' operation and internationalization. The causes of past and possible future changes in supplier relationships are also discussed. The study makes a comparison between born globals being in their start-up stage and born globals being in their growth stage of their life cycle.

Design/methodology/approach: The thesis uses deductive approach while its research design is the combination of descriptive and exploratory studies. The empirical research applies qualitative methodology using semi-structured interviews.

Findings: The result shows that strategic manufacturing suppliers providing specialized components and final assembly have significant importance in the firms' operation. Next to improving efficiency and increasing the born global's knowledge-base, they contribute to the firm's internationalization through production globalization and production offshoring.

Research limitations/implications: The international scope of the study is considerably limited to a single country, Finland and even to a single region inside the country. Furthermore, the research focuses on a specific industry; that is the energy technology industry. As for the implications, the study shows that suppliers do have a direct role in the firm's internationalization which should not be ignored.

Originality/value: The research contributes to the born global literature by studying its downstream supplier relationships which got limited attention by academics to date.

KEYWORDS: Born globals, Supplier relationship, Strategic alliances, Competitive advantage, Internationalization

1. INTRODUCTION

This chapter provides the introduction of the study. It presents the background of the topic as well as demonstrates the research gap. It also covers the purpose, the objectives, delimitations as well as the structure of the study. Furthermore, the definitions of the main concepts are introduced in this section.

1. 1. Study background

The phenomenon of born global firm has got great attention from academics and researchers in the last two decades due to its contradiction to the conventional internationalization theories (Gabrielsson & Kirpalani 2004). Researchers have found that born global firms does not follow the traditional internationalization and stage model theories – that is mainly associated with the growth of large and mature companies - but pursued a global strategy at or near inception, while proactively taking risk and facing uncertainty (Jolly, Alahuhta & Jeannet 1992; McDougall, Shane & Oviatt 1994).

As the nature of born globals greatly differs from the characteristics of the traditional multinational companies, it has been studied increasingly in the last two decades from different perspectives. A great part of the studies tries to shed light on the conditions that make rapid internationalization of born global firms possible. This current thesis continues this path in a way that it studies born global firms from the sourcing network perspective. It attempts to present the type of relationships born globals develop with their suppliers, how these relationships contribute the firms' internationalization, furthermore, how these relationships change with the growth of the firm.

The internationalization of firms has been studied extensively since the second half of the 20th century (Madsen & Servais 1997). Researchers have devised different models to explain the internationalization of firms, such as the 'Uppsala internationalization process model' (Johanson & Vahlne 1977), the 'theory of internalization' (Buckley & Casson 1976), the 'OLI paradigm' (Dunning 2000), and the 'business network approach' (Johanson & Mattsson 1988). This latter has received a great attention regarding its relevance to small, entrepreneurial firms such as born globals (e.g.: Chetty & Holm 2000; Hoang & Antoncic 2003). It has been highlighted that born globals often use their networks and establishes close relationships with business partners to resolve

the critical resource deficiencies to access a broad range of markets rapidly and keep up the volume with the demand (Jolly et al. 1992; Oviatt & McDougall 1994).

The strategic importance of suppliers in the firms' operation has also got the attention of academics in the last three decades (e.g.: Ragatz, Handfield & Scannel 1997, Sheth & Sharma 1997). It has been highlighted that companies tend to establish partnerships with suppliers and outsource non-core activities that propose the growing awareness of the suppliers' role in the company's strategy (Gadde & Shenota 2000). Supplier relationship has become considered as one of the most important assets the companies have as a large proportion of the company's activities are channeled through them, thus has a significant economic impact on their performance. Moreover, more than half of the total turnover is usually handled within these relations (Håkansson & Gadde 1992).

Besides, with reference to the network studies, researchers have argued that the locus of competitive advantage does not reside only within the company's own capabilities anymore, but in the network in which it is embedded (Gadde et al. 2000). Sepulveda and Gabrielsson (2013) similarly confirm that competitive advantage is derived jointly from internal and network resources. Thus, the link between competitiveness and the firm's ability of developing and managing its network relationships have become widely recognized (Ford 2002). Firstly, the importance of key customers has been acknowledged concerning this issue, and later it has been extended upstream including key suppliers (Dean & Terziovski 2001).

Sheth and Sharma (1997) similarly remark that the type of relationship firms develop with their suppliers is the main source of competitive advantages. Researchers have found that well-developed supplier relations result in increasing efficiency and effectiveness that can be reached through stock reduction, improvements in service level (e.g.: shortened delivery times, increased delivery reliability), reduction in capital cost, developed design, efficiency in R&D, increased quality and innovation performance, improved production process and new product development (e.g.: Håkansson et al. 1992; Kaufmann & Tödtling 2001; Ragatz et al. 1997). Therefore, firms started to reconsider their business operations and examine the potentialities of suppliers to enhance competitiveness (Morrissey & Pittaway 2006; Perez Perez & Sanchez 2002) that have influence also on firm's internationalization.

1. 2. Research Gap

As it was already mentioned, studies have been carried out from various perspectives attempting to demonstrate and explain born global firms' rapid internationalization. Many researchers had been extensively focusing on the internationalization process of born globals (e.g.: Autio, Sapienza & Almeida 2000; Kalinic & Forza 2012; Madsen et al. 1997), while others have researched their globalization and marketing strategies (e.g.: Jolly et al. 1992; Laanti, Gabrielsson & Gabrielsson 2007; Hallbäck & Gabrielsson 2013); their resource availability and unique capabilities (e.g.: Knight & Cavusgil 2004).

Related to the resource-based perspective, many studies have concentrated on the network view of born globals to explain internationalization process and rapid growth including network content, governance and structure (e.g.: Hoang et al. 2003; Oviatt et al. 1994). These network-based studies mainly focus on how business networks and the company's relationships influence the internationalization of the born globals (e.g.: Sharma & Blomstermo 2003) highly concentrating on the downstream side of networks including distributors and customers (e.g.: Chetty et al. 2000; Gabrielsson et al. 2004). However, the upstream network, the effects of supplier relationships on born globals' internationalization has stayed quite intact in the literature (Gabrielsson & Kirpalani 2012). This thesis seeks to fill this gap and research the sourcing relations of born global firms. More precisely, this current thesis aims to find out the types of relationship born globals develop with their suppliers and how these relationships contribute to the internationalization of the firms.

1. 3. Objectives and Delimitations

One of the key success factors of born globals is the early presence in high potential countries. However, a rapid and strong presence in large, promising markets requires certain critical input variables such as high-cost R&D and large-scale manufacturing (Jolly et al. 1992). As born globals lack resources to cover all necessary activities to operate abroad and satisfy demand, they usually rely on their networks to get access to foreign, external resources to complement that of their own (Sepulveda et al. 2013). Numerous authors have promoted recently that well-developed supplier relationship is the basis of a company's survival, growth and development; furthermore, leveraging suppliers' expertise, skills and capabilities enhance performance (Dean et al. 2001;

Gadde et al. 2000). Based on this background, the research project's research problem is formulated as follows.

How supplier relationships contribute to the internationalization of born global firms?

More detailed research objectives are further given in order to get clear answer to the research question. Accordingly, the following research objectives are formulated:

(1) What kind of relationships born globals develop with their suppliers?

(2) Do these relationships enhance born globals' internationalization? How?

(3) Does the type (closeness, involvement) of relationship change as the firm grows? If yes, how and why?

The first sub-objective is answered in the empirical part of the thesis, while sub-objectives 2 and 3 are first reviewed in the existing literature and then tested in the empirical part of the thesis. The empirical study concentrates on Finnish-based born global firms that adapt the definition of born globals used in this study and introduced in the next section. Moreover, the firms taking part in the research are operating in the field of energy technology industry and selected from the member enterprises of Energy Vaasa. The sample size of the study is four, two of which are relatively young firms and two that are already have a longer history, thus reached a stronger presence in global markets. This difference between the firms makes possible to analyze the dynamism in buyer-seller relationship resulting from the growth of the firm.

In this study, inter-firm links will be presented covering all possible contractual agreements that can be realized between buyer and seller. Although the thesis will introduce the different buyer-seller relationship types in the form of contractual agreements, it does not intend to discuss legal aspects of the relationship, rather illustrates the possible types of buyer-seller relationships and how these specific relationships can contribute to the firm's internationalization.

As a further delimitation, the study excludes all indirect material suppliers. This means that the suppliers supporting the firm's infrastructure and providing materials and services that do not become direct part of the company's value proposition – such as

maintenance, repair and operation supplier, supplier related to facility managements and investment goods - are excluded from the study. The study includes those suppliers which provide materials and services that become part of the company's value proposition (van Weele 2010). Furthermore, the perceptions of the corresponding supplier representatives are not intended to investigate and analyze. Further limitations will be revealed later in the study in the appropriate connection and part of the thesis.

1. 4. Definitions

Born global firm

Scholars have used various definitions for born global firms and even the name of the concept varies in the studies. Researchers used the term 'international new ventures' (Oviatt et al. 1994), 'born globals' (Knight & Cavusgil 1996), 'high technology start-ups' (Jolly et al. 1992), 'global start-ups' (Oviatt & McDougall 1995) - just a few among others - to describe the phenomenon. As for the definition, there is no consensus about the criteria either among researchers that describe born globals. The years to become international, the number of served countries, the geographical expansion in terms of foreign sale vary in the studies depending on the firms taking part in the research projects. (Gabrielsson et al. 2004.)

In this study, the definition of Oviatt et al. (1994: 49) is used when defining born global firms that are "*business organizations that, from inception, seeks to derive significant competitive advantage from the use of resources and sales outputs in multiple countries*". Furthermore, to make the research more focused other two decisive criteria are also determined. The study considers a firm as born global if it serves at least two foreign markets three years after inception and 25% of its total sales originate from foreign countries within the same time frame.

Network

"*A firm's set of relationships, both horizontal and vertical with other organizations even across industries and countries*" (Perez Perez et al. 2002: 263). A 'network' represents a set of actors – organizations and institutions - that are connected to each other. These actors are tied together in a relationship that may take many forms including economic, non-economic, short or long-term relationships between customers, suppliers, governments, and service providers or other business or non-business partners (Coviello & Cox 2006).

Relationship

“A relationship is a mutually oriented interaction between two reciprocally committed parties”. A relationship develops over time through a chain of interaction episodes. The interactions between the parties are a series of act and counteracts which affect their behavior, creates opportunities and interdependence - that can be both positive and negative, rewarding and demanding - for those involved. (Håkansson & Snehota 1995: 162.)

Strategic Alliance

Strategic alliance is defined as “a purposive relationship between two or more independent firms that involves the exchange, sharing or co-development of resources or capabilities to achieve mutually relevant benefits” (Kale & Singh 2009: 46). Strategic alliance and strategic partnership are used interchangeably throughout the thesis.

Purchasing

“Purchasing refers to the management of the company’s external resources in a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company’s primary and support activities is secured under the most favorable conditions.” Purchasing management involves all activities related to the management of supplier relationships in a way that it is in compliance with the company’s overall business strategy and interest. (van Weele 2010: 408.)

1. 5. The Structure of the Study

This first chapter of the thesis introduced the background of the topic and the related research gap to arouse the reader’s attention. It also presented the objectives and delimitations of the study as well as the basic definitions. The present part of this chapter introduces the structure of the study to prepare the reader for the followings.

To reach the objective of the study, a literature review on born global firms and supplier relationships will be conducted. The literature review has been divided into two main chapters in order to make the theoretical setting of the thesis easy to survey. A theoretical framework will be firstly developed on born globals’ resource availability and the changes in its resource needs at different stage of its life cycle that is supposed

to determine the network content, thus the type of relationships it develops with its suppliers. This latter also helps to analyze the changes in the relationships at different stage of the firm's life cycle. Moving from the resource-based view, the model of industrial networks will be presented in relation to born global firms shedding light on the importance of business relationships in the firm's operation. Internationalization of the firm is also presented in the end of this chapter as one of the key concept of the present study.

After studying the network view and internationalization of the firm, the second chapter of the literature review moves on to investigate buyer-seller relationships. As no literature was found specifically on born globals' buyer-seller relationships, the study will discuss supplier relationships in general as well as in SME context. Then, inter-firm links will be presented covering all possible contractual agreements that can be realized between buyer and seller; furthermore, how these relationships support firm's performance and internationalization. Managing relationships will be also covered in this part.

After building the theoretical framework, qualitative empirical research is conducted to answer the research question. Accordingly, the research methodology and data collection will be presented covering research approach, design, data analysis, validity and reliability of the research in more details. Finally, in the last chapter, the key finding of the thesis will be summarized including issues such as theoretical and managerial implications as well as suggestions for future research.

2. RESEARCH ON BORN GLOBAL FIRMS

As the starting point of the theoretical setting of the thesis, this chapter focuses on studies made on born global firms. It explores born globals through the investigatory lens of the resource-based view and the network view of the firm to provide a basis to present its supplier relationships. The need to analyze the resources of born globals is considered important as it is assumed that the resource availability of the firm highly influence the resources and capabilities the born global seeks in a relationship, hence determine the type of relationship it develops with its suppliers. The resource-based view leads to the presentation of the network model that helps to understand the role and the importance of relationships in the firm's operation in industrial markets. Then, the life stage model of born globals is presented to analyze the changes in supplier relationships with the growth of the firm. The chapter is closed by a short presentation on the internationalization of the firms.

2. 1. The Resource-based View of Born Globals

The resource-based view analyzes firms from the resource and capability side through which they develop and maintain competitive advantage (Wernerfelt 1984). Resources and capabilities increase efficiency and effectiveness thus greatly contributes to the success of the firm (Barney 1991). According to the resource-based perspective, differences in firms' performance are fundamentally due to their resource heterogeneity as well as the firms' ability of combining resources and capabilities in a way that is valuable, non-substitutable and difficult to imitate that eventually lead to competitive advantage (Barney 1991; Brush, Greene & Hart 2001).

Resources are inputs to production (Helfat & Peteraf 2003) and defined "*as all assets, capabilities, organizational processes, firm attributes information, knowledge etc. controlled by a firm*" (Barney 1991: 101). Resources are converted into final products and services by using other firms' assets and bonding mechanism (Amit & Schoemaker 1993). In contrast, capability is the firm's ability to deploy and utilize its resources in a way that yield a particular end result and organizational goals. Thus, in compliance with this, differences in firms' resources and capabilities affect greatly the firm's competitive advantage as well as disadvantage (Helfat et al. 2003).

Brush et al. (2001) argue that as a born global has no administrative history, loyal customer-base, reputation of performance and experience, its strategic resource decisions have a significant implication on its survival and growth. Resource choices may have serious consequences if the resources do not fit the opportunity or waste other valuable ones. Therefore, to realize success in the long run, the unique capabilities rooted in innovative combination of resources should characterize born globals' strategy.

As the basis of competitive advantage, it can be assumed that the availability of certain resources and capabilities greatly enhance the internationalization of the firm while the shortage of them may slow down or even hamper it. Therefore, it is important to reveal which resources and capabilities the born globals possess and which ones need reinforcement. Analyzing these resource strengths and weaknesses reveals the resources and capabilities the born global seeks in a relationship that ultimately enables it to enter in foreign markets and compete successfully.

2. 1. 1. The Capabilities and Resource Strengths of Born Globals

Young and small firms usually suffer from the lack of sufficient amount of basic resources such as financial, human and other physical resources that result in a reduced set of competitive options (Jolly et al. 1992; Knight et al. 2004; Sepulveda et al. 2013). However, globalization and the recent technology advancements have created an environment in which small firms can take part actively in global business. Although these advancements are necessary, they are not sufficient to the successful emergence of born global firms. They must have a specific internal organizational capability that supports early internationalization and growth in global markets (Knight et al. 2004).

Autio, Sapienza and Almeida (2000) argue that the success of the early internationalization depends on the firm's internal capabilities. Innovation activity is an internal capability that refers to a superior ability of the firm that creates knowledge that is the basic source of competitive advantage (Conner & Prahalad 1996). Internal capabilities distinguish the firm from its competitors and are critical resource to compete successfully (Nelson & Winter 1982). Born global firms play an important role in generating pioneer innovations and new knowledge regarding both the development of new product as well as new ways of doing business (Autio et al. 2000; Partanen, Chetty & Rajala 2011). Similarly, Laanti et al. (2007) confirm that born global firms excel in claiming worldwide acceptable innovation in niche business areas. First mover

advantage, that is to be early in the market, and the global acceptance of the innovative product make possible to conquer new markets in a relatively short time period. Likewise, Knight et al. (2004) support that born globals exhibit strong technological capabilities in terms of creating superior products and new operating methods as well as developing already existing products.

To generate innovations, effective R&D activities and the imitation of the innovations of other firms are fundamental conditions (Knight et al. 2004). According to Cooper (1964), R&D is more efficient in small firms compared to well-established, large, multinational companies. He argues that small firms spend less money in developing new product; excel in attracting outstanding technical people thus have larger technical creativity; have better communication and coordination system within the company; and are more sensitive to market needs that results more efficiency in product development. Nevertheless, Powell et al. (1996) highlights that in industries which characterized by rapid technological development, researches aiming to generate breakthrough innovations are widely distributed among the actors that no single company has all the internal capabilities needed for success. Therefore, external collaboration is needed to supplement the internal capabilities of the firm, access to knowledge and resources that cannot be developed internally.

Most of the born global efficiencies are attributed to the initial small size as it promotes flexibility, agility and rapid adaptation to the changing environment and customer needs (Knight et al. 2004). Related to this latter, dynamic capabilities play an important role in the firms' performance (Kuuluvainen 2011) referring to the "*the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments*" (Teece, Pisano & Shuen 1997: 516).

Other special characteristic that has a positive effect on born globals' internationalization is the international entrepreneurial orientation. As their most important organizational culture attributes, entrepreneurial orientation brings together three important dimensions indispensable for rapid and successful internationalization; those are pro-activeness, innovativeness and risk-taking (Knight 2001; Knight et al. 2004). These dimensions were originally provided by Miller (1983: 771) who suggested that entrepreneurial firms engage "*in product market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch*".

Lastly, but yet importantly, the strategic value of leveraging interpersonal ties and inter-firm networking is widely recognized by born globals as a key factor to enhance international performance. Accordingly, founder-managers of small and new entrepreneurial firms are heavily engaged in networking to enhance growth (Freeman 2012). The development and the utilization of relationships with customers, suppliers and other members of the network are important since a significant part of the company's knowledge is obtained through them (Welch & Welch 1996). Therefore, many authors approve that social ties and the ability to actively engage in inter-firm networks have key roles in born globals' internationalization (Manolova, Manev & Gyoshev 2010). After presenting the resources strength of born global firms, the next section covers their resource deficiencies.

2. 1. 2. Resource efficiencies of Born Globals

While the initial small size of born global provides various efficiencies to the firm, it also involves one significant disadvantage; that is resource shortage (Knight et al. 2004). Jolly et al. (1992) argue that rapid and strong presence in large, promising markets require certain critical input variables, for example high-cost R&D and large-scale manufacturing. Born globals usually lack significant resources to cover all necessary activities to operate abroad and satisfy worldwide demand (Sepulveda et al. 2013). Similarly, Knight et al. (2004) reckon that these firms lack most of the financial, human and tangible resources that were seen before as the basic conditions of successful internationalization in the multinational enterprise literature.

Born globals are characterized by serious disadvantages originated from their small size and resulting in resource shortage, which eventually leads to the following challenges the born global faces: liability of smallness, liability of foreignness and liability of newness (Knight et al. 2004; Partanen et al. 2011). Liability of smallness indicates the limited financial, physical and intangible resources that the firm possesses (Hoang et al. 2003; Partanen et al. 2011). For example, born globals have difficulties in obtaining capital, large scale production facilities, and equipments that would enable to satisfy the growing global demand. Liability of newness refers to the lack of reputation and the low level of legitimacy, referring to being in accordance with established or accepted patterns and standards, which cause difficulties to effectively compete with already well-established firms in new markets (Yann-Jy Yang 2010). Due to the liability of newness, born globals have to work hard to inspire confidence and built relationships with the stakeholders. Finally, liability of foreignness refers to the lack of information

and the limited knowledge of the international business environment. This causes problems for born globals to predict changes in the business environment, to deal with those changes and to adopt the practices of local firms.

2. 1. 3. Conclusion on Born Globals' Resources

The resource-based view of born gobals was analyzed since the author of this thesis supposes that the resource availability and resource shortage of born globals determine the type of relationship the firm seeks and develops with their business partners. According to the existing literature, born globals dispose strong capabilities and in the same time are characterized by serious resource shortage. While reviewing the studies on both the born globals' resource strengths and weaknesses, the importance of the firm's network and its relationships with external partners were referred and recognized by several authors. For instance, Sepulveda et al. (2013) argue that born globals use their business relationships to overcome liabilities and resource shortage. Similarly, Oviatt et al. (1994) argue that through its relationships, born global accesses to those resources that the firm is unable to develop by its own. Furthermore, external partners play an important role not only to get access and obtain resources, but complement internal ones.

Powell et al. (1996) argue that there is no single company that can possess all the technology needed to generate breakthrough innovations in today's rapidly changing environment. Therefore, firms have to use the capabilities of other firms to supplement and strengthen that of their own. Saxenian (1990) further reckons that born globals excel in unbundling the production process – towards and between business partners - which enables them to focus on their core competencies. Other authors also propose that born globals tend to derive various benefits from their business networks (e.g.: Freeman 2012; Manolova et al. 2010; Perez Perez et al. 2000; Welsch et al. 1996). These arguments indicate that born globals do engage in relationships with external partners either to overcome resource shortage or to complete internally available ones.

As many references have been found regarding the role of firms' network during the analysis of the born globals' resource-based view, the next section of the thesis will introduce the network model of the firm, more specifically that of born globals, which helps to understand how and why business relationships evolve between business actors.

2. 2. A Model of Industrial Network – Understanding Business Relationships

The goal of the industrial network model is to investigate and present how business relationships are connected to each other (Ford, Gadde, Håkansson & Snehota 2011).

Figure 1 represents the basic structure of the model followed by its explanation.

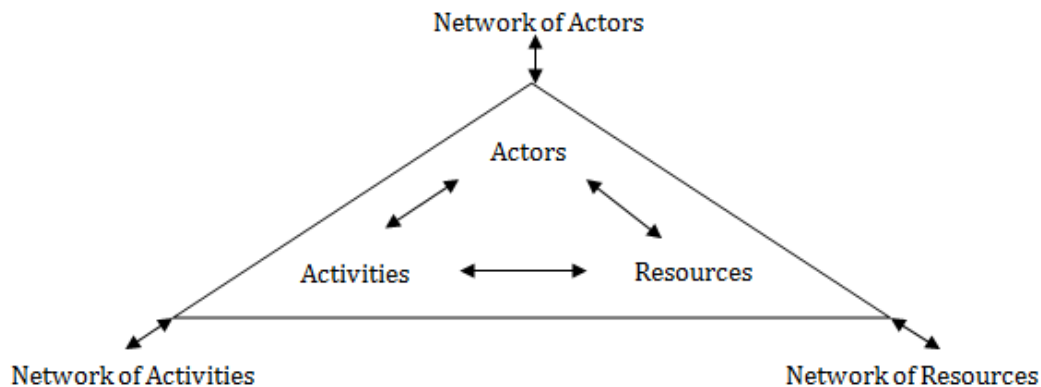


Figure 1. The Basic Structure of the Network Model. (Ford 2002: 146).

According to the model, business relationships consist of three layers. First, the relationship consists of activities that connect various internal activities of the parties. These so-called *activity links* – that can be technical, administrative, commercial etc. - realize a unique performance as they have a great effect on the activity structure of the companies involved in the relationships. Activity links affect not only the company's productivity but that of the whole network. As companies have other relationships including other activity links, the activity link of a company is connected to the activity link to other companies thus these relationships result in an “*activity chain in which the activities of several companies in a sequence are linked to each other*”. (Håkansson et al. 1995: 166.)

To sustain the company activities, business relationships also connect various resource elements - such as technological resources, material, knowledge and other intangibles - controlled by other parties. As the relationship develops, resources can become specifically adapted and oriented toward each other that create *resource ties* between the parties that constrain the possibilities as well as provide opportunities to the firms. The

extent and type of resource ties in a relationship have significant economic consequences both on productivity as well as innovation. (Håkansson et al. 1995.)

Finally, the third layer of business relationships is the *actor bond* that represents the connections between individual actors of the firms involved. Actor bonds are created when mutual interest is shown towards each other. They affect the way the firms perceive, evaluate and treat each other; moreover they influence the companies' behavior, their identities and their organizational learning. (Håkansson et al. 1995.)

In summary, resources, activities and actors of the companies interact with each other in the relationship and form the three layers of the interaction process. As the relationship develops, these layers may be adapted, developed and transformed through interactions by the parties who bring their own resources to the relationship and invest in it in order to reach mutual benefits. (Ford et al. 2011.)

2. 2. 1. Low-Involvement vs. High-Involvement Relationships

Depending on the extensiveness of activity links, resource ties and actor bonds between the parties, low and high involvement relationships can be distinguished. The degree of involvement regarding these three dimensions influences and determines the closeness and the economic outcomes of the relationship. The main driver to develop high-involvement relationship is to realize cost reduction in production processes, achieve improved flexibility and service level as well as increase revenue. (Gadde et al. 2000.)

In contrast, the main motives of low-involvement relationships are cost-effectiveness through low relationship handling cost. However, in case of low-involvement relationships, various hidden cost might appear such as higher transaction and procurement costs, internal resource adaptation to the external resources, higher level of inventory and increased supply handling cost due to the simultaneous use of various suppliers to ensure availability (Gadde et al. 2000). Throughout this thesis, high-involvement relationships will be referred as strategic, while low-involvement relationships will be referred as arm's length relationships. Further discussion regarding these two types of relationship will be discussed under Chapter 3.

As the differing degree of involvement - activity coordination, resource adaptation, personal contacts - between the parties leads to different costs and benefits, firms get involved in different types of relationships with suppliers. Economic consequences of

supplier relations are difficult to estimate as they do not show up clearly in the company's account (Gadde et al. 2000). The economic consequences of supplier relationships are shown in Table 1.

Table 1. Economic consequences of supplier relationships. (Gadde et al. 2000: 308).

Relationship Costs	Relationship Benefits
Direct procurement costs	Cost benefits
Direct transaction cost	Revenue benefits
Relationship handling costs	
Supply handling cost	

Gadde et al. (2000) distinguished relationship benefits and relationship costs. Relationship benefits include cost benefits and revenue benefits. Cost benefits refer to those saving in the costs of operation that can be attributed to the collaborative relationships with suppliers such as joint product development or integrated logistic operation. Revenue benefits represent the income resulting from supplier relationships, usually linked to the improvements in quality and performance that influence the competitiveness of the buying company. As for the costs, relationships costs cover all costs related to procurement and transaction as well as the handling of the relationship and supply. The relationships costs and benefits will be further elaborated in chapter 3. To sum up, relationship does exist between firm that connects the activities, resources and the actors of the parties involved. Furthermore, the type of relationship they develop can significantly differ depending on the benefits the parties look for. In the next part, the thesis reviews the literature focusing specifically on the network view of born global firms.

2. 2. 2. The Network View of Born Globals

Instead of seeing as fragmented, separate entities, the network approach survey the company's business context as a complete system rather than a separate entity. It emphasizes the interdependence of business relationships and the borderless nature of the network in which the company operates (Halinen, Salmi & Havila 1999). Resource-based network studies have identified three basic assumptions about firms' resources that can be applied on born globals. Firstly, a firm's resources spread well beyond the

boundaries of the firm and involve other firms' resources within the network; secondly, resource accessibility is a sufficient condition for firms to benefit from its network; thirdly, competitive advantage can be realized by utilizing both internal and externally obtained resources (Sepulveda et al. 2013).

The network consists of different kind of relationships between the firm and external parties that can be suppliers, clients, distributors, governmental agencies, other business partners and social contacts (Sepulveda et al. 2013) and it emerges to satisfy the firm's resource needs, find solution to its resource challenges and surpass resource limitations (Hite & Hesterly 2001; Laanti et al. 2007). Based on the resource-based perspective, firm's network represent a valuable resource, which can yield differential returns just as other tangible and intangible assets. It facilitates access to valuable resources such as technology, qualifications, information on market requirements and business support services among others (Perez Perez et al. 2000). Neglecting the importance of the network can lead to the incomplete understanding of the firms' behavior and performance (Gulati et al. 2000).

According to Lincoln, Ahmadjian and Mason (1998), well-established network enables small-scale, specified firms to outshine even large multinational companies. They highlight that the network frees the company to make investments in internal capacities that would tie down the already limited capital of born global unnecessarily. Moreover, these economies are quite suitable for firms operating in fast-changing industries such as the energy technology industry. Next to resource acquisition, networks can also create new opportunities for the firm as technical and market information spread more rapidly and efficiently within a well-established network (Saxenian 1990). Therefore, international firms actively develop and change networks to enact and adapt to the external environment, to satisfy resource needs in accordance to market expectations and to create new growing opportunities (Slotte-Kock & Coviello 2010).

The resource-based network view clearly suggests that born globals engage in relationships to access other firms' resources and capabilities that enhance survival, growth and internationalization. So far the thesis was mainly focusing on the early stages of the born global regarding its resources and capabilities, the way it overcomes liabilities and finds growing opportunities. However, this thesis also tries to find out how the firms' relationships change beyond the initial stage of the firm's life cycle. It is assumed that with the growth of the firm, born globals' resource need simultaneously change that ultimately determines the relationship it develops with its partners. The life-

stage model of born globals will give a good basis to investigate this issue more deeply; therefore, it is presented in the following part.

2. 3. Life-Stage Model of Born Globals

This section presents the growth pattern of born globals based on the work of Kazanjian (1988) who developed the model for technology-based new ventures. The model gives a base for analyzing the changes in the firm's resource needs with its growth, which is supposed to determine the type of relationship born global develops with its suppliers. Figure 2 presents the stages of the born global's life cycle and the dominant problems related to each stage.

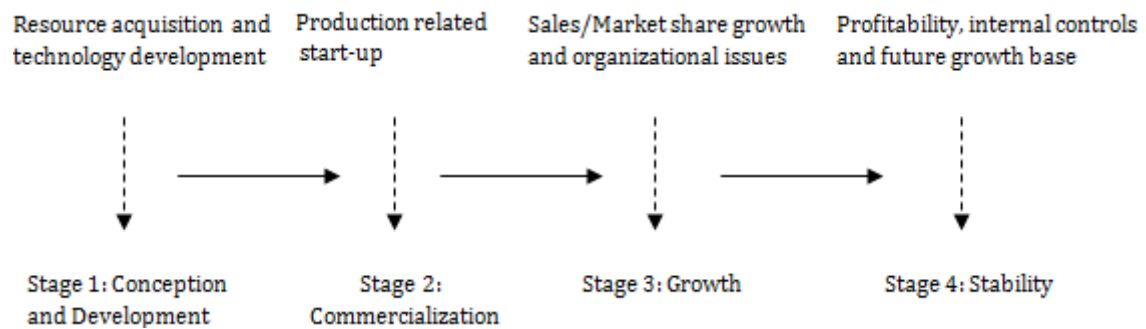


Figure 2. Relation of Dominant Problems to Stages of Firms' Growth. (Kazanjian 1988: 262).

- Stage 1 is the *Conception and Development Stage* covering the period when the idea of the company is already conceived; however the firm is not registered yet as legal entity. The primary focus on this stage is on technical issues including the invention and development of the product or a technology. Critical need is for financial and technological resources regarding the construction of the prototype to demonstrate the technical feasibility of the product and the business idea for bankers and investors to gain initial funding.
- Stage 2 is the *Commercialization Stage* in which the firm is a legal entity and accessed to financial resources. The major focus is on product or technology development for commercialization. There is a significant importance on learning how to make and produce the product. Manufacturing and engineering

get high importance while other organizational functions are rudimentary. In the end of this stage, the firm's product is publicly announced and available for sale. The problem of securing financial resources at this stage is still dominant.

- If the product find acceptance, stage 3 in other words the *Growth Stage* is expected to come. The major challenge at this time is to produce, sell and distribute the product in an efficient and effective way. Major problems can be found in inadequate selling, manufacturing capacity, product reliability, services within marketing and financial controls. This period is characterized by constant change. The so far informal and unstructured organizational functions and activities become structured and formalized.
- The last stage is the *Stability Stage*, in which the born global's rate of growth slows down to the growth rate of the market. Dominant challenge is to maintain the growth and market position. The main focus is on product development. With the extensive growth, the internal structure of the firm needs to be modified and reorganized in order to function effectively. Therefore the company is characterized by bureaucratic principles, formalized rules and standardized procedures across the organization. (Kazanjian 1988.)

Through the life stage model, it is easily observable that the born global goes through various changes regarding organizational structure and resources. As the firm grows, it meets different challenges depending on its prevailing resource availability. The model implies that born globals need different resources at different stages of the life cycle in order to reach the following stage or maintain its stable position. The next subsection will further investigate this issue and present resources transferred to born globals through its network at different stages of the life cycle.

2. 4. Resource Transfers to Born Global at Different Life Stages

Networks play an important role at every stage of the born global development and are seen as dynamic source of resources and opportunities supporting firm's survival and internationalization (Laanti, Gabrielsson & Gabrielsson 2007; Pittaway et al. 2004). Resources available through the network generate the firm's stock of social capital (Coviello & Cox 2006) referring to the full potential of all resources available through the firm's relationships (Nahapiet & Ghoshal 1998). Born globals use network ties to get access to different kind of resources such as human and organizational resources

(Coviello et al. 2006), foreign market information (Sharma & Blomstemo 2003), and commercial knowledge (Hoang et al. 2003).

Coviello et al. (2006) studied the resource dynamics of knowledge-based technology developer born globals. They have analyzed the transfer of different types of resources - namely organizational, financial, human and physical resources - generated through the network; and how these resource transfers change at different stages of the born global's evolution process using the life stage model of Kazanjian (1988). The study analyzed three born global firms located in New Zealand focusing on the stages from I to III and excluding the stage IV due to the lack of insufficient data. Although the limited number and the geographic concentration of participating firms raises concerns about the generalizability of the findings, this thesis still present the study as it shows valuable results that can contribute to the present research. Coviello et al.'s (2006) findings are averaged out based on the collected data of the three companies and summarized in Table 2.

Table 2. Type of Resources Transferred through the Network at Different Stages of the Born Global's Evolution Process. (Based on Coviello & Cox 2006: 123).

	Stage I. Conception	Stage II. Commercialization	Stage III. Growth
Physical resources	6,33%	7%	2,66%
Human resources	10%	54,66%	2%
Financial resources	19,33%	10%	2,66%
Organizational resources	64,33%	28,66%	71,66%

In the research, organizational resource category represents internal planning, structures, coordination systems and processes as well as technological resources. Physical capital is associated with equipments, facilities and other less tangible resources as geographical locations. Human capital involves individual knowledge and skills created by the addition of manger/developers/subcontractor. Lastly, financial capital flow represents additional funds led into the business. (Coviello et al. 2006.)

As table 2 shows, born globals' networks are active in generating organizational, human and financial resources, organizational skills and competencies throughout the whole life cycle; though the generation of certain resource types is more prevalent at certain

stage of the evolution process. For example, the transfer of organizational resources, including technological capabilities tends to be more significant during the conception stage; while the transfer of human resources is more relevant during the commercialization stage. However, it should be emphasized that this research is based on software companies and it is assumed that the transfer of these resource types vary greatly at different stages depending on the industry and the nature of the business.

Nevertheless, this research is thought to be important to present for two reasons. Firstly, it demonstrates well that a significant part of resources are channeled into the firm through external organizations, which proves that the theory of the network model thus the relationships between business partners are practically demonstrated. Secondly, it can be seen that the flow of certain type of resources change significantly at different stages of the life cycle. This latter finding shows that the resource needs of born globals change during the evolution process of the firm. This suggests that the relationship developed between the parties and the resources looked for in the relationships change as well with the growth of the firm. This implies that various differences are likely to be found when analyzing the case companies being in different stages of their life cycle. Before moving to a deeper analysis of buyer-seller relationships, internationalization of the firm will be discussed as the last main section of this chapter.

2. 5. Internationalization of the Firm

Before starting to analyze buyer-supplier relationships in more detail, internationalization of the firm will be presented as one of the key concept of the thesis. Internationalization is *“a process, end result, and way of thinking whereby a company becomes more involved in and committed to serving markets outside its home country”* (Albaum & Duerr 2011: 967).

Internationalization has three dimensions: extent (or degree), scope (or breadth) and speed. The dimension of extent means the level of firm`s commitment to foreign expansion. The extent of internationalization can be assessed by two different ways. Firstly, it can be measured by analyzing export intensity and reviewing the proportion of foreign sales with the total company sales; secondly, by analyzing the entry mode and the level of resources the firm invests into the process. Internationalization scope reflects the range of locations where the firm is doing business in any form of foreign operation. Finally, the third dimension is speed that can be applied on three levels: (1)

the speed of international growth and exporting intensity; (2) the speed of increased commitment of resources to foreign activity; (3) the speed of the dispersion (growth in scope) of international markets. (Casillas & Acedo 2013.) Each dimension gets focused attention in the born global research since the criteria used for determining whether a firm is a born global are based on these three dimensions. There are various ways to enter and penetrate into foreign markets and extent the firm`s activities to international level. These will be reviewed in the next section.

2. 5. 1. Foreign Operation Modes

There are various means of serving a foreign market. Luostarinen (1977) distinguished eight main operating alternatives in foreign markets: indirect export, direct export, own export, licensing, contract manufacturing, coproduction, own assembling and own manufacturing. He classified foreign operations based on their functions: marketing and manufacturing operations. Furthermore, he also distinguished between direct as well as non-direct investment operations abroad. Marketing operations refer to those activities that involve the delivery of finished goods to the end customer. While manufacturing operations refers to the opposite side of the value chain, and it involves activates related to the manufacturing process of the final product. Marketing operations compromise indirect exporting, direct exporting and own exporting. Indirect export means that the firm uses a middle men located in the home country as the first level of the distribution channel. Direct export means that the company uses a distributor located in the target market as the first member of the distribution channel. Finally, own exporting means that the company sells its product to the final customer through its own sales outlet located in the target market. (Luostarinen 1977.)

Manufacturing operations involve licensing, contract manufacturing, co-production, own assembly and own manufacturing (Luostarinen 1977), also referred as non-export entry modes by Albaum et al (2011). Licensing is a method of foreign market operation when the company of one country gives the right to use its property to another company located in another country in a form of contractual agreement (see Chapter 3. 2.). In case of contract manufacturing, the firm contracts an overseas manufacturer for the manufacture or assembly of the products enabling the company to break into international markets without establishing its own operation (Albaum et al. 2011). Co-production refers to the joint effort to the manufacturing process of the product. It usually involves technology, equipment and/or the management of the home country in the target market`s firm; while the target market provides the labor, raw materials, and

plants for production. Own assembling means that the company deliver the components from its home country to the own assembly unit located in the target market. Finally, own manufacturing means that the whole production process is carried out in the own factory of the firm located in the target market (Luostarinen 1977). As the present thesis excludes the detailed research of any form of equity arrangements between buyers-and sellers, non-direct investment operations get more relevance in this research.

Albaum et al. (2011) adopts almost similarly Luostarinen`s (1977) foreign operations classification. In their book, they determined licensing, contract manufacturing, coproduction and joint ventures under the concept of strategic alliances. Strategic alliance is defined as “*a purposive relationship between two or more independent firms that involves the exchange, sharing or co-development of resources or capabilities to achieve mutually relevant benefits*” (Kale & Singh 2009: 46), while the parties united stay independent entities after the formation of the alliance (Yoshino et al. 1995). Strategic alliances will be analyzed in more detail later on (see Chapter 3). The different operation modes are summarized in Figure 3.

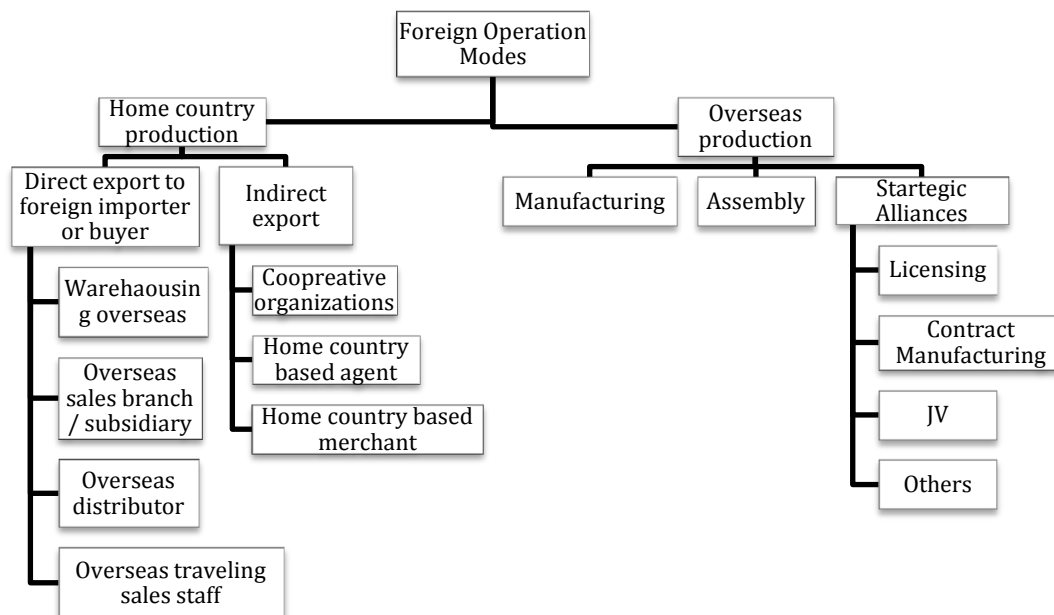


Figure 3. Outline of Alternative Basic International Marketing Channels. (Albaum et al. 2011: 401).

Which type of foreign operation mode the company chooses depends on various factors such as target country related factors, home country related factors and firm related factors. However, small firms usually penetrate into foreign markets by non-direct investment modes as direct investment operations require strong financial resources that small firms could not bear. Non-direct investments do not involve equity capital and loan capital flows and cover operation modes as direct export, indirect export, licensing, contract manufacturing and coproduction (Luostarinen 1977). Accordingly, young born global firms can exploit international presence through non-direct investment type entry and operation modes without realizing serious investments in global markets.

2. 5. 2. Internationalization of Born Global Firms

The internationalization of firms has been studied extensively since the second half of the 20th century and two main, quite similar streams have emerged as the explanation for the international growth of the firms (Madsen & Servais 1997). In one hand, the Uppsala internationalization model suggests that the internationalization of the firms is characterized by an incremental increase of commitment to foreign – first culturally and geographically close - countries after gaining experience in the domestic market (Johanson & Vahlne 1977). In the other hand, the innovation related internationalization model claims that internationalization is an innovative process involving different stages at which the firm develops new, innovative ways of doing business (Bilkey, Warren & Tesar 1977). Both approaches indicate that firms internationalize slowly in a gradual manner to decrease uncertainty and mitigate risk due to the lack of knowledge of the target market (Madsen et al. 1997).

Researchers have found that born global firms does not follow the traditional internationalization and stage model theories – that is mainly associated with the growth of large and mature companies - but pursued a global strategy at or near inception, while proactively taking risk and facing uncertainty (Jolly, Alahuhta & Jeannet 1992; McDougall, Shane & Oviatt 1994). Academics introduced various explanations for the rapid internationalization of born globals that will be introduced in the following.

First of all, Blomstermo and Sharma (2003) argue that born globals' internationalization is usually driven by their network and free from geographical, cultural or psychic distance considerations. The selection of the target market is based on the knowledge provided by their relationships. Born globals do not carry out detailed benchmarking or formal market researches before going international but rely on connections with

different actors in the network which provide enough knowledge to enter a certain market. According to the authors, knowledge-based behavioral internationalization process models are suitable to explain the rapid internationalization of born globals since network ties supply the necessary knowledge to the firms.

Secondly, born globals also tend to develop partnership with other, mainly larger actors to compensate their disadvantages originated from their limited resourcefulness. As small, startup firms' resources and capabilities are so little to produce in high volume and commercialize their innovations; they are likely to establish partnership with larger companies to accelerate their internationalization process. This is a quite common and practicable solution since such alliances are beneficial for both types of companies. Born global firms want to get access to financial, human and organizational resources to commercialize their product, while large companies yearn for small firms' fresh innovative ideas and solutions to maintain or enhance their market position. (Vapola, Tossavainen & Gabrielsson 2008.)

Thirdly, international entrepreneurial orientation (IEO) - innovativeness, proactiveness and risk-taking - of born globals' managing directors positively influence the internationalization process of the firm and shape the course of its growth trajectory. IEO includes fondness for experimenting, ability to identify and seize new opportunities for growth, effective usage of available resources, the willingness of building value-added strategic alliances, developing deeper relationships with customers and stimulating organizational learning (Messersmith & Wales 2011). Lastly, small firms usually possess a specific expertise in a certain field that trigger a niche market which gives them competitive advantage (Bell, McNaughton, Young & Crick 2003). All these factors contribute and promote rapid internationalization of born globals and distinguish them from the traditional multinational companies. Before moving on the second main chapter of the literature review, a summary on born global firms is presented.

2. 6. Summary on Born Global Firms

The literature review clearly suggests that born globals do not operate independently, but they are actively engaged in relations with other firms that have a significant effect on the firm's growth so they can be considered as one of the most valuable resources the firm has. It is indicated that these relationships initially evolve in order to overcome the firm resource limitation and liabilities as well as to create new opportunities. In

today's business environments, the market change rapidly involving social, economic and technological changes. Customer expectations are continuously increasing, product life cycles are radically decreasing, and the top of that, the rivals further accelerate the pace of competition. In this environment, speed and innovation capabilities are key factors to survive the competition. Born globals excel in generating pioneer innovations and new knowledge regarding both the development of new product as well as new ways of doing business (Autio et al. 2000; Partanen et al. 2011). Furthermore, their initial organizational structure enables flexibility to react rapidly to market changes.

Various authors argue (e.g.: Powell et al. 1996; Ragatz et al. 1997) that it is indispensable in fast-changing markets that the firm possesses all the technological competence needed to its operation. Therefore, it is indicated that resources are partly present within the company, but external resources are also needed to complement the internal ones that together lead to competitive advantage. This observation implies that business relationships play a certain role not only in the initial stages of the firm, but also later on throughout its whole life cycle of the firm that is likewise demonstrated by the study of Coviello et al.'s (2006).

The first chapter of the literature review shed light on the role of networks in born globals' growth and internationalization; however, it did not presented the relationships with specific business actors. Therefore, the next chapter moves forward and investigate supplier relationships of buying companies. To the best of the author's knowledge of this thesis, there is no preceding research focusing specifically on supplier relations of born globals, hence it will be analyzed both generally and focusing on SME context. The type of relationships along with their benefits on firm's internationalization as well as the changes in the relationship with the growth of the firm will be also investigated in the next chapter to prepare the empirical part of the thesis.

3. Buyer-Seller Relationship

The constant drive for cost reduction and service/product improvements in most industries, have urged the firms to reconsider their business operations (Morrissey et al. 2006; Qualey 2002). As the cost and the quality of a product are a function of the productivity of the firm's network and collaborating partners, firms started to examine the potentialities of suppliers to enhance competitiveness (Perez Perez et al. 2002, Morrissey et al. 2006). Furthermore, as the largest part – ranging 50%-80% depending on the industry - of sales revenues appear to be taken up by purchased inputs, the potential for adding value and improving firm competitive position by purchasing is conspicuous (Scully & Fawcett 1994). Therefore analyzing the relationship developed by the buying company with its suppliers is well-founded.

Since its foundation in 1976, the Industrial Marketing and Purchasing Group (IMP) has executed numerous researches on buyer-seller relationships in industrial markets. Two main cornerstones of the group are accepted by the majority of researchers. Firstly, relationships do exist between buyers and sellers that are developed by a series of interactions in which economic, social and technical issues are dealt with. Secondly, business relationships are connected to each other that make the firm as the element of a wider economic organization which takes the form of a network (Håkansson & Snehota 2000). Buyer-seller relationships develop over time and pass through a series of stages characterized by increasing mutual adaptation and commitment (Turnbull, Ford & Cunningham 1996). In the relationship, different kind of exchanges happen between the parties that can be product/service exchange, financial exchange, social exchange and information exchange (IMP Group 1982). Companies use and exploit their supplier relationships in many different ways depending on the characteristics of the business, the technology needed and the context in which they operate (Gadde et al. 2000).

The nature of relationships can differ; it can be distant and impersonal, arms-lengths relationship or “*close, complex and long term with extensive contact patterns between individuals from each company and significant mutual adaptation by both parties*” (Turnbull et al. 1996: 45). Accordingly, supplier relationships can involve close personal relations, others are kept at arm's length distance, and some suppliers can be asked to join in new product development while many are typical subcontractors relying on customer specification (Gadde et al. 2000).

Recently, two major trends have emerged in supplier relationships. In one hand, lots of companies have decreased the number of suppliers. On the other hand, supplier's share of value-added in the business system has increased significantly and the relationship between the buyer and supplier company have become closer and more complex in order to realize benefits. Suppliers are not only responsible for manufacturing and assembly work, but as network partners they have been increasingly asked to develop new materials and join product development, perform industrial engineering functions or assume liabilities for warranties. (D'Cruz & Rugman 1992.) The next section will take a look and analyze in more details the two main distinctive relationship types, thus the features and different considerations behind developing arm's length relationship and engaging in strategic buyer-supplier partnership.

3. 1. Arm's length relationship vs. Strategic Partnership

As it was already mentioned in chapter 2 under the presentation of the network model, the differing degree of involvement in supplier relationship leads to different cost and benefit outcomes. Considering this, firms get involved in different types of relationships with suppliers; hence different types of supplier relationship coexist within a single company (Gadde et al. 2000). Dyer (1996) identified two types of supplier relationships based on the degree of involvement in the relationship: supplier partners and arms-length suppliers. Similarly, Ragatz et al. (1997) identified strategically integrated suppliers and less strategically integrated suppliers. Accordingly, strategic partnership and arm's length type relationship will be discussed and contrasted in more details in the followings. As it was signaled in the introduction part of the thesis, the concept of strategic partnership and strategic alliance are used interchangeably throughout the thesis.

There are significant differences between arm's length relationships and strategic partnership regarding the investments made by the parties in the relationship, the length and the continuity of relationship, the degree of information sharing as well as the level of trust. Firms "*frequently rotating purchases across multiple supplier sources while employing short term contracts*" are engaged in arm's length relationships (Dyer, Cho & Chu 1998: 69). The aim of this type of relationship is to minimize firm dependence on suppliers and maximize bargaining power to reach the possible lowest prices in terms of unit price. Arm's length relationships avoid commitment and promote cost saving through competitive bidding and frequent rebidding of suppliers. This type of

relationship usually involves a short-term contractual agreement with low level of information sharing and trust as well as minimal relation-specific investments made by the parties. Due to the lack of mutual investments, these relationships require limited coordination as well as face-to-face communication. Non strategic, standardized inputs, which have a limited ability to influence the cost and the value of the final product, are usually sourced through this type of relationships. (Dyer et al. 1998.)

Arm's length relations may result in significant cost saving in the short term; however, they have negative effects on costs in the long run as dealing with purchases across various suppliers reduce the supplier's ability to reach economies of scale resulting in higher prices. Handling a large supply base also cause high administrative and transaction cost that ultimately outweighs the benefits for the long term. Therefore, Dyer et al. (1998) propose that the traditional arm's length relationship is not viable and should be replaced by long term arm's length relationship. This means that the suppliers are not alternated frequently but the same suppliers source the company for a long term, which maximizes supplier's economies of scale and minimizes the overall procurement cost. Although, in durable arm's length relationships, investments may occur - such as the introduction of EDI system between the parties - these investments further promote inter-firm coordination, effectiveness and cost saving. (Dyer et al. 1998.)

In contrast to arm's length type, strategic supplier partnership results in the creation of competitive advantage as the supplier has a significant influence on product differentiation as well as the price cost and the value of the final product. Partnering firms proactively and mutually invest in relationship-specific assets in order to lower cost, enhance productivity, increase quality and speed up product development. These investments cause a high degree of interdependence between the parties and require a high degree of coordination between the different functions of the exchanging firms involving plant equipments, personal or manufacturing processes. However, as relation-specific investments have little value outside of the relationship; partners are stimulated to provide a high level of assistance of solving problems in each other's operation. Strategic partnership is based on trust, characterized by honest information and knowledge sharing between the partners. (Dyer et al. 1998.)

The main motives behind the formation of strategic partnership are to support competitive advantage and/or operational efficiency (Yoshino & Rangan 1995). It offers on-time delivery and quality control, improved manufacturing process and assembly as well as gives an opportunity to extent the relationship to new areas such as joint

investment in capital equipment, production process, technology or establishing joint R&D (Ford 2002). Although strategic partnership has various benefits, researchers argue that these relationships are also costly to establish and maintain as well as limit the ability of the buyer to switch supplier (Dyer et al. 1998); therefore, the availability of minimum resources is required by the firms to be involved in such relationships (Lajara et al. 2004).

Strategic and customized value added inputs that contribute to the differentiation of the buyer's product are purchased through strategic partnerships. This kind of relationships is specific to complex product industries where long-term value creation through technology and quality is the goal (Dyer, Cho & Chu 1998). The main features and differences between arm's length relationship and strategic partnership are summarized in Table 3.

Table 3. Contrasting Arm's-Length Relationship with Strategic Partnership. (Dyer et al. 1998: 72).

	Arm's Length Relation	Strategic Partnership
Product/Input Characteristics	<ul style="list-style-type: none"> - Commodity/standardized products - Open architecture products - Stand alone (few interaction with other inputs) - Low degree of interdependence between partners - Low value inputs 	<ul style="list-style-type: none"> - Customized/non-standard products - Closed architecture products - Multiple interaction with other inputs - High degree of interdependence of partners - High value inputs
Supplier Management Practices	<ul style="list-style-type: none"> - Single functional interface - Price benchmarking - Minimal assistance - Supplier performance can be easily contracted ex ante - Contractual safeguards are sufficient to enforce agreements 	<ul style="list-style-type: none"> - Multiple functional interfaces - Capabilities benchmarking - Substantial assistance - Suppliers performance on non-contractible is important (e.g.: quality, innovation) - Self-enforcing agreements are necessary for optimal performance (e.g.: trust)

Dyer et al. (1998) argue that the combination of arm's length relationships and strategic partnership in the firm's relationship portfolio is needed to optimize purchasing effectiveness. To choose between developing arm's length relationship or strategic partnership with suppliers, strategic supplier segmentation is required. This means that

the contribution of the supplier's product and service to the core competence of the buying firm should be analyzed and suppliers with strategic and non-strategic inputs have to be identified. The qualities of the purchased products and their effect on relationship development are further discussed on the following section.

3. 1. 1. Influencing Factors of Relationship Development – Purchasing Portfolio

The type of relationship buyers develop with their suppliers highly depends on various buying characteristics. For example, partnership is more likely to happen when there are only few suppliers; and the technical dependence on supplier is high as well as when the emphasis in buying decisions is on the service and quality. In contrast, the buying strategy is competitive when there are many suppliers in the market and a high need for product standardization; furthermore, the technical dependence on supplier is low and price is the main factor in buying decisions (Campbell 1985).

Adapting the purchasing product portfolio of Kraljic (1983), van Weele (2010) categorized purchased products into four different groups according to their characteristics based on two dimensions: the purchasing impact on the firm's financial result and the supply risk referring to criteria such as product availability, the number of suppliers, switching cost, geographic distance, and available substitutes. The product groups are illustrated in Figure 4.

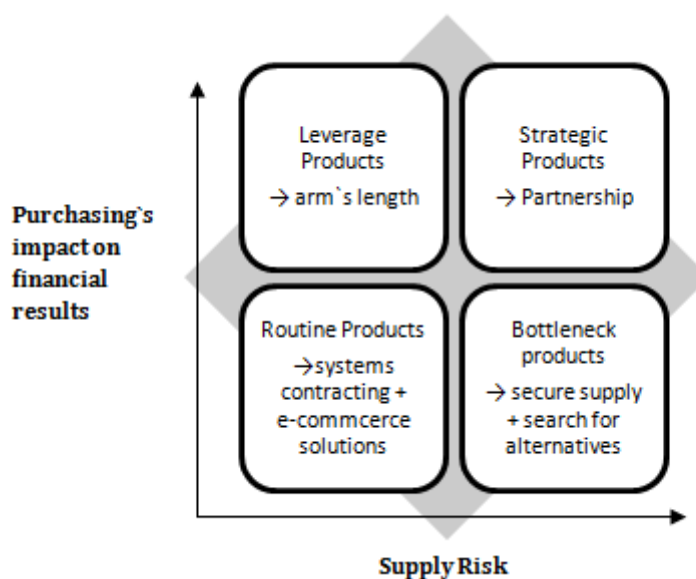


Figure 4. Purchasing Product Portfolio. (van Weele 2010: 197).

In Kraljic's purchasing portfolio four different product groups are identified assigning purchasing strategy to each based on their buying characteristics. These product groups are presented one by one in the following:

- *Strategic products* are critical for production and have a high impact on the company's cost and the price of the end product. They are usually high-tech and high volume products with a limited number of suppliers available. The switching cost in case of relationship termination is considerable due to the joint investments which cause dependence on the suppliers. Interactions between the firms are intensive and complex. The supplier is a market leader and possesses a specific know-how critical for the buyer. The relationship developed with the supplier of strategic products is strategic partnership that aims to create mutual commitment for the long-term. (van Weele 2010.)
- *Leverage products* can be procured from a large number of suppliers at standard quality grades. They are acquired at large volume and have a high impact on the end product's cost price; therefore even a slight change in the cost of the purchased goods has a high impact on financial results. Suppliers are chosen based on price and can be replaced easily as the switching cost of relationship is low. The relationship developed with suppliers delivering leverage products is arm's length type that aims to obtain the most affordable deal for short-term. (van Weele 2010.)
- *Bottleneck products* represent a limited financial value; however, they are characterized by a high risk regarding the availability of suppliers. The supplier is a technology leader and has a dominant role that may result in unfavorable condition for the buyer such as higher prices, long delivery times, and inadequate quality. Purchasing is focused on securing the continuity of the supply as well as to reduce the dependence on the supplier by searching for other alternatives. Long-term supplier relationship is developed for the purchasing of this type of products. (van Weele 2010.)
- *Routine products* have also a low impact in the financial result as they represent a small value per item, however, there are a large number of available suppliers; therefore suppliers have a dependent position on the buyer. Even if the value of the product is low, the handling cost of them is high and they require significant time and energy. Therefore, purchasing aims to reduce the number of suppliers,

logistic complexity and administrative cost as well as improve operational efficiency by implementing e-procurement solutions or by outsourcing the activity. In this case, very short-term relationship is developed with the supplier. (van Weele 2010.)

Gelderman and van Weele (2003) argue that Kraljic's purchasing product portfolio got various criticisms regarding its applicability. Academics questioned the model concerning the limited number of dimensions, the measurement of the dimensions, the ignorance of the supplier side, the deterministic character of the strategic propositions and the absence of explicit movements within the matrix. Nevertheless, the purchasing portfolio model still plays an important role in determining purchasing strategies. Even if the model is adjusted, modified and/or expanded based on the needs and requirements of the specific users, the original Kraljic's portfolio model stays the starting point for determining purchasing strategies for many organizations.

3. 1. 2. Inter-Firm Adaptations in Strategic Partnership

The purchasing portfolio suggested that joint investments may happen in the relationships between buyer-seller relationships such as in case of the purchasing of strategic and routing products. To attain the benefits of supplier relationship, especially that of the strategic type, a well-developed relationship is required (Håkansson et al. 1992). As relationships develop through incremental investment of resources between the parties (Turnbull et al. 1996), strategic partnerships involve various relation-specific assets and joint investments. These investments are realized through specific joint adaptations to the firm's product, processes and/or to the organization; more specifically in delivery procedures, product design, manufacturing processes, planning, stockholding, product specification, administrative and/or financial procedures. Adaptations can be minor as well as major ones involving significant investments concerning time, money and effort. (Håkansson 1982; Håkansson et al. 1992.)

Dyer (1996) similarly argues that partnering firms making specialized joint adaptations in the relationship, in order to perform some common activities, can realize a superior advantage over their competitors. Based on his findings, joint adaptation in assets have a positive, differential effect on performance and profitability through improving quality, speeding up product development and decreasing inventory cost. These possible advantages of strategic partnership explain a strong driving force to realize inter-firm specific adaptations (Hallén et al. 1991).

However, Hallén et al. (1991) argue that there is a strong link between the level of adaptation and the age of relationship. They promote that adaptation behavior depends on the age of the relationship between the buyer and the seller; furthermore, the more matured the relationship and the higher the level of adaptation, the more strategic the relationship is. The study of Brennan et al. (1999) contradicts to this latter and suggests that there is only a little relation between those two variables. It proposes that major investment-type adaptations can be realized both at a very early as well as a more matured stage of the relationship. Consequently, this finding shows that relationship age is not a hindering factor to inter-firm adaptations between the customer and its suppliers, which promotes that young born global firms can also benefit from such practices independently of their short history with their suppliers.

Moving back to the proposition of Lajara et al. (2004), they suggest that due to the resource demand of joint adaptation, the availability of minimum resources is required to develop strategic partnerships. This proposition suggests that even if born globals have the possibility to engage in strategic relationship without having a long history with their suppliers, they still need to possess certain resources to establish such relationships. As it was discussed in chapter 2, born globals lack significant resources in the early stages of their life cycle which suggests that they have limited chance to get involved in strategic relationships. Hence, the literature review suggests that young born globals are more likely to develop arm's length relationship with their suppliers as they lack significant resources that would enable them to invest in strategic relationships. However, as they grow and their internal resources accumulate, they are assumed to be engaged more actively in strategic supplier partnership.

3. 2. The Typology of Buyer-Seller Relationships

This study classifies buyer-seller relationships on the basis of their legal foundation (Albers, Wohlgezogen & Zajac 2013); and adapt the typology applied by Yoshino and Rangan (1995) who spent several years of research on examining inter-firm links putting a special attention on strategic alliances. As it was highlighted in the beginning of the study, the thesis does not intend to discuss legal aspects of the relationship, rather illustrates how different relationship types can contribute to the enhancement of the firm's internationalization. The range of possible inter-firm relationships is illustrated in Figure 5.

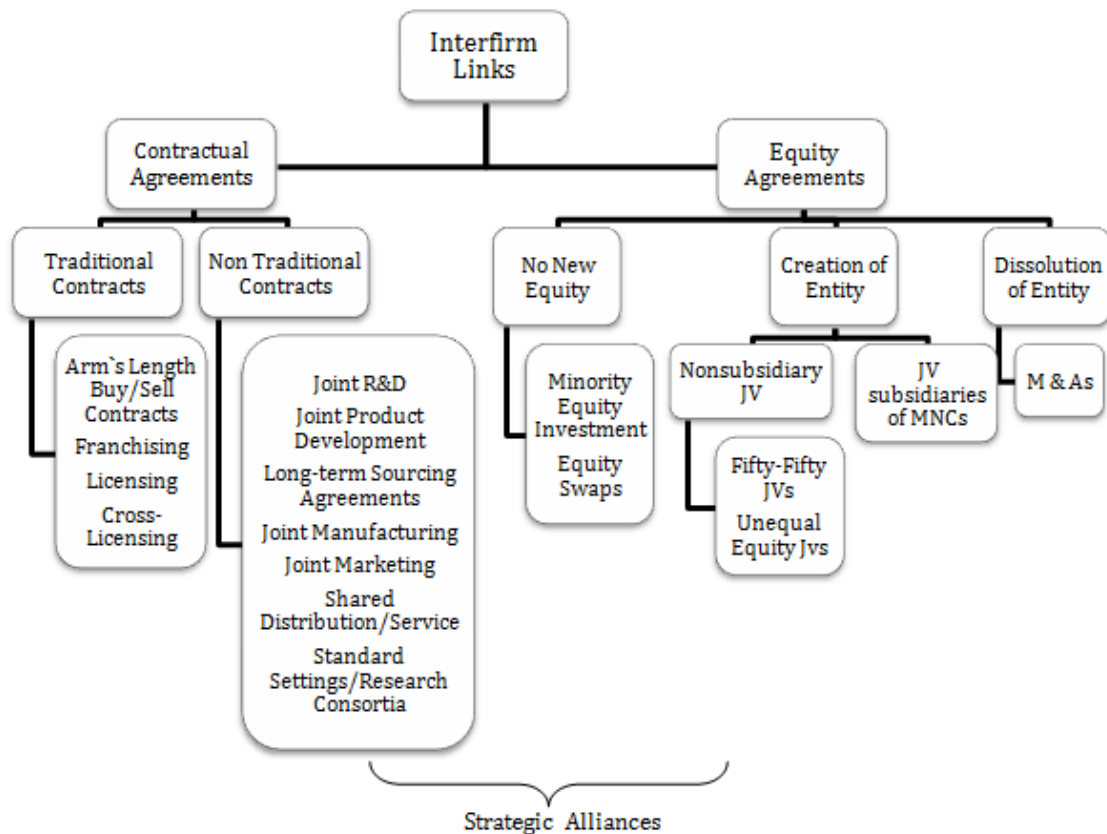


Figure 5. The Typology of Possible Inter-Firm Relationships. (Yoshino et al. 1995: 8).

Yoshino et al. (1995) classified inter-firm relationships into two main groups including contractual agreements and equity agreements and also differentiated between strategic and non strategic alliances. As the main goal of this present thesis is to shed light on the types of non-equity agreements existing between the born global and its suppliers; the thesis primarily concentrates on contractual agreements and the detailed analysis of the separate types of equity agreements are not covered in the study. However, as the research also studies firms being in the growth stage of their life cycle, it would be narrow-minded to completely ignore the existence of equity agreements. Therefore, they will be discussed, but not as detailed as in case of the contractual agreements.

The focus of the study is on inter-firm links that fall under the contractual agreements involving traditional and non-traditional contracts and which are feasible between buyers and suppliers. Accordingly, franchising and joint marketing will be not covered as the former mainly involves relationships with downstream actors and the latter is a lateral relationship formed between companies at the same level of the value chain

(Bucklin & Sengupta 1993). The next part of the thesis will introduce each relationship type and their possible benefits from the buyer's perspective.

3. 2. 1. Traditional Contractual Arm's Length Agreements

According to Yoshino et al. (1995), buy arrangements, licensing and cross-licensing agreements are traditional contractual agreements that can be realized in an arm's length relationship between buyer and supplier. Arm's-length relationships are characterized by competitive aspects. They are based on fairly detailed, mostly self-fulfilling contracts that has no significant effect on internal systems and process issues. The purchasing portfolio model (see Chapter 3.1.1.) suggests that leverage, bottleneck and routine products are mostly purchased in this kind of relationship. In the following each will be analyzed in more detail.

3. 2. 1. 1. *Arm's Length Buy Agreements*

Buy agreements are usually realized for sourcing raw materials and commodity type products. These agreements are short term contracts excluding any type of mutual dependence of firms, shared managerial control, and the continuous transfer of technology or product (Monczka, Petersen, Handfield & Ragatz 1998). Buy arrangements are realized when the expected gains from the supplier does not justify investments and the development of close relationship. The main goal of these arrangements is to secure the availability of supply at the most affordable price. As no investments happen in the relationship, thus the switching cost of the relationship is low, it enables the buyer to change supplier easily in case of dissatisfaction. However, in case of products that have high handling cost such as routine products, investment in procedures is suggested such the implementation of e-procurement solutions in order to improve operational efficiency and cost saving in the long term. (van Weele 2010.)

3. 2. 1. 2. *Licensing*

Licensing involves patents and trade secrets that are crucial part of the competition in high-tech industries (Grindley & Teece 1997). Licensing is a contractual agreement by which an organization – the licensor - sells rights to a product, process or ideas embedded in the product or the manufacturing process and/or management technology to another firm - the licensee - for payment of royalties or other compensation (Atuahene-Gima & Patterson 1993). Licensing does not call for continuing contribution

of technology, product or skills between the partners (Ellegaard 2006). A factor analysis conducted by Atuahene-Gima et al. (1993) shows the relative importance of benefits and costs originated from licensing. The findings of the study are illustrated in Table 4.

Table 4. Benefit and Cost Factors of Licensing in Descending Order of Importance to the Licensee. (Adapted from Atuahene-Gima & Patterson 1993: 331 - 333).

Rank	Benefit factors and related variables	Rank	Cost factors and related variables
1.	Competitive advantage: Increase sales and market expansion Keep pace with competition Gain competitive advantage	1.	Entry and exit costs: Difficult to go in and out High determination cost Unsure of correct decision
2.	NDP* skill acquisition: Acquire advance knowledge quickly Upgrade technical skills Gain competitive advantage	2.	Loss of decision-making autonomy: Loss of control; Discourage internal R&D Surrender future competitive advantage Low margins on licensed product
3.	Low cost market entry advantage: Use of spare capacity; Proven product Faster ROI; Speed of market entry Low cost technology Low product development risk	3.	Search costs: High search cost Long and costly negotiations Overwhelming paperwork
3.	Product range advantage: Diversify product range Fill product gaps Use of spare capacity	4.	Implementation cost: Adaptation cost; Licensing is complicated High cost of technology Difficult to gain competitive advantage
5.	Access to future advantage: Industry standard Future licensor technology and patent Save resource for future in-house R&D		

*New Product Development

Table 4 shows the relative importance of benefit and cost factors to the licensee indicating the items based on which the factors were measured. The researchers found that the two key motives to engage in licensing are gaining competitive advantage and acquiring new product development skills. The two main hindering factors of licensing however are the entry and exit costs and the loss of decisions making autonomy.

Firms use licensing when they lack particular resources needed to develop certain technology. Furthermore, as new product development (NDP) is characterized by high failure rate and uncertainty, companies often use this practice to reduce the level of risk. As licensing facilitates to overcome resource limitation, it is considered as a viable

option for small companies since they have limited resources for in-house technology development. In contrast, it is also argued that managers with high risk taking propensity – such as the managers of born global firms - are more likely to internationalize NPD. Next to its benefits, licensing requires significant time and cost associated with the active search and evaluation of supplier. Furthermore, the firm needs to have certain resources and internal capabilities that enable to absorb and utilize the technology developed by another firm for realizing successful outcomes from licensing. (Atuahene-Gima et al. 1993; Ellegaard 2006.) As it was discussed in Chapter 2, born globals excel in the imitation of the innovations of other firms (Knight et al. 2004). Therefore, licensing would be a viable option for them to acquire the needed product, process or management technology with a reduced level of risk and resource demand.

3. 2. 1. 3. Cross-Licensing

Although in various aspects cross-licensing is similar to licensing, it is more complex. Cross-licensing agreement is a contract between two companies, each of which granting the license for the utilization of their own technology to the other party. It is used when two companies have a technology that may be built on the other firm's products and processes (Shapiro 2001). Cross-licensing is usually used in industries that are characterized by 'cumulative system technologies' such as electronics where one innovation is built on another. In such technological fields, a large number of patents may be held by different firms overlapping various developments that may block other firms' patents. In these cases, firms need cross-license the patents and technologies in order to avoid infringements. A firm using other firms' patent with great value without contributing comparable technology or patent in exchange, is likely to pay a higher royalty. In contrast, if the exchanged technologies have the same value cross-licensing may be royalty free. (Grindley & Teece 1997; Shapiro 2001.)

The main goals of cross-licensing are to ensure the 'design freedom'. This refers to the right to manufacture and market products in an industry that is characterized by various overlapping patents; furthermore, to promote the development of complementary technology instead of duplication. Cross-licensing has similar benefits as licensing such as fast return on investment and enable firms to concentrate on their core competence. Negative features of cross-licensing are similar to that of licensing. One of the most important drawbacks is that companies having important patent position may block other firms' access to the technology. To get access to these technologies and patents, significant cost needs to be paid by the licensee and this can create barrier to access

technology. (Grindley et al. 1997.) This may be a strong hindering factor for young born globals having limited resources to engage in such agreements.

3. 2. 2. Nontraditional Contractual Agreements - Strategic Alliances

Strategic alliance is defined as “*a purposive relationship between two or more independent firms that involves the exchange, sharing or co-development of resources or capabilities to achieve mutually relevant benefits*” (Kale & Singh 2009: 46). It is realized by a contract determining the rights, the responsibilities and the roles of the parties involved for a certain time period (Pekar & Margulis 2003). Several authors have argued that strategic alliances have got significant importance in business relationships in the last decades in order to leverage and strengthen the competitiveness and market growth of the parties involved. Supporting this statement, over 80% of the Fortune 1000 CEOs stated that strategic alliances contribute to about 26% of their revenues in 2007-2008 and this figure is more than likely to grow further in the future (Kale & Singh 2009).

Strategic alliances require three necessary and sufficient conditions to be present. Firstly, the parties united in order to realize a common goal stay independent entities after the formation of the alliance. Secondly, the benefits of the alliance and the control are shared among the parties. Thirdly, there is a continuing participation in one or more strategic areas - such as product, skill or technology - between the parties. If one of the three conditions is not fulfilled, the relationship cannot be qualified as strategic alliance. (Yoshino et al. 1995.)

A strategic alliance involves more than a payment in exchange for product or service that usually is the case in arm's length relationships. Successful strategic alliances result in various benefits such as cost reduction, shortened cycle time, quality improvements as well as soft benefits as tacit knowledge transfer and improved communication. The key objectives of engaging in strategic alliance are (1) to leverage purchase volume and control total cost; (2) to improve quality; (3) to gain access to new technologies; (4) to reduce time to market; (5) finally, to reduce order cycle time. (Monczka et al. 1998: 562.) Table 5 shows concrete performance outcomes of strategic supplier alliances.

Table 5. Performance Results in Strategic Supplier Alliances. (Monczka et al. 1998: 564).

Performance Dimensions	Median Percentage Improvements	
	Less successful alliances	Most successful alliances
Purchased material price	(0.8)*	4.2
Purchased material quality	4.5	13.0
Access to new technology	5.9	16.8
New product development time	2.4	8.8
Order cycle time	0.5	12.7

*Negative value

Table 5 shows performance indicators resulted from strategic supplier alliances, a research carried out by Monczka et al. (1998) based on 84 companies operating in the electronic industry. The companies provided data on their less successful and most successful supplier strategic relationships. The result shows the average of the collected data. It displays that the most successful relationships resulted in improvements while in some cases the alliance generated negative results. This suggests that alliances do not yield beneficial outcomes automatically and the success of the relationship depends on various factors that will be discussed later (see Chapter 3.3.). In the following each type of nontraditional strategic agreements will be analyzed separately in more detail.

3. 2. 2. 1. Joint R&D

Historically, firms organized R&D internally, however recently in R&D intensive and technologically sophisticated industries, companies execute almost every step of the production process through some form of external collaboration such as R&D partnership (Powell et al. 1996). R&D is a standard research and development activity aiming to increase the technical and scientific knowledge in order to create new advanced products and processes (Hagedoorn 2002). Joint R&D project refers to the R&D project that is conducted by a firm and another organization(s) jointly based on a formal, contractual agreement (Du & Ai 2008).

Joint R&D involves a temporary project with shared resources between the partnering firms that promotes technology sharing in combination with joint research and joint development such as R&D pacts, joint development agreements and long-term research contracts. It contains a limited time-horizon and a solid inter-organizational

interdependence of the parties. Rational between joint R&D can be cost-economizing, strategic or both. Cost-economizing rational is specific to capital and R&D intensive industries, while strategic rationale is more dominant when the firms enter into a joint project that is not related to their core competence while keeping the core own their own. Joint R&D has gained popularity due to the increased complexity of technological and scientific development, the shortened innovation cycles and the increase of cost and uncertainty specific to R&D activities. It has a dominant role especially in high-tech industries such as information technology sector and industrial automation. (Hagedoorn 2002.)

Joint R&D helps the firm to overcome the limitations of internalized research and apply external knowledge in their R&D processes. It enables the firm to create, retain and transfer knowledge as social interactions are built in them. It facilitates inter-organizational knowledge sharing and improves the efficacy of innovations by increasing the number of patent, know-how and other knowledge creation (Du & Ai 2008). This type of agreements is valuable since the companies share not only risks but also resources while avoiding redundant expenditures, diversifying knowledge basis, gaining reputational effects and dealing with problems with joint forces. The nature of joint R&D agreements is complex and holds various challenges in terms of cohesion, coordination and cooperation. Preliminary cost-benefit calculation is impossible in case of these agreements (Husted & Michailova 2010).

The research of Gupta, Wilemon and Atauhene-Gima (2000) shows that generally R&D directors recognize the need for creating synergies between their R&D unit and external organizations in order to promote successful R&D. However, according to the research of Qualey (2002) innovative elements such as new technology or supporting R&D have low priorities for suppliers in small firms and quality, reliability and price are the main concerns when opting for a supplying business partner.

3. 2. 2. 2. Joint Product Development

Ford and Saren (2001) argue that a large proportion of the new products is developed by the joint forces of the buyer and its supplier. The effective integration of suppliers' knowledge and expertise into the new product development (NPD) process "*complement internal capabilities and help reduce the concept-to-customer cycle time, cost, quality problems, and improve the overall design effort*" (Ragatz et al. 1997: 191). As an important part of NPD, technology sharing between the parties is an essential

aspect since in industries using complex technologies, it is indispensable that the firm possesses all the needed technologies. Involving supplier early on in the NDP makes it possible to carry out many engineering tasks simultaneously rather than sequentially, further promoting shortened development time. Suppliers are often given the responsibility for designing and manufacturing components taking responsibility for cost, quality and on-time delivery. (Dyer 1996.)

Petersen et al. (2005: 383) argue that one of the major reasons for integrating suppliers in NPD is to access to “*more and better information earlier in the product development process by leveraging the supplier’s expertise*”. Joint buyer-supplier effort concerning the formulation of technical and business goals as well as target setting in NDP projects has a positive effect on the NPD team effectiveness including decision making which results in improved financial and design performance. Financial performance is positively affected through increased sale and faster return on investments. The improved design performance refers to the extent to which the new design is easier and less costly to produce; furthermore, it is more suitable for the procured item which results in a better finished product and/or service.

Ragatz et al. (1997) found that purchased material cost, quality and development cycle time were the most important performance measures when evaluating suppliers’ integration in new product development. The degree of innovation improvements resulting from early supplier integration into the NDP can be seen in Table 6.

Table 6. Degree of innovation improvements resulting from supplier integration. (Ragatz et al. 1997: 195).

	Most successful cases of integration	Least successful cases of integration
Purchased material cost relative to historical costs	15.0%+	(5.0%)
Purchased material quality relative to historical quality	40.0%+	(7.5%)
Development cycle time	25.0%+	(30.0%)

*Figures in parentheses indicate deterioration on the performance dimension.

Dyer and Ouchi (1993) argues that the length of supplier-buyer relationship has a positive impact on new product development as the supplier knows well the buyer’s expectations and processes which enables the supplier to plan for further product

development effort that meet the buyer`s needs. According to this statement, born global firms are supposed to yield more benefits from engaging in joint product development with suppliers in a matured stage of their life cycle.

3. 2. 2. 3. Long-Term Sourcing Agreements

Long-term sourcing contract is an agreement signed between the buyer and its supplier within the framework of which the buyer is willing to source a specific product and/or service from the same supplier during a relatively long time period. This means that the suppliers are not alternated frequently, but the same suppliers source the company for a long term which maximizes supplier`s economies of scale and minimizes the overall procurement cost (Dyer et al. 1998). The type of contract agreed between the parties is determined by transaction related factors, such as the frequency of delivery, monetary value and volume of the purchasing, the variability and complexity of the purchased product and the related relationship specific investments (Levi, Kleindorfer & Wu 2002).

Sourcing decisions in case of long-term sourcing agreements are based on on-time delivery, price, and quality. However, the benefits of long-term sourcing are sometimes difficult to measure such as the potential for higher quality. Other benefits are easier to access such as the future price is known in advance as it is pre-negotiated. Long-term sourcing agreements minimize the cost of total vendor selection, purchasing, inventory holding, and shortage costs as well as reduce the cost related to uncertainties such as keeping a high stock level. Moreover, there is no cost related to supply search, negotiating and contracting that also saves time to concentrate on strategic activities. This type of agreement provides incentives for the supplier to reduce the price while securing the buyer`s sales. Long-term sourcing agreements are contracted with a reduced supplier base and used when the product is not well-defined and a limited number of suppliers are available on the market. (Peleg, Lee & Hausman 2002.) Therefore, in case of sourcing bottleneck type products, this kind of relationship is highly recommended to develop with suppliers (van Weele 2010). Despite of its benefits, the main drawback of these agreements is the small margin of flexibility.

3. 2. 2. 4. Joint Manufacturing

Joint manufacturing is a collaboration promoted by one or more companies at the manufacturing process level in order to share manufacturing resources such as planning,

scheduling, and logistics and adjust manufacturing operations to that of the others. It can be seen as the solution for the hundreds of different production techniques. Joint manufacturing is about integrating the firms based on the business logic perspective rather than information integration – as it is the case in the previous agreement types. This means that the collaborating partners are connected by mostly physical links and the resource flow between the partners is of material and has logistic implications; in contrast of logical links, where the resource flow is information. However, it has to be highlighted that information sharing between the partners still play a significant role as it contributes to improved production. (Wang, Yung & Ip 2004.)

In international companies, manufacturing management - including inventory control, planning and scheduling, quality control, traffic control, shop floor monitoring and control – can be distributed geographically or based on business logic. Joint manufacturing reduces manufacturing cost and increase product quality through distributing the production among expert partners. It reduces overall cost, increases manufacturing flexibility and effectiveness while avoiding short term economic fluctuation. It increases competitiveness through letting the firm to concentrate on core competence (Wang et al. 2004). Glenn (1999) similarly argues that joint manufacturing can result in significant cost-containments and improved time-to-market. Outsourcing sub-assemblies and subcontracting are good examples of joint manufacturing. However, in these latter cases, the manufacturing process is not executed in joint forces of buyer and seller, but it is solely made by the supplier based on the requirements of the buyer. Outsourcing is presented in more details later in this chapter (see Chapter 3. 2. 4.).

Ktenidis and Paraskevopoulos (1999) have researched manufacturing partnerships in SME context and have found that the main benefits to join manufacturing is (1) to get access to new markets by realizing products and services that are out of the competences for the company, (2) increased productivity by accumulating and optimizing the production capacity (3) improved responsiveness to problems through joint response, (4) lastly, improved resource utilization through eliminating duplication and of functions. To realize success, joint manufacturing requires effective support methods and tools.

3. 2. 2. 5. Joint Service

Services and after-sales services are strategic to firms selling durable goods as they can be the source of revenue, business opportunity and competitive advantage. Service plays

a crucial role in the firm`s profitability as well as in building customer loyalty. Service can be performed internally as well as externally or in the combination of both. After-sales service involves activities such as customer support, product support, technical support and service followed by the product purchase. After-sales service activities can be classified into three groups such as field assistance (repairs, check-up, and product disposal); spare part management (inventory management, spare part delivery and customer order management) and customer care (providing technical and commercial information, complaint management, and warranty extension). (Saccani, Johansson & Perona 2007.)

In case of global firms, it is difficult to offer services in all the location where the customer is present. International manufacturing companies often outsource the field assistance to repair centers or service providing suppliers to ensure the proximity to the customer, thus promote high quality service. Outsourcing to repair centers is feasible when product is standard, the related service is simple and cheap; and service providing has low attractiveness regarding its revenue generating ability. Service providing is transferred to external actors in order to optimize resources, cut fixed and control costs on non-core activities, and to provide fast delivery in an internationally dispersed context. The configuration of after-sales services depends on the strategic orientation of the company. The service activity of the value chain is usually carried out by an external party when the company wants to reduce the control and other costs related to it. This can be a case when the service volume is high and geographically dispersed. However, when the company aims to develop a good service quality and maintain brand differentiation, customer satisfaction and loyalty, service activities are more likely to be organized in-house. (Saccani et al. 2007.)

3. 2. 2. 6. *Research Consortia*

The research consortium is a group of institutions - that can be private, for profit and academic or governmental - which are organized together for a purpose in any combination in order to achieve a common goal. *“It is a mean of achieving a direction of research which can direct basic ideas into practical application”* (Brown 1991: 75). As this thesis discusses supplier relationships, industrial consortiums are overviewed rather than university and other governmental-based consortium types.

The purpose of consortium is to realize joint R&D, create innovations and transfer technology. The main drive for establishing consortium is to support technological

development by grouping separate resources towards a common focus in order to reach a common goal. A consortium has three major elements: scientific base, the funding and the administration. The benefits are pooling resources and information in order to realize large scale projects while avoiding duplication. Other benefits are to get to know new disciplines and to obtain royalty-free patent which can result in the increased turnover in the future. The funding of the consortium can be assured by collecting an annual fee based on the company sales from the member organizations. (Brown 1991.)

Research consortia aims to realize joint R&D projects through exploiting economies of scale and economies of scope. Odagiri, Nakamura and Shibuya (1997) mention four factors that support the usage of such cooperative arrangements. First of all, cartelization factor referring to that the cooperating firms together set the level of R&D of each and every firm, while the level of output is determined solely by the firms. Secondly, the spillover factor meaning that the firms make available the usage of all knowledge generated within the consortia for all the member firms. Thirdly, complementarity factor refers to the unification of the resources of different organizations promoting the creation of new ideas leading to better results. Lastly, as research consortia may work as an organizational form, the independent member companies have the possibility to apply for governmental subsidies in order to find support for joint research. This is called the subsidization factor.

3. 2. 3. Outsourcing

So far, the thesis covered the possible agreements that can be established jointly between buyer and supplier. However, instead of executing the activities in a joint effort, it is possible that the company outsource a specific activity of the business. In this case, the supplier alone executes that specific activity without the assistance of the buying company for a predetermined fee paid by the buyer. For example, the buyer may contract the supplier to execute complete R&D activities or manufacturing instead of doing it in a joint effort. Accordingly, outsourcing means that the company uses a third party to execute a specific activity of the business and that third party is legally as well as organizationally distinct from the recipient's company. (Karamouzis 2007.) There are various benefits of outsourcing over executing certain activities in house. However, as all contractual agreements, this also involves potential drawbacks. These are summarized in Table 7.

Table 7. The Pros and Cons of Outsourcing. (Karamouzis 2007: 8).

Outsourcing Pros	Outsourcing Cons
Time to market	Margin incremental for ESP
Leverage ESP experience and investments	Innovations and effectiveness contingent on ESP quality and experience
Shared risk in outcomes	Loss of control
Relative lower sourcing risk	Potential loss of Intellectual Property
Agility – Increased options for switching	

*ESP – External Service Provider

Outsourcing can take place within the home country of the firm or in foreign countries. In order to realize lower operational cost, to obtain special knowledge and/or ensure proximity to the customer, companies often contract suppliers in foreign countries.

3. 2. 4. Equity Agreements

Although this present thesis primarily focuses on contractual agreements between buyer and seller and does not intend to cover detailed analysis about equity agreements; it would be irresponsible and narrow-minded to completely ignore the equity-based buyer-supplier relationships. Furthermore, as the thesis looks for answers regarding the dynamics of relationships over the growth of the born global, a short overview of equity agreements is even more justified. It is expected that with the accumulation of resources and the growth of the born global, equity arrangements may play a significant role in internalization and market expansion.

Pekar et al. (2003) studied alliances extensively with a special attention on equity alliances and other equity-based agreements such as mergers and acquisitions. The authors demonstrated the significant growth regarding the formation of equity-based agreements as a form of corporate integration. They have found that equity agreements, more specifically equity alliances have become the dominating corporate growth model in the beginning of the century, overtaking other non-equity type agreements between business partners.

Equity alliances can be grouped in two types: partial acquisition and cross-equity transaction. The former refers to the extent to which a company buys minority equity stake in another company; the latter means when the partner becomes an equity stakeholder in the other company such as non-subsiary joint ventures, fifty-fifty joint

ventures or unequal equity joint ventures. Further equity agreements are multinational companies' joint ventures (JV) and mergers and acquisitions (M&A) where the degree of integration reaches its maximum. These two latter cannot be classified under the strategic equity alliance category according to Yoshino et al. (1995) as the ownership becomes 100% in the former and an entity dissolve in the latter case.

Pekar et al. (2003) argues that there are various benefits of equity-based agreements such as achieving synergy and obtaining competitive advantage by joining forces with the supplier. Equity arrangements also divide risks associated with the business such as financial, operational and strategic risks. Moreover, it promotes easier access to new target markets by eliminating the obstacles especially in those countries where political regulations hinder or limit the firm's penetration into the local market such as China. Lastly, equity arrangements enable the firm to gain new capabilities, knowledge, technology and expertise.

3. 3. Classification of Relationship Benefits

Companies' strategic goals determine the relationship decisions of firms. As it was presented in the previous sections, different inter-firm links result in different kinds of benefits. To make these benefits easier to survey, the study will classify them based on the work of Mazzola, Bruccoleri and Perrone (2009) who distinguished business networks into three groups based on their strategic goals: efficiency, globalization and knowledge. Efficiency groups goals as time to market reduction, lead time reduction, economies of scale, cost reduction, product and process standardization, and financial risk reduction. Globalization groups the goals of market and production globalization, new market penetration and production off-shoring. Finally, knowledge groups skills and know-how acquisition, risk reduction regarding opportunistic behavior; increased quality, resource pooling and market share increase.

Based on the previous sections, this study implements this classification in Table 8 to determine the main advantages of developing certain type of relationships with suppliers.

Table 8. The Main Benefits of Contractual Agreements with Suppliers.

Type of Agreement	Main Relationship Benefits
Traditional Contractual Agreements	
Arm's Length Buy Arrangements	Efficiency
Licensing	Efficiency, Knowledge
Cross-Licensing	Efficiency, Knowledge
Non-Traditional Contractual Agreements	
Joint R&D	Efficiency, Knowledge
Joint Product Development	Efficiency, Knowledge
Long-Term Sourcing Agreements	Efficiency
Joint Manufacturing	Efficiency, Knowledge, Globalization
Joint Service	Efficiency
Research Consortia	Efficiency, Knowledge
Outsourcing	Efficiency, Knowledge, Globalization
Equity Agreements	Efficiency, Knowledge, Globalization

Table 8 assigns the main relationship benefits to each contractual agreement. It lists the potential direct benefits deriving from the relationship. It should be highlighted that the presence of any of these benefits in the relationships directly or indirectly influence the firm's internationalization in certain ways.

So far the thesis paid a great attention on relationship benefits. However, developing a relationship with a supplier does not automatically mean beneficial outcomes for the parties. This was also demonstrated by various researchers (e.g.: Monczka et al. 1998; Ragatz et al. 1997; Sepulveda et al. 2013) who have found that in several cases the relationship resulted in negative outcomes. To develop a successful relationship yielding for positive results, several factors should be considered when entering, developing and managing the relationship. These issues will be covered in the next subsection.

3. 4. Managing Relationships

The potential benefits of business relationships are not reaped automatically (Gadde et al. 2000). The buyer must have an effective benchmarking capability to choose the best

possible supplier. Moreover, it must be effective in developing trust that inspires relationship specific investments and information sharing as well as installing inter-firm knowledge sharing routines to effectively coordinate and enhance mutual learning (Dyer et al. 1998). In the absence of strategic relationship management, it can easily occur that the firm is getting involved in disadvantageous relationship resulting in price increase, deterioration on quality and increased cycle times (Brennan et al. 1999; Monczka et al. 1998) as it was already demonstrated in Chapter 3. 2. 2. Therefore the prevailing context and economic outcomes of relationships should be continuously analyzed and monitored whether the benefits outweigh the cost of the relationship.

Strategic partnership and arm's length relationship are managed differently in order to optimize the purchasing strategy (Dyer et al. 1998). Arm's length relationship has a low level of commitment towards the relationship, as they are mainly based on price consideration; therefore include a low level of resource investment and adaptation. This does not mean that the management of these kinds of relationships is negligible; however it is less complicated compared to that of the strategic type. Therefore, this part of the discussion puts more emphasize on the latter.

Kale and Singh (2009) analyzed the factors that determine the success of strategic alliances. They argue that the success of any alliance type depends on key factors relevant at certain stages of the alliance evolution consisting of three phases. First is the formation phase involving the selection of the partner; the second is the design phase referring to the designation of appropriate governance tools around the alliance; and the third one is the post-formation stage involving the long-term management of the relationship. Figure 6 summarizes these three phases and the related key factors under each that are crucial to realize success in the alliance.

Figure 6. Success Factors to Achieve Alliance Objectives and Greater Alliance Performance. (Kale & Singh 2009: 48).



In the alliance formation phase, three key drivers for success have been identified. Partner complementarity means that there are no overlapping resources in the partnership but the companies complement each other's capabilities and resources and each brings in the alliance that the other lacks. Compatibility presents the fit between the partnering firms regarding their working cultures and management styles. Commitment includes the willingness of partners to invest time and effort in the relationship in order to reach long-term mutual benefits. Even though all three factors should be satisfied to realize a successful alliance; in certain conditions some of the partner attributes has greater importance than the others. For example, if one of the partners is relatively younger than the other firm – which is usually the case in buyer-seller relationships of young born global firms – partner complementarity has a greater effect on success. (Kale & Singh 2009.)

Moving forward to the alliance governance and design phase, it similarly consists of three key success factors; those are equity sharing and ownership, contractual provisions and relational governance. As for the first factor, if each party invests to a great degree in the business, shared equity becomes an effective governance mechanism since those investments create strong mutual interests to realize positive outcomes. Secondly, contractual provision sets the rights and responsibilities of the parties mitigating risk and the opportunistic behavior of the partner. As for the relational governance, it consists of goodwill, reputation and trust. They are seen as the key factors of doing joint business, since they assist to reduce transaction cost, enhance knowledge sharing and facilitate monitoring. (Kale et al. 2009.)

Finally, the last phase of the alliance evolution is the post-formation alliance management, involving coordination and the development of relational capital. As activities and actions get interdependent in the partnership, coordination becomes essential. The development of relational capital, the sense of belonging promotes cooperation and fairness as well as raise confidence and reliability on each other. These all together facilitate resolution in case of conflict in the long term. (Kale et al. 2009.)

There are other important elements that influence the way an organization behaves and participates in inter-organizational relationship such as the company's history, traditions and organizational culture, the industry in which the company operates, firm age, size, organizational structure, communication lines and language schemes (Husted & Michailova 2010). All in all, benefits are not reaped easily, time and effort is needed to

establish and manage a successful alliance. Appropriate decisions should be made concerning the establishment and development of the above explained factors at each level of the alliance evolution to realize the best possible outcomes of the relationship.

3. 5. Link between the firm's supplier network and its competitiveness

The link between competitiveness and the firm's ability of developing and managing its network relationships is widely recognized (Ford 2002) that does not come as a surprise after the analysis of the contractual arrangement's possible outcomes. Turnbull et al. (1996: 46) suggest that *"the co-ordination and mobilization of the company's relationships and the use and enhancement of the resources of both companies through interaction in those relationships is the basis for improving a company's network position and hence its competitive advantage"*. Addressing to Canadian companies, D'Cruz & Rugman (1992) suggests that business networks has a great influence on international competitiveness. They argue that suppliers increasingly perform value-added activities as network partners; establish partnership with customers to improve communication channels; collaborate with competitors that may involve technology-sharing or back-to-back market sharing arrangements.

According to others, the principal benefits of networking – and the main reasons why firms collaborate with each other - are sharing risk, gaining access to new technologies, and markets, decreasing time to market, pooling complementary resources, safeguarding property rights and acting as a key vehicle for obtaining access to external knowledge (Perez Perez & Sanchez 2002; Pittaway, Robertson, Munir, Denyer & Neely 2004). The higher competitiveness of many Japanese firms – compared to their Western counterparts – is partly derived from their close relationships with their key suppliers. Moreover as industrial firms spend more than the half of their sales on purchased goods, supply chain management and the purchasing function are increasingly recognized as important determinants of firm's competitiveness (Dyer et al. 1998).

Most of the studies made on the supply field as well as the existing purchasing models strongly focus on large companies and do not take into consideration the heterogeneity of small and medium sized firms (Morrissey et al. 2004) that leaves a significant gap in the literature. In the next part, the limited number of existing studies on purchasing and buyer-seller relationships in SME context will be overviewed that serve as a basis to introduce and make assumptions about that of the born global firms.

3. 6. Research on Supplier Relationships in SME Context

Large companies purchasing activities got a great attention in the supply chain literature analyzing how companies attempt to improve their purchasing effectiveness and how purchasing practices progressed from a transactional to a more strategic activity to realize competitive advantage. However, purchasing in the SME context has got far less attention in the literature (Morrissey et al. 2006; Mudambi, Schünder & Mongar 2004; Qualey 2002; Ramsay 2008) and to the best knowledge of the author of this thesis, there is no research made specifically focusing on supplier relationships in born global context. Therefore, the next part of the thesis intends to present the limited number of researches carried out on purchasing and buyer-seller relationship in the SME context that gives the basis for drawing inference on those of born globals.

3. 6. 1. Purchasing in SMEs

Purchasing refers to the management of the company's external resources and supplier relationships in a way that they are aligned with the company's interest (van Weele 2010). It is a value adding activity and its role is not only to control the price but also to increase efficiency (Gadde & Håkansson 1994). Therefore, it has become more focused on technical and logistical matter than on simply commercial issues (Brennan & Turnbull 1999; Morrissey et al. 2006). Ellegaard (2006) identified five activities classified under purchasing: Network Structure Management, Negotiation and Contracting, Supplier Performance Management, Product and Process Development and Supplier Relationship Management. These activities are demonstrated in Figure 7 followed by its explanation.

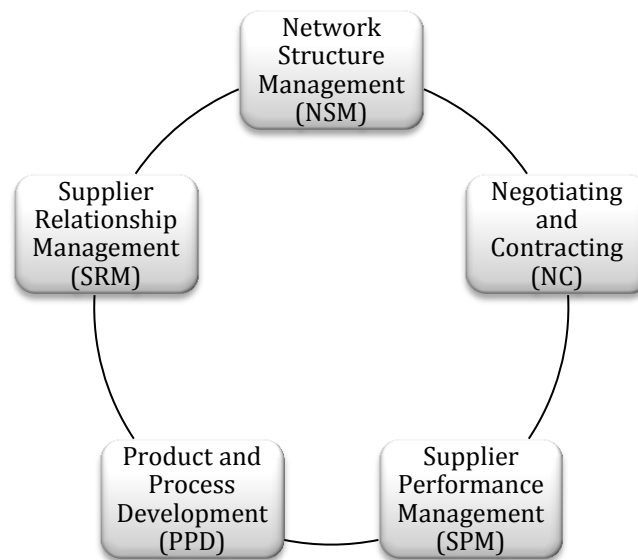


Figure 7. The Purchasing Activity Areas. (Ellegaard 2006: 273).

Network Structure Management involves the determination of the company's external network including make or buy decisions, supply base rationalization, global sourcing and supplier selection. Negotiation and Contracting includes pricing and contract drafting. Supplier Performance Management refers to measuring, evaluating and benchmarking suppliers. Product and Process Development refers to the supplier engagement in product and process development through collaboration. Finally, Supplier Relationship Management covers all tasks related to the management and development of supplier relationships. (Ellegaard 2006.)

The literature review shows mixed and sometimes contradictory results with regards to purchasing practices of small firms. For example, the research of Morrissey et al. (2006) analyzing the buyer-seller relationship in the SME context shows, that there is a great tendency to create a separate purchasing function within SMEs; furthermore, that supplier relationships play an important role to small firms. However, this finding contradicts with that of Quayle's (2002) who has found that purchasing and purchasing-related activities are not considered important in SMEs, therefore most of the companies even sees the establishment of a separate purchasing function unnecessary. The same research of Quayle (2002) includes however some contradictions. Despite the finding of the relative unimportance of the purchasing function, the study also shows that supplier performance parameters such as price, quality, time-to-market, product and service reliability have high priority in small firms towards suppliers. This would suggest that

an effective purchasing function and management is needed to realize those outcomes from supplier relationships.

Related to this issue, Ramsay (2008) found that SME managers do not consider purchasing as a specific key activity but it is combined with the general running of the firm. He also suggests that small firm managers deal with various functions in the same time such as marketing, purchasing, finance, operations. It is also confirmed by Gabrielsson et al. (2004) who similarly highlight that born global's owner-managers deal with various organizational functions due to the lack of resources and formal organizational structure in the early stages of the firm's development. However, they propose that with its growth, the firm's organizational structure becomes more and more formalized and separate functional units are created within the organization with differing responsibilities such as marketing, finance, and purchasing.

Ellegaard (2006) collected and examined the existing studies on small firms' purchasing activities involving all the five areas indicated in figure 6 and concluded the most important findings of his research based on the literature involving 58 articles. His findings show that supplier selection decisions in small firms are limited due to their resource disadvantage related to market experience and information gathering. Therefore, small firms base their supply decisions on limited information and most of the time they do not use formal selection procedure either. However, in spite of the lack of purchasing planning and formal procedure, they perform well in purchasing. Although, they usually pay higher prices to their suppliers compared to their large counterparts, they are also supplied by higher quality supply and on better delivery conditions.

According to the findings, small firms are characterized by a high degree of loyalty towards their suppliers once they have chosen them. They tend to build close and stable relationships - especially export-oriented firms operating in expanding industries - and put the emphasis on technological rather than economical exchange. The dense ties they build in the relationship serve as a tool to reduce risk, uncertainty and the cost of information gathering, while enhance growth and innovation. The distribution of benefit among the parties involved seems to be important for small firms implying that they strive for a win-win situation in a relationship (Ellegaard 2006). However, Arend and Wisner (2005) argue that young small firms lack resources to make investments in supply chain management relationships. Furthermore, as they do not have long history, they are not able to build reputation and trust as well as they lack the experience of

managing the complexity of network relationships. Furthermore, they also concentrate on exploiting internal knowledge rather than use external ones.

As for the innovation collaboration with suppliers, the studies show controversial results as well. Some studies shows active involvement of small firms in innovation collaboration with suppliers, while others argue that innovation seems to be perceived as an internal activity; therefore small firms do not engage in innovation agreements with suppliers (Ellegaard 2006; Qualey 2002). According to the literature, small firms are also aware of purchasing related risks and have several negative experiences regarding supplier quality and delivery performance. However, instead of trying to manage these risks through strategic purchasing, they simply try to avoid them. This risk aversion behavior is surprising knowing the entrepreneurial characteristics of small companies. Because of the risk aversion, they also seem to exclude global sourcing as small firms have no knowledge of international sources that result in limited purchasing experience. Therefore, small firms tend to search for supplier with similar mentality that also supports local sourcing. (Ellegaard 2006.)

This previous finding noted by Ellegaard (2006) contradict to that of Scully et al. (1994) who argue that in spite of their limited managerial and capital resources, small firms do engage in successful global sourcing - that is facilitated by the economic globalization and improved logistic solutions – however, they source on a more limited basis compared to their large, multinational counterparts. Similarly, Arnold (1989) argues that small firms can engage in global sourcing. He proposes that the existence of certain resources is needed to realize effective global sourcing such as investment capital or special techniques of management that small firms may lack. Nevertheless, this does not mean that there is no way for them to practice global sourcing. Small firms can survive on account of their flexibility, because decision process is made in less time, thus can react and adapt more quickly to market changes than large businesses. In the next part, strategic partnerships in SME context will be investigated in more details.

3. 6. 2. Strategic Partnership in SME's Supplier Relationships

After reviewing the literature on SME's purchasing, this part will focus specifically on supplier relationships; more precisely investigate whether cooperation exist between the SMEs and its suppliers. Lajara and Lillo (2004) have studied the relationships between small Spanish manufacturing firms and their suppliers. Their study shows that small and medium-sized firms do engage in strategic partnership with suppliers in order to obtain

various benefits and improve firm's competitiveness. However, their result contradict that of Morrissey et al. (2004), who argue that the notion of partnership is treated with a degree of skepticism in small firms and partnership does not appear to describe the supplier relationships of SMEs.

As for another study, Mudambi et al. (2004) argue that the power distance between buyer and supplier greatly influences the type of relationships small firms develop with suppliers due to the strategic concerns about opportunistic behavior. Cooperative buyer-seller relationship has different strategic characteristics when the buyer is small. In their study most of the SMEs had loose relations with suppliers and had no initiative to develop cooperation. The research found that three quarter of the SMEs do not have high-level cooperation with their purchasing partner. Those who have can be classified into three main groups concerning their approach towards implementing such relations: firms with deliberate strategy, emergent strategy and close-but-adversarial strategy. Firms following deliberate strategy consciously develop partnership with supplier partners. Firms with emergent strategy – most of these are very small firms - unconsciously develop such relationships even without recognizing their existence. Both of these firms believe strongly in interpersonal relationships. Thirdly, close-but-adversarial firms implement consciously cooperative purchasing; however, it is not based on trust and informal relationships and they are highly concerned with vulnerability and opportunism. (Mudambi et al 2004.)

The literature review on supplier relationships and purchasing of SMEs yielded for contradictory results. Some of them found that SMEs do engage in well-developed relationships with business partners while other studies presented opposite results. However, it seems that the majority of the studies support that SMEs do engage in supplier relationship at certain degree. This assumption is further supported in the following part discussing the changes in supplier relationships with the growth of the firm. The next part is based on researches done in a born global context holding great contribution to find answer to the third research sub-objective questioning whether the type of relationship change with the growth of the firm.

3. 6. 3. Expected Changes in the Relationships with the Growth of Born Globals

Yli-Renko, Autio and Tontti (2002) argue that the internal resources and capabilities of a born global develop and change over time - due to the accumulation of knowledge and experiences acquired through its relationships. This causes changes in the born global's

prevailing network content (Sepulveda et al. 2013) which refers to the resources that the firm seeks and exchanges in the network (Hoang & Antoncic 2003).

Sepulveda et al. (2013) argue that the network content becomes increasingly strategic with the internal resource development. In the early existence of born globals, its network relationships are intended to eliminate the resource shortage that is not qualified as strategic. However, after internal resource development born global has a better ability to transform resources into more unique and valuable ones combining with other firms' resources. With its growth, born global increasingly seek a more specialized combination of resources and capabilities that not only eliminate resource shortage but provide a unique advantage over the competitors (Partanen, Möller, Westerlund, Rajala & Rajala 2008). Therefore instead of further seeking external resources and capital in order to maintain its daily operation, born global can generate its own working capital and establish exclusive alliances with suppliers (Dyer 1996). Similarly, Alchian and Demsetz (1972) argue that firms may choose to increase their productivity and performance by investing in specialized assets in relation with trading partners. These specialized assets derive from general assets (such as money, raw material, labor, technology etc.) that are converted in a way that results in the firms' added value (Amit & Shoemaker 1993). Such collaborative relationships are seen as strategic since they add value to the firm and have unique characteristics that are difficult to imitate by competitors hence provide competitive advantage for the firm (Amit et al. 1993; Brush et al. 2001).

The findings of Sepulveda et al. (2013) and Partanen et al. (2008) support that born globals engage in relationships which evolve into a strategic type with the growth of the firm. As it was demonstrated in the previous sections, some of the studies from the SME literature contradict these findings such as the research of Morrissey and Pittaway (2006) who argue that collaboration is the privilege of large firms and that collaborative alliances are not practiced by smaller firms. Their view is shared by Perez et al. (2002) who reason that small enterprises have difficulties in actively engaging in cooperation and only rarely engage in an active search for partners. These contradicting results propose that the born global and SME category of firms should be handled and researched separately and the studies made on small and medium sized firm is not applicable to born global firms.

3. 7. Theoretical Framework of the Thesis

As the literature review revealed mixed results on the purchasing and business relationships of small firms, a better understanding is needed on buyer-seller relationships of born global firms. Several authors argue that purchasing is a critical task in small firms due to its small size and dependence on external resources. Purchasing management involving relationship management should be perceived important since purchasing ineffectiveness may cause the high vulnerability of the firm (Ellegaard 2006; Scully & Fawcett 1994). How exactly born global firms perceive this issue is intended to be revealed in this study.

Morris and Calantone (1991) argue that entrepreneurial characteristics such as risk taking, flexibility, creativity are needed for effective purchasing. These characteristics are present in born global firms implying that born globals possess basic conditions in order to pursue effective purchasing involving the development of valuable buyer and supplier relationship. Figure 8 shows the theoretical framework of the study organizing the ideas and combining the concepts that frame the topic and which bring us to the next main chapter of the thesis, the research methodology.

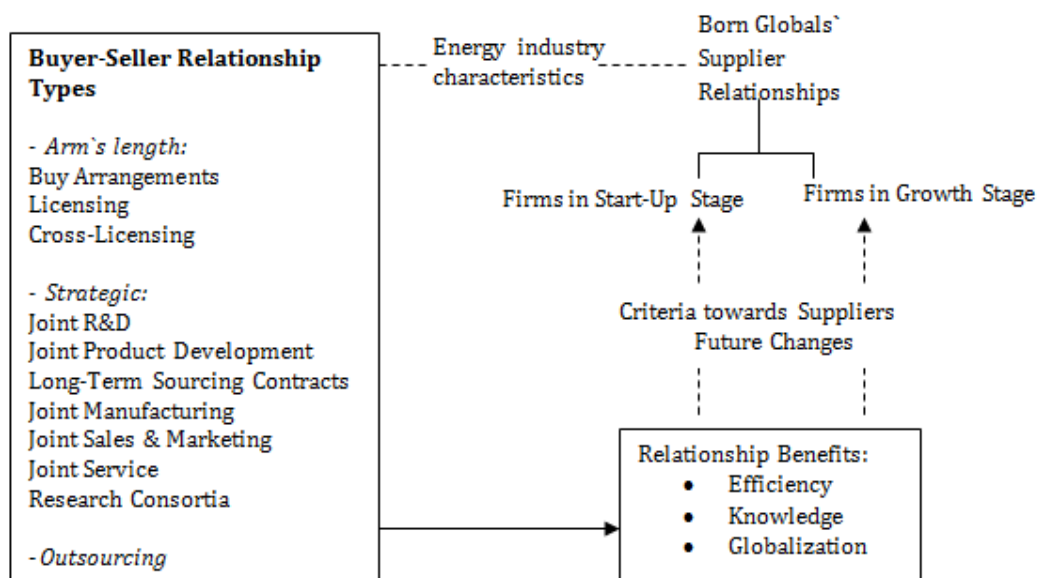


Figure 8. Theoretical Framework of the Thesis.

The theory listed all the possible relationships that can be developed between the supplier and buyer. Each type of relationship is analyzed along with their benefits which are classified into three different groups based on the work of Mazzola et al. (2009): efficiency, knowledge and globalization. The author expects that the industry in which the firms operate has also strong influence on the relationships that companies develop with their suppliers that will be demonstrated later on in the thesis (see Chapter 5). The study compares the supplier relationships of born globals being in different stages of their life cycle: firms in the start-up stage and firms being in their growth stage of their life cycle. Based on the literature review, it is expected that firms being in different stages in their life cycle have different needs; therefore, the criteria used towards their supplier differ. Furthermore, firms in different ages are expected to meet different challenges, thus overcome different changes in the future. Therefore, firms being in different stage of their life cycle look for different benefits in their relationships which ultimately affect the type of relationships they develop with their suppliers. After reviewing the literature, the research methodology of the thesis is presented in the next chapter.

4. Research Methodology

This chapter of the thesis presents the methodological choices of the study covering issues as research approach and design, data collection and sample description as well as data analysis techniques. Furthermore, the reliability and validity of the study will be described in more details.

4. 1. Research Approach

The thesis starts with the literature review identifying theories and ideas developing a conceptual framework. As the theoretical framework is based on existing literature, the study uses deductive logic in contrast to inductive approach that means that the researcher generates the theory from the collected data thus the emphasis is on theory building rather than theory testing. Deductive approach is an important aspect of this thesis, since there are a great number of studies made on buyer-seller relationships in industrial markets. Therefore, there is a strong and valuable theoretical background on the topic that needs to be studied to be able to reveal and analyze supplier relationship of born global firms. (Saunders, Lewis & Thornhill 2012.)

Despite the availability of a strong theoretical background on buyer-seller relationships, the main focus of the existing studies is on multinational enterprises, while small and medium size enterprises are significantly neglected (Ramsay 2008). Even though there are few studies analyzing SME context, they show mixed or even contradictory results. Moreover, to the best knowledge of the author, there is no research done on supplier relationships of born global firms and their impact on the firms' internationalization. In the next part, research design will be presented.

4. 2. Research Design

The purpose of the research is the combination of descriptive and exploratory studies. Exploratory as it asks open question to find out the type of relationship born globals develops with suppliers and explore the reasons behind the relationship development. But it is also descriptive as it describes situations and identifies patterns and trends (Saunders et al. 2012). Because of the dual nature of the research design as well as the

complexity of the collected data, the research follows qualitative research strategy characterized by non-standardize model (Maylor et al. 2005).

Semi-structured interview method was deemed the most appropriate to answer the research question as it gives place to the interviewee to explicate and explain the responses but still gives a frame for the process to avoid discussions not related to the researched topic. Due to the unstructured model, this method is characterized by flexibility and able to lead the discussion into non-expected areas providing new insights into the topic resulting in the generation of rich data (Saunders et al. 2012). The opportunity of revealing non-expected areas during data collection is especially important in the present thesis as it studies a topic that has not been researched so far. The researcher conducted a series of semi-structured interviews with the representatives of the case companies that will be presented in the following part.

4. 3. Data Collection and Sample

Convenience sampling within the non-probability sampling techniques was used in this study meaning that the sample is not selected randomly rather on the basis of their accessibility and the researcher's personal judgment. The disadvantage of this sampling technique is that it may not represent the population accurately. However, this study does not aim to get a representative sample but to obtain new knowledge that can be tested in a subsequent study on a representative sample by using a deductive approach. (Saunders et al. 2012.)

In order to have a better understanding of supplier relationships of born global firms and to increase the utility of the research, the study used a more-focused approach concerning industrial sector. Therefore the sample was drawn from the energy technology industry. Furthermore, the firms were selected from the member organization of EnergyVaasa which is the largest energy cluster in the Nordic countries. Thanks to an earlier completed assignment of the author, three companies were known already in the initial phase of the research that meet the criteria of born global firms used in the study. These companies were contacted in the first round. Initial contacts were made by sending email to the general information email address of the company or in some cases directly to the managing director. The email explained the purpose of the study and asked for an interview opportunity indicating its foreseeable duration thus preparing the interviewee for the time needed to complete the interview. The

companies, that did not replied to the email in a week, were then contacted by phone. All the three companies happily accepted to participate in the research.

In order to attempt to increase the sample size regarding the number of case companies, all the member companies of the EnergyVaasa were investigated with care one by one to ascertain whether they fit to the definition of born globals used in this study. Each company, that gave the impression to meet the criteria based on the information found in the company`s website and other industrial publications, were contacted by email to ask for further details about their international activities in the first three years after their establishment. The companies that did not answered to the email were contacted by phone in the following week and were asked about specific information about their internationalization. With this procedure one more companies was found that met the requirement of born global firms used in the study.

As it was already mentioned, all the case firms are the members of the EnergyVaasa energy cluster. Each is located in the Vaasa region and varied in size from 5 to 1500 employees. The research relied on the perception of the key informants including two managing directors, one sourcing manager and in one case the supply chain vice president of the company. In all, semi-structured qualitative interviews were conducted with a total of 4 informants representing 4 different companies. In three cases, the interviews were conducted at the business site of the firms and in one case at the University of Vaasa. The interview length varied from 29 to 65 minutes, with a mean length of 44 minutes. The interviews were recorded and transcribed verbatim allowing further detailed analysis.

4. 4. The Structure of the Interviews

Each interview started with a short introduction aiming to open the way for the technical part of the interview. In this introduction part, the interviewees were thanked for accepting the interviews and the researcher presented herself as well as the purpose of the study. The participants were ensured that the data will be handled confidentially and if any question touches sensitive issues, they have the possibility not to answer for it. However, such case did not occur during the interviews. The interviewees were also asked to signal in case the question asked is not clear or they require more explanation on it. Permission was also asked for using recorder and to start the interview.

After the introduction part, the second section of the interview focused on revealing whether the case company meets the requirement of born global firms used in this study. For this reason, the date of the company's establishment were clarified. Then, the first three countries with its related dates where the company started to do business were inquired. Furthermore, the interviewees were asked to indicate how much percent of the total sales of the company was approximately originated from foreign countries after three years of the company's establishment.

After ascertaining that the case company meets the criteria of born global firm used in the study, the focus moved to the supplier relationships of the firms. As the first part of this section, questions were asked about the firm's resources and the challenges that the company face in a general level as well as in the industry specific level. Secondly, the interviewees were asked to describe the importance of suppliers in the company operation and typify the relationships they have with them. Then, questions related to the specific relationships with suppliers were asked covering first the strategic type of relationships, then moving towards the less strategic supplier relationships. They were asked about the main factors that the company considers when choosing a supplier, the responsibilities that the suppliers have, their benefits and their impact on the internationalization of the firm. Possible changes in supplier relationships were also covered regarding past experiences and future expectations. For the list of the questions used during the interviews see Appendix 1.

The list of questions shown in Appendix 1 served as a guideline during the interviews. However, as it was expected, none of the interviews followed the same structure. The order of the questions and the wording of the questions changed interview by interview depending on the talkativeness of the interviewees and the direction in which the discussion progressed.

4. 5. Data analysis

During the data collection process a large amount of qualitative, non-standardized data were collected. As qualitative data is based on meanings expressed by words and its nature is characterized by high complexity; therefore, it requires adequate time and effort to analyze (Saunders et al. 2012). Kolb's learning cycle was applied during the data analysis consisting of four separate stages illustrated in Figure 9.

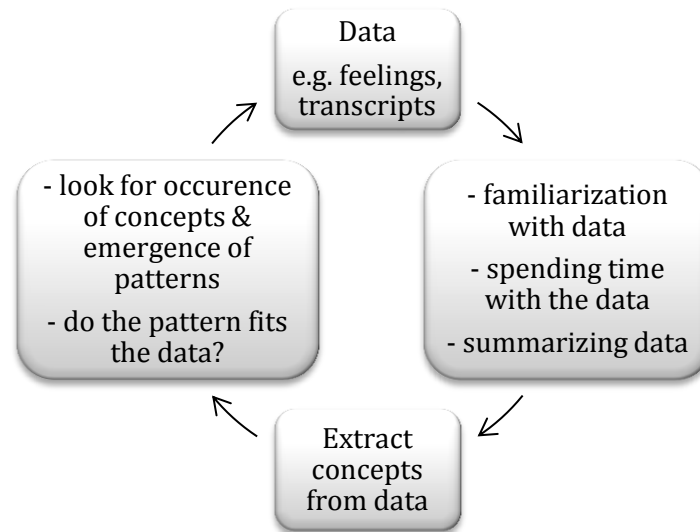


Figure 9. Kolb's Learning Cycle.

The first stage of Kolb's learning cycle is the so-called concrete experience stage. In this stage the analysis is based on concrete experience that may be personal such as feelings, memories and research-based such as the transcripts of the interviews (Maylor et al. 2005). Therefore, in the first step of the data analysis procedure, each interview had been transcribed to make the data available in written format which facilitates the analysis.

In the second stage, reflective observation takes place consisting of three different activities. Firstly, the researcher has to familiarize himself with the data. Secondly, considerable time should be devoted for the prevailing issues, while continuously reflecting on what is happening. Finally, the data should be summarized (Maylor et al. 2005). For facilitating this stage, in addition to transcribing the audio-recording, transcript summaries were also written concluding the main message and outcomes of each interview. This method helped to identify the principal themes and apparent relationships between themes emerged during the interviews (Saunders et al. 2012).

The third stage of the leaning cycle is the abstract conceptualization, in the phase of which key concepts and categories were extracted from the data. The categories were formed based on the combination of concept-driven and data-driven categorization meaning that the main categories of the data analysis were identified based on both the theoretical framework and the data collected (Saunders et al. 2012). The concept-driven

categorization was facilitated by the fact that the questions asked partly followed the structure of the theoretical framework, especially in the first part of the interview.

As multiple interviews were conducted in the research, cross-case analysis is used to further analyze the data. Cross-case analysis is frequently used when multiple cases take part in the research as it helps to identify patterns and variations between cases. Cross-case analysis is preceded by within-case analysis which focuses on the in-depth analysis of the individual cases taking place in the first two stage of Kolb`s learning cycle. After conducting the within-case analysis, the identified main categories are analyzed across the cases searching for similarities and differences. As the present research aims to compare supplier relationships of born globals being in different phases of their life cycle, cross case analysis is applied on a multiple level. Firstly, firms being in the same life cycle stage, then firms being in different phases of their life cycle were compared to each other. As for the final stage, the so-called active experimentation took place through which emerging patterns are identified, propositions are developed and the data is compared against the theories and models suggested in the literature. In this stage, testable propositions are also developed through revealing patterns and recognizing relationships between the categories. (Maylor et al. 2005.)

When presenting the findings and the results of the empirical research, the author applies a multiple-case report in which the single cases are not presented separately, rather the whole presentation of the findings consist of a cross-analysis. Therefore, each section will focus on a cross-case issue gathering the relevant information from the individual cases. (Yin 2003.)

4. 6. Reliability and Validity

Data quality issues collected through semi-structured interviews are related to reliability, forms of bias, validity and generalizability (Saunders et al. 2012). Reliability and validity determine the creditability of the study referring to the confidence of the truth value of the research outcomes (Newman & Benz 1998). In the following these issues will be discussed in more details.

4. 6. 1. Reliability

Reliability refers to the consistency and repeatability of the measures; whether the data collection technique and analytic procedure would reveal similar findings in case of repeating the study by different researchers. Reliability is related to four types of threats: participant error, participant bias, researcher error, researcher bias (Saunders et al. 2012). These threats were acknowledged and the researcher was prepared to minimize or where it was possible to completely avoid their effects on the result. In the following each threat will be presented separately.

Participant error refers to any factors that influence participants' performance in an adverse way (Saunders et al. 2012). To minimize this threat, the timing of the interviews was carefully planned in advance. All participants were informed about the interview in time, one week or more prior to the meeting. This allowed them sufficient time to prepare and not to cause unexpected changes in their pre-planned schedules that may have caused the interviewees' precipitance when answering to the questions. The interviewees were also informed about the expected time length of the interview, based on which they were let to choose freely the time of the meeting that fitted the most in their schedule.

Participant bias refers to any factors that produce false, incomplete and dishonest response due to factors such as feeling unsecure or being overheard (Saunders et al. 2012). To eliminate this threat, first of all interviewees were assured about the anonymity and confidential handling of the information provided during the interview. Besides, the interviewees were let to choose the place they would like to have the meeting. Hence, three interviews were conducted in the work site of the interviewee while one meeting was held at the Vaasa University for the request of the interviewee. Furthermore, in the beginning of each interview the participants were asked to signal to the interviewer in case of bringing up questions that they consider sensitive to answer. They were assured that in such case the question do not have to be answered. However, there was no such case happened during the interviews. This can contributed to the fact that the studied topic does not generally touch any sensitive issues about the company or the interviewee.

Last but not least, the body language and reaction of the interviewees were also observed and further comments were added when needed to clarify the questions or stimulate the interviewees for further explanation of the topic. During the interviews the

interviewees seemed relaxed and calm indicating that the conditions suited well to execute appropriately the data collection. After the interviews the participants were also asked to give feedback and share their feelings about the session. Each participant showed satisfaction with the outcomes after the interview and some of them expressed eagerly their interest to hear about the final findings of the research.

Researcher error refers to the researchers' possible misinterpretation of the findings caused by researcher's unpreparedness and misunderstanding of the topic. (Saunders et al. 2012). To eliminate this error, profound preparation of the researcher is required. Throughout completing the literature review part of the thesis, the researcher have acquired the knowledge needed to fully understand the definitions, theories, models, features related to the topic and the industry in which the case companies operate. Furthermore, before each interview, the researcher gathered and studied deeply the case companies using the Internet, governmental publications and other industry reports. Moreover, in case of confusion during the interview process, the interviewees were asked to clarify their thoughts or provide more explanation on the topic.

Finally, *researcher bias* means the extent to which the interviewer influences the responses of the interviewee by his/her own subjectivity or by imposing own beliefs on the interviewee (Saunders et al. 2012). In order to frame a list of possible questions free of subjectivity, a third person – having expertise in sourcing activities - were asked to participate in a pilot interview. During the interview, the interviewee was asked to signal if he feels the question is too vague or unclear or the structure and content of the questions have influencing affect on the response. Considering the pilot interviewee's comments, the questions were reformulated and refined when needed. As it was expected, none of the interviews followed the same outline and used the same list of questions; the prepared questionnaire served more like a guideline.

4. 6. 2. Validity

Validity analyzes whether the researcher could get access to the participants' knowledge and is able to interpret and conclude meaning that the participants are intended to convey. Determining the validity of the study, construct validity, internal validity and external validity will be analyzed in depth in the following. (Saunders et al. 2012.)

Construct validity “refers to the correspondence between a construct and the operational procedure to measure that construct” (Schwab 1980: 6). Although born

global firms` supplier relationship was not studied in depth so far, there are ample of study available on supplier relationships of large companies and their affect on company`s operation. The interviews were constructed based on this throughout analysis on buyer-seller relationships in the MNE and SME context and were pilot-tested with a competent third party assuring the correct operational measures for studying the construct.

Internal validity refers to the confidence of casual relationship between two variables, whereby an invention can be shown statistically to lead to an outcome; while the possibility of spurious relationship due to some other reasons is excluded. (Saunders et al. 2012.) Internal validity was confirmed by analyzing only the exact quotations of the interviewees.

External validity refers to the generalizability of the research findings to other relevant research settings. Semi-structured interview methods cannot make used to deduct statistical generalization about the entire population as the data is collected from a small non-probability sample. Furthermore, these kinds of studies do not aim to generalize the findings rather to make theoretical propositions and enrich the knowledge in a certain research field. The outcome of the qualitative study will provide a theoretical proposition which than can be tested by a quantitative research method to generalize it to the entire population. (Saunders et al. 2012.) However, in order to increase the utility of the research, the study uses a more-focused approach concerning industry and geographical location. Therefore, this focus ultimately increases the utility of the study when analyzing cases in the same context.

5. Findings and Discussion

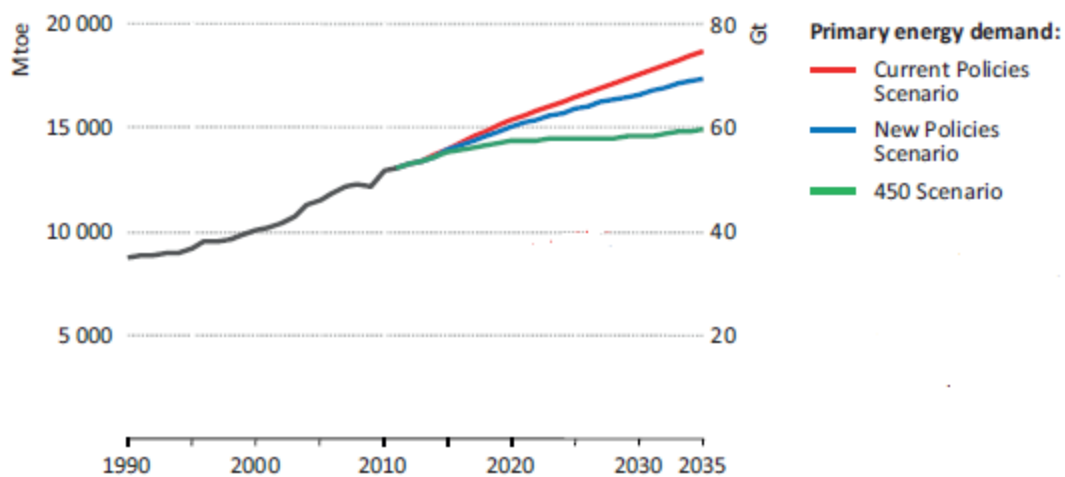
This part of the thesis presents the research findings as well as the related discussion. The presentation of the findings follows the structure of the data collection process, therefore the separate sections follow each other in the same order as they appeared during the interviews. During the analysis of the result, the author applies cross-case synthesis that is especially relevant analytic technique for multiple case studies. In the multiple-case report, the single cases are not presented separately, rather the whole presentation of the findings consist of cross-analysis. Therefore, each section will focus on cross-case issues gathering the relevant information from the individual cases (Yin 2003). Before presenting the results and the related discussions, the analysis of the energy technology industry from which the sample had been chosen will be presented along with the description of the case companies. The industry description is needed as it may reveal specificities that can influence the behavior of the actors regarding their relationship building practices with business partners.

5. 1. Energy Technology Industry

Energy technology is an expanding industry as the need for energy is continuously growing with the past and expected radical increase of the world's population. Economies are growing so as the demand for energy followed by the depletion of natural resources, which urges the need of finding alternative, sustainable resources. Therefore, energy technology is about to produce, and use the energy in a way that is efficient, safe and economical; while its negative effect on the environment and the society is reduced to the lowest possible level. It also aims to achieve global energy security to assure the uninterrupted availability of energy sources at affordable price. Energy has a great role in influencing economic growth; therefore its importance is unquestionable. (IEA 2013.)

The growing market of energy technology faces various challenges and has a key role in resolving essential global problems that shows the importance of the whole industry in today's economy. Such challenges can be grouped in three categories. Environmental challenges cover issues associated with climate change, pollution and nature preservation. Energy security challenge includes energy availability, reliability; quality and capacity. Lastly, market change challenge involves market liberalization, innovation and competitiveness as well as competitive pricing. These challenges contribute to the

increasing regulation of the market not only by business economics but by international, regional and national laws and decrees. (EnergyVaasa 2012.) To find solution to the challenges and the increasingly rigorous legislations, international cooperation is needed between the actors of the industry to promote R&D activities enhancing the possibilities to find sustainable solutions. In the industry, it is typical to form energy technology network between governments, industries, private sector businesses and non-governmental organizations in order to achieve cost effectiveness as well as share best practice, facilitate technology transfer, knowledge sharing and financing. (IEA 2013.) The expected growth of energy demand is shown in Figure 10 illustrating three different scenarios about the expected magnitude of the increase.

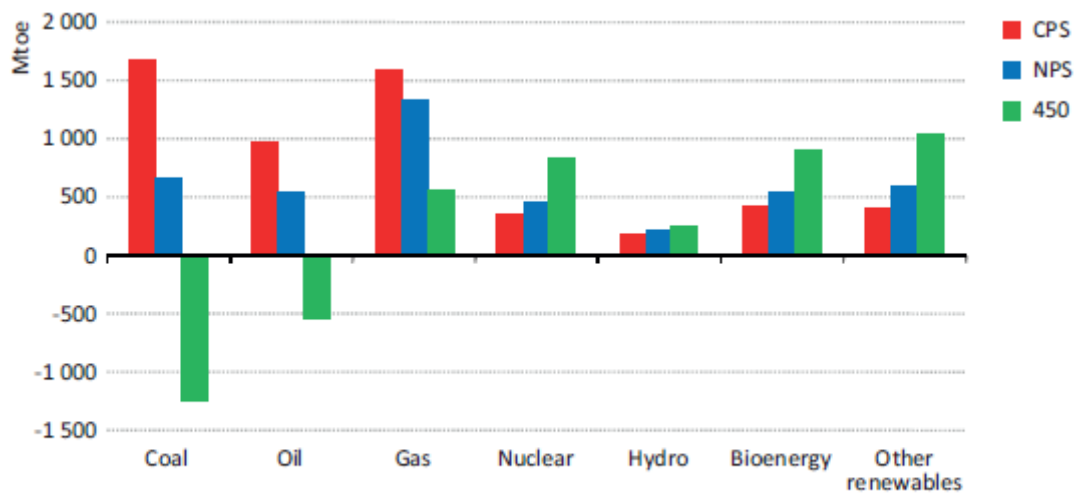


Note: Mtoe = Million tonnes of oil equivalent; Gt = gigatonnes.

Figure 10. World Primary Energy Demand by Scenarios. (IEA 2013: 57).

The New Policies Scenario assesses future energy market growth based on the continuation of existing policies that governments have been implemented, but are yet to be given effect. The Current Policies Scenario considers the policies that are enacted till the midpoint of the year 2013 and expects no changes in them. The 450 Scenario presents “*what it takes to set the energy system on track to have a 50% chance of keeping to 2°C the long-term increase in average global temperature*”. (IEA 2013: 33.) It is clearly seen in the figure that all three scenario assume growth in the energy market at different degrees. According to the International Energy Agency (2013), the New Policies Scenario is the most likely to happen.

Apart from the growth, energy industry is also about to go under various changes at the present and continuously in the near future. Emerging economies such as China and India are becoming the primer users of global energy, causing the re-orientation of energy trade from the Atlantic basin to the Asia-Pacific region. Besides, Brazil is due to become a leader of energy production. Although the use of oil is about to further increase, it does it in a slowing pace. Instead, renewable energy takes the lead and will account for the half of the increase in global power generation to 2035 (see Figure 11). Renewables have an increasing share in the production of energy in the European Union and this trend is expected to continue with an outstanding increase after 2020. (IEA 2013.)



Note: CPS = Current Policies Scenario; NPS = New Policies Scenario; 450 = 450 Scenario.

Figure 11. Change in World Primary Energy Demand by Scenario, 2011-2035. (IEA 2013: 59).

As Finland's energy technology excels in the generation of renewable energy (EnergyVaasa 2012), the presentation of Figure 11 is considered to be important to see the significance of the sample companies operating in the industry.

5. 1. 1. EnergyVaasa

EnergyVaasa is the largest energy cluster in the Nordic countries. It gathers more than 120 businesses operating in the industry and other organizations such as universities,

service and component organizations. EnergyVaasa aims to develop new energy technologies and produce energy in a sustainable and environment-friendly way, while promoting products and services for renewable energy production and energy efficiency. It also works on developing new forms of energy production and increasing energy efficiency in the entire energy chain. The total business turnover of the EnergyVaasa companies together is around EUR 4,4 billion annually with more than 70% of export rate. This proportion is remarkable as it makes up 30% of Finland's total export in energy technology. (EnergyVaasa 2012.)

For the companies in the industry, innovation plays a key role regarding finding new alternative ways for energy production as well as increasing energy efficiency in the whole supply chain from production to consumption. Member organizations are encouraged to develop business relationships to facilitate flexibility, share risks and develop competences. In the Vaasa region, it is estimated that around 120 SMEs are present as energy technology subcontractors. Buyer companies often establish strategic partnership with these subcontractors, whose value and importance is highly acknowledged. (EnergyVaasa 2012.)

Associations operating in the field of energy, including EnergyVaasa, highly support strong co-operation between the members - especially within R&D - in order to help companies to grow and find increasingly efficient solutions to the challenges of the energy market. There are different programs promoting these co-operations and the establishment of strong networks to enhance firms' competitiveness, stimulate innovation activity, create new business opportunities and promote export. As in the international energy industry, EnergyVaasa likewise emphasizes the importance of innovations, know-how, expertise and strong networks to enhance renewable energy production and efficiency. (EnergyVaasa 2012; IEA 2013.)

5. 1. 2. Description of the Case Companies

The sample of the research consists of four case companies that can be classified into two separate groups based on Kazanjian's (1988) life stage model. Two of the companies are in the startup stage and two of them have already reached the growth phase of their life cycle. This difference enables to make a comparative analysis between the supplier relationships of the firms being in different phases of their life cycle which gives a dynamic nature for the study. In the following, the profiles of the participating companies will be presented and summarized shortly.

Company A

Company A was founded in 2010 and has approximately 15 employees at the moment. It offers a complete range of protection relays and arc flash protection solutions for power distribution systems. It develops, designs, markets, sells and supports the product for its customers on a global basis. Three years after its establishment, the firm is present in all continents, in more than 40 countries, while 99% of its revenue is originated from other countries than Finland. Its world-wide presence is facilitated by local offices and through partner networking. The interview for data collection was done with the managing director of the firm.

Company B

Company B was founded in 2010 and has only 5 employees. It is a clean-tech company developing, selling and delivering energy efficient solution for companies operating in the shipping-marine industry worldwide. Its focus is on creating savings for the customer through optimizing the fuel consumption of ships. The firm is doing business worldwide whereupon about 70% of its total revenue is originated from foreign countries. The interview for data collection was done with the managing director of the firm.

Company C

The company was established in 2006 by the merger of three separate organizations, two of which originated from Finland and one from the United States. Therefore, it is handled by reservation as the company started its operation with resource advantage compared to firms starting from scratch. According to the supply chain vice president however, the only heritage that comes from the former companies is the key people and there was no further prominent resource advantage originated from the past organizations.

The company designs and sells power converters and magnet generators helping to improve energy efficiency and quality of new energy sources such as wind power. At the moment the company has around 200 employees all around the world. Production and product development units are established in Finland, USA and China, while sales companies are present in the latter countries, plus Korea, Spain, India and Germany. The revenue reached EUR 50 million in 2013. The total turnover's export rate is significant, more than 99% among which the most important importer is China. The interview for data collection was done with the supply chain vice president of the firm.

Company D

Company D was founded in 1993. It designs, manufactures and sells AC drivers and inverters offering energy efficiency and optimum process control for electric motors. Two years after foundation, the company already had subsidiaries in Germany and Sweden. Today, its production and R&D organizations are located in Finland, China, USA, India and Italy and it has sales subsidiaries in 27 countries and distributors in 100 countries. In 2012, its revenue reached EUR 388.4 million of which approximately 95 % originated from foreign countries. The interview for data collection was done with one of the sourcing manager of the firm. The characteristics of the case companies are summarized in Table 9.

Table 9. The Characteristics of the Case Companies.

	Company A	Company B	Company C	Company D
Year of Establishment	2010	2010	2006	1993
Age in 2014	4	4	8	21
Current Life Cycle	2 nd stage	2 nd stage	3 rd stage	3 rd stage
Stage*	start-up	start up	growth	growth
25 % of total sale from abroad after 3 years	√	√	√	√
Employees in 2014	15	5	200	1500
% of foreign sales from the total in 2014	99 %	70 %	99 %	95 %
Interviewee	Managing Director	Managing Director	Vice President, Supply Chain	Sourcing Manager

* Based on Kazanjian`s life cycle model

5. 2. General Importance of Supplier Relationships in Born Globals` Operation

Each case company expressed uniformly the important role of their supplier relationships and agreed that the firms` daily operation and the success of the business are highly dependent on the suppliers. The reasons for this dependence are explicated in the followings.

Each case company`s main activities are to design, sell and support their products. Accordingly, they all have intensive R&D activities to develop the product and

determine its specifications in house with own people. They also have close relationships with the market through which they promote the products. However, the manufacturing of the components and the assembly of the final products are mostly done by the suppliers, except company D that makes the final assembly purely on his own. As one of the interviewee said:

“We are networking company, [...] the nature of the company is that we don't have many local workers and it is very much sourcing and buying components and manufacturing somewhere else. [...] The value-add of our own assembly work is less than 5% in total costing.” [Company C]

The major part of the production process is made by the suppliers in each case. Based on Porter's value chain model shown in figure 11, the value created by the organization and offered to the customer generates the profit of the company. The value chain shows the full range of activities the company does in order to deliver a product or service to the end customer. The more value is created through the value chain, the stronger competitive advantage is realized which is likely to generate more profit for the company. These values are created through a set of activities classified into primary and support activities. Primary activities are directly related to the creation and the delivery of the product to the customer. They include activities such as inbound logistics, operations, outbound logistics, marketing and sales, and service. While support activities support the firm's primary functions through the value activities of procurement, technology development, human resources management and firm infrastructure. (Porter 1985.) The firm's value chain is illustrated in Figure 12 followed by the explanation of the model.

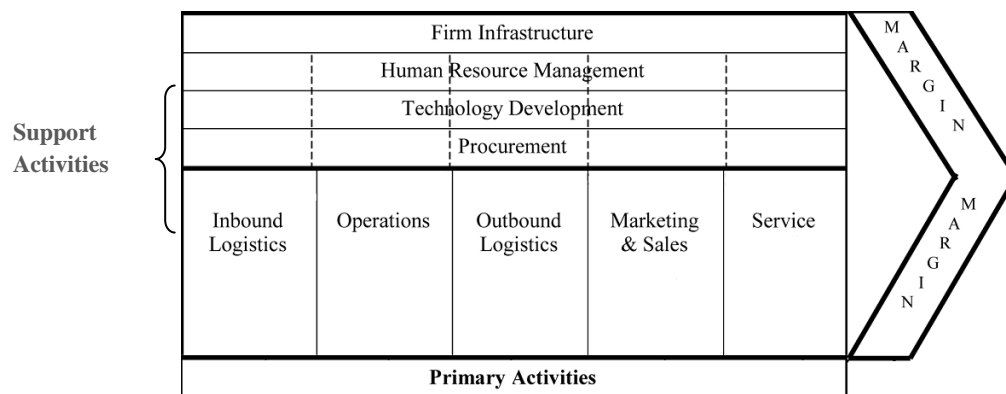


Figure 12. Business Value Chain. (Adapted from Lee & Yang 2000: 791).

Inbound logistics refers to all processes related to receiving, warehousing, storing and distributing raw materials and other inputs necessary for manufacturing. Operations refer to the transformation of inputs into ready to sell outputs, thus involves the manufacturing of the final product. Outbound logistics refer to all activities assisting to the delivery of the product to the customer such as collection, storage and distribution. Marketing and sales involves all processes to reach and acquire customers as well as to maintain relationship with them. Finally, service refers to the maintenance of the product after it has been purchased. Porter (1985) suggests that the firm's profitability depends on the firm's effectiveness in performing each of these activities both primary and support. If any of this activity is failed to run in an optimal level that could cause a fraction in the whole value chain. (van Weele 2010.) Therefore, when any of the functions are done by an external party; business relationships become crucial as they directly influence the competitiveness and the profitability of the company.

Each firm indicated that the manufacturing of the key components necessary for the final product is made completely by the suppliers. Furthermore, in three cases the assembly of the final product is also made partly or completely by the suppliers. This means that the primary activities of input logistics and operations are transferred to the suppliers to a great extent in each case. Furthermore, as it will be presented later on suppliers also assist to execute outbound logistics, marketing and service activities to a certain extent. The dispersion of activities among different external partners indicates that each company is part of a wider network consisting of various actors in the upstream side of the value chain. Therefore, networking plays an important role in each case company's operation as it was already proposed in literature review.

Firms being in the start-up and the growth phase emphasize the importance of their supplier relationships from a relatively different perspective. Suppliers become important to firms being on the start-up phase primarily to eliminate resource shortage as the literature review suggested. As the small initial size of the firm restricts the number of employees and the production capacity, suppliers primarily become important to make the business manageable which facilitates to survive the initial difficulties originated from the small size. Therefore, the primary importance of suppliers is to free up resources from non-strategic activities allowing the firm to focus on core competences. As one of the interviewee stated:

“In the beginning when the company is very small, the most important is to survive those first years and get the products out to the market.” [Company D]

Firms being in the growth phase emphasized the importance of supplier relationships primarily from technology and cost point of view. Suppliers play crucial role in R&D and new product development. In one hand, the number of technologies embedded in these high technology products is very wide. Acquiring each of those technologies and the related expertise would be greatly challenging. In the other hand, even if the company could bring each technology needed in-house, it would not be economical. It is more cost effective to source those technologies from suppliers than developing everything in house. As one of sourcing manager reckoned:

“We cannot have the best people for each technology embedded in our product everywhere in the world.” [Company D]

Next to executing R&D activities, suppliers have an important role in finding solution for continuous cost reduction thanks to their special expertise in specific areas. Cost reduction and economical considerations seems to be a dominant aspect for born globals in the growth phase, while the young born globals are more focused on other aspect of the relationships such as cooperation quality. Based on the data it can be concluded that, cost considerations are becoming more important with the growth of the company; while in the start up phase, the focus is on the development of good relationship with the supplier – especially with that of the strategic one - that secures the daily operation and the survivor of the firm.

5. 3. Type of Relationships Born Globals Develop with Suppliers

In this study, three main relationship types are distinguished based on the literature review when discussing the supplier relationships of born globals. These are strategic partnerships, arm`s length relationships and equity arrangements with suppliers. Accordingly, the findings are presented based on this classification. All case companies are involved in strategic as well as arm`s length relationships, while none of the companies have equity arrangements with suppliers.

5. 3. 1. Strategic Supplier Partnerships of the Firms

Each interviewee unanimously acknowledged that they are heavily dependent on their suppliers, especially on those strategic ones. When asking about the general importance of supplier relationship in the first part of each interview, all interviewee automatically started to talk about their most strategic supplier relationships while ignoring the less strategic ones. This indicates that the strategic type of supplier relationships has more relevance when discussing the topic and play a much more important role in the born globals` operation than arm`s length relationships. This finding was expected to be found.

There are various similarities in the four cases regarding the type of strategic relationships they developed with their suppliers independently of the company size and age. According to the data, supplier relationships become strategically important regarding three main areas: manufacturing of key components, the assembly of the final product and R&D including new product development.

As it was already discussed, in each case the major part of the production - involving the manufacturing of key components and the assembly of the final product - is made solely by strategic suppliers. This finding is similar to that of Saxenian (1990) who pointed out that born global firms tend to build strategic alliances with suppliers providing specialized components of their system.

Firms in the growth phase pay stressed attention on the specifications and the instructions they give to their manufacturing suppliers. They instruct the whole production process in a detailed manner, control the supplier`s complete production line and continuously monitor it. In this respect, the relationship is much tighter and rigorous between born globals being in growth phase and its suppliers than in case of the young born globals. The latter also make specifications and instruct the production; however in a significantly looser way compared to the bigger houses. The supply chain vice president of Company C noted:

“We give the instructions even very detailed instructions. Even we can give them the production target time”.

According to the collected data, strategic relationships with manufacturing suppliers are accompanied by joint R&D as well as new product development activities. Three

companies out of four are heavily engaged in joint R&D and NDP with their manufacturing suppliers as one of the interviewee reckoned:

“We buy from them the equipment but we also develop with them the technology together. [...] We have very close relations with their R&D. So we actually have frequent meetings and discuss if we have with the customer a new challenge that he asks for something; or even we ourselves are kind of looking this is what the market would need [...] to actually come up with something that we can sell.” [Company B]

Instead of engaging in joint R&D, the companies sometimes choose to purely outsource part of their R&D as it is the case in Company A. Company C also often uses suppliers` R&D services on a project or on a long term basis. This is usually the case, when the company has no competence at all in the needed technology. R&D related relationships are considered always as strategic relationship.

In most of the cases strategic suppliers are given multiple responsibilities in the relationship. As it was seen, suppliers doing manufacturing are usually engaged in joint R&D and new product development. This was the most typical pairing of strategic suppliers` responsibilities. However, other combination was also found during the data collection. Three of the companies were engaged in joint sales and marketing with their manufacturing suppliers in a form of participating in various exhibitions and trade fair together. However, each of them highlighted that this is much less relevant part of the relationships than the other aspects of the partnership. Marketing and sales are done dominantly by the companies themselves.

Two of the companies were involved in licensing agreements and one of the companies was considering it at the time of the research. Licensing is usually part of the strategic manufacturing supplier relationship. However, contrary to Yoshino et al. (1995) classification, licensing is considered more as a strategic type of relationship as involves an important technology needed for the final product that is out of competence of the born global. Therefore these relationships are seen in a strategic way.

Strategic manufacturing suppliers may play certain role in the after-sales services as well. The supplier of the key components and/or the final product may assist to the after-sales services of the firm as having the know-how to solve possible malfunctions of the product as it was manufactured by them. Firms in the growth phase do the service

on their own with the assistance of the manufacturing suppliers if needed. However, in case of young born globals after-sales services may be done by service companies or by the manufacturing supplier which is explained by the limited resource availability to cover a global service network by their own as the following quotation shows:

“Because it is marine industry, it means ships and they are traveling all over the world. So they come to harbors and if our sub-supplier has some presence close by its meaning, it is quite fast to get the descent cost level somebody to respond to the problem and the market.” [Company B]

Overall, it can be concluded that the main responsibilities of strategic suppliers of born globals contribute primarily to the production and the firm`s R&D as well as NPD activities. Besides, they may contribute to a certain extent to the marketing and after-sales activities of the firm. However, common marketing has a negligible importance in supplier relationships. As for joint services, it has more relevance in case of the start-up firms.

5. 3. 2. Main Benefits of Strategic Supplier Relationships

Each case company`s most strategic relationships were related to the manufacturing suppliers. Supplier benefits were approached by the perspective of resources, especially in case of the young born globals as they free up resources which enable the company to concentrate on its core-competence. As one of the managing director said:

“We don`t have to employ so many people; we don`t have to manage our manpower load depending on our production load. [...]. It frees resources which then can be invested somewhere else maybe to R&D and internationalization.” [Company A]

According to the data, the other most important benefit of manufacturing suppliers for both types of born globals is the improved responsiveness to problems and challenges through joint responses. This finding is similar to that of Ktenidis and Paraskevopoulos`s (1999) who studied the benefits of joint manufacturing in SME context. In one hand, each company indicated that they often ask for advice from their supplier to solve specific problems solely by themselves or find solutions together to the requirements of the end customer. On the other hand, the suppliers are often brought together with the final customer at the request of this latter. This is because the

customer may want to see the cost breakdown of the product, how much each party wants to take out from the business. Moreover, next to the cost structure, the customer may be also in the supplier`s capabilities and quality level. It often happens that the three parties – the firm, its supplier and the customer - together come up with a solution for a specific technical issue. In such cases, the born global has a kind of mediator role between its supplier and its customer.

In case of firms in the growth phase, suppliers also actively assist to find solution to market challenges such as competitive pricing. Therefore, suppliers may be also asked to make recommendations about how to reduce the total cost of the product and keep the sales price down thus helping the firm to achieve price competitiveness on the market. Strategic suppliers have a great contribution to shorten the lead time, decrease cost and increase quality through their specific knowledge of certain area needed for the final product.

5. 3. 3. Criteria towards Strategic Suppliers

Difference between the two firm sizes can be found when analyzing the criteria the companies consider when opting for strategic supplier. In case of the young firms, one of the most important criteria is unanimously the capacity of the supplier. As both young firms are in the start-up phase of their life cycle, growth is expected to come in the future. Therefore, it is important that the supplier can respond to the increased volume as the demand grows as one of the managing director said:

“There are several of course you look at the reliability of suppliers, what is their background, what is their history, their financials, references, how are their ISO certification, processes [...]. “It is very important [...] how they look from the perspective of the facilities, do they look big enough. [...] They have to grow with us; otherwise we have to go to some other suppliers” [Company A]

Other important criteria for the young firms were the technology and skills of the supplier and its ability to cooperate. Price is not mentioned as primary aspect when choosing the supplier.

As for the bigger companies, they are more cost-focused and the stress is on price, quality, lead time, technology as well as cooperation ability. The representative of Company C noted:

“We want suppliers [...] that can deliver on time, can build [...] on the low cost. And we are continuously doing these kinds of sourcing in order to decrease the cost from material side and from component side.”

There is a very strict criteria system used by the firms being in the growth phase. For example, Company D adopted a strict supplier management system including supplier audit, selection and training. Suppliers` processes are periodically audited, evaluated and compared against specific metrics.

As for the physical location of strategic suppliers, Company A has suppliers inside Europe; Company B`s suppliers are located inside Finland; while the bigger companies` suppliers are located all around the world. Among the main selection criteria, the physical closeness of the supplier is determinative. Each companies search suppliers located close to their own factory in order to facilitate effective communication as well as cooperation. The key supplier can be located relatively far in case there is no joint R&D activity between the parties as it is the case in Company A, which purely outsources the manufacturing of the whole product without developing it together. However, in case of executing joint activities, the importance of spatial closeness between buyer and seller results from the fact that tacit knowledge can be transferred effectively only through face-to-face interaction between individuals that requires the mobility of personnel (Kaufmann & Tödting 2001). Therefore, when the company has joint activities with the supplier, physical closeness becomes very important.

5. 3. 4. Arm`s Length Relationships

The case companies` arm`s length relationships involves mainly ad-hoc, short-term as well as long-term buy agreements. Suppliers in this category are easily replaceable and deliver technically simple products or components such as mechanics, metal or plastic parts. This finding was expected based on the purchasing portfolio proposed by van Weele (2010) as well as the study of Dyer et al. (1998). They both proposed that non strategic, standardized inputs, which have a limited ability to influence the cost and the value of the final product, are usually sourced through this type of relationship.

With the exception of Company D, each firm highlighted that important aspect in these kinds of relationships is to maintain flexibility and the possibility of changing the supplier in order to realize cost saving. This finding compound with that of Saxenian (1990) who proposes that unsophisticated parts are usually competitively sourced from the lowest-cost producers without relationship building. The following citation summarizes the point of view of three companies:

“We kind of want to be able to use other suppliers and we also want to have little bit flexible and compare different sub-suppliers continuously. [...] We want to have the possibility to compete against each other so to get the really, let`s say cost effective price.” [Company B]

Company D`s view differed greatly from the other case companies on this issue. Company D believes that long-term relationships enable the company to ask for certain investments for the product purchased as well as generate higher return on investment in the relationship. Therefore, Company D handles its less strategic relationships quite similarly to its strategic relationships. It develops them, invest in certain tooling, evaluate them based on the same criteria as the strategic suppliers and maintain a long term relationships with them. Even if the company asks quotations for the same parts from 3-4 suppliers each year, it usually continues doing business with the existing suppliers. The company acknowledges the long-term benefits of durable relationships. As Dyer et al. (1998) also proposed, traditional arm`s length relationship should be replaced by long term arm`s length relationship which results in maximizing supplier`s economies of scale and minimizing the overall procurement cost for the long term.

As for other type of arm`s length relationships, young born globals may also buy after-sales and installation services from different service suppliers located around the world that is considered arm`s length. As it was already mentioned, young born globals are very small and the resources are limited, therefore they are unable to serve the customer in an efficient way on a worldwide basis. Service companies are used to eliminate this shortage. Logistics companies may be also used that takes care the packaging and the logistics of the products to the end customer.

The number of arms` length suppliers is reasonably greater than that of the strategic suppliers in case of each case company. On average less than the 10 percent of the suppliers are listed under the strategic ones.

5. 4. Link between Supplier Relationships and Internationalization

Before asking about the link between supplier relationship and internationalization, the interviewees were asked to specify what they consider as the main facilitator factors of successful internationalization. As for the facilitators, networking was emphasized on a great extent. The answers show obvious agreement among the interviewees on this issue; as one of the responder summarized in the following way:

“For internationalization you need to have a network, [...] need to know the customer, have access to him, have the understanding of what he needs and then the technology to sell to him.” [Company B]

Consensus can be also noticed regarding the link between the internationalization and supplier relationships. The interviewees agree that internationalization comes from the customer and sales perspective rather than from the suppliers' side. Suppliers influence the structure of the company rather than promote internationalization. Therefore, the customer is the one who can directly enhance the international expansion of the company and not the suppliers. One of the managing directors noted:

“It [supplier relationships] does not really affect so much on the internationalization we could be also in the domestic market operating in the same way. So I think it is just strategic for the company [...] as they contribute directly to our business. [...]. So yes, it is important for the company but not directly for the internationalization. Internationalization comes from other factors I would say, not from the suppliers.” [Company A]

Although, each interviewee denied the direct impact of suppliers in the firm's internationalization, they agreed that indirectly suppliers do contribute to the international expansion through freeing up resources that can be invested in some other areas, ensuring production and after-sales services in different parts of the world, shortening lead time, increasing quality and reducing costs by adding their specific skills and knowledge into the product. Freeing up resources and ensuring global production and services were emphasized by the young born global firms, while the quality, cost, lead time factors were more mainly recognized by the firms in the growth phase. The case companies all perceive that internationalization comes from the downstream network, in other words, from the customer perspective. However,

according to the collected data, there is one side of supplier relationship that do affect firm`s internationalization directly, even if the interviewees did not perceived it in this way. This will be presented in the following.

To make the specific inter-firm relationships` benefits easy to survey, this thesis classified them according to the work of Mazzola, Bruccoleri and Perrone (2009) (see Chapter 3.3.) who distinguished business networks based on their strategic goals into three groups: efficiency, globalization and knowledge. The analysis of the findings adapts this classification to determine how supplier relationships influence born global firm`s internationalization. Efficiency groups the relationship benefits such as time to market reduction, lead time reduction, economies of scale, cost reduction, product and process standardization, and financial risk reduction. Globalization groups the goals of market and production globalization, new market penetration and production off-shoring. Finally, knowledge groups skills and know-how acquisition, risk reduction regarding opportunistic behavior; increased quality, resource pooling and market share increase.

Through the presentation of the findings, it can be clearly seen that born global firms` supplier relationships contribute greatly to efficiency and knowledge. They promote efficiency through enabling the firm to focus on their core competences, to reduce lead time and cost as well as assisting the firm to reach price competitiveness. Significant amount of knowledge also flow into the born global firms through resource pooling, the utilization of the supplier`s skills and know-how in the products which results in increased quality and ultimately in increased market share. This finding is similar to Håkansson and Gadde (1992) who also found that well-developed supplier relations result in increasing efficiency and effectiveness reached through stock reduction, improvements in service level (e.g.: shortened delivery times, increased delivery reliability), reduction in capital cost, increased quality, improved production process and new product development, efficiency in production, developed design and R&D.

Efficient operation results in optimal resource allocation; reduced cost and improved service level through which more competitive price can be attained. While knowledge helps to increase quality, to realize innovations and technology-intensive product which may open new markets for the product and/or allow increasing the profit margin. Therefore, these two factors – efficiency and knowledge - actually greatly contribute to the internationalization of the firm.

However, next to these factors supplier relationships do contribute to the internationalization of the firm directly based on the work of Mazzola et al. (2009); even though the interviewee do not perceive it as such. Strategic manufacturing suppliers have a role in the internationalization of manufacturing operations through production globalization and production offshoring. As for firms being in the growth phase, both reckoned that in case the local supplier has operation in the targeted foreign market, they seek to cooperate with the same supplier abroad as well. In case the local supplier does not have factory in the targeted country, the firm asks the local supplier whether they want to follow them and build up operation abroad when business opportunity rises. As one of the interviewee said:

“It does not make sense to bring all the components from Europe to China. It is not cost effective. So we need to find a suitable partner close by. [...] Many times we discuss with our existing suppliers who has been supplying this factory [in Vaasa] whether they like to follow us to join and some of them, actually quite many come with us.” [Company D]

In case the supplier follows the company, it could save various resources for the buying company. For example, the buyer does not have to look for possible partners in the foreign market. It does not have to deal with the lack of information and the limited knowledge on business environment which ultimately enhance the speed of market penetration. The time and money required to build the relationships with the existing supplier in the target market is considerable lower than cooperate with an unknown supplier. Furthermore, doing business with the existing supplier is beneficial as there is a well-developed trust base and the requirement and practices of the parties are known. Hatani (2009) further argues that by utilizing the local supplier in the target market, the company can reach benefits such as creating competitive advantage in an unknown business environment by exploiting the tacit knowledge the company developed with its supplier. Furthermore, it may obtain valuable market information about the target country.

The utilization of born globals` local suppliers in the target market can be compared to the practice of pre-clusterization of MNCs referring to “*an advanced form of network-based foreign entry, where firms in a business group enter an emerging market and begin to cluster in the location that the core firm targets*” (Hatani 2009: 369). In this way supplier relationships do contribute directly to the internationalization of the born globals being in their growth stage.

As for the young firms, we cannot see such practices that the supplier would follow the buyer to foreign countries. In case of Company A, however, the firm's internationalization is directly influenced by product offshoring meaning that the company moved its production to a country with a more favorable economical conditions compared to the home country (Hinek 2009). This also contributes to the internationalization of the firm since its whole production process is carried out a supplier located in foreign country. Although, company B does not have foreign production, the managing director of the firm reckoned that they are also looking into this issue and the possibilities offered by lower costs countries which would also facilitate to deal with the resource constrains originated from the small size of the firm. Therefore, outsourcing more specifically offshoring do play certain role in the firm's internationalization.

5. 5. Expected Changes in Supplier Relationships

As it was expected, there are significant differences among the companies being in different stages of their life cycle regarding the potential future changes in supplier relationship. The young companies share similar insights in this issue. Although both companies try to establish formal relationships with their strategic suppliers, they still heavily rely on informal relationships as well. Both expect to adopt more formality in their supplier relationships with the growth of the firm to ensure that the suppliers are able to deliver to the customer. Although they have a good trust base with the suppliers, with the growth of the firm, they have to insure the delivery of the product to the customer. They both agree that the relationships will become somehow closer and more demanding. They also expect the supplier to grow with them and to be capable to respond to the increasing volume as the business starts to boom; as the following citation shows:

[The growth of the firm] *“It will force to some extent more formality; we have already more requirements for them. And maybe the size of the company, they have to grow with us. Otherwise we have to go to some other suppliers [...] we could easily turn for the fourth-fifth [strategic] supplier”.*

[Company A]

Firms being in the growth phase are continuously aiming for cost competitive solutions; therefore, the expected changes for the future are related to this issue. Both companies

reckon that vertical integration in the form of equity arrangements with suppliers could be a future strategy in order to keep down the prices and maintain cost advantage. Furthermore, bringing some key activities in house - such as key component manufacturing - could be a solution to guarantee the margin and answer the industry specific challenges of cost reduction. In a breakeven point, bringing activities in-house through insourcing or the vertical integration of the supplier may be the only solution to maintain cost competitiveness. Activities related to high-technology solutions should be aimed to bring in-house primarily. High-tech suppliers mean the highest cost for the firms as they determine a high margin for the development of technology-intensive components and/or products. Moreover, expanding the scope of activities in-house would also mean not only a solution for an industry specific challenge – namely continuous cost reduction - but also a future growth opportunity for the company. However, gathering the right people with the needed skills and knowledge is a great challenge for the companies.

All in all, it can be concluded that with the growth of firm relationships with suppliers become closer, more formal and more demanding to ensure uninterrupted supply. Furthermore, the relationships could even expand to the vertical integration with the supplier in order to realize cost competitiveness.

6. Conclusion

This chapter summarizes the main findings of the thesis and review it based on the objectives of the thesis laid down in the beginning of the study. Theoretical and managerial implications are also discussed along with the suggestions for future research topic.

6. 1. Summary of the Findings

The purpose of this study was to find out whether and how supplier relationships contribute to the internationalization of born global firms. It researched the type of relationships born globals develop with their suppliers and whether those relationships change over time with the growth of the firm. Numerous important findings emerged during the analysis of the data. The pressure of global competition forces firms not only to lower costs but provide better quality, innovations as well as a broader range of services (Morrissey and Pittaway 2004). Born globals taken part in this research perceived the importance of these aspects and used their suppliers as a source to realize these advantages.

As it was proposed in the literature review, the firms` resource availability determines the type of relationships they developed with their suppliers; and the resources and capabilities they seek in the relationship. All case companies were involved in strategic and arm`s length relationship, however none of the companies had equity agreements together with the supplier. However, each company being in their growth stage reckoned that equity arrangement with supplier could be a future strategy in order to find solution for further cost reduction and stay cost competitive.

Strategic suppliers are proved to have a significant importance in the companies` business which was expected based on the literature review. More interestingly, the finding shows that strategic suppliers have a significant role in three main areas independently of the company size and age. These are the manufacturing of key components, the assembly of the final product and R&D including new product development. These activities are usually part of one strategic supplier relationship, meaning that the manufacturing supplier also assist to the R&D and NPD activities of the firm. MNC literature argues that supplier`s share of value-added in the business system has increased significantly and the relationship between the buyer and supplier

company have become closer and more complex in order to realize benefits (D’Cruz & Rugman 1992). This proposition is also applicable to the born globals context based on the findings of this research.

Three companies remarked that they are engaged in common sales with the strategic manufacturing suppliers in the form of participating in trade exhibitions together. However, they all remarked that this side of the relationships is insignificant compared to the other aspect of the relationship; and sales and marketing are rather made solely by the company itself. Joint after-sales service becomes important in case of the younger firms having limited resources to provide worldwide services to their customer. Overall, strategic suppliers – representing significant activities of the value chain – directly contributing to the firm’s competitiveness and profitability.

Lajara et al. (2004) suggested as strategic relationships involve joint adaptation; therefore, the availability of minimum resources is required to develop strategic partnerships. Furthermore, other researchers (e.g.: Sepulveda et al. 2013; Partanen et al. 2008) proposed that young born globals are more likely to develop arm’s length relationship at the early stage of their life cycle. However, according to the findings, even if born globals do lack significant resources at a young age, they are able to develop strategic relationships and exploit their benefits. Both firms in the start-up stage acknowledged that suppliers do contribute often to a great extent to their research and development as well as new product development activities which provide a unique advantage to them. Therefore, it can be concluded that next to eliminating resource shortage, suppliers also have significant role in providing value-add to the firm’s offering, thus strategic relationships do exist between the start-up born globals and its suppliers. This finding also contradicts to Morrissey et al. (2006) and Perez et al. (2002) who argued that collaboration is the privilege of large firms and that small enterprises have difficulties in actively engaging in cooperation; therefore, rarely engage in an active search for partners. As for the arm’s length type supplier relationships, they are mostly seen as opportunities for cost reduction.

It is clearly seen that strategic relationships do play an important role in born globals’ operation. It should be however emphasized that the industry in which the case companies are operating may have a strong influence on this finding. In the energy industry, cooperation and collaboration between various industry actors are highly supported in order to find increasingly efficient solutions to the challenges of the energy market. There are different programs promoting co-operations and the establishment of

strong networks both in international as well as national level. (EnergyVaasa 2012; IEA 2013.) Therefore, studying born globals in another context may reveal differing results.

Even though the benefits of close relationships with suppliers were strongly emphasized, business relationships also involve cost and burden that should warrant attention. As other studies (e.g.: Monczka et al. 1998; Ragatz et al. 1997; Sepulveda et al. 2013), this research has also found cases when the relationships resulted in negative outcomes. Both firms in the start-up as well as in the growth phase experienced negative consequences of their supplier relationships. The most relevant examples to such cases were related to quality cases and after-sales services of the supplier. Quality cases involve some kind of error in the production process causing deterioration in the final product. These are usually very costly once they happen, as they have a direct impact on the sales, profitability and the firm's reputation. As for the after-sales services, it might happen that the supplier is unwilling to help in case some technical issue occurs after the delivery of the product. In such cases, the supplier deliver the product as agreed, but no further support is provided after the delivery.

In such cases, born globals' reaction depends on the strategic importance of the relationships. In case of arm's length relationships, the companies are inclined to change supplier easily in a way that they do not place order but choose another supplier that meets the requirements. In case of strategic relationships, the firms are generally willing to find solution for the problem together with the supplier as significant investments were made already in the relationship, which would make the change costly. However, if it is clearly seen that corrections cannot be made for example due to the lack of competence or unwillingness of the supplier, it is easier and actually the only way to change the supplier, even if it is accompanied by significant cost. Because of the possible negative outcomes of the relationships, the proper management of supplier relationships is crucial for realizing the benefits (see Chapter 3.3). For this reason and based on previous experiences, the supplier's ability to cooperate was emphasized by each company as one of the most important decision factor to opt for a supplier or remain with the exiting one.

Each interviewee confidently stated that strategic suppliers have a great influence on the business and its performance. Firms in the startup phase agreed that suppliers are strategic to eliminate resource shortages, support worldwide service providing, contribute to innovation and R&D. Firms in the growth phase emphasized supplier role related to cost reduction, lead time reduction, increase of quality. They agreed however,

that internationalization comes from the customer side rather than from the supplier. Even though they did not perceive that suppliers contribute to the internationalization of the firm, they do influence the internationalization of manufacturing operations directly through production globalization and production offshoring. This also means that the production is made close to the end customer which promotes improved service level and response time. Therefore, suppliers` role in the firm`s internationalization should not be neglected. The key findings of the study are summarized in Table 10.

Table 10. Summary of the Key Findings.

	Born Global Firms	
	Start-up Stage	Growth Stage
Key Strategic Suppliers	Strategic Manufacturing Suppliers	
Main responsibilities of SMS*	Key components; final assembly while assisting to R&D, NPD & After-Sales Service	Key components; final assembly while assisting to R&D, NPD
Value chain activities greatly influenced by the SMS*	<i>primary activities:</i> inbound logistics, operations & services <i>support activities:</i> technology development	<i>primary activities:</i> inbound logistics, operations <i>support activities:</i> technology development
Main Benefits of SMS*	Efficiency, Knowledge, Globalization	Efficiency, Knowledge, Globalization
Main Focus in SMS* Relationship	relationship quality & technology	cost & technology
Main criteria towards SMS*	cooperate ability; capacity to grow with the firm	cost, lead time, quality, technology, cooperation ability
Strategic Suppliers Location	inside Finland & Europe	Globally dispersed but close to the own factory
Arm`s length relationships	simple buying arrangements	
Main benefits of arm`s length relationships	Efficiency mainly through cost reduction	
Expected changes in future supplier relationships	more formality in the relationship in order to ensure delivery with the growth of the firm	in-sourcing or vertical integration with suppliers as a strategy for cost competitive solutions

* Strategic Manufacturing Suppliers

6. 2. Theoretical Contribution

Studies have been carried out from various perspectives that attempted to demonstrate and explain born global firms rapid internationalization. Till now, the network-based studies mainly focused on the downstream side of networks including distributors and customers (e.g.: Chetty et al. 2000; Gabrielsson et al. 2004). However, the upstream network, the effects of supplier relationships on born globals' internationalization has stayed quite intact in the literature (Gabrielsson & Kirpalani 2012). This study revealed the supplier relationships of born global firms and helped to better understand their role in the firms' operation and internationalization. It revealed the type of relationship born global firms develop with their suppliers and how these relationships contribute to the internationalization and success of the firm. The study also researched how born globals perceive the importance of their suppliers and the way they handle their supplier relationships. To add more value to the thesis, it studied firms being in two different stage of the life cycle, which are firms being in the start up phase and firms already reached the growth phase. This difference makes it possible to analyze and compare the supplier relationships of born globals being in a different growth stage of their life cycle.

6. 3. Managerial Implications

Selecting the right strategic partner has especially important role in case of young born global firms in order to promote the firm's survival and later on its growth. The importance of supplier relationships is widely acknowledged among the managers and sourcing professionals; however, their impact on the internationalization is not always recognized. The direct role of supplier relationships in the firms' internationalization through production globalization should not be neglected. Partnering with a supplier who is willing to follow the buyer abroad or has operation in potential target markets facilitates the firm's internationalization. Partnering with the local, well-trying supplier abroad simplifies internationalization through freeing up resources from searching and selecting the best possible suppliers in the target market while saving time, effort and money. In this case, each party is aware of the specification of the relationship, the base of the relationships is already built, the expectations are known and the requirements are well-defined. This all contribute to a successful and faster entry in the target market. Searching for suppliers in a different country and even a continent can be very

challenging without having previous experience in the target market and the risk of choosing an inadequate supplier is significantly increased.

In case of the young firms, production offshoring could be a solution to decrease production costs. In high-wage countries such as Finland, the labor cost is significantly higher compared to low-wage countries. Outsourcing of some activities such as manufacturing could result significant cost saving for further promoting survival and fast growth of the firms.

6. 4. Limitations

The present study has various limitations that should be acknowledged when interpreting the result. Firstly, the international scope of the study is considerably limited to a single country, Finland and even to a single region inside the country. Secondly, the research focuses also on a single industry; that is the energy technology industry. The single country and industry aspect has a strong impact on the generalizability of the findings that is further questioned by the small sample size used in the study. Therefore, the generalizability of the study has to be made with caution. However, it should be emphasized that the aim of the study was not to generalize the result but to learn about the supplier relations of born globals and their contribution to firms' internationalization. Therefore, this limitation actually is one of the strength of the study since the country and industry focus allowed to create more context specific measures.

The language aspect can be mentioned as another limitation. The interviews were conducted in English which was a foreign language for the interviewer as well as all the interviewee and this revealed some difficulties during the data collection process. Although both parties are fluent in English, misunderstandings occurred either when asking or answering for the questions. Furthermore, due to the researcher's inexperience in qualitative data collection techniques, the questions used during the research methodology could involve inadequately formulated questions and techniques. Even if in such cases, clarifying questions were used by both parties, this may still have a negative effect on the quality of the data.

6. 5. Suggestions for Future Research

Regarding the time horizon, this thesis uses a cross-sectional approach which means that supplier relationships of born global firm are studied at a particular time because of the time constrain of the study (Saunders et al. 2009). Although, the thesis used case companies being in different stage of their life cycle to enable to reveal the dynamism of supplier relationships of born globals. However, it would be interesting to research the alteration of supplier relationships in a longitudinal study that would research the same company throughout its growth process. Longitudinal study would enable to study the changes and the motives behind the changes in supplier relationships in more detail. However, this would take more years and even decades that limits the feasibility of such studies.

Further research of this topic could be also made using case companies from different countries and more importantly from different industries. The present case companies were engaged in manufacturing to a high extent, therefore manufacturing suppliers played an especially important role in their operation. Moreover, the industry itself is highly characterized by cooperation between its actors which also influenced the outcomes of the present study. However, it would be interesting to see how supplier relationships contribute to the firm`s expansion regarding other industries such as software service industry. As Morrissey et al. (2006) also suggested, there is likely to be significant differences in buyer-seller relationship and sourcing behavior between industries and between the size categories within the SME population.

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Appendix 1. Interview Guidelines

Introduction

- 1 Thank for accepting the interview
2. Introducing myself
3. Purpose of the research
4. Ensure that the information is handled confidentially and anonymously
5. Ensuring the possibility of skipping the response in case they perceive a question sensitive to answer.
6. Offer a summary for the research findings
7. Permission to use a recorder.
8. Agreement to start the interview

Section A – Basic information about the company to ascertain the born global nature of the firm

1. Clarifying the date of establishment
2. First 3 foreign markets with dates that the company has entered.
3. % of the total revenue that was originated from foreign markets after 3 years from the establishment.
4. Number of employees:

Section B – Questions regarding challenges and resources

1. What are the main challenges concerning resources that the company faces at general level?
2. Is there any industry specific challenge that the company faces?
3. What are the major hurdles concerning resources that the company faces?
4. What are the main resource strengths of the company?
5. What do you consider as the most important elements of successful internationalization?
6. How important supplier relationships is considered in the company`s operation?
7. What type of supplier relationships the company has?
(NDP, joint R&D, joint manufacturing, licensing, long-term sourcing agreements...)

Question related to strategic supplier relationships:

8. Which kind of supplier relationship is considered the most strategic?
9. What factors does the company consider when choosing a strategic supplier?
10. What are the main responsibilities of the strategic suppliers?
11. What are the main benefits of these strategic supplier relationships?
12. Kindly elaborate on how supplier relationships contribute to the firm's internationalization!
13. How many strategic type supplier relationship the company has?
14. Do you establish contractual relationships or usually use informal arrangements?

Questions related to arm`s length supplier relationships:

15. Now let`s move on the less strategic suppliers!
16. What kind of supplier relationships do you have in this category?
(simple buying arrangements, licensing etc...)
17. What are their main responsibilities of these types of suppliers?
18. What are the main benefits of these kinds of supplier relationships?
19. Do these relationships contribute to the internationalization of the company? If yes, in what way?
20. How many suppliers do you have in this category compared to the strategic supplier relationships?
21. Do you establish contractual relationships or usually use informal arrangements?

Question related to equity arrangements:

22. Are you involved in some kind of collaborative alliance that involves ownership in any assets with the suppliers (for example joint ventures)? If yes, kindly explain!

Questions related to the changes in supplier relationships:

23. Did you have any bad experience with suppliers that led you to change the practice you use when developing supplier relationships?

Other further questions depending on the answer were asked such as:

How did you solve the problem with the suppliers?

Did you meet any difficulties when you changed the supplier?

24. With the growth of the firm do you expect any change in the relationships with suppliers?

Summarizing questions:

25. Among all these relationships, which supplier relationship of the firm has the most important role in the company generally?

26. Overall, do you think that supplier has a significant impact on the firm`s international expansion?