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Milena RATAJCZAK-MROZEK*

Poznań University of Economics

Companies' simultaneous embeddedness in local, international and global networks – a conceptualisation from the perspective of local enterprises and their degree of internationalisation¹

Abstract: The purpose of this article is to conceptualise the problem of companies' simultaneous embeddedness in different local, international and global networks and to refer this to the companies' degree of internationalisation. The emphasis of the analysis is put on local companies (that is companies not involved directly in activities in foreign markets). In this article the concept of embeddedness and the network approach is applied to the analysis of local enterprises' activities from an international perspective. We argue that even companies selling solely in the local market are entangled in international dependencies, which in turn have a significant impact on their operations, performance and internationalisation process. In this way we raise the question as to which companies may be called "internationalised".

Keywords: industrial network, local network, global network, network approach, internationalisation, degree of internationalisation, embeddedness.

JEL codes: D85, F23, F61, L14, L25, M16.

* E-mail: milena.ratajczak@ue.poznan.pl.

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Introduction

In the era of globalisation, the European Common Market, the internet, more and more commonly used subcontracting, outsourcing and offshoring, the differences between the nature of companies' activities conducted on a local and international scale are slowly diminishing². Moreover, even companies that are not conducting their business in foreign markets may also be subject to internationalisation through relationships with foreign suppliers or by cooperation (that is inward connections [Welch & Luostarinen 1988]). Additionally small, local entities, often unprepared for international activities, are forced to compete, coexist or cooperate [Bengtsson & Kock 1999] with global players, entering as competitors, into their local market. This is accompanied by both potential benefits (e.g. a larger market, the potential for development), as well as negative effects (e.g. the risk of global supply chains, despite the lack of preparation and a desire to be a purely local entity, the need to work alongside global players such as local subsidiaries of multinational corporations).

In fact "no business is an island" [Håkansson & Snehota 1989] which means that companies, their counterparts, resources and activities are interrelated by a net of interactions. More long-term, interdependent sets of interactions create network relationships which in turn together form a kind of network structure for a company. This approach to the analysis, a network approach, is reflected by the research within the Industrial Marketing and Purchasing Group. If we apply the aspects mentioned above (that is, amongst others, the diminishing differences between the nature of companies' activities conducted on a local and international scale, inward connections in an internationalisation process and global competition) to companies relationships and networks it can be argued that modern companies of all sizes are simultaneously embedded in different local, international and global networks of relationships, irrespective of whether they are directly active or not in foreign markets. Their activity becomes embedded in both local, international and global networks of relationships. Therefore, the complexity of the problems associated with managing and maintaining competitive advantage as well as creating relationships is increasing. At the same time this simultaneous embeddedness affects companies internationalisation process and the way in which we should analyse "purely" local enterprises. The question is whether

² In the article the term local refers to country scope. And local companies mean companies not involved directly in activities on foreign markets.

those companies not involved directly in foreign markets should be really seen as “non -internationalised”.

In the research relating to the internationalisation theory, the idea of embeddedness (originating from sociology [Granovetter 1985]) is generally used to analyse the activities of multinational corporations, that is large and very large entities, in the local environment [Forsgren, Holm & Johanson 2005; Whitaker et al. 2011; Nell, Ambos & Schlegelmilch 2011; Heidenreich 2012; Hilvo & Scott-Kennel 2012]. However, the research into companies’ international activities, in terms of the theory of embeddedness, doesn’t cover the activities of small and medium sized enterprises and/or purely local companies (that is in terms of non-sociological embeddedness). The adoption of the network approach, however, provides a holistic view of internationalisation and simultaneous embeddedness in local, international and global networks, covering both large and small (medium) entities as well as companies operating solely in their home market. Based upon these premises, the purpose of this article is to conceptualise the problem of companies’ simultaneous embeddedness in different local, international and global networks and to refer this to the companies’ degree of internationalisation. The emphasis of the analysis is put on local companies (that is companies not involved directly in activities in foreign markets). In this way we raise the question, as to which companies may be called “internationalised”.

This article primarily adopts a conceptual approach to the problem based upon a critical review of pertinent literature. The findings in this paper draw upon internationalisation theory, embeddedness theory and the concept of business (industrial) networks and network relationships within the IMP Group research.

The paper is divided into six sections. In the first section the theoretical analysis of embeddedness and in the second that of industrial network approach are presented. The third section combines the previously mentioned issues (that is embeddedness in business networks) and refers them to companies international activities. The next part of the article is devoted to the conceptualisation of the problem of companies embeddedness in different local, international and global networks.

The fourth section discusses the internationalisation through inward and outward connections as a driving force of changes within simultaneous embeddedness. Then in section five a map of local enterprise network relationships is proposed applying the perspective of company’s embeddedness in local, international and global relationships. In the last, sixth section, the problem of embeddedness refers to the measurement of companies’ degree

of internationalisation and the necessity to expand these measures is emphasised. At the end of the article conclusions and the direction of further research are presented.

1. Embeddedness and business networks – theoretical analysis

1.1. Embeddedness

Embeddedness, as a concept rooted in sociology, is the idea that companies are connected by networks of personal relationships and economic behaviour “is closely embedded in networks of interpersonal relationships” [Granovetter 1985, p. 496, 504]. It is argued that “the behaviour and institutions to be analysed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding” [Granovetter 1985, pp. 481–482]. That is why much of embeddedness research aims to analyse the market exchange as embedded in, and defined by, larger and more complex social processes [Dacin, Ventresca & Beal, 1999, p. 320]. Embeddedness is a state of being located or secured within a larger entity or context. Thus, the economic life of a company or market is territorially embedded in its particular social and cultural relationships: in place-specific characteristics, infrastructure, operating environments and production conditions. Local embedding means matching practices, routines and resources specific to certain standards for a given location [Granovetter 1985; Uzzi 1996]. Embeddedness is seen as an important precondition for companies’ high-level performance. It improves access to resources, including knowledge and innovation, however it is proven that over-embeddedness may impede the performance [Andersen 2013, p. 139].

We can distinguish between relational and structural embeddedness. The relational embeddedness focuses on the dyadic relations. Structural embeddedness shifts the focus from dyadic or triadic activities to the whole network system in which the dyad’s mutual contacts are connected to one another (also indirectly through third parties) [Pavlovich & Kearins 2004].

A different classification of organisational embeddedness, which is important from the perspective of the analysis carried out later in this article, is offered by the three dimensions referred to by R. Gulati and M. Gargiulo [1999]:

- relational – “the effects of cohesive ties between social actors on subsequent cooperation between those actors”, linked to social ties and specifically to trust resulting from previous cooperation (the impact of the quality of cooperation).
- structural – linked to the ties surrounding all entities (the impact of the structure of the ties on their tendency to cooperate with one another).
- position – linked to the position and a role of the entity in the network (the impact of position in the overall network structure on future decisions).

1.2. Business (industrial) network, network relationships and network approach

A network is a structure where a number of nodes (companies and their counterparts) are related to each other by specific threads (relationships). “Both the threads and the nodes are heavy with tangible and intangible resources” [Ford et al. 2011, p. 182]. A business network (an industrial network) is a set “of repetitive transactions based on structural and relational formations with dynamic boundaries comprising interconnected elements (actors, resources and activities). Networks accommodate the contradictory and complementary aims pursued by each member, and facilitate joint activities and repetitive exchanges that have specific directionality and flow of information, commodities, heterogeneous resources, individual affection, commitment and trust between the network members” [Todeva 2006, p. 15].

A network is a system of relationships and is often characterised as being decentralised and informal. It should not be restricted solely to formalised network structures, such as industry clusters. The business network is an effect of historical cooperation, whereby a relationship is developed over a longer time through interactions and cooperation between entities [Easton 1992, p. 4]. It may be established with different groups of entities (such as customers, suppliers, service companies, influential entities [Ford et al. 2011, p. 182]). Such an industrial network approach to defining a business network is linked to research carried out by the Industrial Marketing and Purchasing Group [IMP Group].

There are numerous different types of networks [Todeva 2006, p. 161; Ratajczak-Mrozek 2012] and for this reason several can exist simultaneously and companies may be embedded in multiple networks and positions which makes the analysis and the management of such relationships and networks complicated.

The basic research framework developed within the industrial network approach is the ARA model (Actors-Resources-Activities) [Håkansson & Snehota 1995; Håkansson & Johanson 1992]. According to the ARA model, relationships are associated with the simultaneous exchange, creation, accumulation and adaptation of input and output resources, as well as activities (participation in events, joint operations, coordinated behaviour and performing business functions within the value chain) between cooperating participants of the network. Therefore, they are made up at the same time of three overlapping networks created by actor bonds, activity links and resource ties [Lenney & Easton 2009; Todeva 2006, pp. 26–28].

The network approach stresses the significance of all the contacts (network relationships) a company has with its counterparts within the surrounding environment which constitute an extended network. The company is analysed in the context of its relationships (links concerning actors/entities, activities and resources) and its position held in the network, which can be linked back to the already mentioned three dimensions of embeddedness [Gulati & Gargiulo 1999].

1.3. Embeddedness in business networks – international perspective

The concept of embeddedness may be used to analyse companies' multiple dependencies (both positive and negative) on various types of networks. In this way companies may be seen as embedded in different kinds of relationship networks (not only interpersonal, social as stated by Granovetter). In terms of business networks, the concept of embeddedness is analysed from the perspective of network dynamics and evolution. Embeddedness is seen as an explanation of change and development in business networks [Halinen & Törnroos 1998], and also in the context of the evolution of international relationships (including how they develop, function, and change over time) [Fletcher & Barrett 2001]. Classical analyses of embeddedness within different settings is dominant and includes different types of networks, such as social, market, regional, technological, institutional, and infrastructural networks, as well as underlying temporal, spatial and representational dimensions [Fletcher & Barrett 2001, p. 561].

Where a company's relationships extend beyond the local, country framework, the networks become international or even global (the difference between international and global lies in advancement, integration and scope of internationalisation activities), i.e. networks including foreign/ global entities.

Network relationships may be established and maintained at the local level, the country level or broader – at the international, global level encompassing foreign, global entities [Ratajczak-Mrozek 2012, p. 37].

International embeddedness, in terms of business networks, is often analysed from a spatial perspective – a type of embeddedness (spatial embeddedness) or referring to a vertical dimension (vertical embeddedness) [Halinen & Törnroos 1998]. Spatial embeddedness refers to the spatial levels of industrial activity within a specific business setting (including the international dimension). It suggests that business actors may be internationally, nationally, regionally and locally embedded in different types of networks [Halinen & Törnroos 1998, p. 195]. Under spatial embeddedness business transactions are seen as embedded in networks of relationships that cross national borders and are embedded in different national business environments (in each country of involvement) that include social networks, technological networks, regional networks, infrastructural networks, institutional networks and market networks [Fletcher & Barrett 2001, p. 562].

Vertical embeddedness, however, refers to the relationships between different identifiable levels in a network. Vertical levels can be distinguished geographically (for example international, national, regional and local), on the basis of channel structure (for example supplier, manufacturer, distributor and customer) or within a specific business (industry, company, company unit/department and individual). According to this dimension of embeddedness companies are connected at different vertical levels. If, for example, a company cooperates with other companies in the same region in order to acquire financial support from the European Union, it becomes embedded in international networks as a result. [Halinen & Törnroos 1998, p. 196, 197].

In the research related to internationalisation theory, the idea of embeddedness is generally used to analyse the activities of multinational corporations, that is large and very large entities, in the local environment [Forsgren, Holm & Johanson 2005; Whitaker et al. 2011; Nell, Ambos & Schlegelmilch 2011; Heidenreich 2012; Hilvo & Scott-Kennel 2012]. Multinationals are seen as differentiated networks that are connected to external networks in multiple ways and on multiple levels which turns into embeddedness in external networks [Nell, Ambos & Schlegelmilch 2011, p. 498]. Research into the analysis of multinationals mainly shows that there is a focus on the embeddedness of subsidiaries within their local environments [Ghoshal & Bartlett 1990; Andersson, Forsgren & Holm 2001; Forsgren, Holm & Johanson 2005] and (but to a lesser extent) on the phenomenon of headquarters' linkages in the local context which creates an embeddedness overlap (the problem of

simultaneous existence of linkages by parent and subsidiary to the same local actors is an embeddedness overlap) [Nell, Ambos & Schlegelmilch 2011]. However, the research into companies' international activities is lacking in terms of the theory of embeddedness in the case of the activities of small and medium sized enterprises and/or completely local companies (other than the typical sociological embeddedness theory), which will be discussed in the subsequent sections of this article.

2. Companies embeddedness in different local, international and global networks – a conceptualisation

2.1. Internationalisation through inward and outward connections and network relationships – a driving force of change within simultaneous embeddedness

A company's internationalisation is usually analysed from the perspective of a given company's internationalisation process [Mc Gaughey 2007], and its expansion into foreign, overseas markets. Traditional ways of viewing internationalisation have described the process as being mainly an activity driven by the desire to penetrate foreign markets [Welch & Luostarinen 1993; Fletcher & Barrett 2001, p. 562]. This traditional approach analyses the entry process and then a company's activities in specific foreign markets. The analysis covers forms of expansion (e.g. exports, franchising, direct foreign investments), internationalisation motives, its stages or level of engagement. In such cases, a company faces an unknown environment, as well as various unfamiliar foreign entities, such as buyers, distributors and competitors. Thus, it is possible to refer to the embeddedness of specific companies within specific foreign markets in different settings (i.e. social, market, regional, technological, institutional, and infrastructural networks).

But we note that nowadays even companies that are not conducting their business in foreign markets may also be subject to internationalisation and become internationalised e.g. through inward connections – foreign sourcing activities such as the purchase of equipment and machinery, procurement of raw materials or semi-finished goods [Welch & Luostarinen 1993]. In this way internationalisation is seen as “the process of increasing involvement in international operations” [Welch & Luostarinen 1988, p. 38]. Moreover some

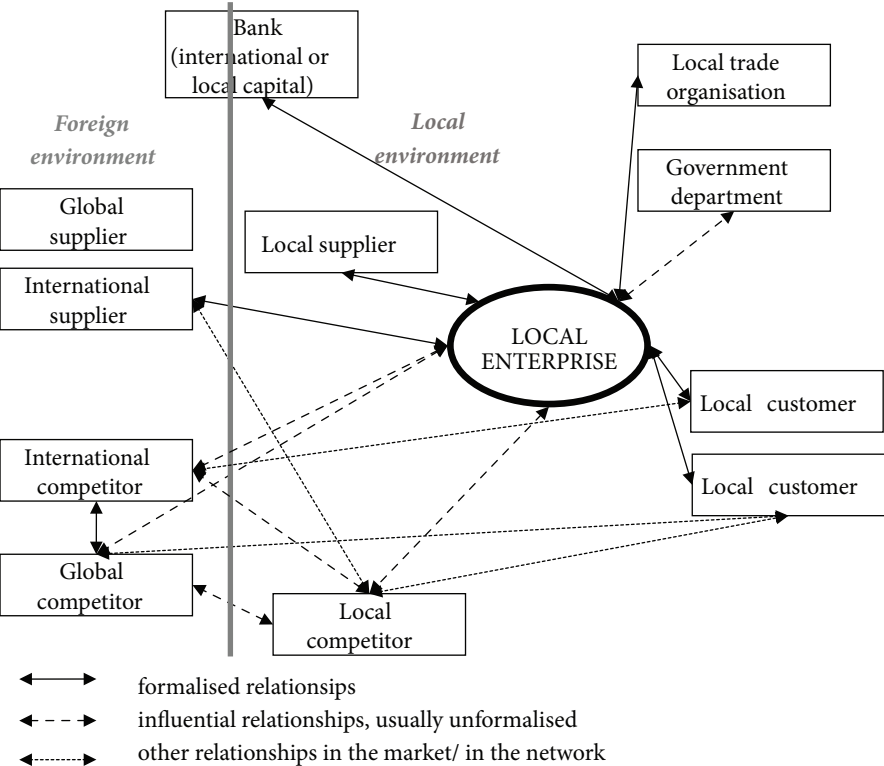
additional shortcomings of the traditional approaches to internationalisation are observed: inward activities may lead to outward activities and vice versa (for example when the overseas franchisee becomes the franchisor in the other country). International behaviours can include situations in which inward and outward activities are linked, as often happens with strategic alliances, countertrade and cooperative manufacturing [Fletcher & Barrett 2001, p. 562]. Internationalisation is no longer just an outward-driven activity. Even companies that are not conducting their business directly in foreign markets may have relationships with foreign suppliers or partners (that is inward connections [Welch & Luostarinen 1988, 1993; Fletcher & Barrett 2001; Fletcher 2001; Witek-Hajduk 2012]) and be subject to internationalisation. This way of defining a company's international activities is also called passive internationalisation [Gorynia 2000, p. 16], which means entering into various relationships with foreign partners without engaging in market activities beyond the borders of the domestic market. What is more some local, small entities, even those unwilling to internationalise, are forced to compete, coexist or cooperate (the concept of cooptation) [Bengtsson & Kock 1999, pp. 178–193] with global players entering their local market. In terms of the idea of cooperation or competition with global competitors there is at least the fear of global players assimilating and taking over the research and development of small local enterprises. Whereas in terms of competition, local enterprises are often lacking in sufficient resources.

The network model of internationalisation is a theory which creates certain foundations for the analysis of inward connections (based on import, cooperation and competition) within a company's internationalisation process. According to this model the process of a company's internationalisation "means that the firm establishes and develops positions in relation to its counterparts in foreign networks" [Johanson & Mattsson 1988, p. 296]. It can be achieved through international extension (relationships with new foreign counterparts), penetration (developing positions in those networks abroad in which company already exists) or integration (coordination between positions in different national networks) [Johanson & Mattsson 1988, p. 296]. So it means the establishment, maintenance or extension of relationships with actors (entities) in foreign markets and the internationalisation process itself is determined by the entity-diverse foreign environment [Axelsson & Johanson 1992; Hadley & Wilson 2003; Fletcher 2008; Chetty & Blankenburg Holm 2000; Fonfara 2011]. When considering this model of internationalisation, both the individual company (its own assets) and the network to which it belongs (market assets) are taken into account [Johanson & Mattsson 1988].

The inclusion of relationships with international entities means that internationalisation can be viewed from the perspective of “purely” local enterprises which are not active in foreign markets but have relationships with those other than customers or agents, foreign entities or even local entities with foreign capital.

2.2. A map of local enterprise network relationships and its embeddedness

The network model of internationalisation allows us to view the company in an international perspective regardless of the size of this company and what is even more important, to include those companies operating only locally (see Figure).



The local enterprise business network – the local and international dimension

Figure shows a map of the “purely” local enterprise network relationships which in turn create different potential local, international and global networks. This is a company which has solely local customers (lacks also intermediaries), i.e. upon analysing its internationalisation process it can be said that it is not active in foreign markets. However, an analysis of both formalised relationships (with suppliers) and influential relationships (with competitors) is evidence of inward connections and relationships of an international scale. This enterprise is internationalised through relationships with its competitors and suppliers. So it means that there is internationalisation through international resources including knowledge and experience (but not gained through direct experience in a foreign market).

Figure analyses the situation where a given local enterprise is not active in foreign markets. Additionally international customers (e.g. in the form of international companies subcontracting their operations) could be added here. It would mean that this enterprise is directly active in foreign markets and that the level as well as diversity of its internationalisation and international and global embeddedness of its operations would be subject to analysis.

Additionally we have to underline the fact that that within the analysis in Figure, the classification between local and foreign investment was carried out based upon the localisation of the entities. Moreover we could also differentiate by verifying which entities classified as “local” have 100% domestic capital. Otherwise (in the case of foreign and/or mixed capital) it would be necessary to identify additional flows of an international nature directed at the local enterprise.

Analysing the network presented from the perspective of international and global networks (that is when the relationships are extended to varying degrees beyond the local, country framework) as well as local networks (that is when the relationships are only within the local, country framework) it can be noted that on analysis this local enterprise is simultaneously embedded in different both local and global networks of relationships. As Fletcher and Barrett point out [Fletcher & Barrett 2001, p. 562] business transactions are embedded in networks of relationships that cross national borders and these relationships, in turn, are embedded in different national business environments (that is in each country of involvement) as well as in the global business environment (that is, that of the World Trade Organisation and various regional trade groupings)³.

³ Fletcher and Barret [2001, p. 562]] analyse this issue from the perspective of embeddedness in different national or international social networks, technological networks, regional

2.3. Simultaneous embeddedness and the degree of company's internationalisation

The question which, in light of the problem presented above of simultaneous embeddedness, which requires answering relates to the level of this embeddedness as well as to the level of advancement of a company's internationalisation.

As a measure of the level of embeddedness we accept the methodology adopted by M. Forsgren, U. Holm and Johanson J. [2005, p. 109] which states that: "a low level of embeddedness means that [...] relationships with other actors in the network are more of the «arm's-length» type in the sense that the level of adaptation between the resources and activities of the parties involved is relatively low which means that the relationships are relatively easy to replace. A high degree of embeddedness means that the [...] relationships are difficult to replace, because over time, both sides have adapted their resources and activities to each other [...]" [Forsgren, Holm & Johanson 2005, p. 109].

The scope or the degree of a company's internationalisation may be measured by different variables, usually assuming the gradual increase in the commitment to international markets. The adopted measures include, among other things, the proportion of foreign sales, the number of overseas markets where the company is active, turnover and profit in overseas markets, the proportion of employees working abroad, the level of investment made in overseas markets, the size of foreign assets, the length of time that the company has been active in foreign markets and the number of different forms of international expansion. [Sullivan 1994; Collins 1990; Sambharya 1995; Ramaswamy, Kroeck & Renforth 1996; Daniels, Radebaugh & Sullivan 2004, Barcellos et al. 2010; Pangarkar 2008] – all measures that are related to business conducted directly in overseas markets, that is with outward activities. These measures may be classified as structural, performance and attitudinal [Sullivan 1994; Dorrenbacher 2000]. Mostly these indices are used to analyse the activity of international corporations rather than small and medium enterprises.

The aforementioned limitations of the measures of a company's internationalisation necessitate that we suggest that the "degree of internationalisation" variable should take into account not only the aforementioned measures of outward connections, but also inward connections. Measures of internationalisation through inward connections should at least include (amongst oth-

networks, infrastructural networks, institutional networks, and market networks and its influence on international relationships evolution over time.

ers): the number and value of goods from international suppliers (both foreign suppliers located abroad as well as local suppliers with foreign or mixed capital), as well as the value and number of contracts within such a cooperation other than with customers and intermediaries of foreign entities. In describing the “degree of internationalisation” variable, we have pointed out its tangible components. The construction of a such a really comprehensive variable requires, however, additionally the inclusion of aspects linked to the quality and the strength of the relationships as well as the impact of global competitors, which are significantly more difficult to measure. ”The degree of internationalization” measure must therefore take in to account the flows of activities and resources (including knowledge and experience) which is in keeping with the ARA model discussed in Section 1.2. The proposed extension of the method of measuring the degree of companies’ internationalization reflects to a greater extent the true international character of companies, including those selling only locally but entangled in different international or even global dependencies.

Conclusions

This article presents the conceptualisation of the problem of companies’ simultaneous embeddedness in different local, international and global networks adopting the perspective of local enterprises. The simultaneous embeddedness concept is adopted regardless of other characteristics of an enterprise such as the share of exports in sales. We stress that companies selling solely in the local market are also entwined in international and global network dependencies which, in turn, have a significant impact on their operations and the degree of internationalisation.

Meanwhile the embeddedness of local, international and global network relationships means that significant interdependencies and cross-effects among these different networks arise which in turn mean that the complexity of the problems associated with management, maintaining competitive advantage and creating relationships are increasing. The important question for further research is how these interdependencies impact company activities and their performance. Here an analysis of both positive and negative effects which are a result of such a simultaneous embeddedness is required. The potential effects of a company’s simultaneous embeddedness in different local, international and global networks can be considered from the perspective of positive

and negative synergies resulting from local, international and global activities (local, international and global networks and relationships). These synergies can be analysed at a local level (even just limiting the analysis solely to the relationships within SME sector) as well as in terms of links between the SME and large global players on local and foreign markets. Local means, amongst other things, increasing strength thanks to synergy effects for smaller players, whereas international/global means connecting to a global network (not necessarily formally) and deriving benefits on an even larger scale. Moreover, local embeddedness ensures better adaptation to local requirements whilst global embeddedness ensures that companies can derive benefits through international development (e.g. advanced knowledge and a greater possibility to reduce costs). However, potential negative effects of simultaneous embeddedness should be considered in detail. They include, amongst others, being exposed to risks of global supply chains as an effect of the vendor being located at great distance and a need to work alongside global players such as the local subsidiaries of multinational corporations. Companies seen from a simultaneous embeddedness perspective appear to act in an inherently unstable and uncertain environment with significant competition from both local and global players (and unbalanced strength on both sides). This again raises the question for further research as how to manage within such complex interdependencies, including relationships with these large and significantly more powerful counterparts in order to at least not lose market share or profits. The important issue here is how local entities should operate within global networks and how they can become an important part of them. Further research should focus on empirically verifying the issues mentioned here.

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