International Business

Cooperation within networks

Anne van Delft

Inaugural Lecture

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Colophon

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Cooperation within networks

Inaugural Lecture
Anne van Delft
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June 29th 2011

Rotterdam
University Press

Members of the Executive Board,
Colleagues at Rotterdam University,
Esteemed audience,

International Business: cooperation within networks

I would like to welcome you all to Rotterdam Business School, one of the eleven institutes of Rotterdam University of Applied Sciences. I am very honoured that you have all come here this afternoon to listen to my inaugural lecture.

Rotterdam Business School has three bachelor programmes and four master programmes and a large international student body. Our students study and/or work abroad for six months to a year and we have a network of more than a hundred international partner universities. The Research Group International Business was set up in 2008. The research group consists of a professor and a group of lecturer-researchers, many with an international/business background, who mostly spend one or two days a week doing research for a period of two years. Highly motivated, senior students also participate in the research while doing their thesis or minor. This research group also invites a guest professor from one of our international partner universities every semester for joint research projects. In this way we have already been able to cooperate with guest professors from Florida, England and Slovakia.

This afternoon I would like to talk to you about Small and Medium Enterprises (SMEs) and international business. I will start by describing some of the models of internationalisation and the motives for SMEs to venture abroad. I will then show you how international European and in particular Dutch SMEs are as well as touching upon the benefits, barriers and success factors of internationalisation. I will then go into corporate social responsibility (CSR). An important topic for international SMEs but also for business schools in general as CSR needs to become embedded in the mainstream of business-related education in order to "develop a new generation of business leaders capable of managing the complex challenges faced by business and society in the 21st century."(UNPRME).

I would then like to highlight the importance of "cooperation within networks", the title of my inaugural lecture. Cooperating within networks makes good business sense for SMEs when going abroad but it is just as relevant for Rotterdam Business School and the Research Group International Business. The reason why I chose this topic is because many of the people I have spoken to since I started here are convinced that SMEs could benefit greatly from cooperation in their international business activities. I have heard this from industrial organisations as well as banks and government institutions. I have also seen at first hand that many companies struggle with cooperation and are reluctant to share information with peers or competitors. At the same time there are many examples of successful cooperation: consortia of firms that approach a foreign market together, groups of firms that approach foreign markets in government programmes (i.e. 2g@there), joint innovation programmes and trade missions.

International Business: Models and Motives

International business research, which focuses upon the internationalisation of firms is no longer dominated by research on large multinational enterprises. It now also pays substantial attention to SMEs. An SME, according to the European definition (European Commission, 2003), is an enterprise with up to 250 employees and a turnover not exceeding € 50 million.

International entrepreneurship is an interdisciplinary field that draws upon the theoretical foundations of international business and entrepreneurship including various disciplines such as economics, (cross-cultural) psychology and sociology and business sub-disciplines such as marketing, finance, business administration and strategic management.

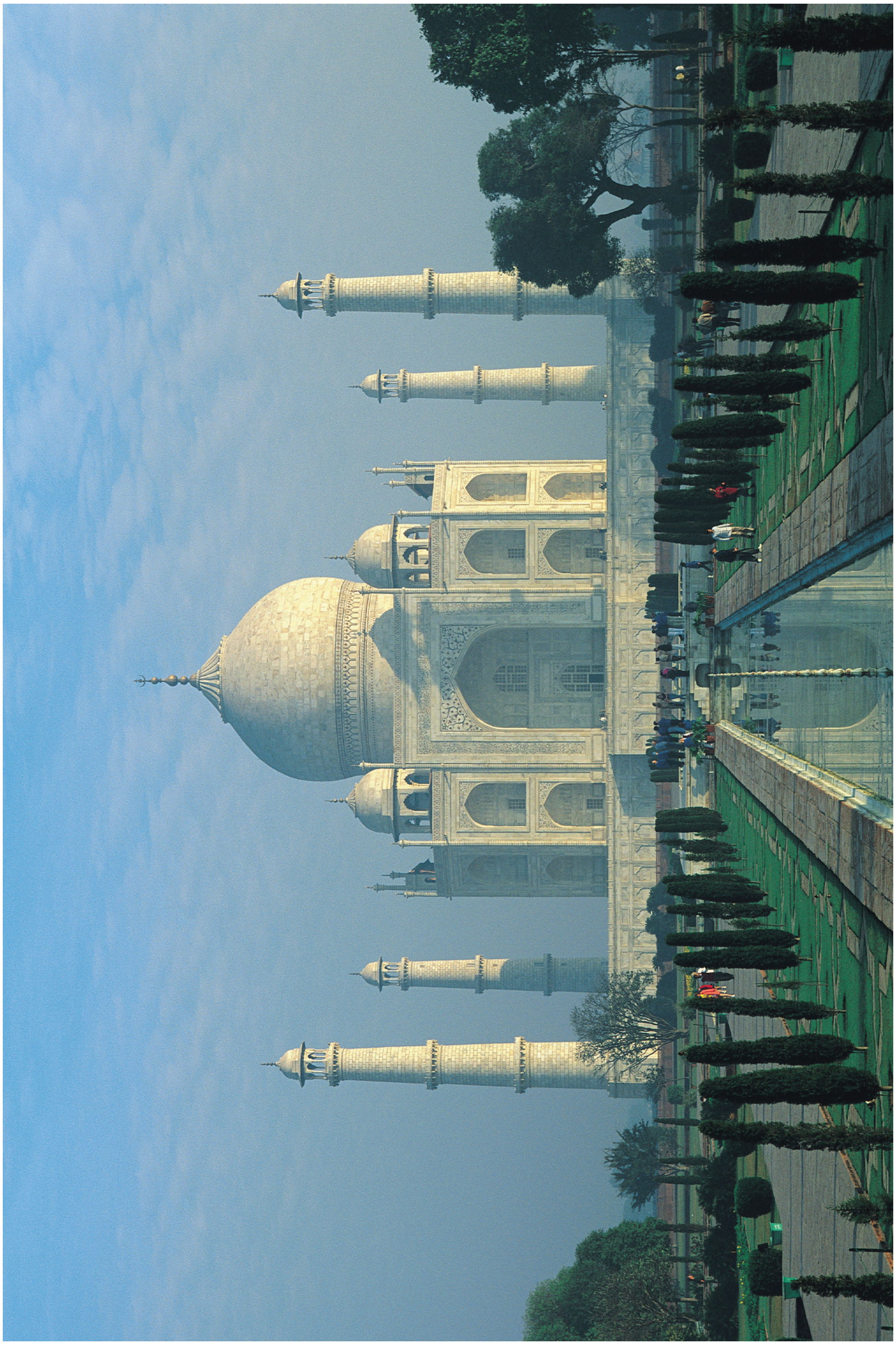
Internationalisation is the expansion of the firm's operations to foreign markets and includes not only import and export but also foreign direct investments, manufacturing, international cooperation and partnerships. European integration has enhanced international competition affecting both enterprises with an export profile and enterprises focusing on the domestic market. Transportation costs have fallen and the introduction of internet and e-mail have resulted in improved information exchange between countries. This has also made information about foreign markets and potential clients more accessible.

The process of internationalisation has attracted much attention from the research community over the years, yielding a wide range of models and approaches that account for various aspects of firms' international operations. The original model for SME internationalisation is the Uppsala-model (U-model), often referred to as the stage theory (Johanson, 1977; Johanson, 1990), which describes how firms first establish themselves in domestic markets and then internationalise in small steps. They most often start with direct exports, followed some time later by exporting with the help of independent representatives (agents) – this is also called indirect exporting. The following stage is to establish a sales subsidiary abroad and in the final, fourth stage the firm establishes a manufacturing facility abroad. Internationalisation can thus be defined as a "process of increasing involvement in international operations" (Luostarinen, 1990, p. 249). This is supported by research which shows that exporting and importing activities increase with the age of the company (European Commission, 2010).

The creation of business networks is becoming increasingly important in the internationalisation process. Because of this Johanson and Vahlne updated their 1977 stage model of internationalisation (Johanson, 2009). They recognise that the business environment has changed from a market with independent suppliers and customers to a web of relationships or rather a business network and that these business networks are important for internationalisation as they provide a firm with an extended knowledge base. New knowledge is developed within these business networks which can include any number of parties such as customers, suppliers, competitors, alliance partners, universities, government bodies, industry associations etc. Johanson and Vahlne used to consider lack of information, knowledge and familiarity with a foreign market as a liability (liability of foreignness) but now they feel that not having a position within the relevant networks as a liability (liability of outsidership).

One feature of today's globalising economy is that a growing number of firms are undertaking international activities and this includes not only large firms, but also an increasing number of SMEs. Firms are internationalising at a faster pace and the relevance of the stage theory is diminishing as an increasing number of firms do not in all respects follow traditional internationalisation patterns. Some SMEs, so called *international new ventures* (Oviatt and McDougall, 1994) or *born globals* (Rennie, 1993), internationalise from or near their start-up, often less than three years after domestic establishment.

There are many possible motives for a firm's internationalisation. These factors are generally divided into two categories: proactive and reactive motivating factors (Czinkota, 1988). The proactive motivating factors consist of management's perceived benefits or opportunities such as increased revenues or profits which may motivate the firm to internationalise. Firms



may also approach foreign markets as a result of environmental changes, referred to as reactive motivators, such as overproduction, declining domestic sales, excess capacity and saturated domestic markets. However, very often SMEs internationalise by chance: they get incidental requests for their product from abroad or they accompany a major customer onto foreign markets.

A structured approach to internationalisation is regarded as the most important criteria for success by the Dutch export organisation Fenedex[1] which stimulates SMEs to develop a structured export strategy. However, many SMEs don't use a structured approach. The majority of European SMEs consider the analysis of foreign market potential, the analysis of the competitive and legal environment and a market entry strategy as very important but when it comes to the crunch less than half of them actually realise these plans due to limited time, management and financial capabilities (European Commission, 2004).

The Level of Internationalisation of European and Specifically Dutch SMEs

In the Netherlands there are almost 850.000 SMEs of which 56% are one-man firms, 35% has 1-10 employees, 7% has 10-49 employees and 2% have between 50-250 employees. SMEs are responsible for 58% of the national turnover, they offer work to 60% of the working population (Statistics Netherlands) and are therefore rightly called the "engines of the economy".

The Netherlands has long been a leading nation when it comes to export, import and foreign investment, largely due to several large multinationals. Dutch SMEs aren't positioned as strongly internationally but the level of internationalisation is increasing and above the European average (Figure 1) although it's still well below the most international European countries. One third (32%) of Dutch SMEs have direct exports and 38% have direct imports (European Commission, 2010).

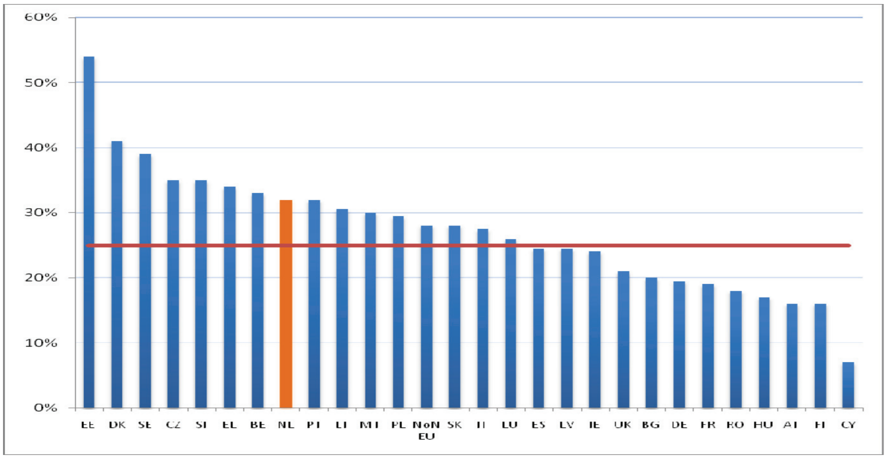
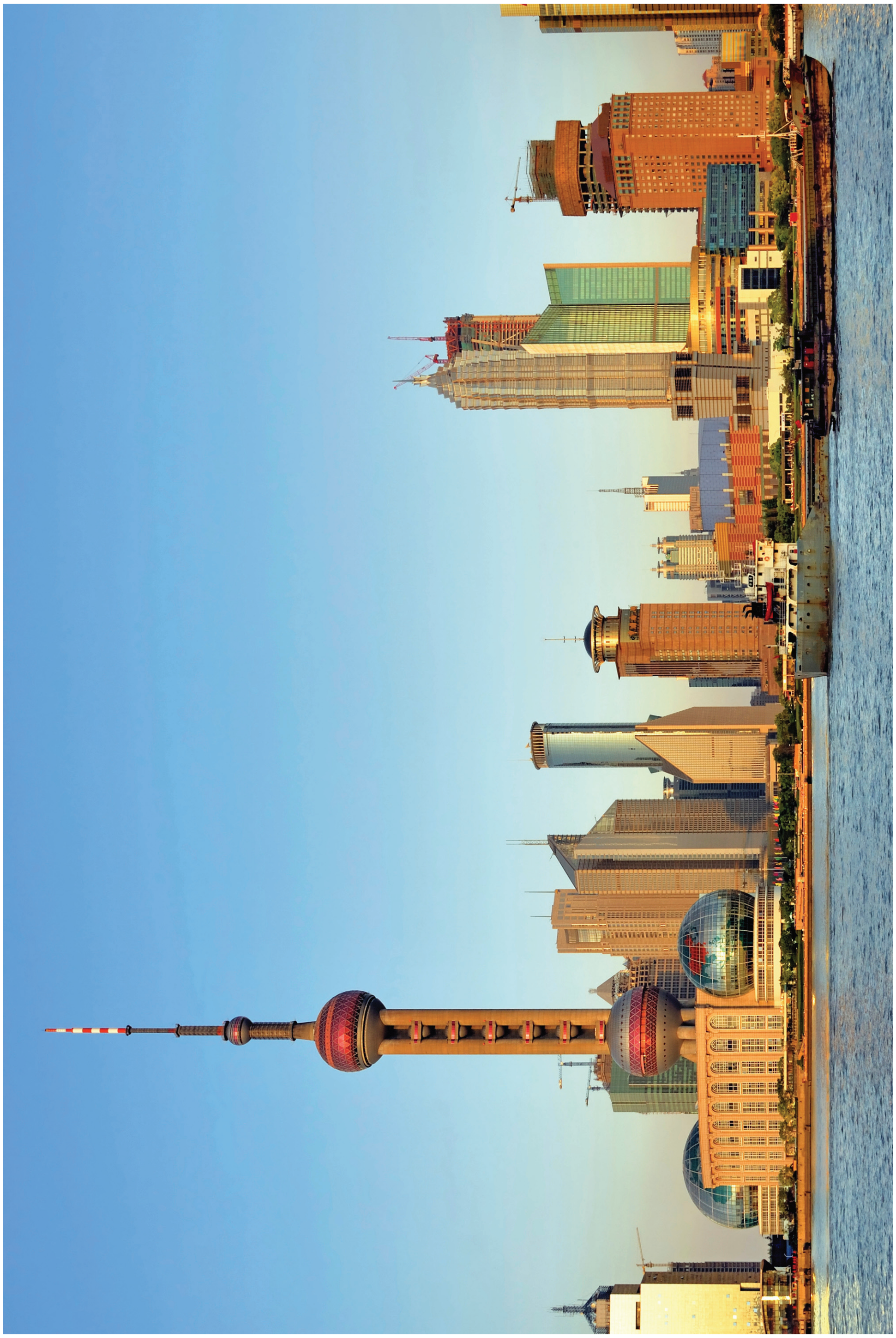


Figure 1: Percentage of SMEs with direct export in 2006-2008 by country (*Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480)*)

1 Fenedex is a Dutch export organisation with 1.200 members (www.fenedex.nl).



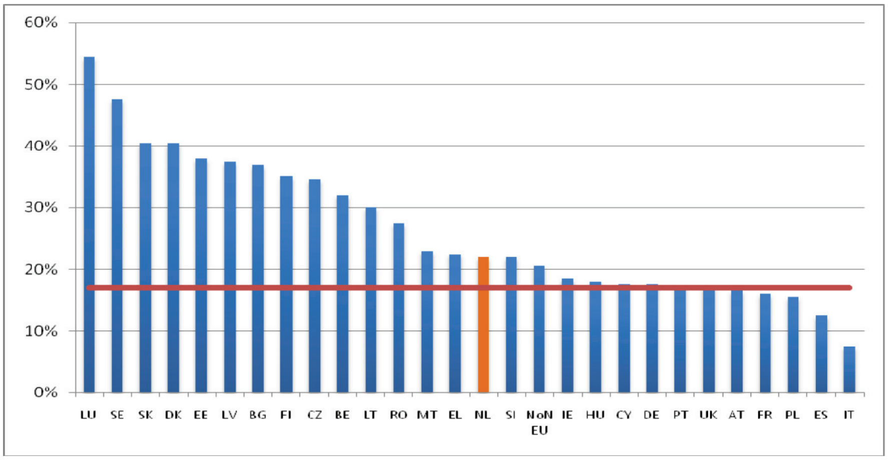
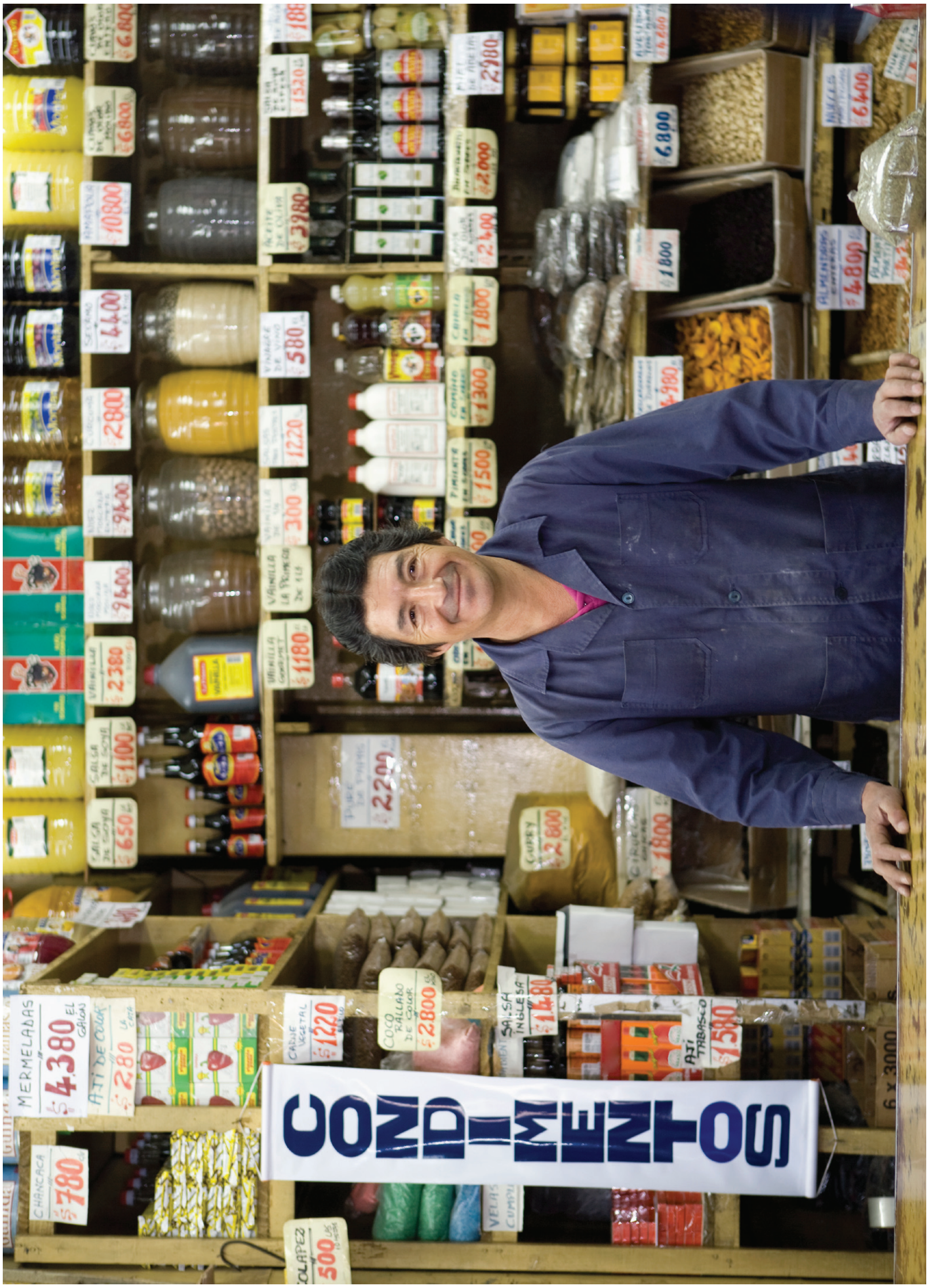


Figure 2: Percentage of SMEs with FDI, technical cooperation and/or foreign subcontractor relationships in 2006-2008 by country (*Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480)*)

Twenty-two percent of the firms have foreign direct investments, technological cooperation with a foreign partner and/or foreign subcontractor relationships (Figure 2).

One in three SMEs export but this says very little about the intensity of the exports. First of all the level of internationalisation generally increases with the age and the size of the firm so medium sized SMEs (50-249 employees) are significantly more international than micro firms (0-9 employees). To get more insight into the impressive international activities of these medium-sized firms I would like to refer to a Dutch study from 2007 which surveyed seven hundred international Dutch SMEs (Braaksma, 2007). It was found that almost 60% of these companies have between 10 and 99 employees and that they earn 40% of their revenues abroad. A quarter of them export at least 75% of total revenue. One in three has joint ventures or a subsidiary abroad with the majority of these in the maritime and offshore sector. More than half of the firms cooperate with foreign firms and are active in six or more countries, with Germany being the most popular country. Forty-five percent had internati-onal expansion plans with China being named most often – also mentioned were India and Russia.

Similar information can be found in the report *Trends in Export 2011* (Fenedex, 2011) which illustrates the results of a survey of 4.000 exporting firms, not all SMEs. The responding firms have on average 170 employees, 12 export staff and export to 29 countries. The average respondent has 30 years of export experience. Almost 50% of the responding firms have a total turnover between five to forty million and on average the firms earn 62% of their turnover with exports. Most of the international trade is with the larger European countries (Germany, Belgium, UK, France, Italy and Spain) which matches the data of the European Commission which states that 75% of European firms are oriented towards markets in other member states (European Commission, 2010). But the interest in emerging markets is increasing. In 2010 50% of the respondents surveyed for *Trends in Export 2011* expanded into new markets with Russia being the most popular followed by Brazil, China, Turkey and India. For 2011 the respondents expect the most growth in their export turnover outside of the EU in Brazil


CONDIMENTOS

followed by Russia. India is also in the top-10 and interestingly China has dropped from first position to the fifth position. In 2020 21% of the firms expect that their most important export markets will shift to Asia and 10% expect them to shift to Latin America.

In recent decades emerging markets have started to play a more important role in the world economy and world investment has shifted increasingly towards these markets. Emerging economies are low income countries with relatively low levels of Gross Domestic Product (GDP) per capita that experience rapid economic growth. As most emerging economies have only recently begun to open up to the world economy, there are many unexploited opportunities for firms in these markets. Initially the focus was on outsourcing to benefit from low production costs and the availability of cheap labour but now the growing population combined with the rapidly growing income level per capita is providing tremendous export opportunities as well.

In a 2009 report Statistics Netherlands focussed on Dutch trade with emerging markets (Statistics Netherlands, 2009) and concluded that the share of exports to emerging countries is relatively low in comparison with other European countries. Although this report doesn't focus only on Dutch SMEs, the report clearly describes the potential for Dutch firms in emerging markets. The following excerpt describes the increase of Dutch exports to emerging markets (see the report for information on imports and Foreign Direct Investment (FDI).

> The share of emerging markets in the total trade value of the Netherlands is increasing. The annual growth rate of both exports to and imports from emerging markets is twice that of trade with non-emerging countries. This corroborates the rapid economic development of these countries.
>
> Dutch exports to emerging markets have also risen during the 2002–2008 period. The average annual growth rate of exports to emerging markets was 15 percent, twice as much as the growth of exports to other countries in the same period. Especially the exports to Mexico and Romania have grown quickly, over 20 percent a year.
>
> Exports to emerging countries grew two times faster than exports to non-emerging markets or the European Union. Yet, the emerging markets still have limited shares in Dutch exports. In 2008 the Netherlands exported goods with a total value of 35 billion euro to emerging markets. The share of emerging markets in total Dutch exports was 9 percent in 2008. The share of emerging markets in total Dutch exports is between 5 and 15 percent for most product categories.

Source: Statistics Netherlands, Internationalisation Monitor 2009.

Although there is no consensus on the list of emerging markets, the criteria of Statistics Netherlands are such that an emerging market:
1. represents a GDP of at least 75 billion US dollar;
2. has a Purchasing Power Parity per capita of at most 80% of that of the Netherlands;
3. has shares of at least 3 per mille in global inward FDI and imports;
4. grows more rapidly than the OECD, both in the past and in the future;
5. did not join the EU before 2004.

Based on these criteria, there were 16 emerging markets in 2008, namely Argentina, Brazil, Chile, China, Czech Republic, India, Indonesia, Israel, Malaysia, Mexico, Poland, Romania, Saudi Arabia, South Korea, Thailand and Turkey (Statistics Netherlands, 2009).

The Benefits of Internationalisation

Internationalisation has been shown to be very beneficial for firms. Cross-border activities are an important means through which SMEs are able to create value, generate growth (turnover and employment) and access new knowledge and technologies (Yeoh, 2004). Efficiency can be improved and costs can be reduced through economies of scale, cheaper sourcing or subcontracting across borders. Export also creates growth indirectly, through a variety of mechanisms including efficient allocation of resources, greater capacity utilization and technological improvement in response to greater competition from abroad. In addition spreading sales across different markets can reduce market related risk and may be less risky than diversifying in the home market (Onkelinx, 2009).

Another important benefit is improved sustainable competitiveness which is especially relevant when more complex forms of internationalisation such as cooperation are involved. A European Commission report refers to studies from several countries which have shown that the competitiveness of enterprises increases considerably with the degree to which they have business contacts, sales offices or manufacturing in other countries (European Commission, 2004).

In addition a strong relation has been found between innovation and internationalisation in the form of a two-way causation. This refers to product/service as well as process innovations. This means that innovation may both be necessary to enter foreign markets as well as be a consequence of a firm's foreign market activities. International market entry often requires innovative products or products that have been adapted to foreign market preferences. This is supported by *Trends in Export 2011* whereby Dutch exporters regard having a unique product as the most important criteria for success. Internationally active firms have been shown to introduce innovations more often than non-internationally active firms. Likewise, research amongst 1.800 Dutch SMEs (Tiggeloove, 2008) showed that firms who recently invested in product innovations import and export significantly more often than companies that did not.

In a paper of Golovko (2011, p.362), the relation between innovation and export is further developed: "Participating in export markets can promote firms' learning, and thus enhance innovation performance. At the same time, through innovation, firms can enter new geographical markets with novel and better products, therefore making exports more successful, and, by the same token, they can also improve the quality – and consequently increase the sales – of the products sold domestically." Adopting both export and innovation activities was shown to provide more benefits than the sum of the benefits of the two activities in isolation. This suggests that performance is improved not only by optimising each of these strategies in isolation but also by the positive interaction between innovation and export.

In addition to value creation at the firm-level, entrepreneurship and in particular cross-border entrepreneurship is assumed to create wealth at an economy-wide level. Governments support cross-border entrepreneurship and in particular exports with the aim to increase national wealth and to improve the international competitiveness of the national economy (OECD, 1997). Therefore, increasing numbers of international SMEs can potentially have an important value creating role within national economies. Recent research (Hessels, 2008) indicates

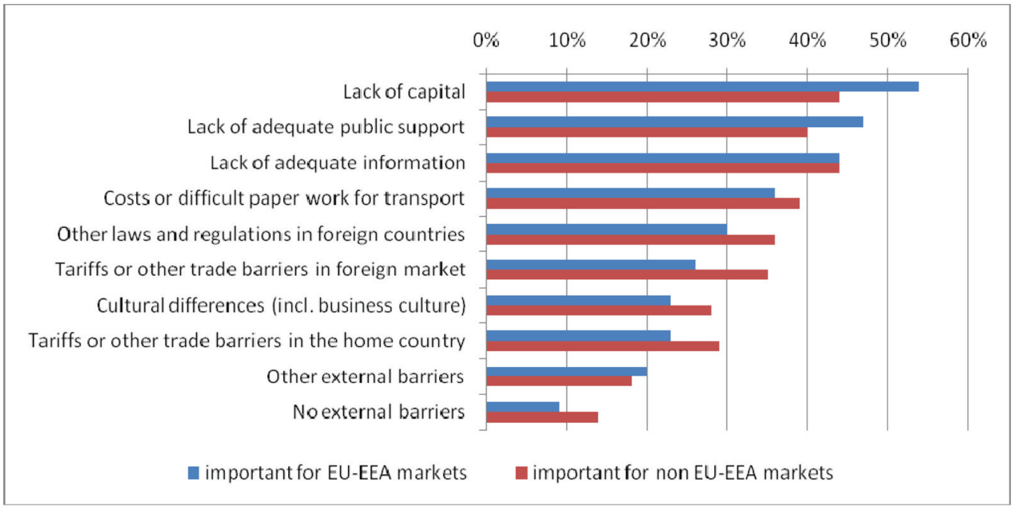
that export driven new ventures make a significant contribution to economic growth whereas domestic new ventures do not. This supports the view that export-driven new ventures contribute to the generation of knowledge spillover, increased competition and increased diversity, ultimately resulting in higher economic growth rates. The findings point towards the importance of cross-border entrepreneurship for achieving national economic growth and for supporting the set-up of new businesses. A Belgian study (Onkelinx, 2009) also showed a strong positive relationship between export expansion and economic growth whereby increasing involvement of firms in international markets brings benefits to the home market.

Barriers to Internationalisation

With so many evident benefits to internationalisation, why don't more SMEs cross the border? The reason is that although there are many opportunities and benefits related to international business there are also significant barriers to overcome. Figure 3 shows an overview of perceived barriers and the different weight allocated to these barriers depending on the foreign country the SME is doing business in. The role of the owner/manager is also vital and it has been shown that if they have little or no experience abroad they rarely take up the challenge unless they have experienced international managers on board (Sommer, 2010).

Barriers to internationalisation can be internal (related to the capabilities of the firm) and external (related to the business environment). The two types of barriers are closely related and the external barriers are easier to deal with when the firm has enough financial resources to invest for several years before they produce any income (European Commission, 2010).

The perceived importance of barriers for internationalisation varies significantly from study to study depending on the industrial sector and the specific foreign market of the chosen population. For example, in *Trends in Export 2011* the four main barriers mentioned were finding a good local partner, credit risk, insufficient market information and rules and regulations.



Source: European Commission, 2010

Figure 3: Barriers related to the business environment (% of SMEs that state important)

Daarzijn- Rotterdam Image Bank

And when asked specifically about barriers when doing business in Asia the respondents mentioned finding a good local partner, worries about intellectual property rights and cultural differences. The fact that SMEs find it difficult to find suitable foreign partners is also supported by scientific research (Karagozoglu, 1998).

The OECD (2009) also looked into internationalisation barriers for SMEs and identified four main barriers: 1. shortage of working capital to finance exports; 2. identifying foreign business opportunities; 3. limited information to locate/analyse markets; and 4. inability to contact potential overseas customers. An additional barrier was lack of managerial time, skills and knowledge.

Given the resource constraints of SMEs, overcoming these barriers may be a challenge that is simply too big for many of them. Not only do SMEs have limited financial resources, they often also have little or no international experience in their management team, limited knowledge of international markets, and limited international networks. The majority of the barriers mentioned above can be improved by government (agencies) and export organisations.

Increased risk and competition in foreign markets may also prevent SMEs from going abroad (Onkelinx, 2009). Firms face higher levels of risk when operating in foreign markets, compared to domestic markets (Lu, 2001). Specifically higher business and financial risk including credit and currency risk. These risks are especially high in the more risky environments of the emerging markets where SMEs from developed countries have also begun to do business.

Many of the barriers that can make the internationalisation process difficult are more often perceived by SMEs that are active in emerging markets than those that operate in more mature markets. Although there may clearly be large variations between individual emerging market countries, these markets share various similarities. There is a lot of restructuring and privatisation resulting in internal turbulence and governments in these countries continually design, revise and implement new policies. Therefore, economic and political conditions tend to be more volatile than in advanced industrialised markets (Mody, 2004).

Despite these extra challenges, owner managers active in emerging markets indicate that internationalising their enterprise has improved competitive strength more often than those active in developed countries (Hessels and Kemna, 2008). This combination of business in emerging markets being more challenging as well as more rewarding combined with the fact that Dutch SMEs seem to be missing opportunities here is the reason why the Research Group International Business will focus on these markets and in particular on India, Latin America and Central and Eastern Europe.

The Success Factors for International Business

Following the barriers and extra risks involved in international business I would like to illustrate how successful firms overcome these difficulties based on the book *Springen over de Grens* or in English *Leaping across the Border* (Van Essen, 2009). In this book fifteen highly successful Dutch firms talk about their international experiences and their view on the success factors for international business.

The main message from these successful firms and something they also see as a success factor is that internationalisation is ‘business as usual’ except for the added challenge of having to communicate in a different language and deal with other cultures and regulations.

It's about having the drive to succeed and being able to recognise and seize opportunities: "entrepreneurial alertness". The risks of international business are higher but if sufficient resources are allocated to prepare the firm, they are manageable.

Having a structured and strategic approach is also seen as a prerequisite. Most of the interviewed firms believe in the 'stage theory' approach which means that they recommend increasing the complexity of international activities gradually in order to gain experience and learn through a process of trial and error. They recommend starting with export in order to build up a customer base before setting up a subsidiary. Some of them learned the hard way that taking over foreign firms is highly complicated and time consuming due to the difficulties of integrating different business cultures.

As to be expected some of the success factors of international business are very much related to the skills needed to overcome the barriers which firms come across. SMEs have limited resources and internationalisation involves extra costs so it must be budgeted accordingly by creating a financial buffer and finding the most suitable form of finance. Attracting employees with international experience who speak foreign languages was also mentioned by all of the firms. International experience is also relevant for owner managers as firms internationalise more rapidly when the owner has lived abroad or has previous international experience.

The role of knowledge development and access to foreign market information is mentioned by all of the firms. They consciously gather information and get inspired by the countries where they do business to stimulate innovation and keep abreast of market developments. One of the owners spends two days a week collecting information in order to spot new opportunities.

Following directly from this is the importance of networking or managing relationships. Some say that international business *is* networking. Networks offer the opportunity to access foreign partners and these can be extremely valuable if they themselves are part of a tightly knit network based on trust. Access to networks can also provide information regarding local culture, business culture, rules and regulations. However, building up relations in foreign markets is difficult as it takes a lot of time to develop trust and to maintain the relationship. It also necessitates overcoming cultural barriers and developing cross-cultural management skills. However, a good network leads to sustainable competitive advantage and can be the ultimate difference between a firm and its competitors.

The final success factor mentioned by the firms was cooperation with foreign dealers or agents and the vital role these partners play in supplying local information. Finding a suitable dealer is difficult and it takes a lot of time, travelling and communication skills. But if successful cooperation can lead to economies of scale, risk sharing, reduced transaction costs and synergies can be achieved by sharing knowledge and information. This is especially relevant for small firms as they are often resource constrained and it is therefore difficult for them to gather information on foreign markets.

I would just like to emphasize the importance of cross-cultural skills to many of the above success factors. Cultural differences are seen as an extra challenge when communicating with foreign agents and customers. Also networks are created, developed and maintained through social interaction and relations and these are becoming increasingly intercultural due to internationalisation. To be successful when dealing with different cultures a person needs to be interculturally effective. One of the profiles for an interculturally effective person has been developed by the Canadian Foreign Service Institute (CFSI, 2000) and they describe it with attitudes like modesty and respect, understanding of the concept of culture, knowledge of both host culture and self, personal and professional commitment and skills in intercultural communication, relationship building, adaptation and organisational behaviour. Another term used is *cultural intelligence* which is defined as "an individual's capability to deal effectively in situations characterized by cultural diversity" (Ang & Van Dyne, 2008).

The Research Group International Business has found much support for the importance of culture in international business, for example in the research that is currently being done into Dutch SMEs doing business with rapidly upcoming market India. The initial results strongly suggest that cultural skills are of the utmost importance and are also considered to be so by successful entrepreneurs. Not only regarding cultural aspects in general but in particular regarding business culture. Theo Stehouwer of Incomparable India in Rotterdam said about business culture:

> *"When doing business I found that sometimes when I thought that we had reached an agreement, from the Indian perspective the negotiations had barely begun! That may appear unreliable if you don't keep an open mind but I found it really isn't; it's just that I have to work at a different pace and in a different style than I'm used to. Indians seem to want to have all the details worked out before they actually get started and it's up to me to adjust to that."*

Corporate Social Responsibility

One of the forces that have been reshaping the global competitive landscape is Corporate Social Responsibility (CSR). CSR is much broader than just philanthropy with which it has often been associated. Indeed, the trend now is to refer to Corporate Sustainability and Responsibility within which there are three broad areas:
1. human rights, including labour standards;
2. sustainable sourcing, covering use of energy, handling of waste, water consumption and use of other natural resources like timber;
3. ethical standards, including tackling bribery and corruption but also covering areas such as transparency of reporting.

For firms doing business in emerging markets there are added challenges due to an underdeveloped institutional environment, weak public governance, widespread bribery and corruption, lack of regulatory legislation and rules, public transparency and respect for human rights. In addition "reported corporate responsibility in emerging markets (especially South Africa, Brazil, India and part of Eastern Europe) is more developed than commonly thought, often exceeding standards in some high-income countries/regions." (Baskin, 2006).

All businesses affect a large number of stakeholders from customers, shareholders and employees to suppliers and society in general. SMEs are making changes that affect their bottom line: to become more attractive employers, to become more appealing suppliers to their customers or just because of the ethical desire of the owner. And because SMEs are the 'economic engine of the world' it is therefore likely that they will have a larger impact on global CSR than the large multinationals on which much of the public focus has been aimed up till now. The following quote supports this:

> *"The small company is the dominant way of organizing, and as scholars, practitioners and politicians endeavour to understand and promote corporate CSR engagement, we*

contend that an improved understanding of current CSR practices in SMEs has the potential of stimulating a high impact for the global economy and society as well as for the SMEs themselves." (Spence & Rutherford, 2003).

In *Trends in Export 2011* 42% of the firms have a CSR mission and vision, 21% have a CSR policy but only 5% report about their CSR activities. When asked which activities firms see as CSR 56% mention social labour standards, 48% mention the environment but only 15% refer to their supply chain and 17% to sustainable procurement. 82% of the firms say that their customers are not yet demanding CSR but almost half of these expect this to increase in the coming years (Figure 4). The rest of the firms (17%) have had requests about their CSR policy from their customers and more than half of these say that this has increased significantly in recent years. This expected increase is supported by a Danish study (The Copenhagen Centre, 2006) whereby almost 70% of SMEs had faced requirements from their customers on at least one CSR-related issue. The issue is further complicated by the fact that international CSR doesn't only apply to the companies themselves but also to their supply chain. Firms should be familiar with the relevant CSR issues and positively influence the social and environmental policies of their suppliers. There's a lot of work to be done, however, as only 20% of the respondents in *Trends in Export 2011* use CSR as a selection criteria for their own suppliers.

European SMEs generally perceive CSR as a new burden and a threat. Many fear that they might not be able to meet the social and environmental requirements of buyers and supply chains without losing their competitive edge in both their national and international markets (Maloni & Brown 2006). But at the same time they realize that if they do not meet these requirements, they might not be able to access new foreign markets or large institutional buyers who adhere to their own codes of corporate ethics (Morsing, 2009). This doesn't mean that SMEs don't act in a sustainable and responsible way. On the contrary, many SMEs are adhering to the highest ethical standards even though they are at a distinct disadvantage to their multinational counterparts due to a lack of resources, experience and the availability of 'best practices' in their industry.

One way to address the limitations faced by SMEs when they try to implement CSR individually is to undertake CSR as part of a cluster. This type of approach is also supported by the Social and Economic Council of the Netherlands which stimulates SMEs to develop an international CSR strategy in cooperation with their industrial association (Sociaal-Economische Raad, 2011). A cluster approach to CSR encourages collaboration between companies operating in the same geographical location and facing similar challenges. When clusters undertake

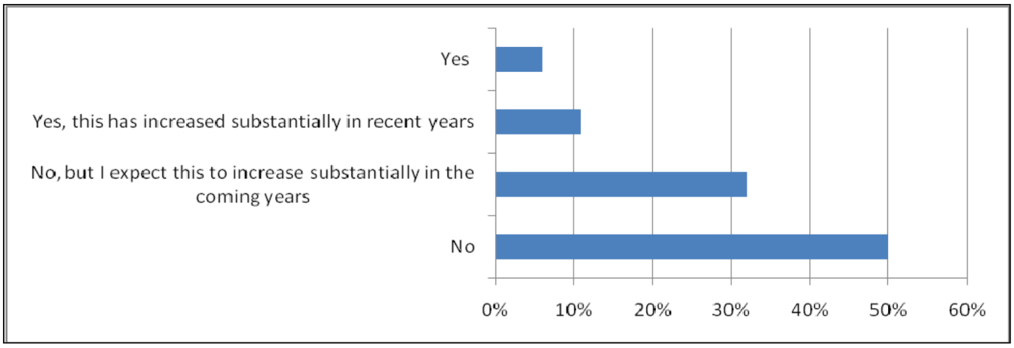


Figure 4: Do your customers request Corporate Social Responsibility policy? (*Trends in Export, 2011*)

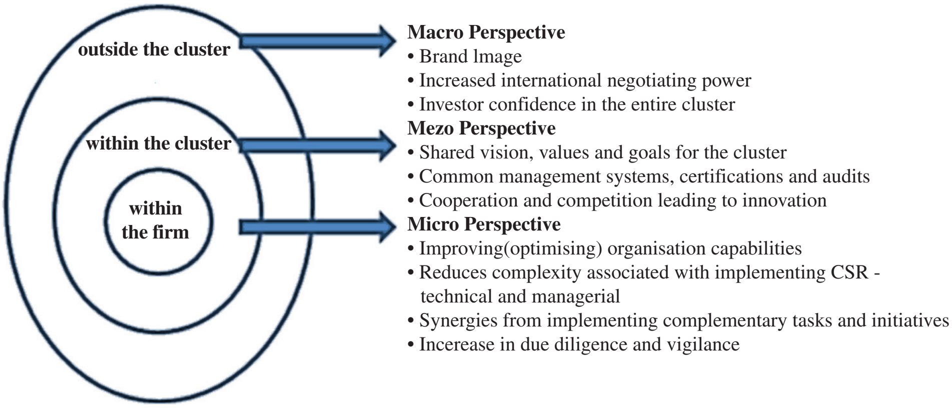


Figure 5: Cluster approach to CSR (Campi, 2008)

CSR explicitly as part of their strategy, it is not only beneficial to the development of the cluster but also leads to innovation through cooperation and competition among the firms (Hoivik, 2010). The advantages of implementing CSR as a cluster can be viewed at a macro, mezo and micro level (Figure 5). At the macro level, the cluster can develop an organisational identity and vision and thus differentiate its value-proposition and develop a common brand image. Acting as a single unit the cluster has more negotiating power, especially in international situations, and it can improve investor confidence. At the mezo level the cluster approach can lead to a shared vision and mission as well as shared values and goals. This feeling of shared responsibility also motivates smaller firms to take up CSR activities. A cluster approach also enables the possibility to have common management systems, certifications and audits. But the most important aspect of the shared feature of the cluster is that it acts as an innovation driver, smaller firms have much more ability to innovate especially when operating in emerging markets. At the micro level networked firms experience fewer problems, especially with time and knowledge and being part of the cluster approach to CSR increases the likelihood of SMEs recognizing social responsibility issues and their ability to act on them (Campi, 2008).

A transparent CSR strategy will therefore become increasingly important as more and more firms start to demand it from their suppliers. Firms that do not engage in CSR will also fail to gain from the direct benefits of CSR such as financial savings (e.g. energy consumption), environmental improvements (e.g. waste water quality), social improvements (e.g. working/health conditions) and product improvements (e.g. reduced rejects) (Luken, 2005). There is also a significant opportunity for SMEs to develop new business in emerging markets, using innovation and technology to drive sustainable development and sourcing. The Research Group International Business aims to contribute to this field, not only to benefit international SMEs but also to further incorporate CSR into the curriculum.

Cooperation within networks

> *"In international business, the competition for products, prices and technologies has expanded to successful development and management of business collaboration and international networks." (Purhonen, 2007)*

In today's 'network economy' it's important for firms to leverage their networks and managing the interplay between networks and knowledge will be one of the key challenges for entrepreneurs in the 21st century (Prashantham, 2004). This is supported by the fact that more than 70% of the successful managers in the 'Leaping across the border-study' indicate that the information and advice they obtain from within their network is the information they value most.

Definitions of networks usually relate to groups of enterprises that combine their talents and resources. The "coming together of a group of enterprises of whatever size, to use their combined talents and resources to achieve results which could not be possible if the enterprises operated individually" (Australian Manufacturing Council, 1990).

According to the network approach (Johanson & Mattsson 1988) internationalisation is seen as a process in which relationships are continuously established, developed, maintained and dissolved with the aim of achieving the objectives of the firm. The network approach suggests that the firm's strategies are influenced by its network relationships and that these relationships may drive, facilitate or inhibit a firm's internationalisation. In order to create competitive advantage, firms need to establish themselves within the existing network of the international market. Initially firms are engaged in a network which is primarily domestic. According to the network approach, the firm's relationships can act as bridges to other networks and thus allow the firm to develop business relationships in networks in other countries.

It is therefore not a new proposition that networks are a crucial, even the most crucial, factor for SMEs in developing their business. Cooperative relationships are formed for many reasons including for example access to information, resources, markets, and technologies (Gulati, 2000) and to protect market positions (Dyer, 1998). For internationalisation, a firm's network can be a driving force to follow customers abroad or to provide structures to overcome resource deficiencies, which for an SME may be particularly significant. In addition the network exposes the SME to new opportunities and allows it to collect, evaluate and process information and market knowledge relevant for internationalisation (Coviello, 1997).

Market knowledge has long been recognised as a key driver for international growth and the "development, integration, and transfer of knowledge should be regarded as a critical aspect of strategic management of internationalisation" (Johanson, 2003, p.90). However, some kinds of knowledge aren't available to everyone as it is confined within networks. Firms with more network relationships usually have access to more specific market knowledge as well as general knowledge about international business. Foreign market entry should therefore not be about modes of entry but should instead be seen as a position building process in a foreign market network. Firms have to identify the relevant market actors in order to determine how they are connected in often invisible complex patterns. Partly because of the unavailability of information, market research may be unable to identify many of the opportunities insiders can. However, as firms gain more experience in foreign markets, their use of network knowledge increases as well. It was found that experienced firms, active in many countries, relied heavily on knowledge gained from their network to enter a new foreign market (Blomstermo, 2004).

It can take as long as five years of managerial effort to create working relationships and many attempts fail – it therefore takes considerable investment and is an important firm resource based largely on an informal process. The process is made more difficult when dealing with foreign relationships due to language and cultural barriers. This is why many firms cooperate with local intermediaries in foreign markets. The importance of foreign networks and partners is highlighted in *Trends in Export 2011* where 39% of the firms have foreign dealerships and agents, 20% uses only dealerships and 19% uses only agents – only 11% works solely with their own employees.

There are many benefits of networking (O'Doherty, 1998):
- *Material benefits*: firms can increase sales and lower production costs by working together.
- *Psychological benefits*: as firms eliminate their isolation they learn that their problems are shared by others.
- *Developmental benefits*: by promoting interaction with other firms, networking increases learning and the ability to adapt to the changing economic environment.

However, SMEs tend to under invest in relationship development. Small firms avoid 'voluntary relationships' and make little use of networking even to overcome problems that threatened the survival of the firm (Curran, 1993). Curran suggested that this is due to the independent attitude of entrepreneurs combined with time constraints related to day-to-day management problems. Entrepreneurs can also be fearful of 'outside' interference, loss of control and the potential for local competitors to gain inside knowledge (Curran, 1993). Another constraint identified in the literature is the lock in effect which means that firms can be over embedded with existing network partners. The firm then fails to broaden its network and also fails to identify potential business opportunities beyond the predefined network boundary (Gulati, 2000).

Cooperation within networks is especially important because it allows firm's to utilise their limited resources in the most efficient way (Bengsston, 2000). Firms can seek cooperation for virtually anything including product development, R&D, sales, market research, manufacturing, international marketing and purchasing to name but a few. Cooperation can facilitate innovation and growth and can be used to spread risks. Cooperation can also be used to gather market information and can involve cooperating with universities, suppliers, customers or even competitors, whereby the latter is referred to as coopetition. Coopetition occurs when companies work together on activities which they believe have no competitive advantage and where they believe they can share common costs. Joint activities that allow firms to share knowledge and learn from each other can increase their capabilities when they are intimate enough to undertake joint problem solving. They work closely together to come up with joint solutions to problematic situations as they arise.

Cooperation is most often done within an informal, social network as it involves building trust and personal relationships. SMEs are far more likely to enter into informal (nonbinding) cooperative arrangements compared to large firms (Dickinson, 2003). Clearly elements of networking are important for inter-firm cooperation. While many firms cooperate with customers and suppliers, cooperating within a horizontal network which might include competitors is still perceived as more of a challenge. Many firms struggle with this type of cooperation because they find it difficult to discuss strategic topics such as marketing with other firms, especially with competitors. The key concerns which inhibit cooperation are the risks of sharing strategic information and the drive to remain independent.

I previously mentioned the possibilities for cooperation in the development of CSR strategies. Another possible form of cooperation is cooperative marketing strategies (Dickinson, 2003). SMEs with high levels of co-distribution, co-promotion, co-product or co-branding strategy implementation were found to have significantly higher levels of performance. Conversely, lower levels of their implementation were related to lower levels of performance.

The main reasons for entering into cooperation with other companies, not specifically with competitors, are: sharing costs and risks, shortening innovation times, pooling complementary resources, and influencing markets and position (Palmberg, 2005). Cooperation with customers and suppliers has received a great deal of attention, whereas business relationships with competitors have hardly been recognized in internationalisation studies.

> *"competitors may be the best source of complementary resources or up-to-date information in rapidly changing business environment" (Chetty &Wilson, 2003, p. 66),*

Bengtsson and Kock (1999) suggested four different types of relationships between competitors depending on how firms interact with each other: competition, coexistence, cooperation, and coopetition. The term coopetition implies simultaneous competition and cooperation. A more conservative expression is "cooperation with competitors" (Vanyushyn, 2009). Cooperation between competitors can be formal or informal (Easton, 1990) and can therefore be based on serendipity or be a conscious goal for some or all involved companies. It can furthermore occur between two competing companies or in a network of companies, including competitors (Vanyushyn, 2009).

Although cooperating is recognized as an important issue in a small firm's international involvement, there has been very little research done to evaluate the contribution of cooperation and coopetition to internationalisation. To the best of his knowledge, Vanyushyn was the first to quantitatively examine the phenomenon of cooperation with competitors and to link this phenomenon to export behavior. In this research, the top four objectives for getting involved in cooperation with competitors were finding new customers, decreasing marketing costs, increasing productivity, and obtaining new knowledge (Vanyushyn, 2009). According to Vanyushyn the limited attention for the cooperation–exporting link, including cooperation with competitors, is remarkable because SMEs are increasingly international and networking has been shown to be a crucial element to internationalization. The fact that this could also involve cooperating with competitors indicates that the cooperation–export link needs to be researched in more detail.

Of course cooperation with other companies may also involve risks. Firms who cooperate with their competitors have to be careful about the type of knowledge they disclose to their competitors to avoid losses of core competence and competitive advantage. There must therefore be enough structures in place to support knowledge sharing in order to get the collaboration running but there must also be strategies in place to prevent unintended sharing of core competences (Solitander, 2011).

Research Group International Business

Rotterdam University of Applied Sciences strives to contribute to the development of the Rotterdam region through practice-based research which tackles both social and economic problems. Through the Outside In – Inside Out motto the university actively participates in a network of regional firms, institutions and government agencies in order to exchange knowledge and practice. In order to further professionalise its practice-based research all research groups within Rotterdam University will be incorporated in one of the six knowledge centres at the new Institute for Research & Innovation, as of September 2011.

The Knowledge Centre Business Development & Entrepreneurship will focus on multidisciplinary practice-based research for regional SMEs whereby strategic issues will be tackled concerning innovation, business and entrepreneurship. State-of-the-art knowledge will be combined with creativity to solve pressing problems in areas such as growth, investments, labour shortages, human resources and marketing. The research will be in line with the policy of the Dutch government:

> When countries are compared it appears that Dutch firms are generally becoming less innovative and that they are relatively late at internationalising. The Dutch government has recognised this and they have developed a policy to stimulate entrepreneurship, innovation and international business. Their policy is aimed at stimulating innovation through increased cooperation between business, research and government. They not only want to stimulate innovation and entrepreneurship but also international growth so that Dutch firms can benefit from the increasing opportunities in emerging markets. The government will focus its policies on nine sectors in which the Dutch excel: agrifood, horticulture, high tech, energy, logistics, creative industries, life sciences, chemicals and water. Within these sectors cooperation between research institutes/universities, business and government ("the golden triangle") will be encouraged and the focus will be on: innovation (knowledge and research), international business, removing barriers, education and sustainability.

Source: Rijksoverheid, 2011, Naar de Top

The knowledge gained from this practice-based research will not only be useful for our business clients but it will also be incorporated into the curriculum. After all education remains the most important goal of Rotterdam University and increasing the quality of our students and lecturers through practice-based research will ensure that their skills and knowledge meet the increasing demands of SMEs. Learning how to find, critically analyse and apply new knowledge to practical problems is essential in today's continually changing business environment and this is what students learn by doing practice-based research.

The research will be evidence-based and this refers to managerial decisions and organisational practices informed by the best available scientific evidence. The knowledge developed should be based on practice, feedback and reflection. The link between business and education is best described by the following quote by Denise Rousseau and Sharon McCarthy (Rousseau, 2007):

> *"Evidence based management promises closer ties between scholars, educators and practitioners. Instead of being separate constituents divided in their interests, we foresee researchers, educators and practitioners forming a lively community where information is systematically gathered, evaluated, disseminated, implemented, evaluated and shared."*

Evidence based management results in a changing mindset within professions. Managers, just like any other practitioner, base their decisions on evidence either from research or based on years of experience. The continuous reflection on the effectiveness of working methods is essential. These working methods should be regularly improved through inquisitiveness towards new knowledge and how this can lead to working, practical innovations (Houweling, 2010).

The main goal of the research programme international business is to support regional SMEs with their internationalisation, especially in emerging markets. Increasing involvement of firms in international markets has been shown to benefit the home market, improve international competitiveness, contribute to the generation of knowledge spillovers and support the set-up of new businesses. The research group will support SMEs by tackling barriers such as cultural differences, lack of foreign market information, networking and finding local partners, (credit) risk and developing a structural approach to internationalisation.

By encouraging cooperation and networking the above mentioned barriers will be tackled for groups of firms and will be based on both scientific knowledge and practical experience. There are many examples of Dutch cooperation within different sectors (Holland Healthtech, Netherlands Water Partnership, Holland Marine House Brazil and Dutch Greenport International) but we would like to determine which are the most successful and how these can be further optimised as well as developing new concepts. The benefits of cooperation and knowledge sharing should be exploited fully by regional SMEs as global competition increases. Some of the sectors in this region are world leaders but even so their main competitor might soon come from an emerging market rather than from within the regional cluster.

In line with government policy we will cooperate with business, government and (international) universities. It is self-evident that we will cooperate intensively with the other research groups within the knowledge centre and with the other Rotterdam University knowledge centres. But we will also work closely with SMEs, industrial associations, export associations, other universities and government institutes such as AgentschapNL, Embassies, Netherlands Business Support Offices, (bilateral) Chambers of Commerce. Each of these organisations is an essential part of the network and each contributes their specific expertise for SMEs.

It is our aim to develop expertise on cooperation and networks and to do this we will focus on specific emerging markets and industrial sectors important to the Rotterdam region:
- India, Latin America and Central and Eastern Europe;
- Maritime & offshore technology, greenhouse technology, water technology and medical technology (Figure 6).

For India, for example, we have started interviewing Dutch SMEs doing business in India to find out exactly which cultural barriers they were confronted with. Cultural differences can be a significant barrier for international business and this is particularly relevant for India as it is a network society and includes many different cultures within the country. Most of the firms interviewed have indicated that it has taken them several years to begin to understand the Indian way of doing business. Our interviewees and many others have indicated that there are huge opportunities for Dutch SMEs in India but the perceived cultural barriers are hindering many of them to exploit these opportunities. The research group is developing tools to prepare SMEs to deal with cultural differences and this will hopefully stimulate more of them to venture to India.

Figure 6: Research focus (sectors and emerging markets)

I would like to round up by reconfirming my passion for international business. It is truly fascinating and challenging and it brings with it benefits for individual firms as well as for the regional and national economy. By developing a research culture within the university both students and lecturers benefit fully from both the latest scientific knowledge as well as the vast experiential knowledge of international entrepreneurs.

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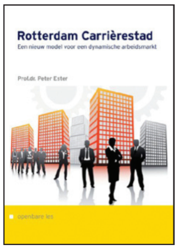

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International Business
Cooperation within networks

Internationalisation is the expansion of a firms operations to foreign markets and includes not only import and export but also foreign direct investments and international cooperation. Today's globalising economy has resulted in a growing number of small and medium enterprises (SMEs) undertaking international activities. Internationalisation has been shown to be very beneficial for firms. Cross-border activities are an important means through which SMEs are able to create value, generate growth and access new knowledge and technologies. A strong relation has also been found between innovation and internationalisation: innovation may both be necessary to enter foreign markets as well as be a consequence of a firm's foreign market activities. In addition to value creation at the firm-level, crossborder entrepreneurship is assumed to create wealth at an economy wide level. With so many evident benefits to internationalisation, why don't more SMEs internationalise?

In her inaugural lecture Anne van Delft will illustrate the importance of "cooperation within networks" in international business. In today's "network economy" it is important for firms to leverage their networks. Managing the interplay between networks and knowledge will be one of the key challenges for the 21st century. Cooperation with other firms is especially important for SMEs because it allows firms to utilise their limited resources in the most efficient way. Some of the sectors in the Rotterdam region are world leaders but nevertheless their main competitor might soon come from an emerging market rather than form within the regional cluster. The benefits of cooperation and knowledge sharing should therefore be exploited fully by SMEs in the Rotterdam region as global competition increases.

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