Henna-Leena Kämäräinen

CHANGE IN OFFLINE AND ONLINE NETWORKS IN INTERNATIONAL BUSINESS.
AN EMPIRICAL CASE STUDY IN CLOTHING INDUSTRY

Master’s Thesis
Faculty of Economics and Business Administration
May 2014
### Table of Contents

1 **INTRODUCTION** ................................................................. 5
   1.1 Online business .................................................................. 5
   1.2 Network literature .............................................................. 7
   1.3 The objective of the study .................................................... 10
   1.4 Empirical setting ................................................................. 13
      1.4.1 ARA-model .................................................................. 14
   1.5 Key concepts ...................................................................... 15
   1.6 The structure of the thesis .................................................... 16

2 **ONLINE AND OFFLINE NETWORK DEVELOPMENT** .............. 17
   2.1 Emergence phase ................................................................. 19
      2.1.1 Emergence phase in offline business .............................. 19
      2.1.2 E-commerce launch ..................................................... 21
      2.1.3 Summary emergence phase networks ........................... 23
   2.2 Internationalization phase ................................................... 25
      2.2.1 Offline internationalization networks ............................. 26
      2.2.2 E-commerce internationalization networks .................... 30
      2.2.3 Summary of internationalization phase networks .......... 32
   2.3 Growth phase ...................................................................... 35
      2.3.1 Offline growth phase networks ..................................... 35
      2.3.2 Networks in online growth phase .................................. 37
      2.3.3 Summary of growth phase networks ............................ 39

3 **THEORETICAL FRAMEWORK** ............................................ 42

4 **METHODOLOGY** .................................................................. 44
   4.1 Research strategy and methodology ...................................... 44
   4.2 Collection of empirical data ................................................ 45
5 FINDINGS OF THE EMPIRICAL STUDY ........................................ 46
  5.1 Makia company’s establishment phase 2001-2008 ....................... 47
  5.2 Beginning of Internationalization - phase 2009-2010 ................... 53
  5.3 International growth-phase 2011-2014 ................................... 58
  5.4 Online business ..................................................................... 64
6 DISCUSSION AND CONCLUSIONS ............................................ 73
  6.1 Conclusion of emergence phase findings ................................... 74
  6.2 Conclusion of internationalization phase findings ....................... 76
  6.3 Conclusion of growth phase findings ....................................... 77
  6.4 Summary .............................................................................. 79
  6.5 Managerial implications ......................................................... 80
  6.6 Validity of the study and suggestions for future research .......... 80
7 REFERENCES ........................................................................... 83
1 INTRODUCTION

1.1 Online business

According to Eurostat in 2013 Europeans purchased goods and services in Internet more than before (Seybert & Reinecke, 2013). In 2012 75% of the EU28 members used Internet, from which 60% made purchases online. The most common online purchases were clothes, sporting goods, flights and holiday accommodation. (Urhausen & Seybert, 2013.)

The emergence of Internet has not only affected the customers purchasing behavior but also the ways of how the companies run their business (Poirier and Bauer, 2001; xi). Literature proposes a long list of benefits which Internet can provide for companies. These benefits include: opportunity to grow the business due to increasing number of potential customers (Webdale 2003, Santarelli & D’Altri, 2003), closer customer relationships thus higher customer retention figures (Chaffey 2011: 31), chance to improve and customize marketing (Chaston 2004: 11, Webdale 2003), more effective distribution (Chaston 2004: 11) thus lower distribution costs (Santarelli & D’Altri, 2003), and lower communication costs (Santarelli & D’Altri, 2003) among others. Internet also enable SMEs to compete with the large multinational rivals (Loane et al. 2002) and to internationalize with relatively low cost (Jones et al. 2002). However operating in Internet does not automatically mean greater profits, as the large number of failing e-commerce companies show (Song and Zahedi, 2006). Indeed, successful online business is far more complicated than one would think.

Participating in the online business requires special resources and attributes from the company, such as technological know-how (Song and Zahedi 2006) and suitable product and market structure (Asundi et al. 2008). Indeed empirical studies show that companies selling relatively small and cheap standard products, such as clothing to B2C customers succeed better in online environment than companies selling sizeable expensive and complex specialized products or solutions infrequently for industrial business customers (Gabrielsson and Gabrielsson 2012). However, technical know-how and suitable product do not guarantee online success.
The traditional marketplace (offline business) differs from the Internet marketspace (online business) in many ways. In traditional marketplace physical resources such as equipment play an important role whereas in marketspace resources occur only in digitized form as information (Berry and Brock 2004). Studies also suggest that Internet is more competitive and turbulent environment than the traditional market (Song and Zahedi 2006). Due to growing environmental complexity, including fast changing customer demands and rapidly developing technology (Berry and Brock 2004), companies are seeking strategic partnering and tight networks in order to respond to these challenges (Overby and Min 2001). By networking, companies can attain critical resources from external parties (Johansson and Mattson 1988, Reuber and Fischer 1997) or outsource activities (Johansson and Mattson 1988) which enables companies to focus on the core competence. Strategic alliances and networks can be assumed to be especially beneficial for SMEs, which often suffer from lack of different resources.

Internet is filled with billions of websites and the amount of information is tremendous. Empirical studies suggest that in order to be successful and gain new customers in online environment, companies need to gain online visibility (Gabrielsson and Gabrielsson 2011, Ashworth et al. 2006, Ashworth 2011, Foscht et al. 2006). This can be achieved for example by joining online communities (Reuber and Fischer 2011), or by building affiliation programs with online network partners (Ashworth et al. 2006, Ashworth 2011, Foscht et al. 2006) which requires networking with the right parties, such as customers or other companies and organizations. Academics suggest that connectivity of Internet in terms of networking and the network effects on business has often been regarded as most valuable factor for companies (Morgan-Thomas and Bridgewater 2004, Reuber and Brock 2004), therefore networking is one of the key success factors in online business (Grant and Bakhru 2004).

Networks can provide companies also other resources besides online visibility. SMEs can utilize online network partners as additional sales channels, for example when entering a foreign market (Gabrielsson and Gabrielsson 2011). SMEs can also achieve credibility in the eyes of end customers and other network partners by establishing relationships with a larger online partner (Gabrielsson and Gabrielsson
Network partners can also help each other by providing strategic information. Indeed, although Internet entails a vast amount of strategic information about foreign markets, customers and competitors, the overload of information might set challenges for SMEs with limited resources to process information (Nummela and Saarenketo 2011). Therefore SMEs might benefit from online networks, as they are able to offer the required information directly (Gabrielsson and Gabrielsson 2011). In online internationalization networks may also help companies to reduce the risks of cultural and psychic distance (Yamin and Sinkovics 2006, Overby and Min 2001).

Based on the previous, it seems like networking is also important in the online environment. It is however unclear to how and to what extend Internet-related companies manage their network relationships via Internet (Yamin and Sinkovics, 2006). Although over the past decade academics have started to pay more attention to traditional business networks and network change, there are only few studies on this topic and the online business networks and network change has received even less attention. In fact, no previous studies on online network change was found. Thus, online networks is an important phenomenon to study as it is an under investigated phenomenon, and because online business is becoming more and more important in today’s world. Next chapter will handle the concept of network more thoroughly.

1.2 Network literature

The network model was invented by Johansson and Mattson in 1988 in order to investigate the process for internationalization. The original network theory is a behavioral and evolutionary international model, which concentrates on organizational learning, management’s characteristics and decision making and suggests that co-operation with customers and business partners drives the company’s internationalization process (Zucchella and Palamara 2007). Johansson and Mattsons (1988) network theory has often been regarded as the foundation for the network based theory. They suggested that companies’ internationalization process is a network-based phenomenon, where the company builds new relationships with foreign network partners when entering a new market. In other words, relationships with foreign companies form a bridge to new markets
These new network partners also affect the further internationalization of the company, as foreign network partners can arrange new contacts with other foreign partners (Johansson and Matsson 1988).

Johanson and Mattson’s (1988) network model suggests that an individual company does not only interact with the customers but also with other companies within a business network, hence industrial markets are described as networks of relationships between companies. The whole industrial system is based on different companies, which have different roles in the network; some are engaged in production, others in distribution and some use other companies’ products and services. Companies within a business network need information from one another in order to cooperate and conduct business. The information does not only include price or quality, but also how the companies act in different situations and therefore knowledge from another company is often gained only after concrete transactions have taken place. (Johansson and Mattson, 1988.) Indeed it is important to manage and invest in relationships in order to learn from the network partners’ resources and capabilities (Forsgren and Hagström 2008).

As the company has managed to establish relationships with other companies within the network, it is likely that externalization of transactions will take place, which in turn will result in informal division of labor. Therefore the companies within a network will become more dependent of the external resources, which means they become dependent from one another. (Johansson and Mattson 1988)

Each company within a network has its own intangible and tangible resources and another company gains access to those assets by creating position in the network. (Johansson and Mattson 1988.) There are various types of critical tangible and intangible assets and resources which a network partner can provide, such as financial (Nummela 2011, 250; Reuber and Fischer 1997), market knowledge (Gabrielsson and Gabrielsson 2011), legitimacy (Reuber and Fischer 1997) or even better online reputation (Kotha et al. 2001) to sum up some. Usually companies are looking to co-operate with partners that can provide strategic resources that the company is lacking (Hite and Hesterly 2001, Slotte-Kock and Coviello 2010). Often
partners may obtain complementary resources (Teece 1992), which improves both parties businesses.

The company’s position within the network describes its relation to the industrial environment. Each position has some significant strategic restrictions as well as possibilities and all companies within the network have their own future objectives which affect their strategy. The strategies of the companies within the network can be complementary or competitive (Johansson and Mattson 1988.) or both, thus coopetitive (Kotha et al. 2001). Coopetitive actions between competitors enable mutual learning from each other’s competences and capabilities, which would be kept a secret in a pure competitive situation (Kotha et al. 2001). Thus coopetition might enable better position in the network for both parties. Also the power structures can change as a company succeeds in strengthening its position within a network, which might lead to better negotiation power (Coviello and Munro 1995).

Although, network model was originally a theory describing the internationalization process of companies, recent studies have started to pay attention on other network related aspects such as different types of network relationships (Slotte-Kock and Coviello 2010) and how the relationships within the network change through company’s development phases (e.g. Nummela 2011, Coviello and Munro 1995;1997, Coviello 2006, Hite and Hesterly 2001). Thus, current network studies do not necessarily focus on the internationalization process anymore, but rather on the network development itself.

Academics have figured that the companies and their networks are often co-developing (Hite and Hesterly 2001, Slotte-Kock and Coviello 2010) and some suggest that the network development follows a predictive lifecycle approach (Slotte-Kock and Coviello 2010). So far networks have been studied in the following organizational development phases; emergence phase (e.g. Hite and Hesterly 2001, Newbert and Tornikoski 2012, Peltier and Naidu 2012), internationalization phase (e.g. Ojala 2009, Berry and Brock 2004, Lu and Beamish 2001, Sharma and Blomsterno 2003, Komulainen et al. 2006, Coviello and Munro 1995, Zain et al. 2006) and growth phase (e.g. Hite and Hesterly 2001; Sepulveda and Gabrielsson, 2013, Crick and Spence 2009, Coviello and Munro 1995;1997, Nummela 2011).
According to Slotte-Kock and Coviello (2010) network lifecycle occurs in each development phase, where firstly company faces a variation of different new network ties, which might emerge internally or randomly. Secondly, the new network ties provide some resources, and the network partners are carefully selected based on what resources and assets they can provide. Thirdly there is the retention phase, where the network ties transform into embedded ties. This cycle of variation, selection and retention occur again and again throughout company’s different development phases. (Slotte-Kock and Coviello 2010.)

Although there is now a general understanding on how network partners are chosen in different organizational development phases (Slotte-Kock and Coviello 2010), and during the past decade the interest on network research has increased (Nummela 2011), the dynamic development process of relationships within a network is quite unclear phenomena, and there is a need for further analysis on the subject. Also the previous network change literature has focused solely on traditional offline networks and little is known of the online business development phases and networks, thus there is a clear research gap. It is also important to gain better understanding on whether and how the online and offline networks differ from one another.

Previous empirical research on networks has mainly focused on ICT/software or “knowledge intensive” companies (e.g. Coviello and Munro 1995, Komulainen et al. 2006, Zain et al. 2006, Ojala 2009) and therefore there is a need for studying network change also in other industries, such as fashion industry. Fashion industry is suitable for investigating network development changes in online business, since apparel is one of the most frequently purchased products online (Urhausen & Seybert, 2013).

The next chapters will present the research questions and describe the empirical setting of the study.

1.3 The objective of the study

Network change is quite a new and under investigated phenomenon. So far network change literature has focused on describing company’s networks in different development phases. Academics have paid attention to networks in company
establishment and emergence phase (Hite and Hesterly 2001, Newbert and Tornikoski 2012, Peltier and Naidu 2012), growth phase (Hite and Hesterly 2001, Sepulveda and Gabrielsson, 2013, Crick and Spence 2009,) and internationalization phase (Ojala 2009, Berry and Brock 2004, Lu and Beamish 2001). However all of the previous research has focused on traditional offline businesses. Due to the fact that online business is becoming increasingly important in today’s economy and networks are in central role in online business, there is a need for researching online business networks more thoroughly. However, it is important to gain thorough understanding of what has been studied so far in order in order to provide right type of contribution to the existing network theories.

According to Slotte-Kock and Coviello (2010) there are different types of studies, which investigate networks relationships. One example are studies which, examine the social network relationships and business network relationships. Social network studies focus on the network of individuals, especially the establishing and closing of relationships, hence the change in the networks. Social network studies often focus on network structure, such as size, density and position and they measure the strength of the ties. On the other hand business network studies propose that network relationships are continuously established, maintained, improved and ended in order to provide economic returns or to improve position within a network at different times. Thus business network studies concentrate on how and why relationships change over time. The biggest difference between social and business network studies is that business studies suggest that change in networks is driven by company itself. (Slotte-Kock and Coviello 2010.) Indeed, recent empirical studies suggest that companies make conscious decisions on their network partners based on its current strategy and goal (Hite and Hesterly 2001). This is also the assumption in this research.

Business network and social network studies also differ through their methodologies with business network studies being more case-study oriented and more interpretive used. It is relevant for business relationship studies to consider the structure of the whole network and analyze the interaction between the different actors (Slotte-Kock and Coviello, 2010). However, Slotte-Kock and Coviello (2010) suggest that the entrepreneurship research which focus on networks, should combine, the social
network and business network perspective in order to study both the broader macro level network structure and the dyadic personal relationships. Thus, the research presented here uses both perspectives; it concentrates on the business and the social network relationships; focusing on structure of the network (size, density) as well as on the questions, how and why the networks change.

Given the fact that online and offline businesses differ in many ways from one to another (Berry and Brock 2004; Song and Zahedi 2006), it is likely that also the online and offline business networks are different, however this has not been proven yet. The aim of this study is to thoroughly investigate the online and offline networks, and the main research question is:

1. How do the online and offline business networks differ from one another?

As previous empirical studies show, business networks change as the company develops, thus is not sensible to investigate simply “online and offline networks”, as the results would be too inexact. Instead, it is more desirable to study online and offline more thoroughly by considering and comparing the networks in different development phases. Thus this study seeks for a sub question;

2. How do the offline and online networks differ from one another in emergence/e-commerce launch, growth and internationalization phases?

Previous studies have concentrated on plainly describing the network structure, (such as size or diversity), or the nature of network ties (such as social embedded ties and business ties). However, this study tries to provide a deeper understanding on why certain networks are important in different development phases. The thorough network analysis is conducted by using the ARA-model by (Håkansson and Johansson 1992). By using the ARA-model in literature and case study analysis, a more thorough understanding of the differences between the online and offline networks will be gained. Thus, second sub question seeks answer for;

3. Which actors, resources and activities are important in each online and offline development phase?
The aim of this thesis is to conduct an exploratory study of online business development from network perspective and to address the research gap presented above. The focus is analyzing the change of networks in both offline and online networks. Special attention is paid to how networks change during case company’s launch, internationalization and growth phase, and also to how the overall networks change, as the company adds online business model on top of its offline business model. As previous online business and network studies have mainly focused on knowledge-intensive and IT companies (Coviello and Munro 1995; Komulainen et al. 2006; Zain et al. 2006; Ojala 2009), there is a need for studies investigating online networks in other industries (Ahsworth 2011). Therefore the case company was deliberately chosen from fashion industry. Fashion industry was considered to be suitable to investigate online and offline networks, as fashion products are one of the most purchased items over Internet (Urhausen & Seybert, 2013).

1.4 Empirical setting

This is a qualitative exploratory single case study investigating online and offline network change differences.

The data was gathered by organizing an 1,5 hour in-depth-interview where two most knowledgeable persons of the case company were interviewed about the case company’s vital network partners in each of the development phases. Secondary data was also gathered from different resources in order to get extensive information of the company’s online and offline network development and to complement the findings from the interview.

The semi-structured interview questions were planned based on Håkansson and Johanssons (1992) ARA-model, and the literature review findings which will be presented later. The ARA-model gives deeper perspective of the network partners, by investigating thoroughly the role of Actors, Resources and Activities. Also the empirical literature was reviewed based on the ARA-model. The next chapter forms a better understanding of the ARA-model.
1.4.1 ARA-model

This study applies Håkansson and Johanson’s (1992) ARA-model to analyze the change of actors and resources within the network during different development phases (launch, internationalization, growth). The ARA-model has been used in several studies (Nummela 2011) as a tool to explore the development of network actors.

According to Håkansson and Johansson (1992) the variables of the ARA-model are actors, resources and activities, which all are connected and dependent on each other. Actors mean the parties, usually individuals and companies, which perform activities and have control of the resources. By performing activities actors get access of other actor’s resources and at the same time they develop relationship ties with one another (Johansson and Mattson 1988; Håkansson and Johansson 1992). According to Håkansson and Johansson (1992) actors are also goal oriented and they perform activities by using certain resources in order to change or acquire new resources. General goal is to improve the control over the network by achieving control over the resources (Håkansson and Johansson 1992.). Lastly actors form knowledge of the activities and resources of other actors in the network through experiential learning (Johansson and Mattson 1988; Håkansson and Johansson 1992).

Activities takes place when one or many actors exchange or combine resources in order to create new resources. As actors perform activities with each other repeatedly, they learn how to cooperate and through this experiential learning, routines and stability are formed. (Håkansson and Johansson, 1992.) As an example two companies may co-create a new revolutionary product based on both parties’ expertise and knowledge on different fields. Thus, both of the actors (companies) bring own resources (expertise and knowledge) and by doing activities (co-creation) the parties invent a new devise (new resource).

Resources are the medium, which actors control and use when implementing activities. There are a wide range of different resources, and they can be used in a
multiple ways in different settings. When various resources are put together in a new way, new possibilities and knowledge emerge. Some resources can be available to every actor, but other resources might be less available, which makes them strategic resources and therefore something to be striving for by improving the position within the network. (Håkansson and Johansson, 1992)

1.5 Key concepts

This study investigates whether or not, and how the offline and online business networks differ from one another. Before going any deeper to the literature review and analysis, it is necessary to define what is meant by the key concepts of this study. Thus, this chapter will have a closer look on the following subjects; online business, offline business, online networks and offline networks.

As described in previous chapters, Internet is proven to have changed the ways businesses are run, and leading to new types of businesses models (Berg, Karttunen and Rajahonka 1999, 10). One example of these are “virtual pure-play organizations”, which run their business solely in Internet or “click-and-mortar” organizations which run their business activities in both online and offline environments (Turban et al 2008, 5). A typical pure-play organization is an e-retail company, which utilizes solely Internet for selling the products, whereas a typical click-and-mortar business is clothing company, which sells its products both online and in traditional physical shops. Businesses can be divided into groups, based on which type of sales channel (online/offline/both) they use, however companies can use Internet also for other activities than selling goods.

Internet business has been referred with many names, such as electronic commerce (e-commerce), or the more extensive definition e-business (Poirier and Bauer 2001, xi). Electronic commerce is a broad definition, which does not only consider financial transactions, but also using the Internet and other computer networks for services and information (Chaffey, 2011) marketing, purchasing, selling and exchanging products, as well as managing company’s internal and external processes (Turban et al. 2008, 4; Berg, Karttunen, Rajahonka 1999, 11). However, online business is a more narrow definition, as it only refers to business transactions, which
are conducted by utilizing only Internet networks (Berg, Karttunen Rajahonka 1999, 11).

This study uses the term *online business* for describing a company’s activities, which occur in Internet, such as marketing, customer acquisition and online sales. Often companies need network partners’ help and resources for conducting different kind of activities (Håkansson and Johansson 1992), such as the ones mentioned previously. This study separate two different types of network partners; *online networks* and *offline networks*. The separation is based on which activities (online or offline) partners resources are used. For example, Facebook could be considered as an online network partner, as it provides resources (website with millions of users), which a company can utilize in Internet for B2C marketing activities and for online customer acquisition activities.

As opposite, *offline business* refers to business transactions and actions, which do not necessitate the use of Internet. As an example activities such as selling an item to a customer in a traditional shop, or participating a trade show and meeting new B2B customers face-to-face, are typical ways to conduct offline business. *Offline networks* refer to network partners, which provide resources for the company’s offline activities.

1.6 The structure of the thesis

In order to address the research gap presented in previous chapters, current literature will be studied and discussed. In the next chapter the existing literature of online and offline network development will be studied. Special attention is paid to literature of company’s offline and online networks in emergence, internationalization and growth phases in order to get thorough information of network development. Based on the knowledge of the literature, a theoretical framework will be constructed. After the methodology is presented. This thesis uses a single-case study method and the primary empirical data is gathered by conducting an interview for the case company; Makia Clothing. Section 5 describes and analyses the interviews and the final chapter discusses the research findings and considers limitations of the study.
2 ONLINE AND OFFLINE NETWORK DEVELOPMENT

Academics have understood, that companies’ networks are not stable but instead they change and evolve over time (Hite and Hesterly 2001, Nummela 2011, Coviello and Munro 1995;1997, Slotte-Kock and Coviello 2010), and therefore the original network, which a company utilized in the company emergence phase might no longer be suitable for company’s future activities and growth strategy (Spence and Crick 2009, Hite and Hesterly 2001).

The question arises, exactly why and how networks change? The changing pattern of network relationships might seem irrational, but it can be explained by entrepreneur’s current strategies and goals (Slotte-Kock and Coviello 2010) and by the opportunities, which emerge from the network partners (Coviello and Munro 1995). Indeed, different resources are needed to attain different goals. Empirical studies show that network changes are based on the current company development phase and strategy (Hite and Hesterly 2001, Nummela 2011, Slotte-Kock and Coviello 2010). Companies need different resources in different development phases which can be gained from different network partners and therefore also the importance of different actors change during the company development and internationalization process (Coviello and Munro 1995).

So far previous studies have investigated company’s networks in different development phases, such as emergence phase (Hite and Hesterly 2001, Peltier and Naidu 2012), internationalization phase (Ojala 2009, Coviello and Munro 1995, Zain et al. 2006)) and growth phase (Hite and Hesterly 2001, Spence and Crick). Although numerous different development phases can be identified in a company lifecycle, this study focuses on the emergence, internationalization and growth phases, as in those particular company development phases the strategies are clearly different from one another and therefore also the needed resources and networks differ. In other words those development phases are easy to separate from one another, thus also the changes in network are easily recognized. The only way of gaining a thorough analysis of the differences between online and offline networks is to compare the online and offline networks in different development phases. Therefore this chapter
provides a theoretical framework for comparing the differences in literature of online and offline networks by investigating in different development phases. Later Håkansson and Johanssons (1992) ARA-model is used in this study to provide an in-depth analysis of actors, resources and activities in each development phases.

As shown in the previous chapter, although empirical studies have focused on IT and software/knowledge intensive companies most studies focus on traditional business model in offline context. There is a clear lack of studies investigating the role of networks in Internet online business. Network relationships in online context are a fruitful phenomenon to study, since literature suggests, that networking and online communities are crucial factors in online business (Grant and Bakhru 2004) and that the true value of the Internet is the connectivity and the existence of the network effects (Morgan-Thomas and Bridgewater 2004).

Although there are practically no empirical literature investigating the actual networks in the online business, there are few empirical studies on SME’s which clearly press the importance of online networking and the entrepreneur’s personal relationships in online business (Foscht et al. 2006, Ashworth 2006, Ashworth 2011, Kotha et al. 2001). However there are no theories concerning network development in online environment, or any empirical data on how online networks develop in general or how company’s networks change when it moves from a brick-and-mortar into click-and-mortar business model. This chapter investigates in detail what the literature tell about change of online and offline networks partners and how/if network partners change during different organizational development phases.
2.1 Emergence phase

2.1.1 Emergence phase in offline business

A company’s strategic goal is survival during the emergence phase (Hite and Hesterly 2001). During the early phases, SMEs often suffer from lack of physical or economic resources, such as finance and equipment, but they also have limited tacit resources in terms of reputation, or knowledge of business in general (Sepulveda and Gabrielsson 2013, Schoonjans et al 2013, Nummela 2001). SMEs can acquire the missing resources from other network partners by engaging in different activities with them in order to survive and stay competitive (Schoonjans et al. 2013). However, during the emergence phase, when the company is still new and unknown, distant counterparts, such as banks or private financers, might consider the company too risky since there is no record of the company’s performance, thus banks and financers tend to avoid any activities with the company, or giving any resources for the company. This is one reason why often family and friends support the start-up company by providing resources, such as money. (Hite and Hesterly 2001.)

According to literature during the emergence, a company’s network is most likely to consist of “embedded ties”, meaning family members and other close social relationships such as friends and relatives (Peltier and Naidu 2012, Hite and Hesterly 2001). This is due to the fact that those social networks are more likely and willing to provide the needed resources, such as funding, than distant network partners (Hite and Hesterly 2001). Therefore during the emergence phase the network structure is also relatively small and lacks diversity, as the embedded, close network partners are able to offer only a restricted amount of resources. (Hite and Hesterly 2001.) According to Newbert and Tornikoski (2012) during the emergence phase entrepreneurs should try to grow the size of their network, since network growth is positively related to the emerging company’s survival. Entrepreneurs should also aim to add multiplexity and breadth to its networks, since the more diverse the entrepreneur’s supporter group is, the more credible and viable the emerging company is in the eyes of other external resource gatekeepers (Newbert and Tornikoski, 2012).
Based on the previous chapter, it is clear that entrepreneurs existing support network in the emergence phase is important. The bigger the entrepreneur’s network is, the more likely the company is going to survive. However, not only is the size of the network important, but also the content (resources), which the entrepreneur receive from the supporter network that play a significant role; this is because the company will only profit from valuable resources, which are in comparison with the entrepreneurs needs. If the resources received from already existing supporter network are valuable, there is less need for increasing the size of the network. (Newbert and Tornikoski 2012)

Literature suggest that entrepreneur’s human capital, which often refers to entrepreneur’s education or career background, is important for the company’s success (Morgan-Thomas et al. 2009, Federico et al. 2011, 29-31). Entrepreneur’s previous international career might be beneficial for the company as he/she has already established relationships with crucial network partners, such as customers or distributors. Companies whose managers have previous experience on entrepreneurship also benefit from knowledge of previous business and specific networks, thus knowledge on how to manage and establish new network contacts. (Westhead 2001.) Studies have also highlighted the importance of founding teams. Companies, which are owned by a team of entrepreneurs, have a higher human capital level and wider networks, which enable them to take advantage of opportunities in local and foreign markets (Westhead et al. 2001). Also Federico et al. (2011) suggest that the entrepreneurial team increases the level of knowledge, experience and also the number of personal contacts, which can be called “relational capital”. This relational capital means the external relationships a company has with other companies, institutions or individual people (Federico et al. 2011 29-31). These external relationships have an important meaning in the company’s overall survival and success especially for SME, for which the importance of networks are often decisive (Nummela 2011). Therefore it can be assumed, that the more the entrepreneur/team of entrepreneurs have previous experiences of business and entrepreneurship, the more likely the company is to survive the emergence and the more strategic the network management is. Also, if the entrepreneur/team of entrepreneurs have previously worked in the same industry, they have broader
networks already in the emergence phase and the company is more likely to survive the start-up phase.

To sum up, during the emergence phase SMEs have the possibility to turn to already existing network partners and gain help and advices from personal networks. The emergence network partners usually consist of close embedded ties, such as family and friends, and usually those relationships are most valuable during the early phases of business development. (Peltier and Naidu 2012, Hite and Hesterly 2001.) As the network tend to be small and l diversity in the beginning, SMEs aren’t receiving all the needed resources from the existing network, and therefore SMEs strategic goal should be increasing the size and the diversity of its network in order to survive. Indeed, in the emergent phase networks tend to be closed, dense and cohesive and therefore, but as the company begins to move to the early growth phase and its strategic goals and need for resources change and grow, the network relationships are likely to change. (Hite and Hesterly 2001.) However as the company grows, the value of the resources of close personal networks decrease as the company start to build relationships to other (business) networks (Peltier and Naidu 2012).

2.1.2 E-commerce launch

Ashworth (2011) investigated the development phase of pure-play online e-retail company and came into conclusion that the online development follows a 6-stage process. In the first stage the website is launched. In this stage especially the skills and experience of the manager are highlighted as most of the pure players tend to develop competences in-house in order cut back costs. The next process stage focuses on competence development regarding to cumulative learning on websites. Often during the first stages website development and maintenance is done in-house. During the first two process stages companies learn and begin to understand factors which the customers value in online environment, such as fast download times and easiness to use. (Ashworth 2011.) Riggins (2000) also propose that the key for successful launch of an online business is to comprehend the importance of cooperating with customers, as interaction with customers adds customer loyalty and improve the competitive advantage. One way of cooperating with customers is
through social media, which is a great tool for companies to reach their customers personally. (Riggins 2000).

However, having a nice self-made website and close contact with customers does not alone guarantee success for the webshop. According to studies intangible resources such as online reputation (Reuber and Fischer 2011, Kotha et al. 2001) and web traffic are crucial for Internet-based firms (Kotha et al. 2001). The latter one, web traffic, can be achieved by doing activities, such as marketing (Asworth 2011). Indeed, marketing and online visibility are significant factors for online success (Gabrielsson and Gabrielsson 2011, Ashworth 2011). Although marketing is important throughout all online development stages, it is especially crucial to gain publicity right from start in order to get customers in to the website and survive the emergence phase. Thus entrepreneurs marketing skills, business and online community networks and good PR-contacts in the early stage is seen as foundation for the long term success. Entrepreneur also benefits from existing network relationships to PR and marketing people (Ashworth 2011.) The first intangible resource; online reputation will be handled in the next chapter, as supposedly in the beginning; during the website launch, SMEs are unlikely to have any reputation, since generally reputation tend to build up with time.

The bigger and the more diverse the online network is, the more traffic it engenders. (Kotha et al. 2001). Thus, it could be argued that SMEs should try to grow the size and diversity of its online network during the e-commerce launch, just like in the traditional offline business emergence phase. However, literature does not tell how to grow the size of the online network, or which online network partners are most probable in the online emergence phase.

To sum up, during the webshop launch and online business emergence phase SMEs should aim at creating traffic into the websites. This can be achieved by doing activities such as marketing and therefore entrepreneurs existing network contacts to media and PR is seen as a benefit (Ashworth 2011). SMEs can also get traffic into the website by increasing the size and the diversity of its online network, thus during e-commerce launch entrepreneurs strategic goal should be adding the number of online network contacts.
2.1.3 Summary emergence phase networks

After investigating the literature of online and offline networks in e-commerce launch and company emergence phase, it was discovered, that the network management have some similarities and differences, as Tables 1 and 2 summarizes. In both cases entrepreneurs should try to increase the size and diversity of the network, however the reasons are different. During offline emergence phase companies should increase the network in order to gain many different resources, whereas during webshop launch companies should aim at getting more network partners in order to achieve one intangible resource; web traffic.

It also appears, that in both cases entrepreneurs/teams existing networks are important. Whereas the offline network studies propose, that embedded ties with family and friends are most probable in the beginning, the online network literature does not provide any viewpoint for the subject. Online business literature suggests that existing relationships especially to partners with who the company can perform marketing activities are beneficial, as it improves the online visibility and thus improves web traffic.
Table 1. Similarities of offline and online network emergence phase literature

<table>
<thead>
<tr>
<th>Offline network literature</th>
<th>Online network literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need to increase the size and multiplexity of networks</td>
<td>+</td>
</tr>
<tr>
<td>Lack of resources</td>
<td>+ Tacit (reputation) and physical (finance and equipment)</td>
</tr>
<tr>
<td>Importance of entrepreneurs contacts</td>
<td>+ (Previous career and social relationships)</td>
</tr>
<tr>
<td>Entrepreneurs special skills</td>
<td>+ (Network management)</td>
</tr>
</tbody>
</table>
Table 2. Differences in offline and online emergence phase literature

<table>
<thead>
<tr>
<th>Offline network literature</th>
<th>Online network literature</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grow the size of network</strong></td>
<td>+</td>
</tr>
<tr>
<td>(In order to receive many different resources)</td>
<td>+ (In order to achieve same intangible resource; web traffic)</td>
</tr>
<tr>
<td><strong>Most of the ties close embedded ties (family and friends)</strong></td>
<td>+</td>
</tr>
<tr>
<td><strong>Network structure small and narrow from diversity</strong></td>
<td>+</td>
</tr>
<tr>
<td><strong>Special type of activities with partners</strong></td>
<td>?</td>
</tr>
<tr>
<td>(Activities, such as marketing, which increase web traffic)</td>
<td>+</td>
</tr>
</tbody>
</table>

2.2 Internationalization phase

Recent empirical studies show support that network relationships play an important role in SME internationalization (Nummela 2011). But how do the networks impact the internationalization process and why should they be built? In other words, what resources does the company need during the internationalization process and what can be gained from different foreign network partners? This chapter investigates networks during internationalization in two categories; pre-internationalization, which refers to planning, and the actual internationalization process.

Although academics agree that Internet enable rapid internationalization (Berry and Brock 2004, Oviatt and McDougall 1995, Crick and Spence 2009), Berry and Brock (2004) argue that using solely marketspace, the Internet is not sufficient enough alone for internationalization purposes, but instead it is more beneficial for an SME
to use both, marketplace and marketspace in internationalization process. Marketspace provides a tool to overcome SMEs lack of resources, such as lack of information or business networks, and those resources can be used to complement the internationalization in the marketplace. However, as the resources in marketspace are in digitized form as information, it cannot replace the physical world of resources, and therefore the marketspace and marketplace are inseparable. (Berry and Brock 2004.) However, actors, actions and needed resources in marketspace and marketplace may be different from one another.

2.2.1 Offline internationalization networks

In the pre-internationalization phase, when the SME is still considering and planning to penetrate into foreign markets, the company is searching for information of the foreign country and the obstacles are related to lack of intangible resources such as knowledge of international business and foreign market specifics (Ojala 2009, Berry and Brock 2004). Thus the goal of the pre-internationalization phase is to attain knowledge of target markets customers, overall business environment and networks. The critical knowledge which the company needs of the foreign market and internationalization in general can be achieved from social networks (Komulainen et al. 2006), public actors or consulting groups (Ojala 2009), or from target market network partners (Lu and Beamish 2001, Sharma and Blomsterno 2003).

Network literature has focused on issues such as network relationships impact on the initial internationalization decision, target market and entry mode selection. In terms of existing foreign network partner’s role in initial internationalization decision and target market selection, the results are often somewhat divergent. Some studies figure that internationalization into distant markets is more of a strategic decision, and often the markets which suit the best company’s niche products are selected, thus market selection and the initiative to internationalization is not based on existing network contacts (Ojala 2009). However, vast amount of empirical studies propose the opposite. They suggest that informal or formal network contacts in foreign markets are the initial trigger to foreign expansion, rather than being a strategic decision of the company management (Coviello and Munro 1995, Crick and Spence 2006, Zain Ng 2006). To sum up, initial trigger for internationalization might come from the
company as a strategic plan, or the initiative to international business may come from a foreign network partner.

Also when it comes to market selection, studies show different results. Although many studies highlight that knowledge-intensive SMEs tend to follow the already established network relationships in psychically close markets (Coviello and Munro 1995, Crick and Spence 2006, Zain Ng 2006), other studies reveal that SMEs choose target markets based on the location of the customers and ignoring the network partners (Komulainen et al. 2006, Ojala 2009). Indeed Ojala’s (2009) case study suggest, that when entering psychically distant markets network relationships and psychic distance only had a minor role in the choice of markets. In fact six out of eight companies built completely new relationships when they entered the physically distant Japanese markets, whereas only two of the eight companies used already existing informal relationships of the manager (Ojala 2009). However, Komulainen et al. (2006) study suggests that social networks do have an effect on the market selection and on which markets are likely to be entered in the future.

Indeed, Nummela’s (2011) empirical study suggests that internationalization process is by no means homogeneous. Some small companies may start international business with relatively little support from the network partners. Also some companies network relationships may change entirely during the internationalization process, whereas in some cases the networks do not change at all. (Nummela 2011)

To sum up, studies have found divergent results of how networks effect internationalization process and target market selection. In some cases existing network partners have a crucial role in the target market selection and in triggering the internationalization, whereas in some cases network partners’ role is only a minor one.

In any case, the existing foreign networks are often built based on the entrepreneurs or previous working experiences abroad (Zain Ng 2006) but in some cases companies might also use non-commercial, mediating relationships when entering distant markets (Ojala 2009). In both cases, social relationships can be seen as door-openers to new international relationships (Komulainen et al. 2006). Empirical studies have shown that SMEs early internationalization may result from
entrepreneur/management team’s international background and social (business and personal relationships) network (Asundi, Hamilton and Oregno 2008). Studies suggest entrepreneurs previous work experience of the same industry impacts positively the company’s export behavior since they have knowledge about the customers in the sector and they also have established relationships with suppliers and other counterparts in local and international business networks (Westhead et al. 2001, Crick and Spence 2009). Entrepreneurs’ previous extensive international experience, and a global vision, may affect the speed of the internationalization enabling rapid foreign expansion (Oviatt and McDougall 1995, Crick and Spence 2009). This is due to the fact, that the entrepreneur already had established network relationships with vital network partners before launching the company.

When the company has already established international operations, and the actual international business begins, it encounters different kind of challenges in new markets, such as competition and environmental turbulence (Ojala 2009). Thus new different resources are needed which might push the company to turn to new network actors in the foreign markets (Nummela, 2011). Partnerships are valuable especially for SMEs since they help to overcome shortages in tangible assets such as capital or equipment or intangible assets such as experience, credibility and foreign country knowledge (Lu and Beamish, 2001). Literature suggests that foreign partners provide important market knowledge of the host country (Sharma and Blomster 2003), which speeds up the learning process (Lu and Beamish 2001, Zain and Imm Ng 2006) and minimize risks and mistakes (Lu, Beamish 2001). Indeed foreign network partners are familiar with the local country environment, customer needs and tastes, are aware of the local competitors (Lu and Beamish 2001), and potential new partners and contacts (Lu and Beamish 2001; Sharma and Blomster 2003). These new foreign networks may also help discover to find international business opportunities (Sharma and Blosmter 2003).

According to entry-mode decisions, studies suggest that entry modes to new markets are chosen based on the market requirements, the network members’ support and also due to client requirements and government regulations (Zain and Imm Ng, 2006), as well as based on social networks (Komulainen et al. 2006). Thus, there are various aspects which affect the entry-mode decision and various entry-modes to be
chosen from. It seems like software and high tech companies and tend to enter markets by establishing partnerships with bigger, well established network partners (Coviello and Munro 1995). Partnership with larger, more experienced party often provide valuable resources for the SME, such as publicity, legitimacy and vital contacts to SME (Komulainen et al. 2006). On the other hand building relationships with a larger partner might constrain the SME in building relationships with other partners (Coviello and Munro 1995).

Studies show, that in the early phases of internationalization companies might outsource activities, especially high tech SMEs tend to outsource marketing, promotion and product sales activities to foreign network partners (Coviello and Munro 1995). Indeed, in the early phase buying or outsourcing linguistic or market skills might increase the level of company’s tacit knowledge of the market and thus improve the competitiveness (Spence and Crick 2009). However, as the internationalization evolves, companies want to gain back the lost power of activities from the network partners as an example by launching own marketing department (Coviello and Munro 1995).

To sum up, literature proves that internationalization is not homogeneous, but instead companies have several choices when planning the internationalization, as an example in terms of target market selection, the entrymode decisions. In the pre-internationalization phase company’s goal is to find information of target market. This intangible resource can be gained from different network partners, such as through social ties, semipublic organizations or foreign business network partners. During the actual internationalization process companies need different resources, such as further contacts to network partners in target market country, credibility, publicity and legitimacy which can be achieved especially from a big business company in the target market. During the early internationalization process, SMEs tend to outsource activities such as marketing or linguistic skills and sales to local network partners in order to achieve competitive advantages. However, as the internationalization proceeds, company is likely to claim back the outsourced activities in order to gain back the lost power. Therefore, it could be assumed, that during the pre-internationalization the size of the network is smaller than during the early internationalization. However, when the company gains more experience of
international business, and as it claims back the lost power due to earlier outsourcing of activities, its network size decreases.

2.2.2 E-commerce internationalization networks (not so resource intensive-finance)

Recently academics have started to talk about “death of distance” and “end of geography”. They suggest that due to recent development in technology the importance of location has been challenged (Nummela and Saarenketo 2011, 6). Indeed Internet provides companies a global reach to customers with 24/7 trading hours (Turban et al. 2008, 25), and thus a possibility to expand into international markets (Gabrielsson & Pelkonen 2008). In theory companies gain global access straight after website launch, making the companies international from inception (Quelch and Klein, 1996). However, due to the fact that many e-commerce companies tend to fail (Song and Zahedi, 2006) it seems that there is no easy way to international online business success.

Some argue that online networking has also a significant role in online internationalization (Berry and Brock 2004). Empirical studies suggest that use of marketspace for networking purposes increases the range and diversity of the company’s foreign contacts, which in turn increases the number of unsolicited orders from foreign markets (Berry and Brock 2006; Ashworth 2011, Foscht et al. 2006) thus leads to increase in sales and foreign market expansion. However, studies do not implicate with which online network partners a company should act in order to achieve successful international expansion in online markets.

Many empirical studies highlight that online SMEs tend to focus on global niche markets (Ashworth et al. 2006, Ashworth 2012, Foscht et al. 2006). Indeed, studies show that small and medium sized niche-oriented pure-play companies can internationalize and achieve growth through Internet e-commerce without any extra capital investments or help of financers or in-depth foreign activities (Foscht et al. 2006, Ashworth et al. 2006, Ashworth 2011). According to Zucchella and Palamara (2006) small companies with limited resources, which utilize niche-strategy are able to internationalize intensively with fast speed, shortly after inception, due to the fact that the companies tend to seek and focus on global homogeneous niche customers
instead of focusing on specific countries. According to Grant and Bakhru (2004) companies, which customers’ needs are similar across countries, benefit from the network effects the most. Indeed, some empirical studies point out, that Internet enabled companies follow the markets which are suitable for their niche offerings, rather than making an market entry to psychically close markets (Loane et al. 2004). However, also already existing business networks might affect the SMEs target market selection in online business (Kim 2003). This seems to be similar with traditional offline internationalization; either network partners, or product/niche customers or both affect the target market selection also in online business.

There are several case studies, which have looked at the online internationalization process directly (Kim 2003, Foscht et al. 2006, Loane et al. 2004, Forsgren and Hagström 2008) and indirectly (Ashworth et al. 2006, Ashworth 2011). Although the viewpoints of the studies differ, there are some similarities to be found. Often the internationalization of Internet enabled companies are by no means homogeneous, and also the internationalization strategies of SMEs aren’t deterministic but instead the strategies might be changing during the online internationalization process (Loane 2004). However, many studies show that networks and partners play a significant role also in online internationalization (Ashworth 2011, Foscht et al. 2006, Gabrielsson and Gabrielsson 2011). Indeed, the value of the Internet for export companies increases as the company’s connections to other stakeholders increases (Morgan-Thomas and Bridgewater, 2004).

Although Internet is generally seen as a tool to get closer to end customer by reducing the number of intermediaries, many companies tend to use indirect online sales channels (Gabrielsson and Gabrielsson 2012) and other types of partnerships and joint ventures in the beginning of online internationalization process (Kim 2003, Loane et al 2004). Studies suggest that companies with high levels of network partner cooperation in domestic markets adept partnering in online internationalization (Kotha et al. 2001). The use of networks and partnerships in terms of indirect online sales channels are often favored, as they enable foreign market access and credibility in the eyes of the end customer (Kim 2003, Gabrielsson and Gabrielsson, 2011). Online partnerships can also diminish the market uncertainty (Kotha et al. 2001). Partnering with a large online company might allow the SME an
access to the partner’s technology and market knowledge (Forsgren and Hagström 2008, Kothla et al. 2001). Gabrielsson and Gabrielsson (2001) studied the online sales channel strategies of born global companies and found partial support to the proposition that “Internet-based multiple sales channels (dual, hybrid) increases during globalization of the born global firm”. This means that as the online internationalization proceeds, companies tend to use multiple sales channel strategies for outsourcing foreign online sales and marketing to foreign online network partners, who have knowledge of target markets business and customers (Gabrielsson and Gabrielsson 2011). However, as the internationalization proceeds, companies might take actions to get back to lost power by launching own marketing or service systems into the target market (Kim 2003).

Lastly the literature highlights the importance of the entrepreneurs also in online internationalization. Especially the entrepreneurs experience level, learning process, management characteristics, and personal contacts to customers and partners are important factors in online internationalization. (Ashworth 2012.) Factors, such as international orientation of the top management, resources and the business networks affected the online start-ups internationalization strategy (Loane et al. 2004).

2.2.3 Summary of internationalization phase networks

Literature shows, that online and offline networks during internationalization have a lot of things in common but also some differences, as Tables 3 and 4 suggests. First of all, online and offline internationalization patterns are not deterministic or homogenous, but instead the internationalization process is different case by case. As an example according to target markets, both; existing foreign network partners and the matching needs of niche customers effect the country selection.

However, in is interesting that both online and offline internationalization literature indicate that companies tend to build contacts with local partners when entering a foreign market. Also the resources which are gained from the local network partners seem to be similar; target market knowledge, and credibility. Another interesting finding of the literature was the fact that in the early phases of internationalization both online and offline businesses tend to outsource similar activities, such as
marketing and sales to target market partners, as they have more knowledge of the local customers. Perhaps even more exciting finding of the literature was that as the internationalization proceeded both online and offline businesses wanted to regain the lost power of outsourced activities. This is probably because after certain time of running international business in a specific market companies have gained own knowledge on how to run business in the new environment.

Studies conducted on online business suggest that online networking increases the size and diversity of the company's network, which improves the online exporting activity. Therefore it could be assumed, that online business entrepreneurs should increase the size and diversity of the online network during internationalization phase. However, offline network studies do not specifically express the view point for the importance of wide international networks. Instead it proposes that each case is different; some companies’ networks grow and widen during the internationalization, whereas in other cases the network stays the same.

However, the internationalization processes in terms of need of different resources might be somewhat different as online internationalization studies suggest that SMEs do not necessarily need in-depth foreign activities or high investments for international expansion. On the contrary, it is generally stated that traditional internationalization is expensive and requires a lot of resources.
### Table 3. Similarities of offline and online networks in internationalization literature

<table>
<thead>
<tr>
<th></th>
<th>Offline network literature</th>
<th>Online network literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalization not</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>homogeneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsourcing of activities to</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>international partners</td>
<td>(Marketing, sales)</td>
<td>(Marketing, sales)</td>
</tr>
<tr>
<td>Later willing to gain back</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>the lost power of outsourcing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnering with foreign</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>network partners in order to</td>
<td>(Credibility, market</td>
<td>(Credibility, market</td>
</tr>
<tr>
<td>achieve resources</td>
<td>knowledge, publicity,</td>
<td>knowledge, market access,</td>
</tr>
<tr>
<td></td>
<td>further contacts)</td>
<td>partners technology)</td>
</tr>
<tr>
<td>Importance of entrepreneurs</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>previous (international) career</td>
<td>(Existing contacts to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>suppliers)</td>
<td></td>
</tr>
</tbody>
</table>

### Table 4. Differences of offline and online networks in internationalization literature

<table>
<thead>
<tr>
<th></th>
<th>Offline network literature</th>
<th>Online network literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different partnerships possible</td>
<td>+</td>
<td>?</td>
</tr>
<tr>
<td>during PRE-internationalization</td>
<td>(Public actors, consulting,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>target market partners)</td>
<td></td>
</tr>
<tr>
<td>The higher the partnering</td>
<td>?</td>
<td>+</td>
</tr>
<tr>
<td>in domestic markets, the more likely the company use partnering in internationalization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.3 Growth phase

2.3.1 Offline growth phase networks

As the company has survived the emergence phase and it begins to reach early growth, its strategic goal and needed resources change (Hite and Hesterly 2001, Spence and Crick 2009). Indeed literature suggests that during growth companies tend to search for more strategic content and resources from their network partners in order to achieve competitive advantages (Sepulveda and Gabrielsson, 2013).

According to Crick and Spence (2009) technology based INVs might search for growth by penetrating new industry segments within the existing geographic area and often during the growth phase companies focuses on market segmenting and diversification. These goals can be achieved by searching and establishing new network relationships which open the access to new segment opportunities (Spence and Crick 2009). Indeed during the early growth, as the company seeks for new opportunities, the company needs a bigger range of resources, which cannot be acquired from the existing emerge phase networks, hence new network partners are needed (Hite and Hesterly 2001, Spence and Crick 2009), which might have been reluctant to provide any resources in the emergent phase.

Indeed during the growth phase it is easier for the company to build new relationships and get access to new resources, since it is becoming more visible to other network partners (Hite and Hesterly 2001). Sepulveda and Gabrielsson (2013) suggest that as born globals grow they have been able to gather their own set of resources which makes them more attractive in the eyes of other network partners, as they now are increasingly capable to carry out actions, which they were not able conduct previously. The company starts to be trusted and thus gain advices, support and knowledge from exchange networks, such as suppliers or other business contacts (Peltier and Naidu 2012). Hite and Hesterly (2001) conclude that the growing company is perceived as less risky and strategically more interesting by other network partners, as they notice that the company has survived the emergence phase.
New network partners believe that the growing company is now likely to survive also in the long term and able to provide new partners reciprocal benefits. In other words, new network partners are starting to trust the growth phase company’s capabilities and are seeing it as good strategic partner (Hite and Hesterly 2001.) Thus, as the company grows it is able to attract bigger and recognized partners.

During the growth phase the company is more likely to establish relationships with business partners than in the emergence phase (Hite and Hesterly 2001). Therefore it could be assumed that size of network would increase. However, as the business grows, and the size of network grow and because networking requires time money and effort, it might be difficult for SMEs to maintain relationships with all the new and existing network partners (Schoonjans et al. 2013). Thus, as the small company forms new relationships with new strategic partners, it might have to decrease the number of its former unsatisfactory or redundant early-phase partners (Nummela 2011, Coviello and Munro 1995, Schoonjans et al. 2013) due to time and resource constraints (Nummela, 2011). Indeed, often at this phase the number of formal “arms-length” business-like relationships increase and the number of informal personal relationships decrease (Hite and Hesterly 2001, Coviello and Munro 1995; 1997). Also, according to Peltier and Naidu (2012) the frequency and the value of the advices gained from communication networks, such as business angels, financers and consultants will increase as the company moves from emergence to growth phase. At the same time, the importance and the frequency of receiving advices and knowledge from personal networks will decrease. (Peltier and Naidu, 2012)

In the growth phase company’s strategy and network development becomes more calculative and planned (Hite and Hesterly 2001; Sepulveda and Gabrielsson 2013; Nummela 2011). During the early growth phase the company and the management team have gained experience on networks and therefore, it is more competent to choose the best and most efficient network partners (Crick and Spence 2009; Hite and Hesterly 2001). Often at this point the company also has more in-house resources which can be devoted to finding the right network partners (Hite and Hesterly 2001). As the company now is able to choose the right network partners, its performance and efficiency will increase (Spence and Crick 2009; Hite and
Hesterly). Therefore in the growth phase the company’s networks change from being path-dependent to being more strategically and intentionally managed networks (Hite and Hesterly 2001).

As a summary, during the growth phase companies have it easier to build new relationships with (bigger) business partners, as they are starting to trust the relatively new company, thus company’s network tends to get bigger more diverse. At the same time the importance of the close embedded social ties decreases and company might even break some earlier unsatisfactory network ties due to lack of time and resources to manage the whole network, thus network management becomes more strategic and calculative.

2.3.2 Networks in online growth phase

After the website launch and surviving and succeeding in the business during indefinite period of time, SMEs may start planning growth for their online business. Empirical studies suggest that often SMEs begin their online sales by offering small product range to niche markets (Ahworth 2012, Foscht et al. 2006) and after surviving the online emergence phase, SMEs seek growth by adding product range (Ashworth 2012, Foscht et al. 2006), or by applying a multiple revenue stream strategy (Ashworth 2012, Gabrielsson and Gabrielsson 2011). According to Ashworth (2012) the third online development phase focuses on activities, which improve value integration, market development and strategy integration. As the firm learns about the needs of its customers and gains more market space experience it starts to develop creative adaptations, such as “website stickiness”, and customization of products/services. At this point the firm also pays more attention to strategic marketing, particularly on promotional and e-marketing activities. (Ashworth 2012)

SMEs begin to improve their e-marketing activities by developing actively partnerships and networks with international trade customers, such as overseas stockiest and e-boutiques. Indeed, multiple revenue stream strategy (MRS) is achieved by expanding the wholesale/trade networks through independent e-boutiques, which requires building relationships with other online network partners,
such as other e-tailers. (Ashworth 2012.) Gabrielsson and Gabrielsson (2012) suggest that online born globals can have relationships with small local online channels, and/or with large multinational corporations (MNC). The nature of the relationships are different with each of the two online channels. When the SME decides to use small local sales channels, it usually means that the network of those online sales channel relationships is large, thus managing the complex network demands careful attention from the entrepreneur. However, if the SME decides to use MNC’s as sales channel partners, usually the number of relationships is smaller, thus managing the network is easier, but on the other side the importance of those relationships is high. (Gabrielsson and Gabrielsson 2012.) Thus, literature suggest that also in online environment, relationship building is important for the SMEs and the type of relationships and the size of the network may vary based on SMEs strategic decision. It is clear however, that during the growth phase company’s network size grow, as the companies seek for new e-boutique partners. However, literature does not reveal whether SMEs generally build online relationships first with large amount of small local online partners, and later after gaining credibility, with larger online partners (MNC’s), which would most likely be the case in offline network development (Hite and Hesterly 2001). Although multiple revenue stream strategy is an effective way of seeking growth by reaching out new segments, SMEs should be cautious with channel conflicts (Gabrielsson and Gabrielsson 2011).

Sales-based relationships with online network partners are not the only reason for collaboration. Relationships are built also in order to gain other strategic advantages, such as website traffic. Due to the fact that traffic can be achieved by improving online visibility (Gabrielsson and Gabrielsson 2011), empirical studies suggest that SMEs run online cooperation programs with network partners in order to improve the online visibility (Ashworth 2006; Ashworth 2011, Foscht et al. 2006). Online companies often practice coopetition with even rival companies by launching affiliation programs and doing banner swaps (Ashworth 2006, Foscht et al. 2006; Ashworth 2011). Indeed, there are empirical findings suggesting that high levels of competitive and cooperative activities are beneficial for companies, especially when pursuing online internationalization (Kotha et al. 2001).
As mentioned in the previous chapter, online reputation is an important factor for Internet businesses and it is realized in two types of situations; when end customers make online purchasing decisions (Reuber and Fischer 2011), and when online companies are networking making strategic partner selections (Kotha et al. 2001). However, literature does not explain how reputation affects the online partnering.

To sum up, SMEs can achieve growth by applying multiple revenue stream strategy, which can be achieved by building partnerships with other online companies. Assumably SMEs reputation plays an important role in strategic partnerships development, but literature does not describe how. This would be an interesting phenomena to study further in the interview. When a company develops a new multiple sales strategy and builds relationships with small local e-tailers and big online MNCs, the company should be careful about channel conflicts. During growth, SME’s should try to improve its online visibility by improving its online marketing. This can be achieved by affiliation programs with other online partners. Thus, it could be assumed, that during the online growth phase, the number and the diversity of network partners would increase.

2.3.3 Summary of growth phase networks

The literature show some interesting clues of online and offline growth phase networks and many similarities, differences and unstudied factors were discovered as Table 5 and 6 show. Both, online and offline businesses need help of network partners during the growth phase, however offline literature is not very precise of what kind of resources and from which partners. Online literature gives a more in-depth answer; online companies build relationships with e-boutiques and e-tailers in order to succeed in multiply revenue stream growth strategy. Monetary value is not the only resource that online companies receives from the growth phase network partners, namely the company also receives online visibility and credibility, which both increase website traffic. Online companies may use a vast amount of small local e-tailers or few big international multinational enterprises when conducting the MRS-strategy, however the literature does not implicate whether it is easier to build contacts with small or big partners at first or how SMEs online reputation affects building relationships with big business partners. Offline network literature has a
clear view point to that subject. Namely as the company has survived the emergence phase, bigger business network partners begin to take interest in the company. Thus, often the offline businesses the number of emergence phase embedded ties decrease, whereas the number of business partners increase. However, online business literature does not shed light on the subject, so it remains unclear whether the importance of social partners diminishes as the number of business contacts increases during the online growth phase.

Based on the literature, one could make the conclusion that during the growth phase, the size of both online and offline networks grow, as offline companies need more resources from new network partners, and as online companies tend to increase the number of the partners selling their products. It is also clear, that in both businesses network management becomes more calculative. During the growth phase online business entrepreneurs make strategic choices on whether to build relationships with large amount of local online distributors, or with few MNEs. On the other hand the offline network literature suggests that during growth phase the company start to receive more attention from bigger business partners and have to neglect former redundant social network ties due to time and resource constraints.

*Table 5. Similarities of offline and online network literature in growth phase*

<table>
<thead>
<tr>
<th></th>
<th>Offline network literature</th>
<th>Online network literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network size grow</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Network management</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>become more strategic</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6. Differences of offline and online network literature in growth phase

<table>
<thead>
<tr>
<th></th>
<th>Offline network literature</th>
<th>Online network literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier to build contacts to big international partners, as they</td>
<td>+</td>
<td>?</td>
</tr>
<tr>
<td>begin to trust the company</td>
<td>(The company starts to be</td>
<td>(Online reputation</td>
</tr>
<tr>
<td></td>
<td>strategically attractive)</td>
<td>important; but no</td>
</tr>
<tr>
<td></td>
<td></td>
<td>information how)</td>
</tr>
<tr>
<td>The amount of social ties decrease and business ties increase</td>
<td>+</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3 THEORETICAL FRAMEWORK

The previous chapter provided a thorough analysis of current network literature. During the literature reading process special attention was paid to find large amount of empirical studies of both; online and offline networks. After the reading process literature findings were separated first in two groups; online and offline network literature. After that each of the two groups were divided into three sub categories; network literature in emergence, internationalization and growth phases. As a result network literature was now divided into small groups, thus it was easy to see what previous empirical studies had discovered of; offline/online emergence phase networks, offline/online internationalization phase networks and offline/online growth phase networks. At this point the previous literature was thoroughly read and segmented into smaller groups and now the actual analysis of could begin.

The literature review analysis focused on finding similarities and differences in online and offline network literature in emergence, internationalization and growth phases. As a result many similarities differences were found. Finally the analysis results were collected in separate tables (see Tables 1-6) to clarify the literature findings. Those tables built the theoretical framework for the main research question; “How do the online and offline business networks differ from one another?” and also for the sub question; “How do the offline and online networks differ from one another in emergence/e-commerce launch phase, growth phase and internationalization phases?”.

In order to gain deeper understanding on why particular network partners and certain resources are crucial in specific certain development phase, it was decided to add the ARA-model for the theoretical framework. The ARA-model was used to find answer for the following sub question: “Which actors, resources and activities are important in each online and offline development phase?”.

The semi-structured interview questions and the interview results analysis were based on the literature findings (Tables 1-6) and the ARA-model. The modelling of the framework is shown on the next page.
Figure 1. Theoretical framework.
4 METHODOLOGY

4.1 Research strategy and methodology

This study is a qualitative study and has a retrospective perspective. Although the case study design is not longitudinal, since the data was gathered at one point of time, it resembles a longitudinal study since the interest of the theory describes how networks change over time (Yin 2009, 49).

As there currently is a lack of earlier studies concerning change in networks when moving from brick-and-mortar into click-an-mortar, this study is also exploratory by nature. As exploratory studies are largely qualitative (Wilson 2010, 104), and as the phenomenon can best be described by asking “how and why”-questions, a case study was thought to be most suitable research strategy (Yin, 2009, 27).

A qualitative single-case study was thought to be most suitable research strategy for several reasons. First, single case-study allows thorough interpretation for the studied phenomenon and because it corresponds best with the aim of the study, which is to form a better and thorough understanding of the phenomenon.

The selection of the case company is crucial for the single case study, thus random selection is not desirable, but instead the choice of the case was carefully evaluated and considered. The case company was required to have certain characteristics in order to qualify as suitable case company for the study; 1. it had to be small or medium sized, 2. survived the emergence phase, 3. achieved successful internationalization, 4. have significant international growth 5. have own webshop and 6. have sales through various external webshops. Several clothing companies were investigated, and finally one suitable Finnish company was found through Finatex’s member register.
4.2 **Collection of empirical data**

The empirical data was collected by conducting a 1.5 hour long, semi-structured face-to-face in-depth interview in Finnish language for two knowledgeable informants. By choosing two knowledgeable informants, such as strategic level managers, more complete information can be gathered as the informants may have different aspects of the studied phenomenon and thereby reducing information errors by offsetting biases (Huber and Power 1985). Indeed, two most knowledgeable persons, who knew plenty of the company development and the online processes were chosen. By interviewing a couple of most knowledgeable people, more accurate information can be reached than by interviewing a large group of informants with less knowledge of the studied phenomenon (Campell 1955). Therefore, the interview was conducted for the owner-manager entrepreneur, Jesse Hyvärinen (head designer) who has been involved in Makia from the inception and for Mika Hyvärinen, the person responsible operative functions such as logistics, and IT.

During the interview, the participants described the company’s offline networks in different development phases starting from the company launch, moving to internationalization phase and finally in the growth phase. In addition the entrepreneurs described the important network partners in an online environment and explained the recent changes in those networks. In the interview entrepreneurs were asked to recall which network partners were important in each phase, what sort of resources they received from them and what type of activities the company had with different stakeholders.

The interview was recorded and later transcribed, which is considered to be important for data collection as it ensures that accurate, and detailed information of the phenomenon is gathered and none of the data will not get lost (Yin 2009; Wilson 2010, 147).

Additional secondary data was collected from multiple sources such as company websites, press releases, videos and news articles to get more comprehensive knowledge of the case company development and previous and existing networks to complement the interview.
5 FINDINGS OF THE EMPIRICAL STUDY

Makia clothing is a Finnish clothing brand, which is specialized in easily approachable, cool and timeless street wear. The company was founded in 2001 by three Finnish guys, a group of friends, who all were professional snowboarders before launching the company. During the past years Makia has managed to establish remarkable growth and expand successfully into international markets. By the year 2014 the company employs 10 people and its products in offline stores in over 30 countries, in 4 continents. (Making of Makia 3)

Makia has never sold its products in own offline shops, but instead they have outsourced B2C sales for local and foreign distributors and retailers. However, in 2010 Makia established its own webshop, and today they sell clothes to 49 different countries worldwide. After launching the webshop, Makia has been able to sell its products straight to local and international B2C end-customers. (Interview)

Throughout the years, Makia has cooperated with (mostly) Finnish and foreign celebrities, who have expressed the willingness to participate Makias “shop raiders” marketing actions and have become the “messengers” of the Makia story. Some of internationally known participants are professional athletes such as Kimi Räikkönen, Robert Helenius and Esa Tikkanen and actors such as Ville Haapasalo. This has brought visibility and new network contacts to the company. (www.makiaclothing.com)

Throughout the whole existence, Makia has always paid attention to both network management and network building. Especially in the beginning the entrepreneur team’s personal relationships and networks played an important role, however those close social relationships have been valuable also in later development phases. Makia has often turned to personal networks when different resources have been needed. (Interview)

In the next chapters Makia’s development phases will be presented. At first “offline” business mode development will be contemplated, starting from company establishment, moving on to early internationalization and finally to international
growth-phase. After that the “online”-business development and possible changes in networks will be presented. Both, the offline and online development phases highlight the change in network relationships.

5.1 Makia company’s establishment phase 2001-2008

The idea of launching a clothing company started off when three professional snowboarder friends noticed that their career was going to end soon and something new (career wise) should be thought of. At that time many ex-snowboard professionals in US were launching clothing brands. Makia guys wanted to design streets wear, which would be comfortable to wear after the snowboarding career. The Makia apparel resemble the easy going and cool clothing with a bit more sophisticated twist, so that they can be worn on the streets also by adults. (Making of Makia 1)

The years 2001-2007 were indefinable period in Makia’s development. At first founders considered the company rather as a hobby and the business was not yet running smoothly. This was due to the fact that one of the founders had got a promotion in Burton-company, another got a good sponsor deal and decided to continue his career as a professional snowboarder and also the head designer still worked in other projects for other companies. In the beginning Makia guys designed mainly different prints and created Makia logo. The products were not yet in the mass production, but instead printed t-shirts were produced to create “start-up marketing” for the company. In the early years Jesse designed and sew a small sample collection, which was very close to the final style, which Makia resembles still today. (Making of Makia 1)

“In the beginning we just had the name and the logo and eagerness to exploit Joni’s and Jussi’s fame and connections in the snowboard world. At first we gave out our logo t-shirts for free to “interesting famous people”, who we knew in person and who were interested in the brand and us as a company. Those people promoted us by telling the Makia story further to their fans and other networks and we also got a lot attention in international snowboard magazines and videos. This activity brought
wide coverage and hype to the brand, but we had no specific plans of how to take the next step and turn the publicity into business. (Interview, Jesse)"

The contacts to famous individuals and media originated from the entrepreneurs’ own social relationships and from previous career, which corresponds Zain Ng (2006) findings suggesting that networks to foreign partners originate from the entrepreneurs previous international career. In fact, even today pretty much all Makias the network relationships in Finland have been created through the entrepreneur teams own social relationships. Makia’s style of using friend networks and resources in the company emergence phase is in line with the previous findings suggesting, that SMEs often turn to close network ties (family and friends) for resources (Hite and Hesterly 2001, Peltier and Naidu 2012).

Table 7. Start-up Networks 2001-2007

<table>
<thead>
<tr>
<th>ACTOR</th>
<th>RESOURCE</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Famous individuals</td>
<td>New networks, visibility, hype</td>
<td>Marketing</td>
</tr>
<tr>
<td>(snowboarders)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Snowboard Magazine</td>
<td>Visibility, brand name, hype</td>
<td>Marketing</td>
</tr>
<tr>
<td>publishers (press, videos)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

During the first years, Makia achieved notable hype with the help of the entrepreneurs’ social networks, but after launching the company, it took seven years before Makia managed to get the in clothes into shops. This was mainly due to Makias lack of needed resources, such as particular business networks and financial support. As an example during the first years Makia did not have the right networks partners in sales and they did not really have any contacts to local Finnish shopkeepers (Interview.). Indeed, as table 7 and figure 1 demonstrate, Makias network was rather small and the resources and activities with existing network partners were similar. Makia did mainly marketing actions with different partners in
order to achieve similar resources from them, such as visibility and hype for the brand. This finding corresponds with previous studies suggesting that in the early phase networks are rather small and narrow from diversity (Hite and Hesterly 2001). The importance of the social contacts is easily discovered from figure 1, where the blue lines state, that the contacts to different network partners were based on founders’ previous career or personal contacts.

**Figure 2. Makia’s networks during emergence phase (2001-2007).**

In 2007 Makia guys decided to give the company “one final chance” concentrated fully to the business in order to make the company successful and profitable. This decision also impacted the network management and personnel hiring decisions.

“Our network consisted first mainly of public people, but we did not have that many contacts to business networks and that is when we decided to hire a sales and marketing person in 2008. Totti Nyberg who was discovered through our social network was hired for the position. He had wide personal contacts to various shops
in Finland and I guess that without Totti and his networks Makia probably would not exist anymore”. (Interview, Jesse)

By hiring new personnel Makia received also contacts to new network partners, making the network bigger and more diverse, as the figure 2 demonstrates. Through Tottis new networks (Finnish shops) Makia was now able to do commercial activities with network partners for the first time and through those activities Makia achieved new kind of resources, such as financial returns. Indeed, hiring networked personnel was a good strategic move from Makia, since according to Newbert and Torniokoski (2012) SMEs should try to grow the size and breadth of its network in the emergence phase as it improves the changes of long-term survival. However the financial returns were not the only valuable resource which Makia received from Tottis new network partners with Finnish shops. As Makia build connections with local shops and distributors, it received also intangible resource, such as credibility, which positively affected financers’ willingness to cooperate with Makia. Before this intangible resource, some network partners, such as financers were reluctant to build connections with Makia. Thus, partnering with right partners might help building connections with other, more reluctant partners as well. This intangible resource (credibility) which was achieved from partnering, and its positive impact on building relationships with other network partners is marked as green line in figure 2.

During MAKIAs early years, many actions were conducted in-house due to lack of financial resources. Before the mass production and internationalization phase, Makia entrepreneurs sewed the first sample collection by themselves and the business itself was funded only by the entrepreneur-owners until the year 2009 (Interview, Jesse and Mika). This is in line with previous studies, which argue that in the emergence phase SMEs tend to have lack of resources, such as financial support or equipment (Sepulveda and Gabrielsson 2013) and that in the startup-phase SMEs are often self-funded or the company receives money from friends and family (Hite and Hersterly 2001). The lack of financial resources is due to the fact, that funders consider SMEs first risky, since there are no prove of long survival or previous success (Hite and Hesterly 2001).
“Well, in this country it isn’t enough if you only have a sketch of your future collection and big ideas. Financiers need more evident proofs that you are worth of investment. (Interview Jesse)”.

In Fall 2008 Makias first official collection with official catalogs made it to the shops and the real sales began in Finland. The company started to receive revenues from the small shops, but the company was still self-funded. However, as the distribution network in Finland increased and small shops started to sell Makia’s clothes, financial returns were not the only resource Makia received from the new network partners.

“Well, of course we got monetary resources from our Finnish distributors, but also evidence for the future financiers which proved that there is potential in Makia. So I guess we also received credibility.” (Jesse, Interview)

After Makia had won financiers trust over with the help of its new network partners (retailers) it managed to get funding for the first time from an external resource.

Table 8. Emergence Networks 2007-2009

<table>
<thead>
<tr>
<th>ACTOR</th>
<th>RECOUSE</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local, Finnish shops</td>
<td>Finance, credibility</td>
<td>Commercial</td>
</tr>
<tr>
<td>First financer</td>
<td>Finance and knowledge</td>
<td>Administrative</td>
</tr>
</tbody>
</table>

Although Makia was now able to sell its products in Finland, the amounts were not enough, as local distributors were not buying as many clothes as Makia had expected and the warehouse filling up with piles of clothes. It was a so called “do or die”-moment. It was at that point, that the entrepreneurs decided to make the brand international, as they felt like it was their last hope. This would have not been
possible without the external funding which Makia now had managed to receive. (Interview Mika and Jesse)

Figure 3. Pre-internationalization, situation after Totti’s arrival

As a summary the empirical data shows that during the emergence phase entrepreneur team’s previous career and social relationships play an important role as partnering is likely to occur through already existing social networks. The interview clearly supported previous findings, which suggest, that during emergence phase networks are small and narrow from diversity. Table 8 and figure 1 illustrates this finding. A novel finding is that in the early phase also the activities and resources gained from different network partners can similar with one another, as in this case, the activities were mainly marketing based and the resources were visibility and hype. It seems like during the emergence phase one way of increasing the size and diversity of the network is to hire new personnel, who have contacts to various different stakeholders, such as in this case to local shops. Another interesting finding is, that new partnerships with local shops may affect positively to those partners
willingness to cooperate, which at first were reluctant to cooperate, such as financers. This means that companies may also receive intangible resources, such as credibility from partners, which affect also other networks partners’ cooperation willingness. Finally findings suggest that during emergence phase network size increase slowly and most of the network partners are reached through a special personal contact.

5.2 **Beginning of Internationalization- phase 2009-2010**

The choice of heading for international markets was a strategic one, as the Makia entrepreneurs felt like the Finnish markets were not large enough for the company. In the beginning of 2009, after having sold clothes to Finnish shops for one year, Makia had managed to get external funding for their business. With that money the entrepreneurs decided to hit the road and aim at international markets.

According to Ojala 2009, companies’ main obstacles in the early internationalization phase are lack of knowledge of international business and markets and lack of resources. This was the case in Makia’s early internationalization. Funding was received amongst others from “ELY-keskus”; the Centre for Economic Development, Transport and the Environment”. Financial resources from external partners were very important in the early internationalization phase, as it enabled participating in trade shows abroad. On top of the monetary value, Makia also received important knowledge of trade shows and international markets from the financers, which is in line with the Ojala (2009) study, which suggest that SMEs might not solely utilize existing foreign networks when searching for information and entering a foreign market, but instead get knowledge of internationalization process from semi-public actors or through consulting. Makia searched information also on their own of international trade shows and made assessments, of which one would suit Makias products and the wallet the best. The company received knowledge of international business through old and new informal and formal network partners such as friends and semipublic organizations.

“The idea of visiting especially the Bright trade show came from Totti. He knew, that in previous years there had been a similar apparel company, which had also been established by some European ex-professional snowboarders. They had received a
lot of positive attention and feedback, but still they had gone bankruptcy. Totti knew this, and we managed to get their previous booth. We also got helpful tips according to internationalization and trade shows from our friend, who was still working at that moment for another company, but who later became our sales manager.”

Due to the fact, that Makia employed only a handful of people, Makia decided to hire an external Finnish sales agent in 2009 to deal in with the Finnish sales and distribution networks in order to focus own manpower to international markets. This was a strategic choice, which enabled Makias scarce manpower resources to be fully focused on international customers and new demanding international business environment.

Makias network crew remarkably in the early internationalization phase, as they employed new personnel and outsourced production to China. However, it did not happen without problems. The shipping from the manufacturer’s plant were late and also the quality did meet with Makias expectations. After the catastrophic cooperation with the Chinese manufacturer, Makia decided to shift 98% of its production elsewhere. (Making of Makia 3)

All in all, during the pre-internationalization phase, before participating the actual trade show, Makia’s network had grown quite fast. It now had different types of activities with new partners, and it seemed like the activities were becoming more and more business related, as the table 9 summarizes. However, the most important resources, which Makia received from old and new network partners were knowledge and financial support. As also the production moved to China, Makia now had to manage a totally different type of network, as it started to involve also foreign partners.
In 2009 Makia participated its first international trade show; Bright, in Frankfurt Germany. Makia achieved to build a first foreign business contacts with small shops and distributors. Makia also got valuable tips of potential foreign importer and shopkeeper partners from Ivar, one of the Makia’s three co-creators who went to work for competing company in a very early phase. This confirms Komulainen et al. (2006) finding, suggesting that SMEs achieve knowledge of international business from existing social networks.

“Already in the first trade show we managed to build new contacts with small international shops and importers from Italy and Switzerland. Those first contacts with small scale shops lasted a few years, but we eagerly tried to build contacts with bigger scale importers and chains. So, during the first trade show we were not able to make any remarkable or big business deals because we were new. But did have one of the most outstanding booth in the trade show. We really put an effort of making us memorable and decorated the booth excellently!” (Jesse)
During the first years of internationalization Makia’s founders past career as professional snowboarders also helped when the company built contacts with foreign importers. The Spanish importers, to whom Makia has close relationships still today, came into the figure due to the fact, that Joni and Jesse knew them through their snowboard-career sponsors. Thus as previous literature suggests, also in Makia case, social networks from previous career are important for the company’s success. However, not all relationships with international trade partners lasted. Some unprofitable and unsatisfactory relationships with small shop owners broke down.

After the successful but still small scale start for internationalization, in 2010 Makia decided to participate three trade shows abroad: “Bright” in Frankfurt, “ISPO” in München and “Terminal 2” in Denmark. Makia guys drove to the trade shows and again succeeded in building close contacts with international shop keepers and importers. The relationships with new partners were quite friendly, and during the first couple of years Totti Nyberg explained that it was fun driving to trade shows to meet old friends and to drink and have a laugh and party with them. However, as the years have passed, the stance has become a bit more professional and business like.

All in all, during the first two years of internationalization, Makia’s networks grew remarkably fast as production was shifted to China, and as new partnerships were built with foreign shops and distributors in the trade shows. Figure 3 demonstrates the size of the network, and the pace of the network growth can be evaluated by comparing Makias earlier network (figure 2) with the network structure after first trade shows (figure 3). Tables 9 and 10 also show that the shared resources and activities with network partners are somewhat different than in tables 7 and 8. Seems like during early internationalization the diversity of different resources grows and the activities become more and more commercial based. As the networks grow, assumably the network itself becomes more difficult to manage, especially for a small company with limited human resources, and therefore Makia started to use more intermediaries to handle some of the business contacts. As an example, in figure 3 orange colored lines show, how the Finnish sales agent and foreign importers manage the relationships with local shops. Although the network size grow, the importance of one small shop or distributor is still low. During the early internationalization Makia wanted to make big deals with big international B2B
customers, but were able to build connections only with smaller scale shops and distributors. However, this changed in the coming years, as the company managed to improve the business even further and reached the international growth phase which will be discussed in the next chapter.

Table 10. After first trade show-Internationalization (2009-2010).

<table>
<thead>
<tr>
<th>ACTOR</th>
<th>RECOUSE</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crowing number of small foreign distributors</td>
<td>Knowledge of foreign markets. Finance, credibility.</td>
<td>Commercial</td>
</tr>
</tbody>
</table>

Figure 4. Networks after first trade shows abroad
5.3 International growth-phase 2011-2014

After two years of visiting exhibitions abroad, things had really started to roll and business got hotter during 2011-2014. Makia sells clothes to over 30 countries and the company cooperate with approximately 700 retailers. There is a strong hype behind the brand, so today Makia doesn’t have to concentrate on the B2B selling as much as before, as the distributors are the ones contacting Makia and wanting to sell Makia’s clothes. (Making of Makia 3.) The production is spread into three countries, China, Portugal and Bulgaria (Turunen 2011).

“Our business runs very well in the Western Europe, but we still got work to do if we want to achieve our ultimate goals. I think that we are in the early growth phase, as we still want to increase the size of our distribution network and want to increase our market coverage. We have now actively taken part in exhibitions in Germany and our brand is well known among the B2B customers.” (Mika)

During the early growth phase, Makia has also experienced a change on how network partners see them. Makia has started to receive a lot of invitations for cooperation projects from large companies which might not even be related to fashion industry. The international growth phase can be considered to have started in 2011, as it was the year, when the first big international company approached Makia suggesting cooperation. By 2011 Makia’s coverage and brand value had grown and now Makia was considered to be an interesting strategic partner with a wide network and niche customers worldwide.

“We are now perceived as an interesting partner to cooperate with. Other companies want to cooperate with us, as they want to reach a certain kind of customer base (niche market) through us. We have received dozens of cooperation requests, and as a small company we certainly do have not have enough time or resources to participate in everything. We are not participating those cooperation projects which do not provide our brand notable coverage or other notable advantages. We prefer those partnerships, which allow us good resources, such as big marketing budget, to create something really new and creative, such as marketing campaigns. (Jesse)"
The American skating shoe brand Etnies was the first big international company, which reached out to Makia suggesting co-operation in 2011. This was a big deal for Makia, as Etnies is a well-established international company. Etnies suggestion turned into cooperation as the parties designed a shared collection of Makias clothes and Etnies shoes, which was launched in 2012. (Turunen 2012)

We received many benefits from the cooperation with Etnies. We had co-marketing, and thereby we received new customers, publicity and visibility in different Medias. And of course our brand received credibility and respect, as we as a small company were able to cooperate with a big and well-established company with a large customer base. Lastly we got new close network partners in Europe through Etnies.

Also big international companies, which do not act in the fashion business are nowadays interested in cooperation with Makia. As an example Citroen approached Makia, wishing to create cooperation marketing. Often, as Makia operates with big companies, the cooperation enables Makia to do marketing campaigns with big budget, which would not be possible to carry out with Makias resources solely.

“The initiative for the cooperation came from their (Citroen) side. Nowadays we get dozens of requests for cooperation, but as a small company we do not have the time or resources to participate all of them. That is why we prefer cooperation which enables us to do something, which we wouldn’t be able to conduct on our own. As an example, in the Citroen cooperation we got a big marketing budget from their side, and were able to do bigger and more creative marketing stuff than what we usually do.” (Mika and Jesse)

Recently Makia has managed to attract also bigger businesses; chain stores, such as Moda, Zoovillage, JC, Carlings, Sokos and Stockman. Those big clients bring new resources for Makia but it has also been forced to change its internal operations. The big chain stores force SMEs to incorporate a special kind of format into their business;

“Well of course, in addition to basic orders and monetary value, we also get credibility for the brand and the whole company as we do business with the big
players (chain stores), but we have had to make some changes as well. These big clients force us to incorporate special format and working methods, so that the business and all the information change would be precise. You can’t anymore just call the clients and tell that ‘we just sent the shipment, if anything is missing, please contact’. Everything has changed into more business-like.“ (Mika)


<table>
<thead>
<tr>
<th>ACTOR</th>
<th>REOURCE</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big international companies (Citroen)</td>
<td>Big marketing budgets, credibility, new networks, brand coverage</td>
<td>Co-marketing</td>
</tr>
<tr>
<td>Big international companies (Etnies)</td>
<td>Networks, credibility, new customer, Media visibility and publicity</td>
<td>Co-operation (shared collection)</td>
</tr>
<tr>
<td>Big B2B customers (chains)</td>
<td>Finance, brand credibility,</td>
<td>Commercial</td>
</tr>
<tr>
<td>Service providers</td>
<td>Expertise</td>
<td>Administrative</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>Material</td>
<td>Commercial</td>
</tr>
<tr>
<td>Semi-public organizations (Finatex)</td>
<td>Knowledge, networks</td>
<td>Consultative</td>
</tr>
<tr>
<td>(Foreign) Sales agents</td>
<td>Knowledge, networks, language</td>
<td>Commercial</td>
</tr>
</tbody>
</table>

As the company has grown and the operations have become more business-like, Makia has started to plan its actions more carefully and has started to outsource some of its small operations/activities. As in the emergence phase Makia used friend in ad hoc projects, nowadays Makia hires professionals for short term projects, such as stylists to help finding suitable models and prepare the shooting.

“In the past we had to do many things in-house due to lack of resources, but though we had very small budgets, we still had ambitious dreams and we conducted pretty aspiring and crazy catalogue shooting trips around the world. (Mika)”
“Nowadays we have an external photographer who conducts studio- and other shootings. I mean, you should be a superman if you would have the energy to conduct a 28-day catalogue shooting trip around the world on top of other work duties twice in a year for ten years, hehe. (Jesse).”

As can be read between the lines, Makia’s overall network management has become more calculative and strategic. At the moment, Makia wants to concentrate on those partnerships, which provide good new resources, networks and international coverage, since the strategic goal is vast internationalization and growth in international markets.

“Our visibility (coverage) in Finland is quite high at the moment, and we receive all types of cooperation suggestions.” (Mika)

“Yes, but now that we are already at this point in Finland, we also get some cooperation suggestions from abroad. At the moment we are slowing down the cooperation project in Finland as we are trying to focus on international markets. We concentrate on those cooperation and partnerships, which have a positive effect on international markets”. (Jesse)

Although Makia has now started to attract ever more and bigger customer and network partners, and the size of the network has grown notably from the emergence phase, still even during the growth period, Makia is actively seeking new network partners. Recently Makia also joined Finatex, the federation of Finnish Textile and Clothing Industries.

“Finatex got very excited of our company, and wanted to make us an example of the “up-and-coming” companies, which will succeed in internationalization. We have received some concrete help and resources from the organization, such as instructions for the clothing care-instructions, and labelling, we have participated in training sessions and of course we have been introduced to new network partners. Finatex introduced us to Finnvera (Official Export Credit Agency of Finland) and to many Finnish media partners.” (Mika)
Currently Makia is taking part in Finatex’s Inno-pilot program, which provides business training and mentoring from famous and recognized business professionals for participating companies. Companies get to meet business angels, which will provide resources, such as financial support, knowledge and further networks, which the companies can utilize for further internationalization and growth. (Finatex 2014)

All though Makia brand is quite well known in the western markets, especially in the B2B side, and foreign retailers and importers reach out to Makia to make orders, Makia still participate in trade shows abroad. However, during the growth phase procedures have changed also in the trade shows. As in the early days Makia´s own personnel traveled to exhibitions, nowadays Makia has hired external sales and marketing personnel for the exhibits. Makia also uses external sales agents which take care of the international sales in specific target markets.

“In the exhibits we manage the sales personnel but basically the local sellers handle the trade and collection presentations. We are there to help them by creating good atmosphere and building the brand. The foreign sales agents bring us a lot of resources. Of course they know the target market presence, language, have knowledge of the country’s sales channels and have access to important business networks. The most challenging thing is to find the right sales agents who value your brand in their own brand portfolios high enough so that the products would end up in the right shops and reach our target end-customers. (Mika).”
As the first 10 years was about creating a strong brand, at the moment Makia focuses on growth and sales strategies and tries to focus on the end customers (Making of Makia 4)

“As I said earlier, our B2B customers know us already well, however our current challenge is reaching the B2C end-customers and that is our goal at the moment. At the moment we are organizing happening in different markets in order to get familiar with our end-customer base.”

Reaching end-customers is also convenient through Internet and e-business channel, which will be discussed in the next chapter.

As a summary, the interview shows that during growth phase, especially bigger business partners begin to consider the growth company strategically interesting. According to the interview, big global companies are the ones who initially suggest
collaboration. When the SME collaborate with a big international company the type of activities may vary, but it is clear that the SME is able to reach resources, which were impossible to reach before such as big scale marketing budgets, when it cooperates with a big multinational company. Intangible resources include credibility and media visibility, as the SME collaborates with a well-established company. As the size of the network grow rapidly during the growth phase, the SME might not have enough resources to manage it all, and thus it might outsource network management for external parties, such as local sales agents. Although it seems like during the growth phase, the network size grows remarkably, SME might still be searching for new network partners by participating semi-public organizations, such as Finatex, in order to get more knowledge of the industry and to bind new partnerships with important stakeholders, such as business angels. The interview shows that during the growth phase the SME’s network management becomes more strategic, which is in line with previous study results.

5.4 Online business

Makia launched its first online web shop in the summer of 2010 and last year in 2013 Makia sold clothes from their own webshop to 49 different countries. The websites and the webshop was launched in English language, as Makia has aimed for international markets through the e-commerce sales channel right from inception. The idea of the webshop was to provide Makias whole collection from one channel to whole world, especially to B2C customers.

“Our distributors in Finland and abroad choose only some parts from our collection to be sold in their shops. Thus B2C customers only see a small part of the whole collection. Therefore, those B2C customers can see the whole collection in our websites and order there the whole collection products. (Mika)”

When Makia launched its own webshop in 2010, it already had webshop partners, such as Dropinmarket.com and Zoovillage, which were selling Makias products online. The first webshop partnerships were launched in the beginning of 2010. Today many webshops sell Makias clothes, such as Zalando, Blue Tomato, Zoovillage, just to name a few, thus the number of online B2B customers has
increased. According to the interview the formation of online partnerships with B2B customers, such as shops and distributors is very similar in offline and online business. Usually relationships with both offline and online B2B customers is built in the trade shows or the connection might occur through already existing networks. Also the local sales agents search the most suitable foreign online webshops for Makia’s products. (Suomen yrittäjät 2010)

“Most of the online business contacts have emerged through normal traditional B2B business. We have met the distributors in trade shows, then the agents have invited us to their showrooms and after that we have started business negotiations. That is how we have operated with both, big and small online B2B customers. So basically in that way we handle the same way our online and offline B2B customers. Although the big online partners have the possibility to reach several countries, we haven’t created any specific sales strategy for them. Online B2B customers, are just like any other offline customer, they just have a different distribution channels. (Mika)”

Although Makia has incorporated online business into their overall business model, according to Mika, it has not affected the networks very much. However, Jesse sees some differentiation in the online and offline business networks:

“Well I wouldn’t say that the networks have changed very much. As I see it, it (online and offline B2B business) still focuses on the face-to-face and human interest contacts. (Mika)”

“Well in my opinion those two (offline and online business networks) are two totally different things. Our offline business focuses almost entirely on B2B contacts. As we participate trade shows abroad, we focus on building networks with B2B business clients. However, in online environment we get closer to the B2C end customers. Also, we focus on a bit different things in online business, such as creating interesting webpages and marketing the webpages. (Jesse)”

This finding is interesting. Company’s own webshop is a channel to get closer to the end customer, whereas Makia’s traditional offline business focuses more on B2B business customers. Another way of reaching B2C end-customers in online
environment is through social media partners (Riggings 2000). Social media websites, such as Facebook, Twitter and Instagram, are important network partners in the online environment. Facebook provides the company a space for communicating and marketing, which enables online visibility, new customers, and more traffic to the company websites, thus more potential buyers. The orange lines in figure 5 demonstrate, how online social media partners enable platform for contacting B2C customers.

“We use mainly Facebook to create traffic and attract customers to our websites. At the moment we have almost 32 000 likers in our Facebook pages, and they are all real fans and potential customers. We haven’t bought any extra likers from Facebook, but instead we believe in ‘organic growth’ in our Facebook fans. What we receive from these social media network partners, are direct contacts to B2C customers, who get interested and excited of our brand and they might share their information (for example in Facebook) to their own friends and networks. In that way also our networks grow, and there is a possibility that our brand message will grow exponentially, as the online customers share our story. So basically through our online B2C network partners our coverage increase, which bring more traffic to our websites and that way creates business. (Mika)”
Figure 6. Online networks in the beginning (2010)

As the interview and the figures 5 and 6 shows, changes in online networks are relatively low compared to offline business network change. However, some minor changes can be identified. Usually as the online business develop, the size of online networks grow, as more and more end customers discover the webpage. Social media partners also have an important role in the B2C online network growth. Online networks may also grow due to outsourcing of activities, such as webpage maintenance. Also as the company aims at creating interesting content and website stickiness, network partners may be needed, as the following chapters suggest.
In the beginning of online business Makia has used Magento, an open-code system in the webshop. This enabled the company to design and maintain the webshop activities in house. However, during the past year Makia has started to act together with an IT-partner in order to improve the web shop and web sites. The IT-partner provides Makia technical support by coding and maintaining the webpages. This finding is in line with Ashworth’s (2011) previous study, which suggest SME’s tend to do webpage and webshop maintenance and development in-house in order to reach cost savings. However, as the online business develops, IT-activities are often outsourced (Ashworth 2011).

“Our IT-partner then installs the new modules for us and tests that it is functioning. So they are doing the codes and conducting the technical support.” (Mika)

According to Ashworth (2012) in the third online development phase SMEs begin to draw focus on factors such as website stickiness and strategic marketing is a core activity. Indeed, recently Makia’s has started to cooperate with other brands and interest groups in order to create interesting content for the website. As an example
Makia makes a lot of cooperation with Finnish and foreign celebrities by introducing “warehouse raiders”/“wall of fame”. Makia also cooperates with Finnish bands by launching cool events in foreign countries in order to introduce the Makia brand (and the band) in a nice cool atmosphere. As figure 6 shows, personal relationships may be important also in the online business. The interview reveal that the connections to local bands originate from Makias co-founder, Joni Malmi’s career as a DJ.

“Collaboration with small and cool Finnish bands provides us interesting content (music videos) to our website and also other small things, new network partners. Even the smallest bands have their own fans and as they see Makia for the first time through the band, they might think that; “ok, this cool band is doing cooperation with this Makia brand, which means that this Makia has to be also a cool new thing” and those fans might become our regular customers. In return, we are introducing the bands to our networks and fans and we are helping them to go international. (Jesse)”

Table 11. Makia’s online business networks.

<table>
<thead>
<tr>
<th>ACTOR</th>
<th>RESOURCE</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online distributors</td>
<td>Knowledge, finance, credibility, website traffic</td>
<td>Commercial</td>
</tr>
<tr>
<td>Social Media Partners (Facebook)</td>
<td>Networks; contact to B2C customers, website traffic, online visibility</td>
<td>Marketing</td>
</tr>
<tr>
<td>Celebrities</td>
<td>Networks, website traffic</td>
<td>Marketing and content creation</td>
</tr>
<tr>
<td>IT-partner</td>
<td>Expertise and professional services</td>
<td>Technical support</td>
</tr>
<tr>
<td>Bands and celebrities</td>
<td>Networks, interesting website content, website traffic</td>
<td>Marketing and content creation</td>
</tr>
<tr>
<td>End users</td>
<td>Networks, Finance, website traffic</td>
<td>Business</td>
</tr>
</tbody>
</table>
As mentioned earlier, online networks may not be changing as radically as in offline business. The interview also reveal, that some network partners are same in online and offline businesses, such as distributors, which sell products through online and offline shops. However, according to the interview it seems like the needed resources and type of activities are somewhat different in online and offline business networks. As table 11 shows, Makia perform activities with partners in order to engender website traffic. Also Makia focuses on cooperating with partners in order to create interesting website content to the webpage, thus increase website stickiness.

Indeed, Makia has realized some important aspects which make the online business successful. Those elements are website stickiness and website traffic and turning the traffic into business. Academic literature also agree, that website traffic is one of the most essential factors in online business (Kotha et a. 2001).

“There are a few points in online business, which have to work. First of all, you have to get a lot of traffic to your websites and second of all you have to be able to convert this traffic into business (purchases). By making technical improvements to your website and webshop, you can improve your online business and guide the customers (traffic) to make purchases by making the website reliable and the buying easy. (Mika)”

As mentioned previously in the study, website traffic can be achieved by activities, such as marketing (Ashworth 2011) or partnering with different stakeholders, such as other online companies or individual persons (Kotha et al. 2001). Based on the literature, the wider and the more diverse online network is, the better it engenders traffic (Kotha et al. 2001). As figure 6 show Makias online network is quite diverse, as it connects with B2B customers, B2C customers, and other stakeholders, such as social media websites, bands, and celebrities in Internet environment. However, cooperation with different parties may be different and require different efforts and strategic thinking from the SME, as the following chapters show.

Makia cooperates with big international companies in both, online and offline business environment. According to the interview, the resources are similar with big international online and offline partners, as they both increase the SMEs credibility.
“Today, as the (customer) focus and business is shifting more and more to online environment, it creates credibility when you are involved in many online shops. On the other hand big online partners, such as Zalando are challenging for small companies, since the website sells hundreds of different brands and the competition is tough” (Mika).

However, in order to maintain good relationships with the B2B online customers, Makia has decided to keep low profile with the webshop, and has decided not to market the own webshops. This is in line with previous studies, which suggest that SMEs should consider channel conflicts (Gabrielsson and Gabrielsson 2011). In order to avoid any channel conflicts with B2B customers, Makia has decided to have more expensive prices in their own web shop, than what are the recommended retail prices in other B2B partners’ webshops. This is done, because Makia does not want to irritate their online partners by reducing the prices.

“Yes, and we have decided not to market our website too much as we have our own B2B webshop partners, such as Zalando or Nelly. Our intention is also to provide the whole collection from one website, but we do not want to compete with our own B2B customers. In online environment we concentrate on emphasizing the Makia brand and we also have a bit higher prices in our webshop than our online distributors. By doing this we do not irritate our B2B clients because that would weaken our business”. (Jesse)

Building online relationships with big international partners such as Zalando require some effort from the small company.

“Well I guess it (partnering with big online partner) starts by creating credible brand in the offline business environment. You really must have a smoothly running offline business, brand name, and credibility. Second of all, functional aspects such as shipping have to be coordinated to fit the partner requirements. (Mika)”

Each online partner have different ways of cooperating. With some big partners Makia also cooperate in online marketing activities. Activities with big network partners enable also credibility in the eyes on the end- and business-customers but
also traffic to Makia's own webpages. Also, big online partners, such as Zalando provide huge opportunities for small companies, as they enable access to wide networks. Through these big online and offline networks by the big online partners Makia gets access to big amount of end-customers. Even though this would not result online purchases each time, the contacts help to build knowledge for the brand in various countries and markets.

As a conclusion, the interview reveals interesting insights of online and offline networks. Figures 5 and 6 show that the offline networks do not change as radically as the offline business networks do. However some change in the size of the network is recognized. The number of B2C and B2B contacts and seem to grow. Also, Makia has built new contacts to IT-partners in order to improve the webpage quality and outsource its development and maintenance. Makia also seems to have some kind of strategy in online activities, as it has built partnerships in order to co-create interesting content to the website with bands and celebrities. However, seems like the biggest differences between offline and online networks are actually the resources which occur from cooperation. In online business different activities and co-operations are conducted in order to engender online visibility and most importantly to increase traffic in the website. Another aspect which is different in offline and online networks is that in online environment cooperation often involves interesting content creation together with the partner in order to increase the website stickiness. However, some of the received resources are very similar in both environments; as an example Makia achieves credibility in both; offline and online environments as it cooperates with a big international company, such as Zalando or Etnies. It became clear however, that some network partnerships are important only in one business mode, as an example partnering with IT-partner is only needed in online business.
6 DISCUSSION AND CONCLUSIONS

Although previous studies propose that Internet provides great environment for networking (Morgan-Thomas and Bridgewater 2004, Reuber and Brock 2004), and network effects have been considered crucial for online business companies (Grant and Bakhru 2004), academic literature has not paid much attention to online network development. The literature review on network development showed that previous empirical studies conducted on offline networks had focused on network in emergence, growth and internationalization phases. Those phases were chosen to be analyzed in this research, as each of them has a different and easily recognized strategy, and as according to Hite and Hesterly (2001) network partners’ change based on the current strategy of the company. In contrast to many other studies, this study attempted to discover not only offline, but also online networks in different development phases. Thus, the overall aim of this study was to analyze case the online and offline networks of the case company in emergence, growth and internationalization phases.

Based on the fact that previous academic literature argue that online and offline businesses are different from one another (Berry and Brock 2004, Song Zahedi 2006), it was suggested that offline and online business networks might also differ from one another. Thus, the main research question is; “How do the online and offline business networks differ from one another?”.

As the literature review suggest, networks change during the company development, and therefore by simply researching how offline and online networks are different from one another, without considering the different strategies and network development phases was thought to not give enough information on online and offline network change. Therefore, a sub-question was incorporated to the study; How do the offline and online networks differ from one another in emergence/e-commerce launch phase, growth phase and internationalization phases?

In order to provide accurate and in-depth information of the differences between the online and offline networks, the networks in each development phases were analyzed based on the ARA-model by Johansson and Håkansson (1992). Thus, the second
question was proposed: *Which actors, resources and activities are important in each online and offline development phase?*

### 6.1 Conclusion of emergence phase findings

The interview results of the case study company supported surprisingly many areas which were suggested by the literature of offline emergence phase networks. Indeed, during the first few years Makia’s offline network was quite narrow both in terms of size and especially diversity, as Figure 1 illustrates. The company performed similar activities with different stakeholders and received similar kind of resources from the partners, which were mostly friends, relatives or contacts from previous career. The interview also revealed that Makia suffered from lack of financial resources in the emergence as financiers were reluctant to provide funding for the company without any previous proof of success or profitable business. Makia made a strategic choice and decided to increase the size and diversity of their network by hiring marketing and sales person (Totti). This all is in line with the previous offline network literature findings on emergence phase networks. Thus, the interview showed support with all of the factors which were mentioned in the Tables 1 and 2 in Chapter 3, thus increases the validity of the interview findings.

The evaluation of the emergence phase networks in Makias online business launch in 2010 was more tricky, since by the time the company launched the webshop, it was already involved in international business, and had achieved success in offline business. This seems to have affected the online network as well. As the company launched its webshop, it already had quite well-known brand and wide offline networks including international distributors, which were selling Makia’s clothes online. As Figure 5 demonstrates, during the emergence phase Makia’s online networks were already quite large and diverse. For that reason it is difficult to analyze whether the interview corresponds with the literature review findings of online networks in emergence phase. However, this implicates that offline and online networks might have an effect on one another. If the company has achieved to build wide network in offline business, it is possible that the networks are wide already in the online emergence phase, if the company later on launches a webshop. The fact, that offline business has an effect on an online network is a novel finding. In order to
truly be able to investigate emergence phase online networks, future research should focus on investigating case companies, which have launched offline business and online shop at the same time.

Table 1 in chapter 2.1.3 presents the similarities of online and offline networks in emergence stage based on the literature review. However, due to fact that Makia’s offline business was already in internationalization phase, and had an effect on the online business networks, it is impossible to analyze how online and offline networks differ from one another during the emergence phase based on this interview. However, some interview findings corresponded with the literature reviews findings of online emergence phase networks. As Table 1 indicates, academic literature suggests that during the online business emergence special skills are needed from the entrepreneur, including IT-skills. Ashworth (2011) also suggested that SME’s tend to develop websites and webshop in-house during the first business development phases. This seem to be in line with the interview, as Makia indeed developed and maintained its own webshop in the beginning.

Another interesting finding was that as Table 2 in Chapter 3 demonstrates, both online and offline businesses should aim at increasing the size of the network, however the purposes of doing so are different. In offline business the goal of increasing the size of the network is to receive many different resources, whereas in online business the reason for increasing the network is to receive the same resource; web traffic. The interview with Makia supports this literature finding.

Finally, Table 2 in Chapter 3 shows that in offline business most of the network ties are close during the emergence phase, as the networks consist of family and friends. However, academic literature does not give any clue on whether or not social ties are important and most probable network ties during online business launch. Due to previously described reasons, this interview cannot provide an answer to this, but the interview shows, that social contacts are also important in online business. As an example, Figures 5 and 6 show that Makia’s founders have had personal contacts to actors, such as bands or celebrities with whom Makia has cooperated in order to receive important resources to their online business, such as interesting content and web traffic. This is an interesting and novel finding.
6.2 Conclusion of internationalization phase findings

It is almost impossible to compare the similarities and differences of online and offline emergence phase networks based on this interview. However, analyzing online and offline network similarities in internationalization phase based on the case company interview is easier, as the webshop was launched during Makia’s internationalization phase.

Table 3 in Chapter 3 sums up the similarities between online and offline internationalization phase networks based on the literature review. The interview supported some of the literature findings, but for some parts the interview did not provide clear support. Table 3 indicates, that both online and offline businesses tend to first outsource activities such as marketing and sales for international partners but would in later phases be willing to gain the lost power back as. The interview did show strong support on the outsourcing. Makia has outsourced international sales and B2B marketing for international sales agents and distributors. However, there were signs coming from the interview that Makia would want to gain back the lost power by managing the vast number of international shops by them self. The reason for this could be the fact that Makia is still such a small company, that the company has not got enough time or manpower to manage the global marketing and the distribution network, which includes over 700 retailers.

The interview revealed that some of Makia’s online and offline network partners are the same. Indeed as mentioned previously the interview showed that Makia outsources marketing and sales to international sales agents. These sales agents actually manage both, online and offline sales channels, which may include traditional offline and online shops. Thus, those international sales agents are part of both, online and offline business networks. This finding explains the literature reviews finding of the similarity of the both networks in terms of outsourcing activities such as international marketing and sales (see Table 3). Also some individual shops, which sell Makia’s clothes have both online and offline sales channels, and therefore they are involved in both networks. The fact, that some of the online and offline business network partners are the same is an interesting and novel finding.
The interview shows support for the literature finding which suggests that online and offline networks are similar in terms of attained resources from network partners during internationalization (see Table 3). Indeed, the literature suggests, that during internationalization phase companies seek the following important resources from online and offline network partners; credibility, market knowledge, further international contacts. The interview demonstrated strong support for the literature finding that online and offline networks are similar during the internationalization phase. It seem like in both businesses the companys goal is to find knowledge of international markets and achieve credibility by partnering with a local company. However, this can also be partly explained by the fact that the network partner may be the same. As an example the foreign partner could be a shop which sales products and acts in both environments. A novel finding was the fact that some of the online and offline network partnerships are established the same way. Makia binds online and offline partnership ties with B2B customers in international trade shows.

6.3 Conclusion of growth phase findings

The interview with Makia supported the previous academic literature findings. Especially Makia’s offline network development seems to follow a similar pattern, as previous studies propose, which strengthens the internal validity of the study (Yin 2009, 136).

Table 5 demonstrates the similarities between online and offline networks, which were discovered from literature review. The interview supports the finding, which indicates that during the growth company’s growth phase the size of both online and offline networks grow. In online business this is partly due to the fact that growth is often sought by applying multiple sales channel (MRS)-strategy, thus the distributor network increases. Also when Figures 5 and 6 are compared, it is clear that the size of the online network increases also due to the fact that the number contacts to B2C customers increase. This is partly enabled by social media, such as Facebook.
Literature review found also that both, online and offline network management becomes more strategic during the growth phase. The interview supports these results. In offline business, many big international companies, such as Etnies started to get interested in Makia and suggested collaboration. Shortly after many other companies contacted Makia as well and suggested cooperation. However, as Makia is still a small company, it does not have the resources to participate all projects, thus it started to pick up the projects, which were strategically the best for the company. In online business Makia shows signs of strategic network management by considering potential sales channel conflicts with B2B customers. Thus, Makia has made strategic choices, such as not marketing its own webshop and placing a slightly higher price on the products, because it does not want to irritate big B2B clients.

Table 6 in Chapter 3 shows that the online literature gave no evidence on the following two suggestions “the amount of social ties decrease as the business ties increase” and “during the growth phase it is easier to build contacts to big international companies”. On the other hand the literature and the interview support both suggestions from the offline point of view. Indeed, based on the interview, large international companies started to consider Makia as an interesting strategic partner and suggested cooperation projects. At the same time the importance of entrepreneurs’ social ties decreased as Figure 4 demonstrates. However, this doesn’t mean that social networks would not be used anymore. Indeed, interviewees pressed that the company still receives advice and tips from social contacts, such as friends who work in the same industry.

Coming back to online business and the question of building relationships with big international partners during growth phase, the interview showed some hints of the phenomenon. In the interview Mika commented that in order to build partnerships with big international online company, such as Zalando a credible brand needs to be developed in order to achieve credibility in the offline business. This implicates that offline business reputation affects strategic partnering in online business, which is a novel finding. Thus, is the company is trusted in the offline business, it is easier to build connections with international online companies as well.
6.4 Summary

Overall the study revealed many new insights on online and offline networks. The interview showed that overall networks of the case company had changed throughout the organizational development process. It was also discovered that both; online and offline networks had developed and changed, but seemed like the online network change pattern was more subtle than the offline network change. This may be due to the fact, that by the time Makia launched the web shop, it had already taken the first steps in internationalization phase. This finding implicates, that offline development affects also online networks.

In general it was discovered that some of the network partners, such as retailers which have online and offline sales channels, can be network partners in both businesses, which implicates that online and offline networks cannot be entirely separated from one another. However, some network partners are important only in either of the business models, as an example IT-service providers and social media partners belong to online network.

The study suggests that during internationalization and growth phases networks develop in a similar way in both business models. In both cases the number of (international) network partners grows and the meaning of social contacts decline. Also network management becomes more strategic. Another interesting finding is that during growth and internationalization phases offline business build a cornerstone for building contacts with big international online companies, thus offline brand reputation and previous networks affects also the online networking.

After analyzing the networks in more depth by using the ARA-model, the study revealed that the biggest differences in online and offline networks might not actually be the network partners, but instead the type of activities and attained resources. Online networks resources, such as website stickiness, web traffic are most important resources, which an online business can obtain. This can be attained by doing content creation activities with different parties. Those resources and activities are useless in offline network, which makes the online and offline networks somewhat different.
6.5 Managerial implications

Based on the findings which suggest that offline reputation and networks have an effect on online business, companies should consider the positive effects of offline networks on online business.

Managers could also try to strongly incorporate online and offline network management planning in each development phase’s strategy, as often each development phase requires different resources and usually those resources can be reached by doing activities with different parties. As an example during company emergence SMEs are most likely not able to build connections with large international companies, but instead resources have to be sought from other, smaller businesses.

Managers could also keep in mind that traditional offline business could grow by adding online sales channel. If networking is easy in offline business, those partnerships may also affect building online business networks positively.

6.6 Validity of the study and suggestions for future research

The aim of this study was to provide a thorough analysis on online and offline network change and to shed light on the question of whether or not online and offline networks differ from one another and if yes, how?

Based on the literature review, it was discovered that networks change as organization develops. Therefore it was considered that if research would simply focus on the differences and similarities of the online and offline networks, the results would be too rough. Also previous empirical studies showed evidence that different development phases, such as emergence, internationalization and growth phases seem to have specific types of networks. Thus, a sub question was posed in order to gain knowledge on how online and offline networks differ during specific development phases. In other words, this study does not consider online and offline networks as two big separate units, but instead draws a conclusion based on thorough literature review that in fact there are several types of online and offline networks in
different development phases (emergence, internationalization and growth). This finding improves the sampling validity of the research.

In order to gain deeper insight on why particular networks are important in certain development phases, the study uses Håkansson’s and Mattson’s (1992) ARA-model. Thus, during the interview the case company’s participants were asked which actors were involved in each development phase, what resources was gained from the actor and what type of activities were conducted.

The literature review was conducted carefully and only peer reviewed articles and other trusted academic sources were chosen. The findings of the literature was segmented and analyzed thoroughly, as described in Chapter 4. Theoretical framework was build based on the findings of previous empirical studies, and the semi-structured interview questions were designed based on the theoretical framework, which improves the external validity of the single-case study (Yin 2003, 34)

Fashion industry was tough to be suitable for the study context, as clothes are one of the most purchased items in Internet. The case company was chosen carefully, as random selection is not desirable in single case study. The company had to reach certain criteria (see chapter 4.1) in order to qualify as suitable case company.

Before the actual interview, the interview questions were pre-tested and approved by the study supervisor. The semi-structured interview was held by interviewing two of the most knowledgeable employees of the company simultaneously. By interviewing two persons at the same time, it was assured that most accurate data could be gathered, since by interviewing two persons more information is reached, and information errors are reduced as biases are offset (Huber and Power 1985). Data was gathered also from other resources, such as articles, videos and webpages in order to gain comprehensive data. The interview was recorded and transcribed and later the case company representative read the findings of the study and approved that the facts concerning the case company was true. All of these actions improve the study’s reliability. The findings of the study showed strong support to previous studies which improves the validity of the study (Yin 2003, 34).
Due to the fact that when the case company launched its first online web shop, the company had already reached internationalization phase, this study was unable to provide accurate information of online emerge phase networks. In order to gain insight of online emergence stage networks, future studies should investigate companies which have started online business in the overall company emergence stage.

Findings of this research suggests, offline reputation and existing offline networks affect online business networks, thus offline business affects online network development. However, future studies could investigate the network development of pure-play organizations, meaning companies, which act and sell products solely through online sales channel. In that way the “true” online network development could be discovered without the effects of the offline business.
7 REFERENCES


Finatex (2014)
http://www.finatex.fi/projektit/inno-pilotti.html#.U1o63bSksbg (Cited 20.3.2014)


Poirier Charles C & Bauer Michael J (2001) E-Supply Chain. Using the Internet to revolutionize your business. How market leaders focus their entire organization on driving value to customers. San Fransisco, Berret-Koehler Publishers INC.


http://www.youtube.com/watch?v=sN_vjS4-mLM (Cited 10.4.2014)


Turunen Miia (2011) Vaatebisnes kasvoi ulos kellarista. 

http://www.marmai.fi/uutiset/makia+ja+etnies+kimppaan++skeittikuvaukset+helsingissa+talla+viikolla/a2122698 (Cited 16.3.2014)


Webdale J. (2003) Refashioned. New Media Age, March 27, p.23


