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# Informal and formal networks

The development of informal and formal networks for internationalization of Dutch food SMEs

BSc thesis Management Studies YSS-81812

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## Summary

This BSc-thesis investigates the development of informal and formal networks and the internationalization process by Dutch food SMEs that produces consumer products with an international orientation in Europe. There are concerns for the agricultural export position of the Netherlands, because the market share of the Dutch export in Europe is decreasing. However the total of export has increased to about 85 milliard dollar in 2010 (LEI, 2012). Still, there are business opportunities in Europe.

SMEs in general are starting internationalization as a side issue, while realizing internationalizing requires an explicit strategy and a conscious choice and focus (Wubben et al, 2012). Furthermore, SMEs may lack the required skills to build international networks and to realize internationalization. A better understanding of the network development is needed. This thesis tries to improve our understanding of the internationalization process and the development of building international networks, by providing more insights into the way international informal and formal networks are developed by SMEs. Appropriate formal and informal networks may contribute to the implementation of an international strategy.

The central research question in this thesis is; 'What network related factors enhances the success of internationalization in Europe of Dutch food SMEs that produces consumer products?'. A literature study is executed and a questionnaire is applied to answer this research question. The results of both research methods have been analyzed.

The answer to the central research question consists of six important network related factors. First, active involvement and a willingness to cooperate is needed to establish international relations and networks for internationalization. Second, the personal network of the (senior) management may provide competitive advantages for internationalization. Third, the characteristics of the decision makers of SMEs influence the behaviour of the SME. So they also influence the development of informal and formal networks. Fourth, SMEs should have a clear vision about their internationalization stage and what they want to achieve by means of the international networks. Informal networks are more important in the early stages of internationalization, while formal networks are more important in the later stages. Fifth, foreign customer acquisition can be done by participation in international trade events. During these international meetings, contacts can be made with important stakeholders. The sixth and the last factor is the capability to form and to exploit international networks. The firms that are highly capable are in a better position to realize internationalization successfully.

Due to convenience sampling and the relatively low number of respondents, the outcomes of this research cannot be generalized. Compared to the research sample of Wubben et al. (2012), the outcomes of this research may give an indication about the development of international networks and the internationalization process. The respondents in our sample are relatively more experienced in internationalization compared to the sample of Wubben et al. (2012).

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# 1. Introduction

This chapter introduces the subject and the need of this thesis in the first section. The objective of this thesis, the research questions and some definitions of important concepts are described in the second section. In the third section the methodology is clarified and the content of this thesis is summarized in the fourth section.

## *1.1 Research context*

This thesis is about the development of informal and formal networks by Dutch food SMEs with an international strategy. In this thesis an international strategy is defined as an international strategy in Europe. Only the SMEs in the food sector which produces consumer products are investigated. After this section, only the concept 'SME' is mentioned.

In the last fifteen years the Dutch agricultural export is strongly increased to circa 85 billion dollar in 2010. Although the Dutch food companies have realized export growth, the Dutch market share in Europe is decreasing. The Netherlands have lost market share in the international markets, because the average growth of import value of the European countries together is higher than the average growth of the Dutch export value (LEI, 2012). According to a report of ABN AMRO, FNLI and Wageningen UR (2012), there are opportunities in Europe in countries like Poland, Turkey and Russia to increase market share (Wubben et al, 2012).

According to Aaltonen et al (2002), companies can have difficulties with the implementation of a certain (international) strategy. Reasons for that can be weak management roles in the implementation, a lack of communication, lacking a commitment to the strategy and a misunderstanding of a strategy (Aaltonen et al, 2002). Most companies are starting with exporting products as a side issue, but to realize international success a conscious choice is needed to go international. The higher management in most of the Dutch SMEs are managing the international activities. International business is not seen as the main business (Wubben et al, 2012).

Some skills cannot be developed that are important for internationalization, because the companies are small, (Wubben et al, 2012). Firms may not have enough knowledge about the market conditions and regional regulation. Furthermore firms doubt their international network (Wubben et al, 2012). The larger firms are having a formal corporate governance structure, but the decision-maker in a SME is often an individual (the owner-manager). So the behavioural characteristic of a SME can be determined by the decision-maker (Lloyd-Reason, 2002). So SMEs may be not skilled enough to build international networks, although international (in)formal networks are very important for internationalization (Axelsson et al, 1992; Coviello, 1995; Johansson et al, 1988).

Business relationships or networks are embedded inside the firm (employees, departments and units) and outside the firm (customers, suppliers and competitors). According to Ritter et al (2004), a firm has seldom control over all these relationships (Ritter et al, 2004). They suggest that an integrated understanding is needed. According to Freeman et al (2006), there is also a need for a better understanding of the problems and possibilities associated with relationships and top-management network development in smaller global firms and how networks achieve early internationalization (Freeman et al, 2006). Moreover, Zain et al (2006) argue that managers of SMEs

should pay more attention to how network relationships should be established and what management skills are required over time (Zain et al, 2006).

Concluding, there are opportunities for Dutch SMEs in West Europe to increase market share. However, SMEs may not be skilled enough to build international networks and to implement a international strategy. There is a need for a better understanding of the relationships or networks of the top management and how these networks contribute to internationalization.

### *1.2 Research objective*

The objective of this thesis is to gain more insights into the way international (in)formal networks are developed by Dutch SMEs, to improve the internationalization process and the exploitation of (in)formal networks. The target group in this thesis is Dutch food SMEs that produces (non) fresh end products with an international strategy in Europe. A good informal and formal network can improve the implementation of an international strategy. These networks may contribute to a greater market share of the exporting SMEs.

The central research question in this thesis is;

*'What network related factors enhance the success of internationalization in Europe of Dutch food SMEs that produces consumer products?'*

To answer the central research question, the following research questions are drawn;

1. What are the characteristics of an informal network in contrast with a formal network?

To answer this research question, definitions of informal and formal networks are provided and the most important characteristics of informal and formal networks are summarized.

2. What is the process of developing informal and formal networks by Dutch food SMEs with a focus on international expansion?

To answer the second research question, the process is described how Dutch SMEs developed their informal and formal networks with the focus on international expansion.

3. What is the process of realizing international expansion by Dutch food SMEs?

To answer the third research question, the process of internationalization of Dutch SMEs is described. The second and the third research question will be combined and the relation between the international expansion and the development of (in)formal networks is investigated.

This thesis tries to give insights into the way international (in)formal networks are developed by Dutch SMEs with an international strategy in Europe. This thesis shows network related factors that may contribute to a successful internationalization process. The emphasis is mainly on the informal network, but the formal network is also included.

Consumer products, divided in non-fresh end products and fresh end products, are defined as products which are ready for human consumption without further processing. Examples of fresh end products are fruit, vegetables and potatoes for consumption. Fish products, butter, cheese, beverages, meat-, vegetables-, and fruit preparations are examples of non-fresh end products (LEI,

2012). According to the European Commission a SME (small and medium enterprise) has less than 250 employees, a turnover that is less than 50 million euro and the annual balance sheet should not exceed 43 million euro (European Commission, 2006). There are many food companies with an international strategy that exceed the criteria of a SME. In this research are also firms included with a turnover till 500 million euro to get more respondents.

### *1.3 Methodology*

In this thesis two main research methods are used; a literature study and a questionnaire. The design of the questionnaire is describe in more detail in chapter 4 (section 4.1).

The first research method is the literature study. According to Boeije a literature review can facilitate the analysis of the research and the theoretical sensitivity of the researcher increases (Boeije, 2010). The instrument literature study is a research method in this research to support the questionnaire. The literature study should provide answers to the sub research questions and should give a theoretical background for the results of the questionnaire. The first research question will be answered according to the literature study.

The second research method is the empirical research. A questionnaire is composed to collect the data. Causal relations are investigated with this research method (Boeije and Hart, 2009). In this case, the relation between informal and formal networks and the internationalization process is mainly investigated. The questionnaire, on the basis of literature, consists of eight questions with closed and open-ended answering categories. The respondents of the questionnaire consist of seven Dutch food firms. The connections with these companies are established due to interaction with N. Dijkman of ABN AMRO. E. Wubben (Wageningen UR) and N. Dijkman collaborated in the past on the report 'Internationalisatie: groeien over grenzen' of ABN ARMO in 2012. N. Dijkman contacted seven Dutch food firms by e-mail, after a meeting about international business in the food sector at ABN AMRO on 06-06-'13. Four firms responded to the request to fill in the questionnaire. On 24-06-'13, he contacted eight food firms by e-mail to get more response. Convenience sampling is chosen, because it is hard to obtain response of these food firms in this limited period of time. In total, seven firms responded. This is a small number of respondents, however this sample can give an indication of the (in)formal networks and the internationalization process for this BSc-thesis. To get more insights in the results of the questionnaire, one questionnaire is conducted by phone with one of the seven Dutch food firms. The second and the third research question will be answered on the basis of the data collected with the questionnaire as well as information taken from the literature.

#### *1.4 Content of this thesis*

Chapter 2 will give a theoretical background of the second and the third research question.

Chapter 3 will provide the answer of the first research question: 'What are the characteristics of an informal network in contrast with a formal network?'

Chapter 4 will provide the answer of the second and third research question: 'What is the process of developing informal and formal networks by Dutch food SMEs with a focus on international expansion?' and 'What is the process of realizing international expansion by Dutch food SMEs?'. In this chapter the empirical results and the results of the literature study in chapter 2 are analysed.

Chapter 5 will provide the answer of the central research question and the conclusion. This chapter includes also recommendations and the discussion.



## 2. Literature review

In this chapter a theoretical background is given to analyze the empirical results in chapter four. The subjects internationalization and networks with regard to internationalization are described in more detail.

### *2.1 Internationalization*

This section describes the scientific views on internationalization, the export activities of the Netherlands, the advantages and disadvantages for SMEs with international activities, the internationalization process and the CAGE framework.

#### 2.1.1 Views on internationalization

The standard view in most of the international business literature is that internationalization is an incremental process, after a period of domestic experience and growth. The internationalization process is intensively explored in the past (Axelsson et al, 1992; Coviello et al, 1997; Ellis, 2000; Johanson et al, 1988; Johanson et al, 1992; Reid, 1983). The Uppsala-model is an example of this stepwise approach, which can strengthen an international position (Johanson et al, 1977). This model can explain that the uncertainty in a market disappears when a company is physically participating in the market. Similar internationalization models are the business-strategy-based theory and the network approach (Johanson et al, 1993). Also models of Cavusgil (1980) and Welch et al (1988) require an incremental move through a number of different stages. In particular, firms move from one stage to another as they gain experiential knowledge in a particular market abroad (Calof et al, 1995).

The support for these standard stage models varies. Gankema et al (2000) suggest that the stage model of Cavusgil (1980) is valid, whereas Millington et al (1990), Coviello et al (1997), Etemad & Lee (2003), Kundu et al (2003), Ibeh (2003) and Bell (1995) suggest that the process of internationalization of firms is far from an incremental process posited by the standard stage theories of internationalization. Millington et al (1990) suggest that stepwise internationalization was the exception rather than the rule (Millington et al, 1990). The network approach is regarded as more appropriate to analyse internationalization (Bell, 1995; Coviello and McAuley, 1999). Although many studies suggest that internationalization does not have to be an incremental process the internationalization process is often described in stages. The studies that are not supporting the standard stage theories suggest that there are several factors that influence the pace and the pattern of the internationalization process.

The characteristics of the top decision makers are likely to play an important role in the internationalization process. Especially in the early stages of SME internationalization, the entrepreneurial characteristics of the owner and/or manager appear to be very important (Etemad and Wright, 2003). The skills and knowledge of the owner and/or manager(s) of the SME are likely to be predictive of, and influential on, patterns of internationalization (Oviatt et al, 1994). According to Smith et al (1995) and Reuber et al (1995), the influence of top decision makers should be modelled as indirect rather than direct. This means that the experience of the management team is likely to influence the behaviours of an SMS, and the behaviours of SMEs, in return, will influence the

performance of the firm (Smith et al,1995; Reuber et al, 1995). In the following stages the enterprise grows in size and acquires more knowledge, information and expertise. In these stages the characteristics of the enterprise exert relatively greater influence on export behaviour and success than the characteristics of the decision maker(s) (Etemad & Wright, 2003). This alternative view of internationalization suggest that the characteristics of the top decision makers are likely to be influential in the early stages of internationalization and the characteristics of the enterprise are more influential in the following stages.

Besides the influential characteristics of the top decision makers, relations or networks can be influential in the internationalization process as well. The pace and the pattern of international market growth and the choice of entry mode for small firms can be influenced by close relationships with customers (Lindqvist, 1988); and inter-organizational networks appear influential in both market selection and mode of entry for small firms (Bell, 1995). This alternative view of internationalization suggest that relationships and networks are influential in the internationalization process. So this view of internationalization supports the network theory.

Concluding, there is a need for new models of internationalization, because of rapid changes in today's business. More attention is placed on networks and relationships when trying to understand and explain rapid internationalization of firms (Johanson et al, 2003). Moreover, several entry modes, such as franchising, licensing and wholesaling may also facilitate to rapid internationalization (Hutchinson et al, 2005). Experiential learning is also a critical concept in internationalization research, which supports behavioural models of internationalization (Kogut et al, 1988; Luo et al, 1999). According to Coviello and McAuley (1999), three directions of studying internationalization are preferable: foreign direct investment theories (FDI-theories), stage models and network theory (Coviello and McAuley, 1999). A combination of those views is preferred since it is difficult to capture the whole concept of internationalization by using only one concept (Jansson and Sandberg, 2008). The network theory is increasingly combined with the stage theory to understand the rapid internationalization of the firm (Johanson et al, 2003; Meyer et al, 2002). So the 'old' models (Johanson, 1988; Cavusgil, 1980; Welch et al, 1988) are still applied at the same time there is a need for new and network-based models of internationalization.

### 2.1.3 International activities of SMEs

Internationalization has mainly been studied in the past for multinational corporations, called MNCs, but less for SMEs. The internationalization process of SMEs seems to be neglected in international research (Coviello & McAuley, 1999; Fillis, 2001).

It is important for food SMEs to have international activities for several reasons. According to Reuber et al (1997) a firm's size and age do not determine the capacity of the firm for internationalization. Those international activities increases the chance to grow and to survive comparing to domestic oriented companies. SMEs can also strengthen their competitive position (Segaro, 2012). The most important reason for companies to start international activities is to realize growth in new markets (LEI, 2012). Other reasons for companies to have an international strategy is the expansion of the international network, the Euro, so there is little currency risk and the European consumption patterns look the same. Another reason for internationalization is that the domestic market of the SME is saturated (Wubben et al, 2012). Especially for smaller countries, this can be an important reason to go international. Spreading of risk is also a reason to have international activities. A wider

distribution of markets reduces the risk (Wubben et al, 2012). Because of the importance to have international activities, obtaining sales outside their own domestic market is an objective for many SMEs (Reuber, 1997).

There is also a negative side to international activities of SMEs. Export barriers may play a role for SMEs to go international. Examples of those barriers are; SMEs may not have enough knowledge about the market conditions and regional regulations and compared with large firms, SMEs may lack the necessary skills and resources (Reuber, 1997; Meyer et al, 2002; Jansson, 2007). According to Lloyd-Reason the pressure of trade liberalisation and the increasing international competition have implications for the management of the SMEs, which is also a barrier for having an international strategy (Lloyd-Reason, 2002). For instance, SMEs may not be able to do international business due to shortages of finance and limited administrative capacity (Jansson and Sandberg, 2008). SMEs also doubt their international network (Wubben et al, 2012), although an international network is very important for the implementation of an international strategy (Axelsson et al, 1992; Coviello, 1995; Johansson et al, 1988).

Although SMEs may lack the necessary skills and recourses to go international, international activities can strengthen their competitive position and increases the change to grow. Furthermore SMEs are increasingly internationalizing their business activities (Jansson and Sandberg, 2008). So it can be wise for SMEs to have an international strategy, however the internationalization processes are becoming more complex and the competition in foreign countries is becoming more fierce (Forsgren, 2002).

### 2.1.3 Internationalization process

This section describes first a common internationalization process, secondly a internationalization process of SMEs with the focus on export. This section finishes with important requirements for internationalization, which influence the internationalization process.

Internationalization processes may have differences in the number of stages. In most cases the first step is indirect export. Often a company starts with low risk countries. When a company is more experienced in the international market, other countries are considered. The second step is direct export. Collaboration is very important to export successfully and to overcome cultural differences (Westhead, 2001). A long-term international relationship can have benefits; essential market information, knowledge and technology. The third step is to establish an agent or representative of the firm. The fourth step is to realize a greater market position and a strong network. Companies are getting more experienced and have more knowledge during this process (Wubben et al, 2012). The more internationally experienced the companies are, the more likely they are to form (in)formal networks required for internationalization (Reuber et al, 1997). The fifth and the last step is to invest in a foreign establishment. Normally companies start with a distribution department. After that, the production department and the R&D department will be established (Wubben et al, 2012). This common internationalization process has five stage, but new stages of internationalization can be established when the firm is entering new types of markets or new foreign markets (Jansson and Sandberg, 2008).

The internationalization process of SMEs can be described by five stages with the focus on export (Cavusgil, 1980). In the first stage of this internationalization process, firms have a focus on domestic

markets. The next stage is the pre-export stage, in which the firm evaluates the possibilities to start exporting. In the third stage, involvement is important and exporting is a marginal activity. The fourth stage requires active involvement and an appropriate organizational structure. In this stage international business becomes a normal activity. In the fifth and the last stage, commitment to export and involvement are important. The firm can be called international, when the firm is dependent on foreign markets (Cavusgil, 1980). An export strategy requires little capital investment and provides fast access to foreign markets. This strategy is very applicable for SMEs, because SMEs frequently lack resources (Lu and Beamish, 2001).

In the final stages (3-5) of both internationalization processes, the common process and the process of SMEs, commitment and involvement are required for internationalization. Also the acquiring of knowledge, including experiential knowledge, and the building of relationships or networks are important factors in both processes of internationalization (Rundh, 2001). The level of experience influences the pattern of internationalization. According to Johanson et al (1991) the inexperienced firms may follow a slow and gradual pattern, whereas a more experienced firm may follow a less slow and gradual pattern. Especially for international activities in markets in central and eastern Europe (CEE), network-based strategies are common when the firms are entering new markets (Meyer, 2001). So the fact that networks are important for internationalization is clear. Although, many companies are lacking a strategy for international engagement at the beginning of this process. That strategy is often developed later on, when the company has gained more international experience (Rundh, 2001). The common internationalization process will be used in this thesis, because it includes many aspects of internationalization.

Concluding, an internationalization process can differ in stages and pace. The degree of experience seems to determine both the pace and what stages the firm tends to follow. The networks or relationships and the characteristics of the top decision makers are also determining factors in this process, which is already mentioned in section 2.1.1. The role of these networks, relationships in the internationalization process is described in more detail in section 2.2.2.

#### 2.1.4 CAGE framework

The CAGE framework emphasizes the importance of cultural, administrative, geographical and economical distance (Ghemawat, 2001). This framework measures the match between countries and companies according to these four dimensions of distance, which is important for the internationalization process of a organization. It helps managers identify and assess the impact of distance on various industries. Country specific expertise is important for international entry (Barkema et al, 1996), therefore country specific knowledge is crucial (Meyer et al, 2002). Entrants need to build specific expertise to overcome administrative and cultural barriers (Meyer et al, 2002). The required knowledge to achieve country specific expertise consists of formal knowledge and experiential knowledge. The formal knowledge includes hard facts, that can be obtained via blueprints and consultancy reports (Meyer et al, 2001). Formal knowledge is easier to acquire than experiential knowledge. Experiential knowledge includes expertise in leadership, cross-cultural management and local business culture. This knowledge can only be transferred through active involvement (Meyer et al, 2001). In the following paragraphs the four dimensions of distance are further described.

The first dimension of the CAGE framework is cultural distance. This cultural dimension relates to differences in language, ethnicity, religion and social norms. Also important compatibilities in terms of managerial behaviour are included. These differences increase the cultural distance between countries. A lack of social networks also increases the cultural distance. Especially cultural distance can affect the food industry, because food can be related to national identity. According to Ghemawat (2001), miscellaneous edible products and preparations are more sensitive for cultural distance than non food products (Ghemawat, 2001). Cultural barriers for internationalization seems to be more important than technical obstacles (Dupuis et al, 1996). They recommend internationalizing firms to develop an adjustment capacity to different cultural environments and to create harmonious relationships between different actors in the channel. According to Cunningham et al (1986), informal personal contacts can be used for reducing the cultural distance (Cunningham et al, 1986). Moreover firms sharing a common language with their international relations are able to internationalize faster than firms that not share a common language (Musteen et al, 2010).

The second dimension is the administrative and political distance. This dimension is in terms of incompatible administrative, political or legal traditions. The administrative and political distance can be increased by absence of shared monetary or political association, political hostilities and weak legal institutions and weak financial institutions (Ghemawat, 2001).

The third dimension is the geographical distance, which includes geographical characteristics of the countries, sea-access and the quality of communications infrastructure. The geographical distance can be increased by a lack of common border, waterway access and a lack of adequate transportation or communication links. Also different climates can increase the geographical distance (Ghemawat, 2001). This distance can affect industries with perishable products, for example fresh food products.

The fourth and the last dimension of the CAGE framework is economic distance. This distance refers to the wealth distances between countries. Economic distance can be increased by different consumer incomes, different costs of quality of natural, financial and human recourses and by different information or knowledge.

Concluding, the country specific expertise such as knowledge about the cultural and the administrative distances are the most important distances for internationalization according to Ghemawat (2001), however the geographical distance is especially important for the food sector.

## *2.2 Networks & Internationalization*

In this section some definitions of networks and the role of (in)formal networks in the internationalization process are described, because networks play an important role in this thesis.

### 2.2.1 Definitions of networks

This section is about common definitions and characteristics of networks and more specialized definitions of networks, namely business networks, social networks, personal networks, inter-organizational networks and inter-personal networks. The definitions of informal and formal networks are discussed in more detail in chapter 3. This section finishes with the definitions which will be used in this thesis.

There are several ways to define networks. A network is generally defined as specific type of relation linking a defined set of persons, objects or events (Mitchell, 1969). The set of persons, objects or events on which a network is defined are called 'actors' or 'nodes' (Knoke et al, 1982). Networks can also be defined as a set of interconnected nodes, that imply organized systems of relationships with the external environment. They are flexible and can also expand indefinitely (Castells, 2000). According to Axelsson et al (1992), networks are like a process. They do not have lifecycles, they are transforming over time and they shift in focus and membership (Axelsson, 1992).

A firm can have an active influence on its networking activities that shape the networks and relations, which in turn affect business development. Networking is resource-demanding and can result in adverse outcomes (O'Donnell, 2004; Dubini et al, 1991). Networking requires time, resources, the right attitudes and skills to be effective.

A *business network* is a long-term business relationship between at least two legally independent firms that exploit mutual complementarities and exchanges information. Business networks are neither coordinated through an organizational hierarchy nor through the market, but through interaction among actors in the network , generally based on mutual trust and common long-term interests (Johanson et al, 1988). Business networks includes both organizational and individual dimensions, however the line between the entrepreneurs' personal network and the networks that are a by-product of their businesses' needs will be somewhat blurred (Johannisson, 1992).

A business network facilitates the internationalization process (Coviello et al, 1999). Business networks facilitate in particular the flow of information between partners and provide access to complementary assets. These aspects of business networks are of crucial importance for smaller enterprises. These networks reinforce the international learning processes and provide access to new customers and suppliers located abroad (Meyer et al, 2002). A business network provides also a knowledge-pool that grows with the experiences of the partners while providing stimuli, to pursue business opportunities. The dynamics of the business network influences firms' internationalization behaviour (Meyer et al, 2002).

*Personal contact* is defined as a connection between two persons that is implicitly based on a mutual interest and a shared understanding of a possible social benefit. This can be achieved from the exchange of private recourses, such as information (Yang, 1994). Personal contact can be part of a social network.

A *social network* is formed by individuals such as family, friends, acquaintances, and employees. Such a network can be defined as the totality of persons connected by social relationships within a bounded population (Aldrich et al, 1986). The social network has two components. The first component is the *personal network* which is defined as concrete contacts and bonds with specific individuals. The second component is a cultural component which is wider and in which the individual actors are embedded. This cultural context influences the way in which the actors in a social network interact (Aldrich et al, 1986).

Two important dimensions to identify networks are the degree of formalization of the relationships and the nature of the actors (Chetty et al, 2008). A network with organizations as actors is called a *inter-organizational network*. When the actors are individuals, the network is called a *inter-personal network* (Chetty et al, 2008). The distinction between the dimensions formalization and the type of

actor are shown in table 2.1. In this table the personal network is referring to an inter-personal network which consists of individuals as the actors and has a informal type of link. The inter-organizational network consists of organizations as actors and has a formal type of link.

Table 2.1 The distinction between personal and inter-organizational network (O'Donnell et al, 2001)

	<b>Inter-organizational network</b>	<b>Personal network</b>
<i>Network 'actor'</i>	Organization	Individual
<i>Type of link</i>	Formal	Informal

In this thesis the emphasis is on formal and informal networks. The formal network includes the business networks. The informal network includes the personal network of the entrepreneur. The common definition of network of Castells (2000) is used, because flexibility and the external environment are aspects which play also a role in internationalization.

### 2.2.2 The role of networks in the internationalization process

This section describes first how the internationalization process can depend on international (in)formal networks and contacts, secondly how international experience can have advantages for building and exploiting contacts and networks. Third, this section describes how internationalization can be established according to the network model and this section finishes how a personal network of top managers can affect the internationalization process.

Section 2.1 explains that collaboration, a long-term international relationship and a strong international network is very important for the implementation of an international strategy. According to Axelsson (1992), the nature of relationships established with others in the market, can influence strategic options in the future (Axelsson et al, 1992). Furthermore the foreign market selection and entry initiatives emanate from opportunities which are mainly created by network contacts. These contacts can be informal and formal (Coviello, 1995). Also Johansson and Mattson (1988) suggest that the success of firms in entering new international markets is more dependent on its relationships within current markets, international and national, than it is on the chosen market and its characteristics (Johansson and Mattson, 1988). In summary, the internationalization process is largely depending on international (in)formal networks and contacts.

International networks and contacts can have influence on the internationalization process, this can also work the other way around. The more experienced top management teams are more likely to form partnerships and relationships because they have a better ability to know, attract and engage partners than management teams with little experience (Eisenhardt et al, 1996). According to Reuber et al (1997), the management team with more international experience, in particular, is more likely to have the advantages that foreign partnerships may offer, a place in a foreign business network and are more likely to have the skills needed to identify and negotiate with firms in a different culture (Reuber et al, 1997). So management teams with international experience have advantages for building partnerships and exploiting contacts and networks.



The relation between the level of internationalization and the number of relationships or networks, as described above, is shown in figure 2.1. This figure shows two relations. The first relation is the relation between the portion of a firm's resources and capabilities located abroad and the number of relationship or networks (Jansson and Sandberg, 2008). The larger the number of relationships or networks, the larger the number of a firm's resources and capabilities located abroad. The second relation is the relation between the level of internationalization and the number of relationships or networks, as described in the previous paragraphs (Jansson and Sandberg, 2008). The firm moves further along the internationalization process, as the number of relationships or networks in foreign countries increase (Jansson and Sandberg, 2008).

The connected circles in the figure are referring to the relationship model of Ford (2002), according to Jansson and Sandberg (2008). The development of relationships in internationalization tends to follow a five stage pattern. By building relationships to form networks in foreign markets, market entry possibilities arise. During the first stage of the relationship model, also called the pre-relationship stage, SMEs have a domestic focus and start to internationalize their relationships to a foreign country. In this stage, the level of international experience is very low, the uncertainty is high and distances are large (see the CAGE framework) and the commitment is zero. In the second stage of the relationship model, the early stage, commitment and the level of experience increase slowly. There is still high uncertainty and high distances between the parties. So during the first two stages, a small number of relationships or networks are established due to high uncertainty, low commitment, and the high distances between the parties, however the resources and capabilities located abroad are increasingly shared. The following two stages, the development stages, show how direct buyer and seller relationships within networks are established. Commitment and experience increase in these stages and the resources are increasingly shared. Parties increasingly trust each other, distances become smaller, business activities increase and uncertainty is decreasing. The establishing of relationships is a mutual learning process. In the fifth and final stage, the relationship is institutionalized and habitual. In this stage the commitment is being taken for granted (Jansson and Sandberg, 2008).



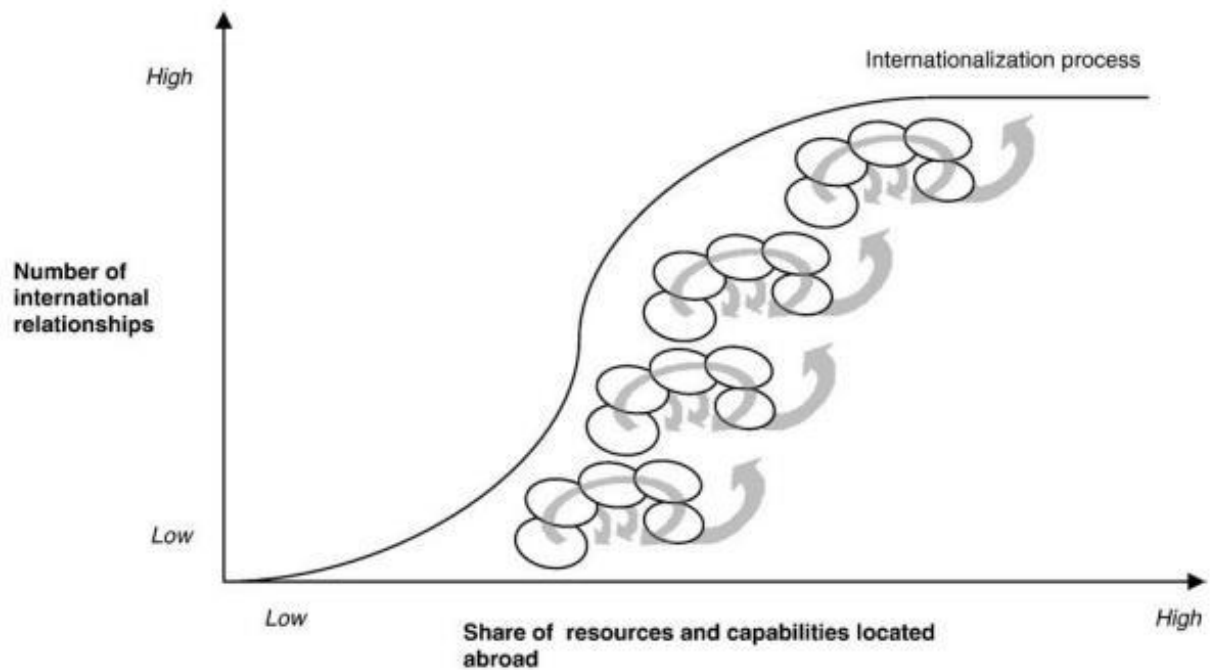


Figure 2.1 The relation between relationships and international activities (Jansson and Sandberg, 2008)

Internationalization can be established according to the network model, which is in line with the Uppsala-model (Johanson et al, 1988). Firms can develop and establish positions in relation to counterparts in foreign networks. This can be achieved by international extension, penetration (increasing resource commitments) and by international integration (Johanson et al, 1988). So according to this network model to internationalization, exporting and or importing takes place through establishing relationships in foreign market networks and developing them through entry processes.

Although the network model is regarded as an appropriate approach to establish internationalization, this model needs to be re-examined according to Sasi et al (2008) and Ellis (2008). According to Sasi et al (2008), the model neglects the entrepreneur and his social networks (Sasi et al, 2008). An extensive personal network is important for internationalization (Freeman et al, 2006). There is an important link between the network of each manager and the pace of internationalization (Chetty et al, 2004). Especially senior managers of SMEs were able to use their network to participate rapidly in international markets (Freeman et al, 2006). Furthermore networks formed by the decision-maker can lead to competitive advantage and extended knowledge for the SME in international expansion (Awazu, 2004; Fillis, 2001). So, the personal network of the management of the SMEs should be included in the network approach to establish internationalization.

Concluding, the level of internationalization experience and the (social) networks and relationships established by the firm or top managers are mutually reinforced. So networks or relationships play an important role in internationalization. Moreover relationships are the core of internationalization according to Ford (2002), Håkansson et al (1995) and Johanson et al (2003), and they follow a similar pattern as the internationalization process as a whole (Jansson and Sandberg, 2008). However, internationalization in networks and internationalization processes are 'too loosely' connected

according to Jansson and Sandberg (2008). This connection should be more investigated, because the network approach seems to be an appropriate approach and may be relevant for analyzing the export activities of SMEs.

### 3. Characteristics of an (in)formal network

This chapter will provide an answer to the first research question: 'What are the characteristics of an informal network in contrast with a formal network?' First, definitions of informal and formal networks are given. Second, the informal and formal networks of SMEs are described. The chapter finishes with a summary of the characteristics of informal networks in contrast with a formal network.

#### 3.1 Definitions of informal and formal networks

In chapter 2 networks are defined as a specific type of relation linking a defined set of persons, objects or events. They are organized systems of relationships with the external environment, flexible and can also expand indefinitely (Castells, 2000). Also business networks, social networks, personal networks, inter-organizational networks and inter-personal networks are described. In this section the definitions of informal and formal networks are described, however the boundary between informal and formal networks is not always clear (Kontinen et al, 2011). Informal relations may become formal and vice versa.

Informal networks are social networks that consist of relations with family, friends and acquaintances (Johannisson, 1986; Hutchinson et al, 2006). So there is an personal bond between the parties concerned. These networks emerge and expand as relationships between its members develop through interaction (Chetty et al, 2008). An informal network consists of all possible information channels between individuals. This informal interaction can occur in every channel of a network. A formal network for instance denotes only a possible channel between the entrepreneur and an organization or between organizations, rather than an individual (Johannisson, 1986).

Formal networks are relations based on contracts and are created for a special purpose. Members of a formal network have to grant access to others in order for them to become members of the network (Chetty et al, 2008).

Some characteristics of formal networks and informal networks are summarized in table 3.1. In this table is the distinction made between inter-organizational networks and inter-personal networks. According to Dubini et al (1991), inter-organizational and inter-personal networks can exist simultaneously (Dubini et al, 1991). However, Holmund et al (1998) suggest that inter-personal networks are a subcategory of inter-organizational networks (Holmund et al,1998).

The *formal inter-organizational networks* permits access only to certain firms or organizations. These networks may be created for a specific purpose or may have been transformed into formalized relationships (Chetty et al, 2008). *Formal inter-personal networks* includes individuals as actors. To gain access to formal inter-personal networks, the individuals have to be accepted by the other members of the network (Chetty et al, 2008).

The *informal inter-organizational networks* consist of collaborative and competitive patterns as a result of business activities. An important assumption of this network is; as trust is developed in a network, firms coordinate their activities in such a way that lasting relationships evolve (Chetty et al, 2008). The *informal inter-personal networks* includes a variety of relationships, some of which are

strong and some are weak (Chetty et al, 2008). An important distinction should be made whether the individuals are really individuals or a representative of a firm. According to Bengtsson and Kock (2000) individuals and firms/organizations may have different self-interests and goals (Bengtsson and Kock, 2000).

Table 3.1. The distinction between formal and informal inter-organizational and inter-personal networks (Chetty et al, 2008)

		Degree of formalization of relations between actors	
		Formal	Informal
Actor level	Organization (inter-organizational networks)	<p>Network or organizations, which is (are) limited in size and scope. Members who jointly create the network grant access to new members. It is thus <i>planned</i> in nature.</p> <p>Example: export groups</p>	<p>Network of organizational relationships, which are transactional and non-transactional in nature, emerging as a result of interaction between firms. It is difficult to identify network boundaries, both regarding the spatial and temporal dimension. Any firm may become a member of the network through exchange with other members.</p>
	Individual (inter-personal networks)	<p>Network of individuals, which is limited in size and scope. The network is created with an identifiable starting point. It may serve business or other purposes.</p> <p>Examples are: breakfast clubs, sports clubs and alumni associations</p>	<p>Network of individuals formed through social interaction. Its boundaries are difficult to identify, since secondary, tertiary, etc. contacts also are part of the network. Any individual may become a member of the network through social interaction. It may serve business or other purposes.</p>

### 3.2 SMEs and (in)formal networks

For SMEs, networking can occur on both a formal and informal basis (Hutchinson et al, 2006). Networks are important for SMEs in facilitating resources for internationalization, especially for SMEs with limited resources (Ellis, 2008). According to Gilmore et al (2001), networks of SMEs tend to be more informal than formal, loose unstructured, spontaneous, reactive, structured around and conforming to industry norms (Gilmore et al, 2001). They also suggest that such networking can occur through trade events and personal contacts. International business opportunities are partly determined by business partners (formal) and informal ties with friends according to Ellis (2008). So, SMEs have both informal and formal networks, however the networks tend to be more informal than formal.

Foreign relationships may provide business opportunities, risk reduction and knowledge about foreign trade. The difficulty of enforcing contracts, information asymmetry, geographical distance and cultural distance are contributing to the uncertainty of international relationships. Formal and informal relations are required to reduce these risks (Freeman et al, 2006). These relations or networks are essential for SMEs in overcoming export problems. According to Ghauri et al (2003), small exporters need a willingness to cooperate to develop solidarity, coherence and commitment to establish international activities (Ghauri et al, 2003). After establishing foreign relationships, firms should be in a better position to start international activities (Freeman et al, 2006). Both, formal and informal networks are central to success and survival of SMEs in the central and eastern countries in Europe (Musteen et al, 2010). So, international relationships or networks are essential to overcome barriers of international activities and to reduce the risk.

Informal networks and formal networks may differ in providing business opportunities. The informal networks are important for the choice of the foreign market (Apfelthaler, 2000; Coviello, 1995). The process of market development (Rundh, 2001) and the entry mode strategy in the target market are also influenced by informal networks (Holmund et al, 1998). International business requires appropriate market knowledge (Holmund et al, 1998). Smaller enterprises may form formal business contacts and relationships with other firms to overcome insufficient know-how and formal training in international business to obtain access to market knowledge and experience (Vida et al, 2000). These types of networks (informal and formal) can overcome internal resource deficiencies (Westhead et al, 2002). Concluding, informal networks are especially important in the early stages, because the choice for foreign markets and the entry mode strategy are related to the early stages of internationalization. The formal networks are more important in the later stages of internationalization, because experience, market knowledge and 'know-how' information are appropriate resources in later stages.

### 3.3 Characteristics of informal and formal networks

In this section the answer to the first research question is provided; ‘What are the characteristics of an informal network in contrast with a formal network?’. The characteristics of the informal and formal networks are shown in table 3.2. In the first column of the table, several aspects of the informal and formal networks are distinguished. In the second column the characteristics of informal networks are shown and in the third column the characteristics of formal networks are shown.

Table 3.2. The characteristics of informal and formal networks (source: the author)

	Informal networks	Formal networks
<b>Aspects</b>		
<b>Definition</b>	Social or personal networks without a particular purpose	Business networks and/or networks with a specific purpose
<b>Foundation</b>	Based on personal bonds between the parties without contracts	Based on contracts with a specific purpose
<b>Actors</b>	Individuals and groups e.g. family, friends and acquaintances	Individuals and organizations e.g. agents, representatives, firms
<b>Access</b>	Acceptance by members due to interaction with members of the network	Individuals/Organizations have to grant access
<b>Boundaries</b>	Boundaries are difficult to identify, because of the spatial and temporal dimension	Limited in size and scope

Regarding several aspects and the characteristics from the table, the informal network differs from the formal network. For instance the characteristics of the definition, the foundation, the access and the boundaries of a network are characteristics that distinguish informal networks from formal networks. Regarding the definition, informal networks are social or personal networks without a specific purpose. Formal networks are established with a specific purpose. For example, a business network is a formal network. The definitions of social, personal and business networks are explained in more detail in section 2.2.1. Regarding the foundation, informal networks are based on social bonds between the actors in the network, while formal networks are based on contracts. Access to an informal network can be achieved by social interaction with the members of the network. The access to a formal network have to be granted by their actors. The boundaries of an informal network are not clearly defined, whereas the boundaries of formal networks are limited in size and scope. See section 3.1 for more details about the foundation, the access and the boundaries of (in)formal networks. So, regarding these four aspects of informal and formal networks, the definition, the foundation, the access and the boundaries, the informal network differs strongly from the formal network.

The distinction between the characteristics of informal and formal networks regarding the actors of the networks is not always clear. Regarding the actors of the networks, both informal and formal networks may have individuals or groups/organizations as actors. Moreover, it is difficult to distinguish whether relations are informal or formal. It is difficult to identify the interaction between actors as a social interaction (informal contact) or an exchange of business information (formal contact) (Bjorkman and Kock, 1995). According to Kontinen et al (2011), informal relations or networks may become formal and vice versa. So, social relations or networks can be related to business. This aspect shows that there is a blurred line between informal and formal networks.

Concluding, informal networks differ strongly from formal networks on several aspects: the definition, the foundation, the access and the boundaries of the network. However, the distinction between informal and formal networks or relations is not always clear regarding the actors of the networks and the contribution to internationalization. The characteristics of table 3.2 together constitutes the answer to the research question.

## 4. Empirical research

This chapter provides the answers to the research questions ‘What is the process of developing informal and formal networks by Dutch food SMEs with a focus on international expansion?’ and ‘What is the process of realizing international expansion by Dutch food SMEs?’. First the questionnaire design is described in more detail. Second, the Dutch export activities in the food sector is described. Third, the results of the questionnaire are presented. Fourth, the results of the questionnaire and the literature study will be analysed. The chapter finishes with the answers of the two research questions.

### 4.1 Questionnaire design

The questionnaire which is conducted for the research questions mentioned above, is about the (in)formal networks in international expansion. The questionnaire is presented in the appendix (I) and it contains of two pages with an introduction and eight questions about networks and internationalization in the food sector. One of the seven firms is also contacted by phone, to gain more explanatory results. The questions of this questionnaire conducted by phone (II) and the time schedule of call attempts (III) is also presented in the appendix .

The *introduction* part of the questionnaire contains questions about the products, the annual turnover, the number of employees, the share of turnover abroad and the share of employees abroad to get an indication of the firms. The first two questions, of the theme *strategy*, are about commitment to a strategy. The first question investigates who drives the international strategy of the SME. The respondent can encircle the person(s) who is/are the driving force. The second question is an explanatory question about the importance of the driving force. The respondent has to answer with ‘yes’, ‘no’ or ‘no opinion’ and in all cases the respondent has to provide an explanation for his answer.

The third question is about the theme *internationalization*. Internationalization is defined as deliberately realizing turnover abroad, in Europe. Question three is about the internationalization stage the respondent is in at the moment and which stages the respondent has followed in the internationalization process. So the first three questions of the questionnaire are about the internationalization process and the strategy, which correspond with the third research question about the process of international expansion.

The theme *international contacts and networks* consists of the questions four, five, six, seven and eight. Informal contacts are defined as personal contacts and formal contacts and networks are defined as relations on the basis of contracts. Question four is conducted to gain more insights in the process of internationalization and networks. It investigates in what stages the informal and the formal contacts are more important. The stages, in which domestic and the international contacts are important, are also investigated. Question five is about building a international network. The respondents can state that building a network is a planned process, a network is build by personal contacts from coincidental meetings or networks are build by combining personal contacts and a planned process. Thereafter, the respondent has to describe this process of building international contacts.



Question six compares the development of networks in the food sector with other sectors. The respondent has to answer with yes or no, and may give an example about a possible difference. This question is an extension of the research questions, because the focus of this thesis is on the food sector. Question seven is conducted, to gain more insights concerning the importance of the cultural and geographical distances with regard to informal and formal networks. The respondent has to fill in a number (1-5). The higher the number the more important the distances are perceived. Question eight is about the resources of informal and formal networks. The informal and formal networks may provide local market knowledge, technological knowledge, personnel, access to specific retailers, access to new markets, access to suppliers or access to capital for the firm. The respondent has to fill in what the informal and informal networks provide for his firm. So the questions four, five, six, seven and eight are corresponding with the second research question, which is about the development of (in)formal networks.

When the respondent has filled in the eight questions of the questionnaire, the respondent is asked whether he agrees with contact by phone to give extra explanatory information about the questionnaire. If the respondent agrees with this, he is able to state his phone number or the phone number of the firm. There is also a possibility for the respondent to get the outcomes of this thesis. If the respondent would like to receive the outcomes of this thesis, the respondent is able to state his e-mail address.

The research sample consists of seven Dutch food SMEs that produce (non) fresh end products, with an annual turnover between 50 and 350 million Euro. This fits nicely with the annual turnover of the earlier research sample of Wubben et al (2012). The annual turnover of their research sample was between 10 and 500 million Euro. The number of employees of this research sample differ between 38 and 1300 employees with an average of about 350 employees. The research sample of Wubben et al (2012) consists of circa 70 employees. So, the research sample of this thesis is above average regarding to the number of employees. The research sample of the Wubben et al (2012) consists of 50 respondents. Their respondents are producers and/or traders of (non) fresh end products and semi-finished products in the food sector. The sample of this thesis consists of producers only and has a focus on end products. The number of respondents of this thesis is relatively low compared to the sample of the stated report. Due to convenience sampling and the small number of respondents, the research sample cannot be generalized to a larger population (Randall and Gibson, 1990). According to Randall and Gibsen (1990) convenience samples do not offer assurance of representativeness. However, compared to the research sample of Wubben et al (2012), the seven respondents may give an indication about the development of (in)formal networks and the internationalization process as mentioned in section 1.3.

Representativeness is one side of the external validity, another side is the ecological validity (Boeije and Hart, 2009). The ecological validity is the extent to which the results of the research can be generalized to other circumstances, times and/or places. This research sample consists of SMEs, which are already internationalized. SMEs, which are not started yet with internationalization, may have provided different results. Other research methods, for instance an semi-structured interview, may have given other results. Only Dutch SMEs are investigated in this research, SMEs in other countries may have provided different results.

## 4.2 Export activities of the Netherlands

This section describes the export activities of the Netherlands with regard to the agricultural sector. First the Dutch food sector is described, second the non-fresh end products are discussed and third the fresh end products are discussed.

The Netherlands is a large exporter, it contributes to approximately 30% of the gross domestic product. Circa 75% of the export is going to the countries of the EU. The Dutch food sector has a market share of 7,5% of the total world export and is second food exporter of the world, after the USA (Topsector Agro & Food, 2011). So the Dutch agricultural sector is strongly international oriented.

The Dutch agricultural export consists of 29% of *non-fresh end products*. The export to countries outside the EU has increased (5 billion dollar), because the logistic costs for non-fresh end products are relatively low. LEI (2012) expects that the export to countries outside the EU further increases, because of the fierce competition in Europe. Despite the increase of export to countries outside the EU, 19 billion dollar is realized in Europe. The growth of the export value in non fresh end products is about 5,8% a year, whereas the annual import value in Europe is 6,8%. Only in countries like Africa, China and India, the Dutch market share is increased (LEI, 2012).

It is important for *fresh end products* (15% of the Dutch agricultural export) to have markets close by, because the logistic costs are relatively high. That is why fresh end products are relatively often exported in Europe for about 12 billion dollar, for instance to Germany and GB. So for fresh end products a good logistic organization is necessary. The annual growth of the import value in Europe is 6,3%, but the annual growth of the Dutch export value is 5,9% (LEI, 2012). So the European market is important for the export of fresh end products.

Overall, the Dutch food export of (non) fresh end products in total is increasing in Europe, but the market share is decreasing in (non) fresh end products in Europe. This loss in market share can have many causes. Some suggestions are; there can be other competitors in the market or the regulation regarding to market entry is changing (LEI, 2012). Europe is the most important market for the Netherlands (LEI, 2012). For example, there are opportunities in Poland, Turkey and Russia (Wubben et al, 2012). So, there are concerns for the export position in Europe (LEI, 2012), but there are also opportunities for the Dutch agricultural export.

## 4.3 Results

This section provides the results of the questionnaire. The results are presented according to the themes in the questionnaire, mentioned in section 4.1.

### 4.3.1 Introduction

The characteristics of the respondents are presented in table 4.1. The products produced are all (non) fresh end products. The second respondent mentioned that his company has production facilities in five countries. He defines foreign countries as the countries outside these five countries (the Netherlands, Belgium, Germany, France and the Czech republic). So the 16% of the turnover is established outside these five countries. However the 38% of the share of employees is defined as the share of employees outside the Netherlands. The fifth respondent has 98% share in turnover abroad, which can be explained by the internationalization phase of this SME. This firm is in the final

stage of internationalization, which implies foreign establishments (R&D, production, distribution). The sixth respondent has a share of 0% of the employees abroad. This is remarkable, because this respondent established 92% of their turnover abroad. This SME is originally established as a production unit of a firm from the USA to deliver products in European countries. This may be the reason for the share of 0% of the employees abroad. The seventh respondent has also a remarkable difference between the share in turnover abroad (62%) and the share in employees abroad (7%). The reason for this difference; these numbers concern the sales department of the firm abroad. So a relatively high share of the turnover can be established with a relatively low share of employees abroad.

Table 4.1 Characteristics of the respondents

<b>Respondent</b>	<b>Product(s)</b>	<b>Annual turnover (million €)</b>	<b>Share in turnover abroad (%)</b>	<b>Number of employees</b>	<b>Share in employees abroad (%)</b>
<b>1</b>	Rice crackers	75	90	330	70
<b>2</b>	Vinegar	95	16*	220	38
<b>3</b>	Meat products, sausages	350	60	1300	30
<b>4</b>	Chicken products, chicken	50	90	100	10
<b>5</b>	Fish	100	98	200	98
<b>6</b>	Dried meat	13,5	92	38	0
<b>7</b>	Fresh chilled potato specialities	115	65	300	7
<b>Average</b>		<b>114</b>	<b>73</b>	<b>355</b>	<b>36</b>

\* This share of the annual turnover is established outside the five producing countries of the SME (the Netherlands, Belgium, Germany, France and the Czech republic)

#### 4.3.2 Strategy

The first question is; 'Who drives the international strategy?'. The six closed answering categories are: the management team/the board, the general director, a board member, export manager, a different employee in part time, or different, namely ... . Three of the seven respondents state that their driving force is 'the management team/ the board'. The other four respondents differ in their answers or combine several answers. Overall, 'the management team/ the board' is stated five times. 'The general director' is stated three times. 'The export manager' and 'a board member' are both stated once.

The second question is; 'Are/is the person(s) important who drive(s) the international strategy for the realization of international contacts?'. The three closed answering categories are: yes, no and no

opinion/different namely ... . The respondent has to give an explanation for his answer. Four respondents answered with 'no'. Reasons for that are: the strategy is known in the company and must be carried out by 'sales', there is a great attention to internationalization in the company, the strategy should be carried out by the export managers and internationalization is in the nature of the company. So there are two main reasons why the person(s) who drive(s) the international strategy are/is not important for realizing international contacts; the strategy should be carried out by sales or by export managers and internationalization is such an important part of the company that it is not important who drives the strategy. Three respondents answered with 'yes'. Reasons for that are: there has to be capacity in the organization, the contacts of the senior management can contribute to internationalization, and an international strategy is associated with long-term investments.

#### 4.3.3 Internationalization

The third question comprises of two parts, namely; 'In what stage of internationalization is the firm at this moment?' and 'What stages are followed in the internationalization process?'. The five closed answering categories for these questions are: indirect export (1), direct export (2), foreign agent (3), collaboration internationally (4) and foreign establishments (5). The answers of the respondents are presented in table 4.2. The third respondent is at this moment in all stages of internationalization (1-5). That may occur, because this company has several types of products. Each type of the products may have a particular internationalization process. Five of the seven respondents seem to follow several stages of internationalization (respondent number 1,2,3,5 and 7 in the table). The two other respondents (respondent number 4 and 6) did not follow several stages. Reasons for not following several stages can be; the fourth respondent/firm is established due to a MBO (management-buy-out) takeover. The sixth respondent/firm is originally established as a production unit of a firm from the USA, so internationalization is in the core of the sixth respondent/firm. The sixth respondent mentioned that he sees internationalization stages as globalization. For example; Africa could be the next stage. So, the five respondents (nr. 1,2,3,5 and 7) that followed several stages internationalized more incrementally, compared with the two other respondents (nr. 4 and 6) that did not follow several stages.

*Table 4.2 The stages of the internationalization process of the respondents*

<b>Respondent</b>	<b>Internationalization stage(s) at this moment</b>	<b>Followed stages</b>
<b>1</b>	5	3,4
<b>2</b>	3,4	2,3
<b>3</b>	1,2,3,4,5	1,2,3,4,5
<b>4</b>	4,5	4,5
<b>5</b>	5	2,3
<b>6</b>	5	5
<b>7</b>	3	1,2

#### 4.3.4 International contacts and networks

Question four comprises of two parts, the question of the first part is; 'In what stages, that are followed, are the formal relations more important and in what stages are the informal relations more important?' The five closed answering categories are the stages of internationalization mentioned in the previous section, however six of the seven respondents answered this question with an explanation. According to three of the seven respondents (respondent nr. 4,5 and 7) the informal networks are more important in the early stages of internationalization, whereas formal networks are more important in the later stages. One of these three respondents stated that informal networks can contribute to form formal networks. One of the four other respondents (respondent nr. 6) stated that; "The stages of internationalization do not determine when the (in)formal networks are important, but the lifecycle of the company determines when the informal and the formal networks are important" . He stated also that; "In the early phase of the company, a contact person of the company was for a long time on the same place. Nowadays, contact persons of the company are frequently moved to other places , so the relations become more formal". Another respondent of the four other respondents (respondent nr. 2) stated that informal contacts are more important than formal contacts. Still, another respondent of the four other respondents (respondent nr. 3) stated that it is a combination of informal and formal networks that is important, which is determined by the culture in every stage. Another respondent of the four other respondents (respondent nr. 1) suggest that the (in)formal networks were important on trade missions or exchange markets.

The second part of question four is; 'In what stages of internationalization, are the international relations more important and in what stages are the domestic relations more important?' The five closed answering categories are the five stages of internationalization. According to three of the seven respondents (respondent nr. 4, 5 and 7) the domestic networks are more important in the early stages of internationalization, whereas the international networks are more important in the later stages of internationalization. One of these three respondents stated that domestic networks are contributing to the preparation of internationalization and the international networks are contributing to the realization of internationalization. Three other respondents (respondent nr. 2, 3 and 6) did not have an answer to this question of the questionnaire or the question was not applicable to their international activities. One other respondent (respondent nr. 1) stated that international and domestic relations are important on trade mission or exchange markets.

Question five comprises of two parts, namely; 'Is the development of networks a planned process or do coincidental social contacts contribute to the development of networks?' and 'What is the process of building networks?' Five of the seven respondents (respondent nr. 2, 3, 4, 5 and 6) suggest that the building of networks consist of a planned process *and* coincidental social contacts. One of these five respondents (respondent nr. 2) stated that in the past contacts are coincidental, but nowadays contacts are planned. Another respondent of these five respondents (respondent nr. 5) stated that informal contacts are conscious made and when an international network is established, it is easier to make new formal contacts. One of these five respondents (respondent nr. 4) stated that the timing and relations are important. So with whom are you willing to do business and the moment of exploiting your networks/contacts are important. The other two of the seven respondents (respondent nr. 1 and 7) stated that building networks is mainly a planned process. A reason for that is that they have a clear vision and strategy.

The second part of question five is an open-ended question; ‘What is the process of building networks?’ There are differences in the process of building networks according to the respondents, however there is a common pattern in the process. First, a vision of the local market is investigated by doing desk research, market research (stated by two respondents). Second, focusing on agents and specialists (important stakeholders), go to international meetings, trade missions and embassies (stated by three respondents). Third, establishing contacts (dependent of the culture) and maintain these contacts (stated by three respondents). One of the seven respondents stated that; as more informal contacts are established, it will be easier to come to formal contacts. This statement is also made by the first part of question five by the same respondent. Another respondent stated that networks which are already established are also important in the process of building new networks.

Question six is; ‘Is developing networks in the food sector different from other sectors?’ The two closed answering categories are ‘yes’ and ‘no’. The respondent may give an example of a difference between the food sector and other sectors. Five of the seven respondents answered with ‘no’. One of these five respondents stated that the company had no comparative information about other sectors. The two other respondents suggest that building networks in the food sector is different from other sectors. Reasons for that are: food is an emotion, that is important to keep in mind when you are developing your network. You should make proposals in which your products are connected with the local habits and tastes. Another reason is stated that in the food sector it is still about ‘allotment’ and personal relations, and are you willing to work together.

Question seven is; ‘What is the importance of cultural and geographical distance for informal and formal networks?’ The respondent can answer this on a scale of 1 till 5. The higher the number, the more important the distance is perceived by the respondent. In figure 4.1 the importance of cultural distance is presented. The importance of cultural distances is for informal networks indicated with an average of 4,1. For the formal networks, this is an average of 3,7. The importance of geographical distance for informal and formal networks are presented in figure 4.2. The importance of geographical distances is for informal networks indicated with an average of 2,7. For formal networks, this average is 2,4. The cultural distance for both informal and formal networks are clearly perceived more important than the geographical distance for informal and formal networks.

Figure 4.1 The importance of cultural distance for informal and formal networks

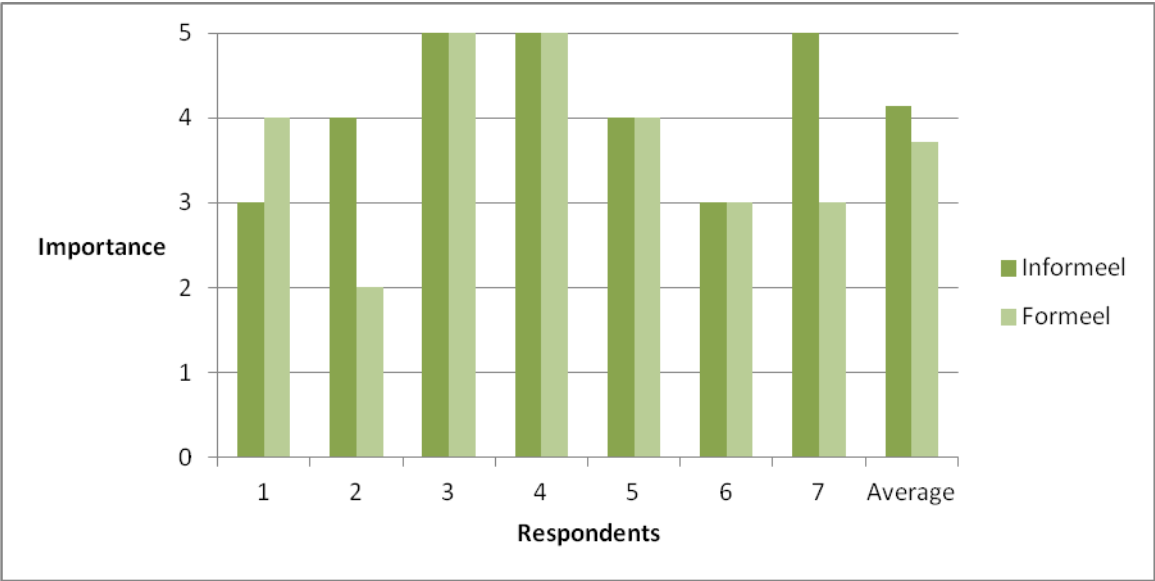
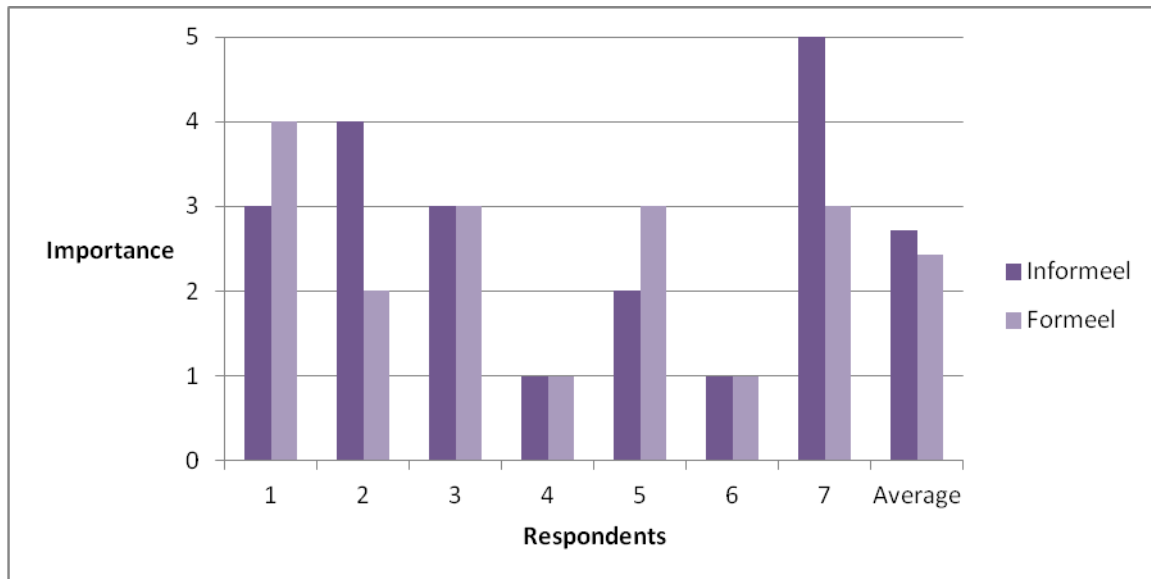


Figure 4.2 The importance of geographical distance for informal and formal networks



Question eight is; ‘What are the resources of informal and formal networks?’ Seven possible resources of (in)formal networks are provided in the question; local market knowledge, technical knowledge, personnel, access to specific retailers, access to new markets, access to suppliers and access to capital. The respondent has to answer ‘yes’ or ‘no’ to each resource. To give an indication of the resources of the informal and formal networks, the results are shown in table 4.3. The numbers in the second and third column refer to the number of respondents that answered with yes to these resources. For example, seven respondents stated that local market knowledge is a resource of informal networks. In the last row, the total is presented of how many times the respondents stated that (in)formal networks are resources. The informal networks contribute especially to local market knowledge, personnel, access to new markets and access to suppliers, whereas formal networks contribute to technological knowledge, access to specific retailers, access to new markets and access to capital.

Table 4.3 Contributions of informal and formal networks

Contributions	Informal networks	Formal networks
Local market knowledge	7	4
Technological knowledge	1	4
Personnel	4	2
Access to specific retailers	3	6
Access to new markets	4	4
Access to suppliers	4	3
Access to capital	0	3
Other	0	0
<b>Total</b>	<b>23</b>	<b>26</b>

The results of the questionnaire will be analysed in section 4.4 by means of confronting them with the literature study in chapter two and three.

#### 4.4 Analyses

This section analyses the results of the questionnaire and the literature study of chapter two and three. The analyses will be done in the order of the themes of the questionnaire; the first part is the strategy, the second part is internationalization, and the third part is about international contacts and networks.

##### 4.4.1 Strategy

Although half of the respondents stated that it is not important (4/7) who drives the strategy, a lot of attention is paid by all the respondents to the international strategy of the companies. Moreover, in the companies of the respondents, is a conscious choice for internationalization. This is not corresponding with Wubben et al (2012), because they suggest that SMEs in general see international business not as the main business. Often the management team/ the board (5/7) and/or the general director (3/7) drives the international strategy. A reason for the importance of the driving force for internationalization was; the contacts of the senior management, which can contribute to internationalization(1/7). This corresponds with Freeman et al (2006) and Fillis (2001). According to Freeman et al (2006), especially senior managers are able to use their personal network to participate in international markets. This personal network can lead to competitive advantages for SMEs in international expansion (Fillis, 2001). Concluding, the international strategy is for the respondents of this research sample very important, although an international strategy is not always explicitly recognized in general and the person(s) who drive(s) the strategy is/are perceived less critical by the respondents.



#### 4.4.2. Internationalization

Five of the seven respondents did follow particular stages stepwise, whereas the two other respondents did not follow an incremental pattern. One of these five respondents has a relatively large company with several types of products, what seems to be the reason that this respondent is in all the stages of internationalization(1-5). The two firms (2/7) that did not follow a particular pattern or stages in the internationalization process are established as international firms. One of these two respondents is established due to a MBO takeover and the other respondent of these two is established as an foreign production unit of a bigger international company. So these two firms are started as international firms. The other five respondents did follow particular stages stepwise, however these steps differ per respondent of these five respondents. According to the literature, an internationalization process can differ in stages and pace. It seems that in the internationalization process some respondents (3/7) uses mergers and acquisitions to internationalize fast. The companies of the respondents that internationalize incrementally (5/7) are corresponding with the standard view of internationalization (Johanson et al, 1993; Cavusgil, 1980). However, Bell (1995) and Coviello et al (1997) argue that internationalization of firms is far from an incremental process. This view corresponds with the two other respondents with no incremental process. According to Lu and Beamish (2001), a export strategy requires little capital investment and provides fast access to foreign markets. That is why this strategy is very well applicable to SMEs. This corresponds with the four of the seven respondents that started with export (indirect and direct export). Concluding, the respondents of this research sample seems to have two broad patterns of internationalization; firms which follow an incremental pattern and firms which are established as international firms. This corresponds with the literature; the internationalization processes differ in stages and pace (Bell, 1995; Johanson, 1993) and several views of internationalization is required to analyze internationalization (Jansson and Sandberg, 2008).

#### 4.4.3 International contacts and networks

According to half of the respondents (3/7), informal networks are more important in the starting stages of internationalization, whereas the formal networks are more important in the later stages. This corresponds with the literature, because informal networks may contribute for the choice of the foreign market (Apfelthaler, 2000; Coviello, 1995). Moreover the entry mode strategy in the target market is also influenced by informal networks (Holmund et al, 1998). The foreign market and the entry mode strategy is chosen in the early stages of internationalization. Formal networks may provide access to market knowledge, know-how knowledge and experience (Vida et al, 2000). These aspects are in later stages of internationalization required. A reason for this is according to one of these three respondents; informal networks can contribute to formal networks. This corresponds perfectly with the literature, because informal relations or networks may become formal and vice versa (Kontinen et al, 2011). So informal networks are more important in the starting stages of internationalization and these networks may contribute to formal networks in the later stages of internationalization.

According to the half of respondents (3/7) the domestic networks are more important in the early stages of internationalization, and the formal international networks are more important in the later stages of internationalization. This corresponds with the relationship model of Ford (2002), according to Jansson and Sandberg, 2008). During the first stage of this model, SMEs have a domestic focus to start internationalize their relationships to a foreign country. Later on, the focus is more on foreign

countries and foreign networks. So SMEs may have first a domestic focus and later an international orientation regarding to networks.

Five of the seven respondents suggest that the building of networks consist of a planned process and coincidental social contacts. This is corresponding with Gilmore et al (2001). They suggest that networks of SMES tend to be more informal than formal, spontaneous, structured around and conforming to industry norms (Gilmore et al, 2001). They also suggest that such networking occur through trade events and personal contacts. This corresponds perfectly with these five respondents, however two other respondents suggest that building networks is mainly a planned process. So, the development of networks by the respondents in this research sample is partly a planned process and partly based on coincidental social contacts.

There are differences in the process of building networks by the respondents, however there is a common pattern in this process, see section 4.3.4 for details. This process is partly corresponding with the relationship model of Ford (2002), according to Jansson and Sandberg (2008). In the first stage of this relationship model, the SME has an domestic focus, however the respondents of the research sample (7/7) have a strong international focus when they are building a network. In the second stage, the distances are large, which is also stated by one of the respondents, however only the cultural distance is stated by this respondent. In the third and fourth stage buyer and seller relations are established. When these relationships are established according to the relationship model; commitment, trust and business activities increase. This is corresponding partly with one respondent, because this respondent stated that it is easier to establish formal relations when informal relations are established. The respondents stated that maintaining these relationships is also part of the process (3/7). This corresponds with the fifth and final stage of the relationship model. In this stage the relationship becomes habitual. It is remarkable that two of the seven respondents stated that local market research is part of building networks, because this market research is not included in the relationship model. Concluding, the process of building networks by the respondents of this research sample is more focused on foreign networks, whereas the focus of the relationship model is in the first stages more on domestic networks. The later stages of the model are more in line with the process described by the respondents.

Five respondents stated that building networks in the food sector is not different from other sectors, whereas the two other respondents suggest that building networks in the food sector is different from other sectors. One of these five respondents stated that he does not have the knowledge about networking in other sectors, so he cannot compare the food sectors with other sectors. A reason is given by one of the two other respondents why the food sector differs from other sectors; food is an emotion and you should make adjustments to the local habits, that is important to keep in mind when you are developing networks. Dupuis et al (1996) recommend internationalizing firms to develop an adjustment capacity to different cultural environment and to create harmonious relations which corresponds to the reasoning of the respondent. Concluding, it seems that building networks in the food sector does not differ from other sectors according to the majority of the respondents (5/7) in this research sample, however the respondents may lack reference information.

The cultural distance regarding to (in)formal networks is perceived more important (4,1: av. informal network, 3,7: av. formal network), than the geographical distance regarding to (in)formal networks (2,7: av. informal network , 2,4: av. formal network). The numbers above '3,5' are defined as

relatively important, the numbers below '2,5' are defined as relatively less important. This corresponds with Dupuis et al (1996), they suggest that cultural barriers for internationalization seems to be more important than technical obstacles. The cultural and geographical distances are for informal networks more important than for formal networks. Although informal personal contacts can be used to reduce cultural distance (Cunningham et al, 1986), the respondents in this research sample experienced the distances as relatively important for informal networks, especially the cultural distance. So, cultural distance is an important aspect in building international networks, for both informal and formal networks.

According to the literature informal networks and formal networks may differ in providing business opportunities. The informal networks are important for the choice of the foreign market (Apfelthaler, 2000; Coviello, 1995). This corresponds partly with four of the seven respondents who indicate that contributions of informal networks are access to new markets and suppliers. It is remarkable that seven out of the seven respondents mentioned that local market knowledge is a contribution of informal networks and only four respondents mentioned formal networks. According to Vida et al (2000), smaller enterprises form mainly formal contacts to obtain access to market knowledge and experience (Vida et al, 2000). The total of resources of informal and formal networks are equivalent, the resources of informal networks are 23 times stated and the contributions of formal networks are 26 times stated. Concluding, there is a blurred line between the contributions of informal and formal networks according to the respondents of this research sample, however formal networks may particular contribute to access to capital, specific retailers and technological knowledge, while informal networks may particularly contribute to local market knowledge and personnel.

#### *4.5 Answers research questions*

This section provides the answers to the second and the third research question. The second research question is 'What is the process of developing (in)formal networks by Dutch food SMEs with a focus on international expansion?' and the third research question is 'What is the process of realizing international expansion by Dutch food SMEs?' First the research question about the (in)formal networks are answered, second research question about the development of international expansion will be answered.

##### 4.5.1 Process of developing informal and formal networks

This section starts with describing the process of developing informal and formal networks. Second, some important aspects of this process are described in more detail, for instance the development of networks regarding to internationalization, building networks in the food sector compared to other sectors and the cultural distance.

The process of developing informal and formal networks by SMEs often consists of a planned process and coincidental social contacts or relations (see section 4.4.3). Such networking by SMEs occur through trade events and personal contacts (Gilmore et al, 2001). This process is described by the respondents as follows; first a vision of the local market is investigated by doing desk research and market research. Second, the focus is to contact agents, specialists and other important stakeholders. To make these contacts, it is important to participate in international meetings and trade missions . Third, contacts or relations should be established and maintained, which are also dependent on culture aspects. Fourth, as the informal relations are established it becomes easier to form formal relations. The network which is already established by the company is also important in

this process of building new networks. Although this process is described broadly by the respondents, for every firm the process differs. Important similarities with the relationship model of Ford (2002) according to Jansson and Sandberg (2008) are; the cultural distance mentioned regarding to building networks and the increasing commitment and business opportunities when relations are established. One important difference is that the SMEs have an domestic focus in the first stage of the relationship model, whereas the respondents have a clear international focus (see also section 4.4.3). The respondents of the research sample are in later stages of internationalization. So, these respondents may had a domestic focus in the past.

Concluding from the questionnaire analysis and the literature, informal networks are more important in the starting stages of the internationalization process and the formal networks are of more influence in the later stages (see section 4.4.3). Informal networks may contribute to formal networks in the internationalization process and also in the process of building international networks. The informal networks are also important for the choice of the foreign market (Apfelthaler, 2000; Coviello, 1995). This is also shown in the empirical results; informal networks contributes to new markets and suppliers. According to Vida et al (2000), smaller enterprises form mainly formal contacts to obtain access to market knowledge and experience (Vida et al, 2000), however the results from the questionnaire indicates that informal networks provides more local market knowledge than formal networks. So informal networks may contribute in the first stages of internationalization to new markets, new suppliers, local market knowledge and personnel. Formal networks may contribute in the later stages of internationalization to international experience, access to capital, technical knowledge and access to specific retailers. This corresponds with the presence of the informal and formal networks of the SMEs. According to the respondents, in the early stages *and* in the later stages both informal and formal networks are established. However, in the early stages more informal networks are established and in the later stages more formal networks are established.

Many respondents (5/7) suggest building networks in the food sector is not different from other sectors. Probably, these respondents did not have the knowledge about building networks in other sectors. Food is seen as an emotion (at least for consumers), SMEs should make adjustments to the local habits. This is important to keep in mind when a company is developing their networks. According to Dupuis et al (1996), internationalizing firms should develop an adjustment capacity to different cultural environments and firms should create harmonious relations. Cultural distances are considered as important regarding to the development of informal and formal distance, however informal contact may reduce cultural distance (Cunningham et al, 1986). So, building networks in the food sector may not be systematically different from other networks and cultural distance is perceived as an important aspect of building international networks.

#### 4.5.2 Process of realizing international expansion

This section starts with the importance of internationalization for SMEs. Second, the patterns and the pace of internationalization are discussed. This section finishes with the process of realizing international expansion.

SMEs in general do not see international business as their core activity (Wubben et al (2012), however all the respondents in our sample made a conscious choice for internationalization. Although the management team/ the board (5/7) or the general director (3/7) are often the driving

force of the international strategy, all the respondents stated that the whole firm has the focus on internationalization. The contacts of the senior management can contribute to internationalization (Freeman et al, 2006). These networks can lead to competitive advantages for SMEs in international expansion and may determine the pace of internationalization (Fillis, 2001). So, internationalization is important for the firms of the respondents in this research sample and the networks of the senior management may contribute to internationalization.

Concluding from the literature and the analysis, an internationalization process can differ in stages and pace (see section 4.4.2). The majority of the respondents (5/7) did follow particular stages stepwise. This incremental process is described in the next paragraph, because the majority of the respondents (5/7) of this research sample follow certain stages of this process. The firms of these five respondents which internationalize incrementally are corresponding with the standard view of internationalization (Johanson et al, 1993; Cavusgil, 1980; Welch et al, 1988). The other two respondents did not follow a particular pattern or stages in the internationalization process, because of an MBO takeover and the company of the other respondent was started with internationalization as the major goal. Moreover, Bell (1995) and Coviello et al (1997) suggest that internationalization of firms is far from an incremental process. Mergers and acquisitions are important to internationalize fast. According to Jansson and Sandberg (2008), a combination of several views of internationalization is preferred, because it is difficult to explain internationalization by using only one concept and the rapid internationalization of small global firms. This means that differences in internationalization processes not only can be explained by the standard theories of internationalization, but also other theories are required. The results from the questionnaire also contributed to his preference, because the respondents differ in their patterns of internationalization. Overall, the incremental process of internationalization form the basis (see next paragraph), but this process may differ per SME in stages and pace. So, several views of international may help to explain different patterns of internationalization, for instance the stage models and the network approach, see section 2.1.1.

Many respondents started with exporting (4/7), which requires little capital investment and provides fast access to foreign markets (Lu and Beamish (2001). Exporting seems to be an appropriate strategy to start internationalization for SMEs. In most cases the first step is indirect export. Often a company starts with low risk countries, later on other countries are considered. The second step is direct export. Collaboration is in this stage very important to export successfully and to overcome cultural differences (Westhead, 2001). The third step is to establish an agent or representative of the firm. The fourth step is to realize a greater market position and a strong network. Companies gain more experience and knowledge during this process (Wubben et al, 2012). The fifth and the final stage is to invest in a foreign establishment, for instance a distribution department, an production department and an R&D department (Wubben et al, 2012). This common internationalization process has five stages, but new stages of internationalization can be established when the firm is entering new types of markets or new foreign markets (Jansson and Sandberg, 2008).

## 5. Conclusion

This chapter provides the answer to the central research question; *'What network related factors enhance the success of internationalization in Europe of Dutch food SMEs that produce consumer products?'*. First, the answer to the central research question is given. Second, recommendations are made for businesses and further research. The chapter finishes with the discussion.

### 5.1 Conclusion

First, the answers to the sub research questions of this thesis are briefly discussed. Second, the answer to the central research question will be answered according to the answers of the sub research questions.

The first sub research question is; *'What are the characteristics of an informal network in contrast with a formal network?'*. Table 3.2 provides the detailed characteristics of the informal and formal networks. On the one hand, informal networks differ strongly from formal networks, regarding the foundation, the boundaries and the access to a network. Informal networks are based on personal bonds, do not have clear boundaries and access can be achieved by social interaction, whereas formal networks are based on contracts, have clear boundaries and individuals/organizations have to grant access to such a network. On the other hand, the distinction between informal networks and formal networks is not always clear. It is difficult to identify when a relation is purely informal or formal (Bjorkman and Kock, 1995). Moreover, informal networks may become formal networks and vice versa. For example, informal networks can lead to formal networks.

The second sub research question is; *'What is the process of developing informal and formal networks by Dutch food SMEs with a focus on international expansion?'*. The process of building informal and formal networks consists of a planned process and coincidental social contacts. So, networking can occur through trade events and social contacts at the same time. However, the number of coincidental social contacts is higher in the early stages of internationalization compared to the later stages. In the later stages the process of building networks is mainly planned. The process described by the respondents starts with local market research. Second, important stakeholders or agents are contacted, for example through trade events. Third, relations are established and maintained. Fourth, formal relations are established. When informal relations are established it is easier to form formal relations. The process of developing international networks may differ per SME. See section 4.5.1. for a more detailed description of this process. The cultural distance plays an important role in establishing international networks for SMEs, however frequent and longstanding informal contact may reduce cultural distance.

The third sub research question is; *'What is the process of realizing international expansion by Dutch food SMEs?'*. The first step is often indirect export. Export requires little capital investment and provides fast access to foreign markets. So exporting seems to be an appropriate strategy to start internationalization for SMEs. The second step is direct export. Collaboration is important to export successfully and to overcome cultural differences. The third step is to establish an agent or representative of the firm. The fourth step is to realize a greater market position and a strong network. In this stage the level of experience and knowledge increases. The fifth and the final stage is



to invest in a foreign establishment, for instance a distribution department, a production department and an R&D department. SMEs may differ in their pace and pattern of internationalization. Reasons for these differences are (spontaneous) rapid internationalization due to relations or networks and the choice of entry mode into new international markets. New stages of internationalization can be established when the firm is entering new types of markets or new foreign markets (Jansson and Sandberg, 2008). See section 4.5.2 for a more comprehensive process of internationalization.

The central research question is; '*What network related factors enhance the success of internationalization in Europe of Dutch food SMEs that produce consumer products?*'. On the basis of the literature study and the results of the questionnaire, six aspects turn out to be important in the development of formal and informal networks regarding internationalization;

There is an important relation between the **personal network of the manager** and the pace of internationalization. Especially the senior managers are able to use their social network to participate rapidly in international markets according to Freeman et al (2006). These networks may contribute to competitive advantages and extended knowledge for the firm in international expansion. The respondents in our sample stated that the contacts of the senior management can contribute to internationalization. Concluding, when developing an international network, the personal network of the management of the SME is conducive to building such networks.

Specific expertise is important for firms that enters new markets to overcome cultural distance. The required knowledge for this country specific expertise can be achieved by consultancy reports, expertise in leadership, cross-cultural management and the local business culture (Meyer et al, 2001). This knowledge can only be transferred through active involvement. For example; collaboration can overcome cultural differences. When establishing international activities, a willingness to cooperate is required. Also solidarity and commitment are important to establish international activities. In the process of building networks described by the respondents in our sample the active involvement, the focus on internationalization and the willingness to cooperate are stated as important factors. Moreover, the respondents succeed in building their international networks. Concluding, **active involvement and willingness to cooperate** is important to overcome high uncertainty and cultural distance in developing international networks for realizing internationalization.

The behavioural **characteristics of the decision makers in the SME** have an influence on the behaviour of the firm (Lloyd-Reason, 2002). The behaviour of the firm will influence the performance of the firm. Moreover, the characteristics of the top decision makers are likely to play an important role in the internationalization process, especially in the early stages of internationalization. Concluding, the characteristics of the decision makers in the SME influence the internationalization process. So they may also have an influence on the process of building international networks, which should be considered in the development of informal and formal networks.

According to the data analysis and the literature, **informal networks are more important in the starting stages** of the internationalization process and the **formal networks are of more influence in the later stages**. Informal networks may contribute to the choice of the foreign market, new suppliers, local market knowledge and personnel. Formal networks may contribute in the later stages of internationalization to access to capital, technical knowledge and access to specific retailers. Once

informal relations are established, they may contribute to form formal relations. Concluding, when building networks, it is wise to clarify in what stage the firm is in and what the management of the firm wants to achieve with its networks. In this way, the firm can establish appropriate networks; informal and/or formal networks for internationalization.

In the process of building international networks for international expansion, the focus on agents, specialists and other important stakeholders in foreign countries is important. To establish **foreign customer acquisitions**, it is wise to participate in trade events and international meetings. Contacts with important stakeholders are also made by embassies. Networking can occur through trade events. Concluding, due to international trade events SMEs can focus on contacting important stakeholders to establish foreign client acquisitions.

The higher the level of international experience of a firm, the more likely the firm is able to form (in)formal networks. The more experienced management teams have a better ability to attract and engage partners compared to less experienced management teams. Moreover, these experienced management teams are more likely to have the necessary skills to negotiate with firms in a different culture. Networks or relationships play also an important role in the internationalization process itself. A strong international network is important for the implementation of an international strategy. The process of building networks is a similar pattern as the internationalization process as a whole (Jansson and Sandberg, 2008). So the level of international experience and the number of international networks established are mutually reinforcing. Concluding, the **capability of the firm to form and to exploit (in)formal networks** influences the level of international experience.

All these six aspects of informal and formal networks and internationalization may have an influence on the development of international informal and formal networks regarding to internationalization. In sum, active involvement and a willingness to cooperate, the personal network of the (senior) management, the characteristics of the decision makers, a clear vision about the internationalization stage and the potential achievements, participation in trade events and the capability to form and exploit international networks are network related aspects that contribute to a successful internationalization process. Overall, these six aspects emphasize the importance of a clear vision about the exploitation of informal and formal networks.



## 5.2 Recommendations

This section provides recommendations for businesses and further research. First, recommendations are made for businesses that are similar to the target group of this thesis, namely Dutch food SMEs which produce (non) fresh end products with a international orientation in Europe. Second, recommendations are made for further research.

Focusing on building internationalization networks and a conscious choice for internationalization is necessary for internationalization. Because the pattern of internationalization and the process of building international networks can be compared, it is also wise to have a clear focus of how to establish international relations and networks. It is recommended to consider the following network related aspects which may contribute to the success of internationalization.

- ⌘ First, it is preferable to clarify the internationalization stage the firm is in and what the management of the firm wants to achieve with the international networks. If the firm is in the early stages, informal networks are useful. In the later stages, the focus should be more on the formal networks.
- ⌘ Second, the personal networks of the (senior) management should be considered, because these networks may provide competitive advantages. The characteristics of the top decision makers should also be considered regarding the considerable influence of these decision makers.
- ⌘ Third, participation in trade events and/or international meetings provide opportunities to contact important stakeholders and to establish foreign client acquisitions.
- ⌘ Generally, active involvement and the willingness to cooperate is important to establish and to maintain relations and networks. Trust has to be created in the process of building networks. Collaboration is also necessary to overcome cultural distance and high uncertainty.

In this thesis the main focus is on developing international (in)formal networks and internationalization. The relation between the development of international networks and the internationalization process should be more investigated in the future, because this research indicates the importance of international networks with regard to internationalization. Moreover, this relation is not intensively investigated in the past. This can be done for both, SMEs and multinationals corporations. Another recommendation for further research is to investigate the internationalization process of SMEs by following SMEs in their internationalization process. For example; first researching SMEs in the early stages of internationalization, second researching the SMEs in the later stages. This research may provide more explanatory results to obtain better scientific insights with regard to the internationalization process of SMEs.

### 5.3 Discussion

This section describes first the internal and the external validity. Second, the limitations of this research are discussed.

The internal validity concerns the executing of the research (Boeije and Hart, 2009). The research methods, literature study and a questionnaire, provide less explanatory results, compared to an interview. However, the results of the questionnaire are well comparable with the literature study. The questions of the questionnaire are open en closed, to obtain comparable answers, still some respondents have given explanatory answers instead of closed answers. The important concepts in the questionnaire are clearly defined, to overcome differences in interpretations by the respondents. Due to convenience sampling, the selection of the research sample is not randomly composed. So, the respondents in this research sample are strongly international oriented. A different way of selecting the research sample may have given a more various sample of respondents. The questionnaires are filled in by managers of the companies themselves. The respondents may have given socially-desirable answers because of this self-reporting.

The external validity is already discussed in section 4.1 Due to convenience sampling and the relatively low number of respondents, the conclusions cannot be generalized to a larger population. However, compared with the research sample of Wubben et al. (2012), the respondents of this research give an indication about the development of (in)formal networks and the internationalization process.

The most important limitations for this research are the short time period of time in which this research is executed and the access to respondents. It is difficult to get access to the target group and to obtain response of this chosen target group, namely Dutch food SMEs which are producing (non) fresh end products with an international orientation in Europe. These limitations concern the questionnaire.

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# Appendix

## I. The questionnaire

### Vragenlijst Netwerken in internationale expansie

Wij, Susan Veldhuis & dr.Emiel F.M. Wubben, stellen het zeer op prijs dat u uw ervaring met internationale expansie met ons wilt delen. Via deze korte vragenlijst proberen we wetenschappelijke inzichten te verwerven ten aanzien van de onderwerpen commitment, het internationaliseringsproces, ervaringen en het belang van internationale contacten en netwerken.

De door u verstrekte data zal vertrouwelijk worden verwerkt en uitsluitend onderzoek dienen. We kunnen u wel een korte *factsheet* aanbieden. Dit onderzoek ligt in lijn met de 2012-publicatie 'Internationalisatie: groeien over grenzen' van ABNAMRO, FNLI en WUR.

#### Introductie

-Bedrijfsnaam: .....

-Wat zijn (qua omzet) de belangrijkste producten die uw bedrijf maakt of verhandelt?

.....

-Hoe groot is de jaaromzet van uw bedrijf? (circa) ..... € mln.

-Welk omzetaandeel realiseert uw bedrijf in het buitenland? (in 2012, circa) .....%

-Hoeveel personen zijn werkzaam in uw bedrijf, gemiddeld over een jaar? (circa) .....fte.

-Welk aandeel, qua personeel, realiseert uw bedrijf in het buitenland? (in 2012, circa) .....%

**Thema Strategie:** Inzet en betrokkenheid bij een internationale strategie.

1. Door wie wordt de internationale strategie getrokken?

- Het management team/de directie
- De algemeen directeur
- Een directielid
- Een speciaal aangestelde exportmanager
- een andere medewerker, in deeltijd
- Anders, namelijk.....

2. Maakt het voor het realiseren van de internationale contacten/relaties uit wie de internationale strategie trekt?

- A. Ja,  
want.....
- B. Nee, want  
.....
- C. Geen mening, of anders,  
namelijk.....

**Thema Internationalisering:** het doelbewust realiseren van omzet buiten Nederland, maar nog binnen Europa.



Vaak onderscheidt men grofweg de volgende fasen in het internationaliseringproces: 1. Indirecte export, 2. Directe export, 3. Eigen agent/vertegenwoordiger 4. internationale samenwerking: uitbouw marktpositie, marktaandeel, netwerk en bedrijf, 5. Eigen buitenlandse dochters; productie, inkoop, distributie, R&D. Mogelijk kent u er meer.

3. Ten aanzien van internationalisering, in welke fase is uw bedrijf nu? .....

3.A. Welke fasen heeft uw bedrijf bewust doorlopen? .....

**Thema Internationale contacten en netwerken:** *Informeel contacten en netwerken zijn persoonlijke contacten. Formeel contacten en netwerken zijn relaties op basis van een contract.*

4. In welke doorlopen fase(n) van internationalisering zijn formele contacten het meest belangrijk gebleken en wanneer de informele contacten?.....

4.A. In welke doorlopen fase(n) van internationalisering zijn buitenlandse formele contacten het meest belangrijk gebleken en wanneer de binnenlandse contacten?  
.....

5. Volgt uw bedrijf een vooral gepland traject van het aanleggen van een internationaal afzetnetwerk, of komt dit afzetnetwerk voort uit toevallige ontmoetingen, persoonlijke contacten en relaties?  
.....

5.A. Hoe verloopt dit proces van bouwen aan internationale contacten netwerken?  
.....

6. Verloopt naar uw inzicht het ontwikkelen van deze (in)formele netwerken in de foodsector anders dan in andere sectoren? Zo ja, kunt u een typisch voorbeeld geven?  
.....

7. Hoe belangrijk zijn culturele en ruimtelijke verschillen tijdens de opbouw en ontwikkeling van een **formeel** versus **informeel** internationaal netwerk? (cijfers van 1 tot 5; 1 onbelangrijk; 5 heel belangrijk)

Bij formeel netwerk    Bij informeel netwerk

Taal en cultuur.	.....	.....
Afstand en geografie.	.....	.....

8. Wat leveren de **formele** versus de **informele** contacten en relaties op voor uw internationalisatie? (Aankruisen, meerdere antwoorden zijn mogelijk)

Opbrengst contacten en relaties?	Formele	Informeel
(Lokale) marktkennis		
Technologische kennis		
Personeel		
Toegang tot specifieke retailer(s)		
Toegang tot een heel afzetnetwerk		
Toegang tot aanbieders		
Toegang tot kapitaal		
Anders, .....		

Hartelijk dank voor uw kennisdeling middels het doorlopen van deze vragenlijst. U kunt de ingevulde vragenlijst mailen (zie mail-adres achteraan). De informatie zal met name worden gebruikt in een scriptie voor de studie Management & Consumer Studies aan Wageningen University. Graag bellen wij u binnen enkele dagen op, om extra toelichting over deze vragenlijst te krijgen. Dat zal 5 a 10 minuten duren. Als dit gewenst is, vermeld dan hieronder uw telefoonnummer:

.....

Wilt u een *factsheet* van de gezamenlijke uitkomsten ontvangen, vermeld dan hieronder uw e-mailadres:  
.....@.....

Met vriendelijke groet, Susan Veldhuis & dr.Emiel F.M. Wubben,  
Bedrijfskunde, Wageningen University  
Social Sciences GroupHollandseweg 1, 6707 KN Wageningen.  
0317-484160 [emiel.wubben@wur.nl](mailto:emiel.wubben@wur.nl)

## *II. The questionnaire protocol by phone*

In this questionnaire protocol, the questions that have been asked by phone are coloured blue. The red coloured answers, are the answers which are already have been filled in by the respondent.

### **Vragenlijst protocol**

- We hebben uw naam van Niels Dijkman, food specialist voor ABN AMRO. Klopt het dat we u mogen bellen om enkele vragen te stellen?
- Hartelijk dank voor het invullen van de vragenlijst. Ik zou u nog graag een paar vragen willen stellen over vraag / de vragen: 3,5 en 8. Het behandelen van deze vragen gaat ongeveer 5 a 10 minuten duren.
- Gaat u ermee akkoord dat dit interview wordt opgenomen om langere antwoorden goed te kunnen uitschrijven?
- De informatie die u verstrekt zal vertrouwelijk worden verwerkt en uitsluitend dienen voor onderzoek, te weten een scriptie: Consumer & Management Studies
- Heeft u nog vragen, of zal ik starten met de eerste vraag?

#### ***Introductie***

-Bedrijfsnaam: Klopt het dat uw bedrijf **Eurochicken B.V** heet?

***Thema Internationalisering: het doelbewust realiseren van omzet buiten Nederland, maar nog binnen Europa.***

3.A.Welke fasen heeft uw bedrijf bewust doorlopen? Fase(n): **Eurochicken is een MBO overname , de CEO van Eurochicken heeft 16 jaar buitenland ervaring in diverse landen en continenten**

U geeft bij vraag 3.A. aan dat Eurochicken een MBO overname is, kunt u daar meer uitleg over geven? Hoe is dat gegaan?

**Thema Internationale contacten en netwerken:** *Informeel contacten en netwerken zijn persoonlijke contacten. Formeel contacten en netwerken zijn relaties op basis van een contract.*

5. Volgt uw bedrijf een vooral gepland traject van het aanleggen van een internationaal afzetnetwerk, of komt dit afzetnetwerk voort uit toevallige ontmoetingen, persoonlijke contacten en relaties?

**Relaties en Timing**

Bij vraag 5 geeft u aan dat het aanleggen van een internationaal afzetnetwerk voortkomt uit relaties en timing. Betekent dit dat het deels een gepland traject is en deels voortkomt uit persoonlijke relaties?

5.A. Hoe verloopt dit proces van bouwen aan internationale contacten netwerken?

**Door eigen netwerk , Internationale bijeenkomsten en lezingen en of handelsmissies**

Kunt u bij vraag 5.A. het proces stapsgewijs uitleggen?

8. Wat leveren de **formele** versus de **informele** contacten en relaties op voor uw internationalisatie? (Aankruisen, meerdere antwoorden zijn mogelijk)

Opbrengst contacten en relaties?	Formele	Informeel
(Lokale) marktkennis	x	x
Technologische kennis	x	
Personeel	x	x
Toegang tot specifieke retailer(s)	x	x
Toegang tot een heel afzetnetwerk		x
Toegang tot aanbieders	x	x
Toegang tot kapitaal		
Anders, .....		

- Zijn er bij vraag 8 nog andere opbrengsten die niet zijn aangegeven, die volgens u door formele en/of informele contacten zijn verkregen? Zo ja, welke aspecten zijn dat?

Ja/Nee, (te weten...)

.....

- Hartelijk dank voor het delen van uw ervaringen en kennis.
- Wilt u nog graag een (een A4tje) van de gezamenlijke uitkomsten ontvangen om te kijken wat waardevols er voor u zit in de inventarisatie? Zo ja, mag ik dan e-mail adres noteren?
- Heeft u nog vragen? Nogmaals bedankt en succes met uw internationale strategie..

### III. Time schedule and call attempts

## **Belprotocol**

<i>Naam bedrijf</i>	Interview afgerond
Eurochicken B.V.	Ja

<b>Vrijdag 21-06-13</b>	<i>Naam bedrijf</i>	<i>Belpogingen</i>
10.00	Eurochicken B.V.	10.21 (1)
11.00	Eurochicken B.V.	11.23 (2)
12.00	Eurochicken B.V.	11.55 (3)

<b>Maandag 24-06-13</b>	<i>Naam bedrijf</i>	<i>Belpogingen</i>
9.00	Eurochicken B.V.	09.09 (4)