The Internationalisation Maturity of the Firm

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A Business Relationships Perspective

Edited by

Krzysztof Fonfara, Łukasz Małys and Milena Ratajczak-Mrozek

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PREFACE

Considerations presented in this book are the outcome of the research project entitled "The maturity of the company internationalisation and its competitive advantage (network approach)" financed by Poland's National Science Centre. The project team consisted of 10 researchers whose area of expertise includes relationships and business networks, aspects of innovation, knowledge management, relationships in consumer markets, customer relationship management, information and communication technologies, relationship marketing etc. from the perspective of the internationalisation of the business activities and networking behaviours of companies.

Although the project itself was carried out in the period 2014–2018, its members had been involved in the research topic for much longer. The analyses and conclusions described in the book have been inspired by earlier experiences and findings made by members of the project team. They are in fact a summary of nearly 30 years of research in the field of internationalisation and business networks conducted by the participants of the project, who have taken part in 15 national and 4 international research projects financed from grants obtained on a competitive basis. The most important of these projects include:

1. two international ACE research projects financed by The European Union on market orientation in Central and Eastern Europe, conducted during 1992–2000 together with partners from Aston Business School in the UK, Maribor University in Slovenia, the University of Economics in Sofia, Bulgaria, Corvinus University of Economics in Budapest, Hungary and Trinity College, Dublin, Ireland (project leader in Poland was Professor Krzysztof Fonfara);
2. three research projects financed by Poland's Ministry of Science and Higher Education: "Behaviour of companies in the process of internationalisation (network approach)" conducted during 2006–2008 (project leader – Professor Krzysztof Fonfara); "The role of knowledge transfer in the process of foreign market entry" conducted during 2007–2010 (project leader – Aleksandra Hauke-Lopes PhD); and "Development of network relationships in the process of companies' internationalisation" conducted during 2010–2012 (project leader – Professor Krzysztof Fonfara);

3. a research project commissioned by Poland's Ministry of Economy entitled "Cooperation of Polish companies" conducted in 2010 (project leader – Milena Ratajczak-Mrozek PhD);
4. an international research project financed by The Norwegian Seafood Research Fund–FHF entitled "Integration and cooperation in pelagic export markets" conducted in 2012 (project leader in Poland – Łukasz Małys PhD);
5. six research projects financed by the Poland's National Science Centre: "The impact of network relationships in the process of internationalisation on company performance" conducted during 2011–2013 (project leader – Łukasz Małys PhD); "The impact of innovations created in the process of internationalisation on company performance" conducted during 2011–2013 (project leader – Adam Dymitrowski PhD); "The role of knowledge orientation in the process of achieving competitive advantage by a company involved in the process of internationalisation process" conducted during 2012–2015 (project leader – Marcin Soniewicki PhD); "The global and local dimension of business networks" conducted during 2013–2016 (project leader – Milena Ratajczak-Mrozek PhD); "The maturity of corporate relationship management and competitiveness" conducted during 2016–2019 (project leader – Bartosz Deszczyński PhD); and "The role of integrating market and technical knowledge in the process of creating innovation by high-tech and medium high-tech companies in the context of globalisation – the network approach" conducted during 2017–2020 (project leader – Marcin Soniewicki PhD).

Members of the project team have also written a number of scientific publications, including 14 monographs on topics related to the subject of the present book and 4 monographs devoted to other business-related issues. Some of them have also provided consulting services for companies. Altogether, members of the project team have been involved in over 30 consulting projects related to internationalisation, business cooperation and customer relationship management.

Introduction

Krzysztof Fonfara, Łukasz Małys and Milena Ratajczak-Mrozek

Most modern firms are, to a large extent, connected with the international environment, for in order to survive and develop, they very often have to expand their operations beyond the local market and venture into international markets. Moreover, most companies directly or indirectly purchase foreign products. Firms can import final products or their components (either physical products or services). In the 21st century, even very small firms can afford to reach attractive customers located in different, often remote, parts of the world via the Internet. In fact, internationalisation of companies has become a common phenomenon that affects the majority of businesses, which is contributing to considerably intensified competition in foreign markets.

Given easy access to information and a rapid transfer of knowledge, even between direct competitors, competing product offerings provided by various companies are becoming increasingly similar. A firm which manages to gain a temporary advantage by marketing a new idea or launching a new product will soon have to compete against skilful imitators. Faced with high costs of innovation, some competitors choose to cooperate. This is reflected by the growth of coopetition. Another trend is the progressive unification of product-service offerings, which can be observed in more and more industries. Firms offer similar products at similar prices using similar distribution channels. For this reason, managers, driven by the obvious desire to surprise competitors with innovative products, are also looking for other ways of differentiating themselves from their rivals. One solution to this problem which is being recognised by a growing number of firms is the significant role of relationships with other entities (e.g. customers, suppliers, competitors, influential bodies) in the process of creating competitive advantage in an increasingly competitive international environment.

The literature emphasises numerous determinants of a company's competitive advantage, e.g. product quality, price and knowledge of the markets. Much less attention, however, is paid to such aspects as the nature, scope and role of relationships with various entities in the internationalisation process.

Undoubtedly, the task of determining the impact of business relationships on performance poses a considerable research challenge. That is why in this book we have tried to operationalise the concept of business relationships by identifying a set of their key characteristics and determinants which influence the company's competitive advantage. We refer to these characteristics and determinants as components of the company's internationalisation maturity. In the book we argue that a higher level of internationalisation maturity increases the firm's likelihood of achieving relatively better results than those of its closest competitors.

This hypothesis was tested using data from a quantitative and qualitative study conducted thanks to the financial support from Poland's National Science Centre as part of the project "The maturity of a company's internationalisation and its competitive advantage (network approach)" (project leader: Professor Krzysztof Fonfara, Decision no. DEC-2013/09/B/HS4/01145). The choice of mixed methodology, combining quantitative and qualitative research, is justified by the different goals associated with each type. Qualitative research is supposed to identify the subject of study and answer the question "how and why" certain phenomena occur in economic reality (Marchan-Piekkari and Welch 2004). In contrast, the purpose of quantitative research is to enable more general conclusions and to support statements about the scale of the phenomena of interest. Both types of research were used at different stages of the research process, which were completed in the period 2014–2017.

The first stage of qualitative research involved brainstorming sessions with a group of 5 senior managers and a preliminary case study analysis of 10 companies. The findings from those studies helped to identify the research problem and, combined with theoretical analysis, provided the input for questions included in the survey questionnaire, which was to be used in the quantitative study.

The second stage of the research process consisted of the quantitative study conducted as a postal and internet survey. The survey questionnaire contained questions about the assessment and relevance of identified characteristics and determinants of relationships and their influence on the firm's competitive advantage. In all, 179 questionnaires were returned by the end of September 2015, which accounts for 10.2% of the sample. The total number of correctly completed questionnaires was 278, which was sufficiently large to enable statistical analysis.

The research process was concluded with another qualitative study, consisting of 30 in-depth interviews with firm representatives, which yielded data for another 30 case studies. This study was used to obtain answers to questions that had not been explained by statistical analysis. Companies analysed in these case studies represent various industries, sizes and organisational structures (i.e. formally independent firms and units of multinational enterprises).

The qualitative and quantitative studies should be treated as complementary, providing a comprehensive view of firm maturity in the process of internationalisation, supported by the results of statistical analysis and insights from the in-depth case studies.

The book consists of five chapters. The first one deals with the question of business relationships. One of the key points raised in the chapter is an attempt to differentiate business relationships from other types of connections maintained by firms and to classify various types of relationships established by market entities. A large section of the chapter is devoted to an overview of variables characterising business relationships which can facilitate detailed analysis. There is also a description of the different types of entities that firms can have relationships with.

The second chapter provides a systematic overview of knowledge about the process of internationalisation, including the most important research issues investigated in this context. One section includes a description of the most commonly cited models of internationalisation, which are divided into stage, network and strategic models.

The third chapter addresses the subject of competitive advantage, focusing on the definition and interpretation of the concept and a detailed analysis of its determinants from the classical and relational perspective. The chapter also includes an attempt to systematise existing knowledge about the influence of business relationships on company performance (as well as methods of measuring business relationships).

The fourth chapter presents the results of the two studies. It starts with a description of the concept of firm maturity related to internationalisation, taking into account the development and modifications made in the course of research work. The main part of the chapter is devoted to the presentation of results and conclusions from the empirical studies (qualitative and quantitative) with respect to the 3 identified areas of firm maturity related to internationalisation as well as their 9 components.

The fifth chapter provides a summary of the considerations presented in the book. In particular, it is an attempt to describe how particular components of firm maturity related to internationalisation affect a firm's competitive advantage. This presentation is summarised in the form of a conceptual model illustrating the growth of firm maturity related to internationalisation.

This book could not have published in its present form without the kindness and disinterested help of the many companies involved in the conceptual phase of the research, in the empirical studies, in the assessment and interpretation of the results and in the case-study analyses. The authors would like to express their gratitude for these contributions and hope that this joint effort will increase the body of knowledge concerning company behaviour in the internationalisation process and will serve to inspire enterprises pursuing success in foreign markets.

Krzysztof Fonfara
Łukasz Małys
Milena Ratajczak-Mrozek

CHAPTER ONE

THE ESSENCE AND SCOPE OF BUSINESS RELATIONSHIPS

ŁUKASZ MAŁYS AND ALEKSANDRA HAUKE-LOPES

1.1. Interpretation of Business Relationships

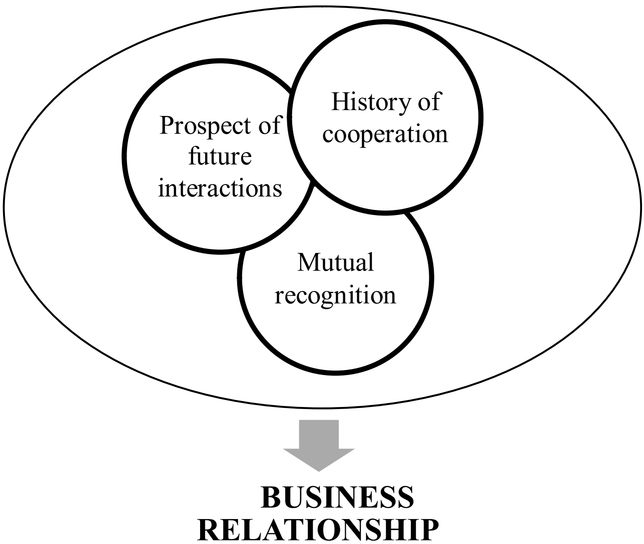
Over the last several decades, the problem of business relationships has become a topic of debate, which is reflected by the emergence of numerous business concepts and guides, scientific publications and conceptual systems. Business relationships and management of their development is also an important task in business practice. However, discussions concerning business relationships are often plagued by a lack of understanding stemming from different interpretations of this phenomenon. The problem is further compounded by, among other things, the ambiguity and complexity of this term, the wide range of entities that can be involved in business relationships, the number of organisational levels at which connections can develop, differences in the scope and intensity of relationships, or the very nature of relationships. Given all these factors, a good starting point for the following discussion will be a systematic overview of various perspectives of interpreting the phenomenon of business relationships, particularly in terms of terminology.

It seems crucial in this context to distinguish interactions (episodes, events) in business from business relationships. The term "interaction" refers to a single event or action undertaken by entities at a given time and place. It can involve a single transaction, negotiating terms of business, sending a quotation, etc. (Easton 1992, 4). One common misunderstanding in research and business practice results from treating every single contact (i.e. a single interaction) as a business relationship.

In contrast, a business relationship existing between two entities is a general, continuous phenomenon, by its very nature extending over a longer period. Relationships develop through interactions between entities, but they also affect interactions by determining the roles of partners and ways of resolving conflicts, etc. (Easton 1992, 4). It is the fact of relationships developing through interactions that is the main source of misunderstandings, for it is difficult to unambiguously determine the exact moment when a real business relationship is established. In this context, it is more common to talk about the process of relationship development without specifying the exact moment of its establishment (cf. Ford 1980; Dwyer, Schurr and Oh 1987; Wilkinson 2008).

However, it is arguably possible to identify certain minimum conditions that must be met for business relationships to be established. These include a history of cooperation, the prospect of future interactions and mutual recognition of partners (**Fig. 1-1**).

Fig. 1-1. Conditions for the establishment of a business relationship



A history of cooperation refers to interactions which have taken place between entities in the past. In business relationships, the history of cooperation between entities determines the roles of partners and desired behaviour. It enables partners to predict outcomes of interactions by predicting the behaviour of the other participant of a business exchange. It is assumed that the longer and more intensive the history of cooperation is, the better the mutual recognition of the partners and the stronger the relationship between them. It should be emphasised, though, that even a single interaction can be treated as the history of cooperation.

Another condition for the establishment of a business relationship is the prospect of future interactions. Unlike the history of cooperation, this condition concerns the future and assumes the cooperation will continue. The condition is what differentiates repeated interactions (in particular transactions) from business relationships. The prospect of future interactions to a large extent shapes the partners' behaviour by enabling the development of relational norms.

The third condition for a business relationship to be established is mutual recognition of the partners. This is a situation where both sides of a relationship can recognise each other and have a similar awareness of the existence of interactions. This condition clearly implies that the existence of business relationships is much more common in the business-to-business market (B2B market, institutional market). In the business-to-consumer market (B2C market, consumer market), the situation where a company is aware of interactions with individual customers, known by name, is quite rare (although in business practice there are attempts to change this).

It does not seem difficult to satisfy the three conditions necessary for the establishment of business relationships. In the B2B market, business relationships can be established after a few initial interactions, provided partners intend to continue cooperation in the future. It should be noted, however, that individual relationships that a particular company establishes can vary considerably in terms of strength or quality (Hausman 2001, 600). Differences in particular relationships result from their characteristics (e.g. the level of trust), which will be discussed in more detail in Section 1.2. It should be noted that characteristics of a relationship develop over time, so they require frequent interactions to reach a high level.

Knowing the differences between interactions and relationships, it is useful to distinguish three types of relationships that can prove important for companies in business settings. These are business relationships, social relationships (interpersonal relationships, informal contacts) and institutional relationships (Johanson and Kao 2010).

Business relationships, extending beyond the scope of transactions, are among the most commonly analysed connections between companies and other entities in the business environment (Johanson and Kao 2010). In the analysis of business relationships, emphasis is placed on relationships between customers and suppliers, which are said to be frequently part of complex business networks. The main purpose of business relationships maintained by companies is gaining access to resources and actions controlled by other business entities. It is assumed that companies can control resources directly (via ownership) or indirectly (in this case control is based on relationships with other actors who control resources directly) (Håkansson and Johanson 1992, 28–34). Actions include the process of finding, developing, exchanging and creating resources or assets. Two main kinds of actions are distinguished: transformation and transfer of resources. Transformation tends to be controlled directly by one entity. During actions of transfer, direct control over resources is transferred from one entity to another. In this way, transfer combines processes of transformation controlled directly by companies. Exchange between companies can involve goods and/or services, technology, financial resources and knowledge (Fonfara 2012). It is crucial to note that research on business relationships focuses on individual companies and their relationships developed at the organisational level.

Unlike business relationships, social relationships refer to connections developed between individual employees of companies involved in a business exchange. Particularly important in this respect are relationships between members of top-level management, often business entrepreneurs/owners. It is emphasised that these types of relationships are not necessarily developed in the business context but can originate at school, through membership in organisations, etc. (Johanson and Kao 2010).

In early research on relationships between companies and entities in the environment, social relationships were ignored or treated as playing a supporting role in the actual exchange, part of what was referred to as "informal contacts". However, subsequent studies have shown their significant role in identifying opportunities and threats, knowledge transfer (Sharma and Blomstermo 2003), gaining information about partners' intentions and strategic plans (Ellis 2011) or in the process of internationalisation, particularly in the case of born global firms.

Institutional relationships connect companies with institutions other than their customers and suppliers. Two groups of such entities can be distinguished (Johanson and Kao 2010). The first one includes profit-driven actors other than customers and suppliers, e.g. banks or consulting firms. The second group includes non-profit actors, such as authorities, business associations and chambers of commerce. It should be stressed that institutional relationships are classified by some authors as business relationships. This is especially the case in studies aimed at analysing the entire body of a company's relationships with its business environment and their influence on its business activity.

The existence of close business relationships in real market settings is reflected in theory. Two major theories explaining the development of long-term connections are transaction cost theory and social exchange theory.

Generally speaking, transaction cost theory deals with mechanisms of selecting governance structures in which economic exchange takes place. The choice of governance structure depends on the criterion of effectiveness. Effectiveness in turn is connected with minimising both the total cost of producing a good (providing a service) and transaction costs. The range of possible governance structures (Coase 1937, 387–388; Williamson 1998, 29–30) includes markets (controlled by the price mechanism), hierarchies (controlled by instruction, i.e. the company's management), and hybrid governance (connections between independent actors which extend beyond purely market-related considerations).

The selection of an appropriate governance structure taking into account the criterion of effectiveness depends on the nature of the transactions involved and the resulting transaction (governance) costs. Analysis of transaction costs is based on two behavioural assumptions about human nature which breathe life into the concepts of neoclassical economics: bounded rationality and opportunism.

Bounded rationality refers to the fact that economic entities have the intentions of rational behaviour; however, owing to their limited ability to acquire, store and process information and solve complex problems, they are not able to achieve the complete rationality postulated in neoclassical economics. Nonetheless, they do not act irrationally but try to make the best possible decisions (Simon 1982).

The second assumption of transaction cost theory is the opportunism displayed by participants of business exchanges. Opportunistic behaviour consists in seeking ways of furthering one's own interest. It includes "self-interest seeking with guile" (Williamson 1979, 234; Williamson 1998, 60–62). This kind of behaviour can involve lying, deception or failure to honour the terms of a contract. Williamson (1981, 554) indicates that not all actors need to be regarded as opportunistic, but it is extremely difficult to distinguish opportunistic from non-opportunistic ones *ex ante.*

The necessity to account for transaction costs in the analysis of effectiveness results from the co-occurrence of bounded rationality and the possibility of opportunistic behaviour. Under conditions of complete rationality, it would be possible to draw up a contract accounting for all possible situations. The phenomenon of bounded rationality only enables incomplete contracting, which would make effective business exchange feasible if market entities were not given to opportunism (Williamson 1998, 44).

Hence, the effectiveness of individual organisational structures depends on calculating the total cost of producing goods (providing services) and transaction costs. The size of transaction costs in turn depends (given opportunism and bounded rationality) on the type of transaction. Transactions which justify the establishment of business relationships are characterised by recurrence and a mixed character of investments supporting exchange, which can be situated somewhere between universal and transaction-specific investments (Williamson 1979, 239). Universal investments facilitate the production of goods (provision of services) in the same form regardless of the buyer. In the exchange of this kind of goods (services), it is possible to quickly change a supplier without incurring high costs. Transactions of this kind are made in the context of the market. Specific investments are those where the value of a particular transaction is high but declines for other transactions (or those that cannot be used in other transactions at all). As a result of specific investments, parties to a transaction become "attached to one another". A supplier cannot utilise an investment in other transactions and has to continue cooperation with a given buyer. At the same time, the buyer cannot easily change supplier because the cost of purchasing the product from an unspecialised supplier could be much higher. Asset specificity can be motivated by location, material resources or the labour factor. Transaction-specific investments are made within hierarchical structures (in the case of occasional transactions in the framework of trilateral governance) (Williamson 1981, 555–556).

The most effective way of making recurrent transactions based on mixed investments is ensured in the context of bilateral governance. The mixed nature of investments, on the one hand, decreases the effectiveness of the market mechanism by increasing production costs (as a result of limiting benefits derived from economies of scale) and increases external transaction costs. On the other hand, this situation enables external procurement (through transactions outside the organisation), since investments are not entirely specialised. However, effective transactions in this context require a structure that extends beyond the market framework – a structure created as a result of frequent exchanges between trading partners.

Transaction cost theory focuses on transactions and the selection of the most effective governance structures. In its classic form, however, it does not address in greater detail the question of social or relational norms, which to some extent guarantee certain behaviours of exchange partners (Williamson 1979). Issues of this kind are taken into account in social exchange theory.

According to social exchange theory, exchange between actors is embedded in social structures and is socially conditioned (cf. Homans 1958; Granovetter 1985). It is based on four main premises (Lambe, Wittmann and Spekman 2001, 6):

1. exchange interactions result in economic and/or social outcomes;
2. these outcomes are compared to other exchange alternatives to determine dependence on the exchange relationship;
3. positive outcomes over time increase companies' trust in their trading partners and their commitment to the exchange relationship;
4. positive exchange interactions over time produce relational exchange norms that govern the exchange relationship.

Exchange between entities can bring economic and social benefits. Benefits derived from a given exchange relationship are compared with costs that have to be borne in order to maintain that relationship. If the benefits exceed the costs, the relationship is viewed as beneficial (Homans 1958, 598–606; Thibaut and Kelley 1959, 18–19, 31–50).

The exchange outcome (difference between benefits and costs) is additionally compared with the actors' (economic and social) expectations about a given exchange, which make up a desired standard, known as a comparison level. The desired comparison level is established on the basis of past and present outcomes obtained in similar relationships. If the exchange outcome exceeds the comparison level, the actor is satisfied with the exchange. If it is lower, the result is dissatisfaction (Thibaut and Kelley 1959, 21–24).

Relationship outcomes are also compared with a comparison level of alternatives, which determines the level of (economic and social) benefits that a given actor can derive from participating in the best alternative relationship to the ones currently maintained. As long as the benefits from current relationships surpass the comparison level of alternatives, the actor is, to a certain extent, dependent on the current relationship, as it offers greater benefits than other relationships. The comparison level of alternatives is the minimum level of relational outcome that an actor is willing to accept and still continue cooperation (Thibaut and Kelley 1959, 100–125).

An exchange relationship generates trust between trading partners. This is because a large part of an exchange relationship is based on obligations and is not governed by formal contracts. By providing the trading partner with benefits, one trusts that he or she will reciprocate this behaviour. If this is indeed the case, the level of trust increases. According to postulates of social exchange theory, trust building is a gradual process. Initially, trust-based obligations involve small, relatively insignificant transaction elements. As time goes on and the exchange based on obligations generates positive outcomes, trust increases.

Trust existing between trading partners fosters commitment to the existing relationship. Commitment provides favourable conditions for investing in the relationship with the intention of gaining mutual benefits. In turn, positive benefits derived by both sides increase commitment (Lambe, Wittmann and Spekman 2001, 10–11).

According to social exchange theory, relationships between trading partners produce norms governing the exchange. Norms refer to clearly defined or informally emerging patterns of behaviour, developed in the course of interactions and accepted by both sides in order to regulate the exchange without the need to exert influence or exercise power. Norms increase the effectiveness of exchange by reducing the level of uncertainty. In addition, they largely safeguard the interests of both trading partners without the need to resort to legal measures or arbitrage solutions (Homans 1958, 600–601).

The premises of social exchange theory have been used to study relationships in the B2B market. They have proved particularly useful in identifying differences between market transactions and partnerships (cf. Easton 1992), creating models of how relationships between legally independent entities develop (cf. Ford 1980; Dwyer, Schurr and Oh 1987) and in studies of relationships intended to identify factors that contribute to relational success (cf. e.g. Anderson and Narus 1984, 1990; Morgan and Hunt 1994; Mitręga 2008).

The question of business relationships is also discussed in the context of the resource based view (RBV). According to the RBV, a company is viewed as a "bundle of resources" (Penrose 1959). Nowadays, business relationships are treated as firms' key resources (Barney 1991). Their special significance results from the fact that they enable access to external resources which are controlled by other companies. The resource-based view will be discussed in more detail in Sections 3.1 and 3.2 of the book.

One key problem in the analysis of business relationships is to determine their quality (also strength and closeness), as this can affect the benefits derived by trading partners and prevent unfavourable phenomena. Relationship quality depends on levels of business relationship characteristics, which will be discussed in the next section of the book.

1.2. Characteristics of Business Relationships

Companies operating in foreign markets need to cooperate with other entities to achieve their business goals. The main partners that international companies establish relationships with include suppliers, intermediaries, distributors, competitors or companies providing services and products necessary for the company's operation (more on partners in the business relationship in Section 1.3 of the book). As a result of establishing and intensifying cooperation, firms create and develop exchange-specific relationships (Hauke-Lopes 2014). They have various characteristics (also known as relational variables) which describe the specific character of cooperation between business partners (e.g. the level of trust) and stem from diversified relationships that emerge and are developed in the course of cooperation. These relationships result from the existence of many influencing factors (like partner's strength or length of cooperation), that is they are determinants. Relationships are also affected by factors independent of trading partners, such as the cultural or legal environment in which they operate and the number of competitors or producers of complementary goods. Firms do not have full control over relationships maintained with trading partners in a given market. They can try to control many aspects of relationships, but existing interactions and the effect of the abovementioned determinants give rise to connections that are specific to a given situation and firm.

Business relationships due to diversified determinants and characteristics can constitute a major resource that enables a company to achieve competitive advantage in a foreign market in the process of internationalisation. To facilitate more in-depth analysis and determine how relationships help firms succeed in a foreign market, they should be studied in a wider context, taking into account the abovementioned determinants and characteristics. This approach provides more definitive and insightful conclusions about the way relational determinants and characteristics affect the performance of firms in the process of internationalisation.

Given the growing interest in this topic, there is a large body of research that addresses various aspects of the subject (cf. e.g. Beijou et al. 1996; Crosby et al. 1990; Kumar et al. 1995; Lagace et al. 1991; Małys 2013, Naudé and Buttle 2000; Ratajczak-Mrozek 2017; Walter at al. 2003). Nonetheless, there are no comprehensive studies of how determinants and characteristics of business relationships affect the performance of firms in the process of internationalisation. In order to extend the field of research and bridge the existing gap, the following section will be devoted to presenting results of a literature review on business relationships from the perspective of their characteristics (relational variables) and determinants (relational factors). Results of an empirical study of the impact of relational characteristics and determinants on business performance achieved in the process of internationalisation will be presented in Chapter 4 of this book.

Characteristics and determinants of business relationships affect results achieved by a company operating in a foreign market and therefore determine its ability to achieve competitive advantage. They can be identified with components of thematic areas describing the internationalisation process, which are presented in Section 2.1. Relational characteristics affect, above all, cooperation between trading partners in a foreign market whereas relational determinants shape business relationships by contributing to the emergence of certain characteristics (Małys 2013). Fig. 1-2 shows the key determinants and characteristics of business relationships proposed in the literature. It should be noted that there is no agreement in the literature on how to distinguish between relational determinants and characteristics. The following discussion is intended as an attempt to fill the research gap concerning the effect of relational characteristics and determinants on business performance achieved in the process of internationalisation.

Fig. 1-2. Determinants and characteristics of relationships in business networks

RELATIONSHIPS IN BUSINESS NETWORKS

RELATIONAL DETERMINANTS

- communication
- atmosphere
- satisfaction from cooperation
- informal links
- customer satisfaction
- duration of the relationship
- attitude to cooperation
- willingness to invest
- ethics
- reputation
- professionalism
- psychic distance

RELATIONAL CHARACTERISTICS

- trust
- commitment
- mutuality
- openness in relationships
- respect
- level of conflicts
- financial involvement
- size of transaction costs

In the literature, characteristics of business relationships are typically considered from two perspectives: social/relational and economic/ transactional (cf. i.a. Donaldson and O'Toole 2000; Małys 2013). Viewed from the social perspective, business relationships are most commonly described in terms of two main characteristics: trust and commitment

(Barry et al. 2008; Crosby et al. 1990; de Cannière 2010; Dorsch et al. 1998; Małys 2013; Smith 1998; Walter et al. 2003). In addition to these two variables, some authors also mention mutuality (Dobrow et al. 2011, Holmlund and Törnroos 1997; Lee and Trim 2012; Małys 2013), though according to some others it is regarded as a determinant (Campbell 1997; Blankenburg Holm et al. 1999). Other relational characteristics listed in the social approach include openness in a relationship and respect (Andersen and Krach 2013; Sirdeshmukh et al. 2002). Analysed from the economic perspective, relational characteristics include partners' financial involvement and the size of transaction costs (Małys 2013).

Determinants of business relationships affect cooperation as well as the relationships of a company in the process of internationalisation. The most commonly listed determinants include communication (Fynes et al. 2008; Kumar et al. 1995; Lang and Colgate 2003), atmosphere (Fynes et al. 2008; Song et al. 2012; Su et al. 2008), satisfaction from cooperation, informal links, partners' satisfaction, customer satisfaction (de Cannière 2010; Dorsch et al. 1998; Lang and Colgate 2003; Brock 1986), quality of services provided (Song et al. 2012), duration of a relationship, attitude to cooperation, willingness to invest in a relationship, partners' business ethics, partners' reputation, staff professionalism (Dorsch et al. 1998; Kumar et al. 1995 Lagace et al. 1991; Walter et al. 2003), cultural differences and psychic distance (de Búrca et al. 2004; Fynes et al. 2008). The multiplicity of determinants is associated with the firm's scope of operation (local, regional, international), the number of collaborating partners and their experience or attitude to cooperation. Given the multidirectional and complex nature of relationships, the literature often emphasises the difficultly in identifying the effect of a single determinant on a given relationship. It is therefore recommended that determinants should not be analysed separately but should be combined or grouped in aggregate measures in order to obtain more definitive conclusions (cf. i.a. de Búrca et al. 2004; Małys 2013; Naudé and Buttle 2000; Song et al. 2012). For this reason, some authors suggest that determinants should be measured using cluster analysis (Naudé and Buttle 2000). Others postulate combining determinants taking into account three dimensions: social, technical and economic. The social dimension includes such determinants as professionalism, understanding and integrity. In the technical dimension one can distinguish such determinants as technical information and time required to offer technical assistance. Determinants classified into the economic dimension include profitability, efficiency and effectiveness (de Búrca et al. 2004, 67).

Of the numerous relational characteristics and determinants proposed in the literature, the following, three most commonly mentioned have been selected for detailed analysis in this section: trust (e.g. Morgan and Hunt 1994; Blois 1999; Johnson and Grayson 2005; Golicic 2007), commitment (e.g. Morgan and Hunt 1994; Hausman 2001; Barry, Dion and Johnson 2008; Ratajczak-Mrozek 2017) and, additionally, the incidence of conflicts in a relationship (e.g. Skarmeas 2006; Greer et al. 2011; Lau and Crobb 2010). It has been concluded that these variables have a major influence on the character of cooperation in a foreign market and affect the pace at which new solutions or improvements are introduced. In the course of cooperation, trading partners gain information about each other (often very detailed), which in turn allows them to provide products that meet expectations. Good cooperation contributes to lowering the risk of negative outcomes, such as looking for other partners or opportunistic behaviours, and reduces the risk of conflicts.

The characteristics and determinants described below were also used in the empirical study mentioned earlier, in addition to other characteristics and determinants included in order to improve the analysis of business relationships and their effect on achieving competitive advantage. A detailed description of relational characteristics and determinants used in the empirical study is presented in Chapter 4 of the book.

The first characteristic described in this section is trust, which can be defined as "the belief, attitude or expectation of a party that the relationship partner's behaviour or its outcomes will be for the trusting party's own benefit" (Walter et al. 2003, 161). Applied to business relationships, it can be understood as the belief that a partner will take actions that will benefit the company and will avoid unexpected actions that may produce undesirable results (Lau and Crobb 2010). Trust and relationship development are closely related: trust fosters cooperation, and consequently enables the relationship to develop; in turn, cooperation contributes to the development of trust. One can distinguish three elements of trust: interdependence, a means of coping with uncertainty in the exchange and a belief that vulnerability resulting from the acceptance of risk will not be exploited by the partner (Batt 2004). Thanks to trust and interdependence, the risk of conflicts, the level of operational costs and the possibility of opportunistic behaviour on the part of trading partners may be considerably reduced (Hauke-Lopes 2017). This situation strengthens the business relationship and reduces the uncertainty of operating in a competitive, international business environment.

Trust in business relationships can be classified into two categories (Lau and Crobb 2010). The first one is *calculus-based trust* (CBT), which is the result of a rational and systematic cognitive evaluation of the partner's intentions and abilities of completing the transaction. The second type is *relationship-based trust* (RBT), which refers to an affective form of trust, based on relationships between business partners and the belief that both parties have the same perception of each other's reliability and dependability (Lau and Crobb 2010). To assess the level of trust, some authors propose using three parameters: honesty, benevolence and competence (Walter et al. 2003, 164).

Trust in business relationships has a strategic character – it is relation-specific and instrumental in helping business partners achieve their goals. Moreover, it plays a crucial role in creating an organisational culture that fosters knowledge sharing. A high level of trust facilitates knowledge transfer, particularly this more sophisticated and specialist one. Trust takes a long time to develop but is quickly destroyed; this is why organisational culture should always support its development through, for example, integration, the creation of social networks, informal meetings or joint participation in projects.

Another key characteristic of business relationships is commitment. Partners' commitment to cooperation changes the nature of business exchange. It can be defined as the willingness of partners to make short-term sacrifices in order to maintain long-lasting, stable and profitable relations (Anderson and Weitz 1992). Other authors define it more generally as "a kind of lasting intention to build and maintain a long-term relationship" (Walter et al. 2003, 160). In the literature, it is emphasised that commitment is the basic element that both fosters the creation of and strengthens long-term relationships. The level of commitment reflects the degree of cooperation in a relationship. A high level of commitment means that partners are actively involved in sustaining and developing cooperation (de Búrca 2004). Commitment results from a belief shared by both parties that their relationship is important and worth investing resources to maintain. Consequently, partners are more willing to cooperate, to comply with each other's requirements, to compromise, to share information and to engage in solving conflicts (Tellefsen 2002, 645). It is possible to distinguish two kinds of commitment: *affective commitment* and *behavioural commitment* (Zaefarian et al. 2016). *Affective* commitment results from good cooperation between business partners, which they are willing to continue. The second kind of commitment – *behavioural* – stems from visible manifestations of a relationship and its associated investments (Zaefarian et al. 2016). To complement this section, two more types of commitment can be mentioned – *instrumental commitment*, which refers to the level of investment (in the form of time and resources) made in a given relationship; and *temporal commitment*, which is associated with the duration of a relationship (Walter et al. 2003, Gundlach et al. 1995).

Trust strengthens a relationship and increases partners' interdependence. As trust and commitment develop, negative outcomes of cooperation become increasingly unlikely – since both partners are committed to cooperation and development, they do not plan actions that could undermine the relationship. In addition, commitment makes partners more willing to remain in the relationship and more reluctant to look for opportunities with other partners, given the investments already made in the relationship.

The level of commitment can be measured using such criteria as the number of strategic, tactical and operational meetings, the number of issues discussed jointly, and the speed and effectiveness of actions aimed at solving problems and carrying out operational activities (Nowak 2012, 272). Other researchers suggest measuring commitment by analysing partners' loyalty, willingness to make short-term concessions, attitude to cooperation duration or willingness to invest in the relationship (Walter et al. 2003).

Based on the literature review, the level of conflicts in a relationship was chosen as the key relational characteristic. Conflicts, an inherent element of cooperation, can be defined as "tension between social entities due to real or perceived differences" (Skarmeas 2006, 568). The most typical sources of conflicts include cultural differences, personal differences, the partner's status and power, problems emerging in social networks, communication problems, reluctance to invest and adapt, and inappropriate organisation of work and cooperation.

According to the classification proposed in the literature, conflicts can be divided into *task*, *process* and *relationship conflicts* (Greer et al. 2011; Lau and Crobb 2010). A *task conflict* occurs when there are different opinions concerning actions undertaken in the course of cooperation, as well as their aims and scope. A *process conflict* arises from misunderstandings related to task accomplishment. Sometimes this type of conflict is analysed together with task conflicts. Finally, a *relationship conflict* results from misunderstandings between employees which are not associated with tasks they perform. Such conflicts can be caused by their different personalities, systems of values or beliefs. It is assumed that a task conflict may have a big, positive influence on the company's performance, while the impact of relationship conflicts on performance is negative (Lau and Crobb 2010).