

Understanding incubation during foreign market entry

Lessons learnt from an illustrative Danish case study

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Understanding incubation during foreign market entry: lessons learnt from an illustrative Danish case study

Abstract

Purpose: This paper discusses business incubation to enter foreign markets in BRIC countries through the lens of an “international business incubator” (IBI). International market expansion offers huge opportunities for companies to increase their revenue, but there are also challenging tasks such as the establishment of a business company and the occupation of a strategic position abroad. Practitioners consider this process as the act of incubation, but the theoretical discussion lags behind the practice-led debate.

Design/methodology/approach: An illustrative, and theory-led, case study is presented that describes market expansion to BRIC countries through a network-based IBI. The empirical case is an illustrative Danish company with international operations in BRIC countries both with and without an IBI.

Findings: International business incubation represents a process, which can be influenced through an IBI, and business networking during foreign market entry is shaped by IBI brokerage (bridging, bonding and protecting) in different phases. IBI activities that are embedded in business networking support a company’s endeavours in getting a foothold and acquiring a strategic position in, and penetrating, BRIC markets.

Research implications: The IBI’s activities to enter foreign markets should be thoroughly managed. Further studies should be conducted with cross-case comparisons and larger samples to reflect on the propositions established.

Originality/value: By linking business networking theory with the practice-led understanding of business incubation, the study explores an under-conceptualised topic for international business and entrepreneurship scholars. The paper offers an initial understanding of how brokerage interacts with incubation during the entry of new markets.

Key words: Foreign market entry, BRIC countries, international business incubator, business networking.

1. Introduction

The amount of direct investment in BRIC countries (Brazil, Russia, India, China and South Africa) has increased significantly over the past few decades, and these large, fast-growing markets are expected to grow further (Holtbrügge and Baron, 2012; UNCTAD, 2018). Expanding into such markets offers huge opportunities for companies to stabilise or increase their revenue, notably when they are based in small and competitive domestic markets (Korsakine and Tvaronavičienė, 2012; Neupert *et al.*, 2006). Since companies often do not possess the necessary resources to acquire expertise and assistance (consulting, networking services, *etc.*) for market entry into BRIC countries, industry associations and public governmental bodies have launched incubation programmes, known as “international business incubators” (Dyhr Ulrich and Hollensen, 2014). These practice-led programmes use professional incubation as a tool to guide the entry into complex industry networks abroad. The hosting bodies often enjoy an excellent reputation to provide country-specific knowledge and resources (Dyhr Ulrich and Hollensen, 2014).

The academic discussion has primarily focused on entry-mode decisions, but largely ignored the question of how such incubators for foreign market entry can be conceptualised (Blackburne and Buckley, 2017). However, there are claims in the field of international business studies that research should offer a more holistic context for foreign entry-mode models (Shaver, 2013), for example, by describing entry-mode combinations and inter-mode changes during the internationalisation of notably small- and medium-sized companies (Schellenberg *et al.*, 2018). Companies without sufficient embeddedness in foreign market networks would, for instance, find it difficult to understand the complexity of the market and discover a position in the network abroad (Gao *et al.*, 2016). In a similar vein, Blackburne and Buckley (2017) indicate the need for central network actors, who bridge communication gaps and compensate for a lack of trust between the company in the foreign market and host-country actors. Indeed, the successful entry into a foreign market will be based upon the support of actors with both network resources and networking capabilities (Kogut and Kulatilaka, 1994).

Few academic contributions address such network-based business incubation during foreign market entry. The few contributions available, are exploratory in nature and engage to a lesser extent in theory-building (Rask and Bøllingtoft, 2008; Dyhr Ulrich and Hollensen, 2014). In light of this, this paper aims to move the practice-led debate regarding the “international business incubator” (IBI) to a theoretical level by conceptualising the IBI as a potential foreign market entry mode. The paper offers a model that departs from the idea that an IBI identifies structural gaps offering business opportunities abroad and uses brokerage to exploit these gaps (Burt, 2005).

This paper presents an illustrative single-company case of the Danish company LINAK A/S with a cross-country comparison of its foreign market entry into BRIC countries, both with and without an IBI. Its main goal is to find answers to the question of why and how companies can use an IBI. The case company is headquartered in Southern Jutland, Denmark, and holds business operations in many countries (www.LINAK.com). LINAK A/S depends upon a solid strategy of internationalisation to generate vital resources for investment, but also needs resources to support its entry into new countries. With this structure, LINAK A/S represents an appropriate company to illustrate the applicability of an IBI for foreign market entry.

This paper addresses the following research question: *How can international business incubation be described in terms of brokerage-based activities for foreign market entry?* Based upon the illustrative case study, a research agenda will be established to guide theoretically grounded IBI

studies in the future. Hence, the research interest of this paper lies in illustrating an IBI during the foreign market entry process as a conceptual approach.

The remainder of this paper is organised as follows: In Section 2, the key terminology is defined and the conceptual framework introduced. Section 3 describes the empirical study, Section 4 discusses the company related to the research question, and the final Section 5 presents the conclusions and limitations of the study.

2. Theoretical considerations and conceptual framework

2.1 Basic definitions and theoretical considerations

The term “business incubation” is commonly associated with new venture creation (Hackett and Dilts, 2004). Different typologies for the concept are found in the literature (Rask and Bøllingtoft, 2008). Cantù (2015) identifies three generations of business incubator research. While the first generation understands business incubation only as the provision of space to new ventures (Lindholm-Dahlstrand and Klofsten, 2002), the second generation refers to specialised services to entrepreneurial companies (Engelman *et al.*, 2015). Only the third generation includes a network perspective because the business incubator represents a networker that explores relevant business networks for companies entering foreign markets (Bøllingtoft and Uhløj, 2005).

For the purpose of this paper, we define an IBI as both an organisation and institution organised around the integration of new companies into foreign markets. An IBI can be, for example, an organisation that is embedded in a foreign network, which represents an institution. Institutions are associated with the rules, norms, sanctions, and informal codes of conduct that create reciprocal behaviour among actors and are established within organisations and business networks in the foreign markets (Coleman, 1990; Mendy and Rahman, 2019). The distinction between organisation and institution is helpful because the integration of new companies or organisations into existing foreign market networks requires not only a formal target for the newcomers to the network, but also the achievement of an institutionalised position that enables them to adapt to the rules and norms belonging to the new context (Blackburne and Buckley 2017; Mendy and Rahman, 2019). By integrating new companies into the foreign market, the IBI can be used as a specific entry mode.

In this paper, the activities that an IBI might take over are referred to as incubation. Compared to other entry modes, an IBI is characterised by the explicit intention of supporting the entry phase of companies in new markets and compensating for a lack of resources through business networking during this phase (Blackburne and Buckley, 2017; Schellenberg *et al.* 2018).

By taking up the idea from the third-generation of business incubation research (Cantù, 2015), our definition of “business networking” is based upon social capital theory, with the following understanding: firstly, Coleman (1990) emphasises the value of social structures as resources through which actors approach their goals. Secondly, interaction between actors with different interests and access to respectively control over resources will result over time in embedded social systems (Smelser and Swedberg, 2005; Coleman, 1990). Thirdly, a high degree of embeddedness (Granovetter, 1985) and central positions of actors within a network (Burt, 2005) will provide actors with access to vital resources in social networks.

Hence, “business networking” is also about understanding the “rules of the game” (North, 1990) and establishing a central position within the network to reach new actors, such as customers and new business partners. It is important to understand that the usage of the term IBI in the real world can have different meanings, ranging from public policy programmes to organisations and institutions. The actors taking over incubation can also vary. Due to this, the present study will focus both on the incubation activities and the IBI as an actor.

2.2 Internationalisation from a network perspective

The network perspective represents the dominant logic in international business and entrepreneurship research when it comes to explaining how companies internationalise (Hohenthal *et al.*, 2015). Internationalisation research was initially strongly influenced by the Uppsala model (Johanson and Vahlne, 1977). Although it does not explicitly focus on networks, this early-stage approach stated that the internationalisation of companies takes place as a learning process in which they are increasing their experiential market knowledge and resource commitment over time. Cumulative resource and knowledge acquisition in the foreign market can stimulate further resource commitment and help companies develop successful ventures abroad (Johanson and Vahlne, 1977).

According to revisions of the initial model, a company is now considered as being embedded in an either enabling or constraining business network in the foreign market (Blankenburg Holm *et al.*, 2015). The network position of companies is supposed to influence the development of opportunities during the internationalisation process, and “insidership” – understood as the level of embeddedness in the industry network abroad to exploit market opportunities (Gao *et al.*, 2016; Blankenburg Holm *et al.*, 2015) – enables direct and indirect relationships, which, again, increase the level of a company’s embeddedness.

During the last two decades, international business studies further explored the importance of building so-called “initial relationships” in the foreign market; such relationships were associated with “bridgeheads”, “entry nodes” or “weak ties” (*cf.* Granovetter, 1977) and aimed at helping companies to get a foothold in foreign markets (Blankenburg Holm *et al.*, 2015; Hilmersson and Jansson, 2012).

Blackburne and Buckley (2017), moreover, argue that incubation such as an IBI represents a mediating approach during foreign market entry that can compensate for institutional voids and reduce market risks and barriers for a company due to its newness and lack of “insidership”. Hence, the idea of an IBI came more to the fore with traditional process and network models to foreign market entry.

2.3 Brokerage, IBI and foreign market entry

This network perspective to internationalisation is also linked to the industrial network approach, which puts more emphasis on activities to explain how interaction in business relationships evolve with rules and norms emerging in this process. The combination of the new economic sociology and IMP literature (Raskovic, 2015) matches the understanding of an IBI, as proposed by Blackburne and Buckley (2017) and Hohenthal *et al.* (2015). It highlights that the time dynamics – impacted by the interaction of actors, resources and activities – are significant factors, but under-researched for foreign market entry.

Actors, resources and activities are central variables to explain network processes; both “activities” and “resources” are interdependent, and they affect the emergence of mechanisms such as institutions (Håkansson *et al.*, 2009; Bizzi and Langley, 2012). By actors, we are referring to both individuals and organisations (such as managers, customers, companies and public organisations). According to Burt (2005), the broker is a key actor in facilitating the use of networks and access to resources aligned to the networks (Eklinder-Frick *et al.*, 2014).

Brokerage, *i.e.*, activities by brokers, can be conceptualised as networking in two respects: An institutional dimension highlights the importance of a broker for understanding and absorbing institutional resources, for instance, different cultural codes of conduct between Western *versus* emerging market types with regard to foreign market entry (Tian *et al.*, 2018). A structural dimension, by contrast, stresses brokerage as a means of bridging gaps between different markets (Burt, 2005; Chetty and Agndal, 2007) and supporting, for instance, the relationship-building with traders, customers and collaborative partners abroad (Zhou *et al.*, 2017).

Brokerage includes different activities, which depend upon the nature of relationships. Coleman (1990) proposes intense relationships, called ‘strong ties’, to reduce risks within exchange interactions. Svendsen and Svendsen (2009) argue that ‘strong ties’ also draw attention to newcomers by signalling trust and enabling the provision of resources. Hence, when a company accesses institutional resources by becoming embedded in a foreign business network, this is accompanied by frequent interaction, exchange and the development of trust (Jones *et al.*, 1997), which, again, helps the company to integrate into focal business networks abroad. Therefore, the process of establishing ‘strong ties’, for example, with customers abroad, through an IBI will be called “bonding” (Eklinder-Frick, *et al.*, 2014).

In the process of internationalisation, an IBI committed to bonding can be used as a means of becoming integrated into institutional processes abroad such as licence acquisitions to start a business company in the foreign market. In a similar vein, an IBI can help companies understanding foreign rules, laws and regulation, which are needed for collaboration with local business partners. However, this institutional integration of newcomers into a foreign business network requires moderation to allow companies adapting to network standards and facilitate trust-building (Spenser and Gómez, 2004). Therefore, the trust and reputation of an IBI in foreign markets represents an institution that facilitates bonding processes between companies from different countries (Shirokova and McDougall-Covin, 2012).

Other incubation activities are associated with the building of connections and compensation for a lack of institutions and are called “bridging” (Burt, 2005). The idea of bridging draws from the “insidership” argument (Blankenburg Holm *et al.*, 2015) and focuses on ‘weak ties’ (Granovetter, 1977). An example where an IBI might use bridging is when newcomers to foreign markets might not identify opportunities outside a focal network. An IBI may help identifying new opportunities, for example, by bringing together new companies entering the foreign market with trendsetters, traders and export agencies in the foreign market (*cf.* Burt and Merluzzi, 2014). Business partners abroad, who have access to multiple further contacts (including customers), can represent such an IBI and support market penetration abroad. In principle, any kind of contact, exchange of resources, and activity such as simply approaching foreign authorities can be viewed as bridging during foreign market entry. Through such activities, contacts outside a focal business network abroad (“outsidership”) with new market opportunities will be formed by connecting non-connected actors and networks (Burt, 2005).

Hence, an IBI should be able to professionally leverage such opportunities, which may offer companies entering a foreign market access to more established, embedded networks of potential customers and business partners. Furthermore, an IBI should make connections through bridging in the event that a shared understanding between different business partners would be needed (*cf.* Johanson and Vahlne, 2009). The translation between different understandings of home-country and host-market companies to form a shared meaning is an important bridging activity of an IBI, which might facilitate the institutionalisation of rules and norms, the adaptation and learning on the part of companies, and their resource exchange and relationship development (Gao *et al.*, 2016; Eklinder-Frick *et al.*, 2012; Bingham and Eisenhardt, 2011).

Moreover, strategic co-operation in which competing actors in the foreign market will be excluded would be an example of another activity by an IBI, known as “protecting”. This argument is based upon work by both Burt (2005) and Coleman (1990), who suggest that exclusive sets of resources can be shaped if resources are being protected from over-exploitation. Hence, protecting refers to any relationship with business partners from the new market that involves co-created values abroad (products, services, distribution channels). It includes any activity that prevents competitors from imitating and/or destroying the strategic position achieved in the foreign market (Gretzinger and Leick, 2017).

Finally, the entry process to foreign markets is characterised by various phases, which differ depending on a company’s resources and opportunities in the foreign market (Schellenberg *et al.*, 2018; Bizzi and Langley, 2012). During all phases, from the start to the point in time when the company achieves a foothold (mid-term) and put its strategy into action (long-term), bridging, bonding and protecting are vital IBI activities. Each phase has its own logic related to the specific constellations of actors, resources and goals (Bizzi and Langley, 2012). The decision of a company to use an IBI thus influences the setting of the respective phase of foreign market entry, for instance, when companies evaluate how to enter a market and to which extent to commit resources to it. Although these phases and the activities involved can be viewed as sequential steps, they may also represent a back-and-forth process that can be guided by brokerage through an IBI to support the provision of resources, expertise and relationships abroad.

3. Design and context of the illustrative case study LINAK A/S

3.1 Sampling, research design and coding

This study is exploratory in nature and aims to describe the central phenomena in a complex context as a process over time (Brown and Eisenhardt, 1998). An illustrative company was chosen which is characterised by a broad set of issues covered (Stake, 1995). It presents descriptions of how issues are related to “actors”, “resources”, “activities”, and “interaction”, and it thereby identifies, describes and interprets processes or mechanisms (Wynn and Williams, 2012; Bizzi and Langley, 2012).

The selected company LINAK A/S represents an illustrative case to highlight the international activities in four BRIC countries with different entry modes. This setting aims to provide a better understanding of why – or why not – specific IBI activities and their alternatives (such as export agents) were used in the respective context (Bingham and Eisenhardt, 2011). Thus, four sub-cases of foreign market entry will be compared over time. The resulting research design comprises two cases with the use of an IBI (Brazil and Russia) *versus* two cases of market entry without an IBI (India and China).

Regarding the sampling, semi-structured qualitative interviews were conducted between 2017 and 2018 through face-to-face or phone interviews with five key actors from the company and an IBI programme, based upon an interview questionnaire. The interviewees were represented by the following work posts: an incubator manager in Brazil (one interview); a company manager in Russia (one interview); a company director from headquarters (home country, two interviews); and a director from a Danish ‘international incubator’ association who has also worked for the company (one interview). The manager from the IBI programme was included to better understand the concept from an IBI perspective.

The questionnaire moved through different thematic sections: the motive to choose a specific entry mode or maybe varying modes of entry; the process of the entry related to context and phase of entry (for example, the interviewees were asked how they approached authorities, customers and further stakeholders and to describe the specific circumstances); and market and strategy developments in the course of time. In all thematic sections, the focus was on the inter-relationship of actors, resources, and interaction among the key actors as well as the specific context (*cf.* Bizzi and Langley, 2012).

All interviews were taped, transcribed, coded and analysed. In line with Myers (2020), a hierarchical codebook was used in the coding and interpreting process, organised in two steps (King *et al.*, 2018). Firstly, with descriptive coding, text passages were formed into information according to actors, resources and activities. Subsequently, interpretive coding was used to obtain information related to brokerage activities and foreign market entry phases (Bizzi and Langley, 2012). In line with Myers (2020) and Wynn and Williams (2012), actors, resources and activities were related in a contextualised fashion to the theoretical categories of bonding, bridging, protecting (brokerage activities), and the phases of market entry. As an example, the following passage of the transcript “interviewee 2” (conducted on 11 October 2017): “*It took us nearly four months to open a bank account in Russia. We could not open our own subsidiary in Moscow if we had no bank account*” was coded in line with our codebook (*cf.* Bizzi and Langley, 2012) and the understanding of bridging, bonding, protecting used in this paper.

For codes on level 1, the text was interpreted as follows: The company has had no access to actors and/or institutions to facilitate access to a bank account but needed this access. On coding level 2, it was interpreted that actors and/or institutions that enable the company to set up a bank account are vital actors and/or resources in the entry process. The final interpretation was that the institutional setting and the activities on the part of an incubator that enable the company to facilitate the acquisition of institutional resources are vital for bridging and bonding, notably in the start phase of the foreign venture.

3.2 Context of the company – LINAK A/S

The chosen company, LINAK A/S, is an international player and a world leader in designing and manufacturing electric linear actuator solutions in the B2B market. LINAK A/S has grown rapidly ever since introducing actuators in 1980. Today, LINAK A/S actuators are used in applications such as height-adjustable tables, hospital beds, agricultural machinery, elevation and industrial machinery. The company’s vision is to provide innovative actuation solutions that improve people’s quality of life and working environment. In the 2017/18 financial year, the company’s total sales at group level (holding) increased to DKK 3.8 billion with a net profit (after tax) of DKK 607 million (www.LINAK.com). LINAK A/S has approximately 2,200 employees in 35

countries. The LINAK A/S Group is divided into 4 divisions organised as individual business units: Medline & Careline, Deskline, Techline and Homeline.

LINAK A/S opened its first sales office in Sweden in 1985. In 1990, a wholly-owned subsidiary was established in Great Britain. In 1999, the first foreign production site was built in the USA to serve the North American market. In 2002, LINAK A/S International was established, with the vision of ensuring that LINAK A/S utilises all business opportunities in markets in which it has no subsidiaries and ensures a profit as soon as possible. Today, in total, LINAK A/S has 25 production and sales subsidiaries worldwide, of which 15 subsidiaries are in Europe, 7 in Asia and the South Pacific, and 3 in America.

3.3 Context and roles of the actors beyond the company

We include national organisations as well as public bodies from the home country, for instance, industry associations or chambers of commerce, within the notion of an IBI (Dyhr Ulrich and Hollensen, 2014). Even if our focus is on the IBI as a highly formalised and institutionalised organisation, actors from other organisations such as sales agents can also incubate a company during market entry. Actors classified as IBI in the illustrative case study can also be internal or external. Internal actors from within the IBI in terms of an organisation on the host market are responsible for managing and administrating, for example, in their roles as “local manager” and “local employee” (Dyhr Ulrich and Hollensen, 2014). Both are at the centre of the management of market entry because they are obliged to organise and process the day-to-day business in the name of the “home company”. External actors are companies that use the IBI as well as organisations and public bodies from the home market, salespeople and customers. Resources regarding the IBI such as office space, factory premises and specific services, including networking, are often shared among the companies, the public and industrial organisations, but the companies undergoing internationalisation may have to pay a fee for using the IBI’s services. The manager of this IBI is appointed by and acts on behalf of national industry associations or public policy-related institutions. The local employees are usually directly affiliated with the participating “home companies” (Dyhr Ulrich and Hollensen, 2014).

4. Empirical analysis

4.1 Descriptive analysis of market entries in four BRIC countries

The company used an IBI for the two BRIC countries of Brazil and Russia, while it entered the two other countries, China and India, without an IBI. In the following, the detailed contexts and market-entry situations in the four BRIC countries are shown with and without an IBI respectively.

Entry into Brazil: Compared to the other BRIC countries, the business framework in Brazil is quite complicated. For example, in Brazil it is very difficult to make valid customer and competitor analyses. As the incubator manager in Brazil puts it:

“In Brazil it is very difficult to make a financial analysis of local customers and competitors, because 90% of all Brazilian companies – the so-called limited companies – do not publish financial reports. They are not required by the central government to do so. To get around this barrier and in order to analyse, for example, potential customers’ creditworthiness, we go to the local jurisdictions and see if there have been any ‘missing payment’ lawsuit cases filed against the Brazilian companies, in which case there would be some doubt about their creditworthiness.”

(Interview 11.10.2017 with Incubator Manager – interviewee 1 - in Brazil)

In Brazil, it takes a very long time to start a new business. Processes such as obtaining a construction permit or a credit and taxation allowance are quite long-winded. Due to the positive macroeconomic development during the 1990s, LINAK A/S entered Brazil in 1994 *via* a traditional export agent. In 2005, a subsidiary supervised by LINAK US was established.

The motivation for this decision was to support an immediate transfer of LINAK's company knowledge to the Brazilian subsidiary, and, *vice versa*, to allow for an immediate transfer of local knowledge from the Brazilian subsidiary, as the Brazilian market is difficult to understand without getting closer to the key actors in the market. LINAK US had capabilities and experience both in the management of market entries abroad and the support of local activities such as the adaptation of technical products to local target groups. So-called experiential knowledge was transferred from LINAK US to the Brazilian subsidiary, and additional local experiential knowledge was developed through relationships with politicians, key customers and other gatekeepers that are also brokers.

From the middle of 2000 onwards, the American market began to grow, and, at the same time, the Brazilian market started to stagnate. Furthermore, with the ever-changing political situation, LINAK A/S decided not to prioritise Brazil when it came to the allocation of resources and investments. Instead, the company adapted the level of activities to the stagnating market as the in-house focus was on managing expansion in the US market. Despite the market stagnation, LINAK A/S still perceived Brazil as strategically important, with potential for LINAK's products in the long term. At that time, the IBI turned out to be the best solution for the company – compared to the export agent and subsidiary – because of the difficult economic context, which had been accompanied by behavioural uncertainty.

The IBI in Brazil (the same as in Russia) is part owned by DI (Confederation of Danish Industry). The IBIs are using DI's local offices in these countries (in Sao Paulo for Brazil, in Moscow for Russia) to get started and provide a strong local presence for Danish export-oriented companies. DI is a private employer association that represents and is owned by 10,000 manufacturing companies in Denmark. These companies also employ approximately one million employees abroad. DI's members manufacture and distribute goods and services abroad, and they all face strong international competition.

The IBI was less expensive compared to the subsidiary but enabled the continued adaptation of capabilities to the new market. As the Incubator Manager in Brazil puts it:

“For LINAK A/S it is a kind of cost-cutting exercise. Our ‘own man in Brazil’ is solving their administrative tasks, such as legal issues and customer invoicing, which we can do more cost effectively than LINAK A/S, because we do the same for twenty other Danish companies”
(Interview 11 October 2017 with Incubator Manager – interviewee 1 - in Brazil)

Furthermore, it transpired that the relationship with the manager of the incubator was trustful and supportive. In the case of the Brazilian market entry, the IBI was used to adapt the resources without interrupting the process of gaining experiential knowledge, and, finally, the IBI made it possible for LINAK A/S to balance their in-house resources. The IBI process was organised step by step: in the beginning, only budgeting and financing responsibilities were given to the manager with the employee being focused on day-to-day business in sales, but, over time, the manager was given more responsibilities. More knowledge was shared, and the close interaction and sharing of responsibilities improved the ties between LINAK US and the IBI actors in Brazil.

Entry into Russia: Russia is considered as a market with a huge growth potential. Like Brazil, Russia is also recognised as a culturally and politically difficult market (Holtbrügge and Puck,

2009). The bureaucratic infrastructure in particular is said to be non-transparent, and, like China and India, Russia is at the top when it comes to hierarchy and power distance. Furthermore, corruption is not necessarily viewed as an immoral action, but simply a way to acquire resources (Dumetz and Vichniakova, 2015). Holtbrügge and Puck (2009), moreover, state that the contacts and relationships with business partners in the market in an isolated way will not suffice to start a business. Instead, the establishment and maintenance of essential stakeholder networks is a precondition to gain a sustainable competitive advantage in the Russian market.

In 2003, LINAK A/S entered the Russian market *via* a distributor. In 2005, the responsibility for the Russian-speaking countries was given to LINAK A/S Finland, and, in 2012, the decision was taken to open its own sales subsidiary in Moscow. Setting up a subsidiary in the Russian market caused LINAK A/S several problems: for example, setting up a simple bank account was described as being very difficult, and the process of registering the subsidiary was considered to be highly complex, involving numerous formal barriers. As the LINAK A/S company manager for Russia states:

“It took us nearly four months to open a bank account in Russia. We could not open our own subsidiary in Moscow if we had no bank account. Without our own company I could not be a local employee and that would make getting a visa much more complicated. This was good old Russian bureaucracy. We were helped with all these bureaucratic problems by dealing with our ‘own man in Russia’, and we also got help for secretarial services and the invoicing of local customers”
(Interview 11 October 2017 with LINAK A/S – interviewee 2 - in Russia)

The management of LINAK A/S also recognized that only those actors that are well established and embedded in the local networks and communities know whom to approach and how. Therefore, LINAK A/S decided to use the IBI as an entry to the Russian market. The actors behind the IBI were the same as the one used for Brazil.

According to interviewee 3, the IBI (manager and local employee) was an actor that built relations with the key players in the market and helped LINAK A/S gaining trust with the locals. The IBI worked as an institution which compensated for a lack of establishment in the Russian business community. After six months of support, the IBI was no longer necessary, and LINAK A/S was finally ready to start the consolidation of the entry process. All resources, including access to the bureaucratic institutions, were available at that time, and LINAK A/S Russia was founded. The subsidiary was managed by a manager from the company’s Danish headquarters, but in 2014, the management was taken over by a local Russian person. The process of identifying the most important actors and gatekeepers continued, and, simultaneously, LINAK A/S Russia started collaborating with a big Russian distributor, which accelerated the building of trust and helped with market penetration. Even though LINAK A/S Russia has its own company structure, they still collaborate with the actors of the IBI.

To get the most out of the IBI and the local distributor, the relationships were always between persons from LINAK A/S and the local employees of the IBI, who at a later stage, became a part of the organisation of LINAK A/S Russia. Interviewee 1 states that such a constellation was useful with the company’s lack of experiential knowledge and management focus, because the local employees who were hired by the incubator manager had knowledge about the bureaucratic and cultural processes. *“It means that our own firm achieves a quick start in a difficult market”* and a quick start means getting *“quicker established on the market”*. The advantage of the chosen setting with an IBI also facilitated the connection to the home company and the integration of multiple channels in the new market.

Entry into China: Despite cultural differences, routines exist for supporting foreign businesses entering the Chinese market, which rendered the process of setting up businesses in China more standardised and predictable (Holtbrügge and Baron, 2012). However, while the setting up of a subsidiary is not viewed as difficult, identifying key customers and contacting new customers is a bigger challenge. As Su and Littlefield (2001) emphasise, a strategy of non-investment by using contractual joint ventures and/or agents would signal to the (potential) co-operation partner and key customers in China distrust and unwillingness to commit oneself to a long-term relationship. The control of IPR (intellectual property rights) is another challenge, as pointed out by the director of the Danish incubator organisation:

“Control of IPR is a special issue in China. The Chinese companies are chasing to be imitators of brands and designs that are not registered in China. Companies are either using their own lawyers or outside legal councils to search for these ‘openings’ to be imitators”

(Interview 15 November 2017 with the director of the Danish incubator organisation (which was in this case named: Own Man In) – interviewee 4)

In 1998, the headquarters of LINAK A/S entered into a relationship with a distributor in the Taiwanese market. In 2002, this distributor was asked by the company to penetrate mainland China. Even though some relationships with Chinese business actors were established, this initiative went wrong due to a copyright dispute. Despite this initial failure, the decision to enter China was reaffirmed by LINAK A/S because the Chinese market kept on growing at a fast pace due to modernisation of the hospital sector. In 2003, the headquarters of LINAK A/S established relationships with three Chinese distributors in Tianjing, Shanghai and Beijing. In 2004, a representative office in Shenzhen was established, and one year later, a wholly-owned production and sales subsidiary. LINAK A/S wanted to get closer to the market and particularly to key distributors, but also to suppliers. Control was thus an important argument, as the director of LINAK A/S points out:

“We wanted to have our own set-up in China because we wanted to be in control of the complex environment in China – at that time we also had the challenge of fighting with imitators of our products. The final choice of our production site in Shenzhen was very much influenced by the easy access to the key suppliers in that part of China”

(Interview 8 May 2017 with LINAK A/S HQ director – interviewee 3)

Finally, LINAK A/S wanted to become more involved in the interaction between company and customers, even though cooperation with the distributors was fine. This wish was mainly due to control needed to prevent further copyright problems. The developing supply market also provided more opportunities for LINAK A/S. In 2010, LINAK A/S China was considered a “fully-fledged” insider when they opened their local R&D centre, and today it also produces original equipment for customers outside of China. During this process, internal key actors with knowledge of the Chinese market were integrated into the subsidiary to speed up the integration of the subsidiary into the market. In cases where in-house competencies were lacking, external knowledge was acquired. Due to the combination of internal experiential knowledge, based upon entries into other BRIC countries, and external knowledge, the Chinese subsidiary could be set up very quickly.

As the Chinese market is so large and fast-growing, the decision to make upfront investments was made. This is in line with the perception that the commitment of Chinese actors is higher when a company invests. To minimise the risk, LINAK A/S China decided in the beginning to limit the resource commitment to the products sold in China. At a later stage, a further expansion of the production side was agreed upon, and this decision was not only based upon the potential of the Chinese, but also the global market.

Table 1: Brokerage Activities of IBI during the Entry Process

<i>Description of the phase</i>	Brokerage by IBI		<i>Networking activities by IBI</i>	<i>Requirements for IBI</i>
	<i>Weak ties</i>	<i>Strong ties</i>		
Start phase	Getting connected to customers	Using an institutionalised IBI to access authorities and signal trustworthiness Getting connected to local agents and key customers Benefitting from the reputation of an IBI	<ul style="list-style-type: none"> • Bridging • Bonding 	<ul style="list-style-type: none"> • Trust as a central pre-requisite for all networking between home company and IBI • Brokerage related to weak ties can be taken over by institutionalised IBI or other actors (<i>e.g.</i>, agents)
Focus phase	Conquering the target group Defining key customers and committing them	Developing trust and commitment to external stakeholders Developing a strategy for local business partners and customers Adaptation of resource commitment	<ul style="list-style-type: none"> • Bridging • Bonding • Protecting 	<ul style="list-style-type: none"> • Trust between home company and IBI necessary to use an IBI for bonding activities • Lack of trust leads to fragmentation of control • Focus refers to both internationalisation activities and resource commitment by the home company
Consolidation phase	Expansion with narrow or broad scope Penetration to new target groups often by means of using traders	Internalising relationships into the own company (<i>e.g.</i> , buying in local IBI employees) Substitution of the IBI-based investment with own investment	<ul style="list-style-type: none"> • Protecting • Bonding • Bridging 	<ul style="list-style-type: none"> • Fostering trustful relationships can be used for strategic relationships • Protecting the competitive advantage is central

Entry into India: Even though India is the tenth largest economy, its market volume is small compared to China. India's export regime is described as liberal, and the political system is based upon democracy and relatively stable (Jagadeesan, 2015). This motivates Western companies to choose a pure export strategy (Holtbrügge and Baron, 2012). However, corruption is also an issue in India. Regarding the integration of new business actors, Jagadeesan (2015) states that both China and Russia are better in this respect compared with India and that the deep-rooted conservatism in Indian society such as the caste system hinders progress towards a more organised business system. The power distance in India is perceived as being on the same level as in China, Russia and Brazil, which means that all these societies are hierarchically structured, informal

relationships have a huge impact on business decisions, and friendship and kinship are important for businesses to progress (Jagadeesan, 2015).

LINAK A/S entered India in 1997 by using a distributor. At this time, the company did not have the resources needed to set up a subsidiary. Due to the liberal export system and with the knowledge that a local distributor knows how to connect with local business partners, LINAK A/S decided this was the most suitable set-up for entry. In 2006, LINAK's key manager in Malaysia was assigned the responsibility of establishing a representative office in India (New Delhi). The manager contacted the IBI in New Delhi, but no formal agreement was made. Contacting key actors and developing relationships were tasks that were then organised by the manager from LINAK A/S Malaysia in co-operation with managers and staff from the parent company LINAK A/S in Denmark:

“Our LINAK A/S man in Malaysia had just implemented the start-up in Malaysia so he had some management capacity to do something similar in India. If LINAK A/S – at the time – had not got the necessary management resources – coming from Malaysia – I can imagine that we would have formally used the ‘own man in India’ for penetration into the Indian market. In fact, we used some unofficial contacts in the ‘own man in India’ office in New Delhi to gain access to key actors in the Indian health care market”

(Interview 8 May 2017 with LINAK A/S HQ director – Interviewee 3)

Despite inter-cultural differences which were challenges for the process of getting the business started, India was recognised as being transparent and well organised, which made it easy to access resources such as licences and a bank account. Problems with authorities had not been viewed as barriers, for example, there seemed to be a positive attitude towards established European companies which are well off. Interviewee 1 also mentioned that the use of an IBI could have been a good option for the Indian market, since LINAK A/S, at that time, had only limited resources available to focus on the market.

4.2 Analysis and discussion of IBI brokerage during the entry process

The descriptive analysis allows some reflections about the IBI and brokerage during the foreign market entry of the company with a focus on interactions during the entry process.

Firstly, it shows that an IBI can be related to resources and activities, but also actors and their functions. Both an IBI and export agent can have the necessary expertise to incubate market entry. However, the difference between them relates to the institutional resources with which the IBI is equipped, and the intention as to why they incubate. This is in line with the argument that institutional resources play a vital role during the entry process (Shirokova and McDougall-Covin, 2012). As the case shows, the IBI is characterised by a formal aim of supporting specific companies, based upon the institutional resources required to achieve this goal.

Secondly, there are differences with the stages of market entry in the four BRIC countries. The networking activities of the IBI used in Brazil and Russia can be grouped into three phases, the start, focus and consolidation phases (Table 1). These phases reflect the start, mid- and long-term perspectives identified with the company due to its committed resources and goals. The awareness that an incubation during the entry may take place in various stages supports an understanding of how to gain more flexibility during market entry (Schellenberg *et al.* 2018).

- In the start phase, the activities are driven by the company's motivation to acquire support from an IBI or another actor (such as a distributor). The degree to which market commitment

materialises as a clear decision to enter the market and commit resources to entry determines the subsequent focus and consolidation phases. An IBI was supportive in speeding up the entry process by defining the market potential, approaching customers and traders, and supporting relationship development. Resources and resource commitment are shared, and the company entering the market does not need to make a huge upfront investment but can use the institutional resources of the IBI.

- In the focus phase, the company explores the potential of market entry compared to other alternatives and its available resources. The IBI was helpful in fully exploring all market opportunities, given LINAK's aim of entering promising markets, but prioritising growing ones to ensure solid revenue. In this phase, the company acquired experiential knowledge, gained a better understanding of the market opportunities, developed relationships with authorities, customers and supplementary suppliers, and, finally, achieved a position in the market. A loop of trial-and-error steps began, with the company continuing its activities from the start phase and reflecting on its future strategy. The relationships and resources which had been acquired in the start phase were developed and integrated into an own company.
- Notably in the final consolidation phase, the entire set of resources from the company influenced their decision regarding long-term market entry. LINAK A/S decided in one case to integrate the local employee from the IBI before founding their own subsidiary because they wanted to protect the company from a fragmentation of control over important relationships. In markets with a high potential such as China, the strategy was not limited to the specific location of China, but was used for a roll-out to other global markets in co-operation between LINAK A/S and the IBI.

Thirdly, with regard to brokerage activities, the priority of the IBI during the start and focus phases was mainly to bridge the lack of relationships and start committing to new relationships, based upon targeted activities and investment in resources. Bonding and protecting became more important in the focus and consolidation phases. While trust-building was a core IBI activity in the focus phase, the company was also concerned during the consolidation phase with rendering existing relationships more exclusive and protecting the invested resources, which are embedded in the relationships, against competition. The activity of protecting was taken over by LINAK A/S or, alternatively, the IBI as part of the company.

To sum up, the IBI can be conceptually described as an actor with an own organisational structure in a specific institutional setting that takes over various activities to support the company's market entry into BRIC countries:

- Firstly, an IBI can be used to reduce the risk of foreign market entry by compensating the company for a lack of establishment, reputation, and trustful relationships with customers, authorities and other key actors. In addition, the IBI helped the company make initial contacts. As a result, the home company became more connected to actors in the foreign market and, simultaneously, more involved in an institutionalised relationship with key actors. The case study also highlights that both the high reputation of an IBI and high levels of resource commitment are associated with a strong impact of an IBI on the support for a company's market entry.
- Secondly, one of the strengths of an IBI, as compared to other actors such as export agents, is the support for trustful relationships, which may boost the company's embeddedness in a

foreign business network (Blankenburg Holm *et al.*, 2015). Hence, the evolving trust between key actors in the initial phases can facilitate foreign market entry and market expansion alike, based upon the bonding of ‘strong ties’ between the company and key actors in the foreign market (including the IBI).

- Thirdly, the IBI provides expertise and knowledge to enable the transfer of knowledge to the home company. In cases where key actors, notably customers and relevant authorities, are difficult to identify or bureaucratic structures are complex, the IBI helps to reduce the high risk of market entry and opens doors. This is particularly important for less resourceful companies that need to understand the causes of behavioural uncertainty in such high-risk countries. The IBI also supports a company’s decision for or against a final entry makes so that it can still keep resources to enter the market without losing the focus on other important markets.
- Fourthly, resources are the most important reason for the company to eventually leave the start phase and move into the subsequent focus/consolidation phases. Hence, remaining for too long time in the initial phase of market entry carries the risk that new relationships are not integrated into the company.
- The case furthermore illustrates that institutional resources held by an IBI, such as its own organizational setting and expertise provide support in challenging situations for the company undergoing internationalisation. In the case study, the export agents were only used for building new connections (bridging) to customers, but not to tackle critical issues. Therefore, an IBI may be better at networking compared to other bridging actors (such as export agents and distributors).
- Due to the local establishment and experience gained, the IBI can support the home company with a thorough exploration of market opportunities (Tian *et al.*, 2018). As the illustrative case shows, particularly when the allocation of resources to the new market is a problem, an IBI might compensate for an otherwise huge upfront investment on a short- and mid-term perspective. However, the case study also highlights that the IBI may only be used in such phases where companies lack resources or relationships or cannot prioritise a specific market entry.
- There are also some observations derived from the case study related to problems or risks of using an IBI during foreign market entry. Even if trust may protect against losing the competitive advantages in the foreign market during the start and focus phases, the company respectively IBI should reflect, notably in the consolidation phase, whether trustful relationships with key actors abroad offer enough protection for competitive advantages. Moreover, if the company does not reach the focus and consolidation phases, there is the risk that the IBI cannot support it in achieving a strategic position in the market. In cases with low resource commitment, such as in the initial stage, an IBI can act as a broker that builds connections with new actors (Burt, 2005; Eklinder-Frick *et al.*, 2012). However, the impact of an IBI in such a constellation might be limited.

5. Conclusion and managerial implications

Even if the network perspective is now claimed to be the dominant approach to explain internationalisation (Hohenthal *et al.*, 2015), the question of how interaction in focal networks abroad ultimately influences the entry process of a company is largely under-explored (Schellenberg *et al.*, 2018). In addition, Schellenberg *et al.* (2018) criticise that the entry-mode discussions in the extant literature do not develop a holistic perspective that could live up to the situation of notably smaller companies, which may require flexibility during market entry abroad. The present paper, thus, illustrates business incubation through an IBI as a process of supported foreign market entry; it conceptualises the IBI as a flexible and moderating entry mode, which is commonly combined with or followed by other entry modes (export agents, distributors, or foreign subsidiaries).

Through an illustrative case study in BRIC countries, the paper shows that this process can be moderated through networking and brokerage in different phases. In order to establish IBI programmes, international companies can use an IBI for their internationalisation at different places in various ways, given that they are dependent on limited resources. The moderation of the entry-mode decision process and the support of the company's institutionalisation and embeddedness in foreign business networks are two inter-related activities stressed in this paper (Burt, 2005, Coleman, 1990, Granovetter, 1985).

A key implication for managers of companies and public policy programmes is that the IBI enables a new company entering the market to acquire knowledge and adapt its capabilities to the market context. Based upon the experiential market knowledge that an IBI provides, which refers to basic understandings of the market, its rules, norms, and standards, and codes of conduct of business partners, companies can develop and adapt strategies to achieve a strong position in the foreign market. The protection of its competitive advantage might become more important in the course of time. Therefore, the relationships that are essential for a company's competitiveness and business concept can be internalised into the company's own organisation and not left to an external IBI, irrespective of the level of trust between company and IBI.

Both the activities of an IBI and the perspective of the home company need to be understood in different market entry phases. An IBI may take on various functions and activities, ranging from the simple provision of knowledge regarding foreign markets, the development of an entire business concept, to embedding the company in foreign networks. Time dynamics are important for both actors because the activities of an IBI in the long run depend on the decision of the company to shift (or not) resources to the new market.

Key factors identified for an IBI concept are trust, access to networks, institutional aspects, and strategic resource commitment. With this finding, the case study amends the few existing studies on international business incubation for foreign market entry (Blackburn and Buckley, 2017; Gao *et al.*, 2016) by contributing to a higher level of conceptualisation. These preliminary and exploratory findings lead to the following research propositions:

Proposition 1: International business incubation represents a process of foreign market entry, which is determined by networking and brokerage on the part of an IBI as well as resource commitment from the home company.

Proposition 2: The process of international business incubation is organised as phases, which require different levels of commitment, networking and brokerage by IBI, and imply varying degrees of embeddedness.

Proposition 3: These phases of IBI-moderated market entry may be a sequential or back-and-forth process, depending upon the context of the company and foreign market.

However, the present paper only provides a pilot study, which is determined by the company and its specific setting. Even if the findings indicate that the stated research propositions can guide the research process, future research will need to develop the propositions to make the connection between practice observations and theoretical foundations more solid. The case analysis shows that the concept of trust may diverge, and follow-up studies should verify the foundations of trust, for instance, through external and internal relationships.

The conceptual foundations of the IBI concept through the lens of Burt's (2005) brokerage approach might not explain all the functions observed with the IBI in BRIC countries but rather provide a first overview and understanding of how brokerage interacts with incubation during foreign market entry. The question of which constellation follows the initial moderation by an IBI is unresolved. The fact that the IBI can incubate the business concept by making relationships with key actors carries the risk of getting disconnected from these actors after switching from IBI-moderated market entry to an independent mode such as the company's own subsidiary in the foreign market. Future research should, thus, seek to understand in more detail the central resources and functions of an IBI.

Another area for future research is the variability of the three phases identified. With the case study, it could not be shown when and how the company approaches the long-term perspective. Finally, the institutional aspect deserves closer attention because the IBI is not presented in this paper as a specific institutional arrangement, although the importance of specific institutional settings was stressed.

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