

2013-03-23

## Internationalisation in a Network Environment: a Conceptual Model of how Professional Service Firms Internationalise

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### Recommended Citation

Mc.Quillan, D., Sharkey Scott, P. and Mangematin, V. Internationalisation in a network environment: a conceptual model of how professional service firms internationalise. Presented as competitive paper at AIB-UKI Birmingham 2013.

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# **Internationalisation in a network environment: a conceptual model of how professional service firms internationalise**

## **Competitive Paper**

### **Abstract**

Professional service firms (“PSFs”) increasingly rely on internationalisation to drive their growth strategy. Their professional reputation and networks of relationships are critical due to the high knowledge complexity of their services. Yet international business process theory (“IB”), while identifying learning as the critical tool for addressing foreign market risk, provides little insight into how PSFs build relationships and reputation for internationalisation. Our qualitative multiple case research study of the PSF internationalisation process identified five phases of interplay between learning, relationship and reputation building. These findings extend IB theory by revealing the role of reputation and relationship building during the internationalisation process and contribute to our understanding of how PSF organisations build international networks and develop their reputations.

# **Internationalisation in a network environment: a conceptual model of how professional service firms internationalise**

## **Introduction**

Professional service firms (PSFs) are now among the most significant growth sectors of knowledge economies (Scott, 1998, Lowendahl, 2000) and play a critical role in national and regional innovation systems (He and Wong, 2009). PSFs rely heavily on developing international reputations (Cooper et al., 2000, Grosse, 2000) and forging durable relationships (Faulconbridge, 2008, Hitt et al., 2006a) to drive their growth strategies. Yet despite their proliferation little is known about the process of PSF internationalisation.

Two perspectives dominate the literature on the internationalisation process, the entrepreneurial perspective of risk propensity or adversity (Knight and Cavusgil, 1996, Loane and Bell, 2006, Oviatt and McDougall, 1994) and the market view of risk represented by the Uppsala Internationalisation Process (“UIP”) (Johanson and Vahlne, 2009, Johanson and Vahlne, 2011, Johanson and Vahlne, 1977). Existing studies on goods producing and consumer service industries dominate IB, whereas PSFs with their complex service offering and client base comprising a mix of industrial corporations, businesses and governments require extended insight. For this sector relationships and reputation emanating from their human capital are more important resources than financial and property assets. Existing clients may require the PSF to follow them to off-shore locations or indeed new foreign clients may have a strong “pull” factor due to the strength of their market position, both forcing the PSF to commit to markets where investments may not be guaranteed for a long period. The PSF is also faced with having to manage and control intellectual capital across different institutional environments. The internationalisation process therefore relies heavily on trust between the parties before, during and after they begin to work together, yet theory

provides little insight on how resources are built to support the internationalisation process incorporating the challenges and opportunities of this distinctive environment.

Drawing on the IB business network market view of internationalisation (Johanson and Vahlne, 2009, Johanson and Vahlne, 2011) and guided by process literature on relationship building (Dwyer et al., 1987, Ford, 1980) and reputation (Rindova et al., 2005) our study aims to add to our understanding of how PSF internationalisation unfolds.

We conducted multiple in-depth interviews in the classical (Von Nordenflycht, 2010) yet creative (EU, 2010) architectural sector, based on firms originating in Ireland, a small outwardly focussed economy with relatively few barriers to internationalisation enforced by governments and policy makers.

The overarching objective of this paper is to contribute to our understanding of how PSFs internationalise. We identify five phases of integrated learning, reputation and relationship building to build a process model of PSF Internationalisation. Most importantly, our five phase model uncovers how organisational resources for internationalisation are developed and interact, thus extending our understanding of IB. The second contribution of this paper is to add to the PSF literature on the role of reputation and relationship building as firm resources for market development.

## **Literature Review**

### ***Defining the PSF***

PSFs encompass a wide range of industry sectors exhibiting three common characteristics of high knowledge intensity, low capital intensity and a professionalised workforce (Von Nordenflycht, 2010), with typical examples including architectural, engineering and accountancy firms. Many PSFs are 'organisations with relatively few transactions, highly customized, process-oriented, with relatively long contact time, with

most value added in the front office, where considerable judgement is applied in meeting customer needs' (Rhian et al., 1992)(p73). Unlike many traditional manufacturing and service firms, PSFs are typically established through partnership arrangements, are self-regulated, and have complex reporting lines. Human capital is the PSFs most important resource (Hitt et al., 2001) as people hold the knowledge and competencies involved in solving complicated problems and the ability to develop relationships and social capital through their networks (Nahapiet and Ghoshal, 1998). The essence of professional work is the largely intangible application of individual creativity, experience and judgement (Brivot, 2011). Transferring this tacit (Nonoka and Takeuchi, 1995) knowledge to clients in unfamiliar cultural contexts may significantly influence the acceptability and adoption pattern of services by customers (Samiee, 1999). Thus, the individual is particularly important for generating acceptance and trust in local networks and interfacing within and between the PSF, the foreign market and the customer (Lindsay et al., 2003). Relationships are critical due to inherent difficulties with complex knowledge transfer (Lindsay et al., 2003, Thakor and Kumar, 2000) which is the 'stock in trade' of the PSF.

The general characteristics of PSFs provides insight into how these can translate to unique challenges and barriers to internationalisation including limited scale and modes of internationalisation (Morgan and Quack, 2005); local embeddedness with strongly rooted institutional traditions (Faulconbridge, 2008); and a high degree of interaction between the producer and consumer to ensure trust and guarantee standards of service delivery (Segal-Horn and Dean, 2007).

#### *PSF Internationalisation*

PSF services tend to be characterised by a high degree of local embeddedness (Faulconbridge, 2008) with "problems transferring know-how across organisational and national boundaries, and operations across distinctive institutional and legal systems for which local knowledge is needed" (Brock and Alon, 2009). This implies that managing foreign market risks requires additional consideration for PSFs than for other traditional manufacturing and service firms.

While literature guides us on various IB frameworks to study how firms internationalise, we find UIP is appropriate for our research because we are engaging in an exploratory study where the firm is the unit of analysis and the characteristics of the internationalisation process may not be homogenous across the research context, thus not usefully explained as born global (Knight and Cavusgil, 1996), new ventures (Oviatt and McDougall, 1994) or within other pre-determined process frameworks. UIP facilitates us in exploring how PSFs may differ between each other in their internationalisation process, in the vein of other IB studies on firm characteristics (Barkema & Droegendijk, 2007; Goerzen & Makino, 2007; Malholtra & Hinings, 2010). Additionally, the focus on networks, knowledge, and relationships within the network market view of UIP (Johanson and Vahlne, 2009, Johanson and Vahlne, 2011) is complimentary to PSF literature concerning the importance of these resources to the firm.

The UIP framework (Figure 1) (Johanson and Vahlne, 2009) suggests that the international business environment comprises a web of relationships and firms which are outside this network must overcome the liability of outsidership to access knowledge opportunities and develop trusting relationships which induce further commitment to that market.

**Insert Figure 1 about here ...**

UIP recognises the value of learning, both experiential and other means of knowledge development that influence international resource commitment. For example, firms can reduce uncertainty and learn from non-experiential knowledge sources (Forsgren, 2002) through acquiring other firms or taking other 'short cuts' (Huber, 1991), such as imitating the actions or approaches of other similar organisations. The authors also give acknowledgement to organisational learning where experiential knowledge is transferred within the firm identified in numerous IB studies (Jonsson and Foss, 2011, Kennel and Batenburg, 2012). Organisational learning "often remains embedded, not only in written documents but also in the routines, tasks, processes, practices, norms and values of organisations" (Bhagat et al., 2002), to the internationalisation process.

However, learning in PSF internationalisation is particularly complex because its output of intangible and complex knowledge is embedded in social interactions and learning is therefore influenced by socio-cultural resources and socio-cultural feedback mechanisms (Thompson and Fine, 1999). Prior research suggests that consulting knowledge is highly embedded and contextual and therefore cannot generate the same value in different client

settings (Malhotra, 2003). Thus while learning by the PSF facilitates the understanding of a foreign environment, it is not sufficient on its own as a path to reduce uncertainty. Trust between the client and the PSF is required highlighting the importance of relationship building (Hitt et al., 2006a). Building a relationship implies an ongoing process of mutual exchange between parties within different international contexts even after a need for the service is identified because they facilitate trust building (Uzzi, 1997), sharing of resources (Eriksson et al., 1999) and in international services relationships are important determinants of knowledge transfer (Windrum and Tomlinson, 1999). UIP suggests that “relationship specific knowledge which is developed through interaction between two partners” (p1416) leads to opportunity development, resource commitment and trust. This process of mutual exchange for knowledge intensive services facilitates the two way learning process.

Yet for the PSF identifying an opportunity through a mutual learning process cannot on its own signal the start of relationship commitment decisions. The specificity of the PSF service requires a level of trust to be built not only from information sharing and joint problem solving (Uzzi, 1997) within the relationship(s) of the network, but even before the start of the relationship – ie. the mutual agreement to work together (Dwyer et al., 1987). A firm’s reputation and the associated trust in specific partners by clients are likely to be even more important resources for PSFs than their specialty expertise (Cooper et al., 2000, Grosse, 2000). The intangibility of service and the importance of the professional within the firm enhances the role of firm reputation or brand (Greenwood et al., 2005) facilitating lower marketing costs (Podolny, 1993) or enabling premium charging (Beatty, 1989, Krishnan and Shauer, 2000). Reputation can be defined as stakeholders’ perceptions about an organization’s ability to create value relative to competitors (Rindova et al., 2005).

Once the relationship is formed the business opportunities need to be supported, rendering internationalisation resource intensive on both financial and human assets. PSFs need to build stability into the process to create and develop new opportunities and reduce risk. UIP identifies this requirement as network embeddedness where through a process of learning, creating opportunities and trust building the PSFs network position can be strengthened. However, stability in the internationalisation process is also created through relationship and reputation transfer across networks. For the PSF coming to an international network with an existing network of established relationships greatly facilitates the process (Freeman et al., 2007). While little research exists on international reputation, evidence does suggest that reputation spills over beyond network boundaries (Yu and Lester, 2008).

## **UIP, Relationships and Reputation**

The overarching objective of this study is to add to our understanding of the internationalisation process for PSFs and our review of the literature highlights important gaps where new insights are required to explain the process. The current IB explanation of firm internationalisation (Johanson and Vahlne, 2009) requires further insight on two fronts to fully explain how PSFs internationalise. Firstly, the dominance given to network relationships within UIP results in limited focus on the initial phases of firm internationalisation involving scanning the market and selecting the networks that can offer opportunities for the firm. Relationship building process descriptions normally contain phases or stages (Dwyer et al., 1987, Ford, 1980), starting at pre-engagement (Leonidou, 2003) using searching processes (Batonda and Chad, 2003) and going through several stages of awareness, exploration, expansion, commitment and dissolution (Dwyer et al., 1987). The revised UIP model (Johanson and Vahlne, 2009) continues to identify knowledge search processes, (Forsgren, 2002), as non-core learning mechanisms. We argue that knowledge mechanisms for PSF internationalisation vary dependent on the phase of the internationalisation process which starts even before a relationship begins. While “a model that has general applicability cannot consider all kinds of knowledge and learning that might occasionally be relevant” (Johanson and Vahlne, 2009)(p1417), we argue that accessing an international network is both difficult and costly for PSFs so that the role of mechanisms for network searching and selection need to be understood.

Secondly, UIP does not explain the role of reputation, a critical component for PSF internationalisation. Trust is perceived within the relationship building context, and the role of reputation in trust is overlooked. Interestingly, reputation represents not only a mechanism for trust building among network partners in the internationalisation process, but a reputation for trustworthiness can also be established (Wong and Boh, 2010) that facilitates network transfer and strengthens network position. With UIP the focus is mainly on exchanges within the network that influence the process, yet reputation is also built on institutional certifications (Rindova et al., 2005) that may come from forces outside of the network such as media.

The second gap relates to identifying mechanisms for PSF relationship building. While theory offers many insights on life cycle stages of a relationship process, explaining movements from one stage to the other has received little focus (Edvardsson et al., 2008). In our search of literature we found just one study linking network relationship building for

PSFs with IB process theory (Freeman et al., 2007) which focusses on the process of new international network access rather than the multiple phases of relationship building.

Finally, the literature fails to address the process of international reputation building, as reputation involves stakeholder perceptions about relative value, it is unlikely to automatically exist across different international contexts and yet it is critical to the internationalisation process. The 'halo effect' (Han, 1989, Kang and Yang, 2010) whereby a country's reputation can support a corporate reputation, fails to provide insight into how corporate reputation can be transferred internationally. Existing evidence does however suggest that for the largest PSFs corporate reputation does "contain an international component" (Cahan et al., 2009). In addition, cultural variation in different countries can impact on reputation transfer (Falkenreck and Wagner, 2010) and the spillover affect (Yu and Lester, 2008) could potentially offer insights on reputational transfer in international contexts. Finally, while relating to individual manager's (Wong and Boh, 2010) research shows that network attributes such as network heterogeneity, non-overlapping contacts and network density play key roles in enhancing a managers peer reputation which could have benefits where they represent the company internationally.

## **Methodology**

### Research Setting

As critical resources tend to vary by industry (Dess et al., 1990) a single-industry sample in which to conduct the research was desirable for conducting cross case comparison. The research setting comprised Irish architecture firms with international experience. The architecture industry is a traditional professional service within the construction sector, mutually dependent on other building services. A drive to internationalise the Irish architecture industry began as far back as 1999 in response to the small size of the domestic market (PWC/BMG, 1999), while globally, the internationalisation of the architecture industry has been driven by technological advancements, mutual practice agreements and global outsourcing and offshoring.

### Data Collection

Our data collection involved two stages, a preliminary stage and a main stage, identified in literature as the familiarisation stage and systemisation stages (Turner and Rindova, 2012).

*Familiarisation Stage:* We commenced the familiarisation stage by gathering firm level, industry level, economy level and other archival sources of data available in the public

domain relating to the Irish architecture sector. From this data a report on the architecture industry was completed to assess the viability of the sector as a research setting as well as the potential to select case firms for our research. We then conducted seven open ended interviews with a broadly sampled set of industry informants all principals or senior figures in Irish architecture firms. A semi structured interview technique was focused on the internationalisation process. Interviewees were given scope to discuss any other matters they felt relevant that were not addressed on our probe sheet. All interviews were recorded and transcribed with field notes written up within 24 hours.

*Systematisation Stage:* Based on observations in the familiarisation stage, we developed a research design to facilitate robust and transferable theoretical insights. Given that few systematic studies relating to the internationalisation of PSFs exist and these are concentrated heavily on large multinational accounting and legal firms (Von Nordenflycht, 2010) which may not accurately characterise our research context, we designed this research to be explorative, descriptive and theory generating. A multiple case study research design was particularly suited to the nature of this research (Eisenhardt, 1989, Welch et al., 2010, Yin, 1994), allowing for the development of a holistic and in-depth understanding of complex phenomena (Eisenhardt, 1989, Yin, 2003) and the development of more robust practitioner contributions.

Our design adopted the firm level internationalisation process as the unit of analysis. Having defined the study's population a diverse sample was created (Santos and Eisenhardt, 2009). We selected 5 organisations for in-depth analysis. To safeguard their anonymity and confidentiality, we call these firms Alpha, Beta, Gamma, Delta and Epsilon. The case selection was guided by the principal of theoretical variation. Diversity was achieved both through the size of the firm and their exposure to a range of international markets. Allowing for this diversity ensured that a multitude of internationalisation experiences across culturally diverse markets were examined within a single firm and across cases. Including firms of varying size enhanced our understanding of the process (Baird et al., 1994, Freeman et al., 2006, Shuman and Seeger, 1986). Table 1 summarises the diverse characteristics of the case firms which offers firmer grounding of theory than a more homogenous sample (Harris and Sutton, 1986).

**Insert Table 1 about here ...**

These firms were all established as partnerships with founding partners still involved in key roles. Each of Alpha, Gamma, and Epsilon had more than 300 staff up until the global

economic crisis and between 2007 and 2009 were forced to significantly downsize while Delta had up to 85. Beta intentionally never employed more than 35 people.

Once confidentiality letters were signed, a number of collection techniques were used to collect data to counteract the possibility of investigator, source, and respondent bias (Jick, 1979). In the systemisation stage we adopted three steps: 1) interviews with founders, senior directors and architects; 2) review of archival material and 3) external stakeholder informant interviews providing the “outsider perspective for a reality check” (Santos and Eisenhardt, 2009). Multiple informants from each firm were interviewed to mitigate against individual response bias (Golden, 1992, Miller et al., 1997). A semi structured interview technique was used and interviewees were encouraged to speak mainly of their direct involvement in internationalisation activities rather than opinions, intentions or beliefs in order to increase the accuracy in the accounts (Golden, 1992, Miller et al., 1997). Following the interview we reviewed all the archival data collected during and after the face to face interviews which included market entry plans and tender documents. This yielded rich contextual data on the internationalisation process to assist in replication and triangulation of findings (Van de Ven, 2007). Due to confidentiality commitments with case firms at the outset, the case firms were not identified to external informants during their interviews.

### Data Analysis

To unbundle the process of internationalisation at a firm level the data analysis advanced through multiple steps and was conducted in an iterative fashion, travelling back and forth between the primary and secondary data, emerging observations, and existing literature (Locke, 2001). From the interviews we performed both a *first order analysis* to capture informant’s understandings of each process and a *second order analysis* to move findings to a theoretical level (Gioia and Chittipeddi, 1991). Achieving this involved a number of steps;

*Step One - broad level coding:* Our data analysis process commenced during the familiarisation phase to develop an industry specific understanding of the internationalisation process. Initial categories were established intuitively and guided by the interview data. At the completion of this stage of analysis 31 higher order themes were identified and 662 lower order codes. Starting at this very broad level gave us insight into how our findings related to existing theory. It also provided a more complete perspective of the internationalisation process where unexpected relationships, influences, and associations may emerge later in the analysis process. From this step the importance of reputation, knowledge and networking

featured prominently in our data which concurred with our literature review covering PSFs and the internationalisation process.

*Step Two – refining coding and theoretical underpinning:* We then moved to case firm data and commenced our analysis of the interviews and related archival and observational data by establishing themes and lower order codes.

*Step 3 – cross case comparison:* Once single cases were reviewed, coded, analysed and confirmed with respondents, a cross case analysis process commenced where data from single cases was compared to other cases to identify consistent patterns and themes (Eisenhardt and Graebner, 2007). The completion of this step of analysis generated 41 lower order codes across three themes comprising learning, relationship building and reputation building. Each of these three themes was separated under five phases of the internationalisation process with 10 separate sub themes identifying data that delineated each phase of internationalisation.

**Insert Table 2 about here .....**

Codes and themes representing empirical observations (first order codes) and theoretical categories (second order codes) together with aggregate theoretical dimensions were tabulated (Table 2). We also provide illustrative sample quotes (Table 3) to give insight into the empirical observations provided, noting that our data is replicated through empirical observation across each case firm for each theoretical category. From the data we were able to construct a conceptual framework (Figure 2) for internationalisation that captures the process within the case firms.

**Insert Table 3 about here .....**

## **Findings: how do professional service firms internationalise?**

In this section, we present the model that emerged from our data. Our presentation links descriptions of events with our theoretical categories to develop a process theory of PSF internationalisation. We describe each of the five phases of internationalisation we observed together with the generative mechanisms through which movement to the next phase occurred. While in reality the internationalisation process once started is iterative, for ease of discussion we begin with the *network scanning* phase to examine the interplay between how learning together with relationship building and reputation contribute to each phase of the internationalisation process. We follow this examination through to the subsequent phases of *network selection, network access, network embeddedness and network transfer*.

Within our case firms we were able to incorporate a significant number of internationalisation experiences (Table 4) across the world spanning mature and emerging markets with a wide geographic reach.

**Insert Table 4 about here .....**

### ***Phases of Internationalisation***

Our findings suggest five phases of internationalisation for the PSF once the decision to internationalise business is operationalised. This commenced with searching out appropriate markets and thereafter building relationships and building network positions that allow opportunities to be exploited and created, and possibility even facilitating access to other international networks.

#### *Network Scanning*

In this pre-awareness phase the firm has yet to commit resources to relationship building and the network is unaware of the firm's desire to access the network, thus while the network may be aware of the reputation of the firm, no consideration of reputation exists within the context of the relative value the case firm can provide to the network.

***Learning.*** We found that firms engage in multiple different processes to explore opportunities, with some firms engaging in executive training and market research suggesting "we do so much research because you can't afford to make a mistake" (Delta), alluding to the financial cost of internationalisation. Other case firms such as Alpha and Gamma emphasised 'on the ground' learning, through both meeting people "doing market research .... through visits" and also through mergers and acquisitions. Technical product research is also an important knowledge acquisition mechanism for internationalisation such as Beta's "research into brick" acquired from academic research work, in particular for entering competitions which place strong emphasis on the artistic component of the product. We found that the internal knowledge transfer processes for each internationalisation phase and across all firms fell into three categories of face to face communication, formal reporting processes and through communication technology.

***Reputation building.*** A firm's latent reputation, varied across firms. Latent reputation is the description we give to the firm's reputation that exists in other networks but has not been contextualised by the network participant(s). Thus, aligning it to our definition (Rindova et al., 2005), in this phase the network participant(s) has not valued the case firms reputation in relation to competitors in terms of addressing their specific need. Latent reputation was signalled through the depth of niche expertise such as Beta's specialism and experience in building schools. For Alpha, Gamma and Delta having a portfolio of

international projects, in particular based in hub locations such as the UK or the US is important, in particular in emerging markets where locations such as Ireland are “not on their radar” (Gamma) or a landmark project. Institutional certifications of reputation were evident through a firm’s general media and industry journal profile and not unrelated to this, the type and number of awards won by the firm, as well as from international clients and associations.

### Network Selection

Following the scanning phase, firms moved onto a network selection phase identified through statements about how and why markets were selected and suggestions about the advantage of the case firm in that network over others. This may be influenced by the specialism of the firm where they really believe they can compete, or indeed by locational factors such as an identified market gap, potential growth opportunities, or where the potential partners are. Selection also involves some formal internal process “coming up with a business plan” (Gamma) or engaging the government support agency, Enterprise Ireland, for support.

**Relationship building.** Once suitable network(s) are identified, the case firms describe multiple ways for making contact from cold calling such as ‘knocking on doors’ to “warm calling where we have a business accelerator” as suggested by Alpha. This may be an agent appointed specifically for the role or an introduction from an existing associate. Firms may alternatively be invited to join a business network because of a specific expertise such as principals at Beta being invited onto a prestigious internationally recognised arts council. Alternatively, contact may be an unplanned opportunistic event that leads to the start of international relationships, such as a hotel opportunity in America described by Epsilon that “came from a client ... who had a UK partner and they were developing hotels and holiday homes out there”. Our findings suggest that if reputation or relationship transfer are not strong, firms often take a long time to access new networks, even to make contact. Alpha describes this well:

*“ It takes at least six meetings to land a job. The first meeting is “we are in town, here is what we do” meeting. The trick then is to find ways to keep yourself in front of those clients, if necessary with additional meetings. That can go on for about a year. “*

**Learning.** Opportunities are identified once suitable institutional environments or suitable competitions are agreed on at the firm. At this phase the internal knowledge transfer mechanisms of face to face communication, formal reporting processes and through communication technology become more important. Case firms did diverge however on how they used these. Beta and Epsilon place strong emphasis on creating centralised teams describing themselves as more or an ‘architectural cooperative’ as “it pushes your

boundaries a bit more” (Epsilon). Other firms appointed specific individuals with responsibility for this face to face knowledge transfer related to internationalisation. Gamma describes a more decentralised structure with an interviewee telling us that he has “a sort of coordinating role in business development across the company” reflective of firms that place more importance in on the ground learning. Similarly the cases that had a decentralised team structure relied more heavily on formal reporting processes such as business plans and regular committee meetings. Among the case firm’s communication technology such as Skype, intranet, and virtual office technology facilitates knowledge transfer across the organisation.

***Reputation building.*** Once a network is selected the firm needs to make the participant(s) aware of its (latent) reputation. This is enabled through the creation of marketing documents by the firm, possibly translated into different languages, and including brochures, websites, visits and events. Importantly also, both parties engage in this process as the target network will not rely only on what participant(s) are provided by the case firm, but will also search the public sources and rely on its own international contacts to build an awareness of the case firms latent reputation.

#### *Network Access*

Network access is the phase where a mutual need is identified and sufficient trust exists among network participant(s) to allow the PSF into the network. Focussing on an Irish network participant was used by some case firms to access a network “because they have great faith in their own” (Delta), as was ‘tip offs’ through other networks that they may ‘fit the bill’ (Beta), or offering a particular specialism were important for gaining network access.

***Relationship building.*** Relationship building in this phase is identified by the recognition of mutual exchange possibilities. On the case firm side relationship building starts by “finding the right partner .... anyone you can trust” (Gamma) complemented by “only sending people you can trust” which highlights the two way importance of trust building in the relationship and the need to have the right people involved. Meeting reciprocation was an important mechanism of mutual exchange, often where the case firm may have a sector expertise such as Delta in retail and Epsilon in Healthcare, that can be combined with a local firm who has the local knowledge but not the sector knowledge, and a project can be tendered for, or maybe the firm may agree to undertake joint marketing efforts not project specific, as was the case for Epsilon in a Western European country. Some of our case firms described themselves as multi-specialists, and their selection of a sector specialism was network specific with Gamma suggesting

“We can do anything. In this market we were doing pretty much everything, we did prisons, healthcare, don’t do enough third level, but we can do anything. There is no point turning up in [the Middle East] and saying you can do anything.”

Mutual exchange was also recognised by engaging in fee arrangements and also with a network wanting a particular level of technical competence, as described by Beta suggesting that trust is built on ‘professionalism’ thus suggesting trust is about the quality rather than type of architecture/professional expertise that the network needs.

**Learning.** Accessing a network confirms that opportunities identified by the firm in the Network Selection phase can be pursued and influences relationship commitment decisions. These decisions involve resources that address “the need to show presence and commitment” (Gamma) and may range from greater human capital commitment to the multiple resource requirements involved in setting up an office. Building this trust may involve the allocation of resources that support greater professional creativity and design competence “to make the jump from the practical to the symbolic” (Gamma) of an architectural project. This commitment engenders greater learning supporting the relationship and reputation building for the PSF.

**Reputation building.** Because reputation is about an organisation’s ability to create value relative to its competitors, we identified a separation between the phases of reputation contextualised and reputation acceptance in our data. Reputation is a ‘perceived’ and ‘relative’ concept by stakeholders, and therefore determined by the network participant(s). We identified reputation acceptance within a network by offers to tender for similar projects to those that the case firm is promoting, or by offers to share expertise based on an existing portfolio. We found that firms that engaged in a lot of competitive tendering and competitions may find that they get onto lists because of their international reputation. Firms also have the opportunity to engage in alliances when their expertise is recognised for a specific product, again possibly providing the sectoral expertise to a local partner in a foreign market.

### Embedding in a Network

Reaching this phase of the internationalisation process is the goal for the case firms. This is where activity happens, relationships are strengthened, new opportunities are created and reputation is strengthened within the network, and importantly financial returns are possible. All of this leads not only to improved network centrality and “how far up the ladder you get” (Gamma), but importantly opportunities to transfer relationships and reputation to additional networks. We identified this phase in the data through statements about trust and statements about additional working opportunities. We have examples across our case firms

of subsequent competitions won or projects offered within the same geographic locations or by the same international clients across multiple locations. Our data also has numerous references suggesting that each party now knows each other, and ‘wants to work with us’. This implies that trust is built up within the network environment from activities undertaken.

***Relationship building.*** In this phase relationship building involves activity whether information transfer or joint problem solving. Formal and informal alliances are formed in this phase. These may be documented, such as Gamma describing that they have a “whole raft of different agreements”, or less arrangements. Epsilon describes one situation for developing business in a North African country.

“[Two local engineers] formed a company...We then formed a collective group called [cooperative name]. We had both us architects, we had [Irish engineering firm] as engineers, [international engineers] as engineers and there was a South African gentleman who worked in [Irish city] at [Surveyor firm] who was a quantity surveyor project manager, he then went out there. The idea was that this company called [cooperative name] would provide everything as a one stop shop, engineers, architects, the whole lot.”

Joint problem sharing may also be cross sectoral and we have insight on this by Betas ability within an academic network to get research from its academic network to feed into their architectural projects.

***Learning.*** In the Network Embeddedness phase knowledge is acquired through the exploitation of opportunities and the creation of new opportunities within the network. This knowledge is transferred within the case firm to enhance learning. We identify this through single or multiple new project offers subsequent to an initial project undertaken with the network which evidences new opportunities, or by evidence of progression from the Network Access phase in the type and amount of resources incrementally committed. Our data describes numerous events where the firm discloses how they set up a local office after completing a single or multiple projects, or allocated more human resources and related costs to the region. The findings also indicate however that sometimes an office is established at the request of a client to build the relationship rather than sequentially from learning.

***Reputation building.*** In the Network Embeddedness phase we describe reputation as strengthened because the stakeholder(s) within the network is engaging in activity and relationship building with the case firm and can therefore benchmark against real experience rather than perceptions. They no longer just accept that the case firm may be preferable to deal with, but through experience can make an informed judgement. As well as evidence of trust building that encompasses the Embeddedness Phase, we believe that evidence of reputation strengthening is disclosed in evidence from statements relating to friendship formation such an Epsilon informant describing that “there were a number of Irish contractors

that would have went out the same week as me and one became a good friend of mine”. Evidence of relationship transfer where the case firm works with a network participant on one project and they bring them along to another international network also suggests that their reputation is strengthened evidenced through the willingness to introduce the PSF to new networks. A tangible example providing evidence of reputation strengthening is also project delivery and more particularly evidence of subsequent opportunities created within the network.

### Network Transfer

Network embeddedness gained through learning, reputation and relationship building allows the firms to cross over network boundaries and explore opportunities in new international networks. Case firms described incidences of going with a network participant to a new international network and leveraging off the reputation of the building or the client within one network to cross over the boundary to another. The client follower situation in particular was a good leverage mechanism to transfer from one network to another, for example:

“it was really [large Irish client] were one of our biggest clients and they were expanding into China and asked us to support them in that” (*Gamma*)

**Relationship building.** While we suggest the client follower situation is the most obvious form of relationship transfer across international networks, this was not the only way that our case firms crossed international network boundaries. We find numerous examples of relationship transfer through examples such as introductions by government export support bodies and international industry bodies to project networks. Similarly there were incidences of relationship transfer between Irish and UK companies in international markets because “they would have seen the big Australian and South African companies as competitors” (*Delta*).

**Reputation building.** Our findings suggest that reputation transfer from one network to another can happen because the resource signals and institutional certifications have been enhanced through network activity. We identify this in our findings from network projects whereby Beta was able to leverage off an educational facility built in one Western European country to support another building in a second Western European country because of a prestigious award that gained a lot of media coverage and peer recognition. Similarly, Alpha engaged in a fairly specialised project in a West European location with an internationally recognised client and got another potential project in a neighbouring country suggesting “we are doing a good job for one company, they talk to another company”. Its reputation was enhanced both

by the high status of the client but also the clients willingness to certify the quality of work undertaken.

**Insert Figure 2 about here ...**

## **Discussion**

This study develops our understanding of how PSFs internationalise and provides insight into the interplay between learning, reputation and relationship building during each phase of the internationalisation process, in our five phase conceptual model. We now discuss our findings in relation to the three research issues set out in the introduction: firstly examining the mechanisms for knowledge and learning during the PSF internationalisation process; secondly, examining the process of relationship building within the context of PSF internationalisation; thirdly understanding the role of reputation and the process for reputation building within the context of PSF internationalisation. We complete our discussion by addressing the interplay between relationship building, learning, and reputation building where they crossover, co-exist and support each other within each phase of the internationalisation process, even though the resources do not share all characteristics and have separate definitions.

### *The role of learning*

Our micro level analysis unravels the mechanisms the PSFs used to acquire and transfer knowledge when engaging in the internationalisation process. Similar to UIP (Johanson and Vahlne, 2009) we identified knowledge acquisition and learning through phases of increasing opportunity recognition and exploitation. Thus the learning process commences with opportunity exploration and sequentially progresses to increasing recognition and exploitation of those opportunities. We extend UIP by identifying an additional process of *confirmation* involving an interactive learning process between two partners existing between the opportunity recognition and opportunity exploitation phases, as opportunities cannot be exploited just because they are recognised. For the transfer of complex tacit knowledge by the PSF, we suggest there is a phase where the PSF needs to commit resources to facilitate the participant(s) matching of the need to the service across international contexts. We suggest therefore that commitment decisions commence at the opportunity confirmation phase rather than at the opportunity exploitation phase which UIP suggests. For PSFs this is a distinct phase because firstly, a mutual need and willingness to work together can be prolonged before work happens involving a lot of time and cost, and secondly, learning can end at this juncture if opportunities are not exploited. For example, in our findings political instability was a major problem for some firms in North African

markets where many opportunities existed and resources committed to forming strong networks over a long period of time, but institutional impediments prevented opportunities from being exploited.

Our findings also provided interesting insight into types of learning. While UIP suggests that experiential learning is the basic mechanism in the business network view, we argue that learning type varies dependent on the phase of the learning process. Similar to other studies (Jonsson and Foss, 2011, Kennel and Batenburg, 2012) we found that organisational learning rather than just experiential knowledge drove the internationalisation process because often decisions were taken by the organisational hierarchy rather than by individuals 'on the ground'. During the scanning phase PSFs often engage in training on internationalisation and market research by searching and scanning (Forsgren, 2002) for new information, or even utilising existing employee knowledge about a market. In early internationalisation phases experiential learning plays a limited role but this increases once the PSF selects a network and starts the effort of trying to form a relationship. However, the use of employees of the same nationality as the foreign network partner(s) was an important 'short cut' for gaining knowledge, and their affinity with the firm and the home country culture facilitated learning within the firm.

#### *The role of relationship building*

Together with reputation, our data analysis confirmed the importance of networks and relationship building during the internationalisation process, consistent with UIP (Johanson and Vahlne, 2011) and PSF literature (Lindsay et al., 2003, Thakor and Kumar, 2000). Our data identified the mechanisms for relationship building in the PSF and we were able to identify with UIP in the final three phases of Mutual Exchange, Information Transfer/Joint Problem Solving, and Relationship Transfer, all of these enhanced by trust building that improves network embeddedness. Models of relationship embeddedness (Uzzi, 1997) helped inform our theoretical categorisation of relationship building during the network embeddedness phase. However, our study suggested an integration of learning and relationship building during the scanning phase that is overlooked by UIP, as their model begins at the point a mutual exchange opportunity is recognised.

While no relationship exists in this phase, the PSF is identifying who is in the market and who and how could they potentially be contacted, thus forms part of the relationship building process. Our findings are consistent with phases of pre-engagement (Leonidou, 2003) where searching processes are used (Batonda and Chad, 2003) and description of the

process identified with life cycle models common in relationship building process theory (Dwyer et al., 1987, Ford, 1980).

On the last phase identified of relationship transfer, we deviate however from the normal life cycle models which suggest that the final phase of the relationship is dissolution (Dwyer et al., 1987) or similar forms of demise. In our model we recognise that the relationship may not progress beyond any one of the network phases, but within the context of the internationalisation process the final phase is either relationship transfer with a network participant to another network or the process begins again with no relationship and scanning markets for new networks. Networks are more dynamic than the relationship because participants move in and out of networks, and therefore they exist in a dynamic state which may be a life cycle, but may not be. In our findings we identified some very long standing networks, and examples where the PSF was facilitated access by one party such as a government agency but then built relationships with other parties that led to more business within the network and introductions to other networks.

Thus while relationship building is recognised as the critical aspect of UIP both for learning, trust building, and opportunities, our study provides key additional insight by conceptualising the process as phases within a network environment, describing the mechanisms of PSF internationalisation commencing with a network scanning phase.

#### *The role of reputation*

Perhaps the most surprising insight from our study was identifying the role of reputation within the internationalisation process and the phases of reputation building. Our literature review provided guidance on the antecedents and dimensions of reputation (Rindova et al., 2005), but fail to highlight the importance of an international reputation, the boundaries of reputation, and the difficulty of building or transferring a reputation across network boundaries. Managers often reported that a home country reputation, in particular from a small and lesser known market such as Ireland, does not transfer to an international reputation. Part of the internationalisation process therefore was to understand and influence international reputation to the extent possible. While reputation is a facet of trust building identified in UIP, it is not included in the framework (Johanson and Vahlne, 2009). UIP therefore does not address important constructs of reputation upon which perceptions are built, such as institutional intermediary certifications from outside of the network (eg. architectural prizes or media coverage). Our model addresses this oversight identifying the phases of reputation building within the network during the process of internationalisation.

While our identification of the international reputation building process represents a novel insight, our findings concurred with some of the literature that we reviewed on reputation transfer. Thus in discovering how corporate reputation can build this ‘*international component*’ (Cahan et al., 2009), our findings were able to integrate prior studies on spillover effects (Yu and Lester, 2008) where network centrality can influence international reputation building across multiple stakeholders. We did not find home country ‘Halo’ effects (Han, 1989, Kang and Yang, 2010) to be influential in our study, as “Ireland is not on the international radar”, but some firms set up offices in London because it is an international ‘*hub*’. Cultural variations on reputational transfer (Falkenreck and Wagner, 2010) were partially supported and connected to proximity, where reputation of Irish firms did transfer well to the UK and a more friendly response was reported by firms originating in nations with high cultural crossovers such as Australia.

#### *The PSF internationalisation process*

In our data analysis we mapped out how PSFs internationalise and described how learning, reputation, and relationships are built through the five identified phases of the process. Our investigation into the literature suggests that to date studies on the PSF internationalisation process have focussed either on specific activities or processes within the phenomenon or on knowledge and learning (Kennel and Batenburg, 2012) alone to describe the phenomenon. This fails to account for the role of mutual exchanges which is more recently recognised in UIP and has been identified as relationship and reputation building within PSF literature although the process has not been explained, nor has it been aligned with IB process models. Our conceptual framework suggests a five phased approach to internationalisation and our explanation of movements from one phase to the other addresses an aspect of relationship building literature that has received little focus (Edvardsson et al., 2008). Existing theories explaining internationalisation development phases, even for PSFs (Contractor et al., 2003) indicate a linear model from early internationalisers to mid-stage internationalisers to highly internationalised firms. This may be a sufficient explanation if learning alone was the basis for resource commitment and success. In our model learning, relationship building and reputation are aligned in each phase to reflect their interconnectedness. For example, the process of recognising that a mutual exchange exists is partly learned and partly driven by trust elements which are formed from direct relationship contact and from contextualising the PSFs reputation in terms of the relative value the network participant(s) perceives they can provide to address their need compared to competitors. Correspondingly, identifying a reputation and contextualising it to a network

participant(s) needs is partially influenced by resource signals confirmed through sending marketing documents to the network participant which also influences the relationship building and the learning process. We believe this framework represents a novel theoretical approach to understanding how PSFs internationalise.

### *Practical Implications*

While our research may trigger issues for managers outside of the PSF sector, this study has direct implications for PSFs facing firm internationalisation in a growingly complex and volatile international environment. In particular, we are addressing the process for small and medium sized PSFs that do not have the level of resources of the global law and accounting firms which are more often the context of PSF internationalisation studies. In identifying mechanisms of the process the study can assist managers and planning and strategizing for internationalising their business. These firms may be active in multiple international markets and at different phases within the network process and our study can assist in moving from one phase to the next, or indeed encourage managers to cease scarce resource commitment where opportunities are insufficient. Our research may also encourage managers to use mechanisms they had not identified, such as looking at their different networks to see what relationships can be leveraged off, maybe facilitate an introduction from.

Understanding relationships within the context of a network environment helps managers to understand network dynamics for more strategic resource commitment. The decision to commit resources is more suitably based on relationship building rather than geographic market exploration and we have examples within multiple case firms where they recognised this mistake of making a major commitment of resources to set up offices, which then generated little business, thus for Gamma “the focus has gone away from having the regional offices”.

Finally, not only the importance of reputation, but how reputation is built and recognised offers valuable insight to managers engaging in internationalisation. While the concept is based on perceptions and different outside influences, reputation is also developed through relationship building and learning. Organisations can learn where and how signals and certifications are recognised in international networks, and influence these to the extent possible.

### **Limitations and Future Research**

While the first limitation relates to the usual caveats applying to case study research and conceptual generalisation through our proposed model, the second limitation of our

study relates specifically to the Irish context and the position of Ireland on the periphery of Europe which may explain part of our findings. Further research could be conducted into other contexts and settings to improve transferability of findings.

## **Conclusion**

Building on the dominant UIP model of internationalisation, our micro perspective provides key insights into the mechanisms of PSF internationalisation which complement and detail our existing knowledge. Our Process Model of PSF internationalisation represents a significant step towards understanding the value of reputation and relationship building in developing networks for the exploitation of opportunities. Understanding how components in our conceptual model are integrated should assist managers understand how critical resources are built and for PSF internationalisation and provide a basis for future study to test transferability of findings across different sectors and contexts.

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**Figure 1: The business network internationalisation process (Johanson and Vahlne, 2009)**

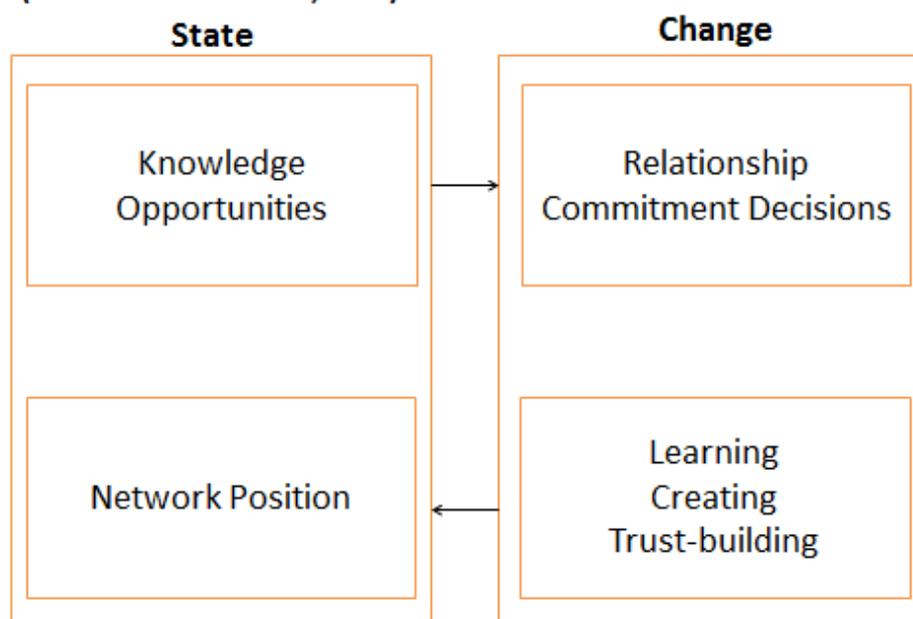


Figure 2: Conceptual Model of PSF Internationalisation

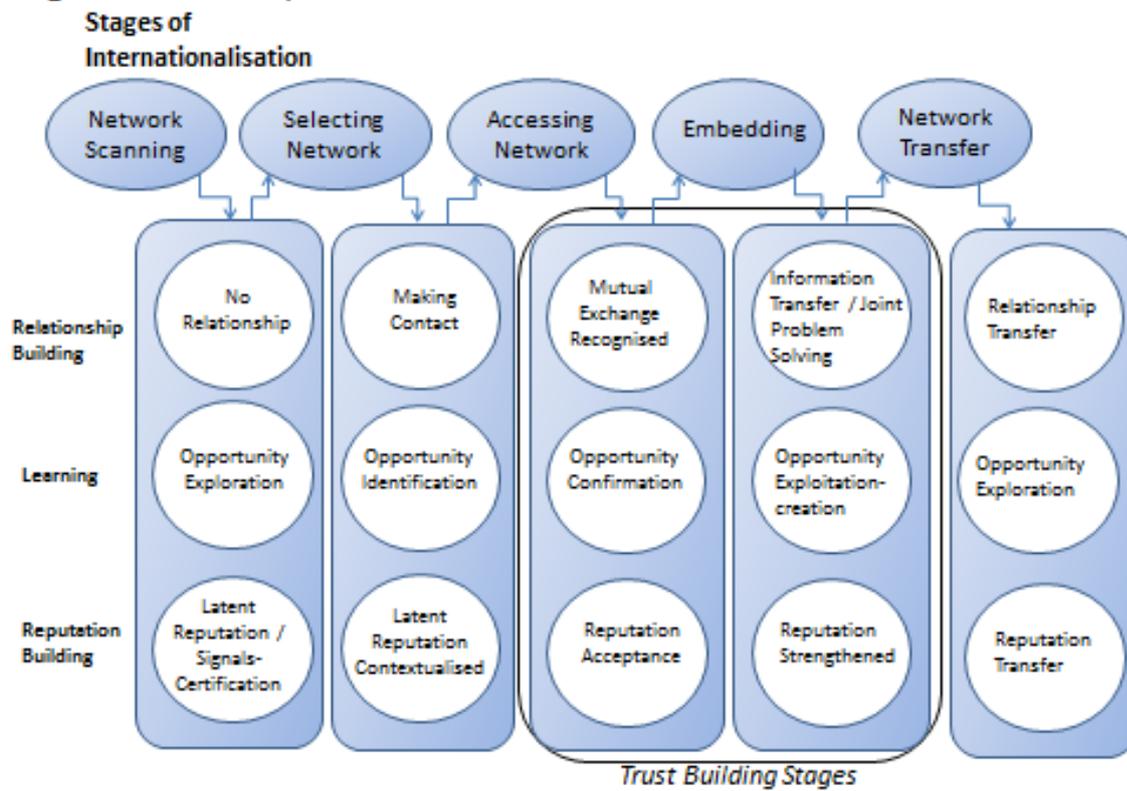


Table 1 – Description of Sample Firms and Case Data

	Alpha	Beta	Gamma	Delta	Epsilon
Years since Establishment	30+	30+	20+	10+	30+
Employee Nos	>75	>25	>125	<25	<25
Years since first international project	7+	12+	12+	5+	20+
No of international locations	3	2	8+	1	10+
Sector Expertise	Multi Specialist – Commercial Segments	Single Specialist – Public	Multi Specialist – Commercial	Dual Specialist – Commercial	Multi Specialist – Public
Internal Informants	Managing Director, Founder, 2 x Directors	Founding Partner, 2 x Senior Architects	3 x Directors	Managing Director, Founder; Director; Architect	Founding Director; Director, 2 x Senior Architect
External Informants (case related)	Ex-employee Partner	Competitor	Competitor, Partner	Partner	Ex-Employee, Competitor, Partner
External Informants (generic)	Government Agency, Academic, Industry Body				

**Table 2: Data Structure**

Empirical Observations (First Order Codes)	Theoretical Categories (Second Order Codes)	Aggregate Dimensions
<ul style="list-style-type: none"> <li>- International training and market research</li> <li>- Difficulties with accessing networks</li> </ul>	Network Scanning	Phases of Internationalisation
<ul style="list-style-type: none"> <li>- How and why markets were selected</li> <li>- Advantage of firm over others</li> </ul>	Network Selection	
<ul style="list-style-type: none"> <li>- Start of a working arrangement</li> </ul>	Network Access	
<ul style="list-style-type: none"> <li>- Trust</li> <li>- Additional working opportunities</li> </ul>	Network Embeddedness	
<ul style="list-style-type: none"> <li>- Going with network participant into new market</li> <li>- Using buildings or clients to create track record</li> </ul>	Network Transfer	
<ul style="list-style-type: none"> <li>- Knocking on doors</li> <li>- Introductions</li> <li>- Invites</li> <li>- Opportunistic events</li> </ul>	Making Contact	Relationship Building
<ul style="list-style-type: none"> <li>- Meeting reciprocation</li> <li>- Joint marketing discussion</li> <li>- Fee arrangement</li> <li>- Technical / design requirement identified</li> </ul>	Mutual Exchange	
<ul style="list-style-type: none"> <li>- Market Information</li> <li>- Product Information</li> <li>- Cross Sectoral Information</li> <li>- Formal Alliances</li> <li>- Informal Alliances</li> </ul>	Information Transfer / Joint Problem Solving	
<ul style="list-style-type: none"> <li>- With a network participant to a new network</li> </ul>	Relationship Transfer	
<ul style="list-style-type: none"> <li>- Training and Market Research</li> <li>- On the ground learning</li> <li>- From mergers and acquisitions</li> <li>- Technical research</li> </ul>	Opportunity Exploration	
<ul style="list-style-type: none"> <li>- Recognising suitable institutional environment</li> <li>- Recognising suitable psychic distance</li> <li>- Recognising suitable competitions</li> </ul>	Opportunity Recognition	Learning (through Knowledge Acquisition and Transfer)
<ul style="list-style-type: none"> <li>- Decisions to increase resource commitment</li> </ul>	Opportunity Confirmation	
<ul style="list-style-type: none"> <li>- Single or multiple new project offers</li> <li>- Evidence of progression in type of international commitment</li> </ul>	Opportunity Exploitation / Creation	
<ul style="list-style-type: none"> <li>- International portfolio of buildings and/or clients</li> <li>- Depth and/or breadth of experience</li> <li>- Number of years' experience</li> <li>- Publication in industry and general media</li> <li>- Landmark building projects</li> <li>- Internationally recognised projects and/or prizes awarded</li> <li>- Institutional certifications</li> </ul>	Latent Reputation from Signals/Certifications	Reputation Building
<ul style="list-style-type: none"> <li>- Marketing documents</li> <li>- Search of industry and public data sources</li> <li>- Institutional referees</li> </ul>	Latent Reputation Contextualised	
<ul style="list-style-type: none"> <li>- Offer to tender for similar projects</li> <li>- Offer to share expertise based on existing portfolio</li> </ul>	Reputation Acceptance	
<ul style="list-style-type: none"> <li>- Statements relating to friendship formation</li> <li>- Project delivery</li> <li>- Evidence of relationship transfer</li> <li>- Evidence of trust building from network activities</li> </ul>	Reputation Strengthened	
<ul style="list-style-type: none"> <li>- Increased resource signals and institutional certifications from network projects and actors</li> </ul>	Reputation Transfer	

<b>Table 3</b> <b>Illustrative Evidence: Sample evidence across 5 cases</b>	
<b>Dimension</b>	<b>Illustrative Quotations</b>
<b>Network Scanning</b>	“if you think about a network, we don’t go around various cities and hang around hoping for .... a job. We aim at the architectural component and hope that that will transcend”. (Beta)
<b>Network Selection</b>	“through that research, generally coming up with a business plan and then pursuing it” (Gamma)
<b>Network Access</b>	“the trick then is to find ways to keep yourself in front of those clients .... Then on the other side, the client is suddenly thinking “who do I hire to do this?”. At that time you need to be in front of them or in their recent memory” (Alpha)
<b>Network Embeddedness</b>	“We did a project with [global corporation] in [CEE city #3] and they said that they were going to do a big project in [CEE country #4] and were we interested, and we said we were” (Epsilon)
<b>Network Transfer</b>	“There were 30 key, very prominent people, within the Irish construction industry. So it was an excellent networking opportunity as well as a development opportunity” (Delta)
<b>Making Contact</b>	“At the time she was organising a Chinese delegation in London to meet with RIBA and she was getting very poor responses so [founding director] went over and met them” (Epsilon)
<b>Mutual Exchange</b>	“we won it” (Beta)
<b>Information Transfer / Joint Problem Solving</b>	“All the Irish were helpful to each other. Instead of competition or jealousy, they were all trying to help each other” (Delta)
<b>Relationship Transfer</b>	“[Location architect’s] speciality is brick conservation...he brought us to a particular factory. We actually set up two projects for [US university] students and for students in [Swiss university]” (Beta)
<b>Opportunity Exploration</b>	“The [Irish city] and [UK city #1] ones were mergers. We took over local practices and grew them” (Alpha)
<b>Opportunity Recognition</b>	“that would have been potentially another good way of getting into that market. Basically it was not quite acquisitions but you were coming in to a practice that had already established a client base” (Epsilon)
<b>Opportunity Confirmation</b>	“We plan to, if a couple of projects that we are looking for happen, we will have to set up an office or set up a joint venture” (Gamma)
<b>Opportunity Exploitation / Creation</b>	“[building relationships] is our key way of getting work... because they in turn might say to a client “I can’t do it but I know somebody who can”” (Alpha)
<b>Latent Reputation</b>	“It’s got international shopping centre of the year award. So these things will open doors” (Delta)
<b>Reputation Contextualised</b>	“Poorer websites, no brochures, no message as such. People knew of us and we didn’t have to try too hard [in Ireland]. Whereas I always found in a country like [CEE country #2] nobody knew you. You really had to be crystal clear about your message” (Alpha)
<b>Reputation Acceptance</b>	“we do get on lists because people are wanting a specific kind of thing” (Beta)
<b>Reputation Strengthened</b>	“you need to be there and visible. And you need to take a call any time” (Gamma)
<b>Reputation Transfer</b>	“Its modest work so far, but to my mind we are on track. The task for next year now is to start to consolidate that” (Alpha)

**Table 4: International Locations of Case Firm**

Region	Western Europe	Central & Eastern Europe	America	Middle East & North America	Other Asia & Africa
No. of Countries in Region	5	6	2	6	5