TRUST AND CONTRACTING
IN THE ICT SECTOR BORN GLOBAL COMPANIES

Pia **HURMELINNA**
Telecom Business Research Center, Lappeenranta University of Technology,
P.O. BOX 20, 53851 LAPPEENRANTA, FINLAND
Tel: +358-5-621 6642, Fax: +358-5-621 6699
E-mail:Pia.Hurmelinna@lut.fi

Kirsimarja **BLOMQVIST**
Telecom Business Research Center, Lappeenranta University of Technology,
P.O. BOX 20, 53851 LAPPEENRANTA, FINLAND
Tel: +358-5-621 6640, Fax: +358-5-621 6699
E-mail: Kirsimarja.Blomqvist@lut.fi

Niina **NUMMELA**
Turku School of Economics and Business Administration
Rehtorinpellonkatu 3, 20500 TURKU, FINLAND
Tel: +358-2-338 311, Fax: +358-2-338 3280
E-mail: niina.nummela@tukkk.fi

Sami **SAARENKETO**
Telecom Business Research Center, Lappeenranta University of Technology,
P.O. BOX 20, 53851 LAPPEENRANTA, FINLAND
Tel: +358-5-621 6650, Fax: +358-5-621 6699
E-mail: Sami.Saarenketo@lut.fi

ABSTRACT

The purpose of this paper is to study the roles of trust and contracts in knowledge intensive small and medium-sized companies (SMEs) in their internationalisation processes. We are concentrating especially on born global (BG) companies, which by definition compete on knowledge, use external resources and internationalise rapidly. In this context the roles of trust and contracting are accentuated. Trust is needed for a born global company in order to be able to partner with complementary companies. In order to attract large partners it may have to disclose some of its knowledge. Also, contracting with large partners in a dynamic business environment is often too time-consuming. Therefore, we propose that trust is more important than contracts to born global companies. We also propose, that especially in a highly dynamic and complex business environment, like the converging information and communication (ICT) sector, the SME companies defined as born global companies are able to create fast trust.

Keywords: Internationalisation, born global, SME, ICT, contract, trust, fast trust

INTRODUCTION

Competitive environment of high technology SMEs has changed dramatically during the last decade. The emerging ICT industry serves as an illustrative context for a dynamic environment and fast pace of technological development. Due to convergence, de-regulation and blurring industrial boundaries the telecom and information technology industries are going through a major transformation. Technological development is uncertain, as potentially disruptive technologies may change the direction of the emerging markets. Companies can no longer rely on their position gained in domestic markets but have to take into account foreign players as well. New markets that haven't existed before have been created and the roles of technological innovation, knowledge and useful applications of them have become increasingly important.

Nowadays even the smallest firms have to face the challenge of globalisation. In fact, increasing number of small firms is involving in international activities more rapidly and intensively than they have historically done. Ability to engage the firm to international activities has become very important for the survival and growth of the firm. This is especially true within the high-tech sectors where firms often have high upfront R&D costs but operate in narrow niches scattered thinly from one country to another. It has been suggested that the firms have to achieve international coverage very quickly for their products and services. This is due to the industry dynamics, such as shortening product life cycles and discontinuous technological changes. Usually, there is a limited 'window of opportunity' and if the firm wants to survive and grow it has to grasp this opportunity in time, before competitors or changes in customer preferences block it. All this sets a lot of challenges for the management of the firms. There are many enablers and drivers as well as restrictions of internationalisation that need to be taken into account.

Rapidly internationalising companies are in a slightly controversial situation because they need to be able to protect their knowledge and yet disclose it in order to attract potential large partners. Additionally, in a highly dynamic ICT sector the contracting process with large corporations may be too time-consuming. Also, the born global companies' may have a specific ability to create fast trust. By fast trust we mean trust that is created in the very first meetings between potential partners. This fast, yet weak trust is created between key individuals. Fast trust enables the early investments in a potential partnership yet the more incremental and traditional organizational trust is needed for partnership evolvement (on comparison between incremental and fast trust, see Blomqvist 2002, p. 187).

In this study we attempt to combine elements that are important in ICT and other knowledge intensive industries, i.e., *trust*, *contracting* and rapid and intensive internationalisation of small companies, *the born global phenomenon*. This kind of combination has not been studied very widely although both trust and contracts seem to be critical for rapidly internationalising SMEs. First, some characteristics of born globals are studied, and based on that, the challenges related to the co-operation this kind of companies may face during their internationalisation process are discussed. Second, propositions are formed based on previous research on the topic. In sum, this study aims at examining the roles of trust and contracting in internationalisation of born globals (e.g. what kind of functions contracts have within cooperative partnership and what purposes trust serves) as well as exploring the relationship of these two related concepts (how they interact).

THE INTERNATIONALISATION PROCESS

Internationalisation process of companies has been a topic of increasing research interest for almost thirty years now (for reviews, see example Leonidou & Katsikeas, 1996; Miesenbock, 1988). Still, despite all the research done, the generally accepted definition of internationalisation is still missing. The definitions given so far include for example "the process of increasing involvement in international operations" (Welch & Luostarinen, 1988, pp. 36) and "the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments" (Calof & Beamish, 1995, pp. 116).

The basic idea of *the process or stages-models of internationalisation* (see, e.g., Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne,1977; 1990; Luostarinen 1979), is based on earlier theories on the growth and behaviour of the firm (Penrose, 1959; Cyert & March, 1963). According to these models internationalisation evolves in a slow, incremental manner as the firm gains more experiential knowledge from foreign markets. It is also assumed that the process consists of a varying number of stages that can be identified. The underlying thought in these models is uncertainty avoidance: in order to avoid risks and uncertainty related to internationalisation small firms proceed in the process gradually starting from less risky entry modes and markets with low psychic distance.[1]

A more recent behavioural approach explaining the internationalisation of the firm is *the network approach*. The key argument of that approach is that the network in which a company operates also affects its internationalisation and that when entering new markets, a company also enters a new network, i.e., it has to create new

[1] Psychic distance can be defined as manager's uncertainty about foreign markets and perceived difficulties in acquiring information from them (Johanson and Vahlne 1977).

relationships. Johanson and Mattsson (1988). Network connections also seem to be generally significant in international business relationships and their overall importance has been highlighted in several studies (for a review, see Coviello & McAuley, 1999). A number of researchers have suggested that existing networks facilitate and accelerate the internationalisation process of a small firm (Holmlund & Kock, 1998; Coviello & Munro, 1997; 1995, Bell, 1995).

A third alternative approach[2] to explain and analyse the internationalisation of small firms is the *Foreign Direct Investment (FDI) theory.* FDI refers to firm's fully integrated mode of international operation, such as acquisition, merger or the establishment of greenfield subsidiary. Though this theory is widely used, it is supposed to be of more relevance for large companies with larger resources than for smaller ones whose limited resources restrict the possibilities for investments considerably. For young high-tech SMEs the capital requirements for investments are often too high, and thus this alternative route to international markets becomes less relevant.

Previously studies on internationalisation have focused mainly on larger multinational companies (MNCs) in mature manufacturing industries. They have also been based on retrospective empirical studies; i.e., the data collected has described company behaviour in the past. For this reason, the applicability of traditional approaches can be questioned when the focus of the study is on small and knowledge-intensive firms, which are both pushed to and pulled by international markets. In these cases, it is not the question of uncertainty avoidance but merely risk taking.

Additionally, earlier studies have often failed to recognise that the reasons for

---

[2] Similar classification has been previously used by, e.g., Coviello and Martin (1999) and Coviello and McAuley (1999).

internationalisation of small service companies may be markedly different from those in larger manufacturing companies (Westhead & al, 2001; Coviello & McAuley, 1999).

Consequently, as this study focuses on small, knowledge-intensive firms in the ICT sector, it seems that the stages models and also the FDI theory do not offer a fruitful basis for discussion. On the other hand, the network approach has been often found useful when exploring the SME internationalisation (e.g., Coviello & Munro, 1995; 1997). Additionally, the limited resources and strong push to international markets in the small ICT firms favour co-operation and alliances in internationalisation. SMEs can, for example, benefit from partnering by gaining access to new distribution channels and markets (e.g., Blomqvist, 2002). To sum up, this study focuses on internationalisation through co-operation and networks. Next, this phenomenon is studied from the perspective of rapidly internationalising small firms.

BORN GLOBAL PHENOMENON

The idea of how a high-tech SME may proceed in its internationalisation has been critically changed during the last decade. Both researchers and practitioners have witnessed the growth of companies who extend their operations to foreign markets from the very beginning. Even though this phenomenon is not completely new, it is something that the traditional models are not able to fully explain and predict.

Earlier, these rapidly internationalising companies, Born Globals[3], have been exceptions to the rule (Welch & Luostarinen, 1988), but now their number has been increasing. Research on Born Globals suggests that they can be found in several

---

[3] Though many researchers have adopted the term Born Global, other names also have been used (Ganitsky, 1989; Oviatt & McDougall, 1994; 1997; Mamis, 1989 and Oviatt & McDougall, 1995; Jolly et al, 1992; Autio et al, 1997; McAuley, 1999). Despite the amount and variety of terms used, all of the concepts explain much the same issue: rapid and intensive/dedicated internationalisation of SMEs.

countries all over the world, and that they represent a wide range of industries (Oviatt & McDougall, 1994). This kind of internationalisation is typical for companies that try to get their products and services to small, highly specialized global niches, and who are located in small open economies that face the double jeopardy of targeting narrow niches in limited domestic markets (Bell et al 2001).

In this study, a born global firm is defined according to Knight and Cavusgil (1996): *A born global* is a firm, that has reached a share of foreign sales of at least 25 per cent after having started export activities within three years after its initiation. Furthermore, as Oviatt and McDougall (1994, 49) put it, we are especially interested in "a business organization that, *from inception*, seeks to derive significant competitive advantage from the *use of resources* and the *sale of outputs* in multiple countries". Thus, the rapidity and intensity of internationalisation are the decisive characteristics in separating Born Globals from other companies.

The progress of Born Globals is attributed to three interrelated factors: new market conditions (the rise of niche markets, global sourcing, changes in technology, increased capacity in human resources to exploit the changes), technological developments in various areas and the capabilities of people (Madsen & Servais, 1997). They also seem to compete successfully with large, established firms in the global markets virtually from their initiation (Rennie, 1993).

However, Born Globals also face many challenges different from those of companies internationalising at slower phase or staying in domestic markets. Rapid internationalisation requires that companies acquire resources in a significantly shorter time than earlier. Because of the time constraints organic growth is not always possible but companies have to secure their resources with the help of increasing number of partnerships. Co-operation with other companies requires novel skills and capabilities that small business managers often lack.

Thus, it seems that although push for co-operation is considerable, also risks related to it are high. The risks are also highlighted in earlier studies, which point out that there are several factors affecting the success or failure of any cooperative enterprise, not to mention co-operation related to internationalisation. Many studies (e.g., Forrest & Martin, 1992; Bruce et al, 1995; Littler & Leverick, 1995; Parkhe, 1998; Bailey et al, 1998; Doz, 1998) have shown that some rules and confidence between the partners have often had a central role in the outcome of co-operation, either influencing it positively or negatively.

Indeed, nowadays it is quite hard to believe that any co-operation would work out completely without contracts. Here *contract* refers to a written agreement between two or more competent parties, which creates obligations whereby one party becomes bound to another to do or omit to do certain acts that are the subject of that agreement[4]. Contract can be considered as a self-evident element in interfirm co-operation, but another as important is trust. In line with Blomqvist (2002) *trust* is interpreted here as the actor's expectation of the other party's capability, goodwill and self-reference in future situations involving risk and vulnerability. Managing both of these, trust and contracts, requires a lot in domestic markets – where culture doesn't set great barriers to mutual understanding and the legislation is at least to some extent familiar to all parties drafting the contracts – and it requires even more in the global arena. Resources for managing these issues are sometimes scarce even for large companies, and SMEs have to work twice as hard.

[4] They are mainly studied from the standpoint of Finnish legislation but also general contractual theories are taken into account.

From this setting we are going to study trust and contracts in the context of born global SMEs. As stated earlier, this study focuses on a knowledge-intensive industry, the ICT industry, where rapid internationalisation has been very common (for empirical evidence from Finnish ICT industry, see Saarenketo et al, 2001 and Kuivalainen et al, 2003). In this high-tech sector also the intangible assets of the company are of importance and thus studying trust and contracts in this context seems interesting and worthwhile.

CONTRACTS AND TRUST IN CO-OPERATION

Internationalisation is a part of a small firm's growth strategy and for this purpose the company sets objectives that it wants to achieve. In order to achieve the objectives set, it may start co-operation with other firms. In other words, actually there are two simultaneously ongoing processes: the internationalisation process related to the firm itself, and the co-operation process related to the network of which the firm is part. The initiation of co-operation is triggered by a need related to the company's internationalisation. From the viewpoint of the small firm, the core objectives set are also usually related to its internationalisation. Consequently, the role of co-operation is supportive in relation to the internationalisation process. Both its initiation and termination are related to this hierarchy: when the primary objectives set for internationalisation are achieved, co-operation may be terminated.

This means that there are also different kinds of goals and objectives: the primary ones related to internationalisation and the secondary ones related to co-operation. The goals of the companies participating co-operation may appear to be very similar, but may in fact be quite different. The differences and conflicting – or even opposing – interests of the co-operating companies can be controlled and minimized in many ways, one of which is juridical. Collaboration of companies is controlled by a large set of norms that cause both constraints and possibilities, and in international context the amount of them is even greater. This should be understood in order to create a viable co-operation and contracts supporting it. Many collisions and gaps in norms (caused by diverse legislation) as well as some of the commercial risks are controllable only by logical contractual usage.

Preparing contracts is an essential part of managing any co-operative project, not to mention one that leads to companies reaching new, global markets. At its best contract is a good mechanism for carrying out and controlling the collaboration. Contracting binds the parties into fulfilling certain actions needed to achieve the mutual aim (Tapper, 1989), and enables setting mutual rules and terms for the collaboration. Thus they help creating and maintaining stabilized relationship between the parties (Frankel et al, 1996). As Yli-Renko et al (2001) suggest, through the use of contracts companies can minimize their external dependencies and protect themselves from opportunism. However, especially among small firms contracts are very often forgotten or put aside, or not prepared properly. Ignoring contractual issues, though, may cause even more conflicts because contracts are imperfect or open to various interpretations (Frankel et al, 1996).

As an example, a SME operating in ICT field may be interested in co-operating with a large international company in order to reach foreign markets. It may have, e.g., some groundbreaking technology or knowledge as the basis of its business, but the domestic markets are too small and the SME wants to take its competencies into global markets. The partners have concluded that since the larger company would like to use the SME’s technology, the SME may provide the right to use it if the larger company, in return, offers access to foreign countries and better resources. In its home country the small firm has relied on just concealing its technology and while working alone it has not had any need for other protective measures. It has neither had need for contracts for controlling actual co-operation, maybe only for purchasing and/or selling. In other words, its experience of co-operation is limited and thus also knowledge of the risks related is insufficient.

For a rapidly internationalising company this situation is intolerable as intangible assets are very often the most important source of competitive advantages of ICT companies. For this reason, one of its first tasks is to protect its knowledge. Without using at least non-disclosure agreements a born global's expected future partner may, in the worst case, take the SME's technology (see, e.g., Oviatt & McDougall, 1994).

Previous research indicates that when a company is able to protect its knowledge it can use external co-operation, resources and markets more effectively for internationalisation (Kuivalainen et al, 2003). This leads to the misunderstanding that getting legal protection is enough and reaching a license agreement after that is no problem. This is, unfortunately, not the case. A born global company has to take into account several other legal aspects as well. Anti-trust legislation is of importance: cooperative activities and contracts made must not restrict competition against, e.g., national legislation of the countries it is going to operate in, or, e.g., norms of the European Union. Additionally, when drafting contract clauses, attention has to be paid also to choosing the applicable law and forum the cooperative companies are using to settle possible disputes (Kantor, 2002).[5]

Besides all this, a small firm, even if it uses patents or some other forms of protection, has to have right kind of protection. If it has patented its technology, e.g.,

[5] One example of many possible problems arising is that a company may win litigation or dispute resolution in the country mentioned in the contract, but because the other company doesn't have any property there, it will never get any compensation.

only in its home country, that patent will not protect its technology in other countries. This may affect not only the company's ability to operate in global markets but also contracting with other companies. It may be very challenging for a SME to find resources for patent protection in many countries and this is one of the things that actually only born global SMEs face. When negotiating for legally unprotected technology or know-how contracts are the way to make sure that BGs do not lose their competitive advantages.

All the above-mentioned matters require that contracts are drafted prudently. By making the contracts carefully Born Globals may avoid problems that neither companies operating alone or in domestic markets only, nor larger, established companies would ever have to face to a same extent. It can be argued that making a specific and distinctive enough agreement on the conduction of cooperative actions is a critical mean to prevent disagreements. Drafting contracts so that there is a win-win situation may also enhance the chances of co-operation to succeed.

Another significant element increasing the chances to succeed is the trust between the co-operating partners. Indeed, trust and contracts can be seen as the two sides of the same coin in the sense that the development of both these elements may depend on the other. However, these two elements are not mutually exclusive, on the contrary, they develop side by side.

Trust – or the lack of it – is usually mentioned as one of the "make-or-break" factors in partnerships (Gambetta, 1988; Varghese & Farris, 1999; Ariño et al, 2001). Trust covers expectations about what others will do in situations that are not, and often cannot be, explicitly enclosed in the contract. Trust has also been seen as a lubricant in managing the inherent transaction risk and complexity (Arrow, 1974) that is one of the central features of the ICT industry. The development of inter-organisational trust is based on both organisational and personal trust and exchanges between firms are exchanges between individuals or small groups of individuals (Barney & Hansen, 1994). Anderson and Narus (1990) note that personal relationships may involve more intensity and personal commitment than organisational relationships[6]. Individual-based trust seems to be critical in managing co-operation in the ICT sector where the organisations are diverse and changeable. The diversity of companies increases when foreign cultures are involved and trust issues become more challenging to handle. Still, born global SMEs and people working for them need to have extensive understanding, since individual-based trust and related respect between key individuals may be the critical factor in both starting the partnership (Blomqvist, 2002) and possibly also in maintaining the relationship through inevitable conflicts.

As stated earlier, both trust and contracting are important matters to be managed by rapidly internationalising small firms and they seem to present a considerable challenge for these firms. The relationship between the two issues, trust and contracts, seems to be quite multidimensional and controversial and therefore it is discussed below.

THE RELATIONSHIP BETWEEN TRUST AND CONTRACTS IN RAPID INTERNATIONALIZATION

In previous trust-related research on interfirm co-operation, contracts have been interpreted in various ways: as (1) an antecedent for trust (Barney & Hansen, 1994), (2) result of trust (Sako, 1994), (3) complementary control mechanisms for trust

[6] Anderson and Narus argue this because they believe that in interfirm relationships it is the firm, and usually not the individual, who suffers the potential losses.

(Bradach & Eccles, 1991) or even (4) a sign of distrust (Macalay, 1963). Sako (1994) views contracts as a result of trust and as a top level of trustworthiness. According to this view contracts are signed if the parties involved are able to agree and trust each other. Also Neu (1991), Dibben (2000) and Blomqvist (2002) argue that trust is a necessary condition for economic exchange and that trust is needed prior to contracting. There are cases that illustrate of all the above-mentioned approaches though they do not emerge concurrently.

In an ideal world the partnering firms could always write a long-term contract in advance of the investment, spelling out each party's obligations and the terms of trade in every conceivable situation. In practice, such contracts become expensive and the parties must negotiate as they go along (Hart, 1989). Long term of a contract may sometimes lead to incompleteness of it, and incomplete contracting demands renegotiation, which again demands commitment, ability to adapt and trust. MacNeil (1980) points out that the uncertain nature of partnerships makes it practically impossible to establish a set of rules ex ante to resolve future problems and conflicts.

Companies engaged in close cooperative relationships exchange and share valuable information, which may not be safeguarded by secrecy agreements. Sellers of expertise have to disclose confidential information to potential partners to get them seriously interested. The ability to negotiate win-win contracts, to assure the partner of the ability to continue with state-of-the art skills and establish trusting relationships are of vital importance. Trust plays a critical role in the development of long-term relationships because short-term inequities are inevitable in any relationship. It is vital because it is not possible for human beings to monitor others' actions and to map out all possible problems in enforceable contracts. Trust covers expectations about what others will do in circumstances that are not, and often cannot be explicitly covered in the agreement (Forrest et Martin, 1992).

Contracting contingencies are often difficult for parties to understand, predict or articulate, which causes uncertainty. Practical problems may arise also due the partners' limited capability to articulate and specify the relevant property rights and the scope of a non-disclosure agreement (NDA) of future-oriented and uncertain R&D (Pisano, 1990). The turbulent environment may also blur the objectives, change the content and direction of the co-operation and increase the propensity for moral hazards (Nystén-Haarala, 1998). Especially in the situations where companies participating co-operation do not share common (national, organisational or contractual) culture, as it usually is when firms from different countries collaborate, trust is especially critical – though sometimes very difficult to build – in enabling creation of common understanding between the partners.

If the parties haven't been working together previously they cannot have full information about each other's capacities and performance. Companies internationalising at slow phase, whether they are small or large, usually have time to gather experiences and information about how things are done in their home country and abroad, and what kind of legal possibilities and constraints there are for cooperative operations to be taken into account in contracts. These companies do not necessarily have to trust their partners in every issue but they can rely partly on contracts and their own capabilities. They know what to include in contracts and how, and this kind of companies can use contracts e.g. as the basis for creating trust. Thus we propose that:

P 1: It is easier for other companies than BGs to draft contracts

Born global SMEs, on the other hand, may lack certain learning experience due to their young age. While managers in born global firms have typically been exposed to the international professions before (Bloodgood et al, 1996), there are still certain areas such as language and culture, and differences in regulatory and competitive landscape that set many challenges. Also, they haven't maybe had resources for getting information since they have been forced to concentrate on developing their technologies and image. Many SMEs have difficulties with knowing the laws regulating contracts in their home countries, not to mention international norms. Thus, BGs have to rely very much on their partners' capabilities and knowledge of, e.g., legal issues involved. In this kind of situations trust definitely plays a more important role, since it can be the very basis of contracts instead of vast amount of knowledge and experience. In summary, we propose that:

P 2: Trust is relatively more important to Born Globals than to other companies.

In the fast pace of global competition, shortening product and service cycles there is not enough time for the incremental evolution of trust. Time compression in relationship building is possible if the partners' behaviour is cooperative, equal, and ethical. In order to establish a partnership the actors need to reach mutual understanding, a shared vision and fast trust (see, Blomqvist, 2002). This kind of trust and the uncertain and ambiguous context including high vulnerability seems to describe well also the ICT sector born global companies. It has also been noted that in born global companies experienced executives act quite commonly as facilitators of fast trust. Also in a start-up company drawing on social skills, framing and editing behaviour and intentions may enhance trust (Aldrich, 1999). Additionally, Baron and Markman (2000) propose that successful entrepreneurs have strong social skills enabling them e.g. to establish partnerships. Therefore, we propose that born globals able to internationalize relatively early may be seen as an example of successful entrepreneurs and formulate our proposition as follows:

P 3: Born globals are relatively better in building fast trust than other companies.

It has been stated that formal contracts often play a relatively limited role in inter-firm relationships and that contracts are often augmented by variety of informal norms and agreements. In other words, relational contracts or 'social contracts' (see Macneil, 1980) that act as frameworks rather than absolute governance devices in their own right (Wathne & Heide, 2000). Because of the bounded rationality of man (Simon, 1957) it is fairly easy to understand that perfect contracts may be difficult or impossible to make in the highly dynamic ICT environment. Drafting complete, detailed contracts may be knowingly avoided because 'all-inclusive' contracts could make the co-operation too rigid to work (Hart, 1989). That is why Born Globals should plan ahead the content required in contracts so that they will actually have something left to operate on when they reach international markets. This may be a much more challenging task for a born global company, than for some firm with wider range of experience.[7]

CONCLUSIONS

The internationalisation process of a small, knowledge intensive company is often different from that of large, established companies operating in more mature industries. Born Globals need to get access to information that may never become relevant to other SMEs operating only in domestic markets. Additionally, Born

[7] Licensing and ownership issues of IPRs may be, for example, the things ICT companies absolutely need to have contract about but, as mentioned before, they may also be very complicated.

Globals do not have as much time to get experience as they larger counterparts – that may have internationalised at much slower phase – do. Success on international markets requires that Born Globals are able to trust their potential partners and to disclose its knowledge or create fast trust itself in order to create interest.

As McKinsey's consultants Bates et al (2001) point out there lies many perils of moving too fast: "…the faster you build a business, the less time you have to study the market, test assumptions, understand competitors, and optimise resources." In line with this statement, it is argued here that Born Globals and other companies differ from each other in some important respects (our propositions are summarised in Figure 1 below).

To conclude, trust is more critical than a contract for born globals in establishing partnerships needed in internationalisation. Trust is also needed ex ante contracting. Born globals are also proposed to be better in creating fast trust. Trust and contracts are however necessary for both Born globals and other companies as they internationalise through cooperative arrangements. These propositions will be tested in the future among Finnish companies.

	BORN GLOBAL	OTHERS
TRUST	Trust is a requirement for co-operation Trust more important than a contract (see P2) Fast development of trust (see P3)	Trust is a requirement for co-operation Trust less important (see P2) Slower development of trust (see P3)
CONTRACT	Contract as a requirement for co-operation Contracting hard before there is trust (See P1)	Contract as a requirement for co-operation Contracting easier before trust (see P1)

Figure 1. Trust and contracts in international cooperative partnerships

REFERENCES

Andersen, O. (1993) On the Internationalisation Process of Firms: A Critical Analysis. *Journal of International Business Studies*, Vol.24 No.2, 209-30.

Anderson, J.C. & Narus, J.A. (1990) A Model of Distributor Firm and Manufacturing Firm Working Partnerships. *Journal of Marketing*, Vol.54 No.1, 42-58.

Arrow K. (1974) *Limits of Economic Organization*. New York: Norton.

Autio, E., Yli-Renko, H. & Sapienza, Harry. (1997) Leveraging Resources Under Threat of Opportunism: Predicting Networking in International Growth. Paper for the First Finnish SME Research Forum, February 13-14, Turku.

Bailey, W.J., Masson, R. & Raeside, R. (1998) Choosing successful technology development partners: A best-practice model. *International Journal of Technology Management*, Vol.15 No.1-2, 124-138.

Barney Jay B. & Mark H. Hansen (1994) Trustworthiness as a Source of Competitive Advantage. *Strategic Management Journal*, Winter, Vol.15, 175-190.

Bell, J. (1995) A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland and Norway, *International Business Review*, Vol.6 No.6, 585-604.

Bell, J., McNaughton, R. & Young, S. (2001) "Born-Again Global" Firms – An Extension to the "Born Global" Phenomenon. *Journal of International Management*, Vol 7 No.3, 173-189.

Blomqvist, K. (2002) *Partnering in the dynamic environment: The role of Trust in Asymmetric Technology Partnership Formation*. PhD. Dissertation, Lappeenranta university of Technology, Finland.

Bloodgood, J.M., Sapienza, H. & Almeida, J.G. (1996) The Internationalization of New High-potential U.S. Ventures: Antecedents and Outcomes. *Entrepreneurship Theory and Practice*, Summer, Vol.20 No.4, 61-76.

Bradach J.L. & Eccles R.G. (1991) Price, Authority and Trust: From Ideal Types of Plural Forms in Markets, Hierarchies and Networks. In G.Thompson, J.Frances, R.Levacic and J.Mitchell (eds.) *The Coordination of Social Life*. Sage Publications: London, 277-292.

Bruce, M.; Leverick, F. & Wilson D.. (1995) Success Factors for Collaborative Product Development: a Study of Supplier of Information and Communication Technology. *R & D Management*, Vol.25 No.1 33-45.

Calof, J.L. & Beamish, P.W. (1995) Adapting to Foreign Markets: Explaining Internationalization. *International Business Review*, Vol.4 No.2, 115-131.

Coviello, N.E. & Martin, K.A-M. (1999) Internationalization of Service SMEs: An Integrated Perspective from the Engineering Consulting Sector. *Journal of International Marketing*,Vol.7 No.4, 42-66.

Coviello, N.E. & McAuley, A. (1999) Internationalisation and the Smaller Firm: A review of Contemporary Empirical Research. *Management International Review*, Vol.39 No.3, 223-256.

Coviello, N. & Munro H. (1997) Network Relationships and the Internationalisation Process of Smaller Software Firms, *International Business Review*, Vol.6 No.4, 361-384.

Coviello, N.E. & Munro, H.J. (1995) Growing the Entrepreneurial Firm: Networking for International Market Development. *European Journal of Marketing*, Vol.29 No.7, 49-61.

Cyert, R.M. & March, J.G. (1963) *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall.

Dibben, M.R. (2000). *Exploring Interpersonal Trust in the Entrepreneurial Venture*. Basingstoke: Macmillan Press.

Doz, Y.L. (1998) Technology Partnerships between Larger and Smaller Firms: Some Critical Issues. *International Studies of Management and Organization*, Vol.17 No.4, 31-57.

Forrest, J.E. & Martin, M.J.C. (1992) Strategic Alliances between large and Small Research Intensive Organizations: Experiences in the Biotechnology Industry. *R&D Management*, Vol.22 No.1, 41-53.

Frankel, R.; Smitz Whipple, J. & Frayer, D.J. (1996) Formal versus informal contracts: achieving alliance success. *International Journal of Physical Distribution & Logistics Management*, Vol.26 No.3, 47-63.

Ganitsky, J. (1989) Strategies for Innate and Adoptive Exporters: Lessons from Israel's Case. *International Marketing Review*, Vol.6 No.5, 50-65.

Goel, Rajeev K. (1999) On contracting for uncertain R&D. *Managerial And Decision Economics*, Vol.20 No.2, 99-106.

Hart, Oliver (1989) An Economist's perspective on the Theory of the Firm. *Columbia Law Review*, Vol.89 No.7, 1757-1774.

Holmlund, M. & Kock S. (1998) Relationships and the Internationalisation of Finnish Small and Medium-sized Companies, *International Small Business Journal*, Vol.16 No.4, 46-63.

Johanson, J. & Mattsson, L-G. (1988). Internationalisation in Industrial Systems – a Network Approach, in Hood, N. and Vahlne, J-E., (eds.) *Strategies in Global Competition*. London: Croom Helm, 287-314.

Johanson, Jan & Vahlne, Jan-Erik. (1990) The Mechanism of Internationalization. *International Marketing Review*, Vol.7 No.4, 11-24.

Johanson, Jan & Vahlne, Jan-Erik. (1977) The Internationalization Process of the Firm: a Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, Vol.8 No.1, 23-32.

Johanson, Jan & Wiedersheim-Paul, Finn. (1975). The Internationalization of the Firm: Four Swedish Cases. Journal of Management Studies, October, Vol.12 No.3, 305-322.

Jolly, V.K., Alahuhta, M. & Jeannet, J.-P. (1992) Challenging the Incumbents: How High Technology Start-ups Compete Globally. *Journal of Strategic Change*, Vol.1 No.1, 71-82.

Kantor, M. (2002) The scope of choice of law clauses. *The Banking Law Journal*, Vol.119 No.8, 724-735.

Knight, G. & Cavusgil, S. Tamer. (1996) The Born Global Firm: A Challenge to Traditional Internationalization Theory. *Advances in International Marketing*, Vol.8, 11-26.

Kuivalainen O., Kyläheiko K., Puumalainen K. & Saarenketo S. (2003, forthcoming). Knowledge-Based View on Internationalization: Finnish Telecom Software Suppliers as an Example. IAMOT 2001 best paper. In: M. Von Zedtwitz, G. Haour, T. Khalil, L. Lefebvre (eds.) *Management of technology: growth through business, innovation and entrepreneurship*. Oxford: Pergamon press, 2003.

Leonidou, L.C. & Katsikeas, C.S. (1996) The export development process: An integrative review of empirical models. *Journal of International Business Studies*, Vol.27 No.3, 517-551.

Littler, D. & Leverick, F. (1995) Joint Ventures for Product Development: Learning from Experience, *Long Range Planning*, Vol.28 No.3, 58-67

Luostarinen, R. (1979) Internationalization of the Firm. An Empirical Study of the Internationalization of Firms with Small and Open Domestic Markets with Special Emphasis of Lateral Rigidity as a Behavioral Characteristic in Strategic Decision Making, Helsinki, Acta Academiae oeconomiae Helsigiensis, Series A: 30.

Macalay S. (1963) Non Contractual Relations in Business, *American Sociological Review*, Vol.45 No.28, 55-70.

Macneil, Ian R. (1980) The New Social Contract. An Inquiry into Modern Contractual Relations. New Haven and London.

Madsen, T.G., Rasmussen, E. & Servais, P. (2000). Differences and Similarities Between Born Globals and Other Types of Exporters. Globalization, the Multinational Firm, 10, 247-265.

Mamis, R.A. (1989) Global start-up. Inc., August, Vol.11 No.8, 38-47.

McAuley, A. (1999) Entrepreneurial Instant Exporters in the Scottish Arts and Crafts Sector. *Journal of International Marketing*, Vol.7 No.4, 67-82.

Melin, L. (1992). Internationalization as a strategy process. *Strategic Management Journal*, Winter, Vol.13, 99-118.

Miesenböck, K.J. (1988) Small Business and Exporting: A Literature Review, *International Small Business Journal*, Vol. 6 No. 2, 42-61

Neu, D. (1991) Trust, contracting and the prospectus process. *Accounting Organizations and Society*, Vol.16 No.3, 243-256.

Nystén-Haarala S. (1998) *The Long-Term Contract, Contract Law and Contracting*, Kauppakaari Oyj, Finnish Lawyer's Publishing. Helsinki.

Oviatt, B.M. – McDougall, P.P. (1997) Challenges for Internationalization Process Theory: The Case of International New Ventures, *Management International Review*, Vol.37 No.2, Special Issue: 85-99.

Oviatt, B.M. & McDougall, P.P. (1995) Global start-ups: Entrepreneurs on a worldwide stage. *Academy of Management Executive*, Vol.9 No.2, 30-43.

Oviatt, B.M. & McDougall, P.P. (1994) Toward a Theory of International New Ventures. *Journal of International Business Studies*, Vol.25 No.1, 45-64.

Parkhe, A. (1998) Building Trust in International Alliances. *Journal of World Business*, Vol.33 No.4, 417-437.

Penrose, E.T. (1959). *The theory of the growth of the firm*. New York : Wiley.

Rennie, M.W. (1993) Global Competitiveness: Born Global. *The McKinsey Quarterly*, 4, 45-52.

Saarenketo S., Kuivalainen O. & Puumalainen K. (2001) Emergence of Born Global Firms: Internationalization Patterns of the Infocom SMEs as an Example. Proceedings of the 4th McGill Conference on International Entrepreneurship, University of Strathclyde, Glasgow, UK, 21-23 September 2001.

Sako M. (1994) Supplier Relationship and Innovation, in Mark Dodgson and Roy Rothwell, Edward Elgar (eds.) *The Handbook of Industrial Innovation*. Aldershot: Publishing Ltd, 268-242.

Simon, H. (1957) *Models of Man: Social and Rational*. New York: John Wiley & Sons.

Tapper, C. (1989) *Computer law*. 4. edition. Avon, UK.

Wathne, K.H. & Heide, J.B. (2000) Opportunism in Interfirm Relationships: Forms, Outcomes, and Solutions. *Journal of Marketing*,Vol.64, 36-51.

Welch, L.S. & Luostarinen, R. (1988). Internationalization: Evolution of a Concept. *Journal of General Management*, Winter, Vol.14 No.2, 34-57.

Westhead, P., Wright, M. & Ucbasaran, D. (2001). The Internationalization of New and Small Firms: A Resource-Based View. *Journal of Business Venturing*, Vol.16, 333-358.

Yli-Renko, H.; Sapienza, H. & Hay, M. (2001) The role of contractual governance flexibility in realizing the outcomes of key customer relationships. *Journal of Business Venturing*, Vol.16 No.6, 529-555.