

## Networking as an Internationalization Strategy For Small - and Medium- Sized Enterprises

*Küçük ve Orta Boy İşletmelerde Uluslararasılaşma  
Stratejisi Olarak Şebekeleşme*

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## Networking as an Internationalization Strategy For Small - and Medium- Sized Enterprises

### *Küçük ve Orta Boy İşletmelerde Uluslararasılaşma Stratejisi Olarak Şebekeleşme*

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#### **Özet:**

Globalleşmedeki artış, uluslararasılaşma ve dış kaynak kullanımı işletmeler açısından yeni bir iş ortamı yaratmış ve onların iş yapma biçimlerini etkilemiştir. Bu, işletmeler arası ilişkilerde dönüşüme ve özellikle uluslararası alanda varlık gösterme çabası içerisindeki küçük ve orta boy işletmeler (KOBİ'ler) olmak üzere bütün işletmeler tarafından şebeke organizasyon yapısının kullanımında artışa yol açmıştır. Bu bağlamda KOBİ'ler pazarda ilk aşamada güvenilirlik elde etmek, kaynaklara erişmek, maliyetleri ve riskleri azaltmak ve işletme olarak boyut engelini aşmak amacıyla stratejik düzeyde şebekeleşme yoluyla faaliyetlerini uluslararasılaştırmaktadırlar. Böylece KOBİ'lerin uluslararasılaşmasının başarılı bir şekilde gelişimi, uluslararası şebekelere katılımlarının bir sonucu olarak görülmektedir.

İşletme şebekeleri, yabancı pazarlara hızlı girişi kolaylaştırdıklarından KOBİ'lerin uluslararasılaşma sürecinde büyük önem taşımaktadırlar. Bu derece önemli olmalarına karşın uluslararasılaşma süreçleri KOBİ'lerden ziyade büyük ölçüde çokuluslu işletmeler üzerine araştırılmıştır (Jansson ve Sandberg, 2008). Bu doğrultuda, çalışmanın temel amacı, KOBİ'lerin uluslararasılaşma stratejisinin şebeke anlayışı açısından daha iyi anlaşılmasını sağlamaktır. Bu amaç doğrultusunda çalışma, KOBİ'lerin özellikleri, KOBİ'lerin uluslararasılaşmasındaki motivasyonlar, aşamalar, avantaj ve dezavantajlar, KOBİ'lerde şebeke yaklaşımı ile avantaj ve dezavantajları ve KOBİ'lerin sahip veya yöneticilerine yabancı pazara başarılı giriş süreçleri konusunda şebekeleşme bağlamında önerilerde bulunma üzerine yoğunlaşmaktadır.

**Anahtar Kelimeler:** Globalleşme, Şebekeleşme, Uluslararasılaşma, Uluslararası Pazarlar, KOBİ'ler.

#### **Abstract:**

Increase in globalization, internationalization and outsourcing has created a new business environment for firms and affected the way of doing business of them. This has led to the transformation of the relationships between firms and growing use of network form of organization by all firms especially small- and medium-sized enterprises (SMEs) that are striving to have an international presence. In this context, SMEs internationalize their operations by networking at the strategic level to gain initial credibility in the market, to access resources, to lower costs and risks and to overcome their size barrier. Thus successful growth of SMEs' internationalization appears to be a result of their involvement in international networks.

Business networks are of even greater importance for internationalization process of SMEs, since they simplify entering into foreign markets rapidly. In contrast to their importance, internationalization processes have mainly been studied for MNCs but less for SMEs (Jansson and Sandberg, 2008). In this direction, the main purpose of this study is to enhance the understanding of the internationalization strategy of SMEs in terms of networking. In the direction of this purpose, this study focus on providing information on the characteristics of SMEs, motivations, stages, advantages and disadvantages of SMEs' internationalization, network approach in SMEs with the advantages and disadvantages and making suggestions for owner/managers of SMEs to develop successful foreign market entry process in relation to networking.

**Keywords:** Globalization, Networking, Internationalization, International Markets, SMEs.

## 1. Introduction

As the rate of economic globalization becomes faster and faster, small businesses can no longer afford to ignore the challenge of international commerce. Thus small businesses that are a key factor in the economies of all nations must develop a global culture, gain crucial international experience, and overcome their size barrier (Rowden, 2001: 257). This requires choosing the appropriate strategies if they hope to have any chance of success in the international markets. In this context, this study provides insights into how internationalization is carried out successfully by SMEs in relation to networking.

Most of the early studies related to internationalization strategies have dealt with large firms, whereas SMEs are only rarely investigated (Fink et al., 2008: 2). So there is still insufficient knowledge about the internationalization of small firms (Westhead et al., 2001: 338). However, the development of communication and transportation technologies has made internationalization possible for SMEs as well (Saarenketo et al., 2008: 592). In this direction many approaches have been used for the understanding of an internationalization process of SMEs. One of them is the network theory is the main theme of this article.

The facilitating role of globalization has expanded firms' use of external resources to reduce innovation time spans, costs and risks, and acquire greater flexibility in their operations. The growing use of networks by a broader cross-section of firms reflects a catch-up by larger firms: it has long been recognized that one of the major competitive advantages SMEs have over large firms has been their flexibility. Indeed, the very success of the SMEs vis-a-vis their larger competitors may be due to their ability to utilize external networks more efficiently (Narula, 2004: 153). In this context, SMEs have overcome barriers to growth and expand their operations into foreign markets due to absolute limits to resources by developing successful network relationships with other firms.

To date, an entrepreneur's human capital as well as business demographics promoting independent owner-managed firms to sell their goods or services into foreign markets is not well understood. Nevertheless, there is a growing awareness of a need for a greater understanding of this group of entrepreneurial ventures (Westhead et al., 2001: 334). In this direction, this paper seeks to enhance understanding of the SMEs' internationalization. Notwithstanding, from a theoretical perspective, the primary focus of the networking aspect of this paper is to provide suggestions for how SMEs will use networking strategy to carry out successful entry into international markets.

## 2. Characteristics of SMEs

SMEs are not simply smaller versions of traditional firms and exhibit differences in ownership, resources, organizational structures and management systems (Pangarkar, 2008: 477). Compared with larger companies, small (less than 50 employees) and medium (between 50 and 250 employees) sized companies (Gilmore et al., 2006: 282) have limited financial and managerial resources, personnel and capabilities. Further, SMEs are usually owned and managed by founders, whereas large firms are managed by professionals. As a result of this, the decision-making in SMEs is highly centralized (Lu and Beamish, 2006: 464-465).

Previous literature recognizes that SMEs are heavily reliant on the attitudes, skills and expertise of their personnel. Multiple roles being filled by staff and a lack of organizational slack make dealing with anyone outside of the company much harder (Major and Cordey-Hayes, 2000: 589). Due to staffing limitations, small enterprises often suffer from managerial inexperience with international markets and have limited global information-gathering capabilities (Rowden, 2001: 258).

SMEs tend to be less innovative than large companies (Bougrain and Haudeville, 2002: 738) and they are generally regarded as more easily influenced by external forces

than are larger firms (Cheng and Yu, 2008: 332). Further, SMEs are subject to the liability of smallness which is reflected in this type of firms' difficulties in obtaining and securing critical resources and their vulnerability to environmental changes. Such disadvantages impose constraints on the expansion of SMEs either in the domestic or international markets. So that SMEs usually have less international experience and are subject to more severe local knowledge deficiencies when they expand their facilities across borders (Lu and Beamish, 2006: 465).

### 3. The Concept of Internationalization

Internationalization that is an entrepreneurial behavior in the pursuit of growth (Lu and Beamish, 2006) can be explained as "the process of increasing involvement in international operations" (Welch and Luostarinen, 1988: 36). In other words, internationalization is the process by which firms increase their awareness of the direct and indirect influence of international transactions on their future, and begin to engage in transactions with firms in other countries (Lu and Beamish, 2001).

Although internationalization can be regarded as an opportunity-seeking choice on the part of firms, it may also represent a critical decision due to the costs and risks involved. Firms expanding abroad should have strong ownership advantages if they are to successfully overcome the disadvantages of operating in host countries. As institutional theory suggests, the adoption of new practices by firms is influenced by institutional pressures, which are in turn related to various sociological conditions within firms' external environments (Cheng and Yu, 2008: 331). In addition to this, several theories from the international business literature have been presented below to explain why firms engage in international operations (Westhead et al., 2001: 338):

— Monopolistic advantage theory suggests that firms will internationalize when they can use their established advantages in fore-

ign countries at little or no additional cost.

— Product cycle theory suggests that firms internationalize in an attempt to protect their existing markets of mature products.

— The stage theory of internationalization suggests that a firm's international operations will gradually increase as it gains knowledge and experience in the international arena and as it develops relationships that cross international boundaries.

— Oligopolistic reaction theory suggests that firms will try to reduce their risk by imitating competing firms' entrance into foreign operations.

— Internationalization theory suggests that firms internationalize to reduce costs by internationalizing the transfer of goods and services across national borders where it is cheaper.

— Strategic choice theory suggests that firms facing strategic complexities respond opportunistically to changing market opportunities through a careful evaluation of risks with managers actively determining many features of a firm's internationalization.

— A network theory of internationalization suggests that firms achieve their competitive advantage by developing mutually supportive interactions with other firms.

— Transaction cost theory suggests that firms choose the least-cost international location for each activity they perform and grow by internationalizing markets, bringing interdependent activities under common ownership and control up to the point where the benefits of further internationalization are outweighed by the costs.

Although there have been a number of attempts to synthesize the internationalization literature, a single, commonly accepted interpretation of "internationalization" is yet to be found. According to this, the internationalization patterns of individual firms seem to be rather unique and situation specific (Saarenketo et al., 2004: 365).

#### 4. Internationalization of SMEs

Internationalization is an issue that –until recently– was in most cases only relevant for large companies. A major reason for this was their advantage in resource access. Increased pressure on the home market coming from international competitors is now, however, being felt by SMEs as well, moving them to seek opportunities in international markets (Fink et al., 2008: 1).

There is an array of modes for entering international markets, such as exporting, licensing, non-equity strategic alliances, joint ventures and wholly owned subsidiaries, each of which has its own advantages and disadvantages (Lu and Beamish, 2006: 463). But exporting is still the primary foreign market entry mode used by small businesses in their internationalization efforts presumably because it offers an effective means of internationalization without over-extending the capabilities or resources of the firm (Bradley et al., 2006: 653).

The traditional internationalization theories suggest that the firm's international involvement increases in stages as a result of incremental learning. However, due to the key characteristics of SMEs, cooperative internationalization is becoming an increasingly attractive option for SMEs. Thus for the small companies showing very rapid and intensive international growth that they would otherwise not be able to take on by themselves enabled by the use of external resources, such as networks (Saarenketo et al., 2004: 363; Fink et al., 2008: 1).

Indeed, the characteristics of SMEs create particular challenges in the internationalization process. Recently, cooperative arrangements have received increased attention as a means to meet these challenges. First, liabilities of newness can be alleviated through cooperating with a company having a stronger reputation. By joining competencies, cooperative internationalization requires a lower amount of internationalization know-how on the part of the partners than would be needed. Second, a new SME can compensate for its liabilities of smallness through the

establishment of inter-firm cooperations (Fink et al., 2008: 2). So adopting a network approach has proved to be a useful way for theoretically explain the internationalization process of SMEs. Due to the attractiveness and practical importance of cooperative internationalization for SMEs, this special form of internationalization will be focused upon in this study.

##### *4.1. Motivations for Internationalization of SMEs*

For SMEs, internationalization is an entrepreneurial activity, and entering new geographic markets can be regarded as, on a large scale, the act of adopting new practices (Cheng and Yu, 2008: 331). SMEs are increasingly internationalizing their business activities. The drivers for increasing involvement of them in the world markets, to name a few, have been the increasing competition in both domestic and international markets and the fast development of information and communication technologies. As a result of this rapid internationalization, managers of SMEs are facing challenges regarding how to enter countries which are, in many ways, different from the home country (Ojala, 2008: 135). Thus for SMEs internationalization process is becoming more complex and international competition more fierce.

Although SMEs are generally considered to be more risk-averse than their larger counterparts to adopt the new practice, which makes them less willing to go abroad, they also tend to react to the quests from external parties easily, which induces in them the need to go abroad. The environmental context that is a critical factor for SMEs most likely pushes them to initiate internationalization. It may be said, then, that the way in which an SME internationalizes is the result of the combination of its actual internal abilities and its leader's cognition of its external environments (Cheng and Yu, 2008: 331-333).

A major reason why the managers of SMEs internationalize is to pursue growth oppor-

tunities and they often collaborate for that purpose. These collaborative ventures are creating a shift in business relationships from a conflict mode based on competition to a collaborative mode. Presently, the trend is for management teams to concentrate on core competencies (Westhead et al., 2001) and potentially outsource those that do not provide a competitive advantage in order to increase agility and flexibility (Spence et al., 2008: 3).

Many SMEs, especially high technology firms, are forced to internationalize early in their development due to a focus on niche markets, shorter product cycles and the small size of their domestic markets relative to the potential that exists abroad. SMEs attempting to internationalize face a basic marketing dilemma—do they attempt to internationalize unaided or do they form a partnership with stronger firms in their business system that can help them. One such way is to internationalize as part of a supplier-customer network in partnership with established multinational firms to respond to customer product and service preferences in myriad international markets (Bradley et al., 2006: 652).

#### *4.2. The Internationalization Stages of SMEs*

Internationalization is an important growth strategy for SMEs when the scope of their business is geographically restricted. Some researchers have asserted that when SMEs initiate internationalization, they will tend, due to lack of resources and advantages, to export goods as their mode of foreign market entry. In addition, researchers have asserted that such firms will typically increase their international involvement through a series of carefully planned stages (Cheng and Yu, 2008: 333).

The operations in a foreign country are supposed to start by indirect entry modes, which do not require extensive knowledge about the environment of the target country and more commitment to the market. According to this, indirect entry modes in-

crease a firm's knowledge about the target country and allow it to learn about how to deal with the customers in that country. Once the country has become more familiar for a firm, direct operations can start there (Ojala, 2008: 136). In this context, the typical stages of internationalization for a small business include (Dollinger, 1995: 148-149):

**1. Passive Exporting:** The firm fills international orders but does not seek export business. At this stage, many small business owners do not realize that they have an international market.

**2. Export Management:** The owner or a specific manager specifically seeks export sales. Because of resource limitations, most small businesses at this stage rely on the indirect channel of exporting.

**3. Export Department:** The firm uses significant resources to seek increased sales from exporting. Managers no longer see exporting as a prohibitive risk. The key for most small businesses is finding a good local partner for distribution.

**4. Sales Branches:** When demand for the product is high in a country, it justifies setting up local sales offices. Small businesses must have the resources to transfer home managers to expatriate assignments or to hire and train local managers and workers to run these operations.

**5. Production Abroad:** Production moves a firm beyond downstream value-chain activities and allows them to gain local advantages. Companies may use licensing, joint ventures or direct investments. This is often a very difficult stage for a small business because the cost of a failed direct investment can put the whole firm at risk for survival.

**6. The Transnational:** Small size does not preclude a small business from developing a globally integrated network that characterizes the transnational corporation.

The movement through the stages of the entry process is intimately connected to the development of institutional knowledge, making it easier to develop customer rela-

onships. As a consequence, the more relationships in a foreign country that have reached later stages, the more established and internationally experienced the firm becomes and the higher the degree of internationalization of the SME. And also the more countries in which the SME has established relationships, the more internationally experienced is the firm (Jansson and Sandberg, 2008: 69).

#### **4.3. Advantages and Disadvantages of SMEs' Internationalization**

Prior literature is in broad agreement that internationalization has a positive impact on firm performance. Drawing from the literature on international and global strategies, firms can have greater cost efficiencies primarily due to a greater volume of business and the ability to exploit economies of scale. An international firm also benefits from the diversity of environments it operates in. Thus it enjoys tremendous learning opportunities while satisfying the diverse customer needs and responding to different competitors in international markets (Pangarkar, 2008: 477).

The literature on the international entrepreneurship emphasizes the use of formal and informal relationships to penetrate and expand into foreign markets. According to this, the need to collaborate and to achieve an international presence has become a necessity, especially for SMEs, but the challenges encountered with such strategies are high as it is not uncommon to see high failure rates (Spence et al., 2008: 3). In addition to this, when SMEs make their initial entry into international markets, they are especially prone to problems associated with the liabilities of foreignness and smallness, which may lead to poor financial performance and a variety of other concerns for managers (Bell, 1995; Lu and Beamish, 2001).

Prior literature has identified the numerous constraints faced by SMEs in international expansion. Typically SMEs do not perform global scanning and hence might lack the information and managerial expertise neces-

sary for exploiting the international opportunities. Buckley (1999) argues that, due to constraints of management time, smaller firms frequently take short-cuts in decision-making and information gathering, which can be disastrous. Further, internationalization increases the requirements for coordination and communication among different units within the SME as well as other parties located in different geographic zones (Pangarkar, 2008: 477-478).

Smallness is usually considered a disadvantage in internationalization, as SMEs often lack the resources necessary to enter foreign markets. Compared to large firms, SMEs are less competitive; for instance, they may not be able to capture business opportunities due to inferior products, shortages of finance and limited administrative capacity (Jansson and Sandberg, 2008: 66). In addition, any foreign market initiative will take a larger proportion of resources of a SME than a large firm. In the event of failure of the particular initiative, the impact on a SME may be greater, which increases the risk levels of SMEs (Lu and Beamish, 2001).

Despite the constraints and challenges faced, SMEs are likely to enhance their performance through greater internationalization. And by becoming international, SMEs may be able to provide better service to their MNC clients and, in the case of foreign direct investment, avoid import tariffs (Pangarkar, 2008: 478). In this context, many approaches have been developed for examining the internationalization of SMEs. One of them is the network approach that proposes the internationalization of SMEs depends on an organization's set of network relationships rather than a firm specific advantage (Saarenketo et al., 2004: 366).

#### **5. Networks of SMEs**

In a context of profound transformation of the relations between firms, an organizational paradigm is developing rapidly: the network. Networks of firms are specific co-ordination modes between market and hierarchy, and need collaborative tools to re-

gulate their activities fairly and to limit opportunism. Indeed, inside networks coordination is carried out through cooperation and interaction between independent firms (Hammami et al., 2003: 233).

Organizations that seek to reduce costs, to respond rapidly to market demands and to build competitive advantages around their core competencies can not execute strategies without drawing on the skills and resources of other organizations. Thus in an era of hyper-competition characterised by speed, flexibility and innovation, organizational networking plays a vital role (Lin and Zhang, 2005: 146) in the success of business strategy of SMEs.

In an environment characterized by globalization, new expectations from customers and changing competitiveness criteria, many dynamic SMEs have opted to join a network enterprise (Raymond and Blili, 1997: 166). But establishing the nature of networks and their role is a complex challenge given that networks are ubiquitous, intangible, and difficult to isolate and analyze in order to gain a meaningful understanding of them. So the interactions and dynamic nature of networks in terms of meanings, motivations, expectations and outcomes of network participation is not clearly understood (Gilmore et al., 2006: 280). It thus becomes important to understand how SMEs can successfully build network relationships in order to expand their position in a more global market, by establishing cooperative relationships with other firms.

SMEs' international expansion is often dependent upon a myriad of agreements with firms from the same or unrelated industry sectors, suppliers, customers, competitors and public organizations. Collaborative ventures can be formed for the purpose of closing resource and knowledge gaps, gaining a significant presence in a new market, enabling faster entry into the market and facilitating international expansion. In some cases, SMEs can use these alliances to better manage their manufacturer/customer relationships acquiring technology and increasing

effectiveness in terms of cost reduction and gaining a competitive edge (Spence et al., 2008: 3). Thus networking which has the following distinctive features (Mezgar et al., 2000: 38-39) is a useful way for SMEs to utilize their limited resources and compete more effectively with more powerful competitors.

— The network results from the aggregation of a number of independent, small-medium enterprises.

— The network is constructed and organized to reach a well-defined, long-term objective, common to all member enterprises.

— The network nodes have basically equal rights regarding the definition of network policies and exploitation of joint business opportunities. The network model contains different knowledge elements resulting in a global information base shared by all nodes. The most important of these elements is the description of the network distributed process, in terms of phases carried out by the different nodes to reach a common objective.

— The network has to be stable in time which means that the products, processes and management policy are the same for longer periods. The main result of this stability is that the costs and complexity of network creation and modification will be low.

SMEs seem to be appropriate units to behave like network nodes because of their lean structure, adaptability to market evolution, ability to establish sub-contracting relations and good technological level of their products. One negative feature of the co-ordination is the traditional individualistic attitude of SMEs. In addition, other problems arise from historical distrust between enterprises traditionally in competition with each other. A solution for this problem can be a well-organized co-operative network that takes into consideration the mismatching agents and tries to find a close-to optimum solution in the turbulent environment (Mezgar et al., 2000: 38).

### 5.1. Advantages of the Network Approach in SMEs

Networks can help firms expose themselves to new opportunities, obtain knowledge and learn from experiences (Chetty and Holm, 2000: 77). According to Nooteboom (1994) a major problem within SMEs is that their characteristics often hamper the identification and leverage of resources and competencies needed within the SME in order to yield new opportunities. Extant research emphasizes that SMEs use network relationships to get access to more diverse capabilities, to acquire external knowledge, to sustain the ability to learn from their partners (Gils and Zwart, 2004: 686) and to pursue efficiency and competitiveness in the foreign market.

The network enterprise is seen to be a more flexible and adaptive structure, mobilizing rather than owning a stable and coordinated set of competencies, often possessed by the SMEs. As defined by this new type of enterprise model, the economic processes and the organization depend on the interrelations among the firms. The networking principle is, thus, based on the efficiency and effectiveness of the interchanges between members of the network, through cooperation, sharing of information and diffusion of innovation (Raymond and Blili, 1997: 167).

From the literature, there is clear evidence that SMEs actively network (Gilmore et al., 2006: 288). Because developing networks is a strategy for small firms to adapt to an increasingly uncertain, turbulent and global environment (Raymond and Blili, 1997: 167). In most cases SMEs have limited financial and human resources, usually they have no advanced planning support tools that are essential for a traditional virtual enterprise. But handling the SME network as a limited number of independent nodes, the network approach has the following general advantages (Mezgar et al., 2000: 46):

— More complex and technologically advanced products can be realized by integrating skills and design capabilities of the network nodes.

— Higher manufacturing volumes can be obtained by cumulating node capacities, especially if two or more nodes concur in performing the same manufacturing phases.

— Fluctuations of market demand volumes can be handled better by sharing workload peaks and shortages among the network nodes.

— The limited resources of each SME can be better spent on technological innovation and process re-engineering rather than in hard competition with other SMEs.

The main benefits for SMEs in joining networks are: access to new markets, by realizing products that are out of reach for the single SME; increased productivity, by cumulating and optimizing the nodes productive capacity and improved resources utilization, by avoiding duplication of functions across the network (Mallidi et al., 1999: 149). Further, in the early phase of internationalization, SMEs gather more information about foreign markets through international strategic partners (Lee, 2007: 732).

Networked SMEs provide much financial and organizational efficiency that enable development of technologies and markets essential to achieve sustainable development (Moore and Manring, 2009: 281). In addition SME owner/managers could adapt activities, gain information and combine resources within a changing market place by networking (Gilmore et al., 2006: 289). Because these firms have been shown to penetrate wider-ranging markets, operate computerbased manufacturing systems and possess sophisticated information systems. As strategic allies of large firms in meta-organizational contexts, subcontracting SMEs must follow suit in concepts such as just-in-time, environmental scanning and electronic trading. This implies a more equitable sharing of its benefits, contributing to greater integration and creative synergy within the network enterprise (Raymond and Blili, 1997: 168).

### 5.2. Disadvantages of the Network Approach in SMEs

Networking is used by managers to make sense of what happens in complicated markets and provides understanding of inter-organizational relationships in business-to-business markets (Gilmore et al., 2006: 278). Although SMEs have the advantages of responding rapidly to change, there are also disadvantages due to their absolute size limitations which may now have been enhanced due to increased need for multiple technological competences and by increasing crossborder competition. In other words, what has always been an important issue for the SME has now become more commonplace amongst firms of all sizes (Narula, 2004: 158).

Networks of SMEs are specific because the shareholder and the manager of an SME are often the same person. Co-ordination is then a relevant problem for networks of SMEs, where each partner strongly preserves its independence and often runs its own decision-making processes among the network. Most of the problems encountered were related to the lack of resources and will of some SME, lack of trust between partners at the beginning and differences in objectives priority at second and resistance to exchange knowledge and know-how. Furthermore, different kinds of opportunism may appear among networks of SMEs, such as (Hamami et al., 2003; Kearney and Abdul-Nour, 2004):

- only apparent co-operation (limited effort, lower-quality goods, service below standard, etc.),
- catch of an excessive share of joint profits (overvalued switching costs, overvaluation of the added value brought),
- excessive exploitation of a joint resource,
- personal appropriation of the resources created in common or by other.

Networks of SMEs are not only difficult to manage, but also require considerable managerial and financial resources. Further,

SMEs tend to prefer to use outsourcing rather than alliances, perhaps because of the higher risks, and costs of managing such a partnership. When they engage in alliances, SMEs are more careful about picking partners, because they have limited opportunities to fail. There are also strategic reasons to be careful because partnering with a larger firm can lead to a loss of technological competence (Narula, 2004: 159). But, although they face many problems, many SMEs have adopted and presently use the concept of networking of high added value chains to enhance their internal efficiency and competitiveness in the market and to reduce their environmental uncertainty.

### 6. Conclusion

Business environment is becoming more and more complex. In this direction SMEs that seek opportunities in foreign countries are confronted with enormous challenges. In order to achieve successful internationalization, they choose to set up network organizations with other firms to overcome certain traditional barriers and to facilitate demands of complex business environment of global arena.

Small businesses often do not have the in-house resources to identify or go directly to foreign markets. Thus SMEs cooperate with other firms in terms of networking to get access to resources, to manage uncertain international environment, to overcome operational weaknesses, to learn from partners, to benefit from synergistic effects, to pursue growth opportunities, and by this enhance competitiveness in the market. In contrast to the bureaucratic and formal structure, the network organization has an informality and flexibility and thus provides benefits for SMEs to give rapid response to customer demands, to acquire new capabilities and to expand their businesses in the new markets.

SME owner/managers develop network strategies if they understand how to use this strategy in a practical way for entering an international market by avoiding potential

obstacles to success. In this study, an extensive review of literature is made to identify the networks of SMEs that have been built for the purpose of internationalization. In this direction managers should give much more attention to the following issues for forming a network relationship to internationalize their facilities and to compete successfully in the world market:

— Before entering international market, managers should analyze some important issues such as their strategic goals and core competencies, conditions, consumers, politics, laws and business practices in the foreign market and potential benefits and risks associated with the international network.

— Without appropriate capabilities greater internationalization may not lead to better performance. Thus a key task for SME owner/managers is to build up their capabilities useful for international expansion.

— International networks are complex events with various motivations. While SME owner/managers choose an appropriate network relationship in compliance with their motivations, their new ventures success will be upgraded.

— SME owner/managers should pay more attention to the integration of systems, cultures, and individuals of the firms in the early phases of international network relationship. In addition, they should use specific coordination tools to link together activities processed by different firms and to federate independent goals.

— SME owner/managers should focus on creating synergy for both sides. So there should be a high level of trust between partner firms that leads to survive longer.

— Before signing the contract, detailed negotiations that give an opportunity to firms to get to know each other should have been done for determining the level of strategic and operational fit. And also, the contract should include and specify managerial rules, the responsibilities of the partners and the management and term of the relationship.

— Owner/managers should participate in goal setting and planning activities altogether for achieving the aims of better performance outcomes for all members of the network.

— Partnership with an experienced local firm reduces risk in the international market. But the success of international networks depends on choosing the right and non-opportunistic partner that has technical and other relevant capabilities.

— Managing an international network successfully requires building interpersonal relationships between the SME owner/managers. Because good relations between them build trust, facilitate harmonious relationships and foster an informal management network between the firms.

— The network relationship should have a long-term orientation which includes a win-win situation between partners for achieving strategic goals and satisfaction of them.

— National and organizational cultural differences have been found to deeply influence all aspects of partnerships and negatively influence the survival of networks. So that owner/managers should be aware of such cultural differences between partner firms and develop a global culture.

— SME owner/managers should be sensitive about the communication strategies employed in their relationships and give attention to the accuracy, timeliness, adequacy and credibility of information exchanged between firms. This behavior helps them to realize mutual benefits by reducing misunderstandings.

— Network of SMEs should be flexible enough to satisfy partners' needs in the light of planned and unplanned circumstances of international environment and fit the dynamic requirements of the economic, social, cultural and industrial conditions of the market.

— The business environment in which SME owner/managers have to operate has become increasingly complex, unpredictable and unstable. In order to cope with this com-

plexity, they should focus on meeting the requirements of the changed environment and scanning overseas locations.

Network form of organizations reportedly improves the competitiveness of firms by providing access to external resources and by fostering rapid learning and change. In this context, SMEs that are characterised by limited resources may overcome their resource shortages, reduce strategic and environmental uncertainty and increase their viability in the foreign markets by joining international networks. So this study suggests that despite the several constraints faced by them, for SMEs in a fiercely competitive environment, the best way to internationalize is to form a network relationship at the strategic level.

The new developments in the world create an excellent opportunity to study the internationalization of business relationships of SMEs, which is an underdeveloped area in international business research (Jansson and Sandberg, 2008: 66). In this context, this study provides a greater contribution to the understanding of the phenomenon of internationalization of SMEs in terms of network relationship.

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