
LEVERAGING BUSINESS RELATIONSHIPS AS SMES INTERNATIONALIZATION DRIVERS

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Abstract

The current paper is intended to draw on business relationships as drivers of small and medium-sized enterprises (SMEs) internationalization processes. Five major factors of business relationships were assessed in terms of their influence on European metal wholesalers' internationalization, namely: intercultural openness, context exploitation, psychological proximity, credibility and specialized networks. Placing the discussion in the framework of business sustainability, the inferred hypotheses were assessed using partial least squares structural equation modeling. 107 managers in the field took part at the questioned-based survey, sharing their viewpoints on the dynamics of international business relationships. As the findings show, over 55% of the variance in business internationalization was explained by the considered factors.

Keywords: business relationships, small and medium-sized enterprises, internationalization, sustainability

JEL Classification: M16, L61, O19

Introduction

Globalization has substantially altered the unpredictability of customers' demands and, implicitly, has bolstered small and medium-sized enterprises (SMEs) towards gathering new resources and benefits beyond national boundaries. The dynamics of the topical phenomenon has captured the attention of both researchers and practitioners all the more so as sustainable international relationships form the basis of business development and sustainable competitive advantage (Hampton and Rowell, 2013; Vătămănescu, et al., 2014). Independent of the examined variable(s), the analyses are mostly causative and focus on understanding new realities through old theories, a fact which brings about an important research gap. Despite the fact that these changes shed some light on SMEs

internationalization, they do not manage to entirely capture the essence of this process; not all the dimensions are included in the analysis and not all the variables are brought forward (Vătămănescu et al., 2014). Malhotra, Aggarwal and Ulgado (2003) argued that it is counter-productive to concentrate on one-sided factors when international businesses are analyzed and emphasized the need for a new theoretical framework; which should offer a holistic perspective upon the variables, dimensions and challenges that characterize business internationalization.

The need for a more pertinent approach is also highlighted by Hampton and Rowell (2013) who state that previous studies only clarified a shallow range of factors and did not take into account the complexity of the international business environment and the high level of interdependency. The models developed so far are linear and are yet to encapsulate the dynamics and complexity of international business relationships.

That being the case, the present paper intends to propose a novel conceptual and empirical framework for SMEs internationalization by means of business relationships between prospective partners. In this respect, the literature review discusses relevant studies on the topic. Then, the research method is introduced, including hypotheses, sample, and procedure. The results and discussion section addresses the empirical evidence and comparisons with the extant literature. Finally, the conclusions section consists of a summary of the findings, research originality and value and research limitations while also considering future directions.

1. Review of the scientific literature

Globalization has triggered a high demand for a new approach as a wide repertoire of intercultural and international issues are capable of influencing SMEs competitiveness within today's global environment. Intercultural issues have a strong influence on business interactions (Ashforth and Kreiner, 2014), interfering not only in the processes of communication, but also in the marketing strategies and firm's behaviour on the market; among the most powerful influence factors can be included language and the attitude towards mistakes and uncertainty. Even when managers speak the same language or they use the services of a professional translator, it is likely for different meanings to be attributed to words, while different rationales and approaches determine what is formally relevant or not (Vătămănescu, Alexandru and Andrei, 2015). These issues pose a new challenge for managers in that they have to foresee and handle future threats and opportunities and to ensure firm competitiveness in an open-culture environment by adapting to intercultural specificity and by harnessing the potential of business relationships. They have to acknowledge the reality of highly competitive environments where business and, implicitly, social relationships between partners have a pivotal effect. Managing business relationships requires interpersonal and inter-organizational adjustments which can only be achieved through coherent strategic and, thus, sustainable projects (Stephan and Peters, 2013). This is why sustainable projects imply meeting three major conditions: being committed to long-term internationalization projects, ensuring the necessary resources and sustaining progress continuously (Lee, 2014).

Building on this logic, SMEs managers should consistently invest in developing sustainable relationships with key partners who may set themselves up as critical success factors for the organization in the long run. A first important step in this direction relies on exploiting business contexts when people with mutual interests have the opportunity to personally meet one another. In order to engage in international operations and to develop competitive

and sustainable strategies in new markets, a firm must acquire general and specialized knowledge (Flecher, Harris and Richey, 2013) about the characteristics of the new international context. Managers are prone to exploit the opportunity to attend international meetings (e.g., fairs, exhibitions, workshops) where they will not only acquire specialized knowledge, but will also develop personal relationships in their area of interest. From a cross-cultural perspective, the context of common interests increases the degree of mutual understanding and support (Festing and Maletzky, 2011; Schein, 2009) and facilitates knowledge creation and acquisition during business internationalization (Casillas et al., 2009).

Managers' choice of approaching a certain market should be also tributary to the psychological distance. A progressive psychological venture into close markets would be, in many cases, a wiser choice of doing businesses (Nordman and Tolstoy, 2014; Sandberg, 2014). It is easier to understand partners' or customers' behaviours and market characteristics when business relationships culturally share more similarities than differences. Afterward, the organization may step to the next level and initiate relationships with more psychologically different managers on purpose to achieve sustainable competitive advantage.

Optimal results claim concessions in the stage of relationship building. For example, Schein (2009) sustains that each culture has opinions and biases about others, starting with the premises that their way is always the 'right' way. House and Javidan (cited in Festing and Maletzky, 2011, p.194) posit that there is a practice in intercultural contexts to rely on interpretations and assumptions of the partners' background - presumptions, stereotypes and national values substantially influence managers' behaviour and decisions. Consequently, the acquisition of psychological proximity - based on gradual communication and intercultural learning (Hilmersson, 2014) - is liable to determine the success of SMEs internationalization. Another relevant aspect to be considered is linked to confirming credibility in business relationships as partnerships are developed based on trust and professionalism (Rodriguez and Wilson, 2002). Although apparently business relationships are established mainly on economic exchanges and negotiation, the actual propelling factor is often rooted in social relationships. Hereby, Rodriguez del Bosque, Collado Agudo and San Martin Gutierrez (2005) and Hohenthal, Johanson and Johanson (2014) argue that the development of international businesses is generated by the overall satisfaction brought by both economic and social variables. Getting along during the first business agreement is a sign for keeping the relationship alive and a proof of credibility (Vătămănescu, Alexandru and Andrei, 2015). Then, the unfolding of successive businesses settles new drivers for long-run relationships, a second phase of substantial credibility (Rodriguez and Wilson, 2002; Hampton and Rowell, 2013).

Another landmark of SMEs internationalization success acknowledges the importance of social networks capitalization. Social exchange through international business networks stands for a driving force for the growth strategies of organizations (Child and Hsieh, 2014). Assuming the resources that international business networks provide and acting accordingly entail long-term benefits. Garnering knowledge exchanges within specialized networks reinforces the position of SMEs on the market and sets the parameters for their internationalization success. According to Möhring's (2002) theory of business internationalization, organizations are encouraged to exploit business opportunities through information exchanges in order to consolidate the position on the international markets.

Along with globalization and the advent of new technologies, the dynamics of business networks has been translated to the online space. The phenomenon was timely spotted by Held, McGrew, Goldblatt and Perraton's (1999) who underscored the escalate of the global interconnectivity through multiple and varied channels and connections. These vary from the international institutionalized social relationships and from the cross-border flows of goods, information, individuals and social and cultural practices to the new technological opportunities provided by social media (Glavas and Mathews, 2014). As Bell, et al. (2003, p.341), the relationship between networks and SME internationalization is such that "internationalization is seen as an entrepreneurial process embedded in an institutional and social web which supports the firm in terms of access to information, human capital, finance, and so on". SMEs securing relevant information from their networks should thereby be able to strengthen their competitive position on international markets (Johanson and Vahlne, 2009).

2. Research methodology

In line with the theoretical premises presented above, we have advanced the following hypotheses:

H1: Business relationships based on intercultural openness have a positive influence on SMEs internationalization.

H2: Business relationships based on context exploitation have a positive influence on SMEs internationalization.

H3: Business relationships based on psychological proximity have a positive influence on SMEs internationalization.

H4: Business relationships based on credibility have a positive influence on SMEs internationalization.

H5: Business relationships based on specialized networks have a positive influence on SMEs internationalization.

In order to test these hypotheses, 107 managers from European metal wholesalers SMEs were contacted and accepted to take part online in a survey regarding business internationalization processes (males, 30-60 years old, with technical or business administration degrees, occupying top management positions in SMEs). The survey was conducted online during June 2014. During the same period, another two surveys were conducted on complementary issues. The questionnaire consisted of closed-ended questions. The multi-item constructs were measured on five-point Likert scales which ranged from "not true" (1) to "very true" (5). Questions fell into six main categories, that is: a. intercultural openness; b. context exploitation; c. psychological proximity; d. credibility; e. specialized networks; f. business internationalization. The items for each category relied on prior conceptualizations presented in the literature review section. The endogenous variable of the research model relied on a subjective measure, as assessed by the questioned managers.

3. Results and discussion

The measurement and structural model were assessed by employing the component-based partial least squares (PLS) tool with the Smart-PLS software package. As Barclay, Higgins and Thompson (1995) suggested, the focus was set on convergent validity (employing factor loadings and cross-loadings of the indicators on their reflective constructs, Average Variance Extracted (AVE) and composite reliability), individual item reliability, composite

reliability, and discriminant validity of the measurement model. Here, the reflective item factor loadings were significant and greater than 0.65 while AVE values were greater than 0.60. The analysis of composite reliability (CR) conformed to the threshold of 0.70 for the reflective constructs as Yi and Davis (2003) indicated. CR values ranged from 0.8 to 0.91 while AVE ranged from 0.67 to 0.84, thus, complying with all required criteria.

The discriminant validity of constructs was examined by comparing the square roots of the AVEs with other correlation scores in the correlation matrix. As none of the construct correlations (non-diagonal entries) exceeded the corresponding square root of AVE (diagonal entries), the model conformed to Fornell and Larcker's (1981) guidelines. The extent of multicollinearity among constructs was evaluated using variance inflation factor (VIF) pursuant to Diamantopoulos and Sigauw (2006). As VIF scores ranged from 1.16 to 2.15 (below the threshold value of 3.3), multicollinearity did not alter the data.

Consequently, the overall measurement items are illustrative of reliability adequacy for further assessing the structural model. PLS structural model results are shown in figure no. 1. Applied to the context of SMEs internationalization in the steel pipe field, the model accounts for 55 percent of variance in business internationalization success (as the R square value indicates).

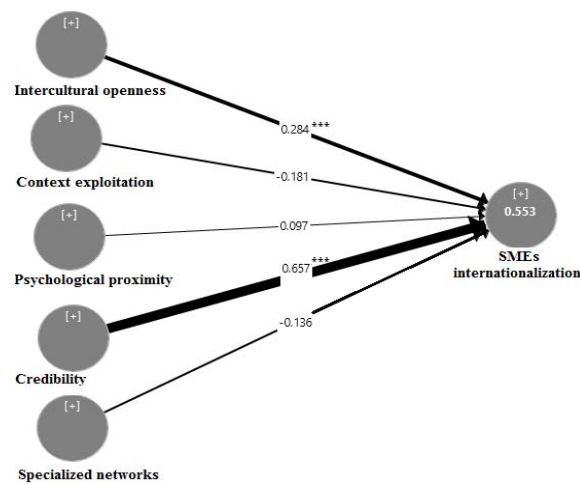


Figure no. 1: PLS test of the proposed structural model

The testing of the inferred relationships in the framework of European metal wholesalers SMEs brought to the fore subjects' viewpoints and practices regarding business internationalization. As the findings show, the most prominent factor influencing business internationalization is credibility ($\beta = 0.66$, $p < 0.001$). The positive and highly significant influence of credibility on business internationalization supports H4, namely: Business relationships based on credibility have a positive influence on SMEs internationalization. This aspect is indicative of the fact that many international partnerships rely on trust and commitment as core values and on mutually beneficial finished operations. Here, the results are consistent with Rodriguez and Wilson's (2002) approach.

Another significant influence on business internationalization is exerted by intercultural openness - approaching SMEs internationalization process as an inherent part of strategic

collaborations and of sustainable intercultural exchanges. The result supports H1, namely: Business relationships based on intercultural openness have a positive influence on SMEs internationalization ($\beta = 0.28$, $p < 0.001$). At this level, the findings are illustrative of the perspectives drawn upon by Hilmersson (2014), Sandberg (2014), Sousa and Novello (2014) and Cannone and Ughetto (2014).

As far as the other three hypotheses are concerned (H2, H3, H5), the PLS test of the proposed structural model showed that they are not significant and, implicitly, not supported in the context of metal wholesalers ($p > 0.05$). We may infer that the questioned managers embrace a global vision on SMEs internationalization process, approaching the worldwide markets whenever the economic and financial outcomes seem profitable, at a reasonable risk level. This would imply that sounding out the proximate markets and arenas is not necessarily a business strategy for the European metal wholesalers. Applied to this specific industrial area, the empirical evidence does not support the general outlook that is posited in the works of Flecher, Harris and Richey (2013) and Nordman and Tolstoy (2015). Next, findings do not validate a significant influence of psychological proximity on SMEs internationalization (H3). Analyzing and filtering out cultural biases and attaching great importance to psychological, social and cultural features are not relevant when assessing business internationalization success. In this respect, we may argue that financial and economic interests are placed above other personal indicators. Again, this situation may be mainly indicative of the specialized field, as prior research insisted on the relevance of context exploitation when approaching foreign markets (Festing and Maletzky, 2011; Hilmersson, 2014).

Another specific situation emerges when examining the role of specialized networks on SMEs internationalization (H5). The results indicate that the presumed influence is not significant in the context of the investigated SMEs, a fact which may imply a self-centric vision when approaching international markets. The findings do not support other researches which lay stress on the relevance of networks – both offline and online - in forming and developing international businesses (Glavas and Mathews, 2014; Rathi, Given and Forcier, 2014).

Conclusions

As the findings pointed out, the factors accounted for 55 percent of variance in business internationalization achievements. Out of the five advanced hypotheses, only two were supported by the empirical evidence, that is, H4. Business relationships based on credibility have a positive influence on SMEs internationalization ($\beta = 0.66$, $p < 0.001$) and H1. Business relationships based on intercultural openness have a positive influence on SMEs internationalization ($\beta = 0.28$, $p < 0.001$). Against this backdrop, the influence of the other factors was non-significant within the conceptual setting of this particular survey. This situation may be indicative of the field specificity, but further investigations should be conducted in this respect.

The paper adds up to the extant literature in the several ways. Firstly, it advances a multilevel perspective on the dynamics of today's business internationalization processes, focusing on business relationships. Secondly, it addresses a specialized sample – European metal wholesalers – which is rarely analyzed in the extant literature. Hereby, in order to conduct the present investigation, the authors benefited from the support of a manager who was agreeable to facilitate the participation of his peers.

As any other research, the present one has limitations as it entirely focused on the social, cultural and psychological components of business relationships, as self-reported by respondents. The financial and technical components are left aside as the purpose of this research is to explore the latent drivers of the internationalization endeavor and not facts and figures related to discrete transactions. This being the case, a future study would benefit from a more integrative approach where other constructs (e.g., costs, benefits, profit, etc.) may be taken into account. Further, the convenience sampling may be extended to include worldwide managers in the studied field or in other types of business sectors.

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