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Local formal interpersonal networks and SMEs internationalisation: Empirical evidence from the UK

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ABSTRACT

This article uses data from the UK Longitudinal Small Business Survey (2015) to empirically test the relationship between local (formal and informal) interpersonal networks and exporting. Our results suggest that local interpersonal networks increase the likelihood of exporting. More importantly, we find that the role of formal interpersonal networks (e.g. accountants) on internationalisation increases as firm size increases, while the link between informal interpersonal networks (e.g. family) and exporting becomes weaker. We argue that larger firms have more complex operations and diverse structures than smaller firms that require the engagement of formal interpersonal networks to help with the internationalisation process.

1. Introduction

Research regarding the role of networks in the internationalisation process of small and medium-sized firms (SMEs) has been gaining significant attention during the past few years (Zhang, Ma & Wang, 2012; Boehe, 2013; Hånell & Ghauri, 2016; Stoian et al., 2016; Rosenbaum, 2017). However, previous studies dealt with the network concept as 'something uni-dimensional' (Eberhard & Craig, 2013, p. 386). Hence, there is a growing call in the literature that research should move beyond 'one-size-fits-all analyses of networks' (e.g. Inkpen & Tsang, 2005, p. 161). Previous literature calls for more evidence on the specific types of networks, specifically the role of interpersonal networks,[1] and their effect on firms' internationalisation (Ellis & Pecotich, 2001; Zhou et al., 2007; Eberhard & Craig, 2013), and this paper responds to this call.

A small, but growing literature on interpersonal networks reveals that entrepreneurs' international expansions and exporting decisions can be influenced by their interpersonal network relationships with others (Narooz & Child, 2017; Zhou et al., 2007; Zaefarian, Eng & Tasavori, 2016). Additionally, previous research emphasises the role of foreign networks and foreign relationships in assisting firms to internationalise (Ellis & Pecotich, 2001; Manolova, Manev & Gyoshev, 2010). Importantly, although a few studies stress the importance of the role of local networks in gaining access to international markets (e.g. Boehe, 2013), the empirical evidence remains scarce (Milanov & Fernhaber, 2014; Prashantham & Birkinshaw, 2015; Haddoud, Jones & Newbery, 2017). This is surprising since early research suggests that internationalisation is strongly associated with networks in the domestic market in which the firm operates (e.g. Ellis, 2000; Johanson & Mattsson, 1988). Porter (1998, p. 5), for example, argues that firms' competitive advantages often arise from local contacts such as 'institutions, rivals, and sophisticated customers in a particular region'.

In this paper, we focus on interpersonal networks at the individual level rather than inter-firm networks since opportunities are being exploited by individuals and not by firms (Shane, 2003; Singh, 2000). Building on and expanding previous literature (e.g. Holmlund & Kock, 1998; Zhang et al., 2016), our interest is concentrated on interpersonal networks of SMEs and their role on firms' exporting, which serves as a proxy for internationalisation. In particular, we differentiate between local interpersonal networks (such as accountants, banks, solicitors and consultants) generated in the local (domestic) market in which the firm operates (in this case, the UK) and non-local networks (such as customers and suppliers) located in the international (foreign) market the firm intends to enter (i.e. outside the UK). To do this, we build on the work framed within the network perspective (Johanson & Mattsson, 1988) and social network theory (e.g. Mitchell, 1969), which enables us to add to existing literature, and specifically to the social network theory of internationalisation, however, we add to existing literature by distinguishing between formal and informal interpersonal networks (see Fernhaber & Li, 2012). We argue that this distinction is important since learning from networks generally depends on the formal versus the informal mechanism within the network (Almeida, Dokko & Rosenkopf, 2003). Formal networks can be defined as a 'formally

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[1] Interpersonal networks can be defined as networks that consist of all individuals with whom owner-managers have direct relationships and obtain advice, information and support from (Eberhard & Craig, 2013).

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specified set of relationships', while informal networks consist of more flexible relationships where the purpose of the interaction may not be related to work only, but could be social as well (Ibarra, 1993, p. 58).

The paper mainly draws on the Social Network Theory (SNT) of internationalisation and previous work in the field (Coviello, 2006; Kingsley & Malecki, 2004; Mort & Weerawardena, 2006; Zhang et al., 2016) and empirically examines the effect of both formal and informal local interpersonal networks on different-sized SMEs using data from the first wave of the UK Longitudinal Small Business Survey (UKLSBS) of 2015. This allows us to observe differences between larger-sized SMEs and smaller ones, which can be hidden when data is aggregated. Hence, this paper makes a substantial contribution to the IE (e.g. Ellis, 2011; Frenhaber & Li, 2012; Zhang et al., 2016), IB (e.g. Boehe, 2013; Chetty & Blankenburg-Holm, 2000; Eberhard & Craig, 2013) and small business literature (e.g. Larsson, Hedelin & Garling, 2003; Hånell & Ghauri, 2016) by providing for the first time empirical evidence on the association between interpersonal networks and exporting propensity within different-sized SMEs. Notably, our paper not only directly responds to the academic call for more research in this area (e.g. Ellis & Pecotich, 2001; Zhou et al., 2007), but also provides new policy avenues to help SMEs enter new markets and boost exporting activity through their networking strategy. Overall, the findings strongly suggest that local interpersonal networks increase the likelihood of SMEs exporting. In particular, as firm size increases, the role of formal interpersonal networks (e.g. accountants, banks) on firms' exporting becomes stronger. Additionally, our results show that micro firms are reluctant to network with outside sources. We therefore argue that analysing SMEs as one group of firms cannot unfold particular differences that lie within different size bands.

The paper is organised as follows. Section 2 discusses the existing literature on the relationship between interpersonal networks and SME internationalisation, and offers the derivation of the hypotheses to be tested. Section 3 discusses the data. Section 4 presents the model and discusses the results. The final section concludes the paper and provides directions for future research.

2. Background and derivation of hypotheses

2.1. Defining networks and the benefits of networking

Although most studies fail to provide an exact definition of networks (see review by Hohenthal, Johanson & Johanson, 2014), there are three commonly used approaches to define networks. The first approach views a network as a 'system of interrelated actors' (Hohenthal et al., 2014, p. 10) such as customers, suppliers, competitors, family members and friends (Evers & Knight, 2008; Zain & Ng, 2006). The second approach comes from the purpose of the relationship, such as business or social relationships (Evers & O'Gorman, 2011). The third approach is based on the structure of the network, suggesting that a network is a set of two or more connected relationships (Axelsson & Easton, 1992; Chetty & Blankenburg-Holm, 2000; Coviello & Munro, 1997).

Advice networks, for example, involve relationships where individuals share resources and obtain support and information (Sparrowe, Liden, Wayne & Karimer, 2001). Hoang and Antoncic (2003) suggest that pursuing advice/information is considered the main reason for networking. As discussed in Hoang and Antoncic (2003), most of the existing research on SMEs considers network relationships from this perspective, which is based on strong exchange of information and trust. In this paper, we follow their argument, which implies that seeking external advice/information is the primary reason for networking.

The SNT implies that in order for businesses to flourish, owner-managers should have the ability to gain access to resources that are controlled by other firms or individuals. Resources that exist externally can be obtained through networking (Florin et al., 2003; Jarillo, 1989). A study conducted by Donckels and Lambrecht (1995) shows that the growth of a firm is positively associated with developing and maintaining network relationships either nationally or internationally, while Larsson, Hedelin and Garling (2003) demonstrate that the lack of network relationships with outside advisors and experts is an obstacle for small businesses to expand and grow their firms further. Therefore, entrepreneurs' reliance on networks is not limited to the start-up stage. Network relationships provide entrepreneurs with business information and advice, and offer help to solve problems (Johannisson, Alexanderson, Nowicki & Senneseth, 1994).

Based on the empirical evidence, which favours the positive effect of networking, it is appropriate to expect that firms who succeed and survive are more likely to be more active in networks than other firms. However, Watson (2007) implies that the relationship between the level of networking undertaken by SMEs owner-managers and a firm's performance is an inverted U-shaped relationship. Although it is reasonable to assume that some level of networking is useful, it is also reasonable to propose, according to the law of diminishing returns, that a high level of networking is more likely to generate negative effects. Based on economists' argument that time is a scarce economic resource, and on the way individuals allocate their time (Uzzi, 1997), it may be unlikely that SMEs owners will have the time to network and run a sustainable business simultaneously. Therefore, the relationship between networking and small firms' performance will take the form of an inverted U-shape rather than being a linear relationship. It can be argued, however, that networks have positive effects on the success and expansion of SMEs and firms in general. Coleman (1988) demonstrates that information is important for owners to make strategic decisions. Hence, networking can develop owners' social capital because access to knowledge and information needed for firms' growth can be obtained through these relationships.

2.2. Networks and internationalisation

SNT is considered one of the dominant theories that explain firms' internationalisation. Previous studies combined different theories with the network approach to examine the internationalisation process of firms. Two of the most widely applied models are the Uppsala Internationalisation Model and the Born Global Model. From an internationalisation perspective, Johanson and Vahlne (1992) find that network relationships influence firms to enter foreign markets in a gradual process. Firms are successful in expanding their businesses abroad because of their position in a network within their current markets (Johanson & Mattsson, 1988). However, in recent years more researchers have started paying attention to a special type of small firm, the born global firm. This type of firm has the ability to enter global markets rapidly from their inception. The Born-Global model has challenged incremental or gradual internationalisation theories by indicating that small firms can overcome their resource constraints through their network relationships (Mort & Weerawardena, 2006). Therefore, researchers adopting the Born-Global model have emphasised the role of networking in contributing to the success of these types of firms. Previous literature shows that network relationships help born global firms to acquire the required market knowledge and identify market opportunities (Coviello & Munro, 1995).

From a network perspective, internationalisation refers to the development and establishment of relationships in foreign networks. The foundation of this perspective is that a firm is dependent on resources that are controlled by other firms. Through participating in networks, access to resources can be obtained either by developing existing ties or by establishing new ones. Hence, it has been suggested that participation in a network relationship gives firms the benefits of insidership (Ghauri, Tasavori & Zaefarian, 2014). This applies to small firms since they face greater entry barriers than larger firms, so it is more difficult for them to obtain trust from prospective network partners (Zahra, 2005). Networks may assist firms in gaining access to a wide range of