Networking and Its Effects on SME Export Marketing Orientation in Emerging Markets

Mehran Najmaei¹, Davide Emanuele Saturno¹, Shaheen Mansori², Markus Raueiser¹, and Olivier Fuchs³

¹Affiliation not available
²CBS International Business School (Cologne -Germany)

March 11, 2021

Abstract

The shift from a domestic market to a global and international market is not an option but survival for many SMEs. However, this move has brought more complexities and challenges for SMEs which have limited resources. The challenges associated with entry into the new market can be even more complex when firms intend to expand their business to an emerging market as usually in these markets the infrastructure and regulations are not as established as developed markets. Despite a vast amount of research on internationalization, SMEs and Emerging Markets, there is limited literature on the impact of networking on the success of SMEs internationalization. Therefore, this paper aims to provide an in-depth review of current literature about the potential effects of networking as one of the approaches for internationalization in emerging markets. For this paper, studies from 2000 to 2016 were selected and received.

The results show that networking is an integrated part of internationalization for SMEs and born global companies. Based on the evidence provided by the literature, this capability helps SMEs to be more market-oriented to survive a highly competitive environment in an emerging market. Furthermore, it could help a firm to achieve synergy in the supply chain.

Networking and Its Effects on SME Export Marketing Orientation in Emerging Markets

Mehran Najmaei, PhD
CBS International Business School (Cologne -Germany)
m.najmaei@cbs.de

Davide Emanuele Saturno
CBS International Business School, (Cologne -Germany)
davide.saturno@cbs-mail.de

*Shaheen Mansori, PhD (Corresponding author)
Malaysia University of Science and Technology (MUST), (Malaysia) shaheen.mansori@must.edu.my

Markus Raueiser, PhD
CBS International Business School, (Cologne -Germany),
m.raueiser@cbs.de

Olivier Fuchs
CBS International Business School, (Cologne -Germany)
Abstract

The shift from a domestic market to a global and international market is not an option but survival for many SMEs. However, this move has brought more complexities and challenges for SMEs which have limited resources. The challenges associated with entry into the new market can be even more complex when firms intend to expand their business to an emerging market as usually in these markets the infrastructure and regulations are not as established as developed markets. Despite a vast amount of research on internationalization, SMEs and Emerging Markets, there is limited literature on the impact of networking on the success of SMEs internationalization. Therefore, this paper aims to provide an in-depth review of current literature about the potential effects of networking as one of the approaches for internationalization in emerging markets. For this paper, studies from 2000 to 2016 were selected and received.

The results show that networking is an integrated part of internationalization for SMEs and born global companies. Based on the evidence provided by the literature, this capability helps SMEs to be more market-oriented to survive a highly competitive environment in an emerging market. Furthermore, it could help a firm to achieve synergy in the supply chain.

Keywords: Networking Strategy, SMEs, Market Orientation, Emerging Economies

1. Introduction

In numerous peripheral regional economies, the recession in indigenous industries has altered the focus of attention on Small Medium Enterprises (hereinafter SMEs) (Gilmore, Carson, Cummins, O’Donnell, & Gallagher, 2001). Yet, SMEs form an essential source of growth and dynamism both for advanced industrialized countries and for emerging economies (Agndal & Chetty, 2007; Todd, Javalgi, 2007). According to the Organisation for Economic Co-operation and Development (OECD) (2017), SMEs are the main form of enterprise, accounting for nearly 99% of all firms in the OECD region. They ensure 70% of jobs and contribute approximately 50% to the GDP of their countries.

Globalization has pushed many SMEs to explore opportunities in foreign markets, where the complexities are much higher than the domestic market. According to the European Commission’s annual report, among all the SMEs which responded to the Eurobarometer survey, almost 44% have exported and 52% have imported (Muller et. al, 2017). International trade has become a crucial way to secure business success, particularly for SMEs that operate in saturated and highly competitive markets. SMEs can succeed in global markets and can access valuable resources through internationalization. (Agndal & Chetty, 2007).

From a macroeconomic perspective, the European Commission has recognized that the internationalization of SMEs is of key importance in boosting Europe’s competitiveness, economic growth, and innovation (EU Commission, 2006). Many European SMEs have started recently to undertake international activities in most risky economies but most profitable trade areas such as emerging markets (Hessels & Kemna, 2008). They seek to derive a significant competitive advantage from their capability and the sale of outputs in emerging economies (Ahmed and Rock, 2012).

While developed markets like North America and Europe have recorded slow economic growth for decades, emerging markets become extremely attractive for SME as they often achieve high rapid economic growth and enjoy a large number of the middle-class population. For instance, Karami and Tang (2019) reported Asia Pacific’s share of middle classes boosted up from 46 percent in 2009, 54 percent in 2020, 60 percent in 2025 and 65 percent in 2030.

Although emerging markets benefited from such high rates of economic development but also showed noticeable volatility in the political-social-economic. In this vein, scholars highlighted several challenges for SMEs within the internationalization process to emerging markets, such as lack of skills and market knowledge, high level of risks and uncertainties (Ahmad & Seet, 2009; Moen, 2000). These challenges usually have
forced several SMEs to terminate their activities shortly after the entry mainly due to lack of a large number of resources for market penetration and/or expansion.

As a result, SMEs need to be extra careful in choosing the market, mode of entry, and time to minimize the risk of potential failure (Blomstermo, Deo Sharma, & Sallis, 2006). To mitigate this risk, SMEs should rely on external entities and partners to build their competitive advantages. Despite the increasing trend towards globalization of trade and internationalization of SMEs into emerging markets arising from it, literature’s focus is still limited (Mikhailitchenko and Varshney, 2016), including attention for SMEs’ networking capability.

In this vein, there are obvious obstacles that can negatively affect the majority of companies from entering Emerging Markets, but there are always some ways to tackle these pitfalls. The risks that companies face are encountered with equity-based as well as non-equity based measures: Joint Ventures establish a new company that acts as a catalyst for market knowledge and experiential learning for SMEs expanding. Others might engage in strategic alliances to benefit from knowledge spillovers (Gupta, 2008). Whichever strategy is chosen, the essential benefit and common denominator is networking. Therefore, the main objective of this paper is to present a comprehensive systematic literature review of articles covering SMEs from the mature market that expand their activity in emerging markets.

2.0 Literature Review

In the classical sense, companies internationalize according to the Uppsala Model of Internationalization, pursuing a step-by-step approach that slowly increases commitment. Most multinational companies follow the incremental model and grow big in their domestic market before expanding abroad. Traditionally, some companies pursue internationalization at comparably faster rates (Sharma & Blomstermo, 2003). In the case of operation in emerging markets, regardless of the size of enterprises, firms that engage in these markets have dealt with increasing internal and external uncertainties.

In this respect, numerous scholars have presented networking as an intangible asset, the means to combat many obstacles such as institutional voids (Narooz et al, 2017), lack of information or limited knowledge (Anderson, 2006), and other circumstances inhibiting SMEs development in Emerging Markets. In contrast with MNCs, SMEs with scarce tangible resources should build competitive advantages with their intangible assets such as networking capability. It derives from the Resource-Based View of the firm and accordingly firms networking capability as a strategic asset to achieve competitive advantage.

It views every available resource inside a company as valuable and attaches such value to derive a total “value” for the resources of the company. Ideally, those resources are intangible so the competition cannot (easily) replicate such resources in the long run. As such, they can provide the basis for sustained competitive advantage (Barney & Wright, 1998). For instance, partner selection follows the destination market and is made as a reaction to the bits of intelligence provided from the market (Galkina and Chetty, 2015).

Therefore, network relationships facilitate and speed up a firm’s market entry and are particularly considered as a capability that supports the core competencies of the company in emerging markets, where firms deal with limitations such as lack of knowledge, vague regulations, and corruption (Meyer and Skak, 2002).

Öberg (2019) argued that the direct and indirect connections that are created between firms could develop a mutually beneficial relationship and lie at the core of networking strategies. Depending on the internal and external inefficiencies and hurdles that need to be overcome, networking can be a means to deal with institutional obstacles (Hongzhi et al, 2006), get access to funding (Zahra et al, 2005), or enhance product development (Johnsen, 2007).

In this regard, networking can take different forms, depending on the scope and the capacities of the involved parties. Within the scope of this paper, publications dealing with the effects of networking on SMEs' performance have been reviewed. Collectively, they represent the selected literature that encompasses the most relevant research results. Through the scholars’ measurements and analyses, networking can now be
defined on an operational level. The study tries to narrow networking down to proxies and data points that
describe how the scientific community measures firms’ networking capability.

Collectively scholars have indicated, changes resulting in the relations among firms within the group and
with other firms and organizations are the determinants of successful establishment and visible effects of
network strategies on firm performance. More specifically, the dimensions of activity links, resource ties,
and actor bonds, as identified by Hakansson and Snehota (1995). Alongside, Hunge (2003) highlighted the
founders’ network. The research concluded the survival of the new ventures subjected in the study depended
on the fast transition to an inter-organizational network from the founder’s network. Alonso-Gonzalez et al.
(2017) examined networking from a broader perspective, the so-called value network. The study described it
as internal or external processes that contribute to the company value creation activities, including; external
partners outside the company, such as other SMEs, suppliers, funding entities, organizations, and government
institutions, among other factors.

These capabilities are the most valuable assets for SMEs as they involve in a more complicated process for
their internationalization in comparison with MNC. In the current competitive market, small firms need to
quickly extend their activity to the international market such as the market in emerging countries (Forsgren,
2002). Thus, SMEs leave with no options, unless to use their strength and build their competitive advantages
in the target market. Considering SMEs limited resources, networking is one of the most viable solutions.
More specifically, networks could help SMEs internationalization into less stable markets. For instance,
intelligence furnished by networks became more important in developing countries’ SMEs (Huang & Hsieh,
2013). As a result, one of the main questions which should be answered is whether it is helpful for a small
company to rely on management ties in the host country or target market’s chamber of commerce. Within
this mind, to understand how networking capability empowers SMEs in emerging markets, the study screen
those researches.

The collected literature gave insights into what SME performance determinants seem to be affected by
networking strategies. From the following table, It can be seen that “Marketing Orientation” can be isolated
as the most frequently affected export performance determinant (with 9 out of 14 mentions), followed by
“Supply Chain Management” (5 out of 14 mentions). These determinants account for more than 60% of
mentions in all scholarly articles. More specifically, scholarly articles revealed that, within the scope of this
research, the firm’s marketing orientation is affected by the applied networking strategies (see table 1).

<table>
<thead>
<tr>
<th>Table 1: The summary for literature related to the marketing orientation from 2002-2016</th>
<th>Author Year</th>
<th>Export Determinant Marketing Orientation</th>
<th>Data Collection Surveys</th>
<th>Data Analysis Exploratory statistical analysis</th>
<th>Cit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gumede &amp; Rasmussen 2002</td>
<td>2002-2016</td>
<td>Manufacturing</td>
<td>2002-2016</td>
<td>Case study</td>
<td>55</td>
</tr>
<tr>
<td>Ghauri et al. 2003</td>
<td>2003</td>
<td>Marketing Orientation</td>
<td>Mixed</td>
<td>Qualitative Case Study Analysis</td>
<td>236</td>
</tr>
</tbody>
</table>
In the next step, the research defines export marketing orientation and different aspects of marketing orientation. Then, it argues on the impacts of networking on firms’ marketing orientation aspects.

2.1 Export Marketing Orientation

Export marketing orientation is recognized as one of the key determinants of a firm’s performance. Some studies evaluate the effect of this variable as an independent variable (Francis and Collins-Dodd, 2000, Rose and Shoham, 2002) while other studies examine firm export performance as a key determinant of firm characteristics.
In general, marketing orientation refers to firm activities such as the generation of market intelligence related to customer’s needs, successes, losses, similarities, short-term and long-term strategies for both current and potential competitors (Ahimbisibwe et al., 2013; Mokhtar, 2009). Generation of market intelligence is the first aspect of marketing orientation; it is related to the activities connected to generating information about customer’s current and future requirements, level of competition in export markets and other variables such as government regulations and technological developments.

Firms also need to know how target markets respond to their tactical marketing action, and also if their reactions are inconsistent with the desired objective of the export market plan. This information can be generated through formal and/or informal means such as discussion with trade partners or collecting data from other reliable resources. This is particularly important for SMEs and born global companies that operate outside their domestic territories. Sharma & Blomstermo (2003) studied the (fast) internationalization process of “Born Globals” (those companies that internationalize early or immediately) and found that Born Globals’ decision and choice of market entry mode is based on their existing knowledge and the knowledge supplied by their network ties. They found that the engine for Born Globals’ fast internationalization is fueled by information from networks that assist them and help save money and time in the process of preparing for their international expansion.

Jansson & Sandberg (2008) studied the internationalization of SMEs in the Baltic area and concluded relationships are critical for entry as most firms rely on direct relationships with customers or indirectly via a mediator from their network. Here, networks are used pre-entry to limit risk and offer market entry without substantial FDI commitments. However, it is also shown that such a strategy can hinder further internationalization in the future, as knowledge about the local demand is sparsely captured through the use of agents and other intermediaries.

Musteen, Datta, and Butts (2014) studied the internationalization process of 169 SMEs in the Czech Republic and found firms with chief executive officers who had developed an active reliable international network gained extensive market knowledge before internationalization. They concluded that SMEs required having key assets to accumulate knowledge. The same findings reported by Yli-Renko, Autio, and Tontti (2002) that studied Finish technology-based firms.

These types of intelligence could help a firm in the decision-making process to change or modify its market entry strategy. Agndal and Chetty (2007) studied the impact of relationships on changes in the internationalization strategy of New Zealand and Swedish SMEs and found that existing relationships play a positive role in 59 market strategy changes and 57 mode strategy changes. They argue that business relationships are more relevant to SME internationalization than social relationships. Through the use of networks, mode changes (towards exporting) become more proactive than reactive, meaning that SMEs gain the ability to steer their strategy and correct their course thanks to direct relationship influences.

While the majority of the studies highlight the role of business networks, some studies such as Anderson (2006) developed a model for interpreting the importance of personal networks for collecting information for the sake of the internationalization of firms. In the same line, Eberhard & Craig (2013) assessed the internationalization of 1304 Australian manufacturing industry SMEs, reporting inter-personal networking and inter-organizational networking as a major source of influence for SME international market venturing.

However, networking alone may not guarantee a firm’s successful internationalization. Musteen et al (2014) researched SMEs in the Czech Republic, found that firms with top managers who had established strong and diverse international networks generated better knowledge of foreign markets before internationalization. Nevertheless, network density is not correlated to the amount of research, indicating that an extensive network is not necessary for successful marketing orientation prior to (successful) market entry.

The second aspect of marketing orientation is the dissemination of market intelligence. It has been indicated that the competitive advantage of a firm is strongly related to the firm ability to analyze information (Thirkell and Dau, 1998) all competitors are able to gather information over the market but firm abilities to disseminate information could be an influencing factor in this process (Mokhtar, 2009). In this respect,
firms need to analyse the intelligence provided by the network to either have a better understanding of the available opportunities or a realistic estimation of the domestic competitors.

The availability of globalization opportunities, collaborative networks, and fundings are essential for SMEs' internationalization. Zahra, Korri, & Yu, (2005) that studied the context of the Chinese diaspora in Senegal concluded a network of the same language speakers is a valuable asset among Chinese entrepreneurs on the African continent. Unlike in other researches, where networks are being used to share information and coordinate, the Chinese network ties in Senegal are mainly used for entrepreneurs to protect and form strong coalitions to counter domestic competition. These findings were in line with Huang & Xue (2012), showing networks are not only used in aggressive market strategies but also defensive acts as a means of protection.

Networking also helped in overcoming barriers and deficiencies. SMEs use partnerships or strategic alliances to overcome resource and capability deficiencies and to spread investment costs and related risks among partners, thus creating more favourable conditions and preparing for their imminent market entry (Li & Qian, 2007). Therefore, networking helps them to design an efficient operational and financial plan to reach an optimal level of procuring and budgeting.

In this context, Gumede & Rasmussen (2002) studied key export success factors within small manufacturing enterprises in Africa, concluding that networks in combination with joint ventures or subsidiaries play an important role in increasing the probability of export. It is argued that incentives should be created to increase cooperation amongst small exporters. As proven in subsequent research, these networks can be used in emerging markets to identify export-related marketing problems (Ghauri, Lutz, & Tesfom, 2003). While most of the scholars focused on the business perspective of networks, Muhammad Anwar that investigated the effects of networking on the performance of 319 newly established ventures in Pakistan, furnished more details with categorizing the networking in three categories of political, financial and business networks. The research showed all types of networks significantly and positively contribute to new ventures performance and competitive advantage.

Responsiveness to market intelligence is the last aspect in which firms act based on the analyzed information. A firm’s decision-makers generally formulate a set of beliefs according to current and future customer requirements, competitor strategies, etc. and also expected market place reactions, then providing the product according to the target market need (Zhou et al, 2007). What is likely to impact firm performance is the level of using information rather than gathering information. This step is a fundamental step within the product development and innovation management process. Intelligence provided by the company network could help a firm’s marketing department to modify, develop or align a new product to the customer needs. This capability is pivotal for a manufacturing firm that uses the product high quality to differentiate itself from its competitors. Sinha et al (2011) investigated the importance of relationships in various aspects of internationalization, such as market entry speed and product development. They concluded that both business partners could benefit from networking. On the one hand, the improved image and exposure of supplier firms to the international market offers expansion opportunities, while their partners enjoy higher reliability and product quality. Thus, for manufacturing SMEs and their offshore suppliers, building a relationship through networks and alliances is the key to growth in international markets via reaching optimum required quality.

These findings were in line with Ghauri et al (2000) that underpinned product quality and marketing orientation as the main reasons for network strategies in emerging markets. More specifically, the more knowledge the partners know about each other, the lower the uncertainty and the stronger the synergies. With higher resource commitment in Joint Ventures, companies have been able to expand their business activities.

As highlighted earlier, this step is also pivotal from an innovation management perspective. Chaochotechaung and Mariano (2016) research that studied the state of practice of product innovation management in the new product development process in Thai food and beverage SMEs noted the importance of external cooperative ties in enhancing firms’ innovative performance. The study reported that networking strategies helped
most of the sample firms in this research to overcome barriers, designing the more appealing and functional product, thus the reduction of the time and costs in product testing.

In a similar vein, Mort & Weerawardena (2006) evaluated the impact of developing networking capabilities during internationalization with the example of Australian small Born Global firms. They concluded that networking capabilities enable the identification and exploitation of market opportunities and facilitate the development of knowledge-intensive products as well as a firm’s international marketing performance in low and high tech sectors.

Furthermore, networking strategy in this stage facilitates collaboration with actors in the supply chain or other firms in the industry (Huang & Xue, 2012; Johnsen, 2007; Chaochotechuang and Mariano, 2016). Johnsen (2007) analyzed a sample of seven independent suppliers in Italy and Thailand and described their optimal organization through a “focal supplier”, finding that it takes one lead supplier to lead all remaining suppliers. Using these strategically placed lead suppliers can strengthen and successfully combine the resources and capabilities of the remaining suppliers in their networks and enable them to adapt and improve their networks. As explained in his findings, Thai and Italian silk suppliers seek out advice from more advanced business partners, as it is cheaper and faster than experiential learning. Furthermore, a focal supplier acting as a strategic leader can push other smaller business partners in a new strategic direction.

Reviewing articles in this stream research showed that some researchers linked the networking strategy to the cluster concept. For instance, (Karaev, Koh, & Szamosi, 2007) argued that there is strong evidence to suggest that a cluster strategy brings additional positive effects to existing SMEs policy in industrialized economies (Karaev, Koh, & Szamosi, 2007). In essence, a cluster strategy is a strategy in which companies actively seek to move their operations close to an accumulation of players that are either up, down, or on the same level in their value chain (such as Silicon Valley in San Francisco or manufacturing clusters in South East Asia).

Similarly, a cluster supply chain approach is shown to be an important role in achieving success in the international market. In the light of mismatches between business partners in the market and lack of infrastructure, cluster approaches are being used to pool resources and enhance existing capabilities. As seen in the case of Chinese manufacturers, clusters offer the chance to catch up with further advanced competitors by sharing costs and knowledge and closing the gap to strong competitors in the market (Huang & Xue, 2012).

3. Conclusion

The research indicated the firm’s relation type within internationalization is significantly influenced by the firm’s accumulation of knowledge. Market-specific knowledge that generates general understanding about market opportunities, cultural and political barriers and governmental laws via business network and personal relationships play a key role in internationalization from a network theory perspective.

The review shows market information furnished by the network became important sources of competitive advantage for SMEs and born global companies. Market knowledge provided via networking enabled SMEs to enter successfully into the emerging economies market in the early stage of internationalization or to mitigate challenges in early stages. Networking is crucial in the knowledge-intensive industry where firms aim to differentiate existing products, introduce new products or create a brand image by considering marketing orientation. Thus, intelligence provided by a firm’s networking enabling a firm’s marketing department to modify or develop its products for the target segment. Besides marketing orientation, a networking strategy could streamline collaboration with actors in a supply chain. From the supply chain perspective, it benefits SMEs to achieve a better synergy, enhance knowledge sharing and reduce costs.

4. Limitations

Naturally, this research contains some limitations. Firstly, this research was based on articles from only one bibliographic database: Google Scholar. Although covering a wide range of articles and journals in different areas, some other databases (such as EBSCO) may also present valuable research articles that could have
been missed in this review. Some other relevant articles from the analyzed bibliographic databases may have been excluded due to the subjective first analysis, or even due to the choice of search strings. We only focus on SME articles exclusively, while there might be information on these in articles about MNEs as well. Different internationalization theories, conceptual frameworks, and other specific theories support the analyzed works. However, a detailed analysis to know those theories that better explain internationalization behaviours and decisions were not performed. Besides, a thorough analysis of the different contexts (geographic, institutional, industry/sector) that may impact information and knowledge management needs of SMEs was not accomplished.

6. References


