

THE NETWORK APPROACH OF INTERNATIONALIZATION – STUDY CASE OF SME SEGMENT

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Abstract: *The current development of the World economy depends on simultaneous integration and globalization tendencies. Small and medium enterprises (SME) play an important role in this process. SME form an essential source of economic growth, dynamics and flexibility as well for the advanced industrialized countries as in the emergent economies. It is of great interest to examine how a contemporary small and medium-sized enterprises deals with its international activities and operations. We have determinate the main goal of submitted paper. The attention is devoted to the examples to describe the role of relationships and networks in the business activities and internationalization processes.*

Keywords: *Internationalization, Small and Medium Sized Enterprises, Business, Network.*

JEL Classification: *L26, F23, M16.*

1 Introduction

The small and medium sized business sector is identified as the prime vehicle for economic development of developed as well as developing countries. Further, this sector is a major source of employment, revenue generation, innovation and technological advancement. In most of the countries in the world, the level of economic dependence on small and medium enterprises has increased in recent years. Since, it has been becoming most important asset of the economy and the level of the economic depend on SMEs is increasing day by day.

Increasingly, small and medium sized enterprises are confronted with international competition and are forced to play a role in international markets. The internal market of the European Union, e-commerce, and other institutional changes are gradually shifting the behavioral pattern within the Slovak SME sector (Mura, 2010). We know that the creation of business networks is becoming important in the internationalization process. The number of small and medium enterprises operating on international markets has been growing, and simultaneously the process of internationalisation has been accelerating.

The changing business environment creates new opportunities and incentives for SMEs to internationalize. On the one hand, trade liberalization opens up new opportunities. On the other hand, it also confronts domestic enterprises with the threat of international competition. SMEs are increasingly facing foreign competition and need to respond to these changes of their strategic environment. This not only implies adjusting their domestic strategy, but increasingly forces enterprises to go abroad.

The process of globalization influences the development of countries as well as that regions. Due to the increasing competition in the business world the issue of internationalization has become apparent to most firm regardless of size and maturity. Companies operating at international markets are changing their strategies and altering their organizational structures. A key element of the internationalisation process concerns „where“ an organization chooses to do business outside its country. Many enterprises conduct an incomplete analysis of potential markets. This is due, in part, to a lack of awareness regarding global demographic. The internationalization can be perceived as a part of the ongoing strategy process of most business enterprises, presented (Andersen, Buvik, 2000). The internationalization process effects the creation of business network. According to (Elo, 2005) business networks represents arenas of networking. The complex nature of business networks makes it difficult to classify and compare them.

In presented paper, the attention is devoted to issues of the network approach of internationalization in SME segment, to describe the role of relationships and networks in the business activities of small and medium enterprises and internationalization processes.

2. Materials and methods

The purpose of the study is to analyse the theoretical and practical adaptation how the small and medium enterprises internationalize by using a business network approach and to analyse how a firm's network influences the internationalization process. We were used the logic – cognition methods, as an analysis, synthesis and comparison. The interesting questions from the research objective are the following: to understand firm's internationalisation by analysing of the focal enterprise and to describe the evolution of business network during the internationalisation process of enterprise. The characteristics of the traditional approaches – systematic and non – systematic are examined and compared with a relationship approach.

3. Results and discussion

Membership of clusters and networks can enhance the productivity, rate of innovation and competitive performance of enterprises. Business networks can allow small enterprises to combine advantages of small scale with various of the benefits of large scale. Public policy on clusters and networks can help SMEs realise the opportunities and meet the challenges associated with globalisation.

In summary a partnership should be characterized by involvement along the lines of activities, resources and individuals. A partnership is one relationship management strategy – a strategy among others – with the ultimate aim of doing profitable business. The logic of partnership is that working together, cooperating, being interdependent and creating and exploiting interdependencies with a business partner is means to do profitable business in the long run.

According to (Elo, 2005) is the business network explains a set of two or more connected business relationships. Two connected relationships of interest can

themselves be both directly and indirectly connected with other relationships that have some bearing of them, as part of a larger business network. There are three essential elements of business networks – activities, resources and actors. In total, the business networks represent area of networking. The complex nature of business networks makes it difficult to classify and compare them. There are differing viewpoints on the different types of networks:

- industrial networks – consist of relationships. From the viewpoint of theory, the relationships are also called dyads – the existence of the secondary functions means that they also are parts of networks,
- social networks,
- networks – can be seen as market, groupings of firms or organizations,
- networks – can be of a diffuse character, representing new forms of organization,
- networks – can be categorized as :
 - vertical networks are co – operative relationships between suppliers, producers and buyers aiming at the a solution of marketing problems, improved production efficiency or exploitation of market opportunities. Subcontracting relationships are also considered as networks.
 - horizontal networks – often include co-operation among competitors, they may be partially competitive and partially co – operative i.e. co – opetitive networks. (Ghuri et al. 2003) define horizontal network as co – operative network relationships among manufacturers that want to solve a common marketing problem, improve production efficiency or exploit a market opportunity through resource mobilization and sharing. Export grouping nets are a good example of such networks.
- networks – are of an increasingly non – domestic character. They overcome borders and regions,
- cross cultural business networks.

According to (Mura, Gašparíková, 2010) and (Šúbertová, 2010), the development of networks was very speedy. The business chains from the standpoint of this study have own hinterland and support in the managerial accesses, including:

- “just in time” – JIT
- “total quality management” – TQM
- “supply chain management” – SCM
- “customer relationships management” – CRM
- “business process reengineering” – BPR

In accordance with other authors we argue that the networks have “common ground” and “core firm”. Position in a business net is defined by the characteristics of the company’s relationships and the benefits and commitments that arise from them. Network effect is an impact, including effects in the relationships, effects on the relationships, effects on a portfolio and effects on a network. Interconnectedness in business context emphasizes that each enterprise is dependent on resources controlled by other enterprises. Autonomy – A legally independent enterprise in a business

network is influenced by the interconnectedness and embeddedness, which may reduce its autonomy. Interdependency influences the activities and decision making of industrial firms, where business network has a broader meaning as a configuration of actors. By (Kjellman et al. 2004) theoretically and practically, the analysis of business network will be submitted by network horizon, network context and network identity:

- network horizon explains how extended an actor's view of the network is. Factors influencing the view are experience, structural features and connectedness,
- network context determinates the actors, who they are and how they related to each other; the activities, what activities are performed and the ways in which they are linked together; and the resources, what resources are used and the pattern of adaptation between them,
- network identity refers to how the firms see themselves in the network and how they are seen by the other actors,
- another aspects in analysis is the network role of an actor. Defined roles are the architect, the lead operator, and the caretaker.

A lot of research has been done concerning the networks of large corporations, multinational companies and alliances. The creation, development and entrepreneurial environment introduce the process of globalization of market and production with regard to the both, the EU countries and the world. Technically, it is affected by development of information and communication technologies. The theory deals with process of the establishment and development of the supplier – customer relationship overtime according to the variables of experience, uncertainty, distance (including aspects of social, geographical, cultural, technical and temporal distance), commitment and adaptations. Partnership in industrial networks are strategic choices to organize a mutually beneficial relationship.

3.1 Culture environment and business networks

According to (Mura, Gašparíková, 2010) internationalization process resulted from a combination of strategic thinking and actions, opportunities and needs. Because of the given complexity of this phenomenon it is very difficult to create a general concept of internationalization process. The internationalization process as a part of a wider business network provides not only the related context, but also additional cultural dimensions to be understood. There are numerous aspects – social, cultural, emotional, temporal and other tacit dimensions – that influence the firms's development in the network. According to (Francesco, Gold, 2000) culture can explain that in general terms, culture is a way of life of a group of people. Researchers from diverse fields, including anthropology, sociology and management have studied culture for a long time. In connection with business networks the sources of culture have been divided into the following categories: language, nationality, education, profession, ethnic group, religion, family, sex, social class, and corporate or organizational culture.

The increasing interdependence of the global economy is heightening the need to understand how business relationships develop between company managers from

different cultures. (Tronroos, 2002) and (Elo, 2005) argue that culture is embedded in different types of cultural settings and contexts. Key areas of interest for business networks are how to negotiate, manage organizations, market products and services and how to adequately perceive the influential network connections and handle business relationships. Multicultural environment of the EU and the whole Europe have an important impact on the attitudes, behavior and communication of the EU people as well as enterprises.

3.1.1 An example – internationalization process of enterprise A

The enterprise was established in 1955. During 1965 – 1997 the firm's organization structure and activities have been changed from the viewpoint of the development of business network. In 2005 and 2006 there are established two foreign daughter companies. It means that the business network is spread to Slovakia and Bosnia.

Internationalization process of enterprise A according to the basic structure (Fig. 1):

1. stage – at the beginning of 1960 – a demand on domestic and foreign market is increasing,
2. stage – a market crisis in the post – communist countries. This situation stems from the relation between product's price in comparison with the product's price of competitors. The product's prices of enterprise a are higher.
3. stage – in 2005 the enterprise A has been established teh forein daughter company in Bosnia according to motto „Production follows markets“. From the point of view of lower production costs the daughter company in host country has become the competitiveness on the South – Eastern as well as Central European markets.
4. stage – in 2006 the enterprise A has been established the second foreign daughter company in Slovakia. The main role of daughter company is to secure the distribution of products on the markets of Central Europe. It means that her business activity depends on the production of „Bosnia's sister“.
5. stage – a strengthening of leader position on the market of host countries and a looking for of new export areas.

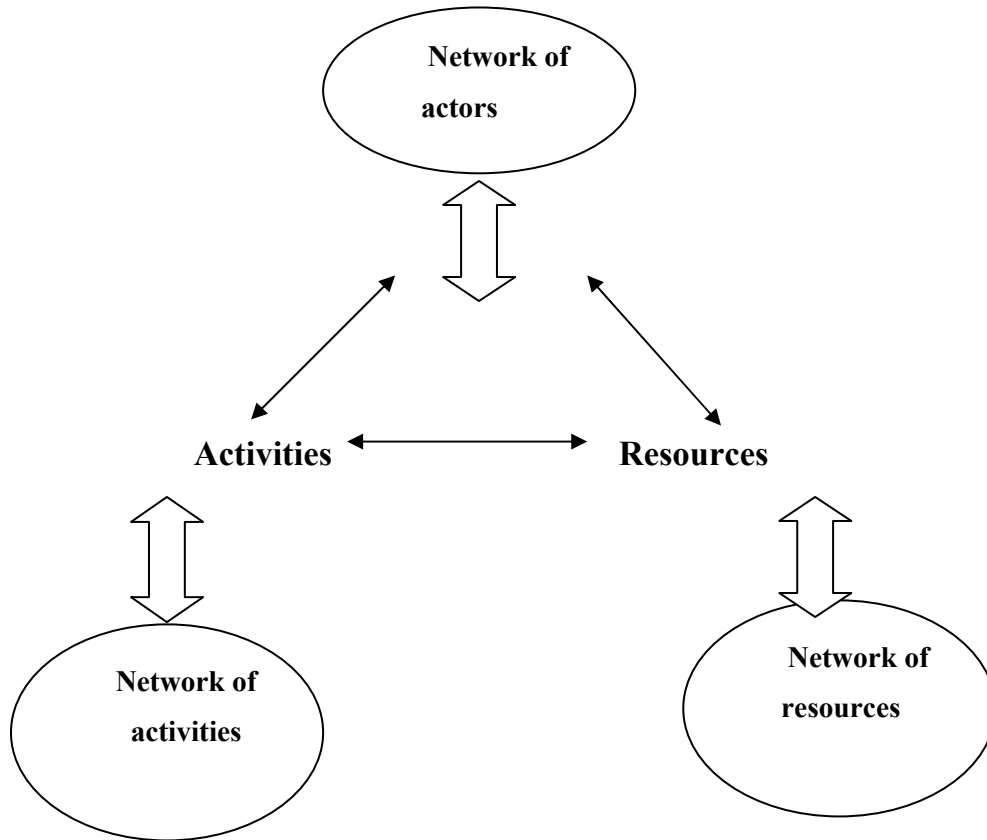


Fig. 1: Basic structure of the basic model

Source: (FORSSTRÖM, 2005)

Relationships and networks are of a great importance in the processes of internationalization. Industrial buyer – seller relationships in international business networks represent one key interest area for research when looking at any development processes, whether from the supplier’s or from the buyer’s perspective.

4. Conclusions

Small and medium enterprises are the focus of this study as they are a key economic sector in Slovakia. SMEs constitute 97 % of enterprises and contribute to the flexibility and resilience of the economy as well being active in international markets. For many small business networking should be an essential part of their business. The study introduces new elements in the chain “actors – activities – resources” in the context of internationalization process specially in SME sector. According to the theoretical review and practical adaptation, the dynamics of business networks must be understood when creating tools and programs for an firm’s export policy that supports business networks. The net structure illustrates the actors into group according to their roles and position in the value chain continuum. This may represent a simplification of a general network horizon in a particular phase of the continuum. Based on the information above the network structure includes a constellation of actors, activities and resources.

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