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The influence of internationalization process-based factors on international performance in the case of SMFEs

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ABSTRACT

Questo articolo presenta un framework concettuale per descrivere l'influenza dei fattori alla base del processo dell'internazionalizzazione sulla performance internazionale delle piccole e medie imprese familiari. La natura delle strategie di internazionalizzazione di tali imprese è prettamente unidimensionale, tuttavia, un approccio più aggiornato del paradigma dell'internazionalizzazione è necessario. Questo studio, pertanto, mira a proporre un modello teorico integrativo basato sull'investigazione dei fattori del processo di internazionalizzazione, sulla configurazione e sviluppo delle relazioni tra le parti e sull'operatività della performance internazionale.

The current paper advances a conceptual framework for the influence of internationalization process-based factors on international performance in the case of small and medium-sized family enterprises (SMFEs). Given the unidimensional nature of most analyses on SMFEs internationalization strategies, their majorly causative focus, a research problem emerges in that new realities cannot be depicted via old single-factor theories. The research gap in the extant literature calls for an up-to-date approach on the internationalization paradigm, envisioning reference theories on process-based internationalization, internationalization effectiveness by means of business networks and market-driven orientation. Thus, in response to prior studies calling for novel insights into SMFEs internationalization process, the present undertaking intends to propose an integrative theoretical framework based on: a. the investigation of process-based internationalization factors; b. the configuration and development of business relationships and networks between parties (i.e., business owners, managers, firms); c. the operationalization of international performance. Against this backdrop, two main research questions will be addressed: Do process-based internationalization factors have a significant influence on SMFEs international performance? Which are the most influential process-based internationalization factors on SMFEs international performance?

Keywords: small and medium-sized family enterprises, SMFEs, internationalization, international performance

1 – Introduction

Globalization has substantially altered the unpredictability of the market demands, implicitly, has bolstered small

medium-sized enterprises (SMEs) towards gathering new resources, benefits beyond national boundaries (Hampton & Rowell, 2013; Păduraru et al., 2016; Vătămănescu et al., 2017). This challenge is also brought to the fore by the case of small medium-sized family enterprises (SMFES) which should provide a suitable answer to the market pressures, accelerated rhythm of change despite their proclivity to internationalize cautiously, slowly steadily (Fernández & Nieto, 2005, 2006; Claver et al., 2009; Chen, Hsu & Chang, 2014; Hennart, Majocchi & Forlani, 2017).

Giving credit to Ibrahim et al. (2008) that family enterprises cover most of the world's companies, a substantive interest in international business strategies with a view to consolidate a sustainable competitive advantage has come forward as a topical phenomenon, liable to capture the attention of both academia practitioners. Moreover, as Naldi et al. (2007, p. 34) underline, a family business stands for a 'contextual hybrid' in that it must reconcile two major forces - those coming from the family's context, values, expectations (Verbeke & Kano, 2012; Wright et al., 2014; Duran et al., 2016; Arregle et al., 2016) those of a dynamic economic environment (Cheong, Lee & Lee, 2015; Calabrò, Brogi & Torchia, 2016; Păduraru et al., 2016; Vătămănescu et al., 2017).

Even though a myriad of studies has shed some light on SMFES internationalization, they have fallen short to entirely capture the essence of the process; few dimensions have been simultaneously included in the analysis few relationships among them have been thoroughly discussed (Sciascia et al., 2012; Swoboda & Olejnik, 2013; Arregle et al., 2016; Vătămănescu et al., 2017). Against this background, Arregle et al. (2016) urge that employing varied definitions for "internationalization" itself hampers a common understanding of the targeted phenomena as "internationalization can refer to international sales or activities, regardless of the actual mode of internationalization used (...) ranging from exporting to the creation of foreign subsidiaries" (pp. 805-806).

Going beyond internationalization modes, Graves and Thomas (2008) highlight the fact that "internationalization is recognized as a valuable strategy for organizations' growth and expansion; however, little is known about the internationalization behavior of family firms" (p. 151) whereas Swoboda and Olejnik (2013) mention that "the strategies structures of international family firms, their consequences for performance have been disregarded" (p. 130). The authors affirm that albeit the existence of selective strategies based on risk-avoidance, control predictability, little is known on "the generic strategies or marketing strategies family firms use to penetrate foreign markets" (p. 133). Likewise, Kontinen and Ojala (2010, p. 97) confirmed that the investigation on international family firms has primarily addressed 'what-questions rather than why/how-questions'. This leads Reuber (2016) to contend that the "focus on the decision to enter or exit a foreign market either ignores or sidelines the process of doing so", a fact with accounts for the paucity of process-based research on SMFES internationalization. A similar observation stems from the analysis of Calabrò et al. (2016) which posits that the "inconsistency of findings raises questions on how FBs manage and cope with the complexity arising from their internationalization processes which are the main features that can foster or inhibit it" (p. 680).

In an adjacent framework, 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 fine-grained approach is also underscored by Hampton and Rowell (2013) who state that previous studies only clarified a shallow range of factors and did not integrate the complexity and interdependency of internationalization processes and by Reuber (2016) who states that knowledge in this field remains limited due to the dominant focus on decision-making triggers. Paying heed to the family firm internationalization as a strategic decision, the scholarly attention has consistently eclipsed other facets of the process. The models developed so far are linear and are yet to encapsulate the dynamics and complexity of international business relationships while the correlations between business internationalization strategies international performance have not fully overcome an embryonic phase (Kontinen & Ojala, 2010; Pukall & Calabrò, 2014; Fernández & Nieto, 2014; Hennart, Majocchi & Forlani, 2017).

Given the unidimensional nature of most analyses on SMFES internationalization strategies and their majorly causative focus, a research problem emerges in that new realities cannot be depicted via old single-factor theories. The research gap in the extant literature calls for an up-to-date approach on the internationalization paradigm, envisioning reference theories on process-based internationalization (Graves & Thomas, 2008; Sciascia et al., 2012; Reuber, 2016), internationalization effectiveness by means of business networks (Bell et al., 2003; Johanson & Vahlne, 2009, Vătămănescu et al., 2017), market-driven orientation (Micelotta & Raynard, 2011; Păduraru et al., 2016).

Thus, in response to prior studies calling for novel insights into SMFES internationalization process, the present paper intends to advance an integrative conceptual framework based on: a. the investigation of process-based internationalization factors; b. the configuration. development of business relationships and networks between parties (i.e., business owners, managers, firms); c. the operationalization of international performance.

Against this backdrop, two main research questions will be addressed:

RQ1. Do process-based internationalization factors have a significant influence on SMFES international performance?

RQ2. Which are the most influential process-based internationalization factors on SMFES international performance?

Stemming from these questions, the literature review discusses relevant studies on the topic and the hypotheses are developed. Then, the envisioned research method for a future empirical study is introduced, including the sample, procedure, measures and expected results.

2 - Literature review and hypotheses development

Globalization has triggered a high demand for a new approach on SMEs competitiveness, in general, on SMFES particularly, as a wide repertoire of intercultural issues and

internationalization strategies dare the status-quo. Pursuant to Chua, Chrisman and Sharma (1999), Zahra (2003). Arregle et al. (2016), SMFES refer to businesses substantially owned, controlled and managed by a nuclear family which is inevitably engaged in various and multi-fold interactions according to the firm's strategies, behaviour on the market (Graves & Thomas, 2008; Ashforth & Kreiner, 2014). Habbershon and Williams (1999) created the concept of *familiness* as resources and capabilities resulting from the system interactions of the family involvement. Internal family resources and capabilities that arise from the interaction of family business sphere are leadership, social knowledge, decisional capabilities, various competences, managerial competencies, other fundamental elements that can, contextually arise, from time to time. They are unique to every family firm and familiness depicts a precise picture of the intangible capital that the family members are growing and protecting, generation by generation. Higher the family involvement, higher the familiness (Carnes & Ireland, 2013). It has a positive connotation, resulting in competitive advantage and positive influence of family involvement (Pearson, Carr & Shaw, 2008).

These issues pose new challenges 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 international business relationships at both structural and personal levels. According to Gomez-Mejia, Cruz, Berrone and De Castro (2011), it's necessary to consider socioemotional wealth, a collection of non-economic endowments that family members use to make risky decision making, differentiating family firms from non-family firms in more aspects than one.

They are prone to acknowledge the reality of highly competitive environments where international business and, implicitly, social relationships between entities have a pivotal effect for the organizational growth strategies (Chen, Hsu & Chang, 2014; Calabrò, Brogi & Torchia, 2016; Arregle et al., 2016). Here, managing business relationships claims interpersonal and inter-organizational adjustments which can only be achieved through coherent strategic and, thus, sustainable projects implying three major criteria: being committed to long-term internationalization strategies, ensuring the necessary resources and pursuing the internationalization undertakings (Zahra, 2003; Fernández & Nieto, 2005; Stephan & Peters, 2013; Lee, 2014). This is enforced by Claver et al. (2009, p. 127) who place the long-term vision among the distinctive features of family enterprises.

Focusing on the internationalization processes of eight family firms from a longitudinal perspective, Graves and Thomas (2008, p. 151) support the existence of three crucial drivers of the internationalization pathways, that is "the level of commitment toward internationalization, the financial resources available, the ability to commit and use those financial resources to develop the required capabilities". Holt (2012) considered socioemotional wealth in the family business research scene associated with internationalization.

Within the scope of the present research, this last key determinant – i.e., ability to develop the organizational capabilities involved in the internationalization process – stands for the main unit of analysis. Emphasis is laid on two subsequent pillars, namely "the development of the

firm's international network relationships (...) and marketing capabilities" (Graves & Thomas, 2008, p. 162), many SMFEs capitalizing their heritage through their marketing activities (Micelotta & Raynard, 2011).

An important variable to be considered in this point is the firm's degree of internationalization as an expression of SMFEs international pathways success. Laying emphasis on the firm's degree of internationalization, Sullivan (1994) discussed its crucial dimension within the scope of international strategies, availing further research avenues. Since then, different studies have opted for computing the ratio of foreign sales to total sales (FSTS) with a view to appraise a firm's degree of internationalization (Qian, Yang & Wang, 2003; Chen, Hsu & Chang, 2014). Another example, in this regard, is brought about by Graves and Thomas (2008), who measured the degree of internationalization using two main targets: internationalization intensity (i.e., export sales dollars as a percentage of total sales dollars), scope (number of foreign countries sold to) (p. 155).

Nevertheless, according to Hennart (2011), in an incipient phase, the ratio of foreign sales to total sales (FS/TS) was deemed as a good measure of firms' degree of internationalization, but later, the imperative for a more comprehensive approach emerged. A potential solution was provided by Pukall and Calabró (2014) who encompassed both the proportion of sales abroad and the specificity of entry modes in the equation of business internationalization.

The need for a fine-grained perspective has been lately required by the scale and scope of the internationalization process which also integrates intangible assets capitalization (Sciascia et al., 2012; Reuber, 2016). Hereby, the transition to an overarching framework became obvious with the definition of Swoboda and Olejnik (2013, p. 138) who shift the focus towards the concept of international performance, "understood as the degree to which a firm's objectives are achieved in international markets". The researchers mention that the construct can be measured by employing both objective data, self-reported assessments on financial and non-financial performance. Given the reluctance of business owners and managers to share financial information, it is presumed that subjective measures could provide a more accurate insight into the targeted dimensions which may consist of sales growth, productivity, ROI, profit, market share and capacity utilisation (Swoboda & Olejnik, 2013). Further, a more specific assessment of the international performance – labelled as "business internationalization effectiveness" – is brought forward by Vătămănescu et al. (2017, p. 219) and includes three subjective scales, namely the estimated profit derived from international networking, the estimated revenues resulted from international partnerships and the strategic and sustainable character of foreign partnerships. This approach responds to Reuber's (2016) need for an overall measure leveraging both tangible and intangible assets and will be, therefore, as reference within the scope of the current paper.

2.1 - The influence of common contexts

SMFEs managers consistently invest in developing sustainable relationships with key partners who may set themselves up as critical resources for the firm growth in the long run. A first important step in this direction relies on exploiting business contexts when people with mutual

interests can personally meet one another (Graves & Thomas, 2008; Kontinen & Ojala, 2010; Festing & Maletzky, 2011; Reuber, 2016). Managers are expected 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 and cement managerial capabilities in coherent overseas endeavours. Participation at international conferences ensures that SMFEs gain specialized expertise, benefit and yield networking opportunities, worldwide presence, visibility, recognition which enhance internationalization (Couper & Reuber, 2013; Reuber, 2016). As Graves and Thomas (2008, p. 163) contend, “it is therefore, critically important that family members are willing and able to travel internationally to build such relationships as well as to exhibit at international trade fairs”.

From a cross-cultural perspective, the context of common interests increases the degree of mutual understanding and support (Festing & Maletzky, 2011; Schein, 2009) and facilitates knowledge creation and acquisition and favourable image construction during business internationalization (Casillas et al., 2009). Hence, on purpose to develop competitive, sustainable strategies in new markets, SMFEs must acquire general and specialized knowledge about the characteristics of the international contexts by exploiting the advantages of common contexts (Flecher, Harris & Richey, 2013; Vătămănescu, Alexandru & Andrei, 2015). As a consequence, we infer that:

H1: There is a positive influence between capitalizing common contexts and international performance in the case of SMFEs internationalization process.

2.2 - The influence of psychological proximity

Pursuant to various studies (Zahra, 2003; Kontinen & Ojala, 2010), SMFEs strive for continuity, predictability and stability and, therefore, prefer gradual internationalization projects, objectivized in few overseas market choices. This is indicative of their international orientation, as defined by Moog et al. (2011), who discussed the willingness and rationale to sound out foreign markets in search of viable opportunities and resources.

The stage models paradigm supports a progressive venturing into new regions and countries. For example, in what concerns exporting - as the most common entry mode on a foreign market (Leonidou & Katsikeas, 1996) – it is often the case of a step-by-step approach which involves “exporting via agents/distributors; sales via sales subsidiaries; finally, the establishment of overseas manufacturing plants” (Graves & Thomas, 2008, p. 152). This is descriptive of the managers’ preferences for targeting certain markets characterized by a lower psychological distance given that a progressive venture into close markets would be, in many cases, a wiser choice of doing businesses (Nordman & Tolstoy, 2014; Sandberg, 2014). In line with Johanson and Vahlne (1990), the perceived foreignness of international markets is catalysed by differences in language, education, values, level of development, social and political climate, etc. Here, greater psychological, social and cultural distance triggers greater “liability of foreignness”, as Johanson and Vahlne (2009) suggest. In the international realms, even when the entrepreneurs and / or managers speak the same language or use the services of a professional translator, it is likely for different meanings to be attributed to the same words and symbolical constructs, while

different rationales and approaches determine what is finally defined as a positive or negative outcome (Vătămănescu, Alexandru & Andrei, 2015; Cuypers, Ertug & Hennart, 2015; Reuber, 2016). Furthermore, Schein (2009) contends 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 & 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 decisions (Chirico, Nordqvist, Colombo & Mollona, 2012).

That being the case, it is easier to understand partners' behaviours, market characteristics when business relationships culturally share more similarities than differences. Previous studies in the SMFEs field often acknowledge the family involvement in the international development patterns (Shaw & Young, 2001; Zahra, 2003). Evidence suggests that, in their internationalization strategies, family businesses opt for psychically closer countries as proximity is positively associated with more control, with a higher probability of cementing strategic alliances with foreign firms (Gallo et al., 2002; Kontinen & Ojala, 2010). Afterwards, the organization may step to the next level and initiate relationships with more psychologically different counterparts on purpose to achieve a sustainable competitive advantage (Colombo & Gazzola, 2014).

Optimal results claim concessions in the stage of relationship building. In this regard, Reuber (2016) insists that internationalization effectiveness claims learning how to harmonize marketing practices in non-domestic areas with context-centric particularities. Consequently, the acquisition of psychological proximity, based on gradual communication, intercultural learning and knowledge of foreign markets (Hilmersson, 2014), is liable to determine the international performance of SMFEs via more precise decision-making processes on how to gain competitive advantage and achieve success. Thus, we presume that:

H2: There is a positive relationship between psychological proximity and international performance in the case of SMFEs internationalization process.

2.3 - The influence of trust

Another relevant aspect to be considered refers to trust issues in the initiation, formation and development of international business relationships (Rodriguez & Wilson, 2002; Kramer & Lewicki, 2010; Ertug et al., 2013). In line with Arregle et al. (2016), as an "organizing principle", trust "provides a springboard for people and organizations to engage the larger world of opportunities and to take actions necessary to succeed in new or changing environments (p. 810). Although apparently business relationships are primarily established on economic exchanges and thorough negotiation, the propelling factor in family firms is often rooted in social relationships. At this level, Ertug et al. (2013) concluded that the propensity to trust partners from abroad displays country-specific variances, being anchored in the social constitution of a nation. Subsequently, "the degree of a home country trust of people from other nations uniquely affects how family firms from this country internationalize" (Arregle et al., 2016, p. 810).

Similarly, Rodriguez del Bosque, Collado Agudo and San Martin Gutierrez (2005) and Hohenthal, Johanson and Johanson (2014) argue that the development of international business relationships 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 trust and professionalism (Vătămănescu, Alexandru & Andrei, 2015). Then, the unfolding of successive businesses settles new drivers for long-run relationships, a second phase of substantial trust and, implicitly, of international performance (Rodriguez & Wilson, 2002; Hampton & Rowell, 2013). Building on this logic, we infer that:

H3: There is a positive relationship between trust and international performance in the case of SMFES internationalization process.

2.4 - The influence of business networks

Another landmark of SMEs internationalization success acknowledges the importance of business networks capitalization. In this vein, Johanson and Vahlne (2009, p. 1415) stress upon the long way to develop trusting relationships, advocating that “foreign market entry should not be studied as a decision about modes of entry, but should instead be studied as a position-building process in a foreign market network”. In the internationalization process of SMFES, the networking practices are translated “from the family firm as decision maker to the family firm as potential network partner” (Reuber, 2016, p. 1280), a fact which conditions the firm to objectivize its attractiveness as a potential network partner. For instance, trustworthiness, socially constructed meanings of trust facilitate and reinforce border-spanning relationships.

According to Möhring’s (2002) theory of business internationalization, organizations are encouraged to exploit business opportunities through information exchanges to consolidate the position within international networks. Social exchange through international business networks stands for a driving force for the growth strategies of organizations and for its internationalization strategies (Child & Hsieh, 2014; Păduraru et al., 2017; Vătămănescu et al., 2017). Assuming the resources that international business networks provide and acting accordingly entail long-term benefits. Contiguously, fostering knowledge exchanges within specialized networks reinforces the position of SMFES on the market and sets the parameters for their internationalization success (Reuber, 2016).

In this front, Bell et al. (2003, p. 341) conclude that the relationship between networks and firm 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”. SMFES securing relevant information from their networks should thereby be able to strengthen their competitive position on international markets (Johanson & Vahlne, 2009).

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 & Mathews, 2014). In this vein, Vătămănescu et al.'s (2017) research contends the importance of leveraging relational capital when going international. The authors posit that firm competitiveness on the global market is conducive to online and offline business networking on purpose to consolidate the effectiveness of the internationalization process. Their findings confirm that business networks and networking act as significant mediators between competitiveness and internationalization effectiveness. Based on these considerations, we presume that:

H4: There is a positive relationship between capitalizing business networks and international performance in the case of SMFES internationalization process.

Corroborating the aforementioned hypotheses, the conceptual model would integrate the following relationships:

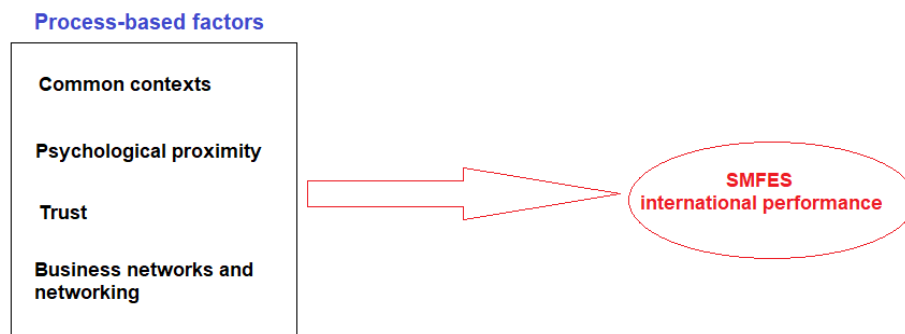


Figure 1 - Conceptual model

3 - Considerations for the future empirical research

The development of a future research design for hypotheses testing would imply inviting over 200 SMFES managers from European countries (e.g., Romania) - via e-mail - to take part online in a questionnaire-based survey regarding business internationalization processes. The access to the key informants database will be ensured by several members of the reference associations, acting as research facilitators within the scope of the current study. The sample will include all age categories, thus allowing intergenerational comparisons.

The survey will be conducted for at least one month, whereas the questionnaire will consist of closed-ended questions measured on five-point Likert scales. Questions will fall into six main categories, that is: a. common contexts; b. psychological proximity; c. trust; d. business networks; e. international performance; f. socio-demographic characteristics. The items for each category rely on prior conceptualizations presented in the literature review section are objectivized as self-reported measures.

The measurement and structural model will be 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 will be set on convergent validity (employing factor loadings and cross-loadings of the indicators on their reflective constructs, Average Variance Extracted (AVE) and composite reliability (CR)), individual item reliability, composite reliability, and discriminant validity of the measurement model. Then, the path coefficients will be assessed in terms of significance, influence on the endogenous variable, that is, the international performance of SMFES.

It is expected that all four hypotheses are supported by the empirical data, namely: H1: There is a positive influence between capitalizing common contexts and international performance in the case of SMFES internationalization process; H2: There is a positive relationship between psychological proximity and international performance in the case of SMFES internationalization process; H3: There is a positive relationship between trust and international performance in the case of SMFES internationalization process; H4: There is a positive relationship between capitalizing business networks and international performance in the case of SMFES internationalization process.

Irrespective of a partial or entire confirmation of the hypotheses, the research will add up to the extant literature in several ways. First, it will reveal the significant influences of the process-based factors on international performance, an under-researched topic in the field. Second, it will bring forward the most influential factor conducive to international performance, hence providing a starting point for future studies. Third, it will advance a multilevel theoretical and empirical perspective on the dynamics of today's business internationalization processes, focusing on family business border-spanning relationships.

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