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The network perspective and the internationalization of small and medium sized software firms from Syria

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ABSTRACT

This study has employed a case-based approach to explore the relevance of relational factors in explaining the internationalization of six software B2B SMEs from Syria. It contributes by providing rare empirical insights on the internationalization behavior of Middle Eastern SMEs and redressing, *albeit* slightly, the apparent research gap in the internationalization of knowledge-based SMEs from developing countries. Analysis results suggest the importance of the relational perspective in explaining the initial internationalization, market selection and internationalization speed of the investigated software firms. It emerged that the case firms either reacted to the cross-border opportunities offered by their relational contacts or proactively pursued overseas opportunities through existing and newly developed relationships. Their market entry decisions and internationalization pace also appear to have been influenced by these relationships. Both social and business networks were found to be important, but social ties seemed more influential at initial stages, with business networks becoming more dominant subsequently. The article concludes with appropriate recommendations for managerial decision making and future research.

1. Introduction

Although the internationalization of small and medium enterprises (SMEs) from developing countries and transition economies has attracted increased attention in recent times (Chung, Chen, & Hsieh, 2008; Crick & Kaganda, 2008; Kuada & Sørensen, 2000; Liu et al., 2008), very little is still known about SMEs from the Middle East region[1]. This relative neglect is regrettable given the widespread recognition of the importance of country conditions[2] on firms' economic performance, including in international markets (Das, 1994; Morgan & Katsikeas, 1998; Westhead, Wright, & Ucbasaran, 2001; Wheeler, Ibeh, & Dimitratos, 2008).

Previous developing country internationalization research has preponderantly focused on traditional sectors, which are considered "suitable platforms for export development" (Ibeh & Young, 2001, p.569). High technology SMEs appear to have been particularly overlooked (Terjesen, O'Gorman, & Acs, 2008; Thai Mai, & Chong, 2008; Zain & Ng, 2006). There is, thus, a gap in the literature on the internationalization of knowledge-based SMEs from developing countries (Borchert & Ibeh, 2008). Redressing this gap is important given previous research evidence that high technology firms tend to have different internationalization pathways from low technology firms (Bell, Crick, & Young, 2004), and that industry-wide technological intensity seems to be a good predictor of export performance (Oakley, 1996; Wakelin, 1998).

The present study aims to contribute toward narrowing the above noted research gap, by examining the internationalization of software business-to-business (B2B) SMEs from Syria, a developing Middle Eastern country. In particular, the study will investigate the relevance of the network perspective (Johanson & Mattsson, 1988) in explaining the focal firms' international expansion. The decision to adopt the network theory as the main theoretical lens reflects the widely acknowledged importance of networks and relationship factors in firm internationalization (Coviello & Munro, 1995; Zafarullah, Ali, & Young, 1998), and the stronger emphasis on 'personal trust' rather than 'systems trust' in more collectivist Eastern societies (Hofstede, 1980; Wong, 1996). The chosen network lens can also be justified based on the ever-rising resource demands on companies competing in increasingly global high technology sectors. This often obliges growth-seeking SMEs to strive to leverage assets possessed by external parties in order to complement and augment their typically thin resource bundles (Crick & Jones, 2000; Ibeh, 2003; Oakley, 1996).

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[1] There have been a handful of studies on firms from Turkey (e.g. Karadeniz & Göçer, 2007; Özkanlı, Benek, & Akdeve, 2006), Lebanon (Ahmad, Julian, Baalbaki, & Hadidian, 2006), and Saudi Arabia (Crick, Obaidi, & Chaudhry, 1998).

[2] These have variously been described in the literature as export climates (Holzmuller & Stotinger, 1996); economic, institutional and cultural environments (Dunning, 1988); factor conditions (Porter, 1990); and national resource asymmetries (Fahy, 2002).

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This, to be sure, is one of the signature insights from the international new venture literature, which suggests that born global firms tend to rely on the characteristically rich networks of their founder-entrepreneurs to reach target niches across international markets (Chetty & Campbell-Hunt, 2004; Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Rialp, Rialp, & Knight, 2005). It would be interesting, therefore, to examine the role, if any, of these relational factors in the international expansion of Syrian software B2B firms.

The rest of the article is structured as follows. Following a brief account of the study context in Section 2, the third section reviews the literature on the role of networks and relationships in firm internationalization and develops a number of research propositions. Section 4 discusses the methodology employed in the study. The empirical data gathered are analysed and discussed in Section 5. We then end with some conclusions and managerial and future research implications.

2. Research Context

The present study took place in Syria, a lower-middle class developing country with a population of approximately 19 million (World Bank, 2008). Historically, Syrians were known as active international traders associated with brokering deals across countries (Mills, 1964). In the second half of the twentieth century however, Syria was virtually isolated from the world economy due to government ideology, which emphasized central planning and limited private sector activity. This remained the case until the late 1980s, when the government initiated an economic liberalisation programme. In 1991, a new investment law was passed to encourage private sector investments and expand the scope of their economic participation (CCG, 2002). In 2000, Syria started moving towards a social market economy and undertook major reforms. These included developing strategies to attract foreign direct investment, liberalising international trade and permitting private participation in the banking, insurance and infrastructure sectors, after several decades of public sector monopoly (FCO, 2008).

The Syrian IT sector is still in its infancy, even in comparison to its equivalent in neighbouring countries like Jordan and Egypt. It is estimated that there are around 120 companies operating in the software industry, the majority of which are small sized. Given that they operate in a non-demanding market, the offerings of these companies lag considerably behind international standards and are very limited in range; mostly financial management applications (Leão & Kabbani, 2007). In addition, the Syrian ICT industry faces some major problems. The weak infrastructure, particularly in relation to Internet access, represents a huge difficulty. The industry is also badly affected by a brain drain as Syrian highly skilled IT graduates are attracted to foreign countries by higher salaries and potential exemption from compulsory military service (OBG, Oxford Business Group, 2008). However, the Syrian ICT market seems promising, as public and private organizations are increasingly embracing the electronic age.

3. Literature Review and Research Propositions

3.1. Networks, Relationships and Firm Internationalization

Firm internationalization scholars largely agree on the importance of network/interaction/relationship concepts in the internationalization process. This perspective, drawn from the industrial marketing field, recognises that companies are not isolated entities, but rather actors in markets: depicted as "systems of social and industrial relationships encompassing, for example, customers, suppliers, competitors, family and friends" (Coviello & Munro, 1997, p.365). These relationships represent invaluable sources of information about foreign markets (Ellis, 2000; Sharma & Blomstermo, 2003), and often help in overcoming export barriers (Ghauri, Lutz, & Tesfom, 2003). They also assist in mitigating the costs and risks of cross-border activities and shoring up the credibility of firms from less developed countries (Zain & Ng, 2006). This last point could be particularly relevant to software SMEs from Syria.

One testament to the strength of appreciation of the role of networks and relationships in firm internationalization is its widespread espousal across the spectrum of internationalization theories, including the network/social capital school (Coviello & Munro, 1995, 1997), the international new venture theory (Coviello, 2006; Oviatt & McDougall, 1994), the updated Uppsala model (Johanson & Vahlne, 1992, 2006), the multinational subsidiary literature (Blomström, 1990; Dunning, 1994; Lauter & Rehman, 1999), and the resource-based internationalization literature (Bell & Young, 1998; Ibeh, 2005; Peng, 2001). In the resource-based internationalization literature for example, scholars have argued that relationships can enable firms to access strategically relevant resources that they lack–knowledge, materials, technology, social capital, market contacts and connections–thus facilitating their internationalization (Eriksson, Johanson, Majkgård, & Sharma, 1998; Håkansson & Snehota, 1992; McLoughlin & Horan, 2000). The network perspective is similarly considered to be an integral part of the international new venture (INV) theory, since established networks are vital for the early internationalization of new ventures (Coviello, 2006). The stages-based theories, which view internationalization as a gradual evolutionary process driven by increasing market knowledge and market commitment (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), have also integrated the network viewpoint to arrive at a more encompassing explanation thus: internationalization proceeds through an interplay between increasing commitment to and evolving knowledge about foreign markets, gained mainly from interactions with market actors (Johanson & Mattsson, 1988). Johanson and Vahlne (1992) later remarked that many firms enter new foreign markets almost blindly, propelled by social exchange processes, interactions, and networks, which would seem to have strengthened this broadened approach to explaining firm internationalization.

It is believed that social and business relationships and networks do often exert significant influence on the strategic behavior of firms, including their decisions on foreign market selection and entry mode (Bell, 1995; Coviello & Munro, 1997; Moen, Gavlen & Endresen, 2004) and pace of internationalization (Johanson & Johanson, 1999; Oviatt & McDougall, 1995). These internationalization decisions may depend to a great extent on the firm's range and quality of relationships with actors in its current markets, both domestic and international. Hence:

P1 *Relational factors are likely to influence the initial internationalization of Syrian software SMEs.*

P2 *Relational factors are likely to influence the international market selection of Syrian software SMEs.*

P3 *Relational factors are likely to influence the internationalization speed of Syrian software SMEs.*

3.2. Social and Business Networks

Network scholars generally distinguish between network dimensions. Among the main types of networks identified in the literature are hard business networks (formal linkages involving five or more firms in the same region); exchange networks (organizations with which the firm has commercial transactions); social networks (family and friendship ties, including personal networks of the decision maker); and symbolic networks (social bonds based on community ties, shared values and cultural norms) (Hayer & Ibeh, 2006).

Most previous research in this area has tended to focus on the role of business ties in firm internationalization (Johanson & Mattsson, 1988; Moen et al., 2004; Sharma & Blomstermo, 2003). This reflects