

The Role of NGO–SME Cooperation in Internationalization Process and Performance of SMEs

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Abstract—After the global financial crisis the role of small and medium-sized enterprises (SMEs) in the international trade of a country has increased. Governments try to support these companies and help them in their internationalization process. The need for assistance for SMEs in internationalization process is greater compared to the large multinational enterprises, as SMEs lack necessary resources and expertise for internationalization. It is argued that engaging in alliance with home-based non-governmental organizations (NGOs) can help SMEs to overcome those difficulties and internationalize more effectively and perform better. In our proposed model, the alliance between NGO and SME foster internationalization and increase the performance through enhancing international network, international entrepreneurship, and trust with the foreign partner. International experience is viewed as a moderator and propose that SMEs with lower international experience benefit more from these alliances.

Index Terms—Internationalization, small and medium size enterprises (SMEs), non-governmental organizations (NGOs).

I. INTRODUCTION

Every company wants to grow and reach higher levels of returns. As the growing opportunities at domestic market are limited, firms, after some point, are looking for opportunities abroad and try to internationalize. In the traditional view, firms grow in the domestic market until a point, and when the growing opportunities are not sufficient at the domestic market and they have enough resources, they start to internationalize. Based on this view, only large companies can become international. That's why early international business theories mostly focused on large multinationals. Empirical studies following the theories also focused on large companies and assume that internationalization is taking place in gradual and sequential stages. The firm is assumed to have strong domestic position before becoming international.

However, with today's global view where transportation and communication costs have decreased compared to the past, small companies have chance to go global in early stages. Moreover, firms are often reported to start international activities right from their birth, to enter very distant markets right away, to enter multiple countries at once, which is called as "Born Global Concept" [1]. These kinds of firms are called with different names such as International New Ventures [2], High Technology Start-Ups [3], and Born Globals [4], [5]

After the global financial crisis, governments started to pursue more aggressive policies regarding the export behavior of firms. For instance, President Obama's "National Export Initiative" aims to increase financing and other support to small businesses and, ultimately, double the amount of exports in five years. This shows that the increasing importance of small and medium size enterprises (SMEs) in the competitiveness of a nation and the need for research on the internationalization process of these companies. The aim of this study is to examine the internationalization process of small enterprises from a different perspective and propose a model that enhances this process through engaging in alliances with non-governmental organizations (NGOs).

Strategic Alliances have different forms such as joint ventures, equity-based alliances, etc. Alliances help firms strengthen their competitive position by enhancing market power [6], increasing efficiencies [7], accessing new or critical resources or capabilities [8], and entering new markets [9]. The formations, design of the alliances, the factors that affect the success of them have been studied extensively. Ref. [10] states that; "Extant alliance literature has focused mainly on alliances between two or more commercial or for-profit firms. Today, many firms are engaging in two new types of alliances: those with not-for profit entities and/or nongovernmental organizations, and formal collaborations with individuals". This study analyzes the alliances between SMEs and NGOs, and the role of these alliances in the internationalization of these enterprises.

Internationalization process requires specific resources and experience. SMEs, different from the large multinationals, lack the necessary resources and experience, which make it difficult to internationalize and lower the chance of success in international operations. Consulting services can be viewed as a solution to these difficulties, but not all SMEs can afford these services. SMEs, who want to internationalize, should cooperate and form organizations that will help them in this process. SMEs can overcome the difficulties of internationalization by engaging in alliances with those NGOs. A model that links the alliance of NGO and SME, to internationalization speed and performance is proposed in this study. These alliances help SMEs to increase their international network, develop international entrepreneurship skills and create trust with foreign partners, which are crucial in international performance. I argue that SMEs with lower international experience benefit more from these alliances and develop propositions based on the proposed framework.

The remaining of the paper proceeds as following. In the next section, the model will be explained and propositions

will be developed. The following and the last section is the discussion, which includes implications, future research, and conclusion.

II. THEORY DEVELOPMENT AND PROPOSITIONS

The main purpose of this study is to develop a model that explains the internationalization of SMEs from the perspective of strategic alliances. SMEs have less resources and experience compared to the large MNCs. This makes it more difficult for them to internationalize. They don't have necessary knowledge and network to engage in international trade, and as a result they need to engage in alliances to foster the process of internationalization. I propose that small enterprises can overcome many of the obstacles that arise as a result of being small, by engaging in alliances with non-governmental organizations.

NGOs have been increasing both in terms of number and size. They usually arise as a result of demand by society or some parts of the society that is not satisfied by government. As their influence is increasing, Ref. [11] suggests that; "IB theory must shift to include NGOs as an object of study; to admit a third player into the firm-government dyad; and to broaden the institutional field, or context, in which IB theories operate". NGOs are classified based on different criteria such as goals, how they are formed, etc. Most of the studies about NGOs have focused on organizations that deal with environmental issues. In stakeholder influence literature, the strategies of NGOs [12], [13] and the influence of NGOs on companies [14]-[17] have got attention. NGOs have been seen as key players at host country in addition to government and they should be taken into consideration in FDI [18]. These studies view NGOs as obstacles for firms and emphasize the need for satisfying the needs of these NGOs, especially in host countries. Some studies argue that the interactions between corporations and NGOs may be useful for firms such as leading to improvements in corporate social responsibility [19]. Ref. [20] views NGOs as one of the participants of international bargaining that MNEs need to deal. Other view regarding the NGOs is more positive. Ref. [21] states the difficulties MNEs face in terms of entrepreneurship process in base of the pyramid markets and argue that MNEs should partner with NGOs to offset those difficulties. Ref. [22] also emphasize the need for collaboration with NGOs to facilitate new modes of value creation. These studies show that companies should collaborate with NGOs to gain competitive advantage. Different from these studies, the focus is on NGOs in this study, which are founded for a specific purpose by firms and work on a membership base. In addition, the NGOs that will be referred in this study are at home country instead of host country. The cooperation with these NGOs will be examined in terms of how it helps SMEs in internationalization process.

Small enterprises lack necessary resources and experience to go to international arena, and as a result they compete with each other for a slice of market share at the domestic market. Many scholars argue that due to rapid changes in international economic and business conditions, firms should develop strategic exchange relationships and alliances for their competitiveness [23]. Moreover, recent

studies and theories suggest a cooperative approach instead of competitive approach for different aspects of business. Applying this notion to small enterprises in a specific country, it can be said that they can come together and form NGOs that will help them to internationalize and benefit as a whole. The experiences and knowledge of each SME come into this NGO and creates a pool of resources, which develops a synergistic effect for SMEs [24].

Given that such an NGO exists, SMEs can engage in alliance with them to increase the effectiveness of the internationalization process and enjoy better international performance. These NGOs have necessary knowledge and experience about international markets. SMEs can use this knowledge and resources, which otherwise would be too difficult and costly to get, by engaging in alliance with NGO. There are many transaction costs in internationalization process that SMEs face, and collaboration with NGO can eliminate many of them. In addition, SMEs can use the intangible resources of NGO, which create a competitive advantage for them in the internationalization process. Therefore, by engaging in alliance with NGO, SMEs internationalize faster and more effectively.

Proposition 1: Collaboration with NGO increases the speed and the extent of the internationalization of SMEs.

In addition to higher speed of internationalization, SMEs also reach better level of international performance as a result of alliance with NGOs. The main reason for the increased performance is decreasing transaction costs. In addition, by providing necessary knowledge and experience about international markets, NGOs help SMEs to lower the chance of failure. This alliance also influences the international performance of the SMEs.

Proposition 2: Collaboration with NGO leads to better international performance for SMEs.

The positive influence of NGO-SME alliance on internationalization and performance is mediated by three factors; international network, trust with the foreign partner, and the international entrepreneurship.

A. NGO-SME Alliance and International Network

International network has been examined in terms of its influence on internationalization. Network theory of internationalization [25] views international networks crucial in international performance. Networks provide companies new opportunities, help them to obtain knowledge and learn from experiences [24]. The strength of international network ties positively affects SME international diversification [26], [27]. The international network can be embedded in both the firm and managers. According to social capital theory, international network affects internationalization [28], [29] and the performance [30].

NGOs have a wide and strong networking capacity in both the home county and the world. This network mainly includes member federations, business associations, and some non-member partner organizations. By engaging in alliance with the NGO, SMEs have access to this network. This international network enables NGO to organize bilateral and multilateral business matchmaking activities for SMEs. This platform enables SMEs to interact with various companies, which foster the internationalization

[31]. Ref. [32] examined the link between internationalization and firm performance from the social network perspective. They propose that home-based social networks mediate the link between internationalization and firm performance. These social networks provide SMEs knowledge about foreign market opportunities, advice and experiential learning, and referral trust and solidarity. Ref. [33] also views social networks as mediators in the internationalization of SMEs. So, NGOs at home country provides to SMEs these networks and other benefits that will be discussed in the following sections, and help them to internationalize more effectively and perform better.

Proposition 3a: Collaboration with NGO increases the scope of the international network of SMEs, which in turn influences the internationalization speed and the performance of SME.

B. NGO-SME Alliance and Trust with Foreign Partner

Trust has been viewed a crucial factor in economic exchanges, as one or both of the parties may be at the risk of opportunistic behavior and incomplete monitoring or there may be some problems as a result of moral hazard or asymmetric information [34]. Scholars have used trust to explain the outcomes of various kinds of alliances, partnerships, etc. Development of trust between partners influences the outcomes of alliances [20]-[35]. There is a positive association between trust and alliance performance [36]-[38], which is stronger for lower alliance size [36]. The partnerships of SMEs are relatively small, and it is expected that the influence of trust on the internationalization of them is significant. Ref. [39] also found a positive impact of trust on joint venture (JV) stability and cooperation, and this impact is stronger for younger JVs. SMEs are usually at the earlier stages of internationalization and they start new partnerships with foreign counterparts. Therefore, establishing trust is very important for them.

There are several reasons for the impact of trust on alliance success. For instance, partners that are more trustful invest greater level of resources in the alliance [40]. Similarly, Ref. [41] proposed that trust between partners influences acquisition and sharing in strategic alliances.

Building trust with partners is very difficult for SMEs due to differences in expectations and interaction styles, language barriers and geographical distance [42]. The NGO has relations with both the firms in home country and the ones in host country, and both of them benefit from the alliance with NGO. Both parties view their relation with the NGO as a continuous game, instead of one-time game. This makes them to behave more ethically and responsibly, and this in turn creates a trust between trading partners, which is crucial in maintaining the success of the alliances. This kind of trust can be viewed as referral trust and solidarity by a third party, which influences the internationalization and performance [32]. Therefore, NGO plays a monitoring third party role that makes the partners to trust each other. This trust influences the success of all kind of transactions and partnerships of SMEs.

Proposition 3b: Collaboration with NGO leads to higher level of trust between SMEs and their foreign partners, which in turn influences the internationalization speed and the performance of SME.

C. NGO-SME Alliance and International Entrepreneurship

International entrepreneurship has been linked to internationalization of SMEs [43]-[45] and to the international performance [46]. The entrepreneurial orientation of firms influences the internationalization intent positively [47]. SMEs have more flexibility and higher incentive for entrepreneurial activities compared to large MNCs. However, the uncertainties and the risks of going abroad may prevent them to use these skills. Alliances with NGOs encourage these small enterprises to use their entrepreneurial skills by lowering the uncertainties of engaging in international trade and transaction costs. NGOs frequently organizes seminars, workshops, trips to foreign countries, arranges meetings with foreign companies, etc. All these activities create an entrepreneurial incentive to go abroad, even they have not thought before. Therefore, collaboration with NGO can enhance SMEs to develop international entrepreneurial skills.

Proposition 3c: Collaboration with NGO leads to higher level of international entrepreneurship, which in turn influences the internationalization speed and the performance of SME.

D. NGO-SME Alliance and International Experience

International experience is another crucial factor in internationalization process. It has been widely measured at the management level, and has been linked to internationalization [29], [48]-[52]. In joint ventures, in addition to experience of the firm, experience of the partner also influences the success [53]. International experience is gained through a process. As firms internationalize more, they increase their experience. It is also embedded in the international network and international entrepreneurship. So, international experience is not a mediator in NGO-SME alliance and internationalization link. Instead, it is gained as a result of internationalization process. Therefore, international experience moderates the relationship between NGO-SME alliance and the internationalization and performance of SMEs. There are various programs to support firms in their exporting or internationalization efforts. Firms with higher international experience need less assistance and benefit less from these kinds of programs [54]. Ref. [55] also found that international experience of the companies makes them were less vulnerable to the negative impact of uncertain policy environments on investment. I propose that the benefits from alliances with NGOs are greater for SMEs with lower international experience.

Proposition 4a: SMEs with lower international experience benefit more from alliances with NGOs in terms of internationalization.

Proposition 4b: SMEs with lower international experience benefit more from alliances with NGOs in terms of performance.

To sum up, this study argues that competing firms in domestic markets can cooperate to establish NGOs. These kinds of NGOs can also be promoted by governmental agencies to improve the competitiveness of small firms in international arena. Then, by engaging into alliances with these NGOs, firms can foster their internationalization process and enhance their performance (See Fig. 1).

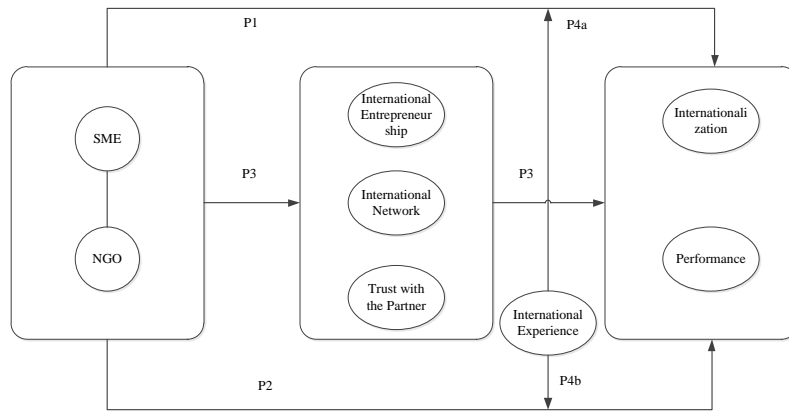


Fig. 1. The impact of firm-NGO alliance on internationalization and performance of the firm.

III. DISCUSSION

A. Implication

This study has implication for both firms and policy makers. There are several NGOs that are willing to help the firms for international investments. Firms can engage in alliances with these NGOs to enhance their competitiveness by achieving higher levels of internationalization and better performance. Firms can overcome some of the obstacles through consultants, but it is costly to the firms. In addition to that, they can only get information, which is based mostly on secondary data, and consultants are not involved in the process actively.

There are also important implications for policy-makers. Countries are looking for ways to increase their firms' international competitiveness in order to increase exports. These kinds of NGOs can help small enterprises to contribute more to the economy. By establishing or promoting these kinds of NGOs, policy-makers can enhance the economic growth, decrease the trade deficit, create more jobs, etc.

E. Contribution

To the best of our knowledge, this study is the first that links the internationalization of small enterprises to the alliances with NGOs. Both aspects of this study are emerging fields in international business research. There is a trend to put more emphasis on small enterprises and their internationalization process. On the other hand, different from the traditional view where alliances between firms are examined, this study looks to the alliances between firm and non-profits. These kinds of alliances get more importance than before as firms are looking for different ways to enhance their competitiveness.

F. Further Research

This study can be extended to the other parts of the worlds such as Africa. The issue can be looked from the other side. There are many firms that engage in alliance with host-country NGOs in order to involve trade agreements. The impact of NGOs at host country can be explored further in terms of its impact on internationalization. Collaboration with other types of NGOs can be another future research area that can be examined. Finally, an empirical study that tests the proposed framework can be a good contribution to the literature as

well.

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