INTERNATIONALIZATION, EXPANDED NETWORKING AND PERFORMANCE: THE CASE OF HUNGARIAN SMEs[1]

Houcine, Akrout
INSEEC Business School Paris
27 Avenue Claude Vellefaux, 75010 Paris – FRANCE
hakrout@inseec.com

Gábor, Nagy
INSEEC Business School Paris
27 Avenue Claude Vellefaux, 75010 Paris – FRANCE
gnagy@inseec.com

József, Berács
Kecskemét College
Faculty of Mechanical Engineering and Automation
Izsáki út 10. Kecskemét, H-6000 – HUNGARY
beracs.jozsef@gamf.kefo.hu

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Abstract:
This paper has a twofold objective: 1) to develop and test a framework for examining the antecedents of international market performance and financial performance of Hungarian SMEs and 2) to analysis the moderating effects of three different networks (business, political, and local communities networks) with respect to the scale of internationalization. Using a structural equation modeling (SEM) and a multiple regression analysis, we find a differentiated moderation effect of types of networks depending on whether the firm exhibits low, moderate or high intensity to internationalization.

Keywords: *SMEs, international expansion, network ties, performance.*

Competitive paper

INTRODUCTION

In the rapid changing global marketplaces, small and medium enterprises (SMEs) – the backbone of Europe's economy – have been struggling to improve their competitiveness. Prior studies argue that the international market entrepreneurship (McDougall and Oviatt, 2000) coupled with the International Market Orientation Capabilities (Knight and Cavusgil, 2004) are shown to be the two fundamental pre-requisites for SMEs to internationalize successfully. A third approach, rooted in the IMP group work (1982), focuses on the relational paradigm by examining the network of business interactions as resources (Håkansson, 1982; Walter *et al.*, 2006). Internationalization is considered as the extension, accessibility and integration in overseas business relations networks (Johanson and Mattsson 1988). The firm international expansion is therefore contingent to network participation in order to overcome the "liability of outsidership" (Sui and Baum, 2014; Blankenburg, Holm and Eriksson, 2000).

However, the literature is inconclusive regarding the relative value and the nature of networks and their importance in relation to performance outcomes of international SMEs. Networks increased sales growth only for firms with high internal capabilities but were not a means of getting capabilities (Lee et al, 2001) while authors studying firms in emerging-transition economies emphasize that SMEs' networking, particularly in the early phase of internationalization, stems from their intention to upgrade and enhance their existing resources and skills base via their internationalization in advanced markets (e.g., Guillén and García-Canal, 2009; Narula, 2012). In addition to the contextual differences of networks ties use, the study of networks effects with respect to the scale of internationalization which refers to "the extent of a firm's international operations'' (Kuivalainen et al., 2007a, p. 256) measured by the percentage of foreign sales to total sales. This is all the more important that findings relatively to the link between internationalization and performance are far from being congruent. Some prior studies highlight a U-shaped or inverted U-shape link, while other show linear - negative or positive - link (Ruigrok and Wagner, 2005; Contractor, 2007).

In consideration of these dissimilar patterns and the important role that networking capabilities might play in facilitating the internationalization of SMEs and fostering their performance (Håkansson and Snehota, 2002), there is a strong need to disaggregate the networks construct into its component pieces (Business, Political and Local communities' networks) and to examine their roles with respect to the scale internationalization.
Indeed, while the business network is likely to focus on market opportunities and then transform them into orders for products or services, political and local community networks ties having the capability to reduce the not invented here (NIH) syndrome by mitigating psychological, cultural and institutional distances. For example, Local communities networks can assist firms in their early stages of internationalization in terms of knowledge building and cope with the liability of foreignness (Johanson & Pao, 2012). Prior studies focus more on business networks (Sharma & Blomstermo, 2003) - political networks and local communities networks are entirely neglected and at best equated with the institutional environment. This allows us to identify the manner different types of networks operate with

respect to the internationalization scale. Indeed, an overreliance on a general network construct as a key determinant of the internationalization processes hinders the emergence of an accurate explanation of differences and commonalities of SMEs' international strategies.

This paper has a twofold objective: 1) to develop and test a framework for examining the antecedents of international and financial performance SMEs from a transition economy in the light of three different types of networks (business, political and local communities network ties) and 2) to analysis the moderating effects of those different network ties with respect to the scale of internationalization.
In raising and answering these questions, we respond to recent calls appealing for research on international entrepreneurship and performance in different national contexts (Aulakh & Kotabe, 2008; Kiss et al., 2012). Unlike Coviello's (2006) study examining the evolution of the networks structure with respect to the different stages undergone by the internationalization of the focal firms, we analyze the paramountcy and combination of three specific networks in parallel with two main stages of the process of internationalization.

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THE EFFECT OF INTERNATIONAL MARKET ENTREPRENEURSHIP AND INTERNATIONAL MARKETIN ORIENTATION CAPABILITIES ON INTERNATIONAL BUSINESS PERFORMANCE

In the literature, there are many antecedents of international performance. In this study, we focus on those internal to the firm (international market entrepreneurship and International Market Orientation Capabilities). Market orientation is a (1) culture that focuses on the economically viable creation and maintenance of superior customer value without neglecting the interests of other stakeholders, and a (2) set of behaviour-influencing norms that guide organizations' employees to constantly learn from changes in the marketplace (Narver and Slater, 1990 ; Slater and Narver, 1995). Market orientation unifies the efforts of the organization's members and departments, which results in above-average performance (Kohli and Jaworski, 1990). Research has also shown that externally oriented cultures have a stronger relation with business performance than internally focused attitudes (Deshpandé *et al.*, 1993; Hooley *et al.*, 2000). International market orientation entails a continuous approach on sensing and acting on events and trends in present and prospective international markets (Day, 1994). Moreover, international market orientation may be considered as a dynamic (outside-in) capability that supports the development of market-sensing processes focusing on foreign markets (Day, 1999; Slater and Narver, 1995; Teece *et al.*, 1997; Foley and Fahy, 2009). Our approach falls within the framework of the RBV (Barney, 1991) and its extension with the dynamic capabilities (Teece el al., 1997) highlighting the ability of a firm to change routines and reconfigure resources (including knowledge routines and knowledge resources).

The effect of international market entrepreneurship on international market orientation capabilities

According to Oviatt and McDougall (2005, p. 540) the field of international entrepreneurship is concerned with the "discovery, enactment, evaluation, and exploitation of opportunities—

across national borders—to create future goods and services". As such, international market entrepreneurship contributes to the identification of unobserved combinations of resources and customer demand, including the discovery of innovative solutions to the supply of existing products and services (Schumpeter, 1934, 1942; Mathews and Zander, 2010). The deployment of resources provides, among others capabilities, the foundation for marketing products and services (Young et al., 2000). Entrepreneurial managers re-engineer existing systems, which leads to completely new combinations of productive and marketing resources (Knight, 2000). Futhermore, innovation arises not just from the creation of new goods or services but also from the matching of existing goods and services with existing, unmet needs in new markets (Ellis, 2011). The inherent characteristics of the transition economy (e.g., the Hungarian economy) such as the size of the local market as well as the (de)regulations make incentive for SME's to look beyond borders and be entrepreneurial and proactive to exploit international opportunity. This leads to the following hypothesis:

H1: International market entrepreneurship positively affects international market orientation capabilities of SMEs.

The effect of international market orientation capabilities on international market performance

International market oriented behaviour provides a firm with a capacity to create superior value for international customers (Day, 1999), thus, it can lead to positional advantage and long-term international performance (Day and Wensley, 1988; Hunt and Morgan, 1995). Numerous studies have supported the positive relationship between international market orientation and multiple facets of international performance (e.g., Akyol and Akehurst, 2003; Cadogan and Diamantopoulos, 1998; Cadogan*et al.*,1999). In fact, market performance refers to the extent to which the firm's objectives are achieved through execution of international market orientation capabilities (Cavusgil and Zou 1994). International market orientation capabilities also features the face-to-face interactions which promote customer and supplier retention (Lu and Beamish 2006). Buyers having good relationships with Hungarian SME's exchange sufficient information with their supplier to know exactly what they expect but also provide information about the buyer's market business practices" and help SME's to perform in the foreign market. It follows that:

H2: International market orientation capabilities positively affect international market performance of SMEs.

The effect of international market orientation capabilities on international financial performance

A key element of market orientation is the capability to sense what is going on in the marketplace (Day, 1999). Market-sensing capability is a forward-looking quality of the firm that is sufficiently perceptive to movements in the marketplace, which enables the company to be ahead of its competitors in collecting and interpreting market intelligence (Kohli and Jaworski, 1990). The capability to sense the market includes the collection of information from beyond the firm's immediate operating environment and from non-ordinary sources (Day and Schoemaker, 2006). It is closely related to the learning ability of the company and,

according to Day (1999), can be regarded as an advanced aptitude for learning. Market-sensing capability can be considered a dynamic resource, as it supports the collection of information from both the immediate and the broad environment, as well as from non-ordinary sources. The resulting information base serves as a cornerstone of the firm's learning ability, which then again facilitates the further strengthening of market orientation in the organization (Slater and Narver, 1995). It has been argued that the most successful SMEs are those which adopted a market-driven approach (Dhanaraj and Beamish 2003). This approach is based on the gathering of relevant information about consumers' needs, commercial information and business intelligence (Julien et al. 2004; Raymond et al., 2014) that gives informational capabilities to the SMEs to reduce their commercial risks by customizing products and services in order to meet customers' needs, and therefore, be distinct from competitors. The identification of potential clients abroad is not easy (Chandra et al., 2009, Ciravegna et al., 2014) and requires marketing orientation capabilities. With such capabilities, SME's are more likely to discover suitable opportunities leading to better profit margins, return on sales and gross profits from new export countries. Put differently, the more International Market Orientation Capabilities the SME's have developed, the better the firm understand customers' needs and is able to develop a fruitful relationship (Raymond et al., 2014) leading to an international financial performance. This leads to the following hypothesis:

H3: International market orientation capabilities positively affect international financial performance of SMEs.

The effect of international market entrepreneurship on international market performance

International markets bring uncertainty for firms. As uncertainty increases, firms have to increase their capacity to innovate as they would be able to adapt to the changing environment (Kossyva *et al.*, 2014). SMEs 1) possess less cash flow and less equity reserves, 2) they are most often short-term oriented, 3) and lack the necessary skills to pursue long-term strategies (Ates and Bititci, 2011; Wesson and De Figueiredo, 2001). Small size, however, bring some advantage to SMEs, and that is flexibility and high degree of entrepreneurial orientation. Since SMEs are closer to their customers, they are more market- and learning oriented, that leads to more innovation and resilience (Salavou *et al.*, 2004), that are basic building stones of an entrepreneurial orientation. Entrepreneurial orientation entails an entrepreneurial style, ways and practice of decision-making (Wiklund and Shepherd, 2005). Entrepreneurial firms are autonomous, aggressive towards competition, proactive, innovative and willing to take risks (Lumpkin and Dess, 1996). However, these characteristics may occur in different combinations depending on the type of entrepreneurial opportunity the enterprise is faced with (Lumpkin and Dess, 1996). International market performance is related to sales growth (volume and turnover) or market share. The degree to which these objectives are attained in new export countries is a measure of international market performance. Product-market success in new export countries is likely to be achieved through pro-activeness and innovation intensity that distances the firm from rivals (Dess, Lumpkin, and Covin 1997). Moreover, according to Knight and Cavusgil (2004) international entrepreneurial firms are assumed to build on their knowledge capabilities and leverage them to achieve superior performance in international markets. The authors underline that superior international performance is an outcome of the firm's entrepreneurship (Autio et al., 2000). Moreover, entrepreneurial orientation is shown to be especially useful in uncertainty or

turbulent environments such as those characterizing international setting (Dess, Lumpkin, and Covin 1997; Miller and Friesen 1984). In highly turbulent and competitive markets, it is indispensable for SMEs to have substantial innovation capabilitie to differentiate from the competition (Sousa et al. 2008). Given the inherent uncertainty and the competition faced internationalized SME's, it is expected that SMEs with an entrepreneurial orientation will perform better than those that lack such an orientation. We thus hypothesize:

H4: International market entrepreneurship positively affects international market performance.

The effect of international market entrepreneurship on international financial performance

According to McDougall and Oviatt (2000: 903), international entrepreneurship is "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations". Prior research emphasizes a positive link between entrepreneurial character and their international expansion (e.g., Jantunen et al. 2008). For example, Zhou et al. (2010) indicate that firms' entrepreneurial propension increases their international sales growth which is considered as a financial indicator (Zhou et al., 2007). In a study of Finnish international ventures, Ruokonen and Saarenketo's (2009) underlines that - through the creation of organization wide learning capabilities - the performance benefits of an entrepreneurial orientation are evident. In the contrary, firms having tendency to be passive about the identification of suitable opportunities requiring costless operating resources or being extremely risk averse are likely to jeopardize their performance in these markets (Hilmersson et al., 2012; Liesch et al., 2011). From the above, we predict that:

H5: International market entrepreneurship positively affects international financial performance.

The effect of international market performance on international financial performance

Internationally, there are a number of risks inherent to distance from customers and asymmetric information. Despite the existing procedures hedging risks or use of international commerce terms (Incoterms), SMEs remain vulnerable and are exposed to longer payment terms and / or at risk of non-payment especially for new customers located in high risk countries (Leonidou, 2004). The management of these risks increases the need for liquidity and corporate working capital (St. Peter, 2003). Moreover, given the limited financial resources, the lines of production are medium or even low, hindering the realization of economies of scale. This is likely to increase the unit cost of production. Accordingly, we consider that the increase in international sales could help turn the plants more frequently, which would induce better financial performance. Therefore, the following hypothesis is proposed:

H6: International market performance positively affects international financial performance.

THE MODERATING EFFECT OF LOCAL COMMUNITIES NETWORK TIES, BUSINESS NETWORK TIES, AND POLITICAL NETWORK TIES

Empirical studies on the relationship between the internationalization process and the performance of SMEs exhibit conflicting findings (Martineau and Pastoriza, 2016). Sometime positive effect was found (e.g. Dhanaraj and Beamish, 2003; Golovko and Valentini, 2011). In other cases, the relationship is U-shaped (Sousa and Novello, 2014), or inverted U (Chiao et al., 2006a). It is also shown to be insignificant (Westhead et al., 2002) or negative (Lu and Beamish, 2006). In light of the foregoing, we bring an additional specification by including the network types as a potential moderator of the relationship between international market orientation and performance.

According to Ritter et al. (2002), network refers to the "ability of firms to develop and (manage relations with key suppliers, customers and other organizations and to deal effectively with the interactions among these relations". The network approach to internationalization is not new (Johanson and Vahlne 2003; Johanson and Mattson 1988) and is shown to provide positive outcomes in terms of international strategies and performance, and of sustainable competitive advantage (Ziggers and Henseler 2009). In the literature, network types are often dichotomized into social and business (Jeong, 2016). Social networks correspond to "networks that are developed from personal relationships" (Vasilchenko and Morrish, 2011, p. 90). The business relationship approach still plays a dominant role in studying the internationalization of the firm (Johanson and Pao, 2012). In this research work, we take a less general angle by specifying the types of networks. Three types of networks, namely the business, political, and local communities ones, are considered and their moderation effects are examined. In nutshell, we argue that network types (business, political, and local communities network ties) impact the relationship between marketing orientation capabilities and international market entrepreneurship and performance of SMEs differently with respect to low and moderate intensity to internationalization vs. high intensity to internationalization:

The effect of local communities network ties

The local communities network ties are social networks based on close personal relationships and were found to positively impact internationalization performance. Zhou *et al.* (2007) discussed the role of "guanxi" in internationalization and firm performance in the context of "born global" SMEs, employing 163 Chinese firms. Conversely to "Guanxi" in China, or "kankei" in Japan, "immak" in Korea, or "blat" in Russia, we study the role of local communities ties in the target foreign market of the SMEs. As small firms are typically lacking resources, local communities networks can significantly impact the firm's internationalization in the earlier stage and then in the presence of high intensity to internationalization other types of networks are mobilized. Accordingly, based on the above discussion, the following moderators are proposed:

H7: The stronger the local communities network ties,

a) the stronger the relationship between an international market orientation capabilities and international market performance of SMEs.

b) the stronger the relationship between an international market orientation Capabilities and international financial performance of SMEs.
c) the stronger the relationship between an international market entrepreneurship and international market performance of SMEs.
d) the stronger the relationship between an international market entrepreneurship and international financial performance of SMEs.

The effect of business network ties

Business networks refer to "a set of two or more connected business relationships, in which each exchange relation is between business firms that conceptualized as collective actors" (Anderson et al., 1994, p. 2). Studying entrepreneurial firms in their early internationalization Sharma and Blomstermo (2003) and Harris and Wheeler (2005) demontrated the benefits the role of business and social networks on the growth and success of such firms. Moreover, the modreating effects of business network ties on the relationships between International Market Orientation Capabilities and international market/financial performance and the other hand as well as between international market entrepreneurship and international market/financial performance should vary respectively to low and moderate intensity and high intensity to internationalization of Hungarian SMEs.

H8: The stronger the business network ties,
a) the stronger the relationship between an international market orientation capabilities and international market performance of SMEs.
b) the stronger the relationship between an international market orientation capabilities and international financial performance of SMEs.
c) the stronger the relationship between an international market entrepreneurship and international market performance of SMEs.
d) the stronger the relationship between an international market entrepreneurship and international financial performance of SMEs.

The effect of political network ties

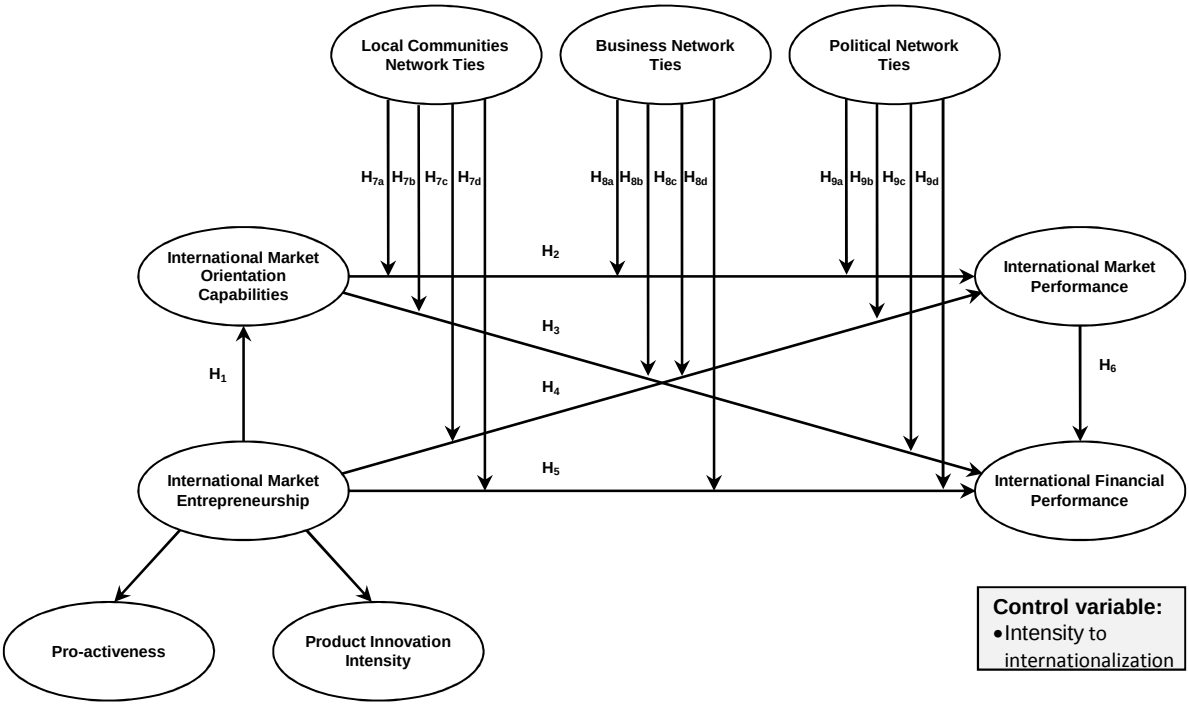
Considering the relationship between rapid internationalization and performance, the study of Musteen et al. (2010) reveals that an extensive reliance on networking activities actually hinders the performance of firm's first international venture. This result could be explained by the differentiating roles of network types. Indeed, some authors argued that closed networks that become a breeding ground for corruption (Tonoyan et al., 2010), low ethical standards (Bucar et al., 2003), low locus of control (Kaufmann et al., 1995) might contribute to the relatively lower levels of entrepreneurship development in Central and Eastern European countries. Therefore, in the course of internationalization for Hungarian' SMEs, we focus on the moderation effects of political network on the relationships between in one hand International Market Orientation Capabilities and international market/financial performance and the other hand, between international market entrepreneurship and international market/financial performance.

H9: The stronger the political network ties,

a) the stronger the relationship between an International market orientation capabilities and international market performance of SMEs.
b) the stronger the relationship between an international market orientation capabilities and international financial performance of SMEs.
c) the stronger the relationship between an international market entrepreneurship and international market performance of SMEs.
d) the stronger the relationship between an international market entrepreneurship and international financial performance of SMEs.

CONCEPTUAL FRAMEWORK

Figure 1
The effect of internationalization and networking capabilities on SME performance



Measurements and data collection

Data was collected from Hungarian export oriented SMEs. Industry experts claim that there are about 2,500 Hungarian SMEs that are capable of selling and actively marketing their products on international markets (http://exportkooperacio.hu/). Two data sources were used

to define the sampling frame for data collection: 1) a consulting company specializing on export oriented SMEs, and 2) Chamber of Commerce of Bács-Kiskun County. These partners provided us with postal and e-mail addresses, and telephone numbers of 1,357 export oriented SEMs. Thus, the sampling unit substantially covered the population of Hungarian export oriented SMEs. An electronic questionnaire was delivered to our selection of addresses. A professional Hungarian marketing research agency was commissioned to administer data collection based on the guidelines given by the authors by sending an e-mail request to SMEs. The online survey lasted from 23rd September, 2015 to 12th October, 2015. The sort of computer aided survey employed allowed for continuous contact with respondents, for monitoring the stages of completion, for respondents to be segmented by behavior, and for delivering targeted messages to them. Questionnaires were sent out in three phases, which finally yielded 51 fully completed questionnaires, giving a completion rate of 3.67 percent. A second wave of data collection was initiated on 4th February, 2016, by sending out paper copies of the questionnaire to 341 SMEs located in the Bács-Kis County in Hungary. By 2nd April, 2016 21 filled in questionnaires were returned, corresponding to a 6.16 percent response rate. After data cleaning a *t*-test was employed to assess the difference in items between the first and second wave of data collection. No significant differences were observed.

ANALYSIS

Factor analysis

Once the raw data had been cleaned, the variables were subjected to an exploratory factor analysis (EFA) in order to ensure that the sample distribution of the variables follows the theoretical structure. Due to low sample size three separate factor analyses were performed. A four, three, and three factor solution was generated for each set of variables (i.e., antecedents, performance measures, and moderators, respectively). After eliminating items with low factor loadings (<0.5 proposed by Hair *et al.*, 2006) factor structures with eigenvalues greater than one were derived.

The Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy (KMO=0.606, KMO=0.734, and KMO=0.653) and the Bartlett test of sphericity ($p<0.001$) confirmed that the fit was adequate. Total variance explained for the three factor structures was 85.16, 90.68, and 72.69 percent. The resulting factor structure was subjected to an internal consistency analysis. Cronbach's alpha values were between 0.841 and 0.950, which is evidence for the appropriate reliability of the measurement instruments (see Churchill, 1979). Factor structure revealed by the exploratory factor analyses were later used in path analysis.

Latent variables were created based on the factor structures derived with EFA. By assessing discriminant validity the procedure outlined by Fornell and Larker (1981) was applied. For this the square root of average variance extracted (AVE) for each of the latent constructs was compared to between-construct correlations (i.e. shared variance). An examination of AVE shows that for each pair of variables the extracted variance was greater than the squared correlations between the constructs. As such, discriminant validity was achieved (Fornell & Larker, 1981).

Path analysis

The relationships presented in the conceptual model were analyzed with SmartPLS 2.0 (Ringle, Wende & Will, 2005). Literature on international marketing categorizes companies into three groups based on their intensity to internationalization; that is synonymous to the degree of their internationalization (Salomon and Shaver, 2005). There is no consensus about the following: 1)the accurate threshold of low intensity to internationalization; 2) moderate intensity to internationalization; or 3) high intensity to internationalization. Therefore,taking into consideration the low response rate with the data collection we divided the data into two subgroups based on the mean value of total exports/total sales turnover (54.84 percent) yielding subgroups for SMEs with low and moderate (N=22) and high (N=29) intensity to internationalization. The main and moderation effects were analyzed with SmartPLS 2.0 (Ringle, Wende & Will, 2005). Coefficient of determination (R^2) of the endogenous latent variable (0.251−0.663) and the significant levels of path coefficients indicate moderate explanatory power for the model (Henseler, Ringle & Sinkovics, 2009), explaining 25.1 and 63.3 percent of the total variance for the endogenous variables.

FINDINGS

Main effects. Main effects finding are presented in Table 1. Regression coefficients of the path analysis show that the relationship of international market entrepreneurship (hereafter IME) and international market orientation capabilities (hereafter IMOC) is positive and significant for SEMs with low and moderate (hereafter group 1) and high intensity to internationalization (hereafter group 2) (β=0.657, p<0.05; β=0.529, p<0.05), hence supporting **H1**. IMOC have a negative effect on international market performance (hereafter IMP) for group 1 (β=−0.291, p<0.05), but no significant effect is present for group 2 (β=−0.164, ns), not supporting **H2**. The relationship of IMOC with international financial performance (hereafter IFC) is negative and non-significant for group 1 (β=−0.066, ns), while positive and significant for group 2 (β=0.299, p<0.05), lending support to **H3**. IME has a positive and significant effect on IMP for group 1 (β=0.661, p<0.05), but this relationship is non-significant for group 2 (β=0.283, ns), thus supporting **H4**. The IME−IFP relationship is negative and non-significant for group 1 (β=−0.077, ns), and negative and significant for group 2 (β=−0.459, p<0.05), hence **H5** in not supported. The effect on IMP on IFP is positive and significant for group 1 (β=0.782, p<0.05) and group 2 (β=0.290, p<0.05), thus supporting **H6**.

Moderation effects. Moderation effects were assessed by using product indicators approach by multiplying (mean-centered) indicators of the exogenous latent variable with each indicator of the moderator variable (Hari *et al.*, 2014). Moderating effects were analysed by investigating the direct relations of the exogenous and the moderator variable as well as the relation of the interaction term with the endogenous variable (Sharma *et al.*, 1981; Aiken and West, 1991; Jaccard and Turrisi, 2003). The hypothesis on the moderation is supported if the path coefficient of the interaction term is significant – regardless of the values of the path coefficients from the exogenous and the moderator variable (Baron & Kenny 1986). For assessing whether path coefficients capturing the moderating effects differ from zero bootstrapping was employed (Chin, 2010). The strength of the identified moderating effects

was assessed by comparing the proportion of variance explained (R^2) by the main effect model (i.e., the model without moderating effect) with the R^2 of the full model (i.e., the model with moderating effect). The effect size of the moderation (f^2) was calculated and assessed drawing on Cohen (1988). Results of the moderation effects for group 1 (i.e., SMEs with low and moderate intensity to internationalization) and group 2 (i.e., SMEs with high intensity to internationalization) are depicted in Table 2 and 3. Altogether eight moderation effects were identified.

Table 1
Results of the Path Analysis (Low and Moderate Intensity to Internationalization vs. High Intensity to Internationalization), N= 33 + 38 = 71

Hypo-thesis	Relationship	Intensity to international ization	Beta coefficient	t-value	Hypothesis supported
H1(+)	International Market Entrepreneurship (IME) → International Market Orientation Capabilities (IMOC)	Low+Mod.	**0.704**	**15.317****	Yes
		High	0.558	**7.809****	
H2(+)	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	Low+Mod.	**−0.291**	**2.250****	No
		High	−0.164	1.421	
H3(+)	International Market Orientation Capabilities (IMOC) → International Financial Performance (IFP)	Low+Mod.	−0.066	0.669	Yes
		High	**0.299**	**2.596****	
H4(+)	International Market Entrepreneurship (IME) → International Market Performance (IMP)	Low+Mod.	**0.661**	**6.697****	Yes
		High	0.283	1.550	
H5(+)	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	Low+Mod.	−0.077	0.615	No
		High	**−0.459**	**3.649****	
H6(+)	International Market Performance (IMP) → International Financial Performance (IFP)	Low+Mod.	**0.782**	**12.217****	Yes
		High	0.290	2.150	

**p<0.05

Table 2 shows that with group 1 the interaction of IMOC and local communities networks tie (hereafter LCNT) has a positive significant effect (β=0.302, p<0.05) on the relationship of IMOC and IFP (β=−0.066, ns). This implies that for high levels of LCNT the relationship of IMOC and IFP is positive, and for low levels of LCNT the relationship of IMOC and IFP is negative, hence supporting **H7b**. Furthermore, for group 1 the interaction of IME and LCNT takes a positive and significant value (β=0.214, p<0.05). It implies that for high levels of LCNT the relationship of IME and IFP is positive, while for low levels of LCNT the relationship becomes negative, thus supporting **H7d**. Table 2 also shows that the interaction of IMOC and political network ties (hereafter PNT) has a negative effect (β=−0.263, p<0.05) on the relationship of IMOC and IMP. By interpreting the interaction term, we can conclude that with high levels of PNT the relationship of IMOC and IMP relationship is negative, but with low levels of PNT this negative relationship weakens. **H9a** is therefore rejected. And finally the interaction of IMOC and PNT positively effects (β=0.321, p<0.05) the IMOC−IFP relationship that implies that for high levels of PNT there is a positive relationship between IMOC and IFP, but this relationship becomes negative if IFP takes lower values. Thus, **H9b** is accepted.

Table 3 shows the results of the moderation analysis for group 2. The interaction of IMOC and IFP has a negative effect on the relationship (β=−0.448, p<0.05) of IMOC and IFP. It follows, that for high levels of LCNT the relationship of IMOC and IFP is negative, while for low levels of LCNT this relationship becomes positive. **H7b** is rejected. As Table 3 shows

the interaction of IMOC and IFP is negative (β=−0.365, p<0.05). IT implies that as business network ties (hereafter BNT) takes higher values, the relationship between IMOC and IFP is negative, while for low values of BNT the relationship of IMOC and IFP becomes positive, hence rejecting **H8b**. Furthermore, the interaction of IME and BNT takes a positive value (β=0.387, p<0.05), signifying that for high levels of BNT the relationship between IME and IMP is positive, and for low levels of BNT this relationship is negative. Thus, **H8c** is accepted. The interaction of IMOC and PNT has a negative effect (β=−0.384, p<0.05) on the relationship of IMOC and IFP, implying that for high levels of PNT the relationship between IMOC and IFP is negative, but for low levels of PNT the latter relationship becomes positive. **H9b** is therefore accepted.

Table 2
Results of the Moderation Analysis (Low and Moderate Intensity to Internationalization), N=33

Hypo-thesis	Single effects	Beta coeff.	t-value	Interactions	Beta coeff.	t-value	Hypothesis supported
H7a	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	**−0.291**	**2.250****	International Market Orientation Capabilities (IMOC) x Local Communities Network Ties (LCNT)	0.239	1.257	No
H7b	International Market Orientation Capabilities (IMOC) → International Financial Performance (IMP)	−0.066	0.669	International Market Orientation Capabilities (IMOC) x Local Communities Network Ties (LCNT)	**0.302**	**5.006****	Yes
H7c	International Market Entrepreneurship (IME) → International Market Performance (IMP)	**0.661**	**6.697****	International Market Entrepreneurship (IME) x Local Communities Network Ties (LCNT)	−0.182	0.881	No
H7d	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	−0.077	0.615	International Market Entrepreneurship (IME) x Local Communities Network Ties (LCNT)	**0.214**	**2.310****	Yes
H8a	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	**−0.291**	**2.250****	International Market Orientation Capabilities (IMOC) x Business Network Ties (BNT)	0.237	1.737	No
H8b	International Market Orientation Capabilities (IMOC) → International Financial Performance (IFP)	−0.066	0.669	International Market Orientation Capabilities (IMOC) x Business Network Ties (BNT)	0.230	1.730	No
H8c	International Market Entrepreneurship (IME) → International Market Performance (IMP)	**0.661**	**6.697****	International Market Entrepreneurship (IME) x Business Network Ties (BNT)	−0.166	0.987	No
H8d	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	−0.077	0.615	International Market Entrepreneurship (IME) x Business Network Ties (BNT)	−0.306	1.820	No
H9a	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	**−0.291**	**2.250****	International Market Orientation Capabilities (IMOC) x Political Network Ties (PNT)	**−0.263**	**3.286****	No
H9b	International Market Orientation Capabilities (IMOC) → International Financial Performance (IFP)	−0.066	0.669	International Market Orientation Capabilities (IMOC) x Political Network Ties (PNT)	**0.321**	**2.168****	Yes
H9c	International Market Entrepreneurship (IME) → International Market Performance (IMP)	**0.661**	**6.697****	International Market Entrepreneurship (IME) x Political Network Ties (PNT)	−0.448	1.333	No

H9d	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	−0.077	0.615	International Market Entrepreneurship (IME) x Political Network Ties (PNT)	0.069	0.624	No

**p<0.05

Table 3

Results of the Moderation Analyses (High Intensity to Internationalization), N=38

Hypo-thesis	Single effects	Beta coeff.	t-value	Interactions	Beta coeff.	t-value	Hypothesis supported
H7a	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	−0.164	1.421	International Market Orientation Capabilities (IMOC) x Local Communities Network Ties (LCNT)	−0.264	1.448	No
H7b	International Market Orientation Capabilities (IMOC) → International Financial Performance (IMP)	**0.299**	**2.596****	International Market Orientation Capabilities (IMOC) x Local Communities Network Ties (LCNT)	**−0.448**	**6.134****	No
H7c	International Market Entrepreneurship (IME) → International Market Performance (IMP)	0.283	1.550	International Market Entrepreneurship (IME) x Local Communities Network Ties (LCNT)	−0.311	1.921	No
H7d	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	**−0.459**	**3.649****	International Market Entrepreneurship (IME) x Local Communities Network Ties (LCNT)	−0.364	1.322	No
H8a	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	−0.164	1.421	International Market Orientation Capabilities (IMOC) x Business Network Ties (BNT)	−0.285	1.083	No
H8b	International Market Orientation Capabilities (IMOC) → International Financial Performance (IFP)	**0.299**	**2.596****	International Market Orientation Capabilities (IMOC) x Business Network Ties (BNT)	**−0.365**	**4.253****	No
H8c	International Market Entrepreneurship (IME) → International Market Performance (IMP)	0.283	1.550	International Market Entrepreneurship (IME) x Business Network Ties (BNT)	**0.387**	**2.023****	Yes
H8d	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	**−0.459**	**3.649****	International Market Entrepreneurship (IME) x Business Network Ties (BNT)	−0.349	1.714	No
H9a	International Market Orientation Capabilities (IMOC) → International Market Performance (IMP)	−0.164	1.421	International Market Orientation Capabilities (IMOC) x Political Network Ties (PNT)	−0.255	1.634	No
H9b	International Market Orientation Capabilities (IMOC) → International Financial Performance (IFP)	**0.299**	**2.596****	International Market Orientation Capabilities (IMOC) x Political Network Ties (PNT)	**−0.384**	**5.753****	No
H9c	International Market Entrepreneurship (IME) → International Market Performance (IMP)	0.283	1.550	International Market Entrepreneurship (IME) x Political Network Ties (PNT)	−0.316	1.635	No
H9d	International Market Entrepreneurship (IME) → International Financial Performance (IFP)	**−0.459**	**3.649****	International Market Entrepreneurship (IME) x Political Network Ties (PNT)	−0.461	1.859	No

**p<0.05

6. Discussion and conclusion

This study simultaneously addresses the effect of IME and IMOC on performance and three types of networks in the case of SMEs from transition economies. Previous research work has suggested a direct link between networks and firm performance. Relationships are treated as homogeneous and general (cf. Coviello, 2006).There is no study on the impact of the network of specific relationships. Our main assumption is that all networks are not the same. In this study, we take a differentiated standpoint with regard to networks' moderated effects on the relationship between International Market Orientation Capabilities and International Market Entrepreneurship and International Performance (market and financial) with respect to the scale of internationalization (Low, Moderate and High). In our view, the study adds instructively to the understanding of internationalization strategy of SMEs.

In the earlier stages of internationalization, strong local communities networks ties strengthen the relationship between International Market Orientation Capabilities and International Financial Performance as well as the relationship between International Market Entrepreneurship and International Financial Performance. These results confirm that SMEs use local communities on international markets as a resource. In contrast, political network ties weaken the relationship between International Market Orientation Capabilities and international market performance, however strong political network ties strengthen the relationship between international market orientation capabilities and international financial performance. First of all, given the accession of transition countries to the EU making it easier for people to move from these countries to other EU members, this would promote creating and maintaining networks such as local communities. Second, the initial reflex of politics in the target countries is to seek to protect local jobs by saving, at least for a while, their local producers. Known as "non-tariff barriers", those practices increase trade costs and decrease financial performance. Moreover, in this early stage of internationalization, there is a period of observation, a kind of taming with local politics in order to know the intentions of the foreign firm about its seriousness to supply the market in a sustainable way. In contrast, when the relationship with the local politics is strong, it substantially supports business by appearing as a deposit, a strong signal of compliance of the firm with local market requirements, improving its reputation…and its legitimacy.

In the advanced stages of internationalization, strong local communities networks ties and political network ties weaken the relationship between international market orientation capabilities and international financial performance. At the same time strong business network ties strengthen the relationship between international market entrepreneurship and international market performance. Strong political network ties in the advanced stages of internationalization would weaken the relationship international market orientation capabilities and international financial performance. The most effective network in the advanced stages of internationalization is strong business network ties. This result shows that over time the reinforcement of business relationships appears to be a critical resource of the firm (IMP, 1982). This could be explained by the experience gained in the target countries, enabling the SME to develop a greater culture sensitivity. This implies that the international

SME should concentrate its efforts on its business network in order to maintain its market and financial performance.

7. Study limitations

This study has some limitations. The first is related to the sample size. In spite of many numerous attempts to maximize the response rate, only 71 responses were gathered. The second limitation is due to the fact that the key informants responded to the questionnaire items based on their perceptions of the business realities. Furthermore, the results of our structural equation modeling rest on cross sectional data. Establishing a foothold on international markets takes remarkable amount of time and investment, and managing networks in the light of the ever changing environment is a dynamic process, the understanding of which requires time series data. Above that, although our structural model provides a comprehensive snapshot on the interplay of firm resources, capabilities, performance and different types of networks, it is rather limited in capturing the simultaneous occurrence of different types of network usage. It could happen that internationally oriented SMEs may benefit from their different network ties simultaneously, and a higher order interaction between these networks exists that helps SMEs to reach their business goals. A set-theoretic approach might be used to disclose the level of complexity of these interactions.

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APPENDICES

Appendix 1

Results of the Exploratory Factor Analysis – Antecedents

	Measure Items	Factor 1	Factor 2	Factor 3	Factor 4
International Market Orientation Capabilities					
1	~~Turning an understanding of export customers' needs into a strategy for competitive advantage~~				
2	Ensuring that business objectives are driven primarily by export customer satisfaction	0.886			
3	Creating export customer value	0.804			
4	Responding to changes in foreign customers' product or service needs	0.821			
Decision Making Autonomy					
7	Export personnel have behaved autonomously		0.892		
8	Export personnel were self-directed in pursuit of export opportunities		0.947		
9	Export personnel have acted independently to carry out their ideas through to completion		0.915		
Pro-Activeness					
12	We sought to exploit anticipated changes in our export countries ahead of our rivals			0.778	
13	We seized initiatives whenever possible in our export country operations			0.841	
14	We have consistently tried to position ourselves to meet emerging export country demands			0.873	
Product Innovation Intensity					
18	Our company has produced more new products/services for our export countries				0.776
19	On average, each year we have introduced more new products/services in our export countries				0.857
20	Industry experts would say that we are more prolific when it comes to introducing new products/services				0.918
	Cronbach's α	0.877	0.913	0.846	0.885

Appendix 2

Results of the Exploratory Factor Analysis – Consequences

	Measure Items	Factor 1	Factor 2
International Market Performance			
1	Sale volumes in our new export countries	0.882	
2	Sales turnovers in our new export countries	0.915	
3	Sales revenue growth in all new export countries	0.897	
4	Sales volume growth in all new export countries	0.945	
International Financial Performance			
7	Profit margins from all new export countries		0.920
8	Return on sales from all new export countries		0.943
9	Gross profits from all new export countries		0.887
	Cronbach's α	0.950	0.931

Appendix 3

Results of the Exploratory Factor Analysis – Moderators

	Measure Items	Factor 1	Factor 2	Factor 3
	Political Network Ties			
1	Over the past 3 years, our managers have built relationships with people in the 'Political Institutions' (a few)	0.812		
2	Over the past 3 years, our managers have built relationships with people in the 'Political Institutions' (limited)	0.830		
3	~~Over the past 3 years, our relationships with these 'Political Institutions' were (shallow)~~			
4	~~Over the past 3 years, our relationships with these 'Political Institutions' were (distant)~~			
5	Over the past 3 years, we interacted with our contacts in 'Political Institutions' (rarely)	0.794		
6	Over the past 3 years, we interacted with our contacts in 'Political Institutions' (seldom)	0.761		
	Business Network Ties			
7	Over the past 3 years, our managers have built relationships with people in 'Businesses' (a few)		0.826	
8	Over the past 3 years, our managers have built relationships with people in 'Businesses' (limited)		0.818	
9	~~Over the past 3 years, our relationships with these 'Businesses' are (shallow)~~			
10	~~Over the past 3 years, our relationships with these 'Businesses' are (distant)~~			
11	Over the past 3 years, we interacted with our contacts in 'Businesses' (rarely)		0.830	
12	Over the past 3 years, we interacted with our contacts in 'Businesses' (seldom)		0.806	
	Local Communities Network Ties			
13	~~Over the past 3 years, our managers have built relationships with people in the 'Local Communities' (a few)~~			
14	~~Over the past 3 years, our managers have built relationships with people in the 'Local Communities' (limited)~~			
15	~~Over the past 3 years, our relationships with these 'Local Communities' were (shallow)~~			
16	~~Over the past 3 years, our relationships with these 'Local Communities' were (distant)~~			
17	Over the past 3 years, we interacted with our contacts in 'Local Communities' (rarely)			0.895
18	Over the past 3 years, we interacted with our contacts in 'Local Communities' (seldom)			0.919
	Cronbach's α	0.841	0.841	0.902

Appendix 4
Construct Reliability, Correlations and Square Root of AVE

		Composite Reliability	1	2	3	4	5	6	7	9
1	International Market Orientation Capabilities	0.924	**0.896**							
2	Pro-activeness	0.908	0.480**	**0.876**						
3	Product Innovation Intensity	0.929	0.507**	0.439**	**0.902**					
4	International Market Performance	0.964	0.119	0.214	0.307**	**0.933**				
5	International Financial Performance	0.956	0.015	-0.025	-0.034	0.423**	**0.938**			
6	Political Network Ties	0.830	0.114	-0.112	0.249*	0.030	0.053	**0.809**		
7	Business Network Ties	0.888	0.036	0.053	0.184	0.077	-0.250*	0.087	**0.817**	
9	Local Communities Network Ties	0.946	0.003	-0.123	0.035	-0.091	-0.068	0.461**	0.174	**0.947**

N = 71, **p<0.10 *p<0.05

***Note*:** Square roots of AVE estimates are on the diagonals; correlations of the constructs are below the diagonals