

Firm Size and the Nature of International Relationships: The Case of Globally Integrated Small Firms

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During the past quarter of a century or so there was a marked increase in the number of studies exploring the internationalization of the small firm. The basic premise of this body of literature was that the size of the firm mattered in the process of internationalization. Research in this area focused heavily on types of forward integration (particularly exporting), and examined a handful of key research questions: which national markets shall a small firm enter, how, and when, as well as the impact of internationalization on business performance. Rather unexpectedly, to date there have been no studies exploring the impact of firm size on the nature of relationships created by small firms. This paper aspires to address this gap in the literature by focusing upon globally integrated small enterprises. Drawing on the evidence of 755 firms in five EU countries the paper argues that there are no profound differences in the nature of international relationships created by globally integrated small firms in comparison to their large-scale counterparts. More importantly, however, the paper suggests that power asymmetry and mutuality may coexist in international relationship, and small firms may often occupy positions of power in global commodity chains.

Introduction

The past 20 years or so have been marked by a near universal acknowledgement of the increased integration of firms of all sizes (and particularly small)

in international and global networks of production and distribution (Kalantaridis 2004; Tesar and Moini 1998). This led to the emergence of a growing number of studies exploring the internationalization of the small firm (Wright, Westhead, and

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Ucbasaran 2007). This body of knowledge is underpinned by the conceptual premise that “size matters.” The impact of smallness is invariably conceptualized in terms of resource-related constraints (OECD 2002), as well as the overarching influence of the entrepreneurial personality (McDougal and Oviatt 2000). The argument goes that as a result of size, the internationalization processes recorded in small businesses are significantly different from those concerning large—often multinational—enterprises (Dimitratos and Jones 2005).

Despite a proliferation of definitions, internationalization, in the small business literature, is viewed as a process of increasing involvement in international operations (Welch and Luostarinen 1993). In applying this concept to the analysis of empirical evidence most—although by no means all—studies focus heavily on forward internationalization, and on export in particular (Kalantaridis 2004; Ruzzier, Hisrich, and Antoncic 2006). The internationalization of the small firm literature focuses heavily on a handful of key research questions: Which national markets shall a small firm enter? How (mode of entry), and when (in relation to the stage in the development of the firm)? As well as the impact of internationalization on business performance (for comprehensive reviews of the literature see Coviello and McAuley 1999; Fillis 2001; Ruzzier, Hisrich, and Antoncic 2006; and Wright, Westhead, and Ucbasaran 2007). The bulk of this research maintains a strong policy orientation: exploring the actions needed in order to encourage small firms to internationalize (EIM 2005). Within this context, particular emphasis is placed on overcoming liabilities relating to “newness,” “smallness,” and “inexperience,” as well as the perceived power of large firms that may dominate markets (Wright, Westhead, and Ucbasaran 2007). Within this context, the development of networks and relationships is often

viewed as a means of ensuring “that appropriate resources, knowledge, and learning are accumulated to provide a positive platform for internationalization” (Wright, Westhead, and Ucbasaran 2007, 1023). Rather unexpectedly, however, to date, there have been no studies exploring the impact of firm size on structures governing relationships created by small firms (a gap also identified in the most recent review of the relevant literature by Wright, Westhead, and Ucbasaran 2007).

The concept of the relationship emerges as central for the purposes of this article. At its most elementary, Håkansson and Snehota define the relationship as a “mutually oriented interaction between two reciprocally committed parties” (Håkansson and Snehota 1995, p. 39). A distinction between interpersonal (where individuals are the actors involved in the interaction) and interorganizational (where organizations are the main actors) has been usefully deployed by researchers (Hyder 2008). This article focuses squarely on relationships between organizations, and particularly relationships involving transactions either with buyers (forward) or suppliers/subcontractors (backward). Interorganizational relationships are by definition more stable than spontaneous exchange; however, they can also change and/or break down over time. Although continuity and frequency of interactions between the organizations involved are the visible manifestations of relationships, it is the structures that govern relationships (defined in the following section of this article) that defines their evolution through time. Central in deciphering governance structures of interorganizational relationships are the concepts of mutuality and asymmetric power. Mutuality, drawn from transaction cost economics, is viewed here as the (economic) advantage gained from voluntary exchange between partners (Williamson 2002). Mutuality is linked to

the fact that economic actors depend on each other for the acquisition of what one wants but does not own. As far as power is concerned, this is defined as the ability of an actor to produce intended effects within a relationship, that allows this actor to realize his/her purposes within it, whatever these purposes happen to be (modified by Beetham 1991). Within relationships, most actors possess some power. However, some actors are more powerful than others; therefore, it is relative power endowments (and asymmetric power) that are of significance.

This article sets out to examine the impact of firm size on governance structures of forward and backward international (interorganizational) relationships. In doing so, the article aims to combine insights gained from two bodies of literature: transaction cost economics (which influenced previous research on the internationalization of the small firm), and the global commodity chain (GCC) approach. The latter, rather surprisingly, has before failed to influence existing debates on small firm internationalization. In order to capture the

specificity of relationships in small firms, the article compares the experience of globally integrated firms of this size with their medium and large-scale counterparts, drawing on the results of a survey of 755 firms located across five European Union (EU) countries and four sectors.

Globally integrated firms are defined here by their involvement in geographically dispersed activities that require a considerable degree of connectivity and integrated management decision-making across national borders. Partly as a result of its functional integration in global networks of production and distribution, the globally integrated firm demonstrates extensive involvement and commitment to international activities that include a combination of: exporting, importing, international sub-contracting-in and out, affiliation to other foreign company, or foreign investment.¹

This article is organized as follows. The following section undertakes a focused review of the literature. Then, the article examines, in some detail, the methods used in the fieldwork investigation, as well as the main variables used in the analysis. The findings of the enter-

¹The internationalization characteristics of the firms surveyed demonstrate a degree of commitment and involvement in international markets that goes beyond exporting and importing and includes international subcontracting arrangements, and inward and outward investment (through subsidiaries and joint ventures). Thus, exports are reported by more than 90 percent of the firms surveyed (one in five businesses export 100 percent of sales). Moreover, around three-quarters of the respondents are involved in international subcontracting in. International in-sourcing is reported by around a third of the respondents, often in the form of international subcontracting out. Lastly, a quarter of the firms are affiliates of international companies, whereas 13 percent engage themselves in direct investment overseas.

Disparities between small, medium, and large enterprises exist regarding some of the internationalization dimensions. Indeed, there is only modest diversity in the incidence of exporting: some 82 percent of small firms maintained forward international relationships in comparison with 94 percent for medium-sized businesses, with large firms somewhere in between (90 percent). However, there is significant difference in percentage of firms that direct 100 percent of their sales turnover to international markets. Just 9 percent of small firms do so, in comparison with 28 percent of large ones. This cannot be explained on account of disparities in international subcontracting-in as these are virtually nonexistent. There are also precious few disparities in the incidence of backward relationships between enterprises of different size—ranging from 27 percent among small and medium-sized firms to 30 percent among large ones. This is also the case regarding their importance as well as international subcontracting out.

prise survey are presented in the fourth section of the article: distinguishing between forward and backward international relationships. Finally, the article offers some conclusions.

The Literature

Internationalization of the Small Firm

As stated in the introductory section of the article, there is no research exploring the impact of firm size on the governance structures of international relationships created by small firms. This is despite the fact that the importance of relationships is readily acknowledged in the existing literature. This is because existing relationships may assist internationalization either through a process of gradual learning through interaction (Johanson and Mattson 1993) or through a symbiosis with large firms (Dana and Wright 2004). As far as the former is concerned, relationships were examined in the context of breaking out of the confines of the national market. Thus, researchers examined how existing networks (within the country of origin) may be used in the process of moving beyond the national boundaries (Johanson and Mattson 1993). One of the key considerations within this context is how small firms may exploit their position in domestic networks in internationalization (Ruzzier, Hisrich, and Antoncic 2006). This is not very dissimilar to one of the line of (conflicting) arguments developed in relation to small and large-firm symbiosis. This perceives relationships between small and large firms as a means to overcome size-related barriers to expansion beyond the national borders (Acs et al. 1997; Le Gales et al. 2004; Phelps, Fallon, and Williams 2001). On the other side, there are others who adopt a more skeptical view. They argue

that small firms may become dependent on resources controlled by large firms (O'Farrell, Wood, and Zheng 1998; Pfeffer and Salancik, 1978).

A similar argument is developed by Morrissey and Pittaway (2006) in their study of buyer-supplier relationships (generic rather than internationally focused). Their argument goes that small firms are more or less inherently in a position of weakness in relationships governed by asymmetry of power.² In contrast, they argue, that in the absence of power, trust offers small firms a viable alternative for managing relationships. This leads them to conclude that small firms use different methods (more informal and trust based) when engaging in purchasing relationships and, thus, should be viewed differently from their large-scale counterparts (Morrissey and Pittaway 2006). However, this thesis cannot be readily transferred to the case of international relationships on account of the impact of diverse institutional and cultural factors on relationships. This brings to the fore the first research question of the article:

Research Question 1: Do globally integrated small firms develop and maintain international relationships that are different (in terms of their governance structure) from those of their medium and large-scale counterparts?

Transaction Cost Economics and the GCC

This article aspires to enrich current work on the internationalization of the small firm through critical engagement with literature emanating from two different quarters. The first involves recent advances in transaction cost economics (Williamson 2005), whereas the

²Exceptions to this rule involve a "small company operating in a niche market or offering specific expertise to its customers" (Morrissey and Pittaway 2006, p. 276).

second comprises of the globalization/delocalization debate (Gereffi, Humphrey, and Sturgeon 2005). Research in both of these contexts is driven by, and can be brought together around, the question: “if production is increasingly fragmented across space and between firms, then how are these fragmented activities coordinated” (Gereffi, Humphrey, and Sturgeon 2005, p. 80)?

Transaction cost economics focuses squarely on relationships of exchange between organizations (transactions) and sets out to explain the choice of emerging governance structures. Williamson (2005) defines governance using Commons’ “triple of conflict, mutuality and order.” Thus, governance is the “means by which to infuse order, thereby mitigate conflict and realize mutual gains” (Williamson 2005, p. 3). Within this context, the concept of mutuality is central in deciphering spot markets, hybrids (a variety of long-term contracts) and hierarchies. However, Williamson attaches relatively less importance to power, both on account of the fact that it is diffused and ill-defined, but also because power asymmetries can be foreseen and only entered into voluntarily when the benefits accrued by those involved in the transaction (and especially the less powerful agent) exceed the costs (Williamson 1996).

The choice of governance structure is influenced by asset specificity (which takes a variety of forms, including physical, human, site, dedicated, and brand name), the characteristics of the institutional setting (and the ensuing disturbances to which transactions are subject), and the frequency of transactions (Williamson 2002). In the case of transactions that cut across national boundaries with differing institutional settings and increased costs of transacting, hierarchical and quasi-hierarchical governance structures may be the preferred choice. This in turn suggests that large firms may be better equipped

to manage (or emerge as the result of) internationalization.

The globalization/delocalization debate also provides useful insights into the reconfiguration of industrial dynamics in increasingly integrated networks of production and distribution. Advocates of this approach set out to investigate the emergence of a new global manufacturing system, in which integration extends beyond international trade, to include centrally coordinated but territorially dispersed production of activities along the chains of individual commodities (Raikes, Jensen, and Ponte 2000). Central to the function of commodity chains is the concepts of power and positioning. Where and how power can be used is also linked to the positioning of companies along the value chain, and the type of value chain within which they operate. In captive value chains, like hierarchies, there is a high degree of explicit coordination and asymmetrical power between the parties involved in the relationship, whereas in relational value chains, coordination is achieved through close dialog between more or less equal parties (Gereffi, Humphrey, and Sturgeon 2005). Lastly, in modular chains, as in markets, the level of coordination is modest and switching partners is easy. Recent advances in this context explore the process of relationship building, where time and common experience of give and take and/or power asymmetries that can also govern relationships, are essential for continuity (Kalantaridis, Slava, and Vassilev 2008). More specifically, power asymmetry in relationships that continue over long periods of time, may underpin the emergence of mutuality. Moreover, even relationships defined by mutuality may benefit from some—modest—degree of power asymmetry. This could help overcome friction and impasse in the case of hotly contested decisions. In both of these senses, the complexity of transacting across institutional contexts means

that the coexistence of mutuality and power are conditions making such relationships possible. This offers a more nuanced understanding of power asymmetry and mutuality in a specific relationship, which underpins the second research question of this article:

Research Question 2: Does the incidence of power asymmetry and mutuality (as governance structures) differ in international relationships created by globally integrated small firms, and medium and large ones?

Introducing the concept of the commodity chain has implications about how small-firm internationalization is conceptualized. A commodity chain, therefore, traces the entire trajectory of a product from its conception and design, through to retail and consumption—linking households, enterprises, regions and states to one another (Gereffi, Humphrey, and Sturgeon 2005). Commodity chains are the means of transmitting sector specific influences from the world markets: facilitating the analysis of the dynamics and structure of global industries (Bair and Gereffi 2001). Viewed from the point of view of the firm research into commodity chains necessitates research into both forward (with buyers) and backward (with suppliers) relationships. This underpins the third research question of the article:

Research Question 3: Does the governance structure of forward (with buyers) international relationships differ from that of backward (with suppliers) ones in the case of globally integrated small firms?

Methodology

Field Research

This article draws upon the findings of 755 interviews with chief executive

officers (in the case of independent firms) and senior managers (in the case of branches or subsidiaries of multinationals) in five countries namely: the UK, Greece, and three former socialist economies in Eastern Europe—Poland, Estonia, and Bulgaria. The choice of the countries selected was influenced in large part by prevailing knowledge regarding the implications of global integration on the geography of production in Europe. Thus, the UK was selected as an example of an early industrial nation that experienced the flight of enterprises and jobs (because of enhanced competition from newly industrializing countries) during the postwar era. Greece was one of the beneficiaries of these processes in the 1960s, 1970s, and 1980s but itself suffered from the relocation of economic activity in postsocialist regimes (after 1989). Poland and Estonia, who were among the first postsocialist regimes to enter the EU, and Bulgaria, a late member, were among the main beneficiaries of the relocation of enterprises and employment away from countries like Greece. As can be seen from Table 1, there was an intentional heterogeneity in the sample, placing increased emphasis on new rather than old EU members. This is because Eastern European countries are widely acknowledged in the literature as the main beneficiaries (and potentially future losers) in the process of global integration—a view supported by numerous recent studies (Kalantaridis, Slava, and Sochka 2003; Kalantaridis, Slava, and Vassilev 2008; Pickles et al. 2006; Smith 2003). Thus, the overrepresentation of enterprises surveyed in these countries may facilitate insights into relationships developed with both buyers in old member states and suppliers from further East. Nonetheless, the significant diversity in the number of enterprises involved in the survey between Eastern and European coun-

tries may influence results. As a result, the impact of country—as a variable explaining variation—is reported in all instances where significant disparities exist.

The sectors involved in the study were: clothing and footwear (two traditional manufacturing sectors that have been at the forefront of the move of production from advanced industrialized to intermediate, less developed and postindustrial economies), electronics (a technology-intensive manufacturing sector, where the pursuit of low-cost locations is becoming increasingly apparent for assembly type operations), and software (a services industry where knowledge-based competitive advantages remain in advanced industrialized countries and increasingly engage the highly skilled workforce of postsocialist regimes). The four sectors examined here capture a profound diversity in commodity chains—facilitating the introduction of insights from the GCC approach. More specifically, electronics and software are undoubtedly supplier-driven, whereas clothing and footwear are buyer-driven. There were also some disparities regarding the sectoral distribution of the sample—mainly an underrepresentation of footwear. This was the result of the low number of enterprises in the sector in smaller

countries—such as Greece and Estonia. The sectoral impact is also examined throughout the article as an explanatory variable for apparent diversity.

The enterprises surveyed were randomly selected, but were not representative given the emphasis placed in the study on the process of global integration. In order to conduct the survey, a list of companies in the four sectors included in the study was compiled using commercial data sets, and telephone directories in each country in July 2005. In September–October 2005, enterprises, randomly selected from the database, were contacted, over the telephone, in order to explore their eligibility (in the sense that they were involved in international operations). Five filter questions were used in order to identify companies that could be included in the survey. These questions explored whether the enterprise (1) was an affiliate of a foreign firm; (2) received or (3) provided international subcontracting; (4) was involved in any other international operations; or (5) had affiliates abroad. A positive response in at least one of these five questions was essential for participation in the study. Because of the methods used for the selection of the enterprises surveyed, the findings do not capture representativeness, but—instead—aspire

Table 1
Locational and Sector Distribution of the Enterprises
Surveyed (Absolute Numbers)

	Software	Electronics	Clothing	Footwear	Total
Bulgaria	51	44	61	44	200
Estonia	52	77	60	11	200
Poland	50	24	92	34	200
Greece	20	21	31	8	80
UK	18	23	12	22	75
Total	191	189	256	119	775

to provide insights into the processes at work in global networks of production and distribution. In order to complete these interviews some 3,230 enterprises were contacted—i.e., a response rate of over 20 percent.

For the purposes of the study, a survey questionnaire, focusing squarely on the firm, was deployed. The questions included drew heavily upon insights gained from a wide body of literature exploring the processes, strategies, relationships and performance of firms involved in activities that cut across national boundaries. Approximately three-quarters of the questions were closed and coded, whereas the remaining were open-ended. Closed questions provided us with a total of 271 variables (entered and processed with the Statistical Package for the Social Sciences) covering themes such as the characteristics of the firm, exports, in-sourcing, outsourcing, firm subsidiaries, and delocalization effects.³ Approximately one-tenth of these variables were relevant and were used for the purposes of this article. The questionnaire was developed in English and was then translated into the national languages of the countries involved (Greek, Polish, Estonian, and Bulgarian). Pilot interviews were conducted in each country for the purposes of content and face validity as well as language issues. The interviews companies were conducted between October 2005 and March 2006, and each interview lasted approximately 1 h.

The unit of analysis for the purposes of this study is the firm. Standard EU definitions are used in order to define firm size. More specifically, the employ-

ment criterion (alongside independence) was central in defining size as it was more reliable than sales turnover in the case of countries such as Greece and Bulgaria where a significant percentage of economic activity takes place in the shadow economy and is thus not recorded. Therefore, small enterprises are identified here as those employing up to 49 persons, and are invariably independent. There are a handful of instances where small firms are owned by another organization, but in this case, the combined size of parent and subsidiary does not exceed 49 employees. Medium-sized firms are those employing between 50 and 249 persons, and are either independent or belong to another organization (with a combined employment total of up to 249). Large firms employ more than 249 people and/or are part of entities with more than 249 employees. Some 38 percent of the enterprises are small, 39 percent are medium-sized with the balance (23 percent) being large.⁴

There are some differences in terms of location and sector among the enterprises falling in different size bands. In line with the wider industrial structures in the countries involved in this study, there is a greater incidence of large firms in the UK, and small businesses in Greece (differences significant at $p < .001$). Sectoral differences are also rather predictable. The greatest incidence of large firms is reported in electronics (32 percent), whereas software recorded the highest incidence of small businesses (57 percent). Medium-sized firms account for half of the total in footwear (difference significant a $p < .001$).

³The article is the result of a large multi-faceted EU-funded project. Thus, the data collected covered a broad range of issues, several of which are not relevant for the purposes of the article. Only a minority of relevant variables from the data set are used for the purposes of this article.

⁴The categorization of firms into small, medium, and large does not distinguish at this stage between those companies that are wholly or partly owned subsidiaries or joint ventures. This (ownership linkages) is introduced subsequently in the article as an explanatory variable.

Key Variables and Analysis

In exploring governance structures of relationships between firms of different size, hierarchical cluster analyses⁵ for forward and backward relationships were undertaken. In running both procedures, two groups of indicators were used. The first grouping was viewed as a measure of asymmetry of power between the parties to the relationship. This involved three variables: the number of foreign buyers/suppliers (forward/backward relationships, respectively), the percentage of sales directed to the main buyer (forward relationships) and the percentage of inputs originating from the main supplier (backward relationships). And it also involved a Likert type variable capturing the balance of power (with 1 indicating power resting with the firm interviewed and 5 indicating power resting with the other part of the transaction). The second grouping of variables was viewed as a measure of mutuality in the relationship (a concept viewed here broadly along the lines used by Commons 1934 and Williamson 1996). This comprised of three variables: a Likert-type scale capturing mutual confidence (with 1 being low and 5 being very high), the number of years of continuous relationships with main buyers/suppliers, and the incidence of discontinued relationships during the three years prior to the contact of the survey. The analysis was undertaken separately regarding forward and back-

ward international relationships. In both instances, the four-cluster solution was adopted.⁶ The two variables created (one capturing governance structures of forward and the other reporting governance structures of backward relationships) were the dependent variables of the statistical analysis reported in this article.

In order to illustrate the different types of governance structures identified exemplars were developed, using qualitative data drawn from the survey. The cases were presented were identified on the basis of three criteria. The first involved fit with the governance structure, developed using the hierarchical cluster analysis. The second revolved around the richness of the data. Lastly, there was a deliberate attempt to include cases from different national and sectoral settings.

For the purposes of this study, and drawing on the findings of the literature review, a number of independent variables were identified. More specifically, four such variables were used in the case of forward relationships. The first included the country of origin, providing a distinction between existing (the UK and Greece) and new (Bulgaria, Estonia, and Poland) EU members. This grouping was developed for two reasons. First, profound differences in the context between these two sets of countries (discussed in the first paragraph of the previous subsection), and, second, the fact

⁵The hierarchical cluster analysis used the Ward method, a common clustering algorithm, which had also been used effectively in previous studies. This method was selected due to its ability to create compact clusters, which is one of its main advantages (Hair et al. 1995). Indeed, the Ward method merges two clusters, which results in the smallest increase in the overall sum of squared within cluster distances. The sum comprises all distances from each case in the cluster to the centroid of the cluster. The implied distance measure employed by this method is the squared Euclidean distance. The determination of the appropriate number of groups or types is a key, but arbitrary decision in hierarchical cluster analysis. In this case, guidance was provided by the increase in within-cluster distances as groups were merged.

⁶This is because relatively large increases, that signify the merging of less similar cases (Carlyle 2001; Harrigan 1985), were apparent from the three to four cluster solution.

that the inclusion of a five category (each category denoting a country) variable created problems with the conduct of the analysis.⁷ The second variable involved the size of the firm: distinguishing between small, medium, and large. The third variable recorded the sectoral context of the firm. This included four categories: clothing, footwear, electronics, and software. The last independent variable captured ownership linkages between the enterprises surveyed and their buyers. This was a binary variable recording affirmative and negative responses. The three former variables were also used in the case of backward relationships.

Multinomial regression analyses were employed in order to examine the associations between the two dependent and independent variables. This form of analysis is amenable to instances where the dependent variables have more than two categories—as is the case here. Multinomial regression—and the pseudo explanations of variance that it provides—is useful for the analysis of the data generated in the manner described above as they examine specific contrasts between the categories of each dependent variable and their associations with the independent variables (Pampel 2000). In so doing, they minimize the redundancy of repeated tests, thus increasing the likelihood of demonstrating that the associations between the categories of the dependent variables and the independent variables arise from significant differences between the actual data and the hypothetical data generated on the basis of a null hypothesis.

Limitations

Before the presentation of the findings, some key limitations must be

noted. First, the data used are self-reported responses to a face-to-face survey. This raises two important considerations: self-report bias and self-selection bias. Considerable efforts have been made in the design and implementation of the research to address these issues. Thus, a number of control questions have been introduced in the instrument to monitor the responses given. In some instances, corrective action has been taken when individual respondents made contradictory statements. The organization of the fieldwork and the ensuing satisfactory response rate provide a considerable degree of confidence in the results. Second, the survey instrument provides a snapshot of firms at the time of the fieldwork research restricting the ability to capture processes that evolved through time. However, longitudinal research (of an admittedly smaller sample of firms) published elsewhere (Kalantaridis, Slava, and Vassilev 2008) lends support to the findings presented here. Another problem is that the findings are influenced (as shown throughout the article) by the selection of country and sector. Therefore, research taking place in a different institutional or commodity chain context may lead to different conclusions, although this in itself supports one of the main arguments advanced in this article.

One more issue concerns the international comparability of the findings presented here needs to be taken into account. More specifically, the article adopts the EU classification of size. This differs significantly from that adopted in the U.S. (where an SMEs can employ twice as many individuals as one in the EU). This disparity may create discrepancies in the findings drawn from EU and U.S. studies, and needs to be acknowl-

⁷Indeed, the use of a five-category variable regarding country (alongside the other variables used in the analysis) created unexpected singularities in the Hessian Matrix.

edged and considered when comparisons are undertaken.

Survey Findings

Forward Relationships

The findings regarding governance structures of forward international relationships are presented in Table 2 below. The first type of relationship is defined here as “market exchange” and is viewed as bearing some similarities with spontaneous exchange. It is defined by linkages to a significant number of buyers, a modest degree of reliance on the main buyer, modest levels of power asymmetry, and low level of mutuality. This can be explained by the high incidence of discontinuous relationships and the modest number of years of continuous relationships. An example is offered by New Horizon, a UK company in the software industry, which employed 40 people at the time of the survey. Its sales were distributed between several buyers, and had worked with its main customer, a U.S. publishing company, for about seven years. However, the relative

longevity of this relationship has to be placed in the context of a “market” where a handful of key publishers maintain a “shortlist” of potential developers who have the capacity and track record of delivery. It is numerous short-term contracts, each secured competitively within the “market” by New Horizon, which construct a seven year relationship.

The second type of relationship is termed “strong ties”: to capture low levels of reliance on a small number of buyers and continuity of linkages. This type of relationship involves a large number of buyers and only modest reliance on the main buyer. Interestingly, those firms developing strong ties recognize an asymmetry of power (in favor of the other party) existing alongside a very high degree of mutuality. As a result of this combination, the incidence of discontinuous relationships is modest, although relationships last over a considerable period of time. This type of governance structure can be best shown in the case of a Greek company that

Table 2
Overview of the Clusters Emerging Regarding Forward Relationships

	Market Exchange	Strong Ties	Volatile Lock-in	Quasi-hierarchy	Significance
Number of buyers	6.64	9.78	4.8	2.14	.04
Percentage of sales to main buyer	29.0	34.3	87.8	93.3	.00
Power balance	3.69	3.98	3.22	4.94	.00
Mutuality	2.42	4.39	3.17	4.66	.00
Number of years of continuous relationship	6.4	7.19	5.6	7.6	.021
Incidence of broken relationships	49.7	28.5	26.3	23.4	$p < .01$

Source: Survey data.

produces highly specialized military equipment, Millenium, a company that employed 150 people at the time of the survey. Some 30 percent of its turnover was accounted for the main buyer. Millenium had worked with this buyer for six years and described their relationships as a form of partnership where conflict of interests is primarily resolved in a consensual manner. These links were highly personalized and were maintained through “almost daily” interpersonal contact and a relatively high face-to-face contact with their main customers through an average of 7–12 business trips per year.

The third type of forward international relationship, volatile lock-in, involves heavy reliance on a very small number of buyers. Despite this, the reported power asymmetry as well as the degree of mutuality are relatively modest. This may be linked to the ability of those involved in developing new relationships. An exemplifier of volatile lock-in includes a Polish producer of shirts and blouses, Bella, which employed 120 at the time of the survey. The main buyer was a Danish manufacturer, which account for 50 percent of sales. Bella established links with the main buyer three years before the conduct of the survey, and the managing director described them as volatile, as both sides are open to renegotiating

existing agreements. Despite some degree of mutuality products are supervised at the contractor’s premises.

Quasi-hierarchy involves a very high degree of dependence on a single buyer. This is linked with profound power asymmetry (a mean of 4.94 on a five-point scale), alongside a very high degree of mutuality. As a result, the incidence of discontinuous relationships is the lowest among all four groupings, although the mean number of years of continuous relationships is the highest. An example of a small firm that falls in this category is Greek clothing company Fashion World, which produces a narrow range of products. The company sold 95 percent of its output to a single German retailer, a relationship that was 10 years old at the time of the survey. During that time, Fashion World responded to buyer demands regarding quality but conceded that price remained a key dimension of its competitiveness.

There is only modest difference in the incidence of different types of relationship by size of firm (Table 3). Types of relationship that involve considerable power asymmetry (namely quasi-hierarchical and volatile lock-in) are reported by some 32 percent of small firms, a figure below that for large firms (43.4 percent). Even though the disparity is modest, it appears to be contrary to the view that small ventures often become

Table 3
Clusters of Forward Relationships by Size of Firm

	Quasi-Hierarchy	Strong Ties	Volatile Lock-in	Market Exchange
Small	15.0	21.4	18.6	45.0
Medium	17.0	18.7	28.7	35.7
Large	18.4	18.4	25.0	38.2
Total	16.5	19.6	24.3	39.5

$\chi^2 = 5.723, p = .455$
Source: Survey data.

attached to a small number of buyers. However, this disparity can be explained on account of the strong ties generated by the higher incidence of foreign direct investment (FDI) and joint ventures among large ventures. Relationships coordinated through power asymmetry are reported by 29 percent of domestically owned firms, in comparison with nearly 62 percent among those with some foreign ownership. These influence disproportionately large firms, foreign ownership among enterprises of this size stood at 63 percent, in comparison to small ones (foreign ownership of less than 10 percent). Strong ties—the type of relationship coordinated by mutuality—are reported by 21 percent of small firms, a figure marginally above that for large ones (18.4 percent). At the other extreme, some 45 percent of small firms maintain “market exchange” relationships, in comparison to 38 percent for large firms. This may be linked with a more “opportunistic” approach to international markets, adopted by small firms.

As shown in Table 3, differences in governance structures of forward international relationships established by firms of different sizes are not statistically significant. This is in contrast to the influence of the institutional setting and the specificities of the commodity chain on governance structures of forward international relationships. More specifically, both the influence of country (used as a proxy for the former) ($\chi^2 = 36.390$, $p = .000$) and sector (used as a proxy for the latter) (Pearson $\chi^2 = 29.155$, $p = .000$) are statistically significant.

These findings raise the issue of whether and how the institutional setting and the specificities of the commodity chain shape governance structures of forward international relationship created by small firms. As far as the influence of the institutional setting is concerned, small firms appear to develop forward international relationships broadly similar to those reported by all

firms in each country. There is only one instance where considerable disparities (in excess of 10 percent) emerge. This involves the case of Estonia: where relationships that require little coordination (market exchange) are overreported whereas relationships coordinated by power asymmetry are underreported by small firms. This is linked (at least in part) with the fact that a very high percentage of large firms in this country (86 percent) are FDIs or joint ventures with international partners (primarily from Finland—across the Baltic—in the electronics industry). This influences the incidence of relationships coordinated by power asymmetry for all firms.

A similar picture emerges regarding the impact of the specificities of the commodity chain. Small firms broadly reflect governance structures of forward international relationships reported in a specific sectoral context. Significant disparities exist in the case of clothing and footwear. In both cases (buyer-driven chains), “market exchange” is more prevalent among small firms than all firms in the sector. Relationships coordinated by power asymmetry (quasi-hierarchical and volatile lock-in), however, are more common in their large-scale counterparts, which are in many cases FDIs and joint ventures seeking production cost advantages (and thus often located in Bulgaria and Estonia). Their output is destined primarily for the parent enterprise.

Table 4 indicates, testing the relationship between the combined independent variables and the dependent variable (capturing governance structures of forward relationships), that the association between all of the independent variables and the dependent one is the product of the data set ($\chi^2 = 80.063$, and $p = .000$). Moreover, tests conducted for each of the independent variables show that sector and ownership linkages are significantly associated with changes in the categories involved in the variable

“forward relationships.” Interestingly, the associations with the size of the firm and country⁸ are not significant on their own.

The evidence regarding forward international relationships suggests that enterprises of all sizes are able to develop relationships of all types: from quasi-hierarchical to those resembling spontaneous “market exchange.” Overall, therefore, the impact of the size of the firm upon governance structures of forward international relationships appears to be limited, and undoubtedly smaller than that of the institutional setting and the commodity chain. The impact of firm size on governance structures of forward international relationships is complicated by the impact of ownership linkages (through FDI and joint ventures). More specifically, the influence of ownership linkages differs on account of the reasons behind their establishment, and whether the parent enterprise is also the main buyer. In the case of Estonia (and particularly Estonian electronics), and footwear, ownership linkages aim at reducing production costs and increased flexibility through

access to cheap and adaptable sources of labor, and the parent enterprise is the main buyer. This pattern is linked with quasi-hierarchical and “strong-ties” type of relationships. In contrast, in software ownerships linkages are driven by the need to access national markets, and the parent enterprise is not the main buyer. This pattern is linked with market exchange relationships.

Backward Relationships

A similar hierarchical cluster analysis with that undertaken regarding forward international relationships was performed for backward international relationships. However, the coordinating mechanism involved in the four types identified differs between backward and forward international relationships. This is because of difference in perceptions regarding power. Enterprises of all sizes acknowledge power asymmetry in favor of the other party in the transaction in the case of forward relationships. The reverse is the case in backward international relationships (i.e., power asymmetry is in favor of the interviewees). As a result, quasi-hierarchical

Table 4
Model Fit for Forward Relationships

	Λ	χ^2	<i>df</i>	<i>p</i>
Intercept	310.496			
Final	230.436	80.063	21	.000
Sector	256.603	26.167	9	.002
Size band	238.595	8.159	6	.227
Country	234.684	4.248	3	.236
Ownership linkages	275.818	45.383	3	.000

df, degrees of freedom.

Source: Survey data.

⁸Please note that country in the multinomial logistic regression analysis was entered as a dichotomous variable distinguishing between “new” and “established” EU member states.

Table 5
Overview of the Clusters Emerging Regarding Backward Relationships

	Market Exchange	Strong Ties	Volatile Lock-in	Quasi-hierarchy	Significance
Number of buyers	7.2	5.4	2.0	2.1	.000
Percentage of sales to main buyer	49.6	39.9	97.7	95.9	.000
Power balance	2.85	2.81	2.29	2.68	.290
Mutuality	2.37	2.72	2.18	3.14	.006
Number of years of continuous relationship	6.4	9.47	3.71	5.64	.001
Incidence of broken relationships	25	13	96	10	$p < .01$

Source: Survey data.

Table 6
Clusters of Backward Relationships by Size of Firm

	“Market Exchange”	Strong Ties	Volatile Lock-in	Quasi-integration
Small	35.4	22.9	22.9	18.8
Medium	39.5	31.6	13.2	15.8
Large	45.2	29.0	3.2	22.6
Total	39.3	27.4	14.5	18.8

$\chi^2 = 6.599$, Significance = .360.

Source: Survey data.

relationships (i.e., the powerful agent—the interviewee—becomes attached to a single or a very small number of suppliers) alongside strong ties are linked with mutuality, whereas volatile lock-in with asymmetry of power (Table 5).

As shown in Table 6, there were only modest differences between size of firm and clusters of backward international relationships. Large firms reported a

somewhat greater incidence of relationships coordinated through mutuality (unlike the case of forward relationships). These can be explained in part by the fact that a significant minority (around one in five) of large firms source from their own subsidiaries or joint ventures abroad. In contrast, small firms reported a greater incidence of relationships that involve asymmetry of power (in their favor).

Table 7
Model Fit for Backward Relationships

	Λ	χ^2	<i>df</i>	<i>p</i>
Intercept	150.350			
Final	114.940	35.410	18	.008
Sector	127.950	13.10	9	.162
Sizeband	121.166	6.226	6	.398
Country	125.993	11.053	3	.011

df, degrees of freedom.
Source: Survey data.

Differences in governance structures of backward international relationships established by firms of different sizes are not statistically significant. This is in contrast to the influence of the institutional setting and the specificities of the commodity chain on governance structures of backward international relationships. More specifically, both the influence of country ($\chi^2 = 36.828$, $p = .000$) and sector ($\chi^2 = 16.166$, $p = .05$) are statistically significant.

As the number of companies involved in international backward relationships is smaller than those engaged in forward ones, restrictions emerge in exploring the impact of the institutional setting and the specificities of the commodity chain. As far as the former influence is concerned, one interesting disparity emerged. In the UK, small firms utilize strong ties less than the average for all firms. As far as sectoral disparities are concerned, in both clothing and footwear asymmetry of power (through volatile lock-in) constitutes a commonly used coordinating mechanism used by small firms.

Table 7 shows the results of multinomial logistic regression analysis between the combined independent variables and the dependent variable (capturing governance structures of backward relationships). This demonstrates that the

association between all of the independent variables and the dependent one is the product of the data set ($\chi^2 = 35.410$, and $p = .011$). Moreover, tests conducted for each of the independent variables show that country is significantly associated with changes in the categories involved in the variable "forward relationships." The associations with the size of the firm and sector are not significant on their own.

Evidence regarding backward international relationships lends support to the arguments developed earlier concerning forward international relationships. Thus, the size of the firm appears to be only of secondary importance in determining governance structures of emerging relationships. However, the effects of size are accentuated in specific locational and sectoral settings.

Conclusions

The article identifies four distinct types of governance of forward and backward international relationships, defined by different combinations of mutuality and asymmetrical power. These are not dissimilar to the concepts identified in the literature (market, captive, modular, and hierarchical), and not exclusive to globally integrated firms. However, the degree of engagement of the firms with global integration

undoubtedly influences the relative importance of different governance structures. Four case studies of globally integrated small firms, were identified in order to qualitatively illustrate each governance structure. A comparison between backward and forward international relationships identified disparities in the characteristics of governance structures (because of different perceptions of power).

The article argues that firm size does not constitute a significant influence in determining governance structures of forward and backward international relationships (Research Question 1), in contrast to other factors such as the characteristics of the institutional setting and the specificities of the commodity chain. Small firms are able to establish the same types of international relationships as their large-scale counterparts, although the incidence of these relationships vary modestly between enterprises of different size. Moreover, the article provides evidence that the characteristics of the institutional setting and the specificities of the commodity chain are more influential in shaping governance structure of forward and backward international relationships than the size of the firm. Related to the latter, this article also offered some further elaboration of the notions used in global value chain literature to describe governance of relationships (market, captive, modular, hierarchy) from the perspective of small firms, but also deepened this analysis through a comparison between backward and forward international relationships.

The article also questions widely held views that relationships that are defined by mutuality auger well for small firm internationalization, although those coordinated by power asymmetry do not (Research Question 2). First, globally integrated small firms may sometimes occupy positions of power in international relationships—as shown in the

case of those involving suppliers. These relationships of power derive from the position of small firms in the supply chain and/or proximity to prosperous markets in advanced industrialized countries (factors not addressed by Morrissey and Pittaway (2006) who adopt a more generic approach). Second, globally integrated small firms engage in relationships where mutuality exists alongside asymmetry of power. Indeed, being in a more powerful position may also prompt trustworthy behavior. Thus, power asymmetry and mutuality may not be contradictory or mutually exclusive categories as often viewed in the literature.

This provides some justification to the thesis advanced by Williamson that power asymmetries can be foreseen and are entered into voluntarily as the benefits accrued by those involved in the transaction (even the less powerful agent) exceed the costs. However, this article suggests (in contrast to the view adopted by Williamson) that this affords additional importance to the study of power in interorganizational relationship. This suggests a revision of the desirability (or not) of patterns of small firm development that are often characterized as dependent. Indeed, relationships based on asymmetry of power (even when power rests with the other party), may offer small firms opportunities for global integration. Even further, mutuality is not uncommon even in the context of purely market exchanges, which in turn suggests the need for developing a more sensitive set of categories that account for ethical relations beyond reputation and self-interest.

Lastly, the article shows that there are significant differences in governance structures of forward and backward relationships—especially regarding the direction of power asymmetry—created by globally integrated small firms (Research Question 3). This raises the issue of the position of the small firm within commodity chains, an issue that

attracted little attention in the existing literature. Position is central in translating the specificities of the institutional context and the commodity chain for globally integrated small firms, offering the scope for a more complex conceptualization of the impact of size on the nature of international relationships.

The findings of this study have some implications for policy considerations. To date, globally integrated small firms have attracted little attention from policymakers, and were able to achieve success (in terms of their international activities) with little external support. In fact, some firms of this type occupy positions of power within commodity chains, challenging prevailing views about the strength of the relationship between size of firm and power endowments within a relationship. These facts question prevailing interventionist views, which focus on the role of the state for the internationalization of small firms (OECD 1998; DTI 2004). More specifically, they raise three issues about potential future interventions. First, the existence of globally integrated small firms offers scope for the identification of attributes that underpin their ability to develop international activities. These attributes may subsequently be used in order to concentrate to firms that offer the greatest internationalization potential. Second, any policy initiatives aiming to enhance the internationalization of small firms should be context cognizant. Thus, the characteristics of the institutional setting and the commodity chain need to be key parameters in the design of policy actions—diminishing the scope for overarching and all-embracing initiatives. Third, policy actions supporting the internationalization of small firms need to take into account potential displacement effects. This revolves particularly around the impact of (policy supported) new entrants on well-established globally integrated firms.

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