

**An Exploration into NZ Small/Medium Sized Enterprises’
experiences as a Smaller Partner in International Collaboration**

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Abstract

Internationalisation is an important consideration for SMEs, due to rising competition in domestic and international markets as well as the development of information and communication technologies. However, due to knowledge and resource constraints, collaboration is often part of the internationalisation process for SMEs. Often, these collaborations involve a larger partner organisation. The processes of networking on the side of the MNE is well researched, however the perception of the SME is understudied. The aim of this study is to examine how SMEs perceive and manage unequal size in collaborative strategies in internationalisation.

In this research, a multiple case study methodology was adopted. In depth semi-structured interviews were conducted with participants from three New Zealand SMEs who engage in international collaboration. The data was analysed using a thematic content analytical strategy, which was to used address the research questions in this study. This data analysis process used the data analysis spiral from Creswell (2013).

The result of this study suggests that although there are benefits to SMEs internationalisation through networking, there are still challenges SMEs face from managing their unequal size difference. Because SMEs are new to foreign markets and lack resources and legitimacy, this often leaves them being resource dependant to their partners who are then perceived to have more power in negotiations. This power difference can result in uncertainty and opportunistic behaviour, to the detriment of the SME, which in turn negatively affects their internationalisation progress and development of independent competitive advantages.

However, the findings of this study also provide insights into how SMEs can use informal relationships in order overcome the challenges of size difference. Participant SMEs found that informal relationships and face-to-face interactions can build synergies of trust and support between alliance partners towards a mutual goal. By using informal methods of networking with key industry members, participants perceived that this had increased their legitimacy in international markets, advancing their negotiation power with larger partner firm. Participating firms stated how informal communication strategies with the staff involved in field operations gave them a means to monitoring progress and updates in alliance operations. These aspects of

informal relationships represent a theoretical contribution to the informal management of networks.

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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Chapter 1 Introduction

1.1 Research Rationale

SMEs are not formed as smaller versions of Multinational Enterprises (MNEs). They show differences in regard to ownership, organisational structures, management systems and resources (Iplik, 2010). In a New Zealand context, SMEs are defined as enterprises with twenty or less employees that are usually managed and operated by their owners (Ministry of Economic Development, 2011), with large enterprises defined as being over 100 employees. In international contexts however, SMEs are often defined as being over 250 employees (Iplik, 2010).

Similar to the SME experience globally, NZ SMEs tend not to have specialised personnel in management, nor are a part of larger business groups with access to managerial expertise. This leads SMEs to having limited formal managerial expertise, resources as well as financial constraints (Ministry of Economic Development, 2011). As such, SMEs tend to have managerial and communication processes which are less rigid, informal, complex and centralised (Coviello & Martin, 1999). This informal approach can problematise the management of collaborative relationships, such as alliances and networks. Moreover, rising competition both in domestic and international markets as well as the rapid development of information and communication technologies, provides more opportunity and necessity for SMEs to internationalise, adding another layer of complexity to the management of these relationships. It is therefore important to study how these firms manage this complexity with the limited resources, finances and expertise (Dimitratos et al., 2016).

1.1.1 SME Internationalisation

Iplik (2010) states that the main reason for SMEs to internationalise is to take advantage of growth opportunities. International growth is seen as an entrepreneurial activity and expanding across borders on a large scale involves learning and the adoption of new business practices (Iplik, 2010). Compared to MNEs, SMEs interact differently with their environment (Brouthers & Nakos, 2004). While MNEs tend to be concerned with longer term strategic planning and strategic alliances, SMEs use short term and informal relationships to respond

quickly to changing business conditions and short-term operational issues. Due to this difference in approach, this makes SMEs more adaptable and innovative than MNEs, and open to opportunities which arise (Brouthers & Nakos, 2003; Iplik, 2010). Therefore, the way SMEs internationalise tends to be due to the result of a combination of its actual resources and capabilities, and its leader's recognition of its external opportunities (Iplik, 2010).

However, there are barriers that SMEs face in going across borders. SMEs place strong importance on skills, experiences and attitudes of their employees (Hilmersson & Johanson, 2015). Their personnel usually fill multiple roles, including managers, which leads managers to compromise their decision-making processes as they balance other priorities. Additionally, the loose organisational structure makes dealing with outside parties challenging (Coviello & McCauley, 1999). This acts as an important challenge in internationalising, as coordination and communication requirements increase when dealing with geographical and cultural complexity (Hilmersson & Johanson, 2015).

Iplik (2010) states that due to resources and experience constraints, SMEs have limited global information gathering capabilities, which are necessary for exploiting international opportunities. This further leads to shortages in everything from ability to gain finance and investment, to anticipating product requirements, impacting their ability to anticipate business opportunities, and compromising their competitive advantage (Paul, Parthasarathy and Gupta, 2017). Their small size also affects their ability in capturing important industry resources, leaving them vulnerable to being negatively affected by change in their operating industries (George, Wiklund and Zahra, 2005).

These challenges lead to SMEs often being more risk adverse than MNEs (Hilmersson & Johanson, 2015). This also means that if there is a failure in the venture it tends to affect the SME on a larger scale, which initially makes SMEs less willing to go abroad (Paul, Parthasarathy and Gupta, 2017).

1.1.2 Collaborative Strategies in SME Internationalisation

Although SMEs are faced with these barriers in the process of internationalising, through the use of networks and other collaborative strategies, SMEs are shown to overcome

these barriers and avoid failure (Iplik, 2010). Iplik (2010) describes that these collaborations are formed between SMEs and larger sized MNEs. The benefit for the MNE is based on outsourcing those functions that do not provide a competitive advantage, in order to increase flexibility and agility for the MNE (Iplik, 2010). For the SME, one key advantage is to become part of a supplier-customer network of an already existing MNE. These networks can heavily benefit SMEs in gaining sources for market insights (Iplik, 2010). Through the use of networks SMEs can gain knowledge on laws, customs and local networks, overcoming their lack of expertise in international markets (Brink, 2017). This benefit mitigates the decision-making disadvantage of SMEs in internationalising. SMEs can have access to valuable information and market insights from their larger partners and suppliers which can guide them in entering a foreign country, and increase their internationalisation skills (Brink, 2017). Networks with larger firms also benefit SMEs in increasing their managerial skill and capacity (Brink, 2017). SMEs have access to their partners resources such as finance partners, who can help with access to trade and financial services (Kirby & Kaiser, 2003).

Networks can also help in the process of selecting markets and entry modes (Brink, 2017). Market selection, in the early decision-making process of internationalising is highly influenced by opportunities arising from the SME networks (Iplik, 2010). By having partnerships and networks who are much larger, they can oversee a more diverse range of opportunities through their own connections (Brink, 2017). They can further assess to see if they have resources which can help the SMEs progress in these countries by overcoming cultural norms, language barriers and local market conditions (Brink, 2017). Networks also benefit SMEs as they lead to good referral for brand new consumers (Brink, 2017). This type of referral-based networking can help to improve the legitimacy of SMEs in foreign markets (Brink, 2017). Because competition is already high, being referred and recommended by a trustworthy company can give the SME advantages in legitimacy in that industry (Brink, 2017). When a consumer or value chain supplier is making decisions on who to do business with, they will feel more at ease when it is with a company associated and recommended by a firm who is trustworthy and well known (Brink, 2017). Brink (2017) further explains that a key issue in the internationalisation of SMEs is the lack of skilled labour. However, through the use of partnerships and networks, the channel of recruiting new staff helps overcome this challenge.

Even though SMEs can use collaboration to overcome a lot of the challenges they face in internationalising, there are still challenges which arise from networking with their small

size (Lu & Beamish, 2001). The degree of commitment from both parties may differ, depending on perceptions of dependence and importance of the collaboration (De Mattos et al., 2009). Moreover, because of the fact that each partner in a network preserves its dependence and operate its own decision-making process, coordination becomes a strong issue to overcome and manage for an SME who is already short off trained personnel and staff (De Mattos et al., 2009).

Due to the small size and lack of resources and trained personnel of SMEs, it can be challenging for them to manage networks (De Mattos et al., 2009). At the start of these relationships, a lack of trust can arise from the MNEs in working with a brand-new SME who lacks personnel and resources, which can result in differences in objectives and resistance to exchange knowledge and operational capacity between the firms (De Mattos et al., 2009). Another difficulty which SMEs have to face in managing their networks are the different levels of opportunism between partners as this could lead to weak cooperation between partners offering limited effort and lower quality goods and services which may be below standard (Lu & Beamish, 2001). There could also be a possibility of getting caught in excessive share of joint profits leading to overvalued switching costs and overvaluation of the added value brought (Lu & Beamish, 2001). It could also be difficult to manage the sharing of resources which could lead to excessive exploitation, as well as personal appropriation of resources produced in common (Lu & Beamish, 2001). There are also challenges for SMEs in choosing whether to even enter an alliance and who to partner with (De Mattos et al., 2009). There is a need to be careful because networking with a larger partner could lead to a loss of technological competence and high costs of managing such a partnership from a SME who is already facing resource constraints, especially where the SME has limited opportunities to fail (Lu & Beamish, 2001). However, despite the prospective challenges faced by SMEs engaging in collaborative strategies with a larger partner, the perspective of the SME is not well studied.

1.2 New Zealand Context of SMEs

In a New Zealand context, small businesses dominate the country's industries, with 97% of NZ businesses being SMEs (Beehive, 2015). Although there are differences in the total GDP contribution between SMEs and MNEs in NZ, SMEs still contribute 28% of NZ's GDP with a total of \$64,853m in comparison to MNEs, \$78,151m (Beehive, 2015). SMEs are also young and dynamic with 33% of SMEs in NZ existing for less than 5 years (Beehive, 2015). Moreover, with a small domestic market, in order to achieve growth, New Zealand SMEs are

often required to consider international expansion from the beginning. In order to achieve this, the use of networks, and collaborative strategies more broadly, has been well documented (Scott-Kennel, 2006). However, consistent with the characteristics of SMEs as above, their informal, flexible and complex management processes could have an impact on the success of these strategies.

Therefore, because most of NZ businesses are formed as SMEs, with their annual growth rate of 5.5%, they have a large impact on the New Zealand Economy, creating 42% of jobs (Ministry of Economic Development, 2011; Beehive, 2015). With the rising rate and importance of internationalisation, this further makes it interesting to study NZ SMEs and their international growth with their limited resources and personnel, to see how they manage their networks.

1.3 Research Aim

Even though there is previous research conducted on how important it is for SMEs to collaborate and join networks to increase their global competitive advantage, there is a gap in research revolving around how SMEs can manage these networks. This brings importance to study this aspect, which many NZ SMEs can benefit from. In order to study this, the following research questions will be addressed throughout this research process:

How do SMEs perceive and manage unequal size in collaborative strategies in internationalisation?

Within this broad question, the following sub questions will be used to guide the research:

- a. How do SMEs perceive size difference in international collaboration?*
- b. How does perceived size difference impact SMEs approach to forming/maintaining international collaborative strategies?*
- c. How do SMEs perceive that international collaboration aids internationalisation efforts?*

1.4 Dissertation Structure

This dissertation contains six chapters. Chapter One discusses the role of SMEs and the importance of internationalisation through collaborations to therefore signify the relevance of

the research topic. This chapter also introduces the research question and the outline of this report structure.

Chapter Two reviews previously conducted literature on SME internationalisation and networks. This chapter discusses International Business theories such as the Resource Based View, the Uppsala Model and Born Global Firms to help describe the processes and drives of the internationalisation process. This chapter further discusses the importance for SMEs to join networks with larger international parties to overcome their challenges, as well as the issues that come with managing these collaborative strategies with their size difference. The theories of Opportunistic and Hold Up Behaviour are used to explain these challenges. These theories provide a theoretical framework for understanding firm's strategies.

In Chapter Four the research methodology is presented. The Interpretive research paradigm, Case-Study methodology and Semi-Structured interview methods which are used in this research are explained in this chapter. Following this, the data analysis process and ethical considerations are explained in this chapter.

Chapter Five displays the findings of the interviews conducted in this study. To begin this chapter, the main characteristics of the interviewed firms are presented, following this the management of collaborative strategies based on size difference is analysed.

In Chapter Six, the main motivations for the firms to internationalise via networking with larger international firms is discussed. Then, the challenges that these firms face in networking due to their size difference is explained, followed by the strategies these firms used to overcome these challenges. In this chapter, the application of proposed theories to the findings is discussed.

Chapter Seven provides a conclusion of this study. This chapter begins with an overview of this research process and research conclusions. The contributions of this study in terms of theory and business practice is also displayed. The limitations of this research and recommendations for future research are discussed to close this report.

Chapter 2 Literature Review

2.1. Introduction

The previous chapter outlined the rationale for this research, studying how New Zealand SMEs manage their international networks, particularly focused on size differences between collaborative partners. This chapter will outline the theoretical framework used in this research. The chapter starts by reviewing extant literature related to the characteristics of SMEs and how they internationalise. This includes transaction cost theories, motivations to internationalise and SMEs need to engage in international networks. The issues and challenges that SMEs face in internationalising through networks will then be covered, with particular attention to previous research related to size differences between partners. Finally, a research gap is identified and justified which leads to the development of a question to guide the research.

2.2 SME Characteristics

There is a lack of agreement regarding the definition of a small and medium enterprise (SME) and significant variation globally (Coviello & Martin, 1999). The New Zealand definition of SMEs are defined as enterprises with twenty or less employees who are managed by their owners (Ministry of Economic Development, 2011). SMEs are not formed as a smaller derivative of an MNE, and as such show differences in organisational and operational structures (Ipplik, 2010). SMEs are not connected to larger business groups and do not have specialised staff in levels of management (Ipplik, 2010). Therefore, SMEs face financial and knowledge constraints and have very limited access to resources (Ministry of Economic Development, 2011). These constraints are in contrast to MNEs, as these larger firms are managed by professional managers and have a wider range of resources available. As a result of this, the processes of communication and management in SMEs are structured informally, less rigid, centralised and more complex than MNEs (Coviello & Martin, 1999). Coviello & Martin (1999) state that as such, the managers of SMEs often have multiple roles to fulfil and place a strong importance on the attitudes, expertise and skill of their staff members.

Rising competition both in domestic and international markets facilitated by the rapid development of information and communication technologies, enables and necessitates SMEs to internationalise and compete with MNEs (Chetty & Campbell-Hunt, 2003). However, SMEs do so this with the limited resources, finances and expertise at their hands (Dimitratos et al.,

2016). Despite the differences between SMEs and MNEs, and the challenges faced by SMEs, most research on internationalisation still focuses on larger multinational enterprises (Rutihinda, 2011).

2.3 SME Internationalisation Drivers & Motivations

There are a number of contextual factors which drive the internationalisation decisions of SMEs (Knapp & Kronenberg 2013; Fletcher & Prasantham, 2011). These different factors thus lead to the facilitation of internationalisation. The development of information technology as well as shifts in the social and economic conditions internationally are the primary drivers to SME internationalisation (Oviatt & McDougall, 1999). This increases the ease of access to resources and organisational and environmental strategies to facilitate the internationalisation of SMEs. In addition to contextual factors necessitating and enabling SME internationalisation, there are a number of motives to internationalisation. Wilson (2007) states that SMEs are motivated to internationalise in order to realise reduced costs through greater economies of scale, access to lower cost labour, potential of increased revenue, and to acquire resources not enabled by domestic operations. Wilson (2007) considers these to be primary drivers of internationalisation. Secondary drivers are based around the organisational strategic capacity of the firm which can be enhanced through access to global technology, capital, competencies and labour (Wilson, 2007). The overall main reason for SMEs to internationalise is to take advantage of growth opportunities. Internationalisation for an SME is an entrepreneurial activity where going across borders requires adopting new business practices (Ipplik, 2010). In comparison to MNEs, SMEs interact differently within their operating business conditions (Brouthers & Nakos, 2004). While there is a strict structure in the managerial decisions of MNEs which revolve around strategic planning and strategic alliances, SMEs work in a less rigid structure involving informal relationships and short-term planning in order to quickly respond to changing business conditions (Brouthers & Nakos, 2003). As a result of this contrasting organisational rigidity, SMEs are often more innovative than MNEs (Ipplik, 2010). Ipplik (2010) further states, that as such, it is a combination of the SMEs actual interest abilities and its manager's recognition of its external operations which drive the internationalisation of these firms.

2.4 SME Internationalisation Processes

Exporting and importing processes, mergers and acquisitions, strategic alliances and networking have been found to be the main strategies that SMEs use for internationalisation (Rammer & Schmiele, 2008). As mentioned above, SMEs have a very restricted managerial structure, therefore internationalisation relies on the experiences and characteristics possessed directly by the managers of the business. Examples of these experiences are the age and education status of the manager (demographics), and previous knowledge about conducting global business, which includes recognition of culture, exposure to global markets, and global working practices (Pinho, 2007).

The internationalisation processes of SMEs are driven by knowledge and acquiring knowledge through learning is a crucial goal which guides the decisions to internationalise and enables rapid expansion (Fletcher & Prashantham, 2011). However, paradoxically, because of the restricted managerial structure and lack of formal management skills and experience in internationalising, SMEs lack knowledge of international markets, which slows down their initial internationalisation steps (Chetty & Campbell-Hunt, 2003). It has been noted, however, that in utilising networks, SMEs can mitigate this knowledge gap to a degree, accumulating knowledge and gaining competencies from network partners, particularly in how to manage business in international markets (Autio et al, 2000). In this process of networking with international partners to overcome this knowledge gap SMEs have been studied to internationalise into markets in incremental stages, where they slowly accumulate knowledge and skills in these steps. This method of internationalisation is known as the Uppsala Model (Levie & Lichenstein, 2010).

2.4.1 The Uppsala Model of Internationalisation

One of the predominant models used to explain firm internationalisation process is the work of Vahlne & Johanson (1977) generally termed the Staged, or Uppsala model. This model proposes that the process of internationalisation happens in incremental stages where the firms' level of involvement gradually increases as they progress in their internationalisation (Levie & Lichenstein, 2010). The use of this model in relation to SMEs is supported by Bell, Carrick and Young (2004) who argue that it is crucial for SMEs to be established in their domestic

markets before establishing themselves in foreign markets. The Uppsala model holds that in order to reduce risk and overcome challenges of uncertainty, firms acquire market knowledge and skills in internationalising in an incremental process, entering and investing more comprehensively in new foreign markets in a progressive series of moves (Chetty&Campbell-Hunt, 2003). Despite research which confirms this approach, there are also several contrasting opinions and observations. Andersen and Kheam (1999) as well as, Kaur and Sandhu (2013) argue that particularly in the case of SMEs, there is a contrast between literal practice and staged theory assumptions. These authors state there is a contrast as SMEs have been shown to internationalise rapidly to foreign markets in order to enter specialised industries which SMEs choose to operate in. This is to form networks and acquire resources and knowledge which will in turn benefit their competitive advantage in their domestic and international markets (Andersen and Kheam, 1999; Kaur and Sandhu, 2013). These concepts of rapid internationalisation are elaborated further in the following sub-sections; The Resource Based View and The Born Global firms.

2.4.2 A Resource-Based View of SME Internationalisation

A contrasting view holds that SMEs enter foreign markets depending on the availability of resources and organisational capacity as this what the internationalising abilities of SMEs depend on (Andresen & Kheam, 1998). Taking a resource-based view perspective, Andersen and Kheam (1998) state that SMEs can expand internationally and enhance their competitive advantage if they possess and gain resources which are valuable, rare and inimitable and hard to replace.

The resource-based view is a theoretical framework develop by Barney (1991). This framework states that resources are the main source of competitive advantage, and if this resource carries traits of being valuable rare, hard to imitate as well as easy to manage by the firm then this resource will lead to achieving a competitive advantage. However, there are limitations in this framework as there are no set guidelines on how to manage these resources as well as how to acquire them (Yamakawa, Peng, & Deeds, 2008).

Yamakawa, Peng and Deeds (2008) state that larger multinational firms have high quality resources and the capabilities to manage these, which give incentives for SMEs to join alliances with these firms to benefit from this. SMEs have been found to internationalise into markets such as Silicon Valley for tech companies, to form alliances with multinational

industry leaders to further expand their knowledge (Yamakawa, Peng & Deeds, 2008). This has also increased SME access to a wider range of consumers, networks, as well as improved infrastructure and resources through collaborating with larger MNEs who already possess these networks and resources (Yamakawa, Peng, & Deeds, 2008). Therefore, in order to make use of these opportunities and advantages, the Resource Based View helps us understand how and why SMEs internationalise, and partner with larger MNEs.

2.4.3 The Born Global Firm

A specific group of firms which challenge the way in which SME internationalise are perceived are 'Born Global' Firms (Kaur & Sandhu, 2013). These firms, which tend to be SMEs, from inception seek to gain a competitive advantage from the use of resources and sale of outputs from multiple countries (Kaur & Sandhu, 2013). This phenomenon challenges previous literature conducted in incremental stage internationalisation (Kaur & Sandhu, 2013). Born global firms start globalising from the start of their formation without experience instead of incrementally and gradually internationalising in a step by step process (Kaur & Sandhu, 2013). However, it is also argued by Kaur and Sandhu (2013) that this model involves a lot of risk and firms, particularly SMEs, should incrementally internationalise gaining their skill and knowledge in their domestic country before internationalising. Kaur and Sandhu (2013) state that gaining knowledge in their domestic country enhances SME's internationalisation abilities. This is because when SMEs gain knowledge in their home countries, they have more experience in organisational process which in turn benefits their ability to select international markets, based on how they will be able to manage their operations and organisational structure (Kaur & Sandhu, 2013). This learning process reflects the resource-based view as it shows the importance for SMEs to gain vital resources for a competitive advantage, as well as the critiques showing the importance for SMEs to gain the correct knowledge to mitigate the risk involved in internationalisation (Vahlne & Johnson 1977 ; Andersen & Kheam, 1991).

Although, as above there are several modes such as the Resource-based view and Uppsala model which help explain how and why SMEs internationalise, there are specific barriers which SMEs face in doing so. The following section will illustrate the challenges that SMEs often face in their processes of internationalising.

2.5 Challenges of Internationalisation for SMEs

Even though there are advantages to internationalisation, there are barriers that SMEs face in going across borders, including acquiring resources, gathering knowledge and information about international markets and managing their operations in international markets with their small size and lack of experience and expertise.

2.5.1 Challenges of Informal Structures and Processes

SMEs place strong importance on skills, experiences and attitudes on their employees (Hilmerston & Johanson, 2015). Their personnel usually fill multiple roles, and due to this extensive roll of managers in SMEs, this leads SMEs to compromise efficiency in their decision-making processes. To add to this difficulty, their loose structure of the organisation makes dealing with outside parties challenging. This is due to there being an absence of standard operating process from informal structure which bring uncertainty and risk in allocating resources to communicate with international parties (Coviello & McCauley, 1999). This has a negative impact on being able to frequently communicate and receive updates from international trade partners, distributors and manufacturers (Coviello & McCauley, 1999). Because, coordination and communication requirements increase when expanding geographically, the informal structure of the SME represents a significant challenge (Hilmerston & Johanson, 2015).

2.5.2 Size and Resource Disadvantages

Due to the informal structure of SMEs, this results in these firms being faced with shortages of finance, limited administrative power and inferior products which negatively affects their processes of acquiring and foreseeing business opportunities (Paul, Parthasarathy and Gupta, 2017). This further affects their competitive disadvantage (Paul, Parthasarathy and Gupta, 2017). The small size of SMEs affects their ability in capturing important resources and leaves them vulnerable to being negatively impacted by environmental change (George, Wiklund and Zahra, 2005). As such, leading them to becoming more risk adverse than MNEs, because in a foreign market perspective, there will be a larger proportion of resources needed from a SME than an MNE. This means that if there is a failure in the venture, for example having to cancel or postpone an operational project due to unforeseen circumstances it will affect the SME on a

larger scale, which initially makes SMEs less willing to go abroad (Paul, Parthasarathy and Gupta, 2017).

2.5.3 Access to Information

Ipplik (2010) describes how, due to restrictions with organisational resources and lack of experienced personnel, SMEs struggle in international markets and have limited global information gathering capabilities which are necessary for exploiting international opportunities. These challenges are due to their lack of prior internationalising experience (Ipplik, 2010). Entering international markets therefore can be a large risk for SMEs due to the lack of knowledge and minimal access to information (Ipplik, 2010). This incurs higher costs and more time to accumulate the required information to find and review the partners and networks they are involved in (Hessels and Teriesen, 2010). In order to compensate for this, reduce uncertainty and to find and penetrate international market opportunities it is crucial for SMEs to gather information about these international markets (Hessels and Teriesen, 2010). Studies have shown that managers of SMEs have randomly selected international markets to enter because of their limited knowledge, lack of experience and information processing capabilities (Rodrigues, et al 2010). These studies have found that even though SMEs are interested in internationalising, their lack of resources resulted in them not committing the correct resources and efforts to acquire knowledge and information which has in turn compromised their internationalisation progress. SMEs also have shown to have issues accessing information pools which have compromised their ability to foresee the challenges which come with global markets (Rodrigues et al 2010). This further implies that the search for information and the processing of this knowledge become a lot more challenging to manage when SMEs enter new foreign markets (Hessels and Teriesen, 2010). It has been researched however that by using networks, SMEs can overcome a lot of the barriers they face in internationalising, which brings us to take a look into a deeper aspect of their motivations to internationalise; their need for networks and collaborations.

2.6 Collaboration in SME internationalisation

In order to understand collaboration in the internationalisation of SMEs, the Transaction Cost approach and Resource Based View are useful in explaining how important collaborations and networks facilitate internationalisation. The Transaction Cost approach states that SMEs usually internationalise in markets where there are minimal transaction costs involved

(Rugman & Hoon-Oh, 2008). This approach holds that there are two aspects which are important to consider; 1. Should SMEs expand globally within its own boundaries (subsidiaries)? Or 2. Should SMEs form a network with international partners? (Rugman& Hoon-Oh, 2008). The networking aspect further explains the importance of social transactions and interfirm and organisational relations (Rugman& Hoon-Oh, 2008). This perspective emphasises that collaborative and social networks are highly important for the collection of resources and acquisition of knowledge and skill which are important for internationalisation (Rugman& Hoon-Oh, 2008). This perspective further supports that there are less transactions involved in acquiring skills and resources through collaborative networks than firms seeking to acquire resources via expanding within their own boundaries (Rugman& Hoon-Oh, 2008).

The process of collaborating and acquiring resources of skill and knowledge is further supported by the Resource Based View, developed by Barney (1991), shown above. SMEs can collaborate with larger international firms in order to gain types of resources which are valuable, rare hard to imitate and organisational. This therefore helps them overcome the challenges of internationalisation with their limited size and succeed in international markets (Loane & Bell, 2006).

From reviewing past literature, it shows that there is a rise in evidence that SMEs need to work in networks with international partners in order to reach a competitive advantage in international markets (Ipplik, 2010). Larger firms in international markets are seen as actors who SMEs can form a system of social and business relationships (Ipplik, 2010). This idea is further backed up by Loane and Bell (2006) who state that it is important for SMEs to create collaborations and networks and prioritise this process as it is a crucial tool to develop internationalisation and competitive strategies. This further provides support and direction in decision making in the processes of SMEs entering international markets as they can get guidance and information on how to do so, based on the expertise and experience of their collaborative partners (Loane & Bell, 2006).

2.6.1. Benefits of Collaborations; Operational Management

Spence et al. (2008) find that networking can be used for complementing each firm's competencies which in turn creates attractive and high-quality products and services to international markets adding to the SMEs global competitive advantage. This creates upstream

and downstream vertical alliances as well as horizontal relationships with competitors and firms from different sectors (Spence et al., 2008). Therefore, creating value for all members involved is crucial for the success of collaborating networks and alliances (Spence et al., 2008). Selecting the right members and being able to manage such a relationship to bring the best financial results and capital are good measures of how well the alliance is functioning (Spence et al., 2008). This emphasises how important partner selection is as well as collaborative decisions revolving around internationalisation (Spence et al., 2008).

Iplik (2010) describes that these collaborations are formed between SMEs and larger sized firms like MNEs. These strategies for the MNE, are based on outsourcing those functions that do not provide a competitive advantage, in order to increase flexibility and agility for the MNE (Spence et al., 2008). For the SME, one key advantage is to become part of a supplier-customer network of an already existing MNE (Spence et al., 2008). These networks can benefit SMEs in gaining sources for market insights, accessing high quality resources which were previously difficult to acquire as well as, gaining legitimacy amongst international markets (Iplik, 2010). Brink (2017) further explains that a key issue in the internationalisation of SMEs is the lack of skilled labour. However, through the use of partnerships and networks, the channel of recruiting new staff helps to overcome this challenge.

2.6.2 Benefits of Collaboration; Sharing Information

In order to effectively internationalise, it is important to have access to information and experience about operating in international markets, such as market conditions, trade laws and negotiation processes (Child & Hsieh, 2014). In order to minimize risk and uncertainty, manage international ambiguity and make the most of international market opportunities, it is important to have a strong grasp of this type of knowledge and information (Zhou, Wu & Lou, 2007). For SMEs, it has been researched that collaboration and networks play an important role in facilitating the gaining of knowledge for internationalisation (Ciravegna et al, 2014). Through networking and collaborating with larger international partners, SMEs can benefit from knowledge gain as this process provides managers with better decision-making skills through connecting with valuable channels of information from their partners (Child & Hsieh, 2014). Thus, influencing their business approach and foreign market decisions, quickly increasing commitment in foreign markets, and more importantly overcoming the barrier of having

limited resources (Ciravegna et al, 2014). Previous literature suggests that SME networks which turn out successful require the sharing of information instead of placing emphasis on the control of information, thus having a collaborative mindset instead of one that is competition based (Child & Hsieh, 2014).

Through the use of networks, SMEs can gain knowledge on laws, customs and find the right people to connect with to overcome their lack of expertise in international markets (Brink, 2017). This supports the decision-making process of SMEs in internationalising, because SMEs now have access to valuable information and market insights from their larger partners and suppliers which can guide the SMEs in starting the venture in the foreign country (Brink, 2017). Networks with larger firms also benefit SMEs in increasing their managerial skill and capacity. SMEs now have access to their partners resources such as banking managers who could help with trade and financial information, further impacting the decision-making process as SMEs can access knowledge related to exporting, importing and conditions of trade and payment (Kirby & Kaiser, 2003).

2.6.3 Benefits of Collaborations; Market Selection

When searching for sources of information the main topic of focus for SMEs revolve around the conditions of the international market. These topics which were important for SMEs to consider were based on how attractive certain countries were, the effectiveness and alternatives of internationalisation strategies, challenges and difficulties which might arise in globalising into certain countries, sources of support internationalising, marketing and finally information based on previous experiences on foreign markets (Chen, 2011). The sharing of knowledge plays an important aspect in the sustaining of trust and synergy between networks. Making decisions on who to contact and who has the best resources are important aspects to consider in order to make affective decisions regarding selecting markets (Child & Hsieh, 2014). Market selection, in the early decision-making process of internationalising, is highly influenced by opportunities arising from the SME networks. By having partnerships and networks who are much larger, SMEs can oversee larger and a more diverse range of opportunities through their own connections (Brink, 2017). MNEs can further assess to see if they have resources which can help the SMEs progress in these countries by overcoming cultural norms, language barriers and local market conditions (Brink, 2017).

Networks also benefit SMEs as they lead to good referral for brand new consumers. This type of referral relates to the quality and trustworthiness of the firm's practices (Brink, 2017). Brink (2017) states that this referral-based networking can help to improve the credibility of SMEs in foreign markets. Because competition is already high, being referred and recommended by a trustworthy company, can give the SME legitimacy in that international market (Brink, 2017). When a consumer or value chain supplier is making decisions on who to do business with, they will feel more at ease when it is with a company recommended by a trustworthy and well-known firm (Brink, 2017).

Although there are benefits to collaboration, the decision on if and how to collaborate, as well as who to collaborate with is an important aspect to consider in the internationalising strategies of SMEs (Andersson, 2011). In current literature it is unclear how SMEs gather and manage knowledge from their collaborations for more affective decision making. There are several decisions to make which are complex in the process of internationalisation through collaborations. These decisions revolve around dealing with parties within and outside of the enterprise (Andersson, 2011). This brings us to the next section of this chapter where we study the decision-making processes of SME's collaborations in internationalising.

2.7 The Collaboration Decision

As stated above there are several models explaining how SMEs decide to internationalise in established frameworks and theories such as the Resource Based View, the Uppsala model and the Collaborative approach. This previous research holds that these decisions to expand globally can arise from several internal or external factors such as managers knowledge in foreign languages, networks, collaborations and the entrepreneurial orientation of the manager (Andersson, 2011). Hessels and Teriesen (2010) conducted a study on Dutch SMEs, finding that managers decision to internationalise was highly dependent on their collaborative partners and their associations with international competitors, suppliers and customers. This is supported by Knight and Liesh (2002) who state that for SMEs deciding to go international it is crucial to have access to valuable knowledge bases from different international sources, therefore it is important for SMEs to make complete decisions regarding the acquisition of international knowledge in order to influence their international market activity decisions.

2.7.1 Collaboration decisions and Commitment decisions

When firms choose to collaborate with international partners to form networks either in a vertical or horizontal method, they do so depending on their initial drivers for creating a network, and the available international partners positions in their value and supply chain (Anderson, 2011). Anderson (2011) states that when firms join international networks they do so to enhance their international growth. The larger firm's status in the international market, relating to their growth, success, resources and operational practices, can therefore drive the SMEs choice in choosing to join this international collaborative network (Anderson, 2011). However, it is found that when these networks are formed, the SMEs focus shifts from their international market activity and growth to instead focussing on how to manage and facilitate these networks which creates the need for a decision for where to commit scarce resources (Castellacci, 2014).

SMEs decisions to commit resources to international market operations are dependent on factors such as the volume of resources designated to an international market and the SMEs market knowledge (Camuffo., et al 2007). These authors further stated that having collaborations and networks in a foreign country can further support SMEs in managing their decisions in commitment to a foreign market.

Even though there are such decisions for SMEs to make in the process of internationalising especially with networks and collaborations. There is a lack of experience and knowledge which SMEs initially have. So, in order to examine depth in how SMEs make decisions on networking, there has been a detailed review of literature below which examines SMEs need for information and how this further affects the decisions they need to make.

2.7.2 Information Needs

In previous studies conducted by Child and Hsieh (2014) there have been different categories of knowledge highlighted which have been utilised by SMEs. Market knowledge is an important aspect which consists of objective information regarding international market size, costs for skill and labour, customer information such as consumer behaviour, competitors, rules of payment, regulations, laws, cultural norms and language (Child & Hsieh, 2014). Challenges in cultural norms and language can be reduced with access to this knowledge enabling SMEs to enter these markets rapidly, due to this level of advanced decision making (Child & Hsieh, 2014). Another important aspect of knowledge which is useful to SMEs is experiential knowledge (Child & Hsieh, 2014). This knowledge can come from involvement directly in the

process of internationalising or from networks and partners who can provide a basis of input and comparison from prior experiences of internationalising (Child & Hsieh, 2014). This type of information is related to international knowledge which consists of information gathered through experiences of internationalisation and information of opportunities which are ready to exploit (Fletcher & Harris, 2012). This knowledge plays an important role in the understanding of which type of information is the most useful in different situations in the process of internationalisation (Akerman, 2014).

Network knowledge is another aspect which is of high importance to SMEs, this type of information is gathered from networks at a business and social level which enhance the state of internationalisation (Fletcher & Harris, 2012). By accessing and utilising this type of knowledge, SMEs can gather new resources and gain new skills from these collaborations with international partners with lower costs at an efficient rate (Kaur & Sandhu, 2013). Another aspect of knowledge which plays high value for SMEs is technological information (Fletcher & Harris, 2012). This information gives SMEs special advantages in producing unique products/services which are more innovative and gives SMEs the ability to transfer these products internationally (Fletcher & Harris, 2012).

Social relations to business relations to prior experience in international markets all play the role of being important sources of valuable information for SMEs (Fletcher & Harris, 2012). SMEs use internal and external information sources in order to accumulate foreign country specific market knowledge (Akerman, 2014). Managers of SMEs usually select internal sources of information based on their own prior experience and of the staff of the firm and use external information sources based on the prior experience of external members (Akerman, 2014). Previous literature on SMEs state that because there is a rising availability of information from various sources, SMEs choose more rational decision-making modes in the process of comparing strategies (Akerman, 2014). SMEs use market research (formal) and gatekeepers and networks (informal) to accumulate information. Previous studies state however that SMEs place more emphasis on their collaborations and networks in order to accumulate knowledge and information about international markets (Akerman, 2014). Collaborative information is an important aspect for SMEs and their processes of internationalisation because they initially face challenges in finding sources of information by themselves (Akerman, 2014). This type of information which is passed around networks reduces SME information asymmetry and increases the level of commitment in international

markets (Child & Hsieh, 2014). This collaborative information is shared between SMEs and international partners of a social and business level which consists of suppliers, family, friends, customers and competitors (Akerman, 2014). The basis of this knowledge and the source of this knowledge further aid the decision for SMEs in terms of collaborating and who to collaborate with in order to make decisions on internationalisation (Child & Hsieh, 2014).

Even though SMEs can use collaboration to overcome a lot of the challenges they face in internationalising through sharing information and resources, there are still challenges which arise from networking with their small size (Lu & Beamish, 2001). It has been researched, in this section of the chapter how SMEs can overcome their deficiencies of knowledge, by collaborating with larger MNEs who can share knowledge (Child & Hsieh, 2014). However, as Dickson, et al (2006) describe, there can be cases where the larger partner can take advantage of the size difference. This results in the larger firm choosing to withhold information from the SME and holding negotiation power from them to maximise the resources for their own use. This concept, known as Opportunistic behaviour is discussed below (Dickson, et al., 2006). The degree of commitment from both parties may differ, depending on perceptions of dependence and importance of the collaboration (Dickson, et al., 2006). Moreover, because of the fact that each partner in a network preserves its dependence and operate its own decision-making process, coordination becomes a strong issue to overcome and manage for an SME who is already short off trained personnel and staff (De Mattos et al., 2009). This can further result in high uncertainty and the consequences of this type can result in the SMEs, having to postpone or cancel their operational practices (Dickson, et al., 2006). This concept is known as Hold Up behaviour, and this can negatively affect the SMEs progress, and can be time and cost intensive (Dickson, et al., 2006). Because of challenges like this which may arise from SMEs who network with international partners who are of a much larger size, it brings us to study in depth issues and challenges which SMEs face and the consequences these may have on their progress and internationalisation capacities due to their size difference in collaborations. However, despite the prospective challenges faced by SMEs engaging in collaborative strategies with a larger partner, the perception and perspective of the SME is not well studied.

2.8 The Management of Unbalanced Collaborative Relationships

Due to the small size, lack of resources and trained personnel of SMEs, it can be challenging for SMEs to manage international networks with larger partners who are much further

developed and have a greater access to high quality resources and trained personnel (Iplik, 2010). Although Cox, Mowatt and Prevezer (2003) state that trust between partners forms as information is shared, it is argued that at the start of these relationships, a lack of trust can arise from the MNEs in working with a brand-new SME who lacks personnel and resources, which can result in differences in objectives and resistance to exchange knowledge and operational capacity between the firms (De Mattos et al., 2009). Another difficulty which SMEs have to face in managing their networks are the different levels of opportunism between partners (De Mattos et al., 2009). This could lead to weak cooperation between partners offering limited effort, lower quality goods and services which may be below standard (Dickson, et al., 2006). There could also be a possibility of getting caught in excessive share of joint profits leading to overvalued switching costs and overvaluation of the added value brought (Dickson, et al., 2006). It could also be difficult to manage the sharing of resources which could lead to excessive exploitation, as well as personal appropriation of resources produced in common (Lu & Beamish, 2001). There are challenges for SMEs in choosing whether to even enter an alliance and who to partner with. The collaboration decision is important as networking with a larger partner could lead to a loss of technological competence, high costs of managing such a partnership from a SME who is already facing resource constraints, especially where the SME has limited opportunities to fail (Lu & Beamish, 2001).

2.8.1 Opportunistic Behaviour

Dickinson, et al., (2006) states that networking with larger international firms can play a useful role in acquiring resources, transferring technology and entering markets. However even though networks can be useful in this aspect of SME growth and development, previous literature states that the rate of failure of networks is rather high (Dickinson, et al, 2006). Often, failure of networks is due to opportunistic behaviour arising on the part of the international partner and is supposedly the main reason for alliance failure (Dickinson, et al, 2006). Dickinson, et al., (2006) further states that when alliances are formed for benefit from research and development, this is when there is a higher chance of opportunistic behaviour. This is because, unlike larger firms SMEs do not have access to specialised assets which are important for developing technology to the levels of products and markets (De Mattos et al., 2009). Although, Cox and Mowatt (2004) state that information transparency between network members reduces information asymmetry which encourage firms to act opportunistically,

Dickinson et al., (2006) state that this is still possible based on the resource dependency of the smaller firm. Smaller firms such as SMEs place more importance on exploratory research whereas larger firms place more importance on commercialisation and production (Dickinson, et al., 2006). SMEs form networks and partnerships to survive and compete successfully by gaining the resources which are necessary, and it is through these alliances in which resources are exchanged between the firms (Iplick, 2010). It is however that when these resource exchanges are shown to be out of balance that opportunistic behaviour can arise. Opportunistic behaviour is when one partner in the alliances maximises most of the resources derived in the partnership which is not in the best interest of the other partners in the alliance (Dickinson, et al, 2006). Dickinson, et al, (2006) further suggests that this level of opportunism is dependent on the limited resources of the SME and the SMEs external environment, and especially in the case of SMEs being smaller sized firms, resource dependency is more common than sufficiency, which leads them to form networks with larger firms with complementary competencies and assets. For SMEs who operate with limited resources and staff it can be expensive and time consuming to create and execute contracts which are important for managing the opportunism which occurs in alliances (Dickinson, et al., 2006). Other than being intensive on resources, the cost of forming and controlling these contracts may limit the firm's ability in acquiring resources from the partner (De Mattos et al., 2009). As there is an increase in risks in networks where control largely relies on equity investments and transactions of specific assets, efficiency and control of these operations depends on the continued investments from the firms, therefore for small sized firms like SMEs, this leaves them no option (Dickinson, et al, 2006).

2.8.2 Hold Up Behaviour

SMEs who are involved in R&D alliances face a high risk of uncertainty and need their participants to invest frequently in transaction specific assets which is challenging due to their small size and limited resources (Yenner, et al., 2014). SMEs are further faced with hold up behaviour due to this and the lack of contract management (Dickinson, et al., 2006). As the research and development stages progress, it becomes important to review the terms of the alliance, however due to SMEs limited networking experience and limited credibility in international markets it becomes hard to do so and creates hold up issues (Yenner, et al., 2014). There is a large amount of intangible resources invested in networks, therefore, it is argued that

is extremely difficult to foresee the amount of intellectual property which will be developed in an alliance (Yenner, et al., 2014). Therefore, when contracts are being built, the final result is incomplete with open issues in the contract which need renegotiations in the future (Yenner, et al., 2014). When the rewards of the alliance are linked to its productivity this leads to a healthy alliance relationship (Yenner, et al., 2014). This type of success can be achieved if the alliance partners are able to measure the amount of value their results produce in the alliance (Yenner, et al., 2014). However, this is difficult to measure in SME relationships due to their limited resources (Yenner, et al., 2014).

2.9 Summary & Research Gap

This chapter presented the theoretical framework which underpins this research, through a review of the extant literature. The theories and previously conducted literature show that SMEs have many differences with larger MNEs, such as smaller personnel and less access to resources and therefore have a managerial and operational structure which is less rigid and informal. International demands and domestic pressures motivate SMEs to internationalise. It is found that SMEs internationalise rather sporadically and rely heavily in international contacts and networks to aid the internationalisation process. Although there were many benefits and advantages to SMEs internationalising through the use of networks, it has been shown that there are many issues and challenges that SMEs face with networking with partners who are much larger in size, and these have been discussed above through theories such as hold up behaviour and opportunistic behaviour. However, the experience of the SME engaged in unequal collaborations is not well researched. Therefore, the focus of this research is to address this gap through the research question: *How Do SMEs perceive and manage unequal size in collaborative strategies in internationalisation?*

In the following chapter, the research methodology will be outlined.

Chapter 3 Methodology

In Chapter 2, the theoretical framework which guides this research was outlined. A research gap was identified, based on exploring the experiences of the SMEs engaging with larger partners as part of their internationalisation. This research gap is applied to the N.Z. context, and results in the development of the following research question:

How do N.Z. SMEs perceive and manage unequal size in collaborative strategies in internationalisation?

Within this broad question, the following sub questions will be used to guide the research:

1. *How do SMEs perceive size difference in international collaboration?*
2. *How does perceived size difference impact SMEs approach to forming/maintaining international collaborative strategies?*
3. *How do SMEs perceive that international collaboration aids internationalisation efforts?*

This chapter will outline the methodology and method which was used in the research. It will begin by outlining the philosophical assumptions which underpin the research paradigm. The choice of methodology is then justified, followed by a description of the methods and research design employed in the study.

3.1 Philosophical Position

The nature of the world, and how we can obtain this type of knowledge, is defined by the philosophical position and further backs up the methodological decisions and findings of research (Myers, 2013). Ontology refers to the basic beliefs that the individual has about the world and the notion of reality (Gray, 2014). Gray (2014) further describes that this leads to the epistemology of the researcher which is highly dependent on his ontological position. Epistemology is defined as the relationship the researcher has between himself and reality, what the researcher believes about the nature of knowledge and how the researcher gathers knowledge (Gray, 2014). Just as the epistemology heavily depends on the ontology, the research paradigm and methodology also heavily depend on the epistemological stance of the researcher, so in order to develop the accurate methodology for the research process it is

essential for the researcher to select a correct ontological and epistemological position (Gray, 2014; Guba & Lincoln 1994).

This research is underpinned by an ontology of relativism. This positioning holds that reality is multiple, constructed and holistic. Therefore suggesting, that there is no single, tangible reality, instead there are only the complex, multiple realities of the individual (Gray, 2014). Consistent with this view of reality, this research will undertake an constructionist epistemology, holding that the researcher acknowledges that all descriptions are time and context bound, that it is impossible to separate cause from effect, as all entities are in a state of simultaneous shaping (Gray, 2014; Guba, Lincoln 1994).

3.2 Research Paradigm

A group of beliefs that underpin the path of research and interpretation of data is referred to as a research paradigm. It is these groups of beliefs which are driven by the initial ontological and epistemological stances (Gray 2014; Guba & Lincoln, 2000). The interpretive research paradigm is consistent with this research. Interpretivism elaborates suggests instead of there being one objective truth, there are several realities, and that interpretations of the world are based on history and culture (Bisman, 2010). The interpretive research paradigm recognises that observations and measurements are socially constructed within their contexts (Bisman, 2010). This paradigm is consistent with the objectivist epistemology as it supports the notion of researching from a subjective perspective, with the researcher acknowledging that enters the field with some sort of prior insight of the research context but assumes that this is insufficient in developing a fixed research design due to complex, multiple and unpredictable nature of what is perceived as reality (Bisman, 2014; Gray 2014; Guba, Lincoln 1994). In conducting Interpretive research there is an importance of using multiple sources of data, reinforcing a qualitative research approach (Creswell, 2013; Guba & Lincoln, 1994).

3.3 Case Study Methodology

In conducting research, methodology relate to the overarching strategy taken in the research (Gray, 2014). Case study methodology is chosen in this research to study how SMEs manage their international networks in a Interpretive paradigm. The case study methodology is a type of qualitative research methodology where the researcher focuses on a contemporary phenomenon in its context (Yin, 2009). Gray (2014) further elaborates how case study methodology is useful for researching a “how “or “why” of a topic, as well as heavily focusing

on specific firms and organisations. To further support the use of case study methodology, Gray (2014) states the importance of using case studies to study the interrelation between a phenomenon and its real-life context.

Therefore, case study methodology enables the researcher to dig deep into the topic, studying the various views from participants (Guba & Lincoln, 2000). Creswell (2013) describes that in order to conduct high quality case study research, it is crucial to describe the context of which the case is occurring in. Therefore, in this research, the study of both SMEs, their internationalisation and collaboration experience, and the N.Z. context, will be important to answer the research question. Yin (2009) states that it is important to use various sources of information, including theoretical insights, to understand the phenomenon which is being studied. Therefore, international business concepts such as the Uppsala model, the Resource-Based View and Transaction Cost theory will help shape the analysis. Additionally, to develop a deep understanding of how NZ SMEs manage their international networks, secondary data from media and government reports and previously conducted literature as well as primary data from interviews with participants will be gathered to effectively serve this purpose.

3.4 Primary Data Collection: Semi Structured Interviews

According to Gray (2014) a data collection method which is consistent with objectivist research is interviews. Myers (2013) states that there are three types of interviews that can be conducted, semi-structured, structured, and unstructured. The structured type of interviews take place in the form surveys and questionnaires which included closed questions in a certain sequence, making it simple to analyse the data collected. The unstructured interview contrasts this as there is a heavy emphasis on improvisation based on the research objectives on the part of the interviewer as there is no guide or preparation of the questions for the participant (Myers, 2013). The semi-structured interview however is a mix of these two types of interviews as the interviewer is able to improvise while still following a structure, using both open and closed questions as well as probing questions to go deeper within the interview (Arksey & Knight, 1999). The semi-structured interview type allows the interviewer to deviate from the structure of the interview questions and add extra questions which may arise during the interview, in order to achieve deeper insights (Arksey & Knight, 1999). The semi-structured type of interview seems best suited to answer the research question and objectives by asking the participant structured but open-ended questions on their perceptions of managing international alliances and networks. Because this research is taken through an objective stance, the semi-

structured interview allows the researcher to observe the participant from an outside perspective and have them explain the experiences and perspectives, giving the researcher the option to ask more questions and drift from the original structure to gain a deeper understanding which would not be possible through a structured or unstructured interview type (Gray, 2014; Myers, 2013).

In this research, the interviews conducted were on average forty-five minutes long, and all conducted face to face. The questions which were asked in the interview were heavily influenced and directed by the concentrated topics which were developed in the literature review and internationalisation theories. For example, the question “How did you manage commitment of resources and allocation of resources in this collaboration” is influenced by previous research conducted on how there are issues in SMEs having difficulty due to their small size in allocating resources in a collaboration which can impact the outcome of the alliance results. In the course of this interview, follow up and probing questions were also used when the participants brought up interesting points, this gave an opportunity for them to shed more light on topics which were not covered earlier and allowed the researcher to go deeper into the focus of research. The initial interview question guide is included in Appendix II.

3.4.1 Selection of Participants

This research is designed to study how SMEs perceive and manage unequal size difference in international collaborative strategies, therefore the criteria for selecting participants was based on the criteria of NZ firms who had between 1-20 staff, who had taken part or are currently undertaking some sort of international collaboration with larger partners for their progress and growth. After firms were identified to have these characteristics, an invitational email was sent out to each firm inviting them to participate in this research, by asking them to select a representative of that firm based on whoever has the best information to volunteer in the interview. These participants for the interview had to be involved in decision making processes in the firm’s alliances with larger international partners so that they could therefore give the best and deepest insights based on their previous experiences.

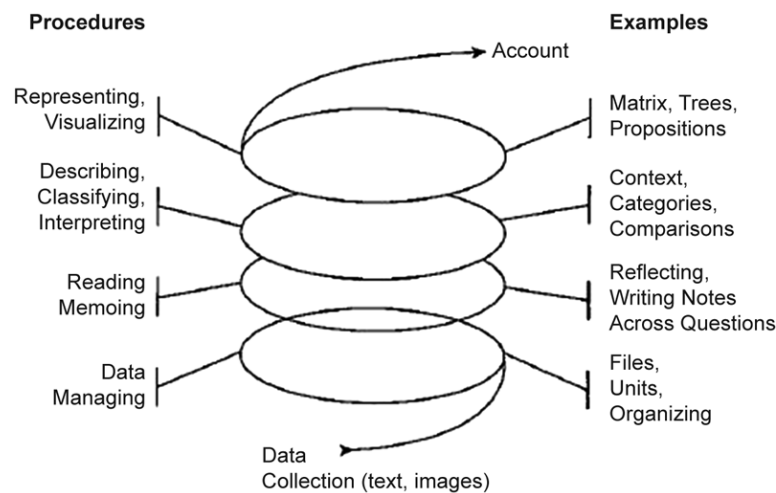
The invitation email was initially sent out to each firm’s publicly available contact point, and it was requested for the email to be forwarded to the relevant staff of the firm. This is because the selected company would have a better indication of which staff member would be the most knowledgeable about the topic than the researcher, increasing the chance of

interviewing the most insightful participant. When the participant contacted the researcher, it was assumed that he or she had agreed to participate in this research and therefore had the required knowledge for the research topics. This participant also had the choice of choosing where to take the interview, either at their office or a public place where the participant was at comfort. The main sources of data of this research were comprised of these interviews, while the media articles, company's websites and government reports were used as an aid to go deeper into the study and provide more detailed understandings of the topics being investigated.

This process resulted in the recruitment of three participant firms. Interviews were conducted with one representative each of these firms. These representatives all the firms interviewed were the primary founders, owners and operational managers of these SMEs. All interviews had taken place at the firms head office location. Secondary data was collected on these firms from company websites, national newspaper articles and trade publications to help build a case for each firm involved in the research in order to provide more depth in relation to the interview findings.

3.5 Data Analysis

The primary and secondary data was analysed both within and across the cases. Secondary and primary data was used to collate a case profile for each company. Secondary data was also used to triangulate the primary interview data. Interview data was then analysed thematically. The thematic analysis technique is used in this research to analyse the collected data. This technique is largely used in qualitative research and revolves around finding themes and patterns which reoccur throughout the entire set of data (Braun & Clark, 2006). In order to interpret and analyse data in a way that is rich and complex, Braun & Clark (2006) describe thematic analysis as having the potential to do this as it is useful and flexible. There are two categories of thematic analysis; theoretical and inductive. In an inductive thematic type of study, themes are driven by data, whereas in a theoretical thematic approach, the themes are driven by the researchers theoretical interest (Braun & Clark, 2006). Even though the overall analysis of data results are less detailed than the inductive approach, the theoretical approach allows more detailed and rich investigation in certain subjects (Braun & Clark, 2006). Therefore, a theoretical approach was used in this study to explore certain aspects of internationalising such as SMEs networking with larger partners.



Source: Creswell (2007)

Figure 1: Data Analysis spiral adopted from Creswell (2007)

3.5.1 Steps in the Analysis Process

To begin the analysis, the interviews were transcribed verbatim. The researcher transcribed the interviews from the recorded device in order to familiarise himself with the data (Gray, 2014). Prior to data analysis, it is important to select a method of managing the data which is efficient. Although, there are methods of manually managing primary data, the researcher had used a software program called NVivo, which was developed to help researchers manage this type of raw data in an efficient way. This software allowed the researcher to keep data in one location, with the ability to connect, cross reference and modify the data (Oliviera et al. 2016). This process of coding is shown in Figure 2.

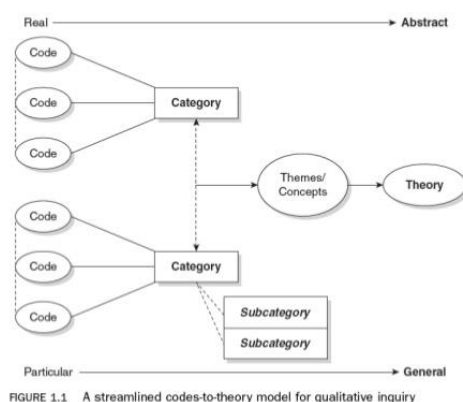


FIGURE 1.1 A streamlined codes-to-theory model for qualitative inquiry

Saldaña, 2013: 12

Figure 2: Coding process (Saldana, 2013)

After this, the next step was to review one transcript at a time, making a line by line analysis, which had involved making notes in texts and labelling them into codes, in order to form categories. This process was taken across all cases (Gray, 2014). Gray (2014) points out that this type of open coding is a process of segregating the raw data into units. Eriksson & Kovalainen (2016) further stated, that this is the first step in order to classify, categorise and analyse data. Gray (2014) had stated that the next step from here, called focused coding, was to review these open codes and elaborate on them to therefore create deeper and richer codes. In this process, some codes were removed as they seemed irrelevant to the research focus while others were merged to overcome issues of overlapping and some were altered to fit their meaning in a more efficient way. This process further backed up the forming of categories for more coding (Gray, 2014).

Following, the codes were reviewed in order to form connections between them and group them together to create themes (See Table 1 below). This coalescing of codes enabled a deeper level of analysis, and closer relation to the theoretical framework (Eriksson & Kovalainen, 2016). From the interviews, participants statements and opinions on managing size difference with their networks, were also identified and put into themes. Finally, themes were developed by reviewing and emending the meanings of these grouped units. In this study, 124 nodes were generated which lead to the formation of 7 themes and sub-themes within.

Table 1. Common themes across cases

Core themes	Example of Codes
1. Need of collaborations	<ul style="list-style-type: none"> - (NZ market small) -(intentional to internationalise) -(product specification) -(need for middle men)
2. Advantages of collaborations	<ul style="list-style-type: none"> -(margin advantage) -(customer reach) -(access to market share) -(share competencies)

	-(access to distribution/manufacturing) -(credibility)
3. Challenges of collaboration	-(different agendas) -(difficult to align values) -(difficult to set up drive) -(negotiation challenges) -(margin pressure)
4. Overcoming challenges	-(market research) -(conference/meeting) -(important to align values) -(shared goals) -(set up drive). -(aware of existing networks). -(awareness of market)

3.6 Ethical Considerations

As the research involved human participants, ethical approval was sought from the AUT Ethics Committee (AUTEK) prior to beginning the fieldwork phase of the research. Because human participants and their firms and represented in this research, it is liable for their information to be exposed and have negative impacts of risk of the company's reputation. Therefore, the participants were informed before the interview took place that this would be completely anonymous and no sensitive details like the name of the participant and the firm would be exposed. These potential ethical risks and issues were recognised before the interviews took place and the researcher had applied for an ethics approval to the AUT ethics committee in order to get official approval to conduct this study. An information sheet was also developed by the researcher, to send to the selected firms. This stated the purpose of the research, as well as the procedures set up to protect the participants from any risks that may occur. This was then sent across to each participant with a consent form. In the information sheet, it was also stated that the participants could withdraw at any moment of the interview and choose not to answer

any question. The researcher here also made it clear that the participants would have an opportunity to review the final information and the report as well as the interview transcripts in order to delete any sort of information which may be sensitive. The consent form which was given out at the start of the interview overall ensured that the participant understood the situation of the interview and the interviewer stated the terms and rights of the interview again to ensure there was full understanding before the interview took place. The participants were finally offered a summary of the findings to thank and express appreciation of their important role in participating in this research and shedding light on their deep and valuable insights on the topic of research.

3.7 Summary

In this chapter, the research methodology and methods used in the research were presented. In order to investigate this research topic in depth, a multiple case study method is used, and this section elaborated on the reasons as to why this is the best selected method in order to investigate the topic of research. Three individual staff members from selected firms volunteered their time to participate in this research through interviews which made up the primary data. In order to gather this primary data from these participants, a semi-structured interview method was adopted. After the primary data was gathered, the analysis of this data began, and this was done by a thematic content analysis technique. In the next chapter, the findings of the study will be presented.

Chapter 4 Findings

The previous chapter introduced the case study methodology which was adopted in this study. In this chapter, the findings from in-depth semi-structured interviews and secondary research are presented, based on the following research question: *How Do SMEs perceive and manage unequal size in collaborative strategies in internationalisation?*

One participant each from 3 different NZ SMEs were interviewed to discuss these ideas resulting in a total of three hours of interview data. This data yielded 124 themes which were combined into 5 themes with subthemes under these sections (as seen in the example provided below), which guided the construction and presentation of the findings. This chapter is organised into two main sections. The first section is an overview of the firms. The second part of the chapter presents themes found across the cases.

4.1 Overview of Case Firms

Key characteristics of the three firms studied in this research are presented in Table 2 below.

Firm A is a new firm which had formed in 2016 and at the time of the interview had 6 staff members. This firm operates in the retail and fashion sector, stocking a variety of international fashion brands, as well as holding their own label which gets stocked in international second party stores. This firm is privately held and has internationalised rapidly from inception, importing and exporting to 5 international markets as well as collaborating on product development, design and manufacturing with international firms.

Firm B works in the international IT sector, operating since 2000. This is a privately held firm who has internationalised from inception, collaborating with firms from 5 different markets. This firm bases its collaborations on being able to sell its service through a collaborative partner in their international market in order to offer specialised solutions to firms in their home market. This firm further exports its products in international markets as well as sources supplies and resources from these markets.

Firm C, like Firm A, also works in the retail and fashion sector. This firm which has been operating since 2009, also began internationalising from inception, importing, exporting as well as sourcing supplies and manufacturing in 3 different international markets. This firm basis its collaboration on importing and exporting international brands as well as their own brand. This firm however has been merged with another NZ SME in 2016.

In this study, aspects of previous work and research, were reflected into his study, while acknowledging this is a small scale study.

Table 2. Overview of case firms

	Firm A	Firm B	Firm C
Year Established	2016	2000	2009
Industry	Fashion/Retail	IT	Fashion/Retail
Size	6	20	9
Company Status	Privately Held	Privately Held	Merged with another NZ SME in 2016
Internationalisation Pattern	Rapid/Immediate	Rapid/Immediate	Rapid/Immediate
Internationalisation stage	Exporting/Importing through international agents	Exporting/through international agents	Exporting/Importing through international agents
Major foreign markets	USA, Japan, UK, Korea, Australia	USA,UK,Netherlands, India, Singapore	USA, Canada
Operational Tasks In Foreign Markets	Collaborate on fashion design of products. Export, Import, manufacturing, distribution Marketing,	Collaborate and meet with international clients to offer specialised exporting of firm's products.	Collaborate on fashion design of products. Export, Import, manufacturing, distribution Marketing,

4.2 Need and Benefits of Entering an Alliance

All firms stated in the interviews that it was their main intention from the beginning to become a purely international company.

“We wanted to be an international company from the beginning. Other than the size of the NZ market being small, being involved in international markets and international collaborations were our passions from the beginning, fuelling the interest to start the company” – Firm A

Moreover, all firms had a focus on collaborating with international firms early in their internationalisation, because the New Zealand context was perceived as not big enough to access high-quality and innovative resources from local collaborators. Barney (2001) describes the resource-based view as a managerial framework which determines the strategic resources which can help a firm gain a competitive advantage. Firms in this study expressed that they internationalise and form alliances to gather resources which are rare and valuable. Therefore, the major drivers for international collaboration for participant firms were access to a wider range resources which are of a higher quality at a more cost-efficient rate (distribution and manufacturing), access to a larger group of international consumers, and increased exposure to international markets to increase international legitimacy and international market share.

For example, Firm C explains that from collaborating with international partners, they had gained access to the same distribution and manufacturing channels as their partner firms, which therefore elevates the quality of their products and services which they offer, as well as reducing risks and costs in producing these products.

“I think a big part of our international collaboration is exposure and access to a wider range of consumers and resources. We dealt and manufactured mainly in New Zealand, but now after collaborating with bigger partners, we’ve accessed their distribution and manufacturing pools and now all our own products are mostly made internationally” – Firm C

Firm B adds that in order to work in international markets, there is a need to have staff in these markets and having alliances in international markets have helped this firm in gaining the high-quality international personnel to fulfil these duties. By using these alliances, these SMEs have entered their partner firms’ recruitment channels to access these skilled staff pools.

“So, in order to bridge that gap between us selling a product and the customer wanting the outcome, we need other people to help out in the middle. That’s where the collaboration part is most needed for us, and it’s really difficult to do that yourself and hard to scale” – Firm B

4.2.1 Gaining Legitimacy

Brink (2017) states how networking with larger international partners helps gain legitimacy and credibility for the SME in international markets. This is reflected by firms in this study as they had expressed that collaborating with larger firms increased their legitimacy in international markets, which has benefited their international marketing, sales and negotiation power. This legitimacy is gained through working with larger firms who already have credibility in these markets. As a result of this added credibility and exposure, all firms stated that these reputational benefits led to an extension of their networks in international markets, therefore creating subsequent new business opportunities for the SME. This has occurred through recommendations of their initial partner firms, as well as recognition through their initial collaborative market activities which have given these firms the legitimacy to be able to contact and make new alliances and networks with other firms in this international market.

“The contacts especially have helped with marketing as they’ve given us a credible name in those international markets to be mentioned in magazines, blogs and articles. A key reason a lot of our collaboration I would say is exposure and access because these larger brands have a big name for themselves in these markets already, and for us to have worked with these companies means that their customers, distributors and manufactures have trust to work with us” – Firm A

4.2.2 Operational Learning

Child and Hsieh (2014) state that in order to effectively internationalise, it is important to have access to information and experience about operating in international markets, such as market conditions, trade laws and negotiation processes. All firms stated that there was a need to learn how to manage their international operations such as marketing, manufacturing and

negotiations in international markets, to overcome their lack of experiential knowledge. For example, Firm A states:

“Looking back, it was a bit rough when we were really fresh on the scene and first went to America. We did not really know exactly how to figure out and operate in those market conditions, and had no idea who and how to contact manufacturers and distributors” - Firm A

From collaborating with larger multinational firms, Firms have overcome the challenges of the lack of experiential knowledge by observing and learning from their partners actions. Firm C states that affiliation and alliances with international partners can support management decisions as partner firms can provide information on international laws, taxes and business practices which further helps the SME in dealing with governments regarding taxing issues or negotiations with third party manufacturers or distributors. For example, Firm C states:

“From international connections we’ve even learnt to make our own brand. We started off just wanting to be an online store and physical store but from our friends over in US and Canada, they’ve taught us how to even make and create our own brand just like them. These connections have done so much for us, our manufacturers of our clothes and skateboards are the exact same manufactures that our connections use”- Firm C

However, in order to meet these needs and requirements for internationalisation success, firms stressed the importance of effective management of the initial phase of the collaboration. The following section describes the steps that all firms in this research had gone through in order to enter a collaboration in a successful and effective manner.

4.3 Alliance Initiation Mode

The method of entering a collaboration across all three firms examined were very similar. Even though formal communication through emailing and social networking was seen as important to initially contact firms, participants found that face to face contact was the most effective way to successfully initiate alliance collaboration with a larger international partner. Social networking through Facebook and LinkedIn, as well as emailing and phone calling were all common platforms used by all three firms to contact potential international partners. However,

Face to face contact was shown to be the most effective in regard to making a warm introduction, finding common ground between the alliance members, and building a relationship based on friendship and trust. As firm C states:

“I guess, you can email them, find the firms or the owners on social media and connect that way. Those are probably the easiest, but the best way is meeting them face to face, nothing beats it.” – Firm C

4.3.1 Researching the future collaborator

Prior to engaging in an alliance, Firms A and C had stated how it was important to always to research the potential partner in order to see their history, and how the partner firm represented themselves. This profile would provide an indication of how they would conduct with partner firms, as well as their values and culture, which were seen to be important to align with, and potentially lead to a competitive advantage.

“Ethics, work practices and standards are all aspects which are really important to us and even help us stand out in this industry, so it was important to find someone who sees eye to eye with us” – Firm A

Because Firm A and Firm C were newly operating firms in their industry, only operating for one to 9 years, it was important for them to see how this collaboration would guide the progression of the firm. Therefore, the growth, legitimacy, customers, resources, exposure as well as external networks of the partner firms were important factors to consider in the formation of the alliance.

“Aesthetics are very important, seeing how a company presents its self as well as its history shows an indication of how my brand will be taken care off”- Firm A

4.3.2 Importance of Face to Face Contact in Collaboration Initiation

The main factor perceived as important in the formation of networks across all studied firms went beyond face-to-face contact and was articulated by participants as friendship. Firms stated

that creating friendships through face to face contact and introduction was highly essential to build these foundations of trust and support.

“The best collaborations for us have come friendship. Meeting face to face and discussing our work in such a casual setting brings out such a genuine drive and motivation to work together and support each other.” – Firm C

Although often termed ‘informal’ in prior research, the participants did not undertake these relational strategies in an unplanned manner and described in depth the approach to making contact and developing friendship with potential collaborators. The firms had explained how their first collaboration took place, where travel, face to face contact and attending international conferences had played an important part in facilitating their collaborations. For Firm A, their first collaboration for them is still their biggest and it involved travelling to each other’s home country and meeting in a casual setting, going out for dinner and bars in order to share common interests and passions. This was also reciprocated by Firm C who added, that it was a core part of their competitive advantage to be the first firm to bring exclusive products into the New Zealand market. In order to make this aim achievable, travel and face to face contact were the most efficient methods to accomplish this. These firms acknowledged that due to their small size and lack of exposure, it was much more effective for them to contact and meet partner firms on a face to face level, than cold contact in order to form an alliance based on trust and support. Firm C gives an example of this below:

“Now if we talk once we already made the brand and sought out new brands to bring in, it all came about through networking. The first year of opening the store we went over to Canada for one of the biggest skate expos ever, and this opened huge doors for us, because we just casually met people who had worked for these bigger brands which were famous in US and Canada, and one in particular was a brand called ONLY NY. We met the creative director at the expo and ended up hanging out afterwards. He loved our idea and we were already big fans of the brand, the next week we ended up going to New York meeting the team and they decided to work with us since then”- Firm C

Building alliances based on friendship and like-mindedness was also a common experience for Firm B. This firm had stated that their core part of contacting potential alliance members was attending international meetings and conferences, in order to be in the same room

with like-minded people and firms. This firm stated how it was important to study the market in order to attend meetings and conferences which their prospective alliance partners would attend. This would therefore increase the frequency of exposure to the already existing networks in that market, which would in turn increase their credibility through making their brand name recognisable. Even though Firm B had admitted to using social networking in order to connect with firms, face to face contact was shown to be the most effective in terms of making a warm introduction to the prospective partner firm. A key aim of Firm B was to strategically attend events with the same firms, in order to make friends with them.

“A product like ours is not a simple sell, you’re paying over a million bucks. You’re not going to see an ad word and give us a million bucks, people buy from people, it’s a contact sport, how do you meet people how do you make a warm interaction? It’s all networking face to face.” – Firm B

4.3.3 Utilising Pre-Existing Networks

There were similarities in the method all firms used to enter a collaboration. However, Firms B and C had stated how their previous experience in the industry helped them shape their international growth. These previous networks helped these SMEs recruit new staff and guide their internationalisation strategy. Firm B specifically stated that they had used the international staff from their previous firm to act as international representatives for their firm. It was through these international agents, who already had ties in their home countries with larger firms, who facilitated an alliance with the firm's first international client. This was a factor which guided their decision and facilitated the process of entering an alliance with a larger foreign firm. Firm B provides an example below :

“It all came about through Vince who was an alumnus of the company we once worked for. He was working in the States for an IT company who was a client of Wells Fargo bank, so he knew the staff at the bank. So, for him to get the potential clients and stakeholders in the meeting was no problem at all. We pitched them our service, and it went so well, they wanted to work with us, and they are still our biggest partner till today” – Firm B

For Firm C, previously established international networks provided the basis of the initial formation of the firm. The founders of this firm had worked with an international distributor through previous work experience. They had proposed a partnership to this distributor, bringing the distributors products to the New Zealand market, and started the company based on this opportunity. This distributor still remains their largest international partner. The basis of trust and friendship established through the previous venture not only facilitated the joining of the alliance but had also resulted in subsequent alliances with larger international firms. This was facilitated through a referral process on the part of the international distributor.

Therefore, all participant firms took deliberate steps, although often based around an informal approach, to establish the collaborative relationships. However, despite these steps taken, all participant firms still experienced challenges due to the size differences of the members involved.

4.4 Challenges of Collaboration

Due to the lack of international experience and knowledge, it can be difficult for SMEs to communicate and negotiate with larger international parties, resulting in uncertainties, which can lead to compromised costs and time (Dickinson, et al., 2006). The participant SMEs also found challenges based on difficulties monitoring international markets, the different agendas of parties, as well as how international competition can negatively affect the internationalisation abilities of the SME. These challenges were seen to be heightened by the size difference between collaboration partners.

4.4.1 Different Agendas of Parties

In dealing with larger international companies, there can be issues in aligning and prioritising agendas. In a fashion industry context, Firms A and C explain that collaborations and alliances are mostly formed on a casual basis. For the larger firm involved, creating and testing ideas and samples can be less of a commitment, as they have a wide range of staff and resources allocated to perform these tasks. Being the larger firm with more negotiation power enables them to cancel or postpone the project to suit their own timing and agenda. This places the SME partner in a disadvantaged position, as for the SME creating and testing ideas and samples can take a large amount of commitment of resources and time. Therefore, when this project is cancelled or

postponed, it can cost money and time to recover from this. This further affects the growth and progression of this firm as there is also a potential of missing other prospective business opportunities. Firm A provides an example by stating:

“They can sometimes not pull through because of their own agenda and timing. This kind of thing happens because in the streetwear game everything is done sort of very casually. For the bigger company it could be fun for them to mess around with ideas and samples, but then realise last minute that it doesn’t fit with their agenda, which can hurt and push the little guys back quite a bit because we’ve committed so much of our time, money and effort” – Firm A

Firm B also highlighted the issues of different agendas which might may occur in working with larger international partners. Sharing operational competencies are a key driver for collaborations as they can lead to competitive advantages based on time and cost efficiencies, however this difference in firm competencies can lead to challenges in managing collaboration. Firm B points out that the challenge therefore comes in aligning these values to create a coherent collaborative system. The consequences of this challenge could result in margin pressure as well as loss of time and money, especially for an SME who is already short of staff and resources.

“So, for this to be sustainable long term you have to set it up so you both win. Sounds basic but it actually isn’t, because if you take something of our case were speeding up data warehousing but if were selling time in a people business it’s actually disadvantageous to do it quicker because I have to spend more money and get less money, so u have to make sure you are aligning with a business who has the same value” – Firm B

4.4.2 Challenges in Monitoring International Market Conditions

Participant firms found that when exporting products, there can be challenges in monitoring the international market conditions which arise from issues related to communication between partners. This can make it difficult to manage how the product is marketed and in the international market by the partner firm. Firm A, states how it can be difficult to communicate to larger international firms due to it being highly expensive to travel which limits the ability to input ideas for marketing and public relations in that market. Firm A explained that because

these larger firms deal with many smaller firms, emails and files in regard to marketing can get lost and unseen in communication. Firms A and C also find that this difficulty in communication impacts both import and export processes. As a flow-on effect, this difficulty in monitoring market conditions can affect international sales, which can then lead to cancelation of the collaboration.

In addition to international marketing challenges, there can be issues in understanding foreign market regulations. All rules and procedures are undertaken in the larger firm's domestic country, therefore, it can be difficult to manage and calculate costs in taxes, fees and changes in laws. This was seen as a challenge for participants because if something does go wrong, for example in production or alliance conflict, the cost to defend this in an international market would be prohibitively expensive for the SME

“Everything gets done in their country. We have our input in the design for example and send it over, but the negotiations with manufacturing, suppliers, distributors all happen in their country, sometimes this can bring up costs which weren't expected at the start of the deal”-
Firm A

“You're going to be doing laws of wherever their based, not laws of New Zealand so if there is a conflict, you're in trouble either way, because the cost to defend something in Texas is way different to NZ so you're going to lose straight away. The minute you've agreed to the deal you've agreed you can get sued.”- Firm B

4.4.3 Imbalance of Negotiation Power

In forming agreements with larger international firms all participants agreed that there is a large imbalance of negotiation power which occurs collaborations. Firm B elaborated by stating that all decisions and negotiations are made and controlled by the larger partner. Often, when meetings take place with the larger firms' networks, the smaller firm is usually not present. Firm B explains that this can lead to sub-optimal marketing and management of the SMEs product, potential to as well as lose contracts because the interests of the smaller firm within the international networks are not prioritised.

“Your product might not be managed and marketed the way you would like it to, and your partnership can be killed because the support is not strong enough. You have no right to be there. So, the sales go on when you’re not in the room. So, if I meet with you and you like the idea, you’re going to get a meeting with five people to agree or not stop you, and if any of those people go nah stupid then that’s the end of that.” – Firm B

4.4.4 Competition With Larger MNEs

Firms B and C also state that there can be challenges of competing with larger international firms to secure a deal with an international partner. Firm B explains that large international firms prefer to work with other larger firms. This proves a challenge for SMEs as they have to allocate even more resources and time, in order to compete with larger international firms. During this time period any shift in market conditions leaves the prospective buyer often to work with a familiar MNE, rather than the relative unproven SME. Firm B elaborates that larger competing companies have a higher negotiation power and combined with their credibility can often bargain better prices and rates with potential MNE partners to win a sale. However, even though there can be challenges which can arise in collaborating with larger international parties, all firms interviewed have provided a detailed description on how these challenges can be overcome and manageable with this size difference. For example, Firm B explained:

“You have to understand how collaborations work. Larger firms prefer to work with other larger firms, just because it’s what they’ve always done. An SME could be well over innovative and more efficient at a specific sector than an MNE, but these MNEs can carry their weight around and use their negotiation power to secure a deal and block an SME out just to take over market share” – Firm B

4.5 Overcoming Challenges and Size Difference

All firms gave an explanation of the ways in which they were able to overcome the challenges due to their size difference and manage the collaboration in an effective way. Cox and Mowatt (2003) highlight how trust between partners can arise through information sharing. Cox et al., (2004) further stated how information transparency can reduce opportunistic behaviour in

international markets. Firms in this research demonstrated how information sharing and trust is possible, through the creation of friendships in order to help them share information and manage operations international markets. Firm B states:

“Every conference we have ever been to we’ve somehow made new friends and eventually business partners. Of course, we are going there to sell our products, which is our main objective. But it’s also another huge intention of ours to see how many people and businesses we can connect with and make friends with. Just showing an affiliation with some of these people can boost our name in that international market, which can give us some negotiation power.” – Firm B

Participants found that facilitation of information transparency and building of trust was achieved through the clarification of agendas, allocation of resources to manage the collaborations, maximising network connections and understanding field operations.

4.5.1 Clarifying Agendas

All firms agreed that in the beginning of the collaboration, it was important clarify the objectives and desired outcomes of each party before starting the operations of the alliance. Firm B elaborates, that even though this sounds like a simple task, it was still important and needed to be a deliberate action, as most of the networks form casually and informally. This informality creates a blurred understanding of individual objectives, which was seen as a major cause of alliance disagreements which may occur down the line. Firm A elaborates on this fact and further states how it is important to maintain this understanding by regularly updating each other on progress of alliance operations as well as each other’s objectives, in order to keep desired outcomes and aims well aligned.

“A lot of the time you meet and agree on a set of standards and goals and throughout the processes these get a bit blurred and the partners begin to focus on their end of the collaboration, and this brings a possibility of conflict in the future. So, it helps to regularly update each other on the progress as it helps clarify the joint benefits and goals again.” – Firm A

Firm C further stresses the importance of clarifying the potential risks which may arise from the alliance, as there could be issues with misunderstandings which could affect the credibility of the small firm amongst international networks of the larger MNE. Firm B further elaborates on aligning values with a partner organisation. This firm suggests that it is highly important that during meetings with the potential partner firms, to set up shared, mutually beneficial goals, as this will create higher synergies in between the alliance and lead to more fulfilling operations.

“If you just go to someone where we think we can just sell to their customers, then we might just sell to their customers or a portion of their customers and nothing else after that and the relationship withers. So, collaboration is all about those shared goals. It works when someone in another organization wakes up and goes how can I sell my product, and if they don’t wake up in the morning and think that, then they’re not going to sell our product, so that is also something we have to set up” – Firm B

In order to overcome challenges, firms state how it is important to understand their disadvantaged position, and the nature of collaborations in their industries. Firm B explains how in collaborating with larger partners, the smaller firms need to be focused on the major value that they have to offer to the larger partner. When two large firms collaborate, the synergies are already high because they have a large consumer base, market share, and an abundance of skilled staff and resources to offer. Therefore, small firms need to acknowledge that they are not credible enough and show confidence in their offering to the larger multinational firm. Firm B adds how in order to compensate for this lack of credibility, it is important to network and create a basis of support in international markets, because there are opportunities which can be killed because support is not strong enough in that market. Firm A elaborates that in their industry, there is a high failure rate for collaborating, therefore it is important to have a backup plan to keep business-as-usual in the event of a collaboration failure, as well as weighing the impact of potential outcomes of the alliance operations to establish how worthwhile the investment will be.

“It is so important to know that in this industry, because everything is so informal, collaborations most of the time do not workout. So, before we even enter these collaborations, we weigh out the outcomes to see if it’s worthwhile even spending all this effort towards it as

well as seeing if we're doing well enough to keep operations afloat if things don't work out."

– Firm A

4.5.2 Allocation of Resources

Because SMEs firms suffer staff and resource constraints, all firms have agreed how it is important to have one person or team in charge of solely managing the collaborations. Firms A and C, both having a team of less than 10 people, have their founders in charge of the management of international contacts, and another separate group of staff to specialise and manage domestic marketing and sales. Firm B also explains the importance of allocating resources and tasks between the team to create efficiency in collaborative operations. The founder of this firm solely looks after international relations such as flying to different countries, holding meetings and attending conferences, but has a small team in his domestic country and the major countries the firm operates in to manage the operational duties of the firm. Firm C elaborates that if there is an issue which occurs in the alliance where money and resources are compromised, daily operations such as domestic sales and marketing are well looked after by a specialised team, therefore having a backup to overcome challenges.

"One thing I've learnt is to split and delegate tasks within a team, which sounds quite straightforward, but is really important. Being a small business, I've done most of the management all by myself. All our operations within New Zealand and Australia, I manage, and even networking with our partners too I did all that. So, when things got tough either in NZ or in regard to our partners projects, one or the other would get compromised. So, I've learnt now to have someone in charge of dealing with our domestic operations like sales and marketing which keeps our company afloat basically, while I mainly supervise that through getting updates and primarily focusing on managing the networks to keep that under control, so nothing is compromised." - Firm C

4.5.3 Maximising Networks

All firms suggested it is important to use existing networks to initiate future networks. Firms and contacts within an industry lead to a positive referral system amongst industry members and creates a formation of support from other network members on what to do, and who to

enter an alliance with. Making friends with other key members of international networks, creates a form of credibility amongst that market, therefore when dealing with larger international partners there can be added support in decision making, which can benefit buying and negotiation power with larger multinational firms. Firm B furthers this notion of extending networks, stating that when large MNEs make decisions the smaller partner usually is not present and has no say, therefore if there is a friend amongst that network, there is added support on behalf of the SME.

“When you first enter a foreign market with a small size, no one knows you, and you have no say on what goes on. To overcome this, it’s important to extend your networks and make friends with as many firms as possible. This will give your name more exposure in that market, which can give you some negotiation and buying power. These firms have also given us advice on who we can contact for business opportunities, and how to manage this based on their experience.” – Firm B

Firm C elaborated that it is important to monitor other collaborations in the industry to see what other parties are interested in and how they manage their collaborations to therefore take lessons from this. In regard to taking lessons from other collaborations, Firms A and C, both stated they have mentors, who they know from previous networking experience, who give them advice based on what to do and how to manage difficult situations based on their previous experience. Firm B had further discussed, that in order to study market conditions and overcome the challenges of keeping up with market changes and trends, it was important to hold meetings with industry analysts and other firms in their industry, to pitch them ideas to get advice on what is missing, what can be done better, and how this will respond in the international market. therefore, stating how making friends and extending networks with other firms in international markets can help achieve this. As discussed above, there can be situations where sales can be blocked by the fact that support is not enough, or because of the fact that competition negatively affects the SME as larger firms have higher negotiation power. Firms B and C discuss however that having friends in international markets can be beneficial in overcoming this challenge as an SME can use an already existing network to enter another international network with support of their friend firms in this network to increase their

credibility and negotiation power to win a sale and contract with a larger prospective international partner.

“We need to be confident about what we are offering them, and you need to network like hell, because there are a several numbers of opportunities that can be killed because the support is not strong enough, you have no right to be there. By showing affiliation with specific members in an industry, you can kind of tap into the market power which they have, and use this to benefit yourself in negotiation with larger manufacturers and suppliers for example” -Firm B

4.5.4 Understanding Field Operations

All participant firms find that in order to overcome communication challenges with international firms, it is important to understand the field operations in international markets, and make connections with the staff that carry out these operations. Firm C gives us an example of this in discussing the benefits of making friends with the sales representatives of these larger international firms. Even though most alliances of this firm were formed with either the founders or head managers of these international companies, it was the sales representatives who carried out the field operations such as international sales and distribution. Firm C describes how these sales representatives hold a lot of information and experiences about dealing with international markets and negotiations between small firms and their own large firms, and therefore, can share advice on marketing, allocation of resources, time, money and can also support the small firms in negotiations and decisions which the larger partner takes.

“Sales representatives are pretty much the middle men of these collaborations. They’re the ones that actually take part in the operations. Most of the time its these people we communicate with instead of the managers in international countries. These guys have first-hand experience and information in what it’s like to make negotiations and manage tasks between members. So, it’s been worthwhile making friends with these people and getting advice from them.” – Firm C

Firm B agrees that having a relationship with a multinational head office is not enough, that it is also important to form a relationship with the field operations staff as they are the ones that carry out the international operations of the alliance, therefore they are the staff who they

need to be in frequent contact with to get updates and set up a motivation for them to work in regard to both collaborative goals. Firm B states that in order to succeed in managing an alliance on this level, it is important to incentivise these operational staff to work on behalf of both parties, and to have staff from their firm frequently travel to where the operational staff are to monitor them and get regular updates from them.

“We have to have a relationship with a head office and the field operations, it’s not good enough to go to their head office in San Diego and say hey we’ve signed a resell agreement here, it doesn’t do much. It doesn’t mean that their person in Boise, Idaho is going to sell our product, so we need to get to Boise, Idaho, or New York and make friends with the field operations with the people, and go hey by the way here’s you can resell our product”- Firm B

4.6 Summary

This chapter presented the key findings of the research. Firstly, the background of each case firm was presented. Four major themes which had emerged from data analysis were displayed in the second section. These included; the needs and benefits of international collaborations for NZ SMEs, how they enter an alliance, the challenges they face, and how they manage these alliances with their size difference. In the next chapter, these findings will be discussed in light of the theoretical framework in Chapter 2.

Chapter 5 Discussion

The previous chapter presented the key findings of this research, exploring the collaborative dynamics in the internationalisation of three New Zealand SMEs. The firms interviewed for this study all had agreed that internationalisation was an important aspect of their operational missions and goals. Thus, internationalising through collaborations and alliances with larger international partners was a key factor in facilitating the meeting of these goals. All firms expressed that even though there were several benefits of collaborating with larger international partners, there were many challenges in managing this alliance due to the difference in size of the firms involved in a collaboration between an SME and an MNE. This chapter therefore aims to discuss how SMEs can successfully manage their alliances with larger international parties to overcome the challenges and barriers they face with their size difference in light of the traditional theories discussed in Chapter Two. In particular, discussing SME internationalisation process, challenges of managing size difference and overcoming challenges.

5.1 Motivations for SME Internationalisation

Pinho (2007) discusses that managing SME internationalisation is highly dependent on the experiences and characteristics possessed by the managers of the firms such as previous work experience, contacts as well as recognition of culture, exposure to global markets and global working practices. This is supported by the evidence shown in this research, as the firm's founders already had established international connections with multinationals before their firms were even formed. This reinforces Pinho's (2007) findings, as these founders had lead their firm's internationalisation based on their previous knowledge and experiences. The experience of participants also reflects Fletcher & Prashantham's (2011) work, finding that SMEs have a restricted managerial structure and lack of formal management skills, and experience in internationalisation which negatively slows down their initial networking internationalisation steps. This can incur more costs and consumption of time which can negatively affect their competitive advantage. However, in this study, through previous experiences the participant SMEs were shown to mitigate this knowledge gap by gaining knowledge, competencies, skills and resources from their previously established contacts and networks. Therefore, this can motivate their internationalisation processes of their firm. The

focus on resource and capability benefits of networks is underpinned by the resource-based view.

5.1.1 The Resource Based View.

The method of gathering skills, knowledge and resources from pre-existing networks and contacts shown by the firms interviewed further backed up the Resource Based View (Barney, 1991). The resource-based view helps to explain how SMEs enter foreign markets in a rapid process based on the availability of resources and organisational abilities of the SME (Anderson & Kheam, 1998). The participant firms in this research used their previous networks and experiences to guide their internationalisation and networking abilities, as they were able to gather skills, resources and organisational capacities from their previous contacts and experiences which were valuable, rare, inimitable and hard to replace. These skills not only helped the firms involved to gain a competitive advantage in international markets, but further gave them additional knowledge on how to manage their networks with larger firms. This is because they now had previous knowledge from their past work experience as well as prior contacts. These previous connections provided advice on negotiating with larger MNEs and had also increased the SMEs credibility and legitimacy through showing their affiliation, which had benefited the SMEs negotiation and buying power with their larger partners.

However, in the theory of the resource-based view, there are limitations based on the absence of consideration of the management of these resources as well as processes to acquire them (Yamakawa, Peng, & Deeds, 2008). The findings of this research may provide insights in this respect, with firms stating how they had gathered these resources and skills from their previous experience and networks and how they can manage them based on their past experience and advise through frequent contact with their networks. However, even though the firms have shown how they have benefited from gathering specific resources from their networks, they have still agreed that there are limitations to these benefits, as there are still large challenges in managing networks with larger firms. The next section discusses, the challenges of managing SME size difference.

5.2 Challenges of Managing Size Difference

The above methods used by the firms not only showed how they entered and managed their relationships with larger MNEs, but also how they also overcame challenges which generally occur for SMEs who have limited knowledge of international markets, limited range of skills and staff. These challenges are well established in the literature (Ipplik, 2010). However, participant firms in this study also find challenges which further occur in managing these relationships based on size difference. A transaction-based approach can provide clues as to these findings, in particular notions of Opportunistic and Hold Up Behaviour.

5.2.1 *Opportunistic Behaviour*

Opportunistic behaviour occurs when one partner in an alliance maximises most of the resources in the partnership for their own benefit, which is not in the best interest of the other parties involved in the relationship (Dickinson, et al., 2006). All firms interviewed in research had claimed how there is a high possibility for opportunistic behaviour to occur within the alliance because unlike the larger partners, SMEs do not have access to specialised assets which are important to carry out market operations, such as manufacturing, distribution and marketing. This therefore leaves the SMEs more resource dependant than resource sufficient. As a consequence of this, all the buying and negotiating power is left in the hands of the larger MNE. Firms further pointed out how because of their limited resources and staff it can be expensive, and time consuming to create and execute contracts to manage the opportunism which occurs in the alliance (Dickinson, et al., 2006).

5.2.2 *Hold Up Behaviour*

SMEs in alliances with larger firms, are also subject to an issue referred as Hold Up behaviour (Dickinson, et al., 2006). Hold up behaviour refers to the high risks of uncertainty which occur in an alliance due to the absence and difficulty of contract management. As stages of research and development progress, it becomes important for SMEs to review the terms of an alliance, however because of the limited networking experience and credibility in the market it becomes hard to do so (Dickinson, et al., 2006). Dickinson, et al., (2006) further state that it is extremely

difficult to foresee the amount of intellectual property which will be developed in an alliance. Therefore, when contracts are being built, the final result is incomplete with open issues in the contract which need renegotiations in the future. As a result of this level of uncertainty, it can be difficult to manage the resource allocation for an SME who is already short of skilled staff and limited resources (Dickinson, et al., 2006). To add on to this concept, all firms interviewed in this study had claimed that their alliances always happen casually and informally where no contract is formed.

Participant firms described how the larger firm who has all the negotiating power can pause or postpone a current alliance operation to better suit their own operational goals. This negatively impacts the SME as they have already committed a lot of time, resources and costs into working towards this project. Therefore, to have it stopped or postponed pushes back the progress of the SME as they could have used this effort into a more profitable operation. Further, it was found that collaborations with larger partners usually take place in their own country, therefore using their exchange rate, their taxes and their laws. This makes it difficult for an SME to manage and monitor this. A consequence of this is that it negatively affects SMEs as this uncertainty can bring up additional costs, allocation of resources and time which can further hold back their progress. Further, participants find that because the larger partner has all the buying and negotiation power, the SME has no say in order to avoid the consequences of this hold up behaviour. Previously conducted research has focused on the internationalisation abilities of SMEs and the importance of networks but has largely neglected how SMEs can manage these relationships with larger firms. However, all firms interviewed have stated how there are actions which can be taken to overcome these challenges and consequences of Hold Up and Opportunistic behaviour and successfully manage alliances with larger international partners.

5.3 Management of Collaborations

In order to overcome the challenges in size difference, all firms interviewed have provided a detailed explanation based on how they were able to manage their collaborations. These findings which have been useful in overcoming challenges of size difference, also have implications in filling a gap in previously conducted research on SME internationalisation. The participants provide evidence into how SMEs can manage their size difference with larger international firms. This section provides a discussion on how the importance of friendship can create a relationship based on trust and support, and how using friendship to extend networks

can be beneficial in gaining the level of support and knowledge needed to efficiently manage relationships between collaborative members. Following this, there is a discussion on how understanding field operations can further help SMEs manage the operational tasks of their alliances. These aspects are not focused on in the extant literature, and therefore provide interesting insights for the field.

5.3.1 Clarify Agendas

In order to build a relationship based on trust and friendship, firms had agreed that face to face communication was vital to form a personal connection. Aligning priorities and finding common ground in both firm objectives and goals was shown to build a more efficient relationship which set up motivations for firms to work towards a mutual goal. This would lead to an efficient way of clarifying firms' objectives and agendas at the beginning of the relationship to overcome challenges of miscommunication in the collaboration. This would further help build a basis of support for each other and avoid loss of time, resources and money.

5.3.2 Maximise Networks

In order to create a positive referral system to lead to an extension sales opportunity and to create a formation of support and guidance, firms have agreed that it is vital to make friends with key industry members and gain their support by using the current network they are in to enter more networks. Making friends with other key industry members through extending networks also creates a form of credibility in that market, therefore when dealing with other external members of an international market this SME can benefit in buying and negotiating power through showing their affiliation with key industry members. In dealing with external parties in international industries, making friends with key industry members can be beneficial as they can provide advice and guidance on who to work with, and how to manage these relations. This is based on their previous expertise and experience of working and succeeding in that specific international market. These key industry members can share insight in what other parties are interested in, how collaborations are usually managed in that industry, how to manage difficult situations and therefore mentor the

collaborative processes of the SMEs. When MNEs make operational decisions, they hold meetings with key industry members and the smaller firm, is usually not present in their meetings and therefore has no say. So, if there is an ally of that SME present in that meeting there can be added support on behalf of the SME.

Through extending networks and forming friendships with key industry members and industry analysts, SMEs can hold their own meetings with them in order to study market conditions and overcome challenges of market trends and challenges, this way SMEs can pitch ideas and seek advice on improvements in business models. These findings contrast the Uppsala Model, which states that firms should gather their experience, knowledge and credibility in their domestic countries first before internationalising (Chetty&Campbell-Hunt, 2003). Iplik (2010) further states that because of the small size of SMEs, they are challenged in the processes of internationalisation as they are short of the resources, staff, and knowledge required to successfully enter new markets. However, firms in this study are showing how they are sporadically entering foreign countries and gaining resources, knowledge and credibility from extending their networks and making friends with key industry members.

5.3.3 Understanding Field Operations

Coviello & McCauley (1999) find that because of SMEs informal structure and lack of resources and knowledge, it is difficult for them to manage their communications with international partners. However, in this study it was found to be important for SMEs to really understand the field operations which take place in the international market in which their alliances work in. Understanding field operations was seen to help overcome communication challenges which SMEs usually face in managing their collaborations with larger partners.

All firms interviewed in the study had stated that the best way to monitor the alliance field operations was by forming connections with the staff members who carry out these operations. Connections with the sales representatives of larger MNE partners, provided many collaboration management benefits, as although alliances are formed with the founders or head office managers of these international companies, it is the sales representatives who carry out the specific international market operations and communications in regard to sales and

distribution. This finding adds to the understanding of Hold-Up behaviour, which states that there is a lack of uncertainty in alliances which arises from the difficulty of contract management from an SME who is short of resources and knowledge (Dickinson, et al., 2006). As a result of this it can be difficult for SMEs to manage the loss of intellectual property and monitor the progress of alliance operations (Dickinson, et al., 2006). However, firms in this research are shown to overcome this by creating connections with the staff involved in collaborative field operations.

5.4 Use of Informal Channels in Collaborations

The above section had described the steps and strategies firms had taken in order to overcome the challenges and issues they face through managing collaborations based on their size difference. These steps and strategies they had taken partially addresses a gap in previously conducted literature based on SMEs internationalisation. The main strategy that firms had used to overcome challenges of size difference in collaborations were through the use of informal channels. This section provides a discussion on the following international business theories such as the LLL framework, the institutional theory and the effectuation theory, and how these theories show resemblance and implications to the findings given by the firms interviewed.

5.4.1 Use of Informal Channels The LLL Framework

This form of networking which has been shown to take place informally fills a gap in previously conducted research on how SMEs can manage their size difference in collaborations. This method shows resemblance to the LLL model, developed by Matthews (2006) which was initially describing the internationalisation of emerging country multinationals. Emerging markets are typically seen to be latecomers to markets, and like SMEs they both start off with a focus on resources which can be acquired externally, from international markets, to overcome their resource and knowledge constraints. This outward search for skills and resources between emerging countries and the SMEs in this research both have been acquired through a collaboration with a larger multinational firm. This is shown by Matthews (2006) to be a form of Linkages (First L), as these firms are drawing themselves into circuits of exchange and sources of advantage from their networks. The next L, as Matthews

(2006) describes is Leveraging. This refers to the emerging country firm's ability to take advantage of these unique capabilities in their network of international operations. Similar to emerging country firms, SMEs in this research have shown they have established structures and processes that enable them to utilise the resources and capabilities they have gained from their networks to leverage these towards their own competitive advantage. Firms in this research have said to have done so, by gaining legitimacy from their networks and using this to increase their negotiating power, their knowledge and skills in international markets as well as extending networks to benefit future sales and alliance operations. Due to the linking and leveraging strategies, SMEs like the emerging country firms find themselves more adapted to the global markets and the interlinking of networks within these markets. Firms interviewed in this research have shown this, by using their gained skills and competencies from their alliances to enter more networks by making friends with key members and firms. This has helped them increase their internationalisation abilities which have helped them better manage their collaborations with larger firms. It is this acceleration in expansion patterns and repeated linking and learning, which results in Organisational-Learning, which is the last L in the LLL framework.

5.4.2 The Effectuation Approach to Collaboration

This form of networking and managing networks through the basis of informal friendships, fills gaps in previously conducted literature on how SMEs manage their size difference, and has implications and resonance with the internationalisation theory, Effectuation (Sarasvathy, 2001). This theory discusses that firms start off with a clear goal to achieve, and in this process of achieving this goal, they look to create new goals (Simon, 1996). This is a process that is goal driven and resource dependent (Simon, 1996). The opportunities are given, and it relies on the initiative of the firm to find them, therefore the logic of this concept begins with the means in the possession of the entrepreneur and how he fabricates opportunities upon the means and connections known to him (Simon, 1996). It is described by Simon (1996) that this new goal is vague and not fixed but is defined more and more by the interactions with the environment and its stakeholders. Sarasvathy (2001) describes that the entrepreneur also uses this ability to exploit contingencies in conditions of uncertainty and ambiguity to create new knowledge of opportunities. The firms interviewed in this research reinforce this model by forming their networks based on informal friendships. These firms have shown to work towards

a main goal such as entering international markets and acquiring specific resources, but the managers of these firms have further shown to use their entrepreneurial orientation to seek new goals. This can be shown by the examples of firms using their current alliances and networks to enter new networks to gain more international support and credibility which have resulted in higher negotiation power and an increase in sales through the increased market share.

In this model, human interaction is crucial, where the potential stakeholders are not pre-determined but instead, emerge from the interaction process, like customers becoming potential suppliers, and partners. This is therefore made possible as the goal is not clearly defined and dependant on the result of the interaction (Simon, 1996). The new stakeholders bring visions, goals and means of opportunity into the venture. In this process, adding new means to pre-existing ones expands the resources available at hand (Sarasvathy, 2001). This is further supported in the findings when firms discuss the importance of understanding field operations. Firms state that by turning their alliance staff member (stakeholder) into a friend and meeting with them to discuss the field operations of their business, it benefitted them by being able to understand and monitor the operations of the alliance in international markets. This new stakeholder therefore directs the visions, goals and means of opportunity into the management decisions of the SME, and overcomes the initial challenges of uncertainty.

5.4.3 An Institutional View of Collaboration

The research found that institutions and networks the SMEs have collaborated with have contributed to the managerial style and shape of their firms. This can be explained by drawing on Institutional Theory. Institutional theory states that the institutional environment can have a heavy influence in the development of the organisations formal structure (Meyer & Rowan, 1977). Innovative structures which are adopted by organisations in their early states in an industry become legitimized in the environment. Legitimacy is defined as a generalised perception that the actions of an organisation are desirable, proper, or appropriate within a socially constructed system of norms, values and beliefs (Meyer & Rowan, 1977). Meyer and Rowan (1977) state that at this level, new firms will have to adopt these structural forms even if this doesn't fit their organisational efficiency or goals, in order to gain legitimacy and be accepted trusted in a new market. Meyer and Rowan (1977) further state how organisations also adopt the "vocabularies of structure", such as specific job titles, organisational roles and procedures. When firms adopt and display these institutionally acceptable characteristics and titles, it helps them preserve an aura of organisational action based on good faith (Meyer &

Rowan, 1977). In this context of legitimacy and organisations, legitimacy plays an important role as it is essential to firm survival. If there is a lack of legitimacy, firms are seen as negligent, and therefore may lead to important constituents and resource holders to withhold material and support (Scott, 2008).

Firms interviewed in this study have shown that legitimacy is important in managing collaborative relationships and developing capabilities in network management. From networking and forming alliances, firms have learnt how their partners manage resources, negotiation and buying in international markets and have used this learnt knowledge to aid their managing capabilities with future alliances (Mimetic) (DiMaggio & Powell, 1983). SMEs have further gained legitimacy and credibility in these international markets by showing their association with well-known international partners to that they can be trusted and are of high quality. This is because these SMEs show that have similar ideas, attitudes, goals and approaches of professional groups and associations brought into the firm through hiring and operating in their international markets (Normative) (DiMaggio & Powell, 1983).

Firms have further shown to gain legitimacy through coercive pressure, by gaining experiential knowledge in their alliances working under the international legal mandates. Firms had gained knowledge from working in these institutions had used this legitimacy to further manage their collaborations with larger international partners. SMEs interviewed, had shown how they used their legitimacy to gain new alliances, sales and overcome challenges of Opportunistic and Hold Up behaviour, as they now had increased negotiating power. This was made possible through their increased credibility and legitimacy in these markets. DiMaggio and Powell (1983) further point out that the effect of these institutional pressures increases the homogeneity of organizational structures in an institutional environment. There are three categories of pressures designed to explain this institutional behaviour; Coercive, Mimetic and Normative. Coercive pressures arise from the legal mandates and organizations that firms are usually dependant on. Normative Pressures which arise from similar attitudes and approaches of professional groups and associations brought into the firm through hiring. Finally, Mimetic pressures to copy successful firms in times of uncertainty (DiMaggio & Powell, 1983).

5.5 Summary

This chapter presented a discussion of how the three SMEs interviewed internationalise and network, the challenges they face in managing alliances with larger firms, as well as how to

overcome these challenges, and the findings match traditional internationalisation theories. Discussions with the participants provided insights into the internationalisation of SMEs through networks and alliances with larger partners. SMEs interviewed in this study had proven previously conducted research on how important it is for SMEs to internationalise by using networks. However, it was found that SMEs in New Zealand are in fact subject to difficulties and challenges with managing their alliances with larger partners such as Hold up and Opportunistic behaviour. To deal with these challenges and issues, this chapter had provided a discussion based on the interviews with the participants on how to successfully manage alliances with larger international partners. It was shown how important it was to establish informal friendships with the alliance members as this would lead to a relationship based on genuine trust and support, to get both alliance members working as efficiently as possible to achieve a goal that would benefit both parties involved. This was shown to overcome issues such as opportunistic behaviour as discussed in Chapter Two. It was also shown how important it was to understand field operations and work with staff who actually carry out the operations tasks of the alliance rather than just dealing with the head office members. This was shown to benefit firms in being able to closely monitor and study international market conditions, as well as regularly update and drive the alliance operation goals. This was beneficial in overcoming issues which arise from Hold Up behaviour. The following chapter will present an overview of this study, overall conclusion, contributions, limitations and recommendations for future research.

Chapter 6 Conclusion

6.1 Overview of the Study

Most New Zealand business are formed as SMEs, who annually grow at a rate of 5.5%, therefore having a large impact on the NZ economy as they create 42% of jobs (Ministry of Economic Development, 2011; Beehive, 2015). This makes it important to study the strategies of NZ SMEs. Similar to worldwide SMEs, NZ SMEs also do not have specialised personnel in management levels and are not linked to parts of larger business groups with access to managerial expertise. This leads to them having limited resources as well as financial constraints (Ministry of Economic Development, 2011). However, rising competition both in domestic and international markets as well as the rapid development of information and communication technologies, forces SMEs to internationalise, which makes it important to study how these firms do this with the limited resources, finances and expertise at their hands (Dimitratos et al., 2016). The overall main reason for SMEs to internationalise is to take advantage of growth opportunities (Iplik, 2010). However, there are barriers that SMEs face in going across borders (Hilmerston & Johanson, 2015).

However, through the use of networks and collaborations, SMEs are shown to overcome these challenges in internationalisation. These collaborations are formed between SMES and larger sized MNEs. Through this, SMES can gain knowledge on laws, customs and find the right people to connect with, overcoming their lack of expertise in international markets (Brink, 2017). This further benefits their decision-making abilities, as they have access to valuable information, market insights and resources from their networks which are required to execute foreign business opportunities (Brink, 2017). Even though SMEs can use collaborations to overcome a lot of the challenges they face in internationalising, there are still challenges which arise from networking with their small size (Lu & Beamish, 2001). The degree of commitment can differ between collaborative members, as each partner might want to preserve their dependence and operate its own decision-making process, which make coordination an issue to overcome (De Mattos, et al., 2009). This can further lead to a lack of trust from the MNE working with a new SME who lacks personnel and resources, which can result in differences in objectives and resistance to exchange knowledge and operational capacity between the firms (De Mattos, et al., 2009). Another difficulty which SMEs have to face in managing their networks are the different levels of opportunism between partners, this

could lead to weak cooperation between partners offering limited effort, lower quality goods and services which may be below standard (De Mattos et al., 2009). However, even though SMEs are faced with these challenges, there is a lack of previous literature conducted on collaborative internationalisation on the side of the SME. Therefore, the aim of this study has been to explore how SMEs manage their size difference in collaborations with larger international partners.

A multiple case study methodology was used in this study to answer the research question of *How do SMEs perceive and manage unequal size in collaborative strategies in internationalisation*. Three New Zealand participant firms were included in this research. This study utilised the data analysis created by Creswell (2013) to analyse primary semi-structured interview data and a thematic coding process underpinned by Saldana (2013). In this study, secondary data was sourced from government reports, newspaper articles and other literature conducted to help display the findings.

Five major themes emerge from the data. These themes included; Entering an alliance, Need for collaborations, Advantages of collaborations, Challenges of collaborations and Overcoming challenges.

6.2 Answering the Research Question

This study found that the three firms view internationalisation as a crucial step in the progress and success from the beginning of their operations, and networking through collaborations was vital in making this possible. Firms agreed that SMEs are typically limited in terms of experiential knowledge, resources, staff and market insights, and therefore seek to collaborate internationally in order to gain the required knowledge and resources to succeed. Firms in this research stated that previous experiences were shown to mitigate this knowledge gap by gaining knowledge, competencies, skills and resources from their previously established contacts and networks. However, even though the firms have shown how they have benefited from gathering specific resources from their networks, all firms have still agreed that there are still limitations to these network benefits. This is because there are challenges in managing networks with larger international firms.

Opportunistic behaviour occurs when one partner in an alliance maximises most of the resources derived in the partnership which is not in the best interest of the other parties involved

(Dickinson, et al., 2006). Firms in this research have stated how this is possible because they do not have access to specialised assets which are important to carry out foreign market operations which therefore leave them more resource dependant to their partners. As a result of this, the larger firm involved in the collaboration has all the negotiation power and leaves the possibility to maximise the resources derived in the partnership towards their own benefit (Dickinson, et al., 2006). This can further lead to a high risk of uncertainty in collaborations due to the absence and difficulty of contract management. Firms state how because of the imbalance in negotiation power the larger partner can postpone a current alliance operation to better suit their own operational goals (Dickinson, et al., 2006). This negatively impacts the SME as they have already committed a lot of time, resources and costs into working towards this project, and to have it stopped or postponed pushes back the progress of the SME as they could have used this effort into something else. Especially because foreign operations usually take place in the larger firm's country, it can be difficult for SMEs to monitor the additional costs involved using their exchange rate, taxes and foreign duties. Firms add, that because they have very little negotiation power in these collaborations, once they agree to a project, there is no possibility to withdraw from this in order to avoid consequences of these hidden costs. This concept is known as Hold-Up Behaviour (Dickinson et al, 2006).

However, in order to overcome the challenges in size difference, all firms interviewed have strategies to manage their collaborations. Informal relationships through friendship and face-to-face contact was shown to be important to build a relationship based on trust and support. Firms found it possible to clarify agendas and find common ground between collaborative partners and set up a drive and motivation for both partners involved to work towards gaining a result which would benefit both partners. Firms also find it important to make friends with other key industry members in order to extend and maximise their networks. This results in an increase in their credibility in that industry through gaining a recognisable name which also resulted in a positive referral system amongst industry leaders in an industry.

Firms also gained an increase in negotiation and buying power in foreign industry networks and had gained advice and recommendations on who to work with and how to operate in markets from their friends in these extended networks. It was found to be important to understand build a relationship with the staff of partner firms who carry out the field operations. This was seen to overcome communication challenges, as well as challenges in monitoring and foreseeing international market conditions and costs which SMEs usually face in managing

their collaborations with larger partners. Staff which carry out field operations such as sales representatives therefore hold a lot of valuable information and experiences about dealing with international markets, as well as negotiations between small firms and their own large firms. These representatives can share information on marketing, allocation of resources time, money and can support the SMEs in negotiations and decision-making processes with their larger partners. For the SME, it is these staff members who they need to be in frequent contact with and get updates from and set up motivations for them to work in regard to achieving both alliance party goals. These steps that all firms took in order to overcome the challenges which come with working with larger international partners, fill gaps in previously conducted research, as well as bring up new theories which help explain the internationalisation capabilities of SMEs through managing networks informally.

6.3 Contributions to Theory and Practice

This study has significance at both a theoretical and practice level. The findings of this study contribute to the wider international business literature on SMEs internationalisation through the analysis of how the participant firms managed their networks with larger international partners. The discussion linked the findings with previous literature exploring SME internationalisation as well as brought up new theories which can act as filling the gap in previous research conducted on SME internationalisation.

The Resource-Based View, developed by Barney (1991) helps explain how SMEs enter foreign markets based on the availability of resources and organisational capabilities of the firm which were valuable, rare and hard to imitate. Although this theory holds truth to why SMEs internationalise, there are limitations based on how there are no set guidelines on how to manage these resources as well as how to acquire them. However, the firms interviewed in this study had shown to fill this gap in research by stating how they had gathered these resources and skills based on how to manage these resources from their previous and newly extended networks. Traditionally, it is thought firms make internationalisation decisions only based on transaction costs, however this research shows that there are a broader range of reasons for this decision, for example to build relationships to learn knowledge for future actions.

The informal friendship-based networking and collaborations further brought out new international business theories which were not discussed in chapter two, but still had relevance to explain how SMEs managed their size difference with international partners.

The LLL Model developed by Matthews (2006) initially was designed to describe the internationalisation of emerging country multinationals. However, this model also shows resemblance to the internationalisation of SMEs. This is because SMEs also begin their operations having constraints in resources and market knowledge and seek to focus on internationalisation to acquire these resources externally. Therefore, SMEs just like emerging country MNEs in this model are shown to follow the three LLLs as they seek to collaborate internationally to form Linkages, as they are drawing themselves into circuits of exchange and sources of advantage from their networks. SMEs are also shown to Leverage as they develop structures and processes which enable them to utilise resources and capabilities which they gained from their networks. Therefore, from using these Linking and Leveraging strategies, SMEs find themselves more adapted to the global markets and the interlinking of networks within these markets, which benefits the Organisational-Learning. As a result of this, they have better access to knowledge and resources which can help them manage their collaborations with larger partner firms. This fills gaps in previously conducted research on how SMEs manage their international collaborations and overcome issues of uncertainty and opportunistic behaviour.

A key contribution from this study is in the active strategising of informal establishment and management of collaboration. While the Effectuation approach (Sarasvathy, 2001) highlights the importance of informal connections in entrepreneurial growth, and others have highlighted the tendency for SMEs to use informal processes (Simon, 1996), this research finds that the use of informal processes does not equate to a lack of careful planning and strategising associated with these activities. The firms in this study approached their collaborations as 'friendships', however these connections were not 'accidental', and the social connections and networking was undertaken in a carefully planned manner. This is one area which has significant future research potential.

6.4 Limitations and Future Research

This research analysed how SMEs manage their size difference with larger international partners. This study utilised a multiple case study design to answer the research questions. Only three firms were investigated in this research, and the results cannot be generalised due to the limited sample size. All firms that participated had also only covered two industries; The IT sector and the Fashion/Retail sector. Therefore, leading to uncertainty in other industries. This study was further limited to the time frame of six months of conducting research, which resulted in limited number of firms and industries researched.

Due to these limitations, there are several opportunities for future research to gain a deeper understanding. Future research could include studying a larger number of firms from different international industry sectors, and from both developed and emerging markets. To provide a deeper understanding of how SMEs can manage their size difference with larger firms it would also be interesting to study this from a contrasting perspective. This could include interviewing MNEs, to study the managerial processes in managing collaborations with smaller sized firms. Finally, as this research has had many implications for traditional internationalisation theories, this study signals the importance of international business researchers to include the importance of informal relationships in the study of firms of all sizes and their collaborative management.

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Appendix I: Indicative Interview Questions

1. What's your opinion about the internationalisation through collaborations?
2. What's your opinion about NZ SMEs and their size difference in collaborations internationally?
3. How long has your company been operating internationally?
4. How did you first enter an international network?
5. What were the challenges you faced?
6. Did you face any challenges in managing these networks with your small size?
7. How do you see the international networks benefiting your international growth?
8. How were you able to manage these networks?
 - How did you manage commitment of resources and allocation of resources in this alliance
 - Was there trouble or uncertainty in making the contract?
9. Looking back at your experiences of networking, would you say that your firm has gained information/knowledge which was not prospected at the beginning of the alliance? What was it and how was it useful for your firms progression?
10. How important was the alliance in regard to gaining knowledge on growth and international market behaviour?
11. How did you overcome the challenges you faced?
12. How did overcoming these challenges impact your networks and the overall growth of your firm?
13. If you were to give suggestions to new firms on what to look out for? And how to manage networks in international strategies what would they be?

Appendix II: Ethical Approval



Auckland University of Technology Ethics Committee (AUTEC)
Auckland University of Technology
D-88, Private Bag 92006, Auckland 1142, NZ
T: +64 9 921 9999 ext. 8316
E: ethics@aut.ac.nz
www.aut.ac.nz/researchethics

24 July 2018

Fiona Hurd
Faculty of Business Economics and Law

Dear Fiona

Ethics Application: **18/285 An exploration into NZ Small/Medium sized enterprises' experiences as a smaller partner in an international collaborative arrangement**

I wish to advise you that a subcommittee of the Auckland University of Technology Ethics Committee (AUTEC) has **approved** your ethics application.

This approval is for three years, expiring 24 July 2021.

Non-Standard Conditions of Approval

1. The data is to be stored in the applicant's safe-keeping, not the primary researcher's USB drive;
2. The offer of counselling may be removed from the Information Sheet, and a suggestion of where the interviews will occur should be included. If the interviews are at the participant's organisation then limited confidentiality only should be offered.

Non-standard conditions must be completed before commencing your study. Non-standard conditions do not need to be submitted to or reviewed by AUTEC before commencing your study.

Standard Conditions of Approval


1. A progress report is due annually on the anniversary of the approval date, using form EA2, which is available online through <http://www.aut.ac.nz/research/researchethics>.
2. A final report is due at the expiration of the approval period, or, upon completion of project, using form EA3, which is available online through <http://www.aut.ac.nz/research/researchethics>.
3. Any amendments to the project must be approved by AUTEC prior to being implemented. Amendments can be requested using the EA2 form: <http://www.aut.ac.nz/research/researchethics>.
4. Any serious or unexpected adverse events must be reported to AUTEC Secretariat as a matter of priority.
5. Any unforeseen events that might affect continued ethical acceptability of the project should also be reported to the AUTEC Secretariat as a matter of priority.

Please quote the application number and title on all future correspondence related to this project.

AUTEC grants ethical approval only. If you require management approval for access for your research from another institution or organisation then you are responsible for obtaining it. You are reminded that it is your responsibility to ensure that the spelling and grammar of documents being provided to participants or external organisations is of a high standard.

For any enquiries please contact ethics@aut.ac.nz

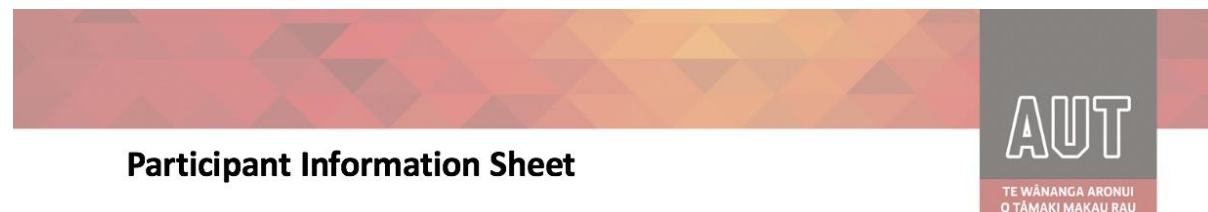
Yours sincerely,



Kate O'Connor
Executive Manager
Auckland University of Technology Ethics Committee

Cc: s.yata1995@gmail.com

Appendix III: Participant Information Sheet



Participant Information Sheet

Date Information Sheet Produced:

05/07/2018

Project Title

An Exploration into NZ Small / Medium sized Enterprises' experience as a smaller partner in an international collaborative arrangement

An Invitation

My name Siddharth Yata and I am a Master of Business student at AUT, majoring in International Business. I am currently undertaking research for my Masters dissertation, focusing on how New Zealand SMEs manage their collaborative networks with larger partners in their processes of internationalisation. According to my initial research it appears that your company operates across international borders through networks and collaboration with foreign partners. The insights gained from your experience in managing these networks will provide valuable information to my research and as such, I would like to invite you to participate in my research. Your participation is voluntary, and you can withdraw at any time prior to the completion of data collection (Mid-September 2018). You may refuse to answer any questions during the interview. You will also be offered chances to review the transcript of your interview and withdraw any sensitive information prior to analysis. Your identification will be protected and not shown in the final report.

What is the purpose of this research?

There is rising competition in both domestic and international markets, these factors, along with the rapid development of information and communication technologies both necessitate and facilitate SMEs and start-ups internationalisation. These SMEs, however, lack finances, expertise and personnel making internationalising difficult. There is previous literature conducted on how SMEs use networks to overcome barriers to internationalisation, but there is little work on the impact of size differences faced by SMEs as members of these networks. With 97% of businesses in NZ being SMEs, making up a large part of the country's GDP, this is an important aspect which needs to be addressed. This report aims to study NZ SMEs who operate internationally with the use of collaborative strategies (alliances, joint ventures and networks), to analyse their understanding of size differences within these relationships, and the impact of this on the management of these relationships.

How was I identified and why am I being invited to participate in this research?

The firm was identified through searching the internet via publicly available information, and you are being invited to participate in the research because your firm fits the description of the research subject, and would therefore highly benefit the purpose and outcome of the research.

What will happen in this research?

This project involves one face-to-face interview, lasting approximately one hour, and the interview will be audio-taped for transcription purposes. In the interview, I will ask questions about your experiences in collaborating with foreign partners and how you managed these networks in this process of internationalisation. You do not have to answer any questions. The transcript will be provided for your review and you can withdraw any information from it. After your confirmation of the transcript, the data will be analysed. I will provide a summary of the research findings to all participants upon request.

What are the discomforts and risks?

There will be minimal discomforts and risks happening in this research. If you do find anything which might be sensitive to discuss, you do not have to answer any questions and you will have the option to withdraw any information from the transcript to address your discomforts of disclosing the information. Your identity will not be disclosed, and all digital recordings will be kept secure, and only be accessible by myself and my supervisor.

How will these discomforts and risks be alleviated?

These discomforts and risks can be alleviated by offering you the opportunity to refuse answer questions and review the transcript and you can withdraw up to the end of data collection without any adverse effects. With the use of

pseudonym, your identification will be protected throughout and once I finish data analysis, your identification will be removed from the original data.

What are the benefits?

You have the chance to reflect on decisions you made, which may provide insights for your future decision-making. Moreover, you can receive a summary of the research findings upon request, which enables you to learn. This research will benefit me in obtaining a master's degree qualification.

How will my privacy be protected?

Your privacy will be protected by using pseudonyms in any publications that result from this research. The data will only be accessed by myself and my supervisor and kept secure. You can withdraw up to the end of data collection without any adverse effects. You do not have to answer any questions.

What are the costs of participating in this research?

The interview will take approximately one hour of your time, at a place convenient to you. There should be no additional costs to you.

What opportunity do I have to consider this invitation?

Due to time constraints, you have one week to consider this invitation; but if you can show me your interest within a shorter timeframe, I would be grateful.

How do I agree to participate in this research?

If you are happy to participate in this research, please contact me directly by email to organise a time for an interview. At the interview, I will provide a consent form for you to complete, which will constitute your formal agreement to participate.

Will I receive feedback on the results of this research?

Yes, you can receive a summary of the research findings through email if you wish. Just indicate this on the consent form.

|

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, *Dr. Fiona Hurd*, email: Fiona.hurd@aut.ac.nz; phone 09-921-9999 ext 6791

Concerns regarding the conduct of the research should be notified to the Executive Secretary of AUTEK, Kate O'Connor, ethics@aut.ac.nz, 921 9999 ext 6038.

Whom do I contact for further information about this research?

Please keep this Information Sheet and a copy of the Consent Form for your future reference. You are also able to contact the research team as follows: Siddharth Yata, emails address: s.yata1995@gmail.com

Researcher Contact Details:


Siddharth Yata, email address: s.yata1995@gmail.com

Project Supervisor Contact Details:

Dr Fiona Hurd, email address: Fiona.hurd@aut.ac.nz

Approved by the Auckland University of Technology Ethics Committee on *type the date final ethics approval was granted*, AUTEK Reference number *type the reference number*.

Appendix IV: Consent Form



Consent Form

Project title : An exploration into NZ Small/Medium sized enterprises' Experiences as a smaller partner in an international collaborative arrangement

Project Supervisor: Dr Fiona Hurd

Researcher: Siddharth Yata

☐ I have read and understood the information provided about this research project in the Information Sheet dated 16/07/2018.

☐ I have had an opportunity to ask questions and to have them answered.

☐ I understand that notes will be taken during the interviews and that they will also be audio-taped and transcribed.

☐ I understand that taking part in this study is voluntary (my choice) and that I may withdraw from the study at any time without being disadvantaged in any way.

☐ I understand that if I withdraw from the study then I will be offered the choice between having any data that is identifiable as belonging to me removed or allowing it to continue to be used. However, once the findings have been produced, removal of my data may not be possible.

☐ I agree to take part in this research.

☐ I wish to receive a summary of the research findings (please tick one): Yes ☐ No ☐

|

Participant's signature:

Participant's name:

Participant's Contact Details (if appropriate):
.....
.....
.....
.....

Date:

Approved by the Auckland University of Technology Ethics Committee on type the date on which the final approval was granted AUTEK Reference number type the AUTEK reference number

Note: The Participant should retain a copy of this form.

April 2018

Page 2 of 3

this version was last edited in April 2018

