

# The Effects of Social Network on Small and Medium Enterprises' Export Mode Choice

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## Abstract

A firm's resources, tangible and intangible, are critical for formulating and developing domestic and international business strategies. Relative to Multinational Enterprises (MNEs), most Small and Medium Enterprises (SMEs) lack resources, especially tangible resources. Thus, many SMEs rely more on intangible resources and, among these, personal networks and social media become critical in SMEs business strategy formulation. This study aims to examine the effect of social networks (personal network & social media) on Thai SMEs' export mode choice. Obtained from a sample of 350 Thai SMEs in the manufacturing export sector, the logistic regression results indicate that personal networking in terms of getting acquaintances from government organizations and social media networking affect the export mode choice. The more SMEs can employ networks based on acquaintances from government organizations, the more SMEs apply the direct export mode. It was also found that, the higher the level of SME social media usage in terms of getting export in target countries and creating brand awareness through social media networking, the more SMEs choose the direct export mode. Thus, SMEs' intangible network resources have a significant effect on their international expansion strategy formulation.

**Keywords:** SMEs, Personal Network, Social Network, Social Media, Export Mode Choice.

## 1. Introduction

The advancement in information technology (IT) and communication infrastructures such as internet, e-commerce, and smart mobile phones help people around the world connect with one another more easily (Muhammad, Char, Yaso, & Hassan, 2010; Etemad-Sajadi & Bezencon, 2012). It also changes the form of business from traditional brick and mortar to modern e-commerce (Vuori, 2012; Dahnil, Marzuki, Langgat, & Fabeil, 2014). Along with the advancement of e-commerce, social media plays an important role for Small and Medium Enterprises (SMEs) exporting. This essentially has to do with network and relationship marketing (Lu & Julian, 2007). The potential capacity of social media, however, is not just about connectivity among people through websites and e-commerce, but also about enhancing the connectivity among businesses in real time. Resources, tangible and intangible, are critical for firms in formulating and developing domestic and international business strategies. Relative to Multinational Enterprises (MNEs), most SMEs lack resources, especially tangible ones. As a result, many SMEs rely more on intangible resources. Personal networks and social media become critical to their business strategy formulation. Falahat, Mohamad, and Migin (2013) found that when firms' resources are limited and constrained, networking is extremely useful. In their view, one of the key factors driving born global firms to global marketplaces is the possession of international contacts, which they refer to as networking.

Similar studies found that the use of networks is critical to SMEs internationalization (Baldo & Aureli, 2012; Ciravegna, Majano, & Zhan, 2014). In the same vein, Jeong (2016) and Narooz and Child (2017) also concluded that networking plays a key role in reducing the limitation of SMEs in the internationalization process, especially in selecting an entry mode. Moreover, Child and Hsieh (2014) and Faroque, Morris, and Ferdous (2017) determined that networking supports a firm's decision-making process by providing it with the ability to access the necessary information, financial capital, and human resources. Firms can learn some techniques or obtain insight information from the network, which makes the firm's manager better understand the market and improves its export performance (Faroque et al., 2017). Networking can aid firms cope with institutional voids. Some of the literature makes it quite patent that there is no doubt about the benefits from using networking in the internationalization process and the international performance (Maltby, 2012; Oparacha, 2015; Vissak, Francioni, & Musso, 2017).

Though entry mode decisions are important strategic decisions in the SME internationalization process, very few studies emphasize the importance of networking influence on the entrepreneur's decision-making process (Child & Hsieh, 2014). According to Ciravegna et al. (2014), different types of networks can aid the firm in seeking clients in new foreign markets. The aim of this study is to investigate the effects of SMEs' personal networking and social media networking activities as intangible networking resources on their entry mode decision. More specifically, it seeks to determine the relationships between different types of personal and social networking activities on the choice of export as the entry mode.

## 2. Theoretical Basis

### - *The Resource-Based Theory*

Prior literature presents several theories on networking such as the social network theory (Surin & Wahab, 2013), the media synchronicity theory (Wang et al., 2016), and the resource-based view theory (Alarcon-del-Amo et al., 2016). Both the network theory and the media synchronicity theory explain the capability and benefits of personal network and social media towards business performance. According to the networking theory, networking is an interrelationship among people in an organization and their connection in the business world (Islam et al., 2011; Baldo and Aureli, 2012; Salvador et al., 2014; Falahat et al., 2015). As Wang et al. (2016) explained, social media as seen under the media synchronicity theory emphasizes the capability of social media in relation to business performance. Interrelationship among people (personal networks), as expounded in the social networking theory, as well as the capability of social media to improve business performance, as advocated by the media synchronicity theory, can be considered as resources of a firm, since both can be controlled and managed by the firm. For this reason, the resource-based view theory remains the underpinning theory of this study.

The resource-based view theory focuses on the way firms use resources to determine a strategy and their capability to create sustainable, competitive advantages and superior performance (Alarcon-del-Amo et al., 2016; Chandra & Wilkinson, 2017). Different firms may have distinct management style regarding business relationships and social media usage. Tajvidi and Karami (2017) found that firms use resources such as the internal capacity of the firm (employee's skills, financial sources and relationships that the firm can control) to create firm's sustainable competitive advantage. The resource-based view theory has been widely used in firms' internationalization literature. A majority of the literature on this issue, though, pertains to MNEs. A firm's resources can be classified as tangible and intangible resources. In general, most MNEs are resource rich firms, whereas SMEs are the opposite with limited

tangible resources. Thus, many SMEs rely more on intangible resources and, among them, networking becomes critical in SMEs' internationalization process.

### - *Networking*

Though networking has been defined in several ways, this study defines networking as the interconnection that the key actors in a firm have with their contacts (Johanson & Vahlne, 2003; Islam, Keawchana, & Yusuf, 2011; Surin & Wahab, 2013; Child & Hsieh, 2014). Networking can be classified as formal or informal (Islam et al., 2011; Baldo & Aureli, 2012; Salvador, Villenchenon, & Rizzo, 2014; Falahat, Migin, Chuan, & Kong, 2015).

- *Formal Networking* refers to the relationship/networking between institutions, such as business centers and financial institutions (Salvador et al., 2014), and to the membership of industry associations (Child & Hsieh, 2014).

- *Informal Networking*, on the other hand, refers to social networks (Ojala, 2009; Child & Hsieh, 2014; Faroque et al., 2017) or personal relationships between owners or authority person in an organization and their contacts (Zhou, Wu, & Luo, 2007; Evers & Knight, 2008). Informal networks can be classified into two types; personal networks (Zhou et al., 2007; Durkin, McGown, & Mckeown, 2013; Surin & Wahab, 2013; Musso & Francioni, 2015) and impersonal networks (Zhou et al., 2007; Durkin et al., 2013; Surin & Wahab, 2013). Personal networks can be suppliers, friends, alliances, family members (Zhou et al., 2007; Durkin et al., 2013; Surin & Wahab, 2013; Jeong, 2016), new clients responding to ads, new clients meeting at trade fairs, potential buyers contacted through an internet search for export, acquaintances from trade shows and fairs, and acquaintances from government organizations (Ciravegna, Lopez, & Kundu, 2014; Jeong, 2016). Impersonal networks, such as social media, can be regarded as networks that can be used by entrepreneurs to enhance business through supporting, locating, creating, maintaining, and developing long term relationships with potential customers, suppliers and partners (Maltby, 2012; Dahnil et al., 2014; McCann & Barlow, 2015; Alarcon-del-Amo, Rialp, & Rialp, 2016; Fernandes, Belo, & Castela, 2016; Wang, Pauleen, & Zhang, 2016; Tajvidi & Karami, 2017).

Previous literature focuses mostly on the relationship between personal networks and social media with business performance. O'keeffe, Gilmour, and Simpson (2016) found that personal contacts and social media may have some effect on a firm's growth. A firm can increase its competitiveness by using a network's capacity. In the same vein, Jeong (2016) found a positive significant relationship between personal networking with clients and acquaintances from government organizations and financial performance. However, networks with family and friends are negatively associated with the financial performance of firms. Networking can help a firm receive and update information such as market knowledge (Ruzzier, Hisrich, & Antonic, 2006). The knowledge received from the network may affect the mode of entry in a firm's internationalization (Santos, Ferreira, & Reis, 2012).

There is a significant effect between networking, entry mode choice and market selection (Francioni, Musso, & Cioppi, 2015). Serrano and Acero (2015) added that the internet might affect the propensity to export. It also influences the mode of export, whether direct and indirect, for SMEs. Ulrich, Boyd, and Hollensen (2012) studied the relationship between personal networking and entry mode choice and found that there is a significant relationship between personal network and intermediate mode. Although, some researchers have investigated networks relating to SMEs' internationalization process (Abdelmoety & Gounaris, 2015; Baldo & Aureli, 2012), few have addressed how different types of personal networks may impact a firm's internationalization process in terms of entry mode choice. This study seeks to fill this gap in prior literature.

### **- Social Media and Internationalization**

Several research studies on a firm's internationalization process use social media and social network interchangeably (e.g. Fernandes et al., 2016; Wang et al., 2016). Both social media and social network commonly represents the social network of a company. Typically, social media refers to the virtual connection among people via the internet-based application such as Twitter and Facebook (Maltby, 2012; Khobzi & Teimourpour, 2014; Alarcon-del-Amo et al., 2016; Tajvidi & Karami, 2017). Abdelmoety and Gounaris (2015), Baldo and Aureli (2012), Indari and Langenberg (2004), and Zhou et al. (2007) claim that social media enhances SME internationalization. SMEs, which are an essential sector of the national economy (Chelliah, Pandian, Sulaiman, & Munusamy, 2010; Olawale & Garwe, 2010), adopt social media as a new channel in running a business both domestically and globally (Muhammad et al., 2010; Vuori, 2012; Dahnil et al., 2014; Salvador et al., 2014; Oztamur & Karakadilar, 2014; Ainin et al., 2015; McCann & Barlow, 2015). Lu & Julian (2007) also found that social media plays an important role in SMEs' export. With the help of the social media, SMEs can leapfrog the traditional international entry process.

### **- SME Internationalization: Direct and Indirect Export Modes**

The internationalization theory is helpful to explain export mode choice. Johanson and Wiedersheim-Paul (1975), its main proponents, have identified four different modes of entering an international market: Stage 1, no regular export activities (sporadic export); Stage 2, export via independent representatives (export modes); Stage 3, establishment of a foreign sales subsidiary; and Stage 4, foreign production/manufacturing units. Stage 1 has the lowest resource commitment in a foreign country and the lowest level of risk and control over the foreign operations. On the other hand, stage 4 has the highest resource commitment with the highest risk and the highest level of control over foreign operations.

Given the different resource levels between SMEs and MNEs, exporting is the common entry mode choice (stage1 and stage2) in Thailand. There are two export mode choices; direct and indirect. When firms internationalize with their own resources without any intermediary, this is called direct export (Osland, Taylor, & Zou, 2001; Hessels & Terjesen, 2010; El-gohary, Edwards, Eid, & Huang, 2013). Conversely, when a firm exports products through intermediaries, this is referred to as indirect export mode (Osland et al., 2001; Hessels & Terjesen, 2010; El-gohary et al., 2013). Technology advancement allows SMEs' consumer to access SME exporters directly and exchange information about products and services with them (McCann & Barlow, 2015). In addition, technology and infrastructure can reduce the geographical distance (Salvador et al., 2014; Serrano & Acero, 2015). Getting to know the product, brand name, direct ordering through social media can enhance SMEs export market reach without incurring a lot of searching cost in terms of physical communication and retailing costs.

Since it is of interest to understand how social media affect the entry process of SMEs, the following hypotheses has been developed based on the above:

*H1: There is positive relationship between using (H1a) family and friends (H1b) clients (H1c) potential customers from social media (H1d) acquaintances from trade shows (H1e) acquaintances from government organizations as network and SME direct entry mode choice.*

*H2. There is positive relationship between social media usage for (H2a) export, (H2b) creating new market channels and (H2c) creating brand awareness, and SME direct entry mode choice*

### 3. Methodology

This research study used a quantitative methodology to examine the effects of personal networks and social media on SMEs export mode choice. The samples were drawn from a list from the Department of Trade and Promotion (DITP), Thailand. Convenience, judgmental and snowball sampling methods were used to collect the data. A total of 15,683 firms in the manufacturing sector are registered with the DITP. According to Hair Jr. et al. (2014), the sample size of the logistic regression should be calculated from 10 observations per estimated parameter. Since 35 parameters are considered in this study, a sample of 350 was used. The questionnaire contained screening questions, five-point Likert scale questions, and dichotomous and multiple-choice questions. One screening question is about the export experience of respondents and is meant to ensure that the respondents are exporters and have the authority to make decisions selecting an entry mode. Another screening question is to confirm the size of the firm, which must be an SME. In this study, a firm with no more than two hundred employees is considered to a SME.

For the measurement items, five-point Likert scale questions (ranging from 1 = least used to 5 = most used) were used for each type of personal networks and social media. Personal networks questions enquire about the degree of usage of personal networks in each type. The questions regarding social media pertained to the level of social media used for export, the use of social media as a new marketing channel and the use of social media in creating brand awareness in target countries. Personal networks and social media questions were adopted from Jeong (2016), and Alarcon-del-Amo et al. (2016) respectively. As to the dependent variable (entry mode choice), the respondents were asked to choose from dichotomous choices whether they used a direct or an indirect export mode. The direct export mode choice was encoded as 1 and the indirect one as 0. Logistic regression was used to analyze the data.

### 4. Results and Discussion

The results from the 350 data sets (175 sets per mode choice) were interpreted based on the -2 Log likelihood, HL P-value; the Hosmer & Lemeshow test, the Omnibus test of model coefficients ( $\chi^2$ ), and the classification of model. The following is the equation used to estimate the SMEs export mode choice:

Equation 1.1

$$P(\text{Indirect export mode}) = 1/(1+e^{(-Z)})$$

Equation 1.2

$$P(\text{Direct export mode choice}) = 1 - P(\text{Indirect export mode})$$

Where P = Probability of selecting export mode choice

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_8 X_8$$

Where  $X_1$  = Personal network with friends and family,  $X_2$  = Personal network with clients;  $X_3$  = Personal network with potential customers from social media;  $X_4$  = Acquaintances from trade shows;  $X_5$  = Acquaintances from government organizations;  $X_6$  = Level of use of social media for export to target countries;  $X_7$  = Level of use of social media in creating new market channels;  $X_8$  = Level of use of social media in creating brand awareness.

**Table 1:** Logistic Regression Results for Each Type of Personal Network and Social Media

<b>Dependent Variable: Export Mode Choice</b>	<b>Model 1</b>
Personal network with friends and family	.352
Personal network with customers	.246
Personal network with potential customers from social media	-.086
Acquaintances from trade shows	.437
Acquaintances from government organizations	-1.450**
Level of use of social media for export to target country	-.645*
Level of use of social media in creating new market channels	0.079
Level of use of social media in creating brand awareness	-.875*
Constant ( $\beta_0$ )	7.754
-2 Log Likelihood (-2LL)	382.811
Nagelkerke R <sup>2</sup>	.338
Hosmer & Lemeshow Test (HL $\chi^2$ )	13.834
Omnibus Tests of model coefficients ( $\chi^2$ )	102.392**
Correct classification (%)	73.1

\*significance at p-value less than .05

\*\*significance at p-value less than .01

As can be seen in Table 1, the results of the Omnibus Model test are highly significant at a p-value of less than 0.01 with a model Chi-square of 102.392. In addition, the model can correctly predict the export mode choice for 73.1 percent. The Hosmer and Lemeshow test shows the results to be insignificant at a p-value of 3.834 (they are insignificant at a p-value higher than .05). This means that the model is suitable to predict the export mode choice of SMEs. Moreover, the Nagelkerke R<sup>2</sup> indicates that this model can explain the phenomenon for 33.8 percent. Therefore, the model of personal network and social media is suitable to predict SMEs' export mode choice.

As to hypothesis testing on personal network and entry mode choice, the statistic results of H1a, H1b, H1c, H1d and H1e show that only H1e (personal networks from acquaintances from government organizations) is supported with significant level at a p-value of less than 0.05. The coefficient of acquaintance from government organizations is -1.450. H2a (level of use of social media to export) and H2c (level of use of social media in creating brand awareness) are highly significant at p-value, which is less than 0.05. For H2b the level of use of social media in creating new market channels is not significant. The level of use of social media for export target countries and the level of use of social media in creating brand awareness have a coefficient value at -.645 and -.875 respectively.

Research findings indicate that there is a negative relationship between acquaintances from government organizations and indirect export mode choice. This can be interpreted as meaning that the higher the level of use of government organization acquaintances, the lower the propensity for SMEs to use the indirect export mode choice. In other words, the more familiar SMEs are with government organizations, the more likely they are to select direct export as an entry mode choice. When firms opt for the direct export mode choice, the cost of export is likely to diminish, leading SMEs to become more profitable. The findings in this study corroborate the determination made by Jeong (2016) that networking with clients and acquaintances from government organizations has a significance positive relationship to the financial performance of SMEs as they obtain the relevant information and knowledge that enable them to improve their financial performances.

Similarly, Narooz and Child (2017) concluded that when SMEs have networks with governmental institutions, they typically have a much higher chance of getting relevant and insightful information in support of their internationalization process. Moreover, insignificant relationships between export mode choice and networking with friends and family, clients, potential customer from social media and acquaintances from trade show have been found. These may be explained as follows. SMEs typically frequently interact with these actors. However, when SME entrepreneurs make a decision on the entry mode, the decision making usually comes from the SME entrepreneurs' own choices. The opinion of friends and family may be heard at the information gathering phase but generally not at the final decision-making stage.

The findings in this study are in line with those of Kujala and Tornroos (2018) who stated that the SMEs' internationalization success can occur due to the network capacity that each firm has. However, as they pointed out, friends and family networks commonly bear on entrepreneurs' decision making in terms of financial support and knowledge rather than on strategies to run the business. Similarly, Bertrand & Schoar (2006) argued that family members could be considered as human resources and also be part of the capital pooling device. This may imply that the final strategic decision making may not be fully dominated by family members. Regarding the relationship with clients, potential customers and acquaintances from trade shows, the research findings are in line with Narooz and Child (2017). Their research study determined that SMEs commonly rely on guidance and suggestions from professional export officers from government organizations such as, for example, Chambers of Commerce, rather than from social ties in the form of business networks such as clients and customers.

In this case, the acquaintances from trade shows could be potential customers or potential partners and therefore have no relationship with the export mode decision-making process of SMEs. Vissak et al., (2017) conducted qualitative research on the winery industry and found that networks from tourists and friends and relatives were not useful channels for starting export. According to their research, some respondents were displeased to use networks from acquaintances from trade fairs as they feel these may not create valuable contacts for firms and some of these networks may have personal issues such as pecuniary problems.

There is less evidence to confirm that networks from clients and potential acquaintances from trade fairs can provide competencies and capabilities related to strategic decisions regarding possibly entering international markets (Vissak et al., 2017). These types of networks do not therefore relate to the export mode choice of SMEs. Furthermore, regarding networking through social media and export mode choice, it was found that there is a negative relationship between export mode choice and the level of use of social media to export and the level of use of social media to create brand awareness. This can be interpreted as meaning that the higher the level of use of social media for export and for creating brand awareness, the higher the

propensity of SMEs to use less indirect export mode choice. When SMEs apply a higher degree of usage of social media for export, they tend to use the indirect export mode choice less. Moreover, SMEs commonly use social media to create brand awareness, which enhances their opportunity to meet both prospective customers and suppliers.

These connections as well as communication can help SME entrepreneurs update information that may reduce their worries about the internationalization process. Thus, the higher the level of SME use of social media to create brand awareness, the lower the propensity for the SME to select the indirect export mode choice. Social media has been widely used in both the government and the private business sectors.

Social media has been determined to reduce the psychic distance among countries around the world (Salvador et al., 2014; McCann & Barlow, 2015; Serrano & Acero, 2015). It enables people across the world to communicate easily. This explains why SME entrepreneurs use social media as a communication tool to make or receive order from far-away countries and promote firm/product and services to target markets rather than consider it as a new market channel. This is consistent with McCann and Barlow (2015) and Serrano and Acero's (2015) studies which showed that the diminishing difference among countries across the world is enhanced by social media. Social media reduces travelling and communication costs. In addition, social media encourages direct contact among target customers and sellers to order products and respond to inquiries.

Therefore, social media is one alternative way that allow exporters to obtain information about the target market. Social media also helps SME entrepreneurs have direct contacts with their customers. Moreover, the results also indicate that SMEs use social media to create brand awareness and enhance export activities. SMEs may not consider social media as new market channel but it is clear that they see it as a tool for communication among exporters and their customers. This is corroborated by the relevant prior literature which highlight the benefits of social media as an instrument for communication (Salvador et al., 2014; McCann & Barlow, 2015; Serrano & Acero, 2015). SMEs use social media as an instrument to create more benefits for firms by saving money and time as it reduces the cost of travelling. This could be one of its major benefits.

#### **4. Conclusion and Recommendations**

Using a sample of 350 SMEs in the manufacturing export sector, the logistic regression results indicate that the more SMEs apply direct export mode, the higher the level of use of personal networking by SMEs based on acquaintance from government organizations. The findings also indicate that the higher the level of SME social media usage in terms of getting export and raising brand awareness, the more likely SMEs are to choose the direct export mode. Thus, the intangible network resources of SMEs have a significant effect on their international expansion strategy formulation, especially in terms of entry mode choice. It thus can be concluded that social networks, both personal networks and social media networks, have a direct relationship with the export entry mode choice. The higher the use of social network, the more Thai SMEs opt for the direct export mode.

One of the advantages of direct export entry mode is that when firms internationalize without intermediary hands they retain a high control over their foreign marketing activities, which can yield more insights over their own customers and lead to their long run sustainability (New Zealand Government, n.d.). Favoring the direct export mode can give SMEs more opportunities to meet new customers and help them develop new international markets at a lower cost. As to the personal network dimension, getting acquainted with governmental organization especially through e-government applications can be as source of insightful



information to SME entrepreneurs. It is thus recommended that in order to make more use of the direct entry mode, Thai SMEs get acquainted with government organizations. Moreover, social media can help SMEs reduce the effect of psychic distance between countries. SMEs can use social media as a communication instrument that connects firms and clients as well.

It is also therefore imperative that in order to develop the use of the direct entry mode, Thai SMEs engage in social media networking as part of their strategies targeting foreign markets and building brand awareness abroad. The questionnaires were distributed only to manufacturing SMEs in Thailand. Thus, cautions must be taken while applying the research findings of this study to the service sector. It is therefore recommended to replicate this study in service sector in future research. Moreover, the effect of employing social media in the export mode choice of SMEs on their export performance would also be an interesting topic for future studies.

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