Interorganisational Network Management for Successful Business Internationalisation

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Flexible interorganisational networks, where enterprises and governmental institutions act as partners, present an opportunity to improve effectiveness of internationalisation. However, their role in facilitating internationalisation has been underexplored. We study how such interorganisational networks can be managed in order to increase business engagement in business-to-business and business-government interorganisational networking in internationalisation process. A theoretical framework on interorganisational networking and network management is followed by findings from an international survey involving 376 internationally active companies from a small Euro-Mediterranean country – Slovenia. We confirm learning effects of international interorganisational networking and show that increased market distance, complexity of market entry mode and firm size positively impact firms' (institutionalised) interorganisational networking during internationalisation, whereby business-to-business relationships seem to be more desirable in the initial stages of internationalisation and business-government relationships in its later phases. Internationalisation through interorganisational networking suffers from underexploited network management – at both the governance of a network and the management within networks levels, though.

Key words: network management; interorganisational networking; business-government relations; internationalisation; business clubs

INTRODUCTION

Traditionally, in international business, firms were perceived as independent actors, making rational analytical decisions regarding entry markets, methods of market entry and modes of operation in selected markets. The reality, however, is quite different: Choices and decisions in international business are influenced by *a multitude of relationships* (Donaldson and O'Toole 2001). According to the *institutionalisation theory* the latter are not limited to businesses, but rather form between firms and their environment as a whole (Forsgren 2008). Firms, which are interwoven in a network containing both business and non-business actors (Hadjikhani and Ghauri 2001), consequently need to become committed and trustworthy partners (Doyle 1995) not only to their (domestic and foreign) business counterparts (competitors and non-competitors alike) but also to other types of entities such as governmental and non-governmental organisations (NGOs)[1] that co-develop and co-create the business environment. Although businesses with high levels of international business commitment and (political) knowledge could adapt to the political rules in the business environment they operate in, they instead tend to influence them in order to gain (additional) competitive advantage (see Hadjikhani and Ghauri 2001). Passive consumption of regulations and support services related to internationalisation designed by the somewhat detached governmental organisations has namely failed to meet the specific, constantly changing needs and demands of internationally active businesses when expanding into new markets or strengthening their presence in their existing foreign markets (see e.g. Freixanet 2012; Jaklič 2011; Kotabe and Czinkota 1992; Ruël and Visser 2014).

Firms' engagement in co-shaping the business environment is in the interest of both business and governmental actors. It allows the former to increase their access to information,

1 Relationships with NGOs exceed the scope of our study.

knowledge and 'soft power',[2] develop capacities and skill-sets, capabilities and intangible assets such as relationships, expertise and reputation for effective communication, negotiation and representation, as well as gain insight into customs of various governmental organisations. Collaboration with business for the latter, on the other hand, helps guarantee that state and non-state participants maintain a uniform position abroad through collaboration with business sectors, allows them to participate in the internal network of information and relations among international companies, and enables learning transnational business methods and management experiences (see e.g. Bolewski 2007; Burt 1995; Donaldson and O'Toole 2001; Hadjikhani and Ghauri 2001; Håkansson and Johanson 2001; Muldoon 2005). It moreover assists supply of support services promoting internationalisation on the governmental side to meet the demand for them from businesses and makes internationalisation more effective.

In our paper we thus *focus* on business' and governmental organisations' cooperation in (institutionalised) interorganisational networks as platforms enabling both types of entities to co-shape a favourable business environment in the process of internationalisation. We thereby note, that not all interorganisational relationships are of strategic importance to every organisation. Christopher et al. (2007) differentiate between *strategic relationships* with stakeholders whose resources, skills and capabilities enable a company to create superior value and *operative or tactic relationships* with stakeholders whose resources are easily substituted. It is thus vital for internationally active organisations to understand which relationships they need to

2 Enhanced 'soft power' is often expressed through firms' increased engagement in commercial diplomacy (either individually or through business-to-business and even business-NGO alliances), which provides both governments and international businesses (as well as other actors) a means to interact and thereby facilitate value creation (Ruël and Visser 2014).

commit more resources to[3] and how they can best manage their complex and diverse interorganisational networks – depending on the network's and the involved individual organisations' objectives at the time, perceived organisational culture differences between the parties involved (see e.g. Lu et al. 2016) and the resources available (i.e. both the resources already possessed by the organisation and those expected to be gained through the network).

This research *aims* to identify which types of interorganisational relationships are crucial for various types of firms at different stages of internationalisation as well as the factors and mechanisms impacting their formation, maintenance and success in facilitating internationalisation (firm-level characteristics, network structure, content and management in particular are stressed). Comprehending the factors and mechanisms influencing interorganisational networking in the process of internationalisation is all the more relevant for businesses from small, open economies, which in general tend to demonstrate a higher propensity to internationalise their operations than those from larger economies (Bellak and Cantwell 1998; Svetličič et al. 2000) and are more inclined to network due to usually experiencing greater knowledge gaps regarding foreign markets relative to international firms from large economies (Petersen et al. 2008). We argue that interorganisational networking, in which government, business support organisations, support services and firms are all involved in the business-government interaction (Naray 2012), can mitigate information, knowledge and relationship barriers in the process of internationalisation. This is especially expected for firms from smaller economies, where such networks are strategically cultivating the otherwise limited information transfer and knowledge spillovers through fostering interorganisational networking (see e.g.

3 This is crucial especially since establishing and maintaining a (functional) relationship in a network can require great investments of time and other resources (see e.g. Moorman et al. 1992).

Ellis 2000; Svetličič et al. 2000; Welch et al. 1998).[4] We test this proposition through studying business-government networking in an institutionalised setting of the *Slovenian business clubs* (platforms where enterprises and governmental institutions act as partners in internationalisation; initially designed as a policy instrument for enhanced interorganisational networking). We namely also argue that cooperation with governments through institutionalised channels such as business clubs allows smaller firms with otherwise limited capacities for engaging in business-government relations (see e.g. Hadjikhani and Ghauri 2001; Hadjikhani and Ghauri 2006) to participate in these processes (see e.g. Koch et al. 2006).

A (business-to-business along with business-government) networked approach to internationalisation has both managerial and policy implications. Yet, integrative research on interorganisational networking and business-government relationships management is scarce and has been identified as a necessity (Ruël and Visser 2014). Our study aims to bridge this gap through addressing the following *research question*: How can interorganisational networks such as business clubs be managed in order to increase business engagement in business-to-business and business-government interorganisational networking aimed at enhancing internationalisation? The paper approaches this question from both the managerial and policy perspectives, whereby particular focus is devoted to firms' motivation for engaging in networks that are enabling their greater engagement in co-creating the business environment(s) they operate in throughout the internationalisation process. Due to a highly complex and interdisciplinary nature of the phenomenon under study we follow an interdisciplinary approach common for international business studies in general. A condensed literature review therefore includes an overview of the key potential internationalisation benefits of interorganisational networking for

4 Koch et al. (2006) for instance argue that business support networks similar to business clubs create transparency in support available and ease access to it, as well as remove overlaps and fill gaps between support services provided by multiple institutions.

both business and non-business actors; identification of determinants of the latter; along with a description of the basic characteristics and principles of network management. A presentation of our empirical results on interorganisational networking within business clubs, several of which pertain especially to the Euro-Mediterranean region, follows. We conclude our discussion with a summary of the main findings (including several managerial and policy implications) and by opening a number of questions for future research.

THE POTENTIAL OF INTERORGANISATIONAL NETWORKING IN INTERNATIONALISATION

Networking is a strategic choice: »/…/ *organisations do not merely cooperate, but cooperate for a reason*« (Schermerhorn 1975, pp. 852). Rarely self-sufficient in terms of critical resources (Varadarajan and Cunningham 1995) – particularly in foreign markets; organisations are motivated to join in cooperative efforts by the (perceived) potential benefits of networking (Schermerhorn 1975). These need to surpass both the benefits of individual activities (Lages et al. 2008) and the costs of networking (Fill and Fill 2005). When this is not the case, an island scenario rather than a networked world scenario triumphs.

The greatest benefit of networking according to many is that relationships are part of the *knowledge and innovation generating process* (Donaldson and O'Toole 2001; Håkansson and Johanson 2001). Networks not only provide information beyond that possessed by a single organisation (Burt 1995; Goerzen and Beamish 2005); 'clashes' of diverse sources of knowledge foster the research process (Eapen 2012) and generate innovations (March 1994). Hence, networks are not merely tools for knowledge transfer and sharing – they also present a forum for its evolution through information and knowledge integration: They promote innovation. *We argue that internationalising businesses network primarily due to information and knowledge benefits.*

The causal *relationship between networking and internationalisation* is unclear, however. Welch and Welch (1996) for instance refer to knowledge, relationships and networks as a strategic foundation of a firm, whereby learning and network development both impact and are affected by the ongoing process of internationalisation (see also Chiva et al. 2013; Johanson and Vahlne 2009; Raustiala 2002). This means there is a *closed loop between networking and internationalisation*, which are enhancing one another: While membership in (international) interorganisational networks has several benefits for firms when internationalising, international exposure of a firm too is positively correlated to its exploiting these benefits (Ellis 2000). In addition, although according to Burt (1995) networks always generate some benefits, it is questionable to what extent and how efficiently. Since both structure and content of a network can have a significant effect on knowledge creation and spillovers during internationalisation (see e.g. Blau 1964; Rodan and Galunic 2004), we outline the partners' characteristics (including the focal firm's features) and structural factors influencing exchange of resources in interorganisational networking in the following section.

NETWORK CONTENT AND STRUCTURE – DETERMINANTS OF KNOWLEDGE SPILLOVERS IN INTERNATIONALISATION

Characteristics of singular partners in a network can present an important determinant of a network's success in knowledge acquisition, generation, modification, transfer and application. To benefit from the knowledge generating and transferring relationships in a network a firm needs to develop its absorptive capacity (i.e. an ability to understand, assimilate and implement newly gained external knowledge) which is predicated on internal organisational features such as firm size, age, international orientation, experience and prior related knowledge as well as internal organisational networks (Charan 1993; Cohen and Levinthal 1990; Cohen and Levinthal 1994; Eapen 2012; Zaheer and Bell 2005). It does not suffice to simply gain access to resources – the firm needs to be able to exploit them as well.

Both an organisation's intangible capital and its quantitative features can impact networking and its learning potential. Research shows that *size of a company* is positively correlated to exploiting the benefits of a network in a foreign market (Ellis

2000). Firm size namely indicates ability to cooperate or operate without cooperating (Walker et al. 1997). Although a large firm may be less motivated to network due to being more self-sufficient when it comes to relevant resources (see e.g. Kostecki and Naray 2007), the latter may provide further motivation for smaller businesses to network with a larger firm, which in turn enters relationships to trade its excess resources. However, while often rigid large firms face difficulties when managing and/or appropriating benefits in diverse networks (Goerzen and Beamish 2005), small firms are much more adept at collaborating with diverse partners (Powell et al. 1996). Mansion and Bausch (2015) discover network capital to be particularly pertinent for innovating SMEs in developing economies, since their exposure towards liabilities of smallness is more pronounced. *We thus note that business club network benefits may be larger for SMEs from emerging and developing economies and predicate that SMEs dominate international interorganisational networks (e.g. business clubs).*

Similarly to an organisation's size, its *age* is likely to influence networking and knowledge spillover. The latter in general increases a firm's skills of using internal reservoirs of knowledge and information (Pennings et al. 1994): The need for external resources thus decreases with time. In international business, time spent in a foreign market furthermore reduces an organisational need for learning from its foreign partners. Assistance in application of the learned external knowledge becomes more relevant (Lane et al. 2001). (International) alliances are therefore particularly beneficial to young, resource-constrained firms, lacking stable relationships. Startups, for example, can compensate for their inexperience by securing relationships with key actors at the time of their founding, which gives them access to their (accumulated) knowledge, resources, stability and associative legitimacy (Baum et al. 2000). *We hence propose that younger enterprises are more motivated to network compared to older companies and therefore dominate international interorganisational networks (e.g. business clubs).*

Another firm-specific factor positively correlated with exploiting the benefits of a network in a foreign market is (as mentioned earlier) *international exposure* (Ellis 2000) and the *prevalent market entry mode*. Ovin (2007) discovers that companies with low share of export in their income rarely seek information and support services from institutions and rather gain partners coincidentally. Firms with higher shares of export in their income tend to seek institutional help due to recognition of foreign market potential. Companies which already have a high percentage of export in income and have established their position in the target foreign markets based on their knowledge and experience are less inclined to seek support services provided by institutions. Taking into account that learning is more relevant during the early phases of internationalisation and that the preferred entry mode in these phases is exporting, *we propose that networking aimed at overcoming (internationalisation) knowledge gaps is particularly significant for businesses in early internationalisation stages, starting to employ less complex market entry modes (e.g. for less experienced exporters)*. *We moreover posit that business-government relationships are sought mainly in the initial phases of internationalisation and by firms with less experience in international business*.

Among *structural factors* that influence knowledge spillovers and other internationalisation benefits of international networking authors especially highlight the significance of *network density* and *heterogeneity*. Burt (1995) argues that strongly connected contacts in dense networks are likely to possess similar – i.e. redundant – information, while disconnect contacts in sparse networks are presumed to foster non-redundant (i.e. diverse) knowledge and information. Research findings regarding the impact of network density on knowledge spillovers are inconclusive, however. Firms embedded in dense networks, for instance, are better able to integrate and implement novelties (e.g. technologies), but can be shielded from a range of alternatives – their choices might not be optimal. Firms embedded in sparse networks on the other hand are facing the opposite problem: They have access to information on a broad range of alternatives, but lack the in-depth knowledge and skills to integrate and implement them (Eapen 2012). Heterogeneity of network partners is therefore not necessarily advantageous: Though on the one hand it can enhance the breadth of perspective, cognitive resources and overall problem-solving capacity of the group (Hambrick et al. 1996), it may also create gulfs and schisms hindering information exchange (Goerzen and Beamish 2005).

Sirmon and Lane (2004) emphasise that the presence of complementary resources needed for performing certain activities alone is insufficient for success of an international alliance. For networking to be an effective learning tool partners' employees must be able to interact effectively in order to share, combine and leverage complementary resources. The fit of professional, organisational and national cultures is crucial, as it increases partner learning, whereby according to Sirmon and Lane (2004) professional culture differences are the most disruptive to (effective) primary value-creating activities of an alliance. The so called 'glitches' (i.e. unsatisfactory results), caused by the deficit of inter-functional or inter-specialty knowledge about problem constraints, can be avoided by ensuring that individuals from partner organisations are cognizant of constraints and opportunities outside the area of their expertise (Hoopes and Postrel 1999). Both weak ties from sparse networks, which facilitate search for novel knowledge, and strong ties characteristic for dense networks, which enable knowledge transfer (Hansen 1999), are needed for effective knowledge spillovers in the process of internationalisation.

Network sparseness does not necessarily imply knowledge heterogeneity, though: Sparseness and knowledge heterogeneity rather act as 'supplements' when it comes to overall managerial performance (one or the other needs to be present) and as 'complements' when we consider innovation performance (Rodan and Galunic 2004). Furthermore, partner heterogeneity (instead of knowledge heterogeneity) may play a more relevant role in successful knowledge spillovers: As firms generate network evolution, governmental institutions provide a legitimate venue and reasoning (motives) for cooperation – acting as a fair broker and a relationship initiator (Ellis 2000; Lam et al. 2004; Svetličič et al. 2000; Welch et al. 1998). Both network content (i.e. individual network members' characteristics) and structure (i.e. combination and interplay of several partners' characteristics) thus need to be taken into account when assessing effectiveness of (as well as managing) networking in the process of internationalisation. Challenges of managing diverse organisations connected into networks are addressed in the section below.

COORDINATING DIVERSE ORGANISATIONS THROUGH NETWORK MANAGEMENT

Integration of a wide range of different organisations into a network (such as in the case of business clubs) can result in potential *goal incongruence*. This may in turn lead to organisations pursuing their individual objectives rather than common goals of a network or selected network partners (e.g. an alliance formed within a network for a specific task or project): i.e. organisations may act opportunistically (see e.g. Moeller 2010). Moreover, the foundation for trust, which is a prerequisite for cooperation, in such partnerships is weak due to the initial lack of a network culture – especially in interorganisational support networks such as business clubs that include both private and public sector actors and have an 'artificial' political origin (Koch et al. 2006). To align the diverse network member goals – as well as enable, promote and direct their joint actions; *network management* is needed.

The latter is defined as the ongoing coordination of activities between (diverse) organisations (i.e. network members) which provides both structure and mechanisms for network members' joint actions (Johnston and Vitale 1988; Konsynski and McFarlan 1990). Compared to managing a single organisation, managerial activities involved in managing networks are more selective and focused, as networks often serve a specific purpose for their member organisations (Castells 1996; Riggins et al. 1994). This does not make the process simpler, however, since network management usually requires coordinating versatile actors with different knowledge and diverse backgrounds (as well as interests). Creating an environment where collaborative action can evolve and take place, dynamically aligning different strategic, organisational and technological perspectives and systems, is thus a challenge that network management is faced with (Riemer and Klein 2006). Riemer and Klein (2006) stress that networks are in addition also characterised by a number of *dialectic tensions* – between autonomy and interdependency, between trust and control, cooperation and competition, flexibility and a need for stabilisation, openness and network identity; which result in highly precarious network management.

Moreover, network management often consists of both *governance of a network* and *management within networks* – adding to its complexity further. While the former involves network non-members exercising control, regulation, inducement, incentive or persuasive influence over the entire network (e.g. its structure, the nature and range of ties between network members, network's capacity for collective action, openness to new members, commitment to existing functions, ability or willingness to shoulder new tasks); the latter encompasses a range of decision-making activities by network members that impact (at least) some network members and the nature of their collaboration (it is aimed at network positioning, resource – also power – acquisition and allocation, production, distribution and exchange, co-ordination, planning and strategy development, collective sense-making, etc.) (Six et al. 2006).

Taking into consideration all these complexities, Riemer and Klein (2006) present a *comprehensive network management framework*. In it the authors integrate three distinct perspectives on network management:

1. At the *network level*, which focuses on the network itself, a life cycle view of network management[5] is assumed for forming management decisions. Network strategy (network mission, positioning, resources, business model), organisation (including policies governing a network as well as network structure and behaviour: defining tasks, roles, linkages and processes, establishing interactions, social ties, selecting people, building teams and capabilities) and information

5 Network life cycle phases include: network initiation, configuration, implementation, stabilisation and potential transformation(s) at various stages of the network life cycle as well as network dissolution (Riemer and Klein 2006).

management (i.e. managing information and knowledge flows in the network, providing an information system as well as building a network's information (infra)structure) are emphasized.
2. From *the perspective of a single firm*, businesses as network(ed) actors initiate and manage networks or participate in them. Key considerations in managing the network from this viewpoint are: firm strategy, organisation and technology, strategic motivation to join a network as well as strategic implications of network participation.
3. *The environmental perspective* combines a market and an industry view of firms – recognizing that networks are both shaped by and shape their environments.

Riemer and Klein (2006) neglect a crucial component in their model, though: *the individual*. According to Jolink and Dankbaar (2010) a system of people management practices creates a favourable climate for interorganisational networking, which implies that awareness raising regarding potential networking costs, benefits and network managerial practices leading to a beneficial cost-benefit ratio needs to take place not only at an organisational, network or broader environmental level but also at the level of an individual.

In our empirical study we tackle networking and network management at three levels of analysis (the levels of a network, a single firm and the environment), while the level of an individual transcends the scope of the study. The methodology used and the results derived are presented in the following section.

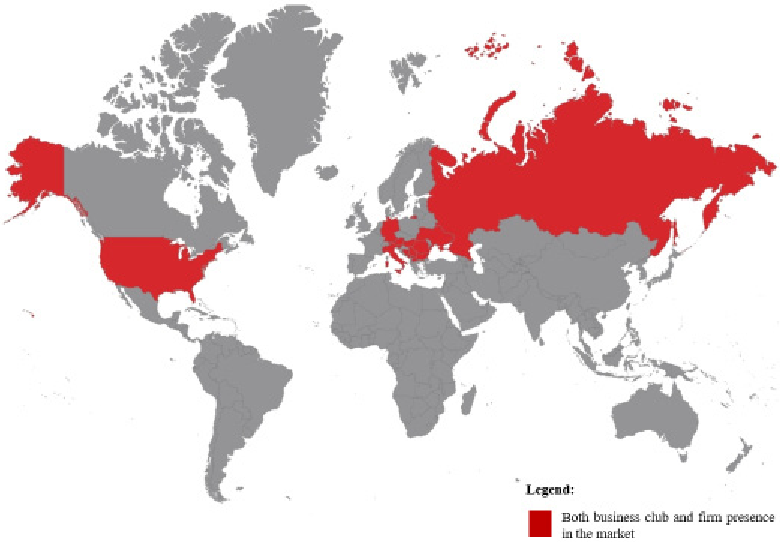
EMPIRICAL ANALYSIS: EFFECTS OF NETWORKING IN BUSINESS CLUBS AND THEIR MANAGERIAL AND POLICY IMPLICATIONS

We conducted an international survey on interorganisational networking in business clubs, involving 376 internationally active companies from a small Euro-Mediterranean country (i.e. Slovenia). The main *purpose* of our research was to identify which types of interorganisational relationships are crucial for various categories of firms at different stages of internationalisation, define the determinants influencing success of interorganisational networking in the process of internationalisation as well as identify their (network) managerial and policy implications. We specifically evaluated effectiveness of learning and knowledge spillovers as one of the pronounced benefits of networking in the process of internationalisation through international interorganisational networking in business clubs by combining network-, individual firm- and environmental levels of analysis. In our study we considered a company's demographic characteristics (e.g. size) as well as its internationalisation experience (foreign market selection and entry mode). We furthermore investigated a company's (de)motivation for membership in business clubs, importance of specific business clubs' activities for their members and business satisfaction with them, as well as difficulties hindering optimal functioning of business clubs. We addressed the following *research question*: How can business clubs be managed in order to increase business engagement in business-to-business and business-government interorganisational networking aimed at enhancing internationalisation? The relatively small size of the subsample composed of firms with experience as business club members does not allow us to speak about statistical significance regarding this subsample. Qualitative results together with basic quantitative calculations on the subsample are reported instead.

SAMPLE

The presented empirical analysis was part of a large-scale firm-level survey. The entire sample encompassed companies doing business in Slovenia (also foreign affiliates) and in at least one additional selected foreign market where Slovenian business clubs operate: Austria, Bosnia and Herzegovina, Bulgaria, Germany, Hungary, Italy, Kosovo, Macedonia, Montenegro, Romania, Russia, Serbia, Ukraine and the United States of America (see Figure 1). These markets include both developed and emerging markets from the Euro-Mediterranean region and countries outside the latter, which implies that business clubs create opportunities for greater connectedness and cohesion both within the region and outside of it (i.e. they can also facilitate connectedness of the region to other parts of the World).

Figure 1: Market presence criteria for business clubs' and firms' inclusion in the sample



The list of companies invited to participate in the study was based on a national database of exporters Sloexport, registration to which is optional for internationalised firms – hence, these companies form a specific segment and do not represent the entire population of internationalised companies active in Slovenia. Out of the 3,153 internationalised companies, active in the markets concerned in 2011, 11.9% responded to our structured online questionnaire. We present the main findings hereinafter.

DEMOGRAPHY

More than 50% of respondents to our questionnaire were representatives of small enterprises with 5–49 employees, a fourth were from micro firms (with less than 5 employees), 15.5% of the sample was represented by medium-sized enterprises (with 50–250 employees) and less than 10% were large enterprises with more than 250 employees. This structure is similar to the macro size structure of companies in Slovenia with micro, small and medium-sized enterprises presenting almost 99% of all firms active in Slovenia in 2011 (see Agency of the Republic of Slovenia for Public Legal Records and Related Services 2012).[6] Furthermore, more than half of the 376 respondents' businesses operated in Austria (56.1 %), Italy (51.9 %) and Germany (50.8 %). Serbia and Bosnia and Herzegovina followed with 47.6 % and 46.5 % respectively. These are also top export markets for Slovenian firms, which supports the representativeness of our sample (see Republic of Slovenia Statistical Office 2017). About a third of surveyed firms conducted business in Macedonia, while the smallest share of the sample (10.4 %) was active in Ukraine. This corresponds with previous research findings about firms spreading their activities into less (geographically, culturally, administratively and/or economically) distant markets first (Burger and Kunčič 2013; Ghemawat 2001; Johanson and Vahlne 2009): Markets where most Slovenian companies are active are either the neighbouring countries or states which Slovenia has a common history with (e.g. members of former Yugoslavia).

Almost 80% of respondents employed export as a foreign market entry mode in the markets where business clubs operated, half of the sample entered various forms of partnerships with foreign firms, while only 7.7% of the surveyed companies decided to enter foreign markets analysed with foreign direct investments (FDI). Such structure implies that Slovenian internationalised companies either lack international experience (are at the early stages of the internationalisation process) or do not engage in more complex foreign market entry modes. According to our results international experience are more likely to reflect in geographical spread rather than complexity of international operation. This could be related to the firms' lack of networking and subsequently scarce information and knowledge transfer

6 A slight deviation of the sample from the macro size structure of firms in Slovenia can be attributed to internationalisation being the main sampling criterion.

– regardless their international experience. This is consistent with research by Dikova et al. (2016), who prove that complex strategies with simultaneous geographical, product and entry mode diversification demand high learning capacity and fast knowledge transfer.

Moreover, market entry mode is related to the market: Firms operating in Austria or Italy tend to choose the exporting strategy, which is less favoured by businesses active in Kosovo or Macedonia. Partnering with foreign enterprises is preferred by the companies operating in the USA, while they are rarely employed by Slovenian companies in Italy. This could again be contributed to geographic and cultural distance which may influence a company's (perception of a) need for additional funds and/or knowledge necessary for entering (and operating in) the more distant markets. Greater distance of foreign markets could therefore foster more intensive networking among businesses compared to networking in less distant markets. The share of companies entering foreign markets with FDIs is too small to draw statistically significant conclusions. Nevertheless, businesses in USA, Austria and Germany are less prone to employ such a strategy, while it is more common among Slovenian companies in Macedonia.

MEMBERSHIP IN BUSINESS CLUBS AND ITS BENEFITS

Despite a substantial proportion (over 90%) of respondents in the larger sample being micro, small or medium sized enterprises (i.e. enterprises with more limited financial and informational resources in the process of internationalisation), a vast majority (85.7%) are neither members of a business club, nor do they engage in other forms of institutionalised interorganisational networking. Only 7% of respondents indicate membership in other similar associations as the main reason for not joining business clubs. Over one third (38.4%) of the respondents is not familiar with business clubs' activities (i.e. is unaware of their potential benefits during internationalisation), while 12.6% do not even know that business clubs exist. This implies poor communication by business clubs themselves, but also a restricted inclination of internationalised businesses for interorganisational networking in general or their preference for engagement in other (also less formal) forms of international interorganisational networking when internationalising their operations. The result may likewise indicate SMEs' limited capacities[7] and motivation for (institutionalised) interorganisational networking, which is why we look at the impact of firm-specific characteristics on the proneness for engagement in business clubs.

We note differences in business club membership according to market selection, foreign market entry mode and firm size. Our findings indicate that greater geographic and cultural distance of a foreign market fosters more intensive interorganisational networking compared to such networking in less distant markets since firms need to surpass a far greater information and knowledge gap regarding doing business in the markets concerned for the former case (this especially applies to emerging markets, which are often controlled to a considerable extent by their governments). The results confirm that firms are less likely to engage in (institutionalised) interorganisational networking in geographically and culturally closer markets. While not many business clubs operate in the (to Slovenia) more distant Euro-Mediterranean markets, this finding implies that establishing additional business clubs in these markets could enhance their internationalisation effects by strengthening organisations' active pursuit of networking opportunities and their integration into the otherwise less accessible global value chains.

Moreover, membership in business clubs is related with the market entry mode: While exporters are usually not members of business clubs, membership in at least some business clubs in markets they operate in is more common for companies entering partnerships with foreign firms or implementing the FDI entry mode. We conclude that companies entering partnerships are probably more aware of risks and networking benefits (also due to knowledge and information sharing with partners),

7 This is also one of the reasons for several strategic documents in the region focusing particularly on SMEs and their growth (see e.g. the Small Business Act for Europe 2008 and the Euro-Mediterranean Charter for Enterprise 2004).

since they employ relationships as a strategy and hence actively seek opportunities for networking (including business clubs). Exporters on the other hand might be less cognizant of business club activities, since they themselves do not seek information on networking, which is not their preferred strategy. They do form networks, but are less aware of- and less appreciative of the benefits they (could) reap.

The same principle applies to business club membership and firm size: While micro and small enterprises only rarely decide to enter business clubs, medium-sized and large firms seldom decide not to (this is consistent with previous research which shows that the size of a company is positively correlated to exploiting the benefits of a network in a foreign market (Ellis 2000), but inconsistent with Mansion's and Bausch's (2015) findings regarding greater proneness of innovating SMEs from developing economies towards networking). The Declaration of the Union for the Mediterranean ministerial meeting on industrial cooperation (2014, pp. 1) states that particularly the "small- and medium-sized enterprises (SMEs) require specific support from the public authorities /.../, whereas large companies have a knock-on effect on the integration of SMEs into global value chains /.../." Although Slovenian business clubs are experiencing firm size imbalance, they nevertheless provide an opportunity for synergies between different size-groups of businesses through their services: both in terms of learning from one another and larger partners supporting the smaller firms' integration into global value chains. This business clubs' function could be further enhanced, though, through attracting more SMEs to the network and actively partnering them with complementary larger, internationally more experienced businesses. To sum up: Network engagement in business clubs correlates (and increases) with the amount of resources devoted to internationalisation. Market distance, complexity of market entry mode and firm size are namely positively related to (the institutionalised) interorganisational networking in the process of internationalisation.

Our findings also confirm that firms enter business clubs primarily due to the information and knowledge transfer as well as networking benefits these business support organisations are expected to foster. Firms do not value organisation of business delegations and promotional appearances as much, however, but rather focus on direct networking effects of business club services. While information transfer from other businesses is the most important motive for firms to join a business club, information obtained from institutions is of medium relevance and greater lobbying power in a group (i.e. in partnership with other business club members) presents minor motivation when contemplating membership in a business club. This implies that internationally active companies enter business clubs primarily as consumers of their services rather than actors co-developing and co-implementing them. This is further supported by their preferences regarding business clubs' activities at the time of entering a business club: They value relationships with both domestic and foreign businesses as well as potential business partners, but are indifferent to relationships with governmental institutions (facilitation of informal relationships among businesses and governmental institutions is ranked as the least relevant service provided by business clubs).

The importance and value of business-government relations (also emphasised in the Declaration of the Union for the Mediterranean ministerial meeting on industrial cooperation (2014)) has not (yet) been widely recognised and does not appear among motives (yet). Nevertheless, prolonging membership in a business club due to satisfaction with its services is highly related with member satisfaction with enabling informal relations among firms and governmental institutions, which may indicate that, when initially entering business clubs, companies have a greater need for support in establishing business-to-business partnerships, but through gaining experience in the market concerned they develop a need for relations with governmental institutions and recognize their value.[8] Thereby our

8 Such networking not only provides opportunities for businesses to engage in commercial diplomacy and obtain relevant information, but also allows public institutions to gather feedback and ideas on how to improve the business environment and develop demand-driven support services for internationally active firms, which is

findings also imply the important role of institutions when it comes to business-to-business networking due to access to foreign actors, as well as their role in lowering the risks for foreign organisations when entering relations with other Slovenian firms and thereby lowering market entry barriers for the latter. Institutions act as *initiators* and *preservers of relationships*, which in turn enable information and knowledge transfer. This only partially supports our proposition on business-government relationships being mostly sought in the initial phases of internationalisation by firms with less experience in international business, however, as in the initial phases business-to-business relationships are more valued by firms (and business-government relationships are sought for facilitating these relationships), while business-government relationships themselves become more valued at the later stages of business internationalisation (not just based on the evolving market entry mode complexity but also intensity as suggested by Ovin (2007)). Further research on the topic is needed, though. Also, SMEs may underestimate the importance of business-government relations in their initial or early internationalisation stages and discover the value of such relationships only later (or upon encountering the first barriers – themselves or by partners).[9] Presence in business clubs helps their members recognize the variety and importance of partners needed for successful internationalisation.

According to our quantitative and qualitative findings companies can be categorised into three groups based on their satisfaction with specific business club activities:

1. *Market information seekers* are firms satisfied with provision of market information (i.e. both the services aimed at informing foreign business community about the Slovenian

in line with several aims and objectives of the Euro-Mediterranean Charter for Enterprise (2004).

9 A similarly limited understanding of business-government collaboration may be present among public actors also. Further research should focus on this aspect as well to provide insights on the relevance of active involvement of governmental institutions in interorganisational networking from the perspective of internationalisation.

business environment and those concentrated on informing Slovenian firms about changes in the foreign market).
2. *Business relationship seekers* include firms satisfied with services enabling relationships between Slovenian and foreign companies as well as services providing support in establishing relationships with potential business partners.
3. *Institutional relationship seekers* are businesses satisfied with services facilitating relationships among governmental institutions as well as relationships between companies and governmental institutions.

These groups may partially overlap, as some companies' expectations are met in more than one area. Moreover, specific *expectations* from membership in business clubs are linked to the type of relationships that firms contribute the greatest importance to when internationalising:
1. Companies that treasure relationships with foreign businesses the most rank the following business club activities as crucial: organisation of business delegations and promotional appearances as well as help in establishing relationships with potential business partners abroad.
2. Firms favouring interinstitutional relations list new goals that can be achieved within business clubs as an additional motive for prolonged business club membership.
3. Companies cherishing relationships between firms and governmental institutions emphasize promotion of the Slovenian economy abroad, image campaigns and regular informing of Slovenian actors about the foreign business environment as key business club services.

All in all, companies that see great value in enabling informal relationships among Slovenian companies also emphasize the importance of relationships with and among other actors in the foreign and domestic market (i.e. with foreign companies as well as domestic and foreign governmental institutions) – these firms value interorganisational relationships in general. Still, the study showed that understanding of the value created through business-to-government networks is limited.

In terms of network management we identify several *barriers for business clubs providing effective and efficient support services to internationalising SMEs*, however: (1) a vast majority of internationalised (or internationalising) firms are not members of business clubs – mainly due to poor (or non-existent) communication by institutions unable to effectively present the benefits business clubs can deliver to their members, (2) business clubs are experiencing firm size imbalance (large and medium-sized enterprises tend to network more than micro and small companies), which impairs knowledge transfer from larger onto smaller firms, (3) there is disproportion in business club members regarding market entry modes they employ, which further hinders knowledge transfer, (4) business clubs' services are not modified to specific needs and preferences of different business segments (e.g. according to the type of relationships they value most), (5) business clubs themselves do not employ networking that would allow them to continuously evaluate[10] and improve their services, (6) business clubs vary in funding and organisation which additionally obstructs their collaboration and (7) there is no clear network management – neither at the governance of a network nor at the management within networks level.

Our findings have several *managerial and policy implications*. A systematic governance structure within and among business clubs is needed. This would allow for more effective communication within business clubs, greater transparency and bridging the gaps between supply of and demand for support services provided as well as multilateral rather than solely bilateral networking impact. Communication of business clubs' networking benefits to their (potential) members could also be enhanced and made clearer, as this is crucial not only for acquisition of new members but also for retention of the existing members. Among these benefits information and knowledge transfer as well as informal relations should be stressed the most, as they are assigned the greatest value by internationalising firms when deciding to network. Business partners and institutional actors

10 For an evaluation framework of business support networking interventions see e.g. Lynch et al. (2009).

should be used as the main communicators, since they are assessed as the most valuable sources of information by firms. Moreover, collaboration between both support networks and among governmental and private sector actors would facilitate co-creation of services adjusted to specific business segments, whereby our results already indicate that support activities should be thematically linked to the type of relationship a firm prefers (e.g. for companies that value relations with foreign businesses, organisation of business delegations and promotional appearances as well as help with establishing relationships with potential business partners abroad are important).

Further clubs should be established in the more distant markets and additional members should be recruited by the already established clubs (eliminating the firm size and market entry mode imbalances), while existing members should be retained – an objective only feasible with a clearly defined governance structure. Although dissatisfaction with business clubs' services usually results in membership termination, our study shows permanence of business club membership: A vast majority of businesses that are members of business clubs do not interrupt their business club membership (even in case of mild satisfaction with only a few business clubs' services). Their motivation for prolonging business club membership is mostly related to new goals obtainable through membership in a business club or achievement of objectives set at the time of entry into a business club.

CONCLUSION AND FURTHER RESEARCH

To sum up, the results of our research confirm learning effects of international interorganisational networking in the process of internationalisation as well as indicate an evolutionary nature of business engagement in relationships with governmental actors and joint activities with the latter in the context of institutionalised interorganisational networking. While large enterprises enter business clubs with a variety of more clearly defined motives, SMEs gradually develop their needs (and awareness about them), as well as become more aware of the potentials of interorganisational learning through business clubs. Enterprise growth (size), rising distance of foreign markets, differences in foreign markets and international experience change motivation for (and learning potential of) business club membership. Motivation and value of interorganisational learning through business clubs increases with resources devoted to internationalisation, whereby the type of interorganisational relationships (business-to-business or business-government) sought by firms (and reasoning behind it) varies throughout different internationalisation phases.

Our findings also have several *practical and policy implications* for managing interorganisational networks and improving learning and knowledge spillovers through networking from the perspective of enterprises entering networks and other international business facilitators (including public actors – business clubs' members and non-members alike) similar to business clubs. We stress a need for (1) a systematic governance structure within and among business clubs that would support effective communication (within and among business clubs as well as with their (potential) members) and improve the overall performance of business clubs and subsequently also facilitate their members' successful internationalisation; (2) clear communication of business club membership benefits for attracting new and retaining the existing members (especially information and knowledge transfer opportunities as well as the value of establishing informal relations through business club membership should be stressed); (3); a more balanced member structure for larger spillover effects; (4) greater engagement of business club members in co-creating and co-implementing both the communication activities and the services provided by business clubs (according to our findings these should be customized to specific business segments and thematically linked to the type of relationship they favour); and (5) establishing additional business clubs – especially in the more distant markets. Organisational theories usually treat cooperation problems separately from coordination problems and knowledge transfer (Hoopes and Postrel 1999); our paper, however, transcends this division, confirms the usefulness of a network approach and integrates all three types of problems, addressing them as interrelated. Results not only prove knowledge spillovers in institutionalised interorganisational networks, but also provide insights into relationship between the types of actors and activities that enhance internationalisation learning.

Our study is one of the first attempts to explain the factors and mechanisms related to such networks facilitating business-government collaboration in the process of internationalisation by their members in a Euro-Mediterranean country. It demonstrates the unexploited potential of interorganisational learning through business clubs in Euro-Mediterranean region and the poor use and value creation of business-government collaboration within firm-level internationalisation strategies. Firm-level implications call for greater understanding of networks and interorganisational learning in internationalisation. The findings are all the more surprising as enterprises in the region are doing business in several less competitive environments where governments (still) have relatively large influence (and control) over business and (at least older) enterprises (established in the socialist past) had knowledge on the importance of business. These questions may motivate further research on capacity and channels to enhance interorganisational learning and form business-government relations in emerging economies. Results further stimulate questions on how the lack of institutional quality (i.e. the institutional voids)[11] identified in parts of the region (see e.g. Kunčič 2012) stimulates networking – particularly formation of business-government relations; and interorganisational learning. Regional development and implementation of cohesion and several other European policies for instance depend on interorganisational learning and networking as well.[12] The latter motive for networking has not been explored in the study and

11 See e.g. Khanna and Palepu (1997).

12 See European Commission's (2016) European Structural & Investment Funds Data for indices of potential correlations between (the lack of) intra- as well as inter-regional networking and (low) absorption of European funds, which varies considerably among countries in the region.

calls for further investigation. Namely, though we are in the 'age of global value chains', the awareness that the ability of firms to integrate value and knowledge from different origins determines regional comparative advantage should be increased.

Other limitations of our study also call for further research. The study focuses on enterprises and excludes governmental institutions as respondents – they are recognised as relevant actors in business clubs only indirectly. Their motivation for interorganisational networking and their role in business engagement in business-government collaboration should hence be explored through additional research, which would provide further insight into implementing networking as a learning and internationalising tool for both firms and institutional actors. Future research should also focus on researching ways to exploit synergies created through networking among SMEs and larger enterprises as well as between domestic and foreign firms and between firms and governmental institutions. Insights into network development, size of networks and their heterogeneity according to different phases/patterns of internationalisation are lacking. We focus solely on institutionalised networking, yet a study of noninstitutionalised (informal) interorganisational networking in the process of internationalisation could provide relevant insights for understanding knowledge spillovers and business-government collaboration in businesses internationalisation. Comparing formal and informal network structures as well as analysing 'networks of networks' rather than solely individual business clubs remain research challenges as well.

Changed network structures and network-based modes of operation may have relevant implications for management of individual organisations as well. The impact of interorganisational networking (in particular networking that involves business-government relations) on corporate governance thus also presents potential for future research. Researchers should moreover focus on the importance of particular relationships based on these providing access to direct partners' relevant connections in the already established networks.

In addition, a comparative study including business clubs and internationalised companies from other emerging as well as developed countries from both within and outside the region would show whether our findings are generalizable. A wider cross-country comparison of networking as a learning process during internationalisation would also mitigate potential bias due to the ‘small country’ effect in the case of Slovenia. Finally, testing for sample selection bias (i.e. whether superior firms are better able to secure alliances (Baum et al. 2000)) and reverse causality (i.e. whether networking is in fact an input or an output of enhanced performance) could enhance understanding of interorganisational networking in international business and thereby improve effectiveness and efficiency of both activities as well as network management in business clubs.

All in all, both theory and (the limited) empirical findings (including our own) indicate that interorganisational networking has an even larger potential within regions with greater diversity of actors, activities, development levels and institutional settings, such as the Euro-Mediterranean region. With its underexplored and diverse settings the latter provides an abundance of research questions to be answered by future research.

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