Macrothink Institute™

Journal of Management Research
ISSN 1941-899X
2024, Vol. 16, No. 2

Unlocking Global Markets for SMEs: The Power of Network Ties and Embeddedness Theory

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Received: July 1, 2024 Accepted: August 3, 2024 Published: October 1, 2024

doi:10.5296/jmr.v16i2.22084 URL: https://doi.org/10.5296/jmr.v16i2.22084

Abstract

In today's global economy, small and medium sized enterprises (SMEs) have greater opportunities to venture into foreign markets—an opportunity that was less feasible a few decades ago. While macro-factors of free-trade and lower transaction costs are the necessary conditions for all firms to expand globally, these are not sufficient for SMEs to expand. SMEs face significant challenges in entering new geographic markets due to their small size and the need for partnerships. Unlike larger firms, SMEs lack "natural market mechanism" to penetrate foreign markets. Instead, small and medium sized enterprises must rely on network ties to opportunistically expand internationally. Drawing from academic literature around embeddedness theory and network ties, this paper explores effective strategies for SMEs aiming to achieve global expansion. Specifically, how small and medium sized enterprises form effective international partnerships, with a focus on the benefits of weak ties over strong ties in providing complementary knowledge, broader access to partners, and avoiding entanglements.

Keywords: SMEs, small firms, international expansion, market, network ties

1. Introduction

Small and medium sized enterprises (SMEs) are competing in a global economy, that offers new opportunities and intensified competitive pressures compared to just twenty years ago. International expansion stands out as a key opportunity for SMEs, and research shows that SMEs are pursuing the opportunity to move into new markets as both realistic and often attractive options (Alon 2004; Kirby & Kaiser 2003; Knight 2001; Mascarenhas 1986; Oyson 2020; Taylor 2004; Zhao, Kang & Kennedy 2020).

However, a significant issue emerges when examining this phenomenon—market failure. SMEs face numerous challenges in expanding into new geographic markets. Due to their small size, most SMEs need some type of partnership to enter a new market (Kirby & Kaiser 2003; Wheelen, Hunger, Hoffman & Bamford, 2018). While this partnership may take the form of a distribution deal, a joint-venture, or licensing agreement, the SME must find and validate the partner under all circumstances. Consequently, a market is required to match the supply and demand for potential partnerships. Under classical economic conditions, such a market would occur naturally. Classical economics would hold that a market would arise naturally from the presence of supply and demand for international SME partnerships (Kates 2005; Sowell 2006).

Such a market has not developed as classical economics would have predicted. No central clearinghouse exists for SMEs to find partners. SMEs cannot simply search the Internet or the phonebook for partners for three reasons—scale economics make classical markets cost prohibitive (Campbell 1997; Kates 2005), market-clearing mechanisms do not exist (Kaiser & Kirby 1996), and there is no trust-building mechanism to verify the quality of potential partners.

Yet SMEs do find partners and successfully expand internationally (Kates 2005; Lu & Beamish, 2001). SMEs have found a way outside of classical economics to create a market to match supply and demand. Network theory provides an explanation for how SMEs overcome problems of scale economics, market clearing mechanisms (Uzzi 1996; 1999), and trust. Pre-existing social networks lower the cost of finding partners, negate the need for outside parties to create a market, and provide pre-verification of potential partners. While social networks are not "efficient markets" under classical economics terms, they do provide an imperfect market for matching supply and demand. The nature of social networks provides certain advantages to SMEs over larger firms, including superior knowledge of local networks and acceleration of partnership relationships.

The concept of embeddedness in economic behavior differentiates between various types of network ties, particularly strong and weak ties (Granovetter, 1973; 1985). Strong ties are defined as (embedded) relationships that are based in a deep common bond, such as immediate family or close friends. In contrast, weak ties are defined as arm's-length relationships based on loose affiliation, such as members of the same association, friends of friends, or college alumni (Granovetter 1973; Uzzi 1999). SMEs can leverage both strong and weak network relationships for expansion. Utilizing academic literature on embeddedness theory and network ties, this paper argues that SMEs are more likely to succeed under a

partnership formed with weak ties. These relationships provide complimentary knowledge, broader access to additional partners, and avoid entanglements that go along with stronger tie relationships.

2. Globalization Macro-Trends

Globalization is a dominant macro-trend of the early twenty-first century (Altman & Bastian 2020; Cascio 2019; Kirby & Kaiser 2003). Economies of individual nation-states are interlocked as never before in human history, with massive implications for strategic management. Strategic management literature has extensively detailed the impact of globalization for large enterprises, but little has been written on the impact on SMEs (Kogut 1984; 1989; Porter 1990A). No longer is globalization a luxury for a few multinationals who seek growth outside the US. Globalization affects every firm looking to sell goods or services to consumers—and many smaller firms do not have significant experience capturing international opportunities or defending against international competition (Alon 2004; Knight 2001; Mascarenhas 1986; Taylor 2004).

2.1 Overview of Globalization Trends

Buckly and Ghauri (2004: 82) identify globalization as "a conflict between markets and management (policies)" whereby there are three major linkages between nation states: financial markets, markets in goods and services, and labor markets. Globalization is a process of a nation-state becoming more integrated in the world economy through the lowering of structural barriers (e.g., tariffs, quotas) and the increase of consumer preferences for goods/services and financial instruments from other countries. Globalization is characterized by an increase in the percentage of GDP dedicated to exports and imports and increase movement of capital flows. While there is an active academic debate around whether the benefits outweigh the costs of globalization, no one will deny that this trend appears to have accelerated in the past few decades—and shows no sign of stopping anytime soon (Cascio 2019; Clardy 2005; Ghoshal 1987).

As stated above, globalization consists of three large linkages between nation-states: increased trade of goods/services, flexibility of labor markets, and inter-dependency of capital markets. While these three cannot easily be separated in macro-economic models, they are conceptually distinct areas where globalization will impact strategic management decisions. Therefore, each of the three areas are discussed further in the following sections for better examination.

2.2 Increased Trade of Goods and Services

Both developed and developing countries have seen increasing imports and exports in the past several decades (Anwar 2002). Government regulations, technological innovation, reduced transportation costs, and changing consumer taste have all played a role in increasing trade between countries (Buckley & Ghauri 2004; Kakabadse & Kakabadse 2000; Sideri 1997). Governments have made a conscious effort to reduce tariffs and quotas to remove price distortions to consumers. Free trade advocates promote the theory all countries will be better off if they each produce goods where they have a comparative advantage (Ernst &

Ozawa 2002; O'Brien 1981). Technological innovation has also played a large role in facilitating increased trade by reducing the coordination costs across borders—from easing pricing negotiation to reducing paperwork involved in contracting to managing shipping routes. Whereas in the past trade was limited to physical goods, technology has also allowed services to be provided across borders (e.g., offshore call centers) (Buckley & Ghauri 2004; Kakabadse & Kakabadse 2000; Porter 1990A; Prasanna, et al 2019; Zacharakis 1997). Similarly, the cost of actually transporting goods between countries as decreased as shipping technology has improved (Kakabadse & Kakabadse 2000). Finally, all of these structural changes have exposed consumers to a wider array of products and services from around the globe—and now there is an increased active pull demand for these international products irrespective of structural barriers such as tariffs and quotas.

2.3 Flexibility of Labor Markets

While the globalization of trade has been going on for decades, the globalization of labor has accelerated. Businesses will tend to utilize the lowest cost supplier of labor, assuming that quality is equal (which is generally is for low-skill manufacturing or commodity-like services) (Anwar 2002; Buckley & Ghauri 2004; Porter 1990B). Both manufacturing and services have seen labor displacements from high cost countries to low cost countries as the economics foreign trade (e.g., transportation, coordination) have become more competitive. The trend started with low-skill manufacturing plants closing in high cost countries such as the U.S. and Western Europe and moving to lower cost countries such as Mexico, India and China. Services have started to be offshored as well, again enabled by technology (Buckley & Ghauri 2004; Kakabadse & Kakabadse 2000). Call centers started the trend, but now more advanced services including corporate general ledger and entry-level resume screens are being done offshore (Vestring, Rouse & Reinert 2005).

2.4 Inter-dependency of Capital Markets

Financial instruments have possibly seen the greatest integration across the globe in the past few decades. The commodity-like nature of most financial instruments, make them easily interchangeable between nations once government restrictions have been reduced (Anwar 2002; Buckly & Ghauri 2004). Whether it is US mutual funds buying foreign stocks or foreigners financing the US federal deficit, the flow of funds between countries has increased significantly.

Capital flows are simply the inverse of the increased trade flow between countries. For example, a consumer in the United States purchases an automobile from Toyota. Toyota, an automotive manufacturer headquartered in Japan, needs to use its dollars to purchase yen to get the profits back to corporate headquarters. Thus, the increase in trade, capital flow, and labor markets are all inter-related in the trend called “globalization.”

3. Globalization and Strategic Management

Academic literature sees many linkages between globalization and the strategic management of a firm. One perspective focuses on how multinational corporations integrate their existing competitive strategy into global industries (Goshal 1987; Hout, Porter & Rudden

1982; Johansson & Yip 1994; Roth & Morrison 1992). As corporations expand into new markets, they have to figure out how to take their successful strategy at home and translate it into new markets. Another view from Hout, Porter, and Rudden (1982), describe global strategies as "those in which a firm's competitive position in one national market is significantly affected by its competitive position in other national markets" (Goshal 1987:1). This dynamic view sees each geographic market as interdependent—with strategic choices in one market affecting other markets (such as a global brand like Nike or Pepsi).

Bartlett and Ghoshal reason that the "international operating environment" impels firms to "optimize efficiency, responsiveness, and learning simultaneously in their worldwide operations" (1987:1). Also, Johansson and Yip view the strategy of globalization as multidimensional. They believe that firms make decisions along a number of strategic dimensions, each of which requires the decision between a multi-local or global strategy (Johansson & Yip 1994). Another aspect of global strategic management explores the "conflicts between markets and economic management" (Buckly & Ghauri 2004: 81). As a result, government policy makers must cope with the inherent challenges of globalization. Sideri defines globalization as "a process driven by economic forces" whereby "its immediate causes are the spatial reorganization of production, international trade and the integration of financial markets" (1997: 38). Also, Gersbach defines globalization as 'the exposure of a productivity follower industry in one country to the productivity leader in another country" (2002: 209).

4. SMEs and Globalization

Small and medium sized enterprises (SMEs) face unique opportunities and challenges from globalization because of their unique characteristics relative to larger firms. While they typically have more flexibility, are faster moving, and can take greater risks than larger firms, they also face limited financial resources and limited talent pools as hurdles to international growth (Jarillo 1989; Mintzberg 1979; 1983; Rumelt, Schendel & Teece 1994; Stinchcombe 1965).

4.1 Defining SMEs

The definition of SMEs has historically been defined by revenue size or number of employees. However, there is very little agreement as to where the cut-off is between small, medium, and large businesses (d'Ambose & Muldowney 1988; Robinson & Pearce 1984; Prasanna et al 2019). Previous research has defined small and medium size enterprises as those with less than 500 employees, and with less than $20 million in sales each year (Blackford 1991). Thus, while most people would agree that a ten-person company with $1 million falls in the category of "small", there could be debate as to whether a 100 person company with $50 million in sales is actually small, medium, or large. Since size of employees is readily available, it is a widely used metric. For the purposes of this paper, the definition provided by the United States' Small Business Administration (SBA) is accepted. The SBA identifies small firms as those with less than 500 employees (SBA Office of Advocacy 2020). However, while revenue or employee size is a convenient way to define SMEs, they can also be defined behaviorally—from the unique challenges and advantages

they have relative to large companies. SMEs behavior is distinct relative to their larger counterparts and those distinctions are explored further in the following sections.

4.2 SME Advantages and Disadvantages

There are several sources of competitive advantage for SMEs in their pursuit of the global expansion goal that larger firms generally do not possess. These may include greater flexibility in the interchangeability of individuals, ability to respond quickly to changes in the marketplace, and faster decision-making (Burns & Stalker 1961; Mintzberg 1979; 1983; Rumelt, Schendel & Teece 1994). This is largely because the SME typically functions in an organic structure within which employees are able to understand how their work fits into the greater scheme of things (Mintzberg 1979; 1983). In markets where cutting edge products dominate, this organic flow becomes an essential source of competitive advantage.

The literature also acknowledges several competitive disadvantages that handicap SMEs as they enter the global marketplace. These include limited access to capital, lack of scale, lack of job specialization, and lack of strategic planning (d'Amboise & Muldowney 1988; Jarillo 1989; Mintzberg 1979; 1983; Prasanna et al 2019; Robinson & Pearce 1984; Stinchcombe 1965; Variyam & Kraybill 1993; Vesper 1990; Wheelen, Hunger, Hoffman & Bamford, 2018). SMEs often find that the costs of expanding operations of goods and services are often prohibitive without the scale of large businesses, and many SMEs lack the finance and skills needed to fully understand and take advantage of these opportunities (Bell, Murray & Madden 1992; Etemand 1999; Jarillo 1989; Stinchcombe 1965; Vesper 1990).

4.3 SMEs and International Expansion

SMEs are increasingly looking at international expansion as a viable avenue for growth (Prasanna et al 2019; Zhao & Kennedy 2020). Small and medium size enterprises previously preferred domestic opportunities to international expansion as the costs of trading goods and services beyond their borders were often prohibitive. SMEs lacked the scale of large businesses and skills needed to fully understand and take advantage of international opportunities (Bell, Murray & Madden 1992; Etemand 1999). However, international expansion has become a realistic option for SMEs (Alon 2004; Knight 2001; Mascarenhas 1986; Prasanna et al 2019; Taylor 2004; Zhao & Kennedy 2020).

With expenses reduced through technology and free trade and domestic competition intensifying, SMEs have increasingly turned to international growth opportunities. Many markets where differentiation used to be prevalent have now matured into price competition (e.g., consumer products, computers, automobiles). Other markets that were previously heavily regulated by the government are now competitive (e.g., airlines, telecommunications). As a result, firms have an incentive to look towards foreign markets where competition is less intense, pricing capabilities may be greater, and higher gross margins possible.

Moreover, increasing free trade between nations has caused a reduction in costs through the removal of quotas and tariffs between nations. Free trade agreements such as the former NAFTA agreement or the current USMC in North America have accelerated SMEs expanding production into low-cost countries and sales in all countries (Sarkar, Cavusgil & Aulakh 1999;

Nummela, Saarenketo & Puumalainen 2004; Taylor 2004; Usman 2019; Verhun& Zayats 2021). Moreover, advances in technology have enabled coordination of international expansion and lowered transaction costs for SMEs. Whether optimizing supply chains overseas, sharing global customer information, or delivering products and services in a timely fashion, technology has lowered expenditures for SMEs (Buckley & Ghauri 2004; Porter & Millar 1985; Prasanna et al 2019; Zacharakis 1997).

4.4 SMEs and Market Failure in International Expansion

While globalization has created massive opportunities for SMEs to grow through international expansion, they usually cannot do so alone. Larger firms have many avenues open to them for entering new markets, ranging from opening new operations and building their own sales forces and distribution systems to joint ventures to acquisitions. However, small firms need to find partners in the new market because their limited financial resources eliminate the possibility of developing their own operations in the new market or acquisitions (Kaiser & Kirby 1996; Wheelen, Hunger, Hoffman & Bamford, 2018).

Whether it is a strategic alliance, licensing agreement, or joint venture, the SME must first find and then validate a partner in the new country. Finding a partner is no small task—locating candidates with the basic requirements, determining who has the right complementary strengths, and ensuring the personal relationships will fit well (Kaiser & Kirby 1996). But with supply and demand for partnerships present, the conditions are there under classical economics for a market to develop.

5. Classical Economics and Markets.

Classical economics holds that markets develop to match suppliers and consumers of a given "good" (Kates 2005). In the case of SMEs looking for international expansion, the good is the partnership itself—in this case, both SMEs and potential partners are both suppliers and consumers of the partnership. Under classical economics, a market would develop to match partners with similar interests, simply because the players would seek each other out and fit supply with demand (Kates 2005; Sowell 2006).

Classical markets have several characteristics including market clearing price, transparency, liquidity, trust, and market clearing mechanisms. Each of these characteristics have unique application to the "market" for SME international expansion, given the fact that the "good" being exchanged in the market is a partnership deal. Because the "good" is a deal, the traditional definitions of classical market definitions need to be adjusted slightly. Market clearing price is the actual terms of the deal that is reached between the parties ("buyers" and "sellers") to determine the right price (Kirzner 1999). Transparency is the ability of SMEs and foreign partners to actually find each other and get the information necessary to validate them as potential partners (Kailer & Scheff 1999). Liquidity is the ability of partners to enter and exit a partnership with low transaction costs (Payant 2000). Trust and market clearing mechanisms are the same for these deals as for regular physical goods—respectively, the faith that a deal entered will be honored (otherwise a penalty is imposed) and a mechanism to bring the parties together (Kates 2005; Roth & Xing 1994).

Thus, if classical market theory were to hold for SME international expansion, a market with these characteristics would naturally evolve as SMEs and potential partners seek each other out. However, this is not how partnerships actually occur. Classical economics neglects to describe how SMEs actually find international partners, because the underlying characteristics of a classical market, fails to materialize. Specifically, scale economics make "liquidity" impossible because of high transaction costs, no market mechanism naturally develops, and trust is difficult to build in this "market." Under classical economics, this can be considered as a failure of the market and means that an alternative means outside the market is necessary to "clear" the transactions (Samuelson & Marks 2003).

5.1 Scale Economics and Transaction Costs

Liquidity in this context means partners are able to find each other with minimal transaction costs. Transaction costs include the cost of identifying and screening potential partners, the cost of negotiating and closing a deal, and regulatory costs of cross-border dealings (Uzzi 1996; Uzzi & Lancaster 2003; Williamson 1985; 1994). Transaction costs in international deals tend to be relatively fixed, and not vary based on the size of the deal. The cost of finding partners, negotiating, and regulatory costs are relatively similar for a million dollar or a billion-dollar partnership. Thus, the smaller the firm, the more cost prohibitive the market for international partnership is. Liquidity falls apart for SMEs because they cannot afford the costs of creating the partnership.

5.2 Lack of Market Clearing Mechanism

Markets require a clearing mechanism—a way that "buyers" and "sellers" can meet to transact business (Kaiser & Kirby 1996). Market mechanisms may be physical (as in a retail store) or virtual, (as in an electronic stock exchange or Internet site) (Samuelson & Marks 2003). However, no such formal market mechanism exists for SMEs seeking international partners. It is difficult (for SMEs) to locate partners in a foreign country (Ghauri, Lutz and Tesfom 2003)—there obviously is no physical market possible, and virtual markets are difficult to create. Digital technology like the Internet might provide information but face regulatory issues and cannot serve to put partners together in complex transactions like cross-border partnerships (Usman 2019). Brokers could serve this purpose, but the market may not be liquid enough to be profitable for brokers to match SMEs with potential partners in their country.

5.3 Lack of Trust

Trust is essential in any market—all parties must be sure that the "guy on the other side of the table" is a worthwhile business partner. They must know their potential partners are truthful and will honor all contracts (Smitka 1991; Uzzi 1996, 1999). International deals are inherently difficult to build trust because of physical and cultural differences. The old saying that "trust is earned" is true in business—high levels of exposure and multiple dealings over time builds up trust. While large businesses may have reputations, SMEs do not—thus trust needs to be earned, and this is difficult given the limited personal exposure of the parties in different countries (Kates 2005).

As a result, classical markets fail to explain how SMEs actually find partners, because several conditions for such markets do not exist. Therefore, this paper proposes:

> *Proposition 1: SMEs experience "market failure" under classical economic conditions when trying to expand internationally because of scale economics, lack of market-clearing mechanisms, and trust issues.*

6. SME International Expansion

SMEs are expanding internationally like never before. SMEs constitute 97.3% of all U.S. exporters in 2019 (SBA Office of Advocacy 2023) and accounted for $413 billion of the known export value in 2020 (U.S. Census Bureau, Department of Commerce 2022). Classical economics is unable to explain this accomplishment since a "market" will not form due to scale economics (Campbell 1997; Kates 2005), lack of market mechanism (Kaiser & Kirby 1996), and lack of trust. However, the literature relating to network theory may offer an explanation for why SMEs are able to utilize non-market mechanisms to find partners for international expansion.

People and institutions are "affected by social structure, social relations, and social ties" (BarNir & Smith 2002: 220). As a result, actors (and institutions) become "embedded" in a context of social relations that affects all activities within these networks (Granovetter 1985). Network theory is a useful view since it helps explain how social structures influences markets and the context of how personal and social networks affect economic behavior (Granovetter 1985, Uzzi 1996; 1999; Uzzi & Lancaster 2003). Specifically, network ties are seen as the "degree to which commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social, noncommercial attachments to govern business dealings" (Uzzi 1999:482). Where classical economics conditions fail to create a market to match SMEs with international partners, embedded social relationships create a "market" to pair partners. Network tie relationships provide the liquidity, market mechanism, and trust necessary for SMEs and potential partners to meet in a market.

6.1 Scale Economics and Transaction Costs

Network ties can lower the transaction costs (Uzzi 1999; Uzzi & Lancaster 2003) that become prohibitive to forming a market under classical economics. Specifically, embedded relationships can reduce both the cost of finding and validating a partner and negotiating and closing a deal (the regulatory cost is not impacted by embedded relationships) (Uzzi 1996). Costs of finding a partner are reduced dramatically because either the SME directly knows the partner already, or a network tie introduces them based on an understanding of shared need. Costs of validating a partner are also reduced because either there is a pre-existing relationship or the endorsement of a trusted network tie gives both parties more comfort with the quality of the other partner (Fukuyama 1995; Uzzi 1999). Negotiations may also be easier because of pre-existing relationships or common network ties, as thorny issues are dealt with in a more straight-forward manner.

6.2 Lack of Market Mechanism.

Network ties are the market mechanism that is missing in classical economics. The informal network of people known to an SME overlaps with the informal network of people known to potential partners (Postrel 2005). Network ties are not a perfect market mechanism, because it is not fully transparent—everyone does not know everyone else's networks, nor do the best partners for each other necessarily have overlapping networks. Nevertheless, these social relationships provide a means for SMEs and partners to meet each other, either purposefully or serendipitously.

6.3 Lack of Trust.

Finally, the network ties overcome the lack of trust that can be problematic with cross-border deals. If the potential partners know each other directly, the pre-existing relationship will provide trust (Uzzi 1999). More commonly, a third party that knows both of the potential partners will also provide trust, either by a "transitive property" of trust or providing information on the reputation and other facts about the other partner (Fukuyama 1995, Uzzi 1999). One partner may trust the other partner merely because they have a trusted network tie in common. More commonly, the common third party will provide information on each partner for the other, like information on their reputation, possible references, and data that might not be available to the public.

Not only do network ties solve the problems of market failure from classical economics, but they also provide certain strategic advantages to SMEs over larger firms. For one, the network ties may provide a "local guide" for the SME that larger firms lack—the ability to provide information about local partners that is not publicly available. SMEs may also be able to accelerate the working relationship with the foreign partner because of the greater trust generated by network ties—and realize the underlying competitive advantages of the partnership faster than larger firms. A "social halo" may also exist, where the social nature of the network ties makes foreign partners more amenable to open more doors for the SME relative to larger partners. Therefore, the paper proposes:

> *Proposition 2: Network relationships solve the problems of market failure for SMEs, while providing certain advantages over larger competitors.*

7. Types of Network Ties.

Network theory holds that several dimensions can define the types (and strength) of ties between people in a network (BarNir & Smith 2002; Uzzi 1996). One such distinction is between strong ties and weak ties. The following section discusses each type of tie in terms of its definition, benefits, as well as its main disadvantages.

Strong ties (also referred as "embedded relationships") are defined as relationships that are based in a deep common bond (e.g., immediate family/kin, close friends). Strong ties are so named because they can include an emotional component that tends to make the bonds between the parties deeper, more permanent, and more meaningful (Granovetter 1973; Postrel 2005; Sandefur & Laumann 1998; Uzzi 1999). Strong ties develop "behavioral expectations

that are considered irrelevant in the atomistic view of transacting and market learning because they shift the logic of opportunism to a logic of trustful cooperative behavior in a way that creates a new basis for knowledge transfer and learning across firm boundaries" (Uzzi & Lancaster 2003:384). Strong ties are powerful reciprocal relationships that are usually emotionally involved (BarNir & Smith 2002). Common examples of strong ties include kinship and close friends of an actor (Granovetter 1973). The framework of strong ties contends that a "closed, tightly knit network of embedded ties is most advantageous (Uzzi 1999:500). This is because strong ties are better at placing individuals into the "unique collective resources of dense network cluster" (Uzzi 1999:500). Strong ties also help develop (and preserve) trust and reliability between the actors within the relationship. This in turn not only provides social support but can also reduce costs related to the transactions of the firm (Postrel 2005). Moreover, strong ties can help improve communication between actors, not only in disseminating information quickly but (especially useful) in situations where the level of complexity may be too high (BarNir & Smith 2002; Postrel 2005).

The main disadvantage of strong ties cited is that it prevents actors from learning about new significant ideas, information, or resources, because they tend to know the same information (Granovetter 1973; Postrel 2005). Another disadvantage of strong ties is that the relationships require time and a driving force to create and maintain trust (BarNir & Smith 2002). Moreover, emotions like obligation and friendship can be so powerful (and severe) that it may take precedence over economic considerations (Uzzi 1996).

Weak ties (also called "arm's-length ties") are defined as those as relationships based on loose affiliation (e.g., members of the same association, friends of friends, college alumni) or economic relationships based in transactions (Granovetter 1973; Postrel 2005; Sandefur & Laumann 1998; Uzzi 1999). Arm-length ties describe relationships that are "cool, impersonal, atomistic, and actors are motivated by instrumental profit seeking" (Uzzi & Lancaster 2003:384). Arm's-length ties are valuable as they "determine the degree to which an actor can access heterogeneous information in a market, even if that information is publicly available through advertising or publicity, because actors use network ties to search for opportunities and investments" (Uzzi 199:483). Embedded ties describe relationships that are commercially inclusive but based within social relations (Granovetter 1973; 1985; Uzzi & Lancaster 2003). Weak ties are loose relationships which can be conceptually seen as "a bridge" between distant actors who are in contact only occasionally (BarNir & Smith 2002; Granovetter 1973; Postrel 2005). Common examples of weak ties include acquaintances from an individual's work or graduate school (Granovetter 1973). The framework of weak-ties reasons that a "large, non-redundant network" of weak ties "is most advantageous" (Uzzi 1999:500). This is because weak ties are better at examining the market for information that is publicly available and provide greater opportunities for mobility (Uzzi 1999). Specifically, weak ties are better suited to collect and share "novel and *nonredundant* information" (BarNir & Smith 2002:223). Weak ties enable connections between actors that are socially distant from each other, thus enabling new and unique ideas and information to be shared (Postrel 2005).

The disadvantage of weak ties is that there is no obligation to share information, let alone private information (Uzzi 1999; Uzzi & Lancaster 2003). Moreover, actors connected through weak ties do *not* share a deep level of reliability as they typically lack trust (Uzzi & Lancaster 2003). Therefore, contacts between actors and institutions appear more as impartial transactions than concern for the well-being of everyone involved.

8. Weak Ties and SMEs.

Certain types of network ties may be more beneficial for SMEs looking to expand internationally. This paper explores in the following sections how SMEs benefit more by utilizing "weak ties" as defined under network theory (through complimentary knowledge, a broader network of ancillary partners, and less entanglements).

8.1 Complimentary Knowledge

Partnerships often bring intangible benefits not originally expected in the deal scope. While an SME with an innovative product might partner with an existing sales force for distribution purposes, the SME might also realize that the sales force has market insight into what consumers want in the "next generation" product. Weaker ties are more likely to bring about these insights because the two partners are more likely to have different worldviews and different competencies (Granovetter 1973; Postrel 2005; Sandefur & Laumann 1998). Stronger ties are more likely to have so much in common that complimentary knowledge will not be as copious (Granovetter 1973; Postrel 2005).

8.2 Broadening Networks

The same logic of complimentary knowledge goes for the broader network of contacts a partner brings. A SME who gets an international partner also gets a new network of supplier, customer, and other contacts in the new country. Weaker tie relationships are more likely to have different networks for each of the different partners—thus increasing the value of the partnership. Stronger tie relationships are more likely to have the same types of networks (Granovetter 1985; Postrel 2005; Uzzi 1999).

8.3 Less Entanglements

Strong ties have certain benefits—a greater amount of inherent trust and less cost of coordination because of common worldview or history (Granovetter 1973; Postrel 2005; Sandefur & Laumann 1998; Uzzi 1999). However, they also tend to have a greater amount of emotion surrounding them because of the inherent closeness of the individuals involved. Thus, emotional entanglements could enter the business arrangement—from partners unwilling to address tough issues to a high emotional cost of exiting the relationship (Uzzi 1996; 1999).

Taken together, SMEs will find that weak ties are usually superior for generating international partnerships. Specifically, weak ties will bring complimentary knowledge, a broader network of ancillary partners, and less entanglements than stronger tie relationships will. Therefore, the following is proposed:

Proposition 3: SMEs will be more successful in international expansion by utilizing "weak ties" as defined under network theory.

9. Discussion

This paper aims to explore the activities undertaken by small and medium sized enterprises in their pursuit of international opportunities. By reviewing the literature and utilizing research on embeddedness theory and network ties, this paper examines how SMEs can effectively expand globally. Specifically, it highlights how SMEs can utilize network ties to opportunistically expand internationally. Additionally, this paper seeks to shed light on the impact of international expansion on SME strategy development.

This paper laid out three propositions for future research to explore and test empirically. The first proposition, around market failure, can be tested in a more quantitative manner through exploring the transaction costs associated with SME international expansions. Analysis to determine the absolute level and level of fixed cost for finding and validating a partner, negotiating, and completing a deal, and regulatory approval can prove the cost prohibitive nature of international expansion for SMEs without an embedded relationship or other network tie. The second proposition, around network ties solving market failure, can be tested both qualitatively and quantitatively. Interviews and case studies can be completed to examine the impact of embeddedness. Success metrics can be applied to this population (e.g. survival rates for the partnerships, income growth, etc.) and qualitative comments can shed light on how embeddedness actually changes how SMEs approach international expansion. Quantitative analysis could show the transaction cost savings that embeddedness brings to SMEs, and how their economics are changed by these relationships. The third proposition, around weak ties being superior for SMEs in international expansion, can be tested through case studies and interviews to determine the nature of the embedded relationships in successful international expansions. Correlation analysis with success metrics and an index of the strength of the tie could also be created to see how important this factor is in SME international expansion. The subsequent step is to test these propositions as part of an overall research agenda on international expansion for small firms. By transforming the propositions suggested in this paper into testable hypotheses, the hope is to initiate a discussion concerning SMEs successful expansion into global markets and contribute to the existing base of knowledge about SMEs.

Finally, the propositions discussed in the paper may have practical implications for managers facing the challenge of how SMEs can operate and manage expansion into new and diverse markets. First, this paper suggests that classical markets may not be helpful for managers of SMEs to find international partners, because several conditions for such markets do not exist for them. Instead, managers should consider leveraging network ties when seeking new global markets. These ties can act as "local guides" for the SMEs, providing valuable, non-public information about potential local partners. Additionally, the paper proposes that managers may benefit more from seeking "weaker ties" for creating global partnerships. Weaker ties offer greater complimentary knowledge, a wider network of partners, and fewer entanglements compared to stronger tie relationships.

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