Introduction
Networks, Internationalization & Policy

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ABSTRACT. This is the introduction to this special issue of *Small Business Economics*, dedicated to networks, opportunity, internationalization and policy. As the drivers of globalization are removing barriers, which traditionally segmented the competitive environments of small and large firms, firms of all sizes are joining international networks. Former competitors are now working together and this symbiosis is enhancing competitiveness. Consequently, networking is giving rise to unprecedented opportunities, facilitating internationalization. Simultaneously, new realities are creating the need for new policies.

1. Introduction

Competition in international markets was traditionally the realm of large companies, with smaller businesses remaining local or regional. Nowadays, firms of all sizes are sharing the same competitive space. As a consequence, it is increasingly difficult for independent, small firms to thrive on their own. Simultaneously, networks are giving rise to new opportunities, facilitating the process of internationalization.

Small businesses can increase their competitiveness by forming co-operative relationships with larger firms. This allows small firms to reach global markets and to achieve economies of scale, by integrating into the supply chains of the larger firms. While competitive pressures in the global environment are prompting multinationals to reduce costs, savings are often achieved by outsourcing to smaller firms. Symbiotic relationships are thus created, allowing smaller firms to benefit from the opportunities arising from the expanded reach and efficiencies associated with international networks.

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2. Networks & opportunity

Networks provide opportunities for small firms; this has been documented by Aldrich (1989), Aldrich et al. (1987), Birley (1985), Carsrud et al. (1986), Dubini and Aldrich (1991), Johannisson (1987), Olm et al. (1988), and Shaver and Scott (1991). Evidence of the growing importance of networking in a specifically international context is provided by Dunning (1995) and by Holm et al. (1997).

Often, networking takes place within ethnic groups. Aldrich, Jones and McEvoy (1984) examined networks of immigrant entrepreneurs. Werbner (1984) focused on networking among Pakistani immigrants in the United Kingdom. Aldrich and Zimmer (1986) found ethnic networks in England to be effective, and Boissevain and Grotenbreg (1987) showed that small firms in Amsterdam succeed within a social support network. More recently, Iyer and Shapiro (1999) demonstrated how expatriate entrepreneurs have leveraged their membership in local ethnic networks, in the country to which they have immigrated, by importing from their country of origin. These business people have thus infused international activity into the supply and value chains of the social/ethnic networks in different countries.

Interdependent relationships (Lodge and Vogel, 1987) have long characterized Eastern economies, including China (Etemad, 1996), and Japan (Wright, 1989). As explained in Dana (1999), only 1 per cent of firms in Japan are large; yet, Japan is a country in which large size is usually desirable in industrial activity, An old proverb teaches, “When seeking a shelter, look for a big tree.”

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Applied to entrepreneurs, this philosophy means, "Join a network!" Indeed, rather than competing with large firms, entrepreneurs in Japan cooperate with them. Likewise, the one million small firms in South Korea tend to specialize, and to achieve efficiencies due to scale economies in producing components, which they sell to *chaebols*. This phenomenon has led to an elaborate, mutually-beneficial system of collaboration with a large number of very small firms supplying the *chaebols*.

In the Philippines, small-scale entrepreneurs in the agro-food sector have been linking up into networks with larger firms, and those networks of firms are supplemented in turn by networks of networks. For instance, the Villasis Mango Growers Association is a network of large and small firms. The Federation of Cooperatives for Pangasinan brings together several such networks of mango-growers. In the same region, Ilocos Norte Federation of Agribusiness Cooperatives does the same for vegetables. A similar network is the Christian Farmers Kilusang Bayan for Credit and Allied Services. The networks attain sufficient size and capability to enter international markets and to compete globally, which the small firms alone could not.

3. Internationalization of small business

Traditional internationalization theories focused mainly on large multinational corporations, and were less pertinent to smaller firms (Dana, Etemad and Wright, 1999a, b). Those who wished to avoid uncertainties and the inherent unknowns of competing in foreign markets, could simply keep their firms small and local, thus refraining from expanding internationally. With the liberalization of trade, however, small firms are threatened by international competitors penetrating formerly protected domestic markets.

In the past, internationalization was usually depicted as a gradual, incremental process (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Bilkey and Tesar, 1977; Newbould et al., 1978; Cavusgil, 1980, 1984; and Bartlett and Ghoshal, 1989). A problem of the stage models is that these assume a considerable span of time through which a firm can gain experience, accumulate resources, and develop the managerial capabilities required for international operations. The globalization of markets (Levitt, 1983), however, and of competition (Ohmae, 1989, 1990) is dramatically reducing that time span, and constraining the ability of small firms to control their own development paths.

When the economics of high startup costs, small domestic market size, and shortened product life-cycle combine, firms may have no choice but to become "instant internationals" in order to survive (Knight and Cavusgil, 1996; Oviatt and McDougall, 1999). Time has become a critical strategic weapon (Stalk, 1988; Stalk and Hout, 1990). Coviello and Martin (1999) concluded that small, high-tech firms rarely follow a stepwise approach to internationalization. Jones (1999) showed that the initial cross-border activity of small firms is often importing, rather than exporting.

4. Networks provide opportunities for internationalization

Large corporations in France are encouraging qualified employees to quit their jobs in order to establish their own independent firms, which then receive supply contracts from their former employers. Major corporations involved in such schemes include: Alcatel Alsthom, Banque Nationale de Paris, Electricité de France-Gas de France, Hewlett-Packard, the French Post Office, Renault, and Sanofi. This process of rationalization helps the large firms become more efficient, while the newly created ventures gain a platform for growth and indirect internationalization through the large firms. The new ventures remain free to provide services to other large companies, even competitors.

Likewise, Shell operates Shell LiveWIRE, which provides potential entrepreneurs with advice on starting their own business. The program operates in Arabic, Dutch, English, Hungarian and Spanish.

As discussed by Harrison (1997), when entrepreneurs link up with larger partners, this can enable the product of smaller firms to reach global markets more quickly or at lower cost than through independent expansion. Such symbiotic collaboration aims to lower cost, to the benefit of all the parties involved. Bonaccorsi (1992) and Dana and Etemad (1994, 1995), explained how small firms can rely on larger ones to facilitate internationalization activities; through this "scaling up" process, smaller firms can leverage their network resources to shorten the time span and reduce the cost and risk of their internationalization.

As pointed out by Oviatt and McDougall (1996), the ability to act on opportunities, in more than one country, is not limited to large companies. Reynolds (1997) confirmed that the recent expansion of markets has not been associated with an expanded role for larger firms. Instead, smaller businesses are becoming niche players (Buckley, 1997).

Thus, we see an important change. Large enterprises traditionally opted for subsidiaries as the preferred means by which to internationalize; this was so mainly because of their desire to retain their independence and to maximize control of their own management policies (Yoshino and Rangan, 1995; Gomes-Casseres, 1996). The recent evolution of networking suggests that a relationship of unbalanced dependence may evolve toward a relationship of symbiotic interdependence. Acs and Yeung (1999, p. 63) refer to such co-dependent relationships.

In the airline industry, such relationships have become very common, as small-scale airlines provide elements of the value chain to larger firms, by way of sub-contracting or franchising. Sub-contracting involves an agreement in which one company contracts a specific segment of its business operations to another firm, allowing each firm to focus on its competitive advantage, and to leverage the core competency of the other. Long-haul carriers rely on the services of small-scale carriers, with smaller aircraft, to access and service niche markets in which the smaller carriers are more efficient. Significant cost reductions are achieved through the use of more specialized aircraft. The small carrier may have added cost advantages of not being unionized, and of having a more community-focused corporate culture. As an integral part of an international network, smaller carriers can focus on specialized services and avoid scale-dependent operations. This is to the mutual advantage of both parties.

Allegheny Airlines pioneered the concept of sub-contracting flights to smaller firms, to which it assigned its own two-letter designator. Rather than discontinue service to minor airports, Allegheny maintained under contract a network of small, independent carriers that provided flights, under the brand name Allegheny Commuter, on behalf of Allegheny Airlines. This collaborative network enabled Allegheny Airlines (later U.S. Air and more recently, U.S. Airways) to focus on expanding its presence, without abandoning low-density routes to smaller communities. This concept also proved beneficial to Allegheny's associated entrepreneurs (such as Mr. and Mrs. Ransome, the owner-managers of Ransome Airlines), as it provided them access to international marketing, which Allegheny provided efficiently. The benefits associated with such cooperative networking would soon impact the dynamics of airline competition, forcing others to emulate it.

Franchising is a more recent means to increase opportunities by means of networks. As is true with sub-contracting, franchising is an effective way by which one airline can cooperate with another to expand beyond its own resource base. A franchise agreement expands on subcontracting, often allowing the franchisee to use the franchiser's name and airline code, and to operate airplanes painted in the livery of the franchiser. Unlike sub-contracting, franchising may allow an airline to effectively enter the restrictive domestic markets of foreign countries, through its local franchisees. In May 1996, British Airways (BA) signed its first franchise agreement with a small, regional carrier outside the United Kingdom. It allowed Sun-Air, a Danish airline, to paint its fleet in the livery of BA, and its cabin crew to wear BA uniforms. Two months later, BA signed a similar franchise agreement with Comair, a small firm in the Republic of South Africa. Franchising allows the franchiser to bypass barriers against foreign ownership. The franchisee benefits from the brand name, technical expertise and scale-dependent benefits, including the expanded passenger base of the franchiser. Such symbiotic marketing provides access to international passengers; this would require much greater resources to attain independently.

The small suppliers attached to major networks are gaining access to ever-expanding international markets through their interdependent network relationships. Networking has thus proven highly effective in increasing opportunity.

5. This special issue

This Special Issue of *Small Business Economics* brings together research from authors in Australia, Canada, England, New Zealand and beyond. The underlying theme of the articles is that the nature of entrepreneurship and small business economics is changing; while networking is providing opportunities for internationalization, entrepreneurs will have to be more alert than ever before, to identify opportunities and act on them.

The paper by Acs & Dana contrasts philanthropy in the United States with that practiced by the Chinese clan associations in Singapore. Clan associations traditionally assisted needy clan members, while providing networking opportunities. Although networks are gaining importance in entrepreneurship, the authors explain that clan associations have been losing their traditional role of redistributing wealth among network members. Clan associations now focus on the internationalization of business, rather than on philanthropy.

The paper by Crick, Chaudry & Batstone examines the internationalization of small firms, owned by Asians in the U.K. The nature of opportunities is examined, and cultural experiences of entrepreneurs are linked to the pace and direction of international expansion. Concluding that cultural networks have a major impact on overseas expansion of the respondents in this qualitative study, the authors recommend that policy-makers should take into account cultural factors, when attempting to assist ethnic-minority-owned firms.

The article by Gaglio & Katz – also a substantial contribution to the literature – examines opportunity identification, noting errors in earlier research. This paper details a model of entrepreneurial alertness and proposes a research agenda for understanding opportunity identification. Entrepreneurial alertness is described as the cognitive engine driving opportunity identification.

Wright & Nancarrow's prize-winning contribution explains that the focus of economic life has changed; the authors suggest that it will be important to improve marketing communications, as well as innovation strategy in the small business context. While innovation is integral to the New Economy, inventors face serious challenges. The authors examine the challenges of getting innovations to the market. They conclude that the simple organizational structure of small firms enhances opportunities.

The article by Etemad & Salmasi, also a prize-winner, focuses on small-scale miners. The authors explain that these entrepreneurs thrive with the opportunities possible in their operating environment. Although this may be at the margins of the socio-political and economic environment, this is nevertheless an opportunity. The researchers describe their sample of miners as true entrepreneurs, who deploy innovative procedures, taking highly calculated risks in a highly-regulated environment. The authors concluded that the contribution of these entrepreneurs is irreplaceable.

The next two articles are of special interest to policy-makers. The paper by Professor John Milton-Smith, Deputy Vice Chancellor of Curtin International, examines the role of SMEs in commercializing innovations. The author argues that one cannot rely solely on market forces, and that successful technopreneurship requires a model. He brings to light shortcomings of existing efforts to foster entrepreneurship; his rich examples inform us that the Australian research Council has diverted entrepreneurs into the world of university politics. He discusses, as well, the success of initiatives at the Hebrew University of Jerusalem – an institution we may all learn from.

Finally, Singer, Calton & Singer also give advice to policy-makers, bringing to mind the classic article by Acs et al. (1997). Singer et al. prompt readers to think about intellectual property rights in the New Economy. Even in a world without copyright, an entrepreneur would still be able to profit from the sale of goods and services that complement an unprotected digital sequence. The authors distinguish between theft (which causes deprivation) and sharing (which does not). They argue that the relaxation of intellectual property rights would have its merits; they suggest that this would foster artisan networks and related productive activity in less developed regions.

Thus, this collection of academic works brings together a variety of complementary perspectives. The paper by Acs & Dana illustrates that while culture has led people from unlike backgrounds to do things differently, age-old traditions are changing. The contributions of Acs & Dana, and Crick et al. confirm that we have entered a new age of networking. While entrepreneurs continue to act on opportunities (Gaglio & Katz; and Etemad & Salmasi), the papers by Milton-Smith and by Singer et al., make it clear that new policies are needed for this new age.

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