

The Effects of Networks on New Entrepreneur's Internationalization, a Case Study from Izmir-Turkey

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Abstract

Entrepreneurship is not only one of the important topics of developed countries but also takes place in developing countries. State and government agencies, as well as private sector representatives spend efforts for increasing the number of entrepreneurs in an economy. Thus, it is expected to decrease unemployment rates, prevent unrecorded economy and accelerating innovation capability of a nation. To achieve these goals, it is crucial to understand who the entrepreneur is, how their potential will be brought out, what kind of support does he/she need. Especially in emerging economies, entrepreneurs should have vision of being international to gain competitive advantage. Because of that reason researches on internationalization of new ventures have been intensified for 20 years. After experiencing and observing the role of networks and networking on sustainable entrepreneurship, number of studies have been increased. In this study, we chose to conduct in depth interviews among the companies who are in business less 5 years and having an export percentage 10% in accordance with total sales. The findings of the research show that networking accelerates internationalization of new ventures.

Keywords: Entrepreneurship, networks, internationalization

Introduction

Success in local or domestic market can limit the internationalization intention of firms, those have tendency to invest and grow in their local market (De Clerq et al., 2005; Arbaugh, Camp & Cox, 2008). But some reasons such as economics crisis, payment risks, international price differences, demand fluctuations, scarcity of natural and human resources, government incentives for export, low wages and tax rates, may have triggering effect on internationalization of firms (Kemer, 2003; Pangarkar, 2008). Due to number of variables, businesses and businessmen will have to be more knowledgeable and attentive than ever before in the global and uninhibited international trade areas, wherever they are in the world (Mirze, 2010).

It is possible to say that the definitions of entrepreneurship are sufficient, but the concepts and definitions related to international entrepreneurship are constantly renewed and the studies about this field include a new researcher day by day. Early studies on internationalization mainly focused on MNE's, but increasing number of entrepreneurial companies, and SME's directed scholars to explore internationalization of different types of companies.

The Conceptual models of international entrepreneurship have drawn attention on; potential of creation wealth, environmental and organizational characteristics, survival and growth (Arbaugh, et al., 2008).

Internationalization simply means operating beyond borders of home country. By leading studies and great contributions to the literature, Mc Dougall and Oviatt (2008, p. 903) define international entrepreneurship as “ combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”

Literature Review

The internationalization can be either in step by step or beginning from company establishment, and according to Crick and Spence (2005) this phenomenon can take place via planned or unplanned. According to stage models of internationalization, export operations are the initial steps of internationalization. Different kinds of stage models(incremental models)were revealed by different scholars. Johanson and Wiedersheim-Paul (1975) Johanson and Vahlne, (1977) from Uppsala University-Sweden, developed a model named as their region and university. Uppsala Model of Internationalization (U-M) has four main steps:

In the first step of this model there is no regular export activities,

In the second step, export emerged with the help of independent representative,

In the third step, company will establish a foreign subsidiary

And the last, company will start operations (including manufacturing) abroad.

One of the another crucial contribution to stage (incremental) models was from Cavusgil (1980), this model also considered as Innovation- Related Internationalization. According to his model of internationalization, company sells only to domestic market in the initial step.

Second step is called as pre-export phase, means, seeking information for export qualification.

Third step is Experimental export, the firms starts to export products to countries which are physiologically close to home country.

In the fourth step the firms export directly more than one country with high volumes.

Fifth step committed involvement, means the firms decides about allocating resources in terms of export or domestic sales.

Other reputed incremental models under the Innovation Related Internationalization Models revealed by Bilkey and Teaser (1977), Czinkota (1982) and Reid (1981). Incremental models, Uppsala Internationalization Model and Innovation Related Internationalization Models are behavioural oriented. These models are closely similar, main differences between them are, number of the stages and definitions of steps (Erkutlu & Eryigit, 2001).

In the literature there can be seen different approaches to internationalization, one of the most important is capital based view, which include, general human capital, management know-how, specific know-how, and ability to acquire financial capital(Becker, 1975; Cooper et al., 1994; Westhead, Wright & Ucbasaran, 2001). According to study of Westhead et al. (2001) experience about working abroad, networking potential of founders, remarkable management know-how encourage firms to be exporter, all these encourage internationalization.

In the discipline of internationalization, stage models were inadequate to explain the process, after acceleration of globalization. According to Lindquist (1988) and Bell (1995) small company internationalization is affected by relations between customers, entry mode and choosing target market. Not only characteristics of the company and the market determines entering new markets and internationalization but also, position in a foreign network and strength of relationship within network plays crucial role (Johanson & Matson, 1988).

Another model for internationalization is Born Globals, these are the companies,, which have global vision and begin export with one or more products in two or three years after establishment (Knight & Cavusgil, 1996; Luostarinen & Gabrielsson 2006, Servais et al. 2007).

According to Lin, (2010) The international entrepreneurship approach explains the internationalization of the enterprises from the perspective of the entrepreneur, together with the experience and the networks of the entrepreneur. Networks

have potential to provide experiential knowledge to the companies, especially to SMEs which they strongly need in the first stages of their internationalization process and accelerate speed of internationalization because of synergetic relations (Lindqvist, 1997; Dana, Etemad & Wright, 1997). It also provides confidence that facilitating the internationalization process will make it easier for the firm to find solutions to possible problems in international markets.

Social networks and physical networks are related each other; infrastructure, communication equipment, transportation are the parts of physical networks, relations between people during business transactions are the social part of networks (Casson, 1997; Casson & Della Guista, 2007). Axelson and Easton (1992) defines network as "sets of two or more connected exchange relationships" These relationships take place among, the company itself, suppliers, government agencies, customers and shareholders.

Methodology

The aim was to investigate and find out the roles of Networks and their contribution on internationalization of new entrepreneurs. According to our literature review, there were a few specific studies conducted related with networks and internationalization in Turkey. Because of that reason, due to exploratory nature, in depth interviews was chosen as research method (Yin, 1989; Sasi & Arenius, 2008). Qualitative methods should be used to clarify social issues in order to get deeper information (Hill, et al. 1999; Hoang and Antoncic, 2003; Jack, Dodd & Anderson, 2009). Purposive sampling approach was used and 5 participants selected from the members of Aegean Exports Union. Series of 5 interviews made with the participants. The duration of interviews was approximately 30 minutes duration per participant. Collected data inductively analysed, network patterns were discovered. Main limitation is our sample size it is not enough to generalize, and the industry types. Working with different sectors and more samples are our future objectives to improve our study.

Findings and Conclusion

According to quotas derived from transcripts we found three main themes.

First theme is **To Overcome Cultural and Language Barriers**

New entrepreneurs who were decided to internationalization have anxiety about overcoming cultural barriers. Studies of Coviello & Munro, (1997) Coviello & Martin (1999) indicated the importance of informal network relations such as friends and family members which our findings supported their claim as well.

"Before we established our company, we conducted market research on the product. We think Germany will be a suitable market for us. My friend from high school lives in Germany. First, I shared the subject with him. I asked him to find a company for us. The first prototype samples arrived to potential buyers through him. He told us about attending a fair in Germany. In this fair we found a good buyer from Egypt. We export our products both Egypt and Germany"(MO, Partner & Export Manager, Plastic Sector, 2 years old)

"Our company owner was born in Netherlands, educated there, and had worked for 6 years there. From foundation of our company our orientation is for EU market. Because he had good contacts from EU because of his last relations, he knows 3 languages which enable us to export our products easily". (F. A. Export Manager, Company A, Chemical Industry, 3 years old)

"Our position in Turkish market is pretty good. But to survive in this business world, people should integrate themselves to new markets, not only domestic, but also international ones. Language and way of doing business are important issues for new companies. I sent my daughter to Italy for fashion certificate program. One of her friend's father also was in men's wear business. With her help I had chance to met him in Italy. He helped me about making patterns in Italian style. After that with their help we started to make collections for famous Italian brands. We also started to export our products to Urumqi-China with a support of an broker"(SH, Owner, Textile, 5 years old).

They had exports to the firms in EU and they knew how to get certification for EU. With the help of broker company we've got requested certificate and started to sell our products with them. We are still working with them, because without them it would be risky for us to start ourselves, but we have also our own export department for exporting our products directly. We have self confidence, we attend regularly international fairs and we are getting important proposals about partnership" (AD, Export Manager, Mineral Processing Sector, 5 years old)

Intermediaries also acting as connector between the firm and customers abroad, they facilitate business transactions both parties. Intermediaries as formal networks, initiates buying and selling activities without bringing producer and customer (Havila, et al. 2004; Oviatt & Mc Dougall, 2005).

"We have met with Turkish entrepreneur in the fair. She helped us during the fair as translator. It has been 3 years since we started to work with her. She is our exclusive agency now, because she now hot to deal with German customers"

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According to Johanson and Vahlne (1977) in the first step of internationalization, -with the aim of eliminating risks- firms are directed to physically closer markets. From our interviews we can infer same remarks. Germany market is not closer to Turkey but the population of the Turkish people in Germany, enable internationalization of the firms in Turkey. Founders and managers that in firms contemplating and executing international expansion they need to take into account the structure and content of their networks. For instance, SME managers ought to be mindful of the background and expertise of their international contacts and recognize the value of language proficiency in the facilitation of communication with network members. (Musteen, et al. 2010).

Second Theme is **The Way of Doing business**

Our aim was to have competitive position in the domestic market. We are the third biggest company in our sector. But our competitors were really big, it was not easy to get market share from them. Then we decided to export our products to Europe. Because Europe market is safe and logistically close to our country. But we did not know how to deal with standards related with product and operational procedures. One of my friend suggested me a broker company in Izmir.

With the help of broker company we got requested certificate and started to sell our products with them. We are still working with them, because without them it would be risky for us to start ourselves, but we have also our own export department for exporting our products directly. We have self confidence, we attend regularly international fairs and we are getting important proposals about partnership" (AD, Export Manager, Mineral Processing Sector, 5 years old)

According to study of Arbaugh, et al. (2008) knowledge and cultural factors are more important than the companies who are acting in domestic markets. To overcome these issues entrepreneurial firms look for proper network agents for themselves and the successes of the firm in terms of internationalization is connected with the transition from dyadic relationships to multilateral network relationships (Sasi & Arenius, 2008).

Third Theme is **Reducing Risk**

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"For eliminating domestic market risks, our team is decided to enter new markets, and for us, the best way of finding new customers abroad is to attend international fairs. One of the basic challenge was how to communicate in a correct way with Foreign customers. First we attended an international fair in Germany. We have met with Turkish entrepreneur in the fair. She helped us during the fair as translator. It has been 3 years since we started to work with her. She is our exclusive agency now, because she now hot to deal with German customers. I am also member chamber of commerce, commission of cosmetics. I am sharing my experiences and encouraging other members for export business " (L. K, Owner, Company B, Cosmetics Sector, 3 years old)

It can be seen that internationalization of new enterprises in Turkey can be preferred especially in the countries where the Turkish population lives intensively. The reason is that the lack of language, culture, and ways of doing business can be overcome by those who speak their own language and share common culture on this issue. Our main limitation for this

paper is about the city, which we selected our sampling from. The highest number of educated entrepreneurs are living in Izmir. Their vision and their aim related with internationalization can be differ from the entrepreneurs who are living in central and eastern Anatolia. In order to increase the validity and reliability of the study, we ought to increase the number of samples from different parts of Turkey. Because empirical observations show that entrepreneurship tends to concentrate geographically and that while some communities exhibit high rates of entrepreneurial activity, others with similar initial characteristics, do not (Minniti, 2005. p. 24).

According our research on internationalization of new entrepreneurs, we found below contributions of networks.

Support at stands at the fairs,

Organizing Bilateral meetings

Translation services

Pre-financing

One of the basic challenge is for Turkish new entrepreneurs is language. New entrepreneurs fear of making communication failure and misunderstandings. Operational and payment procedures, requested product standards also another issue for the entrepreneurial firms in Turkey to deal with. Experienced, and qualified broker companies or people who have god relations in targeted foreign market, help new firms for internationalization by eliminating potential risks and teaching them how to make business abroad. Relatives and close friends who are living and working abroad, also play important role in internationalization of new entrepreneurial firms.

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