

SMALL FIRMS INTERNATIONALIZATION: REDUCING THE PSYCHIC DISTANCE USING SOCIAL NETWORKS

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ABSTRACT

This article investigates the role of social networking sites in the internationalization of small businesses. More specifically, we explore the effect social networks have on the level of psychic distance and how these new tools are used in order to reduce the perceived risk and strengthen business relationships. The multiple case study based on a two-year observation period shows that, besides their cost advantage in terms of advertising and communication, social networks support crucial marketing efforts such as the identification of new business opportunities and foster the development of professional and personal relationships with foreign partners. In turn, these tools facilitate and sometimes, accelerate, the internationalization of small businesses by lowering the perceived risks and the psychic distance characterizing new foreign markets.

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KEYWORDS: Small Businesses, Social Networks, Relationships, Internationalization, Case Study, Psychic Distance

INTRODUCTION

Small and Medium Enterprises (SMEs), of which most are small (6.9%) and micro (91.8%) companies, account for 98% of the European economy. In recent years SMEs have dramatically increased their involvement in international trade (Torres, 1999) as, nowadays, more than 20% of these SMEs extend their activities in several countries. Lately, authors have pointed out the relevance of social media technologies as a new panacea for small and medium enterprises (Michaelidou, Siamagka and Christodoulides, 2011; Barnes et al., 2012; Stockdale, Ahmed and Scheepers, 2012). Former research mainly investigated the benefits small businesses can gain from social media technology (Michaelidou et al., 2011; Persaud, Spence and Rahman, 2012; Stockdale et al., 2012). While some studies suggested that SMEs develop their international operations gradually (Johanson and Vahlne, 1977), recent research shows that some companies follow a faster scheme: they would quickly extend their operations in countries that are far away (Bell et al., 2003), sometimes from the very first weeks of the company' establishment. These new patterns of internationalization should not be isolated from the technological context in which they take place. Indeed, the evolution of business tools available is a critical factor influencing the internationalization process. For instance, online social networks are considered relevant tools in the context of international marketing efforts (Okazaki and Taylor, 2013). Authors such as Rialp, Alarcon and Rialp (2014) suggest that the astonishing power of social networks enables SMEs to perform marketing efforts at the international scale. Nevertheless, no research has yet studied the way smaller companies use these tools in the framework of their international activities.

Considering this existing body of literature, the value of this article is to investigate the benefits small businesses derive from online social networks, in the framework of their international operations. More specifically, we will explore the effect social networks can have on the concept of psychic distance and

how these technologies are used in order to reduce the perceived risk and strengthen business relationships. More specifically, we will answer the following research question: how can small enterprises benefit from the use of social networks in the development of their international operations and, can these tools contribute to reduce the psychic distance with foreign partners? In order to answer this question, this paper will be structured into four sections. Firstly, we will present a literature review pertaining to SMEs international efforts and explain the concept of psychic distance. We will then highlight the main research related to business networks and their potential in an international context. The third section of the paper will then present the methodology followed for this research. We realized a multiple case study, implemented on a sample of 8 small exporting companies, based in Belgium. In the next section, the main findings resulting from our investigations will be detailed and discussed. Finally, we will draw the conclusion of the research.

LITERATURE REVIEW

In the following sections we will briefly present the theoretical frameworks considered to analyze the concept of psychic distance and its impact on SMEs' internationalization. We will then highlight the contribution of the network theory in the understanding of international business relationships. Finally, we will present a literature review related to social networks in the context of SMEs and international approaches.

SMEs' Internationalization and the Concept of Psychic Distance

Over the last decades, SMEs' internationalization has been analyzed using a variety of theoretical frameworks. The stages theory, characterized by a key model known as the Uppsala model (Johanson and Wiedersheim-Paul, 1975), describes the internationalization of the small firm as a dynamic process through which the enterprise gradually increases its international investments. In this process, the foreign market entry decisions are influenced by what authors have termed "psychic distance" (Johanson and Wiedersheim-Paul, 1975). The concept of psychic distance encompasses, among others, cultural and language factors preventing or disturbing the flow of information between the firm and its foreign markets (Johanson and Wiedersheim-Paul, 1975). According to Hallen and Wiedersheim-Paul (1984) psychic distance is influenced by three components: (1) the degree of cultural affinity (generally most apparent at the national level of relationships); (2) the level of mutual trust engendered between the companies (generally considered an "organization-level" factor); and (3) the level of international experience of the individuals involved (generally viewed as an "individual level" factor). It is generally accepted that the greater the psychic distance, the more difficult it is for a company to gather the information needed to reduce the risks associated with its internationalization and decide if whether or not it should develop its operations in a specific country. On the basis of this concept, authors suggest that SMEs export firstly to countries characterized by a lower psychic distance.

International Networks and Business Relationships

More recently, scholars analyzed the internationalization of SMEs using the perspective of the network theory (Johanson and Mattson, 1988). According to this view, when embedded in a business network, small firms can gain improved market intelligence (Gilmore, Carson and Grant, 2001) and benefit from an easier access to critical resources. Studies show that these business networks and their relationships, can support and facilitate SMEs' internationalization efforts (Coviello and Munro, 1997; Zhao and Hsu, 2007) as well as improve their marketing activities (Carson, Gilmore and Rocks, 2004; Gilmore et al., 2001). As reported by Zhao and Hsu (2007), in order to overcome their size-related constraints, SMEs' managers rely on social ties to access information and reduce potential risks caused by their unfamiliarity with the foreign markets. These considerations are consistent with previous research in marketing which acknowledges that one of the strongest competitive advantages SMEs cultivate, relies on the quality of the relationships they develop

with their business partners and customers (Pacitto, Julien and Bizeul, 2006). Along those lines, Pacitto et al. (2006) noted that if SMEs do not make extensive use of marketing tools, they do develop marketing practices, notably by implementing direct and strong relationships with their business partners and customers. Nevertheless, in an international context, the level of psychic distance may affect these relationships. Conway and Swift (2000, p. 1391) suggest that “the higher the level of psychic distance, the greater the time and effort required to develop successful business relationships”. According to Hallen and Wiedesheim-Paul (1984), business relationships develop on a continuum starting from the “pre-contact” stage and then evolve through the “initial interaction” phase, the “relationship development” phase, and finally, the “mature relationship” stage. The authors note that “depending on the stage of evolution of a relationship, these factors will influence the psychic distance to a different extent” (Hallen and Wiedesheim-Paul, 1984). They consider that the psychic distance would be higher during the initial stages of the relationship and then decreases as interactions between the partners strengthen.

Social Networks: Potential Leverage for SMEs’ International Strategies

Academic research pertaining to social media in the context of SMEs has been growing since a couple of years. From this literature, most studies investigated the benefits small businesses can gain from the use of social media technologies (Barnes et al., 2012; Michaelidou et al., 2012; Persaud et al., 2012; Stockdale et al., 2012). Several authors consider that the greatest benefit of social media for businesses is the opportunity to engage with customers and enhance relationships (Kaplan and Haenlein, 2010; Stockdale et al. 2012; Durkin, McGowan, and McKeown, 2013). According to Durkin et al. (2013, p. 720), SME business practitioners increasingly recognize the power of social media to “create and maintain trust and commitment with key stakeholders in their networks and to improve the quality in those network relationships”. Indeed, the non-transactional nature of social media makes them particularly suitable for initiating dialogue with stakeholders and fostering the development of strong relationships (Kaplan and Haenlein, 2010; Stockdale et al., 2012).

Despite this growing interest, the uses smaller businesses are making of social networks in an international perspective have not been investigated. Yet, Okazaki and Taylor (2013) suggested that the global reach of social networking platforms such Facebook (1,3 billion users), Google+ (360 million users), Twitter (250 million users) or LinkedIn (190 million users), combined with their important degree of standardization, make them effective leverages for international strategies. Further, Rialp et al. (2014) reported that exporting firms’ social media capability can positively impact their performance on foreign markets. Bell and Loane (2010) highlighted this international potential and showed that small born global companies are using Web 2.0 technologies in order to intensify their relationships with international partners. These findings confirm that the relational potential of social networks, acknowledged by many authors in domestic markets (Barnes et al., 2012; Stockdale et al., 2012; Durkin et al., 2013), can also be activated on an international scale. In the context of these recent works, the objective of this research will be to analyze the role of social networking sites in the internationalization of small businesses and how these tools can help companies to deal with psychic distance and strengthen business relationships.

DATA AND METHODOLOGY

Considering the lack of research on this phenomenon, an exploratory approach aiming at empirically investigating how social networks can contribute to SMEs’ internationalization efforts, could bring valuable results. In order to shed light on a phenomenon that has not been investigated by former research, Yin (2003) suggests that a multiple case study can be a valuable approach. Furthermore, the multiple case study has been widely used in previous studies analyzing SMEs’ internationalization practices (Coviello and Munro, 1997; Evers and Knight, 2008).

Selected Cases: Data were collected in 8 Belgium-based small enterprises. The criteria we considered for the selection of the small businesses included in our study follow the definition of the European Commission: a small business is a company that employs less than 50 people, has a turnover lower than €10 million and a total balance sheet lower than €10 million. Considering the exploratory nature of the research, the cases selected « span a variety of industry types and firms of different ages and marketing approaches » (Merrilees and Tiessen, 1999, p. 238). This diversity allows us to observe the uses of social networks in several settings and contexts (both B2B and B2C), and to highlight a larger number of practices (Chandra, Styles and Wilkinson, 2012). In order to identify the companies to be included in our sample, we used the database of the Walloon Export and Foreign Investment Agency, which lists all the Walloon companies that are operating internationally. Within this database, we contacted the companies that meet the criteria of the small business and that are present on the three most important social networks in Belgium, that is to say Facebook, LinkedIn and Twitter. In total 25 companies were contacted by email and telephone. 8 have agreed to participate in the study, representing 32% of the companies originally contacted. Table 1 presents the 8 companies included in our research.

Table 1 : Entreprises Included in the Multiple Case Study

Enterprises	Established	Industry	Internationalization	Social Networks When Established	Social Networks in 2014
Training&Go (4 people)	2010	Trainings (B2B)	France and Cameroon	Facebook, Twitter, LinkedIn, Youtube, Viadeo	Facebook, Twitter, LinkedIn, Youtube, Viadeo, Scoop It!
Crea-Appli (5 people)	2008	High-Tech (B2B and B2C)	France, Germany, U.S., China, etc.	Facebook	Facebook, Twitter, LinkedIn, Youtube, Google+
Skills (2 people)	2010	Consultancy (B2B)	Quebec and France	Facebook, LinkedIn, Twitter	Facebook, LinkedIn, Twitter, Youtube
ADlab (15 people)	2000	Marketing (B2B)	France and Spain	Facebook	Facebook, Twitter, Pinterest, LinkedIn, Youtube
Cuberdon (2 people)	2011	Confectionnary (B2C)	U.K., Japan, Spain, China, etc.	Facebook	Facebook, Twitter, LinkedIn
Dragon (4 people)	2011	High-Tech (B2B)	France	Facebook, Twitter, Pinterest, LinkedIn, Youtube	Facebook, Twitter, Pinterest, LinkedIn, Youtube
Qualiteit (1 person)	2013	Consultancy (B2B)	France	/	Facebook, Google, Twitter, LinkedIn
Movy (8 people)	2008	Audiovisual media (B2B)	China, Russia, France, U.S., etc.	/	Facebook, Vimeo, Youtube, Twitter, Flickr

Research Design and Data Collection: Coviello and McAuley (1999) invite researchers to analyze the internationalization of SMEs using a longitudinal approach, allowing to better understand the dynamics of the process and its evolution. To that end, the results highlighted in this article are based on a two-year observation period, characterized by two waves of interviews: the first was conducted between April and May 2013 and the second, one year later, in May 2014. The same managers were interviewed twice. For each company, the interviews were carried out with the manager, a key player in the internationalization of small businesses and generally in charge of managing social networks (Persaud et al., 2012). If another person was responsible for the management of these tools, an additional interview was requested. The interviews lasted between 50 and 90 minutes and were carried out on the basis of an interview guide including the main themes pertaining to the internationalization of SMEs and the use of social networks. Each interview was recorded with the agreement of the respondents and transcribed. The body was then analyzed and coded as to reveal emerging themes (Miles, Huberman and Saldana, 2014). In addition, secondary data were collected from a monthly observation of the content generated on social networks by the companies. These data were triangulated with the information gathered during the interviews.

RESULTS AND DISCUSSION

This section will highlight the main results of our investigations. We observed that social networking sites facilitate the creation and development of relationships among international partners, such as customers, distributors or importers. Small businesses use this linking potential to strengthen their business relationships at three different levels: the company level, the professional-individual level and the private-individual level. At each of these levels, we find that the use of social networks helps reduce psychic distance and facilitates players' relationships.

Facilitating the Creation of New Relationships and Reducing Business Risks

At the *company level*, social tools can facilitate the creation of new business relationships among foreign partners and ease the access of small companies to new business opportunities. In this sense, these tools affect more specifically the “pre-contact” and “initial interaction” stages described by Hallen and Wiedesheim-Paul (1984). Our interviewees indicated that such opportunities may include spontaneous requests of interested customers or importers, or networking via a shared partner, etc. that can foster the company's international operations. The manager of a confectionery (Cuberdon) reported that: *“We have recently found a new distributor in Lisbon. He first contacted us via Facebook, and I have never met him. All this proceeded through ‘Facebook exchanges’, and then through emails. Then he made his first order”*. If social networks are used to facilitate relationships and develop potential opportunities, they are also useful to reduce the perceived risks of new collaborations, making them effective more quickly. This can be illustrated by the way managers declare they use social networks to access personal and professional online profiles of potential international partners. These profiles include information such as previous experience, recommendations received by other people or the existence of common contacts. They allow managers to quickly verify the identity and professional reliability of the people and the companies with which business relationships could be developed abroad. As explained by one of the managers (Movy) *“I used LinkedIn to get information about this distributor who contacted me; to know if he was someone serious and reliable. For me this is the greatest benefit of LinkedIn: either to find or to confirm the potential of the person”*. In this perspective, by facilitating the flow of information between the decision-makers and foreign markets and enhancing the level of mutual trust among partners, social networks can contribute to reduce the risk of new collaborations and lower the level of psychic distance.

Emphasizing the Individualization of Business Relationships

At the *professional-individual level*, the use of social networks by small businesses allows a more individualized management of business relationships. On a social networking site such as LinkedIn, besides the company's official page, one can find the professional profiles of each staff member (managers and employees). Each of them can create their own individual profile and manage their professional network. One interviewee (Skills) explained that: *“With social networking, I have a more direct contact. Before, it was done by email, but it is not the same at all ... With LinkedIn, I can track the person. If the person changes company, you receive a notification”*. These uses highlight that the development of business relationships relies on the complementarities between the company and the individual levels. If this distinction was already pointed in Hallen's (1992) work, our results suggest that the use of social networks modifies the balance between these two levels and emphasize the importance of individual ties. As a matter of fact, in all the cases studied, managers' and employees' profiles had more connections or followers than the pages dedicated to the company itself.

Whereas Hallen and Wiedesheim-Paul (1984) consider mutual trust as an organizational-level factor influencing psychic distance, our findings suggest that the trust developed between partners will also, or even, mainly act at the individual level. In this perspective, the use of social networks for individualized business relationships helps lowering the level of psychic distance. Moreover, Hallen and Wiedesheim-

Paul (1984) consider that the level of experience an individual has in an international context influences the degree of psychic distance. From our investigations, social networking sites seems to lower the obstacle raised by the lack of international experience. Indeed, the pervasiveness of social networks and the familiarity users have developed with platforms such as Facebook or LinkedIn, makes them rather confident when using these platforms to interact with new international partners. This effect is even strengthened by the actual standardization of the tools on the international scale.

Intertwining Professional and Private Relationships

At the private-individual level, this greater individualization of business relationships among foreign partners, enabled by social networks, fosters mixing professional and private relationships. Indeed, our interviewees reported they usually added professional contacts to their private networks, blurring the boundaries between professional and private life. Our results highlight that this phenomenon mainly occurs when using social platforms such as Twitter or Facebook. In this perspective, even if the main social networking sites focus either on a professional dimension (e.g LinkedIn) or a private one (e.g Facebook), the interrelationships between these platforms and the diversity of contents generated by the users themselves, facilitate the immersion of initially professional contacts into users' private lives. This private/professional intertwining is exacerbated on specific social networks, such as Twitter, where users generally communicate both professional and private information. One of the interviewed marketing managers (Crea-Appli) added that she uses her Twitter account both to convey information about the company and its products, and to share pictures of her hobbies, such as pastry cooking. She stated: *"I always post things about pastries. You may not believe it but it works quite well! [...] People love it and it adds another dimension, a friendly touch. And, it's good for our business because people say: 'Oh, they're nice, I'll ask them some questions!'".*

Whereas the relationships between business partners generally takes time and needs several encounters before it reaches a greater level of sociability and intimacy, online social networks seem to accelerate this process. The use of social networks platforms helps partners to reach quickly more advanced stages of the business relationship continuum defined by Hallen and Wiedesheim-Paul (1984), that is the "relationship development" and the "mature relationship" stages. The tools contribute to strengthen the proximity between players and reduce the psychic distance that characterizes international trade relationships. This quick intensification of the relationships, both on professional and private dimensions, can, in turn, speed up the internationalization of the small business (Zhao and Hsu, 2007).

CONCLUSION

This article highlights the main results of a qualitative research aimed at investigating how SMEs leverage the power of social networking sites in the framework of their international activities. More specifically, our approach puts the focus on how these new tools contribute to lower the psychic distance and strengthen business relationships. A multiple case study based on a two-year observation period was conducted in 8 Belgium-based exporting small enterprises. The data were collected mainly through interviews with managers, complemented with the observation of the relevant social networking sites used by the companies. In the following paragraphs we will highlight the main contributions of our research, identify the main limitations of our approach as well as the possible directions researchers could consider for future investigations in this field. Firstly, our finding shows that social networks facilitate the creation and development of relationships among international partners, such as customers, distributors or importers. In this perspective, the role of these platforms exceeds that of a simple advertising tool, chosen for its cost advantage (Barnes et al., 2012). Moreover, the relational potential of social networks should not be considered in the perspective of business-to-consumer relationships only.

In the framework of small businesses' international activities, these social tools are mainly used in order to build relationships among business partners. Indeed, SMEs' managers rely on social networking sites to build new relationships and gain access to information that reduces the risks of foreign markets opportunities and, in turn, lowers psychic distance. Secondly, our research details how smaller businesses use social networking sites and tend to lower the psychic distance pertaining to their international activities. The results show that these new tools mainly act on two of the three factors considered by Hallen and WiedesheimPaul's (1984): the level of mutual trust and the international experience. The authors suggest that these factors can be identified respectively at two different levels: organizational and individual. Our findings indicate that small businesses use this linking potential to strengthen their business relationships at three different levels: the company (*organizational*) level, the professional-individual level and the private-individual level. Thirdly, our findings points out that the use of social networking sites by small businesses emphasize the importance of person-to-person business relationships and the development of closer ties between business partners. In turn, this can contribute and, even, strengthen the process described by Zhao and Hsu (2007) showing that managers rely on social ties in order to improve their access to foreign markets. This can, in turn, accelerate the SME's process of internationalization.

This article presents a number of limits that should be acknowledged. Firstly, although our research has enabled us to uncovered important dimensions of the phenomenon under study, its exploratory nature may have hindered other dimensions; these could be highlighted in future studies. In this perspective, it would be interesting to complement the findings presented in this article by new investigations including a larger number of enterprises and investigating the use of social networks in different geographical and cultural contexts. In addition, the data, were mainly collected through in-depth interviews with managers and might be biased by the managers' own perception of what is considered as relevant or not, as well as by involuntary or voluntary omissions. We tried to reduce this bias by complementing the interviews with an objective observation of the companies' activity on social networking platforms.

The aim of this exploratory approach was to shed light on a new phenomenon that offers great opportunities for future research. Firstly, our findings show that the use of social networks in small businesses mainly relies on the founder's and employees' uses of their personal profile pages on different social platforms (e.g. LinkedIn, Facebook). An interesting direction for future research could be to investigate to what extent to which social networks have influenced the balance between the organizational and individual levels of business relationships (Hallen and WiedesheimPaul's, 1984). Secondly, the OBV perspective (« *Opportunity Based View* ») used by Chandra et al. (2012) in the framework of their research could bring a better understanding of the dynamics of business networks and how the new social media platforms contribute to these, in the context of international operations. Finally, the research could be deepened through the implementation of a quantitative study that would enable to empirically test the results reported in this study.

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