# Internationalization of Small and Medium-Sized Family Businesses During Crisis Time : A network approach

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**Abstract**

Network involvement and attitude factors influence small and medium-sized family businesses in the internationalization process. It is necessary to develop an operational and predictable framework to explain it in the era of globalization, which has an impact on small and medium firms, especially family businesses. This study offers a model consisting of network factors, attitudes, and global crises as variables that influence the level of the internationalization process of small and medium family businesses. The findings from this study indicate that managerial attitude factors, namely trust relationships, market orientation, and international entrepreneurial orientation, are very essential for the internationalization process. The global crisis, which is indicated by the existence of economic turbulence, increases during the crisis, but in the high turbulence group, it indicates that the influence of network involvement will also be stronger in the process of internationalization of small and medium-sized family businesses. The findings of this study also have practical implications for family businesses, government organizations, and educational institutions.

**Keywords:** network approach\_internationalization, SMEs, family business, crisis

# 1. Introduction

The role of small and medium enterprises (SMEs) is very important for the global economy. According to World Bank data (2021), around 90% of businesses worldwide and more than 50% of employment are represented by SMEs. In addition, SMEs contribute 40% of developing countries national income (GDP). The contribution of SMEs to the world economy provides an attraction for scholars to study SMEs' activities. Changes in the global economic system became a factor that drove these scholars to conduct research for SMEs (Wu & Deng, 2020; Vuorio et al., 2020; Raith et al., 2020).

The increasing research interest in the internationalization of small and medium enterprises (SMEs) is different from the research interest in the internationalization of small and medium-sized family businesses, which is still limited, especially in developing countries. Furthermore, the internationalization processes of small and medium-sized family businesses differ from those of other types of businesses (Crick & Young, 2004; Johanson & Vahlne, 2009). These differences include the organization carried out by the family, size, and limited resources, which make small and medium-family businesses more vulnerable to social problems (Kraus et al., 2016; McDougall & Oviatt, 2000).

Globalization has an impact on small and medium-sized family businesses, as well as SMEs ( small and medium enterprises ) in general. This global impact is illustrated by patterns of world trade that have spawned various businesses and industries (Diaz et al., 2020). However, this global trade also has an impact on the economy of small and medium-sized family businesses, where this globalization will give generate some businesses becoming winners and some businesses becoming losers (Barua, 2020).

The global economy has been reeling recently. This global economic crisis has had an impact on small and medium-sized family businesses. The impact raises several questions related to business operations. First, will the global crisis have a long-term impact, or will it be comparatively simple to overcome in terms of the internationalization of small and medium-sized businesses, particularly those owned by families? Second, what is the impact of this global crisis on the efforts of small and medium-sized family businesses to enter the international market? Finally, will the small and medium family business sector excel or lag behind other types of businesses in building international business networks after this crisis has passed?

These questions are a challenge for scholars to answer. Scholars conduct research to answer these questions. The study focuses on the internationalization of small and medium-sized businesses, including family businesses. Research on the internationalization of SMEs was conducted to explore the forces driving the process. The forces that boost this international process are in the form of market opportunities as well as consideration of direct benefits received directly (Nummela et al., 2020; Tolstoy et al., 2021).

Furthermore, this article can contribute to providing new insights into the internationalization process of small and medium-sized family businesses (SM-FBs). By investigating this organizational configuration, we show that small and medium-sized family businesses (SM-FBs) can achieve successful internationalization results in more than one way.

# This study is concerned with the dynamics of the network approach in small and medium-sized family businesses’ internationalization. During a crisis, this study can contribute to and/or supplement the process of internationalization of small and medium-sized family businesses.

# 2. Literature Review and Hypotheses Development

## 2.1 Literature Review

Some studies show a different approach to examining the process of internationalization of small and medium-sized family businesses. One of them is the Resourced Base View (RBV) approach. The RBV approach assumes that family businesses have a competitive advantage in the process of managing the company, which is carried out by the family. The family's controlling power over businesses distinguishes family businesses from other businesses (Steir, 2001).

Furthermore, differences in the degree of social capital distinguish small and medium-sized family businesses from other businesses. Small and medium-sized family businesses regard the relational aspect as critical social capital. The relational aspect is the intangible resource that can be more valuable than physical capital or supply for small and medium-sized family businesses (Steir, 2001; del Carmen & Holgado, 2019).

Social capital owned by small businesses is related to network theory. The network theory assumes that businesses are part of various internal and external networks that exchange with each other, as explained by social exchange theory (Cuypers et al., 2020). The basic concept of the network model is the dependence of a business on resources owned or controlled by other businesses (Bogatti & Foster, 2003). Based on the network theory concept, the way for businesses to obtain access to other companies' resources is by creating relationships with suppliers, customers, family, and friends (Collison & Houlden, 2005; Mort & Weerawardena, 2006). This network approach is the preferred method for small and medium-sized family businesses to internationalize their businesses. The choice of this network for small and medium-sized family businesses is due to the integration of ownership and management (Kontinen & Ojala, 2011), and this network approach contributes to reducing the risk of decision-making (Stieg et al., 2018).

The application of a network approach that explains the internationalization process of small and medium-sized enterprises is well documented. The network approach can explain the non-rational and non-economic motivations of small and medium-sized business owners or managers engaged in internationalization activities (Mikhailitchenko, 2021). The ability of this network approach helps small and medium enterprises to accelerate the internationalization process and provides knowledge for small and medium size business, reducing the risk of making decisions (Holm et al., 1996).

In small and medium sized family businesses there is a unique entrepreneurial attitude. Several factors encourage entrepreneurial attitudes for small and medium sized family businesses which include: (i) long-term ownership, which enables small and medium-sized family businesses to devote the resources required to innovate and take risks, thereby fostering an entrepreneurial mindset among family business actors (Zahra et al., 2004), (ii) kinship ties, which are unique bonds for family businesses and enable the actors of family businesses to identify business opportunities, and (iii) values, beliefs, and goals rooted in in kinship and related to history and social relations that shape family business organizational culture (Hall et al., 2001).

The family bond factor in a family business is an entrepreneurial burden, whereas external partners are critical networks for family businesses seeking to expand into a larger global market (Kontinen & Ojala, 2011). The network built outside the company, particularly by the dominant group in family businesses, will determine the level of entrepreneurship in family businesses because this will be crucial in making decisions when crossing borders (Nordrom & Steir, 2015).

Small and medium-sized businesses play a critical role in driving the economy. (Tasavoriet et al., 2018). Due to their international activities, they also contribute to job creation and social development in developing countries. Nonetheless, there are still research gaps that discuss the internationalization of small and medium-sized family businesses in developing countries as well as in developed countries (Sabah et al., 2014; Carney et al., 2015). In developed countries, research has examined the internationalization of family businesses and the role of networks that support their international activities (Essen et al., 2015; Tasavoriet et al., 2018). For this reason, it is very interesting to examine the process of internationalization of small and medium family businesses and the social capital that empowers these family businesses both internally and externally (Segaro et al., 2014).

Small and medium family businesses in Indonesia are reluctant to share information. This is due to the condition of people who have a high aversion to risk, like people in developing countries in general (PwC, 2018). But on the other hand, this small and medium family business has a hierarchical power relationship and a collaborative work environment (Tan et al., 2021). The nature of this small and medium family business fosters allegiance and social relations that are vastly valued inside and outside the business. As a result, social capital is presumed to be capital that is as important as physical capital and other capital in supporting the success of small and medium-sized family businesses in the international market.

## 2.2 Hypotheses Development

Social capital is a resource that can be accessed through a network (Nahapiet & Ghoshal, 1998). In networks related to relational linkages, this relational linkage is characterized by trust, which is the core component of social capital (Musteen et al., 2014). Apart from being relational, another aspect that is considered important for social capital is the value of information. Access to this information is facilitated by the diversity of network connections (McKeever et al., 2014). So two variables are considered to support the core components of social capital in this research framework. First, there is the trust relationship, which depicts the relational dimension of social capital, which is accessed via network interactions (Rhinesmith, 1992). Second, market orientation: this market-oriented attitude provides access to obtain and manage information to generate value for both the company and its customers. Information processing makes it possible to develop emergent strategies to expand into new markets, gain new customers, and keep existing ones (Hunt & Lambe, 2000).

Withal to network-related social capital, the international entrepreneurial orientation of small and medium-sized family businesses is important for discovering, evaluating, and gaining competitive advantage in other markets, especially markets outside national boundaries (Baker et al., 2005). Utilizing this opportunity will have an impact on small and medium family businesses' financial performance (McDougall & Oviatt, 2000).

Trust relationships, market orientation, and international entrepreneurial orientation are attitudinal variables derived from the personality traits of business owners or managers. These three attitude variables are selected and coherent with an interactional approach based on the principle of social capital (Burt, 1997). Attitude variables are linked to network dimensions such as function, social roles, and informational abilities through this selection.(Anderson et al., 2007). Relationships of trust contribute in terms of the quality and function of the bonds involved (internal networks), while market-oriented mindsets influence attitudes that are open to the outside world, which condition the diversity of networks (external networks) (Gustafsson et al., 2005), and an attitude of international entrepreneurial orientation is capable of seizing opportunities in the global market, which supports and strengthens the involvement of small and medium-sized family businesses in international markets (Ehret, 2004).

Figure 1. Research Model

H1

H3

H4

H5

Trust Relationship

Trust relationships as an appreciation of the value of relationships with partners who make exchanges and the desire to make maximum efforts to maintain good relationships (Morgan & Hunt, 1994). Trust relationships have a direct impact on network distribution and resource balance mechanisms, as was shown in research on the impact of relationships on networks in small and medium-sized family businesses (Galimberti & Wazlawick, 2016). Several empirical relationships between relationships and networks have been documented in the banking and manufacturing sectors (Kassim & Abdulla, 2006; Braziotis & Tannock, 2011). As a result, we propose the hypothesis below:

H1: The trust relationship influences positively the level of small and medium-sized family businesses.

Market Orientation

Market orientation is the intangible asset that acquires and manages information to create value for customers. This information allows companies to focus more on acquiring new customers and entering new markets, as well as retaining existing customers and markets (Hunt & Lambe, 2000). Market orientation will result in a respectful attitude toward customer relationships that rely on market information in strategic decision-making (Slater et al., 2010).

Market orientation is considered an element that influences the decision to internationalize family businesses (Armario et al., 2008). Orientation to international markets takes into account business activities in obtaining information about market developments and disseminating this information to all corporate organizations (Frosen et al., 2016). Companies in developing countries will have higher performance due to the more significant relationships built by companies internally. It also indicates that the greater the benefits and resources available for information generation and dissemination, the better the implementation., so these market-oriented efforts increase the chances of their internationalization success (Acquaah, 2007; Chung, 2012).

Social networks are very important for companies in taking effective strategic and commercial activities, especially in less developed markets (Lau & Bruton, 2011). The stronger the social network of a business, the greater its impact on company profits through disseminating information that increases the chances of success in abroad markets (Boso et al., 2013). As a result, our next hypothesis is as follows:

H2: The market orientation influences positively the level of small and medium-sized family businesses network involvement.

Network Involvement

Network relationships are able to utilize resources through interactions with external parties and stimulate the search for new partners (Maurer et al., 2011; del Carmen & Holgado, 2019). Creating the same network with other external parties related to the social capital generated (Asrstad et al., 2010). These existing networks are considered a supplementary attraction factor for network members to enter new markets. Existing networks collaborate with certain network members to enhance their entry into new markets (Tellis et al., 2009). In fact in domestic network relations, smaller businesses are forming relationships with larger networks that are indirectly connected globally (Tiwari et al., 2016). As a result, we propose the following hypothesis:

H3: The small and medium-sized family business’s level of network involvement positively influences small and medium-sized family business’s internationalization

International Entrepreneurship Orientation

International entrepreneurship is a study that presents a company's efforts to obtain a competitive advantage in abroad markets by finding, evaluating, and exploiting opportunities that exist outside national borders (Zahra & George, 2002). Based on Covin and Wales (2012), every company is considered to have an entrepreneurial attitude if it shows: (i) innovation, an action that includes exploration, experimentation, and creation; (ii) risk-taking, namely the activity of using resources for a project even if the results are uncertain and even if a failure occurs resulting in high costs; and (iii) being proactive, a willingness to participate in the future by taking advantage of opportunities.

An entrepreneurial attitude for companies enables them to find solutions in a complex business environment. In addition, entrepreneurship helps businesses turn their advantages into higher levels of performance (Linares & Fernandez, 2018). As a result, we propose a hypothesis concerning the effects of SMEs' internationalization:

H4: The SM-FB’s international entrepreneurship orientation positively influences SM-FB’s internationalization.

Global Crisis

The global crisis has created turbulence in the business environment. This emerging turbulence has an impact on companies, especially small and medium businesses (Ralph-Criado & Komochkova, 2017). From the perspective of social capital, it explains that the turbulence caused by the global crisis affects network relations’ role (Westhead et al., 2004). Network interactions are becoming more important in the decision-making process of small and medium firms, and their value as a source of specialized capabilities, resources, and knowledge will grow during times of crisis (Kamasak et al., 2016; Karami et al., 2020). As a result, we propose the moderating effect hypotheses listed below:

H5: During a global crisis, the relationship between the network involvement of small and medium-sized family businesses and their internationalization is stronger.

# 3. Methodology

## 3.1 Sampling and Data Collection

## This study conducted a random sampling of small and medium-sized family businesses involved in international processes in the provinces of West Java and DKI Jakarta. Then we distributed questionnaires to the target family businesses and asked their owners or managers to fill them out. Finally, the final sample in this study was 66 businesses.

## 3.1 Measurement

We used the scale of Kaufman et al. (2006) consisting of five-item scales for the trust relationship variable and seven-item scales for the market orientation variable. Meanwhile, to measure the network involvement variable, we use the scale of Ostgaard and Birley (1996) adapted from Birley et al. (1991).

Furthermore, to measure international entrepreneurial orientation, we use a scale of Covin and Slevin (1989) and Zahra and Garvis (2000), which consists of corporate innovation, risk-taking, and proactivity.

We measure the turbulence caused by the global crisis using the Burton et al. (2002) scale, which consists of three items: predictability, complexity, and ambiguity. Finally, we use Sulivan's (1996) scale to measure firm internationalization, which consists of five dimensions.

# 4. Results

## 4.1 Data Pretest

We pre-tested 66 companies using the mechanism developed by Cadogan et al. (1999). Testing the reliability and validity scales were using Sin et al. (2005).

## 4.2 Reliability and Validity

## The same methodology was used to address the reliability, discriminant, and convergent validity issues that arose during the pretest stage. For all multi-item variables, the reliability coefficients in each sample were greater than.70 (Nunnally, 1978).

**4.3 Model Fit Indicators**

We use structural equation modeling (SEM) to test the research hypothesis. The criteria proposed by Hair et al. (1992) are used to evaluate the goodness of fit. The results of this study indicate that the research model is a good fit. The results are shown in Table 2, the chi-square of this model has a p-value>.01. Other indicators are also good fitted, as evidenced by CFI = 0.991, TLI = 0.990, GFI = 0.941, NFI = 0.920, and RMSEA = 0.14.

The findings of this study show that the regression estimate for the hypothesis between trust relationship and network involvement (= 0.478, p<.01), market orientation and network involvement (β= 0.929, p<.01), network involvement and firm internationalization (β=.086, p<.01), and international entrepreneurial orientation and firm internationalization (β=.086, p<.01) is positive and significant. These results support H1, H2, H3, and H4.

**4.4 Moderating Effect of Global Crisis**

We used multiple group analysis and the goodness-of-fit strategy developed by Kline and Dunn (200). The turbulence score caused by the global crisis is grouped into high turbulence and low turbulence variables. The internationalization coefficient of network involvement was significant (β= 1.12, p<.00) in the high-turbulence group. However, in the low-turbulence group, the difference was not significant. (β=.01, p<. 70), indicating a moderating effect and, as a result, supporting H5 (Figs. 2 and 3).

Table 1. Construct Measurement

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Items | Assessment | Sources | Reliability and Validity |
| Trust Relationship | Relationship with partners :  1) is something we are devoted to  2) is very essential to our company  3) is something we want to keep perpetually  4) is what we pay attention about  5) it is very worthy of our maximum maintenance | 5-point Likert scale: from “strongly agree to strongly disagree” | Kaufman, et al. (2006) | Reliability: Cronbach .95. Convergent validity: factor loadings of items are .927, .946, .838, .928, and .888 respectively |
| Market Orientation (International mindset) | 1) The network is a way to achieve goals  2) Networking is what we need to be successful in the future  3) Internationalizing quickly is very important to us  4) It takes a lot of time to plan network operations management  5) Internationalization allows companies to achieve the growth they seek.  6) The owner/management of the firms has a strong desire to expand into the global market  7) The company's management regards the whole world as a single market | 5-point Likert scale: from “strongly agree to strongly disagree” | Nummela, et al. (2004) | Reliability: Cronbach .94, convergent validity: factor loadings are .911, .904, .885, .874, .883, .852, and .618 respectively, eigenvalue 4.9, % of variance 72.3 |
| Network involvement | 1) Establishing contact with new customers  2) Obtain information of the market  3) Gaining ingress to distribution channels  4) Promotional materials  5) Developing products and services  6) Get business loan assistance or investors | 5-point Likert scale: from “strongly agree to strongly disagree” | Ostgaard & Birley (1996); Witt (2004) | Not Reported |
| International entrepreneur orientation | 1. Innovativeness 2. Proactiveness 3. Risk taking | 5-point Likert scale: from “strongly agree to strongly disagree” | Covin and Slevin (1989) and Zahra and Garvis (2000), | The Cronbach’s alphas of the innovativeness, proactiveness, and risk-taking subscales are 0.75, 0.79, and 0.68, respectively |
| Internationalization level of firms (ILF) | 1. 1) Average sales over three years as a percentage of total sales 2. 2) Average foreign assets as a percentage of total assets 3. 3) Foreign partners as a percentage of total partners 4. 4) Cumulated time from international manager assignments compared to total management work experience 5. 5) Deployment of company operations | ILF = FSTS + FATA + OSTS + TMIE + PDIO | Sullivan (1996) | Not Aplicable |

Source: Author Compilation

|  |  |
| --- | --- |
| **Fit Indicators** | **Value** |
| Chi Square | *χ*2 = 181.17, df = 150,  *χ*2/df = 1.12  *p* = .121 |
| CFI  TLI  GFI  NFI  RMSEA | 0,991  0,990  0,941  0,920  0,14 |

Table 2. Model Fit Results

|  |  |
| --- | --- |
| **Hypotheses Results** | **Value** |
| H1-Trust Relationship-Network Involvement  H2- Market Orientation-Network Involvement  H3-Network Involvement-SM-FB’Internationalization  H4-Int. Entrepreneurship-SM-FB’ Internationalization | *β* = .469, *p* < .01  *β* = .939, *p* < .01  *β* = .084, *p* < .01  *β* = .0449, *p* < .01 |

Table 3. Hypotheses results

**.82**

**TR1**

**TR2**

**TR3**

**TR4**

**TR5**

ee

ee

ee

ee

ee

**1.11**

**1.21**

**1.37**

**1.16**

**.52**

**N1**

**N2**

**N3**

**N4**

**N5**

**N6**

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ee

ee

ee

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ee

**.91**

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**MO6**

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**MO5**

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**MO7**

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**MO4**

ee

**MO3**

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**MO2**

ee

**MO1**

**1,10**

**1,21**

**.87**

**1,59**

**1,39**

**1,18**

**1,32**

**1,77**

**1,10**

**1,30**

**1,28**

**1.11**

**Firm Internationalitation**

ee

**1.12**

**.66**

Figure 2 Moderation effect at high turbulence of crisis

**.74**

ee

**MO6**

ee

**MO5**

ee

**MO7**

ee

**MO4**

ee

**MO3**

ee

**MO2**

ee

**MO1**

**1,10**

**1,31**

**.77**

**.67**

**.89**

**1,01**

**.78**

ee

**1,10**

**Firm Internationalitation**

**-.01\***

**1,21**

**1,14**

**N1**

**N2**

**N3**

**N4**

ee

ee

ee

ee

**N5**

ee

**N6**

ee

**1,32**

**1.00**

**1,42**

**TR1**

**TR2**

**TR3**

**TR4**

**TR5**

ee

ee

ee

ee

ee

**1.11**

**.97**

**.87**

**1.06**

**.82**

**.59**

Figure 3. Moderation effect at low turbulence of crisis

# 5. Discussion

The findings of this study show a very clear connection between network involvement and the internationalization of small and medium-sized family businesses. This study illustrates that networks with attitude factors are represented by trust relationships, market orientation, and international entrepreneurial orientation as elements in the process of internationalizing small and medium family businesses. In other words, the intention to internationalize must be seen as an external and internal factor. The results of this study also support previous studies, which show that the internationalization of family businesses is a process that is influenced by various factors that go beyond the attractiveness of the current developing market (Lahiri et al., 2020; Lohe et al., 2021).

This study contributes to the use of the network approach in explaining the internationalization of family businesses, especially small and medium enterprises. We test and obtain results by incorporating previous family business networks into a single framework with the variables of attitude and turbulence associated with the global crisis.

This study has limitations due to the small sample size. This sample cannot represent various other regions and other industries, so these findings cannot be generalized. Furthermore, this research only examines one developing country, namely Indonesia, so that in the future it will be necessary to involve more developing countries. In addition, it is also necessary to compare these countries with developed countries and include cultural, political, and economic environmental variables.

1. **Conclusion and Implication**

The findings of this study explain the small and medium family businesses’ internationalization process during times of crisis, such as COVID-19. The COVID-19 crisis resulted in turbulence for the global economic environment, which is considered a factor that disrupts the internationalization process, but can be considered a basis for these small and medium enterprises to switch to using digitalization globally that provides benefits for family businesses (Schiliro, 2020).

According to research analysis, it is shown that the global will have a short-term impact on the process of internationalization of small and medium-sized family businesses but will become a very strong factor in the long term.

In this study, the global crisis acts as a moderator that encourages network involvement with the internationalization of companies. Finally, the internationalization of this small and medium family business can be a major factor in stabilizing the country's post-pandemic economic situation if it is considered and supported by the national government.

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