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Network Relationships and Internationalization of Niche SMEs in Specialty Food Industry

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#### **Abstract**

Network relationships, particularly alliances with partners in the foreign market, constitute an effective strategy over deficiencies, such as lack of resources or foreign market knowledge, (Lu and Beamish, 2001). McDougall, Oviatt and Shrader (2003) state that "Networks help entrepreneurs identify international opportunities, establish credibility, and often lead to strategic alliances and other cooperative strategies". We define interfirm domestic networks as cooperative relationships between two or more locally owned SMEs within a particular commercial networks. This study addresses three firms belonging to a Specialty food niche market in the agroindustry of the Corsica Island. Emphasis was placed on the combined use of qualitative cases studies and content analysis approach. The findings highlight that owners of UVAL and GM exhibited greater knowledge of foreign markets prior to internationalization, due, to their international exposure through formal education, labor experience and network relationship. Our cases studies showed that DINs are helping SMEs reach consistency in quality and innovation as well as assure consistency in the supplying and delivering process. DINs are then responsible for SMEs establishing and developing formal ties with international networks in the international value chain.

**Keywords:** *networks, internationalization of SMEs, specialty food industry* 

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#### Introduction

International entrepreneurship literature provides rich evidence about networks as drivers of SMEs internationalization (Musteen, Datta, & Butts, 2014; Ratten, Dana, Han & Welpe, 2007). Networks allow SMEs to reduce risk, to access necessary resources and capabilities when entering foreign markets (Coviello & Munro, 1995; 1997; Johanson & Mattsson, 1988). Firms are linked to a diversified set of stakeholders (customers, suppliers, other firms, government agencies, research centers, universities, financial institutions, venture capitalists, etc.) with which they build both relational and structural embeddedness through networks of collaboration and information exchange (Zucchella & Siano, 2014).

This study addresses those firms belonging to a Specialty food niche market in the agroindustry of the Corsica Island. The value of a networking approach to SME internationalization is conditioned by its ability to define the role of the networks and the level of involvement underlying the decision making process of small business owners. It is especially valuable in cases of SMEs since in order to survive the international Specialty Food industry these firms have to develop a well-defined competencies that are necessary to compete efficiently in this market. Specialty Food industry appeals to a niche market, in which product features and delivery are value assets for its consumers. Product differentiation, for example, based on development and adoption of new technologies, mainly drives specialty food production worldwide (Hueth, Ibarburu, & Kliebenstein, 2007). Niche market products have substantially grown in recent years, and organic produce market is leading, as well as particular specialty foods with regional appeal (Hueth et al., 2007). In this market, manufacturers compete on innovation and quality as differentiators (Canavari, Castellini, & Spadoni, 2010). To reach quality and product innovation, firms need to develop a strong and efficient value chain through partnerships because it's the only way to assure constant levels of product differentiation (Orengo-Serra & Shopheap, 2015) expected by consumers. Even if network perspective has been received attention in the literature, when approaching internationalization of niche SMEs in Specialty food, this perspective mainly has been focused on manufacturer/ distributor relationships (Toften & Hammervoll, 2010). There has been narrow emphasis on the role of domestic interfirm network relationships (DINs) in extant empirical research about internationalization of SMEs from small island territories. The SMEs country context is important because these enterprises' survival and growth hinge on international expansion to overcome limited domestic markets (Orengo-Serra, & Shopheap, 2015). Even more, it is almost approaching the role and the degree of locally literature supplier/manufacturer of Specialty niche produce as driver for niche manufacturer foreign expansion. This research fills this gap in the International Entrepreneurship literature by showing the importance of networks embeddedness for SMEs resulting in knowledge acquisition about foreign markets and how to perform in them.

In this study, emphasis was placed on the combined use of a qualitative case studies and content analysis. Findings suggest that handcrafted, and country of origin -COO- certifications such as controlled designation of origin or AOC (appellation d'origine contrôlée), sources of supply, information, and quality, are important factors explaining the use of domestic interfirm network relationships by Corsican SMEs for international expansion. This paper provides a theoretical overview, methodology, a discussion of results and, concluding remarks.

#### **Literature Review**

Network relationships contribute to accelerating the internationalization of SMEs by providing valuable information to overcome organizational capabilities and market information hurdles (Gulati, 1999; Chetty & Campbell-Hunt, 2003; Ellis & Pecotich, 2001; Ellis, 2011). Network theory has made a significant contribution to the international entrepreneurship domain and has become a widely used approach in understanding the internationalization process of entrepreneurial firms, (Peiris, Akoorie & Sinha, 2012). As Galkina and Chetty (2015) pointed, internationalization is the process of embedding into corresponding network structure of a foreign market and acquiring an insider position. Resource deficiencies have been a main constrain many SMEs limiting their level of international expansion. However, international experience of different types is consistently positively associated with internationalization, (Jones & Casulli, 2014). Also, the extent of an entrepreneur's social network is positively related to opportunity recognition, (Kontinen & Ojala, 2011).

Business networks has shed light to the understanding of the antecedents of internationalization from an inter-firm perspective, (Peiris et al., 2012). Embedding in a network provides SMEs with more opportunities for internationalization and to identify and acquire external resources to successfully expand (Coviello & Munro, 1997). Also, networks allow SMEs to achieve a certain degree of economies of scale by specializing in a particular segment of the value chain essential to their competitive advantage. According to Cavusgil and Knight (2015) the internationalization premium is made possible by lower cost and ubiquity of information, networking with and learning from international partners, and efficient logistics. In addition, one of the conclusion related to early and rapid internationalization is that born global firm tend to be very effective in building global networks of collaborators.

Embedding in a network can develop trustworthiness and long term relationships. Otherwise, as a learning process, network relationships allow firms to acquire and manage critical knowledge to enter foreign markets and develop network relationships acquiring new competencies (Johanson & Vanhle, 2003). Even if networks relationships have been largely studied in SMEs internationalization, studies have focused on networks relationships between SMEs as suppliers of large firms or SMEs as customers of public or government organizations (Etemad, Wright, & Dana, 2001; Zain, & Imm Ng,

2006). High levels of network competence are positively related to the propensity of SMEs to internationalize, (Torkkeli, Puumalainen, Saarenketo, & Kuivalainen, 2012). Few studies, (Lin & Chaney, 2007; BarNir & Smith, 2001) have focused on domestic interfirm network relationships which play a significant role in SME internationalization. Based on the research by Lin & Chaney (2007), we defined Domestic interfirm network relationships as cooperative or collaborative relationships between two or more locally owned SMEs within particular commercial or industrial networks.

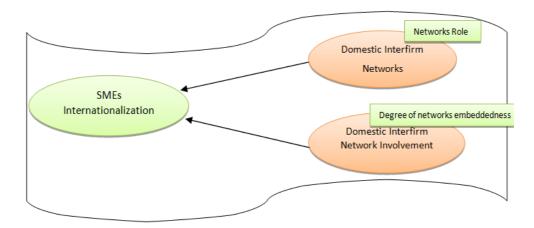
#### **Research Model and Propositions**

In our research model, Figure 1, the internationalization of SMEs is positioned within the analysis of the degree of networks engagement and the networks role. As stated before, collaborations within a particular network is a powerful tool to overcome resource constraints by providing additional expertise about market trends and opportunities, capital, and positioning within the market (Gulati, 1999, Lu et al, 2001, Ellis et al, 2001; Ellis, 2011, Coviello et al. 1995, 1997). To enable international growth, most SMEs rely on informal collaborative networks with supplier, for example, to access vital information to gain competitiveness (Zucchella & Siano, 2014) or to develop the necessary competences (e.g. capacity, quality, scope) to penetrate and survive foreign markets. The networks embeddedness is analyzed by the Global mindset of the owner/founder, while the networks role is examined by identifying domestic interfirm networks. To have a preliminary understanding of the role played by the domestic interfirm networks on SMEs' internationalization, and the relationship between the owner/founder global approach and the level of networks involvement, we evaluated two main propositions:

Proposition 1: Domestic Interfirm Networks are positively related to SMEs' internationalization. This proposition is analyzed using the following constructs: Supplying power or capacity, Country-of-Origin effect, Innovation access, Quality, and Knowledge Acquisition.

Proposition 2: A SMEs' owner/manager global mindset is positively related to its domestic interfirm network involvement. This proposition is evaluated using the following constructs: Level of importance assigned to networking for strategic international purposes, degree of networks importance to achieve growth objectives, and acknowledgment of networks role in short and long term succeed.

Figure 1. Research Model



#### Methodology

This exploratory research employs a qualitative approach, in the form of cases studies and content analysis based on theoretical propositions. A case study methodology comprises the design logic, data collection methods, specific focus of data analysis and tools to study complex phenomena in their context (Baxter and Jack, 2008), extending and generalizing theoretical knowledge with empirical evidence (Yin, 1994). It overcomes the localized nature of cases, while adding new levels of reality, as well as verifiable theoretical and practical knowledge (Vissak, 2010). A qualitative case study uses various data sources and perspectives to discover new facets of the phenomenon (Baxter and Jack, 2008; Vissak, 2010).

Content analysis refers to a systematic interpretation of textual, visual or audio material, (newspaper editorials, television news, advertisements, public speeches, and other units of analysis). Through the development of analytical constructs or categories, content analysis allows the researcher to know the context, and specifically the network of correlations assumed to explain how available texts inform any hypotheses, and the conditions under which these correlations could change. Analytical models and categories are applied to understand the context, correlations and connections of inputs to the analyst's questions (Kripperdorff, 2003).

In summary, the case study is conceived as a research strategy that examines thought the use of a variety data sources, a phenomena in naturalistic setting, with the aim of "confronting theory with the empirical world" (Piekkari, Welch, & Paavilainen, 2009). Because the context surrounding our unit of analysis is somewhat very specific and the applied perspective has not been received considerable research work, we agreed that case study was the best research tool to analyze the phenomena of DINs and the internationalization of niche SMEs from small island territory. To strength the methodology, we combined the analysis with content analysis technique.

#### Data Collection

Our primary data are in-depth semi structured interviews, supplemented by ongoing commentaries on the Specialty Food industry and observational visits to our sampled firms. Extensive secondary data were used, including field notes, diaries and industry-based publications. The interviews were with CEOs, marketing managers, CFOs, CCMs, owners/founders and members of the Board of Directors. To ensure the authenticity of their stances, respondents were selected based on their positions, qualifications, affiliations, and length of experience. The interviews were conducted between April 16 and 24, 2015. Each interview lasted 2-3 hours. Before the meetings, respondents filled out surveys; documentary research on the firms, based on institutional Web sites, provided basic information. The first approach was conducted by email or telephone to invite participation. Of the 12 SMEs approached, 6 were able to participate, but only 3 were recruited. Each of the 10 usable interviews was video recorded and transcribed verbatim. Follow-up interviews were conducted via Skype with each participant after they received copies of their transcript to verify their responses, and to clear up issues after the initial interview.

The interviews used open ended questions to encourage the dialogue- and provide rich and nuanced accounts of their understandings of domestic interfirm networks and international activities of the firm. Two researchers conducted the interviews. Because one of the researchers does not speak French, the interviews were conducted in English, but at the end of each answer, the French speaking researcher summarized the information asking the respondent the accuracy of the information. When some details were misinterpreted, the French speaking researcher reframed the information to have a second validation of the meaning. Besides, we constantly asked respondents to elaborate by providing concrete examples about the dynamic of domestic interfirm networks relationships. The principal questions asked were a) which are the partners in the domestic market that potentially play a role in the international expansion strategy of the firm? b) What is the function of these partners in the foreign market strategy? c) In which level of importance these partners are for the development of foreign markets? d) What is the vision and position of the manager vis-a-vis of international markets?

#### Data Analysis and Validation

The analysis of the transcripts and videos was guided by Kripperdoff (2003). Content Analysis Method, and cases study procedures follow Yin (1994; 2009). The analytic procedures consisted of an ongoing interpretive and iterative practice that alternated between identifying the role of interfirm business networks on firm internationalization and the relationship between the owner/founder global approach and the level of networks involvement in the internationalization of the firm. The aforementioned constructs emerged from identified codes during the analysis of the transcripts and videos.

This dyadic methodology enables triangulation of findings from the participants representing the same firms but interviewed separately. These convergent views contribute to high validity and reliability of the findings. The validations of the findings with broader theories authenticate the study's

theoretical conceptualization, enabling the achievement of theoretical generalizability (Eisenhardt 1989; Eisenhardt and Graebner 2007).

#### **Discussion and Results**

The findings are shown and discussed in five sections: (1) COB, (2) GM, (3) UVAL, and (4) Networks Role and Embeddedness.

#### COB

#### Proposition 1

COB represents 178 affiliates' producers, 24 mills Chartered, 608 hectares of olive groves in PDO, and 137,000 liters of average production per year, or 3.5 % of domestic production, and 68% of total volume of PDO Corsican olive oil (Dossier de Presse, SIDOC, 2013). The price of COB oil is €20/liter. its first international activity took 13 years, after it foundation, this small business, saw the opportunity to reposition the olive oil as "produit du terroir" maximizing the COO effect as Corsican wine, cheese and artisan charcuterie. The suppliers of raw materials (olives), most important DINs, play an important role to reach and maintain the competitive advantage of the firm. The competitive advantage relies on product quality (at least 12 different oil flavors, color, texture and aromas), and also on certifications such as CDO, PDO.

To control product features -refined in flavor and consistency-, the members of the COB, or suppliers are subjected to auditing process in the value chain. They are responsible to guarantee a high end offer of olives, and to maintain innovative harvesting process. That's why firms' competitiveness in the market is not based on price, but on quality. COB competes in a high end niche market of Specialty foods, where COO effect, certifications of sanitary and other quality controls become crucial to compete internationally. DINs allowed COB to increase in the last 14 years the notorious of Corsican olive oil in Metropolitan France, (30% of COB exports). In recent years, DINs acquire an additional role for COB. The suppliers (160 producers have to innovate in new agro techniques to increase the olives production to supply COBs' foreign market representing only 1% total exports, outside Metropolitan France. The reality is that Metropolitan France control foreign Corsican market through only one multinational French wholesaler, Carrefour, which buys 60% of total COB sales. That explained the narrow presence of COBs olive oil in Corsican niche market.

#### Proposition 2

The President of COB Board of Directors is concerned about international expansion to position Corsican olive oil in the niche market of specialty food. That strengthens the links with local affiliate producers to expand and grow. The strategy began succeeding in the mind of French metropolitan consumers using the COO effect strategy. This allowed the organization to expand

internationally in minds of the established French immigrant. The most important DINs for COBs domestic and international growth is SIDOC-Olio di Corsica, a locally organization responsible for the R&D, auditing and promotion of olive oil under CDO, PDO accreditations. The problem is that COB depends on SIDOC to expand internationally, because they do not have an export division. The foreign expansion of the firm relies on SIDOC marketing agent, who is in charge of domestic and international marketing management plan. Another constraint that COB has to face is related to capacity of constant offer. The national production is weak; the best parts of olive groves are old. Recognizing these constraints, COBs managers are working with DINs to innovative production process and land expansion for harvest. The President wants to seek opportunities that modern Specialty niche market offers, because he recognizes that Spain controls global olive oil market, but not gourmet market. In addition to French consumers, COBs President wants to target connoisseurs of authentic high end virgin olive oil as long term growth strategy.

#### GM

#### Proposition 1

GM is the pioneer and the only Corsican export firm of offshore aquaculture, producing 3,200 tons of high end sea bass, sea bream and meagre. GM, whose 80% of production goes to foreign markets, appeals to high-end seafood restaurants and retailers that value reputation, quality and product attributes, earning the prestigious 'Seafood of the Sea' certification for its sustainable organic farming processes. (friendofthesea.org, 2013). The role of DINs in the foreign expansion of GM took place one year before the formal foundation of the firm in 1992, with a locally aquaculture producer in Campomoro (South of Corsica), and one year later GM acquired the small business. Since, GM expanded to assure the constant supplying of premium fish. DINs with local aquacultures producers and professional academics (University of Corsica) capitalized the best domestic knowledge to create a strong platform to facilitate a solid growing for its marine aquaculture business.

"Each subsidiary has a strong identity of high quality products and processes thanks to constant pioneer innovation in the breeding, sourcing and supply chain management".

In 2015 GM became Group GM, a small multinational with 6 offshore aquaculture centers: 2 in Metropolitan France, 1 in Morocco, 2 in Corsica and 1 in Sardinia, Italy. Expansion through acquisition of aquacultures centers helped GM reconquer domestic market and develop foreign premium markets. The subsidiaries in Corsica export 90% of its production to France, Europe and Asia.

#### Proposition 2

Since its inception GM President was aware that to grow in the niche market, the firm had to develop the necessary infrastructure in terms of organizational level, operational and technical level. In fact, as an expert engineer, he focused in positioning French aquaculture as regional leader using Corsican aquaculture as starting site. Four years after foundation, GM began exporting to foreign markets. GM developed a huge operational production infrastructure to produce gourmet fish to renowned retailers. DINs rapidly became the exclusive suppliers to support the main production. To guarantee the supply, GM restructured the firm acquiring regional aquaculture production sites, in France and Italy. DINs were the drivers to faster foreign expansion of GM, and the acquisition of Italian and French marine aquaculture sites were the strategy for long term commitment. The DINs are now strengthened with horizontal integrated networks (in France, Morocco and Italy), and also with foreign experts. Use of the country of origin (COO) as a proxy for quality (Knight, Holdsworth & Matheret, 2007) is reflected in the firms' marketing methods and projected across value-chain participants. GM has successfully positioned and maximizes the COO effect with a supplying of high-quality raw materials and variety (sea bass, meagre, and gilthead sea bream fish). The firm's network includes international marine life quality-control entities, professional associations and the University of Corsica, among others, and is an important factor in the firm's innovation in marine aquaculture.

#### UVAL

#### Proposition 1

UVAL was incorporated as winery cooperative business in 1975. Being a French department, Corsica enjoy fiscal incentives. Free trade relationship and COO effect strategy allow UVAL to expand with a variety of high quality grapes through CDO and PDO accreditation (Controlled/Protected Designation of Origin). DINs served as main suppliers to create economies of scale: 26% domestic sales, 54% outside including Metropolitan France. There has been an increased foreign sale during the last four years. Because of its lack of capacity, the company had to source out some of their products from other companies.

DINs are still important to increase the capacity of UVAL to export. The best part of wines comes from Nicolas franchisers, the more important winery retailer in France with 400 stores in France, who help UVAL export their products. Since its inception the domestic growth has been linked to a local partner, for a distribution in domestic market. The vineyards are old, and UVAL has taken the initiative to integrate grapes from all Mediterranean vineyards creating new fusions of grapes for new type of customers. This strategy assures long term growth and the expansion of customer portfolio.

"We sold wine but also the exotic of our country, COO is our strategy to expand our brand internationally" This is a wine culture strategically thought".

DINs play an important role to develop Corsican brand in Metropolitan and foreign markets. Restaurants, hotels or international retailers such as Nicolas are important networks for UVAL international exposure. Direct sales go through export agents in Canada, an important market for Corsican wines as it's the North of Europe through Scandinavia. Big French international

wholesalers with Carrefour, Auchan, Casino, and Leclerc are main French distributors for UVAL.

#### **Proposition 2**

In 2006, coming with a wide international experience in renowned multinational firms, the manager of UVAL got into the company as controller. His studies in USA and international experience as manager in Decathlon, Sara Lee, among others MNFS, bring an asset to UVAL, and explain the new image of UVAL in its diverse portfolio. In Belgium, for example, UVAL manufactures wines for private labels.

"Our strategy to penetrate foreign markets was based on three levels, Supermarket demands, our UVAL brand, and domain wines".

In France the vineyard industry is regulated with four certifications under *Cahier de Charge*: Controlled Designation of Origin, Protected Designation of Origin, Geographic Designation of Origin, and Regional Designation of Origin. UVAL strategy of specialization creating unique type of wine, resulting from a combination of local and Mediterranean grapes. Thirty percent of clients are from foreign markets. To penetrate each country UVAL makes agreements with the main or the most important distributor for wines.

#### Networks Role and Embeddedness

DINs are valuable resources to assure the constant supplying of outstanding raw materials and the commitment to comply with quality standards demanded by the niche market of Specialty agro-foods. Our findings suggest that organic, handcrafted, and country of origin certifications such as CDO and PDO accreditation (Controlled/Protected Designation of Origin) are important factors explaining the using of domestic interfirm network relationships (DINS) by Corsican SMEs for international expansion. Unlike mass-market food businesses, niche firms producing gourmet foods can offer the latest products and sustain long-term relationships with their customers (Lempert, 2004). The business-building process rests on iterative knowledge acquisition and management across value-chain participants, with constant monitoring for new trends, needs and expectations. In SMEs, innovation outcomes as part of the learning process arise inside informal network relationships as they enable international growth (Zucchella & Siano, 2014).

High-quality raw materials from organic crops, eco-friendly processes, international and industry certifications, small-scale artisanal production and highly differentiated packaging are some key characteristics of our firms. These elements guarantee food safety and quality, promote traditional country and regional specialties, and stimulate development in rural areas, local markets and business networks (O'Reilly & Haines, 2004). Differentiation via artisanal production drives success in foreign niche markets (Turid-Kvam et al., 2014).

New trends in the market, new processes and forms to do business overseas, drive the degree of embeddedness of the network relationships. DINs are not operated in isolation; they are embedded and play an active role to help

SMEs to achieve economies of scale, to succeed, as well as to assure the expected quality of the raw materials.

#### **Concluding Remarks**

The internationalization of SMEs requires cohesion among the myriads of networking sources and operating agencies (Senik, Scott-Ladd, Entrekin & Adham, 2011). This study allows a better understanding of how DINs allow SMEs to reach international exposure in a particular niche market. DINs play a strategic role, they are domestic businesses whose growth is subordinated to the product demand of other local businesses, manufacturing SMEs. These DINs develop strong ties within its members, suppliers or manufactures, each one recognized the stability and growth of the business can't be attained in isolation. They are in the same country sharing the same constraints and virtues.

DINs create symbiotic network relationships enabling the international expansion of manufacturing SMEs. Although authors position symbiotic network relationships as a process in which small firms use this collaborative arrangements with large firms to overcome inherent constraints of size, and achieve efficiencies (Etemad et al, 2001), more and more SMEs use symbiotic collaborations themselves for cost-reduction and market expansion reasons (Ratten et al., 2007). Symbiotic collaborations enable value of the output and reduce uncertainty (Etemad, et al., 2001). Through DINs, COB and UVAL had been able not only to penetrate but also to maintain successfully their country brand under COO effect strategy, creating networks with multinational wholesalers such as Carrefour and Géant, and also with prominent international cooking chefs for GM.

The participation of an SME in DINs can be seen as strategic tool when those linkages are connected to firms which have international ventures. "If those ventures are in far markets – regarding the psychic distance concept – these companies can be a lever in order to open markets (and opportunities) to domestic market partners" (Brilhante Dias & Serra-Lopes, 2014). Then, DINs become as a prerequisite for SMEs internationalization. "Trust as a resource, accumulated during lasting relationships in the domestic market, has been shown as a basic requirement to develop these cooperative approaches in international markets" (Brilhante Dias et al., 2014). The degree of embeddedness of DINs is related to a level of trust and commitment that assures the cohesion of the firms within the networks, is supporting internationalization efforts, and retaining and renewing its corresponding supporting mechanisms (Senik et al., 2011). To reach embeddedness in the networks, both partners have to share common interests, become committed to the relationship (Johanson et al., 2003).

DINs role and embeddedness is supported by the education and previous experience of owners/managers. UVAL and GM exhibited greater knowledge of foreign markets prior to internationalization, due, to their owner international exposure. Foreign market knowledge, allow firms to better

perform in the new market (Musteen et al., 2014), because it will be able to respond appropriately to market expectations. This implies integrating international networks relationships, as in a case of small firms, with large firms as a mechanism to reach positioning, and also to overcome huge investments. Global wholesalers are opening their value chain to artisan and organic products, because they recognize the value of this kind of businesses. Our cases showed that DINs are helping SMEs to reach consistency in quality and innovation of their product portfolio as well as to assure consistency in the supplying and delivering process. Further, GM looked outside their home market due to its small size, technological development in production, emergence of global networks and alliance and organizational capabilities, (Cavusgil & Knight, 2015). Also, the international experience of owners, vision, commitment, innovativeness, and entrepreneurial orientation, (Cavusgil et al., 2015) was present in GM and UVAL. The participant firms COB, UVAL, and GM offered high-value and superior quality products.

The originality of this paper is because it is the first relating interfirm network relationship and international expansion of SMEs in Corsica region related to specialty agro-food. Limitations relate to the resistance of firm to participate and the fact that all firm are in specialty agro-food. Still, this paper contributes to confirming the importance of DIN in the expansion of the participant firm in their international market expansion.

One future line of research is to study the implications in terms of strategic international purposes, for SMEs of Specialty foods industry, to elaborate such a kind of products (organics, bio, and artisan) under private labels brands for multinationals wholesalers/retailers. In addition, we found that strong DINs is also encouraged because each participant have common interests and recognize that foreign markets are the feasible option to growth. To address the internationalization process, new plantations, new aquaculture sites, new products that expand product portfolios, are common concerns.

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