The internationalization of small to medium-sized enterprises: do all levels in international networking matter?

Godwin Mwesigye Ahimbisibwe
Department of Marketing and International Business, Makerere University Business School, Kampala, Uganda, and
Joseph Mpeera Ntayi, Muhammed Ngoma, Geoffrey Bakunda and Levi Bategeka Kabagambe
Makerere University Business School, Kampala, Uganda

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Abstract

Purpose – The purpose of this study was to investigate whether each level in international networking (network extension, network penetration and network integration) matters in the internationalization of small to medium-sized enterprises (SMEs).
Design/methodology/approach – The study adopted a cross-sectional and correlational research design. The data were collected through a questionnaire survey of 206 exporting SMEs in Uganda. The study employed a structural equation modelling (SEM) technique using partial least square (PLS) to test the hypothesis.
Findings – The findings revealed that network extension and network integration do matter in SMEs' internationalization, while network penetration does not.
Practical implications – SMEs in developing countries need to concentrate on network extension and network integration levels to successfully internationalize their operations.
Originality/value – The study provides initial evidence on whether network extension, network penetration and network integration matter in SMEs' internationalization in developing countries like Uganda.

Keywords SMEs, Uganda, Internationalization, Network extension, Network integration, Network penetration

Paper type Research paper

1. Introduction and motivation

With increased competition, small to medium-sized enterprises (SMEs) from developing countries are increasingly expanding their participation in the global economy as they seek for continued survival, competitiveness, risk diversification and revenue growth (Matenge, 2011; Misati *et al.*, 2017). In light of the limited financial resources, market knowledge and skills associated with SMEs in developing countries, there is growing evidence that their increased international participation is being facilitated through networking with other players in the foreign markets (Rutashobya and Jaensson, 2004; Amoako and Lyon, 2014). This is particularly so since developing countries are constantly linked with limited supporting institutions that would have otherwise provided SMEs with the finances, information and marketing assistance required for easier and quicker access to international markets (Rutashobya and Jaensson, 2004; Rugasira, 2013; Matanda, 2012). Networking in the international context is related to a process by which firms initiate, develop and coordinate various network relationships in foreign markets (Johanson and Mattsson, 1988).

Networking influences firms' internationalization through three sequential levels of network extension, network penetration and network integration (Johanson and Mattson, 1988; Johanson and Vahlne, 1990). Firms initially begin by initiating foreign networks (network extension), followed by developing the established networks (network penetration)

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and finally coordinating the various networks established in different countries (network integration) (Andersson and Mattson, 2006; Ardersson *et al.*, 2018). Submission by Andersson and Mattson (2006) indicated that these levels tend to have an additive incremental effect on firms' internationalization. The authors noted that network extension contributes to network penetration, which also adds to network integration to subsequently influence SMEs' internationalization. This sequential view appears to suggest that all levels are equally important since each builds on the other for international networking to have a significant influence on SMEs' internationalization.

While the significant additive effect of international networking levels is well acknowledged (Kenny, 2009; Andersson *et al.*, 2018), less is known about what could be the critical level(s) that matters most for SMEs' internationalization in developing countries such as Uganda. Uganda offers a unique setting in a number of ways. First, it is landlocked and its economy is highly dependent on its relationship with the neighbouring countries Kenya and Tanzania that have access to the sea (Elbadawi *et al.*, 2006). The lack of access to the sea implies that exporting SMEs are isolated from major international markets, which makes exporting prohibitively expensive and difficult on their part. Thus, for SMEs in Uganda to get their products across distant markets such as those in Europe and the USA, networks must be established and developed with international brokers, customers, freight and forwarding companies, distribution companies and customs officials, and networks must also be established with both the neighbouring countries that have access to the sea as well as to their target foreign markets. The networks established should be in position to help SMEs access market information, customers, overcome unnecessary delays at border crossings and facilitate speedy entry into foreign markets. Second, SMEs in Uganda face challenges associated with access to finance, technology, skills and information and high costs in their internationalization efforts (Rugasira, 2013; Nakaweesi, 2016). Thus, partnering with other institutions such as banks, research agencies, customers, distributors and suppliers located in other countries seems to be the best alternative strategy to overcome resource-constrained challenges that normally characterize most internationalizing SMEs in developing countries. Finally, Uganda is associated with limited institutional support for facilitating international expansion of SMEs (Rugasira, 2013). Therefore, relative to developed countries that tend to support their internationalizing SMEs with export credit, marketing services and specialized market information (Holzner and Stöllinger, 2013), foreign networks can act as alternative supporting structures that can be relied on to expedite the international expansion of SMEs in Uganda.

Clearly, given the context, forming partnerships with other players in the foreign markets seems a worthwhile endeavour for internationalizing SMEs in Uganda and perhaps in other similar contexts. But, as to what level(s) in international networking matter(s) for the internationalizing SMEs in the Ugandan context is an empirical question we seek to answer. Thus, the aim of this paper is to provide evidence on which international networking level(s) matter(s) most in the internationalization of SMEs in developing countries with a particular focus on Uganda. Such evidence is important since it provides the resource-constrained SMEs in developing countries with information on what level(s) they should direct much of their resources and efforts to in the process of internationalization.

The rest of the paper is organized as follows: Section 2 is the literature review. This is followed by Section 3, which provides a detailed methodology. Section 4 presents results and discussion of findings. This is followed by Section 5, which presents conclusions and implications. Finally, Section 6 presents limitations and areas for future research.

2. Literature review

2.1 Theory

This study utilizes the network theory of internationalization by Johanson and Mattsson (1988). It addresses the limitation of the Uppsala model that had presented firms'

internationalization as a gradual and incremental process, where a firm would increase its commitment in international markets as it accumulated experiential knowledge and resources on its own (Johanson and Vahlne, 1977). The network theory of internationalization advances that internationalization is not a solo effort. The resources and experiential knowledge which tend to condition firms to internationalize in a slow and gradual manner, as postulated under the Uppsala model, can be obtained through accessing well-functioning networks in foreign markets. In the process of internationalization, a firm can network with customers, competitors, suppliers, distributors, agents, consultants, as well as regulatory and other public agencies (Johanson and Vahlne, 2009). By establishing network positions with the relevant actors, SMEs are able to overcome the liabilities of outsidership and smallness by accessing resources embedded in each relationship, which accelerate their international expansion (Brito and Meneses, 2007; Tolstoy, 2019). Accordingly, Johanson and Mattsson (1988) advanced that the internationalization process of a firm is a result of three interdependent phases that involve establishing network positions within a foreign country (network extension), developing those relationships in the networks (network penetration) and coordinating the various networks in different countries (network integration). The interdependence of the network phases implies that network extension is a necessary phase before network penetration takes place and that network integration becomes a vital aspect only after extension and penetration have been achieved (Andersson and Mattsson, 2006).

2.2 The concept of small to medium-sized enterprises' internationalization

Several definitions of internationalization have been advanced in international business-related literature (Coviello and McAuley, 1999; Mort and Weerawardena, 2006; Johanson and Vahlne, 1990). For this study, we adopt the definition advanced by Welch and Luostarinen (1993), who described internationalization as the outward movement of a firm's international operations. This choice is premised on the fact that this study concentrates on Uganda's exporting SMEs that largely produce domestically and sell their products across the national borders. For many years, internationalization was dominated by multinational companies with huge resources (Osei-Bonsu, 2014; Okpara and Kabongo, 2010). However, with reduced transaction costs brought about by globalization, the emergence of the Internet and modern transportation technologies, the international participation of these resource-constrained firms has tremendously increased (Cavusgil and Knight, 2015; Korsakienė and Tvaronavicienė, 2012). One such manifestation is the emergence of SMEs having an international perspective since their creation (Oviatt and McDougall, 1994). These firms have been regarded as international new ventures (INVs) and are defined as firms which engage in international activities during the first year of their operation or at least soon after their establishment; a significant part of their total sales is from foreign markets. These SMEs challenge conventional international theories such as the stage theory of internationalization (Johanson and Vahlne, 1977) that emphasizes incremental and gradual expansion into international markets. Consequently, the available evidence indicates that SMEs account for about 52% of global output and contribute to over 30% of total export revenues for most of the world economies (ACCA, 2010). This contribution signifies that the well-established and large companies which used to monopolize the global trade can no longer enjoy the monopoly in international markets anymore.

2.3 International networking and small to medium-sized enterprises' internationalization

This study is based on the three levels of international networking as postulated in the network theory of internationalization (Johanson and Mattsson, 1988). Accordingly, international networking involves establishing network positions within a foreign country (network extension), developing those relationships in the networks (network penetration)

and coordinating the various networks in different countries (network integration). While studies posted that the three stages are sequential in nature and have a significant cumulative effect on firms' internationalization (Andersson and Mattsson, 2006; Andersson *et al.*, 2018), this study postulates that each of these stages could have varying influences on SMEs' internationalization. The influences of each stage are detailed below:

2.3.1 Network extension. Network extension is the first level in international networking and is more concerned with initiating network relationships in international markets (Johanson and Mattsson 1988). The networks tend to be initiated with the customers, competitors, suppliers, distributors, agents and consultants, as well as regulatory and other public agencies (Johanson and Vahlne, 1990; Ngoma and Ntale, 2014; Kenny, 2009). This is often done through continuous searching of information related to potential partners, visiting trade fairs as well as through contacting industry-related journals in foreign markets. It is believed that such initiatives could be an important step towards foreign expansion (Tolstoy, 2019; Morais and Franco, 2018). Extending networks in foreign markets offers multiple benefits to the internationalizing SMEs. Authors such as Belso-Martínez (2007) posted that the initial contacts with these players could be indeed a starting point for internationalization strategy since SME managers/owners are more likely to evaluate the possible international business opportunities based on the guidance of these partners as opposed to a systematic risk analysis which requires substantial amount of investment. Authors such as Morais and Franco (2018) acknowledged that SMEs have fewer resources, smaller market share, less reputation and limited knowledge compared to their larger counterparts and therefore need to form alliances with other firms in international markets to access complementally resource and capabilities, in order to enable them face the challenges associated with foreign expansion with limited risks. In view of this, Jack *et al.* (2004) posited that SMEs are normally constrained in terms of resources (human, information and financial) and therefore tend to find networking a necessity to supplement their own inadequacies as they seize market opportunities. Particularly, Jack *et al.* (2004) acknowledged the role of the weak ties (distant relationships) and suggested that these provide a social structure to the resource-constrained SMEs since they tend to offer varied information, finances, customer referrals, supplier referrals, advice and opportunities. This assertion could be true for SMEs seeking international presence by their nature as they need to establish network relationships with foreign customers, competitors, suppliers and other relevant bodies to access resources and connections necessary for their establishment in foreign markets. This view was supported by Torkkeli (2013), who stated that networks initiated in international markets are well positioned to provide the much needed market information, which leads to learning advantage that accelerates the successful internationalization of the networked firms. In line with this view, Rutashobya and Jaensen (2004) posted that the information provided by foreign networks could be related to market access, trade fairs, training opportunities, as well as on how to access supplier credit. This information could be critical in accelerating the speed of international expansion of SMEs since lack of information is sighted by Ahimbisibwe *et al.* (2016) as a major obstacle to exporting SMEs in developing countries. Indeed, Jack *et al.* (2008) acknowledged that networks are embodiment of knowledge and a mechanism of collective learning. Moreover, Musteen *et al.* (2010) asserted that competing internationally exposes SMEs to risks, diverse cultures, technical standards and high costs of business promotion and thus establishing networks in the initial stages of internationalization is required to mitigate such barriers for successful foreign operations. This echoes a similar perspective by Jack *et al.* (2008), who asserted that networks offer an important mechanism for managers to deal with environmental shocks since they not only facilitate innovation but also act as an embodiment of market knowledge needed for growth and performance of entrepreneurial firms. Still, in a study by Tolstoy (2019), the author noted that those firms that proactively extend their networks in international markets are more

likely to internationalize quickly since they tend to become insiders in relationships they establish with other players in foreign markets. Thus, given that network extension is at the centre of international expansion, we propose the following hypothesis:

H1. Network extension is positively related to SMEs' internationalization.

2.3.2 Network penetration. Network penetration is the second level in international networking and is related to the firm's efforts to develop the established networks in foreign markets. This requires a firm to invest substantial time and resources in the relationships. The investment normally includes allocation of travel budgets to meet face to face with the established networks, assigning people to manage relationships established in international markets, conducting meetings and discussions amongst those charged with the relationships making personal visits to the partners as well as training of the partners (Mitrega *et al.*, 2012; Kenny and Fahy, 2011). Thus, if business networks can be leveraged to successfully internationalize, the ability of the firm to develop and maintain business relationship within those networks may have something to do with that success as well (Torkkeli, 2013). By increased investments in international networks, deeper interaction between the internationalizing firm and its important partners like buyers and suppliers are likely to increase, leading to a better understanding of the customer demands, flexibility and quicker identification of new opportunities in international markets (Kenny and Fahy, 2011; Andersson *et al.*, 2018). Besides, by increasing commitment in foreign networks, a firm is able to minimize the risks inherent in the foreign market which ensures a better chance for success therein (Andersson *et al.*, 2018). Authors such as Leppaaho *et al.* (2017) argued that as the entrepreneurs increase their commitment in the various networks, they tend to be much more aware of each other's capabilities and resources, which help them to establish ways on how they can build on these to take advantage for new and emerging foreign market opportunities. Thus, we propose the following hypothesis:

H2. Network penetration is positively related to SMEs' internationalization.

2.3.3 Network integration. Network integration is the last level in international networking and it is pursued once network extension and network penetration are achieved to ensure that there is complete effect of networking on firms' internationalization (Johanson and Mattsson 1988; Andersson and Mattsson, 2006). Network integration entails the firm's ability to coordinate the various network positions established in different countries (Johansson and Mattsson, 1988). Coordinating the various networks entails appointing specific people within their firms to manage the relationships with other partners in different countries, involving each partner in decision-making as well as monitoring the extent to which each relationship works to achieve the set objectives (Torkkeli *et al.*, 2012; Kenny and Fahy, 2011). These coordination efforts are very important in the internationalization of SMEs since they help them to benefit from unique resources and capabilities that may accrue from each network (Andersson *et al.*, 2018). By accessing resources from different networks, Kenny and Fahy (2011) posted that that the value of that firm is enhanced which provides an additional advantage to a networked firm over other firms in international markets. Authors such as Kauser and Shaw (2003) and Lofgren (2014) also argued that with a well-coordinated system of partners across international markets, SMEs are expected to easily acquire knowledge, identify emerging business opportunities in various countries and quickly establish themselves in various target markets. Thus, based on this literature, we propose the following hypothesis:

H3. Network integration is positively related to SMEs' internationalization.

3. Theresearch methodology

3.1 Theresearch design, population and sample size

This study adopted a cross-sectional and correlational research design. This design was deemed appropriate for this study since we aimed at capturing opinions at a specific point in time for the purpose of establishing relationships amongst the study variables (Creswell, 2014; Hall, 2008). The study population was drawn from Uganda export promotions database comprising 857 SMEs actively involved in exporting their products outside Uganda (Uganda Export Promotions Board, 2017). We used a multisectoral sample to increase the observed variance and to strengthen the generalizability of the results (Sousa and Lages, 2011). We considered exporting SMEs in this study since the prevailing literature recognizes exporting as the easiest, cheapest and the least riskiest way to achieve internationalization amongst SMEs (Leonidou *et al.*, 2010). We determined the sample size based on Yamane's (1973) sample size selection model $n = N/1 + N(e)^2$. Where (n) is the required sample size, (N) is the population size, which is 857 and (e) is a tolerable error put at 0.05%. Thus, $n = 857/(1 + 857(0.05)^2$. This formula generated a sample size of 273 exporting SMEs. Out of the 273 exporting SMEs, we received completed and useable questionnaires from 206 exporting SMEs, giving us a response rate of 75.5%. This response rate is well above the recommended rate of 50% in survey-based studies (Richardson, 2005).

The majority of the respondents were male (74%). Most of the respondents were aged between 27–37 years (48.9%). The majority of the respondents had bachelor's degree (47%). The majority of the respondents were managers (74%) and most of the respondents (38.1%) had been exposed to international operations for a period of between 6–10 years. In terms of organizational characteristics, the results in Table 1 indicated that the majority of the firms were active in the agriculture and agro-processing sector (50.0%), as well as in the manufacturing sector (36.9%). In terms of years of involvement, majority of the SMEs (40.3%) had operated in international business for a period of 6–10 years. Majority of the

Variable (N = 206)	Category	Frequency	Percent
Sector	Agriculture and agro processing	103	50
	Manufacturing	76	36.8
	Arts and crafts	20	10.7
	Others	7	2.5
Export experience	1–5 years	33	16
	6–10 years	83	40.3
	11–15 years	57	27.7
	16–20 years	19	9.2
	21 years and above	14	6.8
Number of employees (firm size)	Between 1–49	144	69.9
	Between 50–249	62	30.1
Method of exportation	Directly by the firm	52	25.3
	Via intermediaries	68	33
	Both directly and via intermediaries	86	41.7
Regional destination	EAC	63	30
	COMESA	59	28.6
	Rest of Africa	30	14.6
	Europe	29	14.1
	Asia	16	7.8
	Others	9	4.4
Firm ownership	100% domestically owned	113	54.9
	100% foreign-owned	50	24.3
	Both foreign and domestically owned	43	20.8

Table 1.
Characteristics of sampled firms

firms (69.9%) employed between 1–49 employees, which fits in the category of small-sized firms, while the rest (30.1%) employed between 50–249 employees, fitting in the category of medium-sized enterprises. Regarding the method of exportation used, the majority of the firms (41.7%) were exporting both directly and indirectly through intermediaries. In terms of regional destination for their products and services, majority of the firms were exporting to the East African Community (EAC) (30.6%), followed by the Common Market for Eastern and Southern Africa (COMESA) (28.6%). Finally, responses were solicited from 113 (54.9%) firms that were fully domestically owned, 50 (24.3%) firms that were fully owned by foreigners, as well as 43 (20.8%) firms that were jointly owned by Ugandans and foreigners.

3.2 The sampling method and procedure

We obtained the sampling frame from the Uganda Export Promotion Board (UEPB) – an organization that brings together all the exporting firms in Uganda (Uganda Export Promotions Board, 2017), and a simple random sampling technique using a table of random numbers was used to pick the required sample of 273 firms from the entire population. Also, three key informants including the founders, chief executive officers (CEOs) as well as top managers in each company were contacted to respond to the structured questionnaires. The senior people within were considered knowledgeable and well positioned to provide the most accurate responses (O'Cass and Weerawardena, 2009). The responses were then aggregated using a firm as a breaking variable since the firm was our unit of analysis. Multiple respondents were used in this study to reduce the possibility of single-respondent bias and to enhance the validity of the findings (Tang, 2011).

3.3 The questionnaire

We utilized the questionnaire to solicit responses from the target respondents since previous research studies supported the reliability and validity of the self-report measures (Nkundabanyanga *et al.*, 2018). Moreover, given that owners and managers are in most cases very busy, a questionnaire was deemed appropriate since it gives such individuals ample time to respond to the questions at their own convenience (Neneh, 2012). The questionnaire was developed based on an extensive literature review of empirical studies in the fields of networking (Mitrega *et al.*, 2012; Torkkeli *et al.*, 2012; Kenny, 2009) and international business (Knight and Cavusgil, 2004; Ngoma, 2009; Hsieh *et al.*, 2019; Sullivan, 1994). The questionnaire consisted of three parts; the first part contained questions related to the respondent's characteristics (gender, age, level of education, position in the organization and years of international exposure). The second part contained questions related to the organizational characteristics (the sector in which the firm operated in, the export experience, the number of employees, the method of exportation used, the regional destination as well as firm ownership). The third part included questions related to the study variables. The questionnaire was subjected to a pretest with five academicians with expert's knowledge in firms' internationalization to check for the relevancy of the items in relation to the variables under study. Owing to the feedback from academicians, some questions were revised before the production of the final version of the questionnaire. Thereafter, the questionnaire was pilot tested on a sample of 20 managers from the non-surveyed SMEs registered with the UEPB. Consequently, some items were slightly modified which improved the face validity.

3.4 Measurement of variables

To capture the independent variable – international networking – we relied on the postulates of Johansson and Mattsson (1988), who viewed international networking as a cumulative process that involves three levels of network extension (establishing network position with

other actors in foreign market), network penetration (developing relationships with the network partners), as well as network integration (coordinating the various networks in different countries). We relied on this conceptualization since Johansson and Mattsson (1988) postulated that networking cumulatively influences SMEs' internationalization through all the three sequential levels. This has been supported by other authors such as Adersson and Mattson (2006). We adapted the measurement items related to network initiation (extension), development (penetration) and coordination (integration) from related literature (Mitrega *et al.*, 2012; Torkkeli *et al.*, 2012; Kenny, 2009; Andersson *et al.*, 2018) and anchored them on a six-point Likert scale ranging from 1 "strongly disagree" to 6 "strongly agree". A six-point Likert scale was used to avoid response indecision associated with middle neutral points of "neither agree nor disagree" (Ntayi *et al.*, 2012).

The dependent variable – SMEs' internationalization – is measured based on speed, scale and scope to capture the outward shift of SMEs' foreign operations. These measures have been mostly used in previous studies to indicate the level of firms' internationalization (Lu and Beamish, 2001; Knight *et al.*, 2004; Varma, 2013; Hsieh *et al.*, 2019). Multiple measures were utilized since previous research studies have indicated that single measures are inappropriate in measuring the concept of internationalization (Sullivan, 1994). Besides, Antoncic and Hisrich (2001) posited that the use of multiple measures increases the validity of the variable under study. The measurement items were adapted from the review of literature and anchored on six-point interval scales to match the scale of predictor variables.

Finally, we controlled export experience and firm size since according to Bartov *et al.* (2000) the failure to manage confounding variables could lead to falsely rejecting the hypothesis when in fact it should be accepted. The firm size (Ngoma, 2009; Yang *et al.*, 2015) and export experience (Andersen and Buvik, 2002; He and Wei, 2011; Tolstoy, 2019) have been largely used as control variables in international business research studies. It is expected that more export experience would result into higher levels of internationalization (He and Wei, 2011). It is also possible that the size of firm might be related to the likelihood of engaging in behaviour conducive to internationalization (He and Wei, 2011). We measured export experience by considering the number of years the firm had previously sustained in export operations abroad (Tolstoy, 2019). The firm size is measured based on the number of full-time employees the firm was employing. Particularly, we followed the classification of UEPB and the respondents were to indicate the number of employees from a selection of 1–49 (small) and 50–249 (medium).

3.5 Reliability and validity (measurement model evaluation)

To test the reliability and validity of the measures, we ran a measurement model as recommended when using the partial least squares-structural equation modelling (PLS-SEM) technique. Running a measurement model in PLS-SEM is equivalent to performing a confirmatory factor analysis (Richter *et al.*, 2016). PLS-SEM was preferred in this study since it is regarded as a robust tool that determines reliability and validity of the measurement scales simultaneously (Hair *et al.*, 2014). Moving forward, a measurement model was run in PLS path modelling software (SmartPLS) to establish the reliability and validity of the measurement scales used in this study.

For reliability of our scales, we computed that composite reliability and all the values were above 0.7 (network extension = 0.88, network penetration = 0.88, network integration = 0.84, SME's internationalization = 0.79) as shown in Table 3, indicating a sufficient degree of internal consistency amongst the measurement scales (Bagozzi and Yi, 1998; Nunnally and Bernstein, 1994). Composite reliability coefficients were preferred in this study since Cronbach's alpha coefficients tend to provide an underestimation of internal consistency of latent variables in PLS path models (Henseler *et al.*, 2009).

Moving forward, we tested for convergent validity to assess the degree to which measures of the same constructs were correlated. We followed the criteria by Fornell and Larcker (1981) which posited that to ascertain the convergent validity, the factor loadings should be above 0.5 and the average variance extracted (AVE) value should exceed the cutoff point of 0.708. All the items with low-factor loadings (<0.708) were dropped. Results in Figure 1 and in Table 2 indicate that this criteria were met confirming that the measures of each of the study variables were sufficiently correlated.

Discriminant validity was also tested to establish whether the constructs were conceptually different from each other. The heterotrait–monotrait (HTMT) ratio of correlations criterion is utilized in this study as recommended by Henseler *et al.* (2015). Accordingly, the correlation values between any two constructs should be less or equal to 0.85 (Kline, 2011; Richter *et al.*, 2016). The results in Table 4 indicate that our model satisfied the HTMT discriminant validity criteria since all the correlation values met the recommended threshold (HTMT $\leq$ 0.85), ascertaining that the constructs were distinctively different from each other.

3.6 Control for common methods bias

Since a questionnaire was utilized to solicit response from the respondents, we controlled for common methods bias that usually affects survey-based studies in social sciences (Gorrell *et al.*, 2011). We do this by following some procedural recommendations by Podsakoff *et al.* (2003). First, we select at least three respondents from each firm to reduce the possibility of single-respondent bias; second, we ensure that the dependent and independent variables are not similar in content; third, we assure the respondents of no right or correct answer; finally, we target owners and managers since we consider them knowledgeable in matters under investigation.

4. Results and discussion

4.1 Results

4.1.1 Descriptive statistics. The descriptive statistics of the dependent and independent variables are in Table 5. The descriptive statistics indicate the level of perceptions on both the

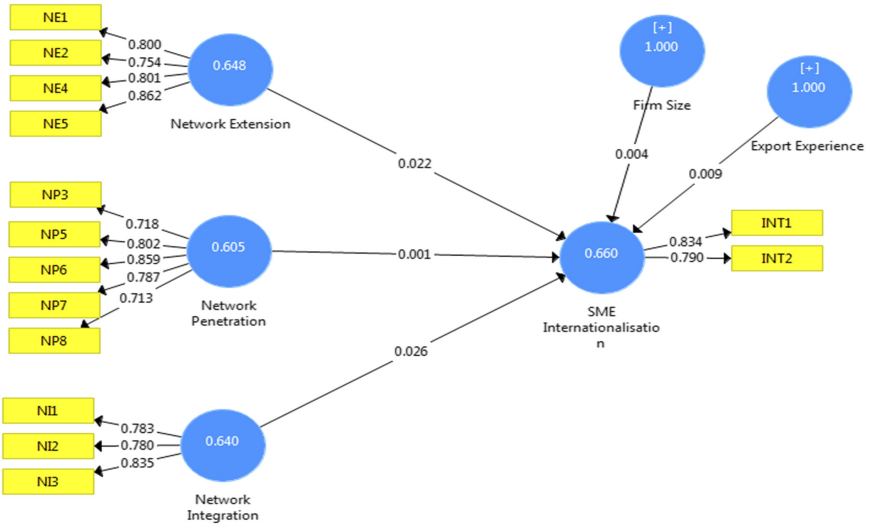


Figure 1.
Themeasurement model for the study variables

Global variable (s)	Construct (s)	Operational definition
SMEs' internationalization The outward movement of a firm's international operations (Welch and Luostarinen, 1993)	Speed (Hsieh *et al.*, 2019)	Length of time between the firm's inception and its first foreign activities
	Scale (Sullivan, 1994)	The degree to which the firm has extended its business activities outside its home country
	Scope (Varma, 2013; Bakunda, 2003)	Territorial spread/coverage of the firm
International networking A cumulative process in which relationships are continually established and developed across countries in order to achieve the objectives of the firm (Johanson and Mattsson, 1988)	Network extension (Johanson and Mattsson, 1988)	Initiating network positions in foreign markets
	Network penetration (Johanson and Mattsson, 1988)	Developing relationships in the already established networks
	Network integration (Johanson and Mattsson, 1988)	Coordinating the various network positions in international countries
Control variables Export experience (He and Wei, 2011; Tolstoy, 2019)		Number of years previously sustained by a firm in export activities
Firm size (Yang *et al.*, 2015)		Number of full-time employees

Table 2. Summary of variables and their measurements

dependent and independent variables. Accordingly, statistics on SMEs' internationalization (dependent variable) indicate a mean of 3.82 out of a maximum of 6 suggesting that on average, the level of internationalization amongst SMEs is fair. However, the minimum score of 2.30 and a maximum of 5.32 out of possible 6 suggest that wider variations exist in the level of internationalization amongst SMEs in Uganda. For the independent variable (international networking), the results indicate a mean score of 4.72, which is very close to the median of 4.77 on a scale of 1–6 points suggesting that more than 50% of the respondents recognize higher levels of international networking amongst their firms. Table 5 also indicates that the observed mean values highly represented the data since the standard deviation values are small compared to mean values (Field, 2009).

4.1.2 Hypothesis testing results (structural model estimation). The PLS-SEM technique is adopted for testing the stated hypotheses. There is growing evidence that PLS-SEM is a better technique at revealing the strength and direction of the relationships amongst the study variables than correlation coefficients in structural equation models (Henseler *et al.*, 2009). More so, it avoids estimation biases common in a regression analysis (Henseler *et al.*, 2009). The use of PLS-SEM has also been adopted in the previous studies related to international business (Richter *et al.*, 2016; Fang *et al.*, 2012). Moving forward, a bootstrapping procedure was conducted in SmartPLS software with a resample of 5,000, in order to determine the strength and the direction of the relationships. The structural model in Figure 2 indicates the strength and the direction of the relationships. We also went ahead to establish the predictive potential of the independent variables on the dependent variable as indicated in Figure 3.

Figure 3 and Table 6 indicate the results extracted using the SmartPLS statistical package. The results indicate that network extension is positively and significantly related to SMEs'internationalization ($\beta = 0.129$, t-value $= 2.504$, $p \leq 0.05$). This means that a positive change in network extension will lead to a positive change in SMEs'internationalization. This provides support for H1. Hypothesis 2, which states that network penetration is positively related to SMEs'internationalization is not supported ($\beta = 0.031$, t-value $= 0.371$, $p > 0.05$).

Constructs	Items	Item loadings (>0.50)	CR (>0.70)	AVE (>0.50)
Network extension			0.880	0.648
	NE1 – We routinely gather information about prospective foreign partnerships	0.800		
	NE3 – We sometimes use other organizations to identify potential foreign partners	0.754		
	NE4 – We visit international trade fairs to identify potential partners	0.801		
	NE5 – We have initiatives to attract new foreign business partners	0.862		
Network penetration			0.884	0.605
	NP3 –We allocate financial resources to each relationship with our foreign partners (e.g. travel budget)	0.718		
	NP5 – We commit substantial time in consolidating each relationship with our partners	0.802		
	NP6 – We exchange important information with our foreign partners	0.859		
	NP7 – We assess how much effort our employees put into relating with our foreign partners	0.787		
	NP8 – We engage our foreign partners in joint problem-solving	0.713		
Network integration			0.842	0.640
	NI1 – We communicate to all our partners on a regular basis	0.783		
	NI2 – We discuss with all our partners on how we can support each other	0.780		
	NI3 – We have specific people in our firm to coordinate our relationships with other partners in different countries	0.835		
SMEs' internationalization			0.796	0.660
	INT1 – Number of countries being operated in	0.834		
	INT2 – Percentage of contribution of export revenues to the overall company revenues	0.790		

Note(s): CR– composite reliability; AVE, average variance extracted

Table 3.
Summary of the measurement model

	Network extension	Network integration	Network penetration	SMEs' internationalization
Network extension				
Network integration	*0.629*			
Network penetration	0.675	*0.685*		
SMEs' internationalization	0.420	0.430	*0.272*	

Note(s): HTMT ≤ 0.85. The results marked in italics indicate the HTMT values between the study constructs

Table 4.
Discriminant validity

This means that an increase in network penetration will not result into an increase in SMEs'internationalization. Hypothesis 3, which states that network integration has a positive and significant influence on SMEs'internationalization is supported (β = 0.184, t value = 2.412, $p \leq 0.05$). This implies that a unit positive change in network integration will lead to change in SMEs' internationalization by 0.184.

In regard to control variables, the results indicate that firm size ($B = 0.449$, t-value = 0.768, $p > 0.05$) and export experience ($B = 0.009$, t-value = 0.873, $p > 0.05$) do not significantly influence SME's internationalization, an indication that our model is not affected by the confounding factors. Regarding firm size, this finding indicates that the number of permanent employees in a firm is inconsequential in the internationalization of SMEs. This finding is consistent with those of Ngoma (2009) and Lindstrand and Hanell (2017), who did not find any significant effect of firm size on the degree of firm's internationalization. As for export experience, the results indicate that it has no significant influence on SMEs' internationalization. The finding indicates that the number of years previously sustained by an SME in exporting operations is irrelevant in its internationalization efforts. Thus, an SME of any export experience can internationalize its operations.

To further ensure the robustness of our findings, we also ran a one-way ANOVA test to establish whether the reported results were sensitive to potential endogeneity arising from the method of exportation (i.e. through intermediaries, directly, partly direct and partly through intermediaries). Results suggested no significant difference in scores for through intermediaries ($M = 3.6631$, SD = 0.75925), direct exportation ($M = 3.6936$, SD = 0.70817)

Table 5.
Descriptive statistics of the constructs

	N	Minimum	Maximum	Mean	SD	Median
Network extension	206	3.00	5.88	4.78	0.615	4.75
Network penetration	206	2.68	5.47	4.47	0.706	4.68
Network integration	206	3.00	6.00	4.65	0.589	4.60
International networking	206	3.47	5.85	4.72	0.467	4.77
SMEs' internationalization	206	2.30	5.32	3.93	0.690	3.82

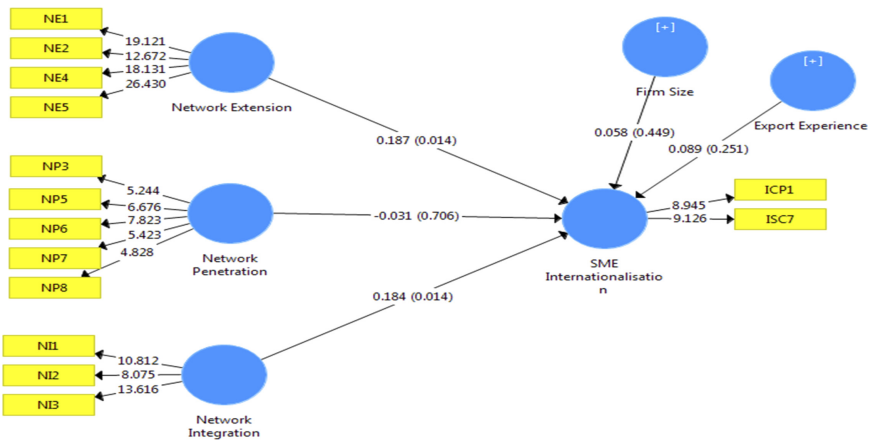
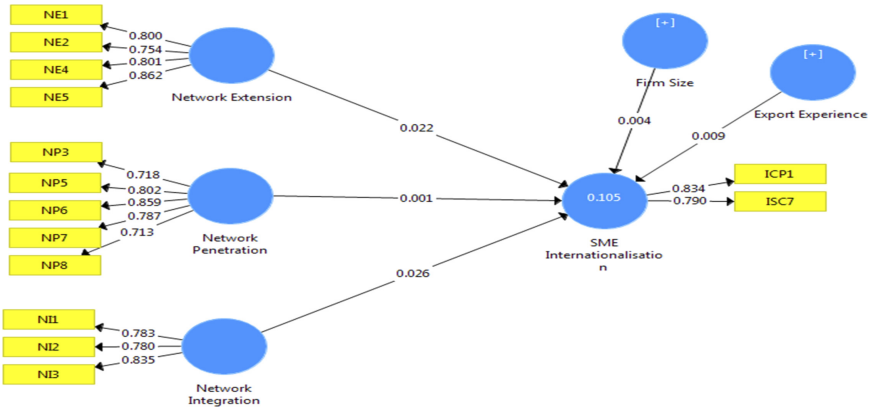


Figure 2.
Partial least squares-structural equation modelling indicating relationships between the study variables

Note(s): N= 206, $^{**}p < 0.05$



Note(s): $R^2 = 10.5$

Figure 3.
Partial least squares output indicating the predictive potential of independent variables on dependent variables

	Relationship	Std. beta	*t*-values	*p*-values ($P \leq 0.05$)	Decision	R^2
H1	Network extension →SMEs' internationalization	0.189	2.504	0.014**	Supported	*10.5*
H2	Network penetration →SMEs' internationalization	−0.031	0.371	0.0706	Not supported	
H3	Network integration →SMEs' internationalization	0.184	2.412	0.014**	Supported	
	Control variables					
	Firm size	0.058	0.768	0.449		
	Export experience	0.089	0.873	0.251		

Note(s): **$p \leq 0.05$

Table 6.
Summary of structural model results

and partly direct and partly through intermediaries ($M = 3.6375$, SD = 0.84429). The eta squared is 0.029 and this is very trivial according to Cohen (1988). While this is the case, Figure 4 shows that firms which directly export internationalize better than either those via intermediaries or partly direct and partly through intermediaries, which makes intuitive sense only that it is not significant for the case of Uganda. So overall, the method of exportation used does not matter for internationalizing SMEs in Uganda.

Moving forward, it was established that the independent variables (network extension, network penetration and network integration) predict about 10.5% of variance in SME's internationalization ($R^2 = 0.105$) as indicated in Figure 3. This means that the rest of the variance can be explained by other factors that are not part of this study.

4.2 Discussion

Contrary to other studies that have presented international networking levels as a cumulative process where each level builds on the other for networking to have a significant influence on firms' internationalization (Andersson and Mattson, 2006; Ardersson *et al.*, 2018), the present study sought to isolate the importance of each level in international networking (network extension, network penetration and network extension) in the internationalization of SMEs.

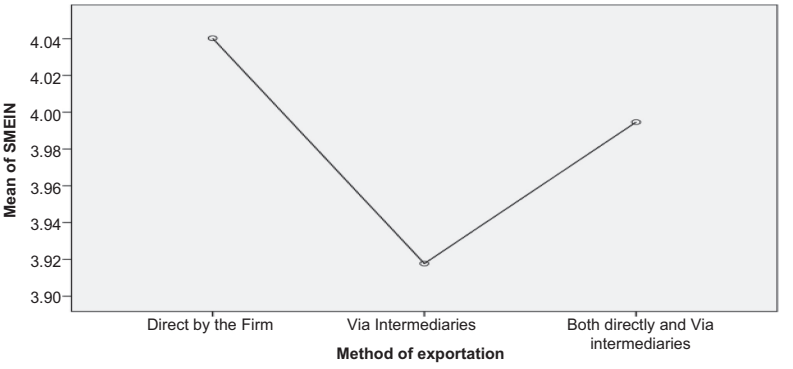


Figure 4.
Mean plots – method of exportation and SME's internationalization

The results established that network extension has a positive and significant influence on SMEs' internationalization. This suggests that an increase in network extension results into an increase in the level of internationalization amongst SMEs in Uganda. In the context of this study, this finding indicates that exporting SMEs which strive to initiate network relationships by routinely gathering information about their prospective foreign partnerships experience increased levels of internationalization as manifested through increased number of foreign markets being operated in as well as increased foreign revenue contributions. Also the results imply that when exporting SMEs utilize other organizations to identify foreign partners for them, their internationalization levels increase. Moreover, the results also imply that exporting SMEs in Uganda which attend foreign trade fairs and exhibitions with the aim of establishing potential partners realize increased number of foreign countries in which they operate in as well as the percentage revenue contributions generated from foreign operations. Empirical evidence preceding this study confirms that efforts aimed at initiating foreign networks significantly influence SME's internationalization (Belso-Martinez, 2006; Tolstoy, 2019; Kenny and Fahy, 2011). The authors agree that the establishment of relationships with key players in international markets will help SMEs not only to overcome their inherent resource poverty but will also provide the necessary market knowledge that would have been otherwise difficult to access. Our results also substantiate the findings by Rutashobya and Jaensson (2004), who in their study established that the networks of owner–managers were critical in the initial foreign market entry of Tanzania's exporting SMEs. Particularly, they established that the networks initially initiated in foreign markets helped the SMEs in Tanzania to access foreign market information on demand, designs, prices, delivery schedules, training opportunities as well as access to supplier credit. The access to such resources enables SMEs in developing countries, where government support is almost non- existent to quickly establish themselves in foreign countries. Our findings also link well with the network theory of internationalization advanced by Johansson and Mattsson (1988), which postulated that company's success in entering international markets is more dependent on access to well-functioning networks and relationships. Indeed, the theory emphasizes that internationalization happens once a firm starts to develop interactions with other firms in a foreign country.

Surprisingly, the relationship between network penetration and SMEs' internationalization was not supported. This means that an increase in network penetration does not translate into an increase in SME's internationalization. The finding implies that as exporting firms in Uganda increase investment in the established foreign networks as demonstrated through allocation of financial resources, time commitment as well as through information exchange,

the number of foreign countries being operated in and the foreign contribution of their revenues do not increase. This finding contradicts the previous views by Tang (2011) and Leppaaho *et al.* (2017), who posited that increased investment in the existing foreign relationships provides a better understanding of customer demands, increased flexibility and enhanced identification of new opportunities in international markets. The plausible explanation for our results could be derived from the observations made by Mort and Weerawardena (2006), who posited that developing a network relationship requires investment in terms of time and resources, which may limit the ability of SMEs to take on other business opportunities in international markets as and when they appear. Thus, it is possible to suggest that SMEs in Uganda could be allocating the little resources at their disposal in developing and deepening the already established relationships and this could be constraining their ability to identify and exploit additional opportunities in international markets.

The results further revealed a positive significant relationship between network integration and SMEs' internationalization. This suggests that an increase in network integration results into an increase in internationalization amongst SMEs. In the context of this study, this finding indicates that exporting SMEs which coordinate the various foreign network relationships established in foreign markets through regular communication realize increased levels of internationalization, as manifested through increased percentage contribution of export revenues and number of markets served. The finding also indicates that exporting SMEs in Uganda, which appoint specific people within their firms to manage the networks established in various countries experience increased levels of internationalization. These findings corroborate well with the earlier studies of Kauser and Shaw (2003) and Lofgren (2014), who observed that coordinating the various network relations in different countries helps firms to benefit from the synergetic pool of resources needed to facilitate further international expansion.

5. Conclusions and implications

The present study established that amongst the three levels of international networking, it is only the network extension and network integration that matter SMEs' internationalization in developing countries like Uganda. The findings of this study disclose some lessons that add into the debate of SMEs' internationalization from the networking perspective.

First, from the theoretical point of view, the study isolates the contribution of each level in international networking and proves it; while network extension and network integration levels have positive and significant relationships with SMEs' internationalization, network penetration level does not. This implies that in the context of developing countries, it is only the network extension and network integration levels that matter for successful internationalization of SMEs. Our contribution to this theory is that we tested its worth in a developing African country. The study results also have an implication to the academic community. While it has been known that all the three level of international networking matter in SMEs' internationalization, this study confirms only two.

From the practical perspective, the findings in this study imply that SMEs should devise strategies aimed at establishing foreign partnerships (network extension). Such strategies should include continuous visits to international trade fairs and exhibitions. By participating in international trade fairs, managers and owners of exporting firms are more likely to meet and interact with numerous potential partners in the form of customers, suppliers, distributors and any other relevant individuals, who will perhaps be in position to provide information on the possible opportunities in their respective countries at a lesser cost. Also, managers and owners of exporting SMEs in developing countries need to continuously search for information about prospective foreign partners. This can be done through the use of Internet and exploiting hints from existing partners. By obtaining information on the prospective partners, SMEs' managers and owners will be able to understand their financial capacity, motivation levels, location,

credibility as well as the coverage in advance. This will subsequently help SMEs to only deal with partners that will advance their objectives in international markets. Undoubtedly, by initiating foreign networks, SMEs' managers and owners in developing countries will be well positioned to gain from capabilities, information and resources embedded in the foreign networks, which will subsequently accelerate their internationalization efforts and long-term survival in international markets. Moreover, the findings in this study also imply that managers and owners of exporting SMEs in developing countries need to coordinate the network relationships established in different countries (network integration) if they are to realize higher levels of internationalization. This can be done through maintaining constant communication with the partners in various countries and by having specific people within their organizations to manage the various foreign relationships. By maintaining a constant line of communication, SMEs in developing countries will be able to get access to up-to-date market information from various partners and this will help them to quickly respond to customers' expectations, as well as to take advantage of multiple opportunities that may accrue in different countries at any point in time.

For policymakers there is a need for government to prioritize measures that help firms to access international networks. Particularly the government must continuously support SMEs to participate in international trade fairs. These trade fairs might be valuable in helping these firms to identify key network contacts that may not only be potential clients but also potential financiers or suppliers. The government may also invest in training managers and owners to equip them with skills necessary for identifying, coordinating and developing potential and future partners since networks seem to be a major resource that SMEs can rely on to easily penetrate into unfamiliar and more demanding international markets.

6. Limitations and future research

Like any other research, this study has several limitations which in turn offer opportunities for future research. First and foremost, our sample was limited to exporting SMEs in Uganda. While the findings may be generalized to other countries at the same level of development and operational features, the same study should be conducted in other countries at different levels of development to generate more debate and understanding of SMEs' internationalization from international networking perspective. Second, a multi-industry sample was used in this study and it would be interesting for future researchers to conduct a similar study in a specific industry to see whether similar results could be obtained. Third, a standard questionnaire was adopted to generate responses from the target respondents, which limited the information only to the structured questions contained in the survey instrument. Future research may wish to use a qualitative approach that utilizes in-depth interview to get a deeper understanding on how the different international networking levels influence SMEs' internationalization. Finally, the independent variables (international networking levels) predicted only 10.5% of SMEs' internationalization in Uganda. This suggests that about 89.5% of SMEs' internationalization in Uganda can be explained by other factors that were not part of this study. Thus, future studies may consider other network characteristics such as network position, network structure, network ties and network strength to establish their effect on the internationalization of SMEs in Uganda.

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Further reading

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Corresponding author
Godwin Mwesigye Ahimbisibwe can be contacted at: gahimbisibwe@mubs.ac.ug