

# Firm Size & The Nature of International Relationships: power asymmetry and mutuality in the case of globally integrated small firms

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# Context & Aims

Growing global integration a key dimension of socio-economic change

Small firm internationalisation invariably based on the assumption that 'size matters'

Past research examines: where, when, how & impact on performance. This paper focuses on the nature of international relationships established by small firms.

The paper sets out to explore the nature of forward (with buyers) and backward (with suppliers and sub-contractors) relationships of globally integrated small firms, and explore implications for performance and policy.

In order to understand the specificity of small firms, their experience is examined in comparison to that for their medium and large scale counterparts.



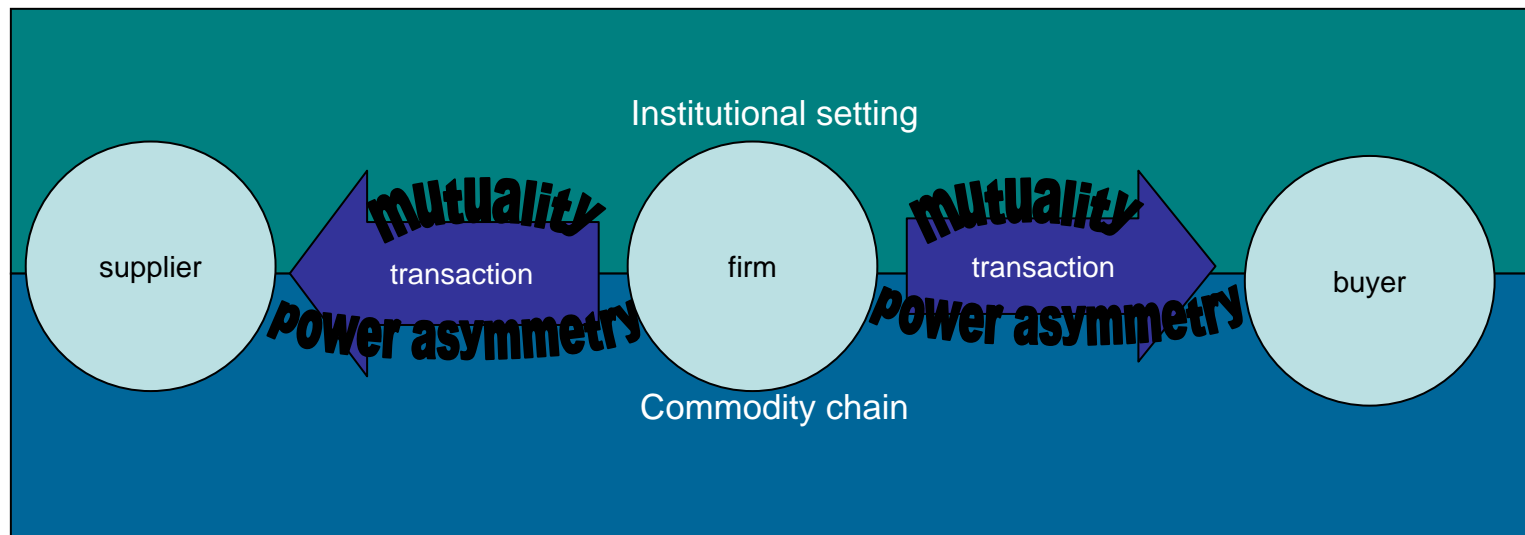
# Research Questions & Globally Integrated Firms

- ✓ Research Question 1: Do globally integrated small firms develop and maintain international relationships that are different in nature from those of their medium and large-scale counterparts?
- ✓ Research Question 2: Does the incidence of power asymmetry and mutuality (as governance structures) differ in international relationships created by globally integrated small firms, and medium and large ones?
- ✓ Research Question 3: Does the nature forward (with buyers) international relationships differ from that of backward (with suppliers) ones in the case of globally integrated small firms?

Globally integrated firms: functional integration of geographically dispersed activities between firms, combined with high degree of intensity, connectivity, and management engagement.



# Theoretical Underpinning



# Empirical Context

755 firms surveyed in four sectors (clothing, footwear, electronics & software) and five countries (UK, Greece, Poland, Estonia, Bulgaria)

Firms were not selected randomly

Peculiarities of the sample

EU definition of small, medium & large – with emphasis on independence.

38% of firms are small, 39% medium & 23% large





# Key variables

Nature of relationships

Power asymmetry variables

- Number of buyers
- Percentage of sales to the main buyer
- Likert type variable capturing the balance of power in relationships

Mutuality Variables

- Number of years of continuous relationship with main buyers
- Incidence of discontinuous relationship in past 3 years
- Likert type scale capturing mutual confidence

Performed hierarchical cluster analysis



# Findings

## Forward Relationships

	<i>Market Exchange</i>	<i>Strong Ties</i>	<i>Volatile Lock-in</i>	<i>Quasi-hierarchy</i>	<i>Sig.</i>
No of Buyers	6.64	9.78	4.8	2.14	.04
Percentage of sales to main buyer	29.0	34.3	87.8	93.3	.00
Power Balance	3.69	3.98	3.22	4.94	.00
Mutuality	2.42	4.39	3.17	4.66	.00
Number of Years of Continuous Relationship	6.4	7.19	5.6	7.6	.021
Incidence of Broken Relationships	49.7	28.5	26.3	23.4	P<.01



# Findings

## Forward Relationships

	<i>Quasi-Hierarchy</i>	<i>Strong Ties</i>	<i>Volatile Lock-in</i>	<i>Market Exchange</i>
<b>Small</b>	15.0	21.4	18.6	45.0
<b>Medium</b>	17.0	18.7	28.7	35.7
<b>Large</b>	18.4	18.4	25.0	38.2
<b>Total</b>	16.5	19.6	24.3	39.5

Source: Survey Data

- ✓ The nature of forward international relationships established by firms of different sizes are not statistically significant.
- ✓ The nature of forward international relationships established by firms located in different countries are statistically significant.
- ✓ The nature of forward international relationships established by firms located in different commodity chains are statistically significant.
- ✓ The impact of firm size on the nature of forward international relationships is complicated by ownership linkages.

# Findings

## Backward Relationships

	<i>Market Exchange</i>	<i>Strong Ties</i>	<i>Volatile Lock-in</i>	<i>Quasi-hierarchy</i>	<i>Sig.</i>
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# Findings

## Backward Relationships

	<i>'Market Exchange'</i>	<i>Strong Ties</i>	<i>Volatile Lock-in</i>	<i>Quasi-integration</i>
<b>Small</b>	35.4	22.9	22.9	18.8
<b>Medium</b>	39.5	31.6	13.2	15.8
<b>Large</b>	45.2	29.0	3.2	22.6
<b>Total</b>	39.3	27.4	14.5	18.8

Source: Survey Data

- ✓ The nature of backward international relationships established by firms of different sizes are not statistically significant.
- ✓ The nature of backward international relationships established by firms located in different countries are statistically significant.
- ✓ The nature of backward international relationships established by firms located in different commodity chains are statistically significant.

# Conclusions[1]

Firm size does constitute a significant in determining the nature of (forward & backward) international relationships established by globally integrated small firms (Research Question 1).

The evidence presented raises questions about widely held views that relationships defined by mutuality auger well for small firm internationalisation, whilst those co-ordinated by power asymmetry do not (Research Question 2).

Globally integrated small firms may occupy positions of power in international relationships. These may be the result of firm position in the commodity chain or proximity to final markets.

Globally integrated small firms may engage in relationships where mutuality exists alongside power asymmetry.

This provides some justification to the view that power asymmetries can be foreseen and entered into voluntarily, as the benefits exceed costs.

# Conclusions[2]

There are significant differences in the nature of forward and backward relationships (especially regarding the direction of power asymmetry) created by globally integrated small firms.

The firm's position in the commodity chain is central in translating the specificities of the institutional context into a source of competitive advantage.

