NETWORKS' CONTRIBUTION TO SMALL-SIZED FIRMS' INTERNATIONALIZATION[1]

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Abstract

This paper analyzes a new legislative instrument called "network contract" designed to support inter-firm cooperation. It aims to verify whether this type of formal cooperation is used by small firms to support their international strategies. Results indicate that internationalization is not the primary goal for firms who participate in network contracts: Italian small and medium-sized firms use this instrument to achieve different strategies of growth and long-term objectives. While we found that some firms have indeed increased their business activity abroad after joining the network, we also found that those with an international dimension do not seem to have changed their approach towards internationalization. Consequently, we argue that the network contract is not the most suitable tool for promoting internationalization among domestic firms, although internationalization may emerge as a by-product of inter-firm relationships.

Keywords: network contract; networking strategies; internationalization; inter-firm relationships; Italian small and medium-sized firms

1. Introduction

Globalization, increasing competition, and the recent financial crisis have severely distressed small and medium-sized enterprises (SMEs). Today more than ever, SMEs need to rethink their strategies and organizational structures in order to be competitive and survive long term. In this context, and especially in Italy, networking still appears to be the most viable way to mitigate SMEs' shortage of capabilities and financial resources, to expand their product lines, and to expand internationally. In short, networking thus helps firms escape from domestic market constraints and search for new opportunities for growth.

Past studies have already established the positive influence of network relationships (*latu sensu*) in smaller firms' internationalization processes, while also reviewing the traditional step-stage development models. Many include the network perspective (Welch, 1992;

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McDougall et al., 1994; Bell, 1995; Jones, 2001), although a minority has argued that inter-organizational relationships do not always have a positive impact (Coviello & Munro, 1997; Ritter & Gemünden, 2003).

Among the different types of networks that companies can establish, we decided to focus our research on formal networks, namely the network contract: this is a new legislative tool introduced in 2009 by the Italian government to support company innovation and competitiveness.

We believe that firms' network commitments (somehow implied by the creation of a common entity and the establishment of specific functioning rules as indicated by the law) and their related formal links may have a greater influence on single firms' strategies than loose relationships characterizing other types of organizational networks, or even industrial districts (Kontinen & Ojala, 2011).

We chose this instrument because national data indicate that it is widespread among SMEs (Rapporto Unicredit, 2011) and not exclusive to large corporations: 75% of firms involved have less than 50 employees. Moreover, in a previous research (Aureli et al., 2011) we found that it is a flexible and dynamic instrument, which can be used to undertake a plurality of strategic objectives such as international expansion. The increase in contracts between SMEs in all sectors, as well as the plurality of planned objectives and programs as recorded by Cafaggi et al. (2012), is testament to this.

Consequently, this paper aims to analyze whether and how SMEs' involvement in formal networks contribute to starting or augmenting their international expansion.

First, we reviewed the national and international literature on SMEs' international strategy and networking. Second, we examined the formal objectives associated with existing network contracts. Third, we shifted our basic unit of analysis from networks to single nodes by submitting a semi-structured questionnaire to 231 Italian firms (which correspond to members of the first 39 formal networks). The data obtained from respondents were then used to evaluate the effectiveness (and the limitations) of this new tool in starting or improving small firms internationalization.

The first contribution of this paper is its description of the internationalization patterns of small-scale Italian businesses willing to cooperate through the network contract. It reveals whether they focus more on upstream or downstream market expansion, preferred modes of entry into foreign markets, relevance, geographic scope, and duration of international activity. Second, it compares the usage of the network contract for the development of international strategies with other purposes that may have led small firms to undertake this form of formal cooperation. Lastly, but most importantly, it illustrates in which cases companies belonging to a formal network have succeed in starting or improving their international expansion. Information about the size of the company, the network's dimension, the goals associated with the contract, and pre-existing inter-firms relationships are also provided.

2. Literature review

2.1. Theories on small business internationalization

Internationalization refers to the process of increasing involvement in international operations (Welch & Luostarinen, 1988). It can be viewed as a reactive strategy to escape from concentrated and fragmented sectors, or as the outcome of specific intensions to expand internationally (i.e. Saporta, 1986). Three main perspectives or interpretative models may help explain firms' international expansion.

The first is the so-called "eclectic theory" (Dunning, 1980; Buckley & Casson, 1993). This theory considers internationalization as a strategy, generated by a rational decision-making process, for optimizing the company's production structure, penetrating new markets, obtaining access to inputs, and operating in more favourable conditions. The second is the "stage-model" approach (Aharoni, 1966; Johanson & Vahlne, 1977; Luostarinen, 1979), which describes internationalization as an incremental process based on learning. The third is the "network perspective" (Johanson & Mattsson, 1988; Axelsson & Easton, 1992), which interprets inter-firm relationships as the main driving force to internationalization. This last perspective also incorporates the learning theory (Coviello & McAuley, 1999).

All three models apply to SMEs whose internationalization processes have usually been depicted as different from those undertaken by larger companies (Lau, 1992; Calof, 1993; Coviello & Munro, 1997; Julien, 1997; Fletcher & Vyakarnam, 1999; Gankema et al., 2000; Wolf & Pett, 2000; Dimitratos & Jones, 2005; Kabbara, 2007), although some opposing findings exist (Kalantaridis & Vassilev, 2011).

However, the second and third perspectives seem to better describe SMEs' international development process (Caroli, 2002; Lipparini, 2002), given that they both provide a more complex view and consider the importance of learning processes that small firms usually activate when they do not directly possess the resources necessary to cross national borders. Specifically, the stage model emphasizes firms' organizational learning and incremental logic, which are central factors in SMEs' formation and implementation of strategies; although it has been criticized as SMEs may have different behaviours and may not develop gradually (Dalli, 1995) as demonstrated by the presence of many firms that are "born global" (Bell, 1995; Zucchella, 2001; Knight & Cavusgil, 2004; Zucchella et al., 2008).

The stage model has been used by Luostarinen & Hellman (1994), who deepen the concept of internationalization. Taking consideration of both upstream and downstream flows, they stress the importance of the learning process along with internationalization's advancement steps.

The first stage corresponds to inward flows as the international purchase of raw materials, intangible and tangible resources, or technology. The second stage regards outward flows through export, creation of international subsidiaries, subcontracting, job orders, licensing, establishment of production sites abroad, and collaboration with foreign partners. Lastly, in the third stage, international development mainly occurs via inter-firm collaboration regarding production, supply, and R&D activities.

This model distinguishes each stage of internationalization by the specific organizational functions involved (i.e. purchase, marketing, production, R&D), the extent of the company's investment (i.e. indirect export, direct export, foreign direct investment), and the type of product exchanged (from goods to services and know-how). This highlights three key aspects of SMEs' behaviour: learning is a key activity; SMEs usually are familiarized with the international dimension through their initial stages of importation, and the most frequent form of internationalization is the export of goods. There is actually a wide agreement in the literature about the fact that exporting is the preferred mode of entry in SMEs' international strategies (Namiki, 1988; Aerts, 1992; Pope, 2002).

Among the different export-related theories of internationalization, it is interesting to note Donkels et al. (1998)'s Interstratos model, which identifies six stages of internationalization based on exogenous and endogenous variables, including the firm's degree of cooperation. A similar perspective has also been used by Caroli (2002), who studied the nature and intensity of inter-firm relationships employed (or employable) by Italian SMEs, which were capable of influencing international orientation, in addition to other factors.

As changes in business practices occurred, and the importance of networks in international strategies emerged, inter-firm relationships have actually become a central theme in academic literature (Dimitratos & Jones, 2005; Coviello, 2006). Describing internationalization as an evolutionary process, the Uppsala Model, developed by Johanson & Vahlne (1977), also has been revisited in light of theoretical advances that view the business environment as a web of relationships (Johanson & Vahlne, 1990; 2009; 2011). Authors pointed out two new factors in the model's change mechanisms: trust-building and knowledge creation in inter-firm relationships.

The network represents a key factor for network theorists who interpret the internationalization of businesses as a natural development of network relationships. Some look at networks established with foreign individuals and firms (Johanson & Mattsson, 1988; Welch, 1992), while others examine the relationships established inside the industrial district (Grandinetti, 1999). Sometimes internationalization is seen as opportunity-seeking efforts made by the focal firm in order to improve or defend its position in a network or networks. This is especially true for the internationalization of Italian SMEs, which are usually dependent on larger companies and belong to industrial districts. In the first case, the small firm is pushed to internationalize because of its relations (usually as a sub-contractor) with a larger organization, which already operates globally (Lipparini, 2002). In the second case, informal relationships developed inside the industrial district stimulate the crossing of national borders (Brown & Bell, 2001; Maccarini et al., 2003) as they provide tangible and intangible resources that may allow small firms to create simple, as well as complex forms of internationalization.

2.2. The role of networks

The "network" is a broad concept that can describe many types of interconnected relationships occurring among firms, economic entities and/or individual subjects. Networks may be interpersonal or organizational; thy may be limited to bilateral (or dyadic) relations, or they might assume the form of true networks (a combination of multiple sub-systems of links). They range from informal relationships to formal agreements, strategic alliances, constellations, consortiums, industrial districts and groups (Lorenzoni, 1992; Ferrero, 2001).

Such inter-organizational relationships seem to be more important for SMEs than for their larger counterparts (Golden & Dollinger, 1993): by collaborating, small firms can share and reduce costs; obtain complementary resources, knowledge and capital; improve learning; and, consequently, increase their competitiveness and profitability (BarNir & Smith, 2002). Moreover, the network may provide firms with the opportunity and motivation to internationalize (Bonaccorsi, 1992; Welch, 1992; Borch, 1994; Coviello & Murno, 1995; Wright et al., 2007). This is clearly confirmed for cases of formal alliance (Hansen et al., 1994; Hara & Kanai, 1994).

Regardless of the theoretical perspective used, inter-organizational links emerge as facilitators of international expansion in several studies.

The cost argument suggests that networks help individual firms overcome their financial and personnel constraints, which hinder internationalization, while also providing the best alternative to both international transaction costs and coordination costs associated with foreign direct investments (Williamson, 1991).

The resource-based explanation (Grant, 1991) attributes a firm's access to international markets to distribution channels, infrastructures, or other resources owned and shared by a partner. In addition, knowledge of foreign markets is a key resource that can be shared and captured by other firms through collaboration (Cohen & Levinthal, 1990): in this case, the firm acquires outside knowledge that allows it to do something new and different (a process called the "double loop," which generates learning).

Lastly, according to the network theory perspective (Johanson & Mattsson, 1988), a firm's international strategy (the decision to go abroad, the choice of the markets, and the mode of entry) is linked to the opportunities that emerge from network relations more so than to merely the strategic decisions made by the entrepreneur (Bell, 1995; Coviello & Munro, 1997; Holmlund & Kock, 1998). This approach assumes that international business takes place in a network setting where business actors are linked to each other through business relationships. Thus, a firm's strategies are influenced by a variety of network relationships (with customers, suppliers, distributors, regulatory and public agencies as well as other market actors). In particular, the firm's position within the network, and the presence of strong business relationships with certain actors, can exert great influence upon the firm's strategic decision-making (Johanson & Mattson, 1993; Ruzzier et al., 2006).

This is especially true for smaller firms that jointly operate with large corporations (Dana & Wright, 2004). For example, Coviello & Murno (1995) discovered that small businesses' international marketing activities were impacted by larger network partners, whereas no connection has been detected between relationships created inside an industrial district and firms' behaviour toward entry mode selection (Musso & Francioni, 2012).

When dealing with SMEs, we also have to consider the existence of less visible relationships related to entrepreneurs' and managers' personal and social relations, which usually generate more loosely coupled networks compared to inter-organizational ones. They are quite common in SMEs, which have a simple, centralized organizational structure, and a directorial style centred on direct relations promoted by the owner-entrepreneur. As noted by Johanson & Vahlne (1990; 2009), they can be important in small or emerging companies, and serve as a catalyst for the formation of formal inter-organizational relationships. They facilitate the establishment of firm alliances (BarNir & Smith, 2002), and provide a platform for internationalization (Hara & Kanai, 1994). Although there is no strong evidence for their direct influence on internationalization, we contend that they should not be underestimated.

Lastly, it is important to note that networks can also be interpreted as a means of increasing SMEs' recognition of international opportunities (Zahra et al., 2005), which can be defined as the "discovery, enactment, evaluation, and exploitation of opportunities across national borders" (Oviatt & McDougall, 2005, p. 540).

Kontinen & Ojala (2011), for example, distinguish business ties from informal ties (with friends) to assess the different level of activeness and alertness of SMEs recognition of international opportunities. Other scholars emphasize the importance of the entrepreneur's contacts with other people (Ellis, 2000; Singh, 2000; Crick & Spence, 2005), suggesting that opportunity recognition is positively related to an entrepreneur's social network. Social ties serve as conduits for the spread of information concerning new opportunities (Granovetter, 1973; Burt, 2000). In fact, Ozgen & Baron (2007) discovered that the greater the extent of social ties with mentors and informal industry networks, the more positive are the effects on opportunity recognition.

3. Methodology

Given the research question, we aim to verify whether domestic SMEs start to operate internationally after the implementation of the network contract, and/or if the contract contributes to an increase in the international activities of SMEs who have previous experience in foreign markets. Moreover, we aim to investigate whether the network's participation may modify a firm's approach to internationalization (i.e. its preferred mode of entry in a foreign market), and if it eventually increases the entrepreneurial capacity to recognize the opportunities in both international markets and in other business aspects.

This study draws upon theoretical frameworks that consider the network as an important element in influencing the international expansion of SMEs. The theoretical framework is used to interpret data from the following empirical analysis, which is as important as the deductive construction of the theories. The so-called "adductive approach" combines the deductive and inductive models of proposition development and theory construction (Denzin, 1978).

This methodological orientation is particularly appropriate for the study of small businesses (Ferraris Franceschi, 1998) as they have specific characteristics (i.e. scarce resources, concurrence of ownership and control) which generate different behaviours from those of their larger counterparts.

We made use of different sources of data (public documents and questionnaires) and different methods of analysis (document analysis and descriptive statistics).

First, we mapped all network contracts signed by April 30, 2011, which correspond to the first-built 39 contracts involving 231 firms (nodes). The date was chosen in order to be sure that companies had a minimum of one year of experience with the network contract at the time of the study (April, 2012), and to increase the possibility of finding changes in firms' strategic decisions toward internationalization after months of supposed reciprocal experiential learning and increased commitment.

Thanks to the national system of the Chambers of Commerce, it was possible to examine the content of those written agreements and to identify their strategic objectives and network programs. This helped us discover the networks with a formally stated international scope. 21 contracts (54%), which correspond to 119 out of 231 nodes, have officially scheduled some common activities to be performed in foreign markets.

Next, a survey questionnaire was sent by e-mail to all 231 businesses, which represent the population to study, followed by a telephone call to remind them to complete the questionnaire. The questions were addressed to the primary actor involved in the establishment and/or the functioning of the network (usually the entrepreneur or the company director). Approximately three-quarters of the questions were closed and coded, whereas the remaining were open-ended.

The questionnaire is divided into four sections: company information, the company's internationalization strategies before and after joining the network contract, motives for networking and, lastly, the type and impact of common activities undertaken during the alliance.

The questionnaire was sent to all 231 firms in order to verify whether businesses involved in contracts with no international aims (as revealed during the documentary analysis), were undertaking some common international activity anyway. Only 27 questionnaires were returned (about 12% response rate), which correspond to 27 firms belonging to 20 different network contracts. Only 7 out of 20 network contracts formally foreseen internationalization as common activity of the network.

We are aware of the small size of the sample, which hinders generalization. Since we know some features of the population, we performed parametric tests on them that confirmed the representativity of the sample.

4. Empirical results

4.1. The sample

Regard to year 2011 the sample's 27 companies count on average 19 employees, ranging from 0 to 65 units. The average turnover is about € 7 million, with a minimum amount of € 50,000. Thus, our sample is coherent with national data that indicate that the network contract is used mainly by SMEs (Rapporto Unicredit, 2011; Cafaggi et al., 2012).

Respondents belong to 20 network contracts that mainly involve companies located in the same territory: 55% regard organizations located in the same region (sometimes even in the same province). This distribution is perfectly in line with national data provided by Unioncamere (De Pace, 2011), and with results obtained by a previous explorative study (Aureli et al., 2011), which revealed that the network contract is often used by firms belonging to the same industrial district and seldom contributed to creating trans-regional clusters.

Network contracts here examined counts 8 nodes on average, with a minimum amount of 2 nodes and a maximum of 19. Similar characteristics may be found in the 39 contracts representing our population: they record 6 nodes on average with a dimension ranging from 2 to 19 nodes.

Table 1 – Basic descriptive statistics of the sample

Variable	Mean	Standard deviation	Median
Turnover 2010	6.585.800	6.751.500	3.990.400
Turnover 2011	6.911.574	7.773.200	2.254.500
N. of employees 2010	20,286	18,012	16
N. of employees 2011	19,286	18,012	15
Total asset 2010	7.074.400	6.822.200	6.243.200
N. of nodes	7,9	5,4570	6

Companies of the sample belong to the manufacturing sector (mainly mechanics), followed by the service and then agriculture sectors. Most of them are located in the north of Italy (Graph 1): 23% are situated in Emilia Romagna, 14% in Lombardia, 11% in Veneto, succeeded by Abruzzo (10%) and Basilicata (10%).

At the national level, the manufacturing sector represents almost the entire phenomena (70% of total network contracts), and distribution is concentrated in Emilia Romagna and Lombardia, with the Northern part of Italy counting for about half of all companies involved in a network contract.

Graph. 1 – Italian regions with the highest number of network contracts

4.2. Network's contribution to internationalization

Regarding domestic companies, our results indicate that building formal alliances such as the network contract did not largely promote internationalization for the individual nodes interviewed (Tab. 2). Data show that only 4 out of 18 firms (22%) have begun to internationalize after signing the network contract.

The most common activities reported are: finding an export manager and/or foreign market sales representatives, participating in international trade shows, approaching some potential foreign partners, and direct export. In addition, 2 other companies have specified that, while internationalization processes and activities are underway, they have still not experienced any tangible effects.

The 14 remaining firms indicate that the network contract has not produced any new initiatives regarding internationalization.

Table 2 – Firms that have developed international activities

	Network's contribution to ITZ	
	YES	**NO**
Internationalized firms *(n. 9)*	**A** 33% *(n. 3 firms)*	**B** 67% *(n. 6 firms)*
Domestic firms *(n. 18)*	**C** 22% *(n. 4 firms)*	**D** 78% *(n. 14 firms)*
Tot. *(n. 27)*	**26%**	**74%**

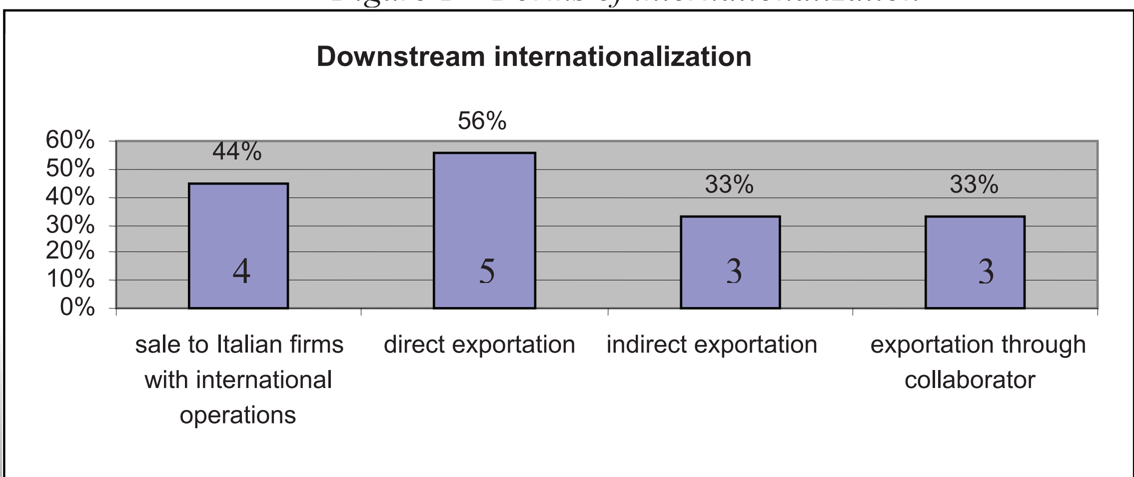
Similar results emerged among the 9 firms who already had prior experience in foreign markets (33% of the responding firms). The majority of them (67%, corresponding to 6 companies) state that the network contract has not contributed to any increase in existing international operations (Tab. 2). When the network contract has impacted international activities (in just 3 cases), companies indicate that cooperation has increased participation in international fairs and exhibitions, augmented export, and raised the number of foreign market representatives.

Particularly relevant is the fact that 89% of selected companies do not believe the network contract is capable of influencing their individual international strategy—i.e., the processes or modes of market entry chosen. The only company affirming that the network contract has changed its approach to internationalization describes the adoption of a collective strategy to enter new foreign markets.

Focusing on the 9 firms which have been performing some international activities, we noticed that they are larger than the domestic ones and have been operating over national boundaries for 10 years on average (indicating a long-lasting international involvement).

Direct exportation is the most recurrent form of internationalization (56%, which correspond to 4 firms), and is usually performed through sole and multi-firm agents. Moreover, the companies surveyed export indirectly by selling their products and services to other Italian firms that operate internationally (44%), or through Italian exporters (33%). Less common is international expansion through alliances or other forms of cooperation (33%), which represents the third stage of development of Luostarinen's model (Fig. 1). Cooperation is sometimes informal (based on a "gentlemen's agreement") and never assumes the form of a joint venture or a franchising contract.

Figure 1 – Forms of internationalization



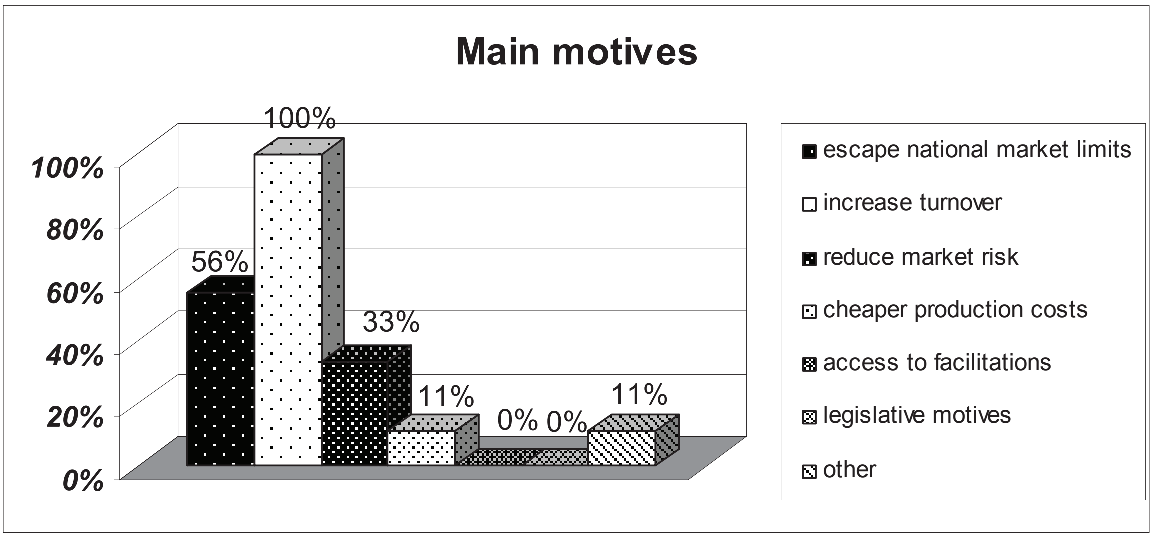
In line with traditional SMEs' preference for simple forms of internationalization, we found that none of the companies analyzed receive foreign subsidiaries for commercialization. Foreign direct investments (FDI) are cited by only 2 companies, who utilize them for production purposes only. None of the companies investigated perform R&D activities at the international level.

Regarding upstream internationalization, we noticed that only 1/3 of the 9 companies with an international orientation purchase inputs aboard; in these cases, they are mainly raw materials and components. Purchasing is usually made directly (83%), while only a minority use intermediaries or forms of international cooperation.

However, these 9 firms have a fairly large international scope: 89% work in three or more countries and 75% have international relationships outside Europe. Their propensity for international business is also demonstrated by the level of international turnover. On average, 23% of total sales are made abroad, while sometimes (for companies belonging to the mechanical sector) it peaks at 60%.

We also investigated the main reasons businesses gave for internationalization. All 9 respondents have moved beyond national borders to increase their turnover (100%), while more than half intended to avoid domestic market constraints (56%). Less important were risk reduction or market diversification through international expansion (33%). Lastly, only 11% of respondents were trying to decrease production costs. Interestingly, none of the companies analyzed decided to internationalize due to fiscal reasons (Fig. 2).

Figure 2 – Firms' reasons for internationalization

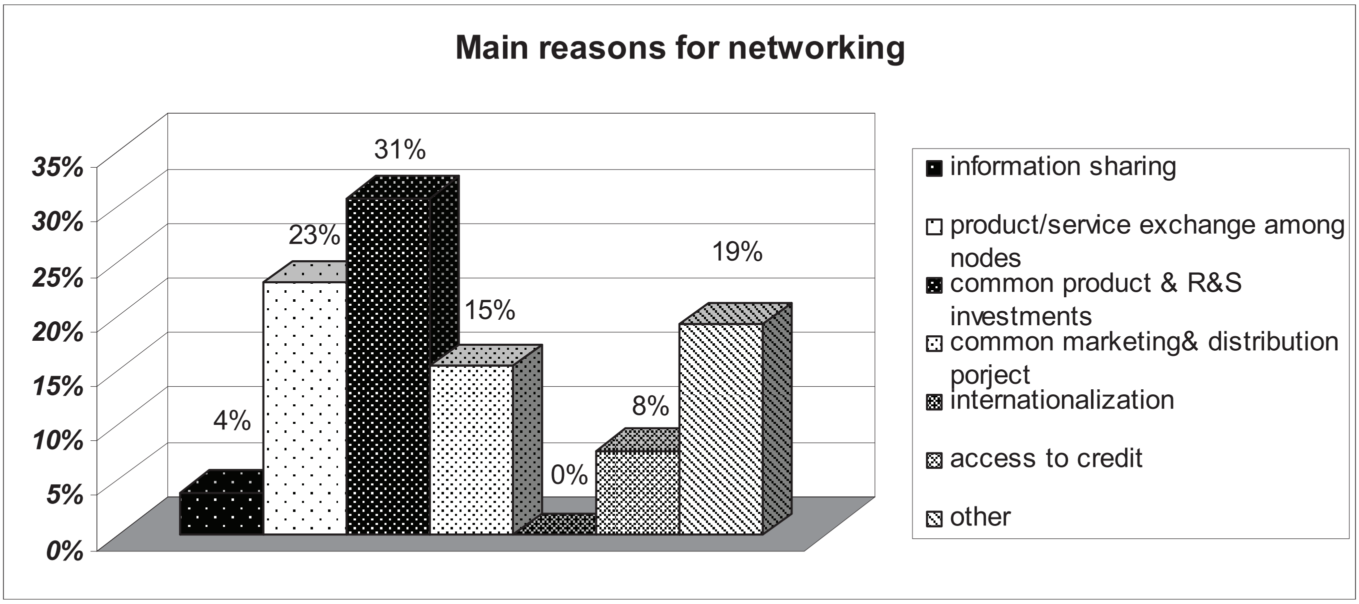


4.3. Firms' motives for networking and contract's objectives

In order to better understand the logic behind network contract usage, we posed some questions about the motives which directed the single nodes to sign the collaboration agreement.

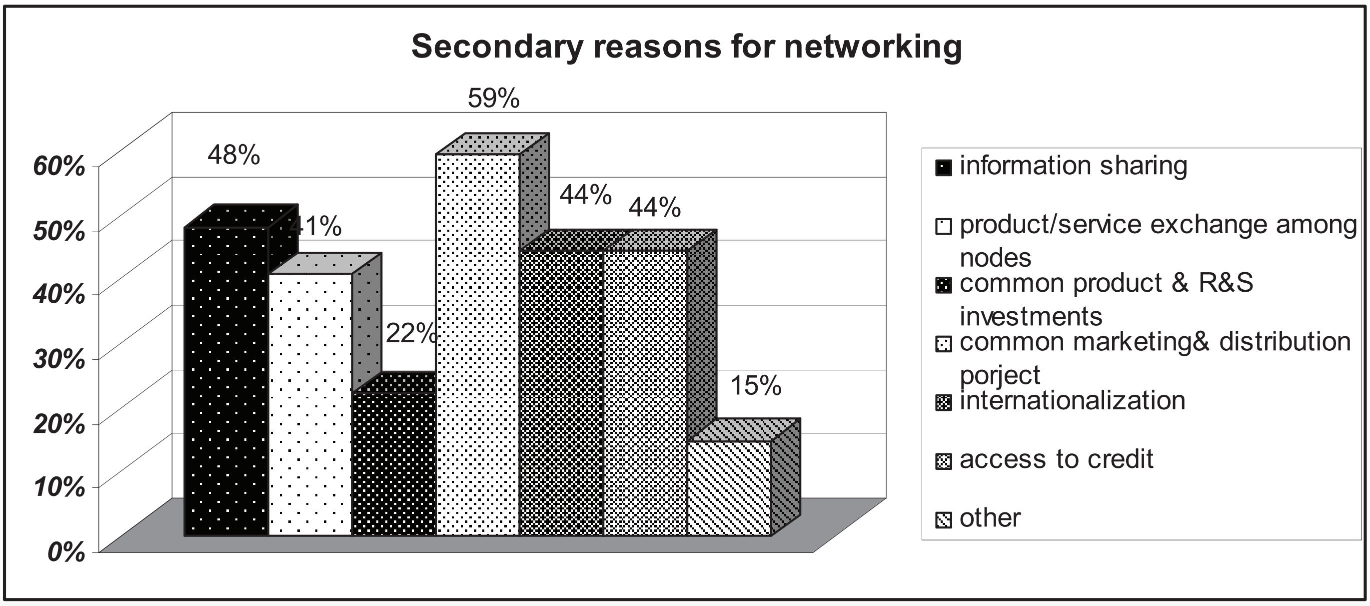
The most important reasons are (Fig. 3): manufacturing new products together and/ or performing common R&D activities (31%), exchange of products and services among network's nodes (23%), starting common projects in marketing and distribution (15%), better access to sources of finance (8%), and information sharing (4%). No company surveyed cited international expansion as the main reason for aggregation.

Figure 3 – Expected results that motivated firms to start collaborating



To verify if internationalization was considered a less relevant reason for joining the network contract, we asked single nodes to specify other expected results deriving from network's participation. Multiple answers were possible. Results indicate that internationalization is a secondary reasons (Fig. 4) which accounts for merely 44% (12) of the total 27 companies. Other secondary motives for creating networks regard: common marketing and distribution projects (59%), information exchange and/or shared access to new information resources (44%), product and service exchange among the network's nodes (41%), and finally, the joint realization of new products and/or R&D activities (22%).

Figure 4 – Other reasons to start collaborating



Focusing on internationalization, we noticed there is not always a perfect correspondence between an individual company's purpose for signing the network contract, and the concrete contribution of this instrument regarding internationalization. Nor did we note that their written goals inserted into the contracts corresponded with their subsequent effects (Tab. 3). For example, among domestic firms, at least half of them expected to increase their international activities, while only 4 recorded some results. At the same time we discovered 10 firms participating to networks with international objectives among the 20 who did not record any concrete results.

Table 3 – Objectives of internationalization

	Network's contribution to ITZ	
	YES	**NO**
Internationalized firms *(n. 9)*	**A** *(3 firms)* 1* ; 2°	**B** *(6 firms)* 3*; 1°
Domestic firms *(n.18)*	**C** *(4 firms)* 2*; 3°	**D** *(14 firms)* 7*; 6°

(*) companies belonging to networks with international goals
(°) companies attributing international expectations to network's participation

Since inter-firm relationships and the knowledge-sharing practices that usually occur inside networks can generate new unplanned opportunities, we asked all of the companies in the sample if and how the idea of internationalization eventually appeared during their involvement in the network, regardless of any written provision or prior aims for international development.

21 respondents affirmed that this topic emerged, and in 5 cases, internationalization was neither included in the network's written goals nor cited as a motive for aggregation. Internationalization mainly emerged collectively; they were either promoted by all firms (52%) or by a group of nodes (14%). Only for the remaining 33% was the issue raised by one single company, which was not necessarily the most experienced in international operations (i.e., the leading or focal firm in international matters). A discussion about internatioanlization emerged casually in 53% of cases (mainly during routine supplier-client relationships occurring among the network's nodes), while it was formally scheduled during a network's meeting in the remaining 47%.

The above-mentioned discourse then translated into (an) initial contact(s) with international operators for 7 companies, with 6 beginning to export a common product abroad (made with the contribution of different network nodes). Reaching an international dimension did not cause any change in firms' organizational structure (79%), except for 2 cases, in which a person responsible for international operations was introduced. In any case, all 7 companies consider these international contacts useful: they have perceived an increase in their individual international visibility (71%), they have obtained international orders (71%), and they have gained access to new distribution channels (57%).

Finally, respondents believe that the network contract can be functional for a firm's international expansion (71%), although they believe that it is too early to measure concrete effects and to come to definitive conclusions. The contract has positively affected their activities (92%) by generating knowledge sharing, learning, and new opportunities.

It is important to note that network contracts are mainly built by companies with previous inter-organizational relationships (63%), and emerge among firms who belong to the same value chain (i.e. client-supplier relationship); in two cases they came from equity links.

Moreover, almost all networks (96% of respondents) were created by companies whose entrepreneurs had previous contacts with members of the same cultural association or actors located in the same province or region (74%).

5. In-depth analysis of different company situations

Our data indicate that the network contract contributes to starting or increasing a firm's international expansion only in a minority of cases, and rarely orients them towards foreign market changes.

Thus, we decided to better understand the reasons for such differences by closely examining the characteristics of the companies classified in Table 1. Variables elements taken into consideration were: company size (in terms of average number of employees and turnover), network size, motives for collaboration, and pre-existing links.

Group A

This group is only composed of 3 internationalized companies that have increased their international activity after joining the network. These are the largest companies with a mean of 27 employees and € 12 million in sales.

They belong to "project networks" with 7 nodes on average. Their main reason for cooperation is the development of marketing activities, while the most common secondary reason is product exchange and internationalization (in 2 cases).

Considering that goals reported in network contracts concern internationalization only in one case (cited by a company that signed up for the contract for other reasons different from internationalization), it emerges that the network's contribution to foreign expansion is mainly unexpected in this group of companies.

Again, all companies belong to a network characterized by a focal organization with strong international experience, while 2 out of 3 declared that they had previous inter-firm relationships.

Group B

This group is composed of 6 companies performing international activities prior to the application of the network contract, but who did not register any improvement in foreign operations. Together with the companies in group A, they are the largest organizations of the sample, counting 22 units on average and a turnover of € 8.5 million. They also belong to the largest networks (with 11 nodes on average).

Their main reason for cooperation is R&D (for 3 companies), while secondary motives are related to marketing (in 5 cases) and finance (in 3 cases). Thus, they can also be labelled as "project networks."

In 3 cases the contract's objectives regarding internationalization were present, with only one of them also expressing the unrealized expectation of foreign expansion.

All companies belong to a network where there is one leading internationalized company, while only half of them indicate having experienced previous relationships with other network's nodes.

Group C

This group contains domestic companies that started some international activity, thanks to network participation. They count 13 employees on average, while recording a turnover of € 7 million, indicating a high rate of productivity per unit. These companies belong to very small networks (3 nodes on average).

The main reason for cooperation is the exchange of products and services, while information sharing represents the most common secondary reason (cited by all 4 companies). Thus, these can be defined as "product exchange networks," which usually integrate businesses working along the same value chain as suppliers and clients, as well as "knowledge networks." Another important secondary motive for collaboration is international expansion (cited by 3 companies), which is also reported in two of the network contracts.

Foreign expansion also occurred for the one company that did not have such expectations and joined a network without formally stated international objectives.

In this case, all 4 companies of the group declared that they had previous relationships with other nodes, and that all networks to which they belong are characterized by the presence of a leading company with strong experience in international operations.

Group D

These are the smallest companies of the sample (with 19 employees on average and a turnover of about € 5 million), characterized by domestic operations, which belong to large networks (9,5 firms on average).

The most recurring reason for cooperation was launching common R&D activities (cited by 5 companies), while secondary motives for networking were related to marketing and distribution projects (8 companies), followed by information sharing (7 companies).

Some appear as "project networks," whose nodes undertake joint investments in order to launch common projects and share risks and costs, so as to increase their power as an entity and protect them from outside competition. Others appear as "knowledge networks," whose aim is to sustain knowledge-sharing in order to establish and improve their competitive advantages.

Although internationalization was not a stated reason for cooperation, 4 of them affirmed that they were looking for new activities in foreign markets, and, indeed, internationalization was formally included in 7 companies' the network contracts. Nevertheless, internationalization had not occurred, and the presence of a leading firm in the international field (66% of cases) did not make any difference.

It is important to note that not all companies record previous relationships: 5 out of 14 did not have client-supplier relations.

This categorization highlights that:

- The average size of a firm is related to previous individual international experience (see groups A and B). This confirms the idea that the size and maturity of a company are strictly related to its international process (Calof, 1993), but not associated with networks' ability to favour foreign expansion (as demonstrated by group C);

- Network contracts, including common international goals, are subscribed by both domestic and international companies. However, its use is more widespread among domestic businesses (9 out of 18), thus starting new international activities rather than increasing existing foreign operations of internationalized firms (in only 4 cases of a total of 9);

- The presence of printed objectives concerning internationalization in network contracts does not always translate into concrete results. Nor are companies' individual expectations about international expansion automatically associated with subsequent foreign market entry. This suggests that the network contract may be too recent an innovation to allow firms to develop international strategies, and/or that other common projects have been given priority;

- The objectives of companies are more relevant than the written goals stated in the network contract. This is demonstrated by all 7 companies in groups A and C, which are characterized more by individual international goals (in 60% of companies) than by their networks' international orientations (in only 3 cases, corresponding to 43%). Speculatively, the 20 companies in groups B and D did not improve their international activities. This is in line with their lower personal interest in foreign expansion (35%) compared to common network goals (50%);

- Additionally, we found that the network was responsible for starting some companies' international operators (in groups A and C), though they did not plan for it nor had the contract foreseen it. This indicates that network interactions may nevertheless contribute to the identification and exploitation of new business opportunities;

- Companies that did not increase their international operations (group B and D) are characterized by R&D objectives: in this case, the network contract primarily has innovative purposes; however, these respondents also believe that the contract may contribute to internationalization, indicating that this strategy of development is not excluded;

- The presence of a leading organization with strong experience in international markets does not seem to be associated with networks' ability to favour foreign expansion, nor it is related to companies' previous activities. Actually, almost all companies within the sample belong to networks that boast a focal company. Therefore, this variable is not determinant in contrast to what has been suggested by past studies (i.e. Lipparini, 2002);

- The network's dimension, expressed in terms of nodes, seems to be slightly associated with the network's contribution to international expansion, since the companies in groups A and C belong to the smallest networks;

- The presence of prior relationships also seems to be higher among companies that declared that the network contract has increased their international operations. Thus, our sample seems to be in line with the literature (i.e. Coviello & Murno,1995 and Dana & Wright, 2004) that attributes pre-existing links to the capability of favouring reciprocal trust and consequent international expansion, although it should be noted that the larger dimension of networks may limit the existence of previous links.

6. Conclusions

The network contract seems unable to automatically and immediately change a firm's orientation towards international expansion. Either there is a gap in the contract's efficacy—probably due to its limitation to the Italian territory—which hinders the formal participation of foreign partners, or the recent birth of this legislative tool has not allowed network relationships to develop sufficiently enough to changes international strategic decision-making processes. In the latter case, network contracts may represent only the initial experimental steps toward collaborating in international expansion. This seems to be confirmed by some respondents' comments, the majority of whom positively evaluate the capability of the network contract to impact international expansion while stating that it is too early to derive conclusions.

A different explanation for low internationalization could be attributed to companies' responses indicating that participation in the network contract was mainly driven by other reasons (i.e. innovation, marketing objectives). Thus, low international expansion is not caused by insufficient knowledge exchange, but, rather, is a matter of entrepreneurs' personal motives for collaboration. In other words, while the network contract's nodes espouse positive attitudes toward cooperation (as also demonstrated by the presence of previous inter-firm and interpersonal relationships), the propensity to foreign expansion is actually scarce. Consequently, pre-existing relations can be considered a prerequisite for formal cooperation, but not a determinant variable for generating common international initiatives.

Moreover, our results indicate a general inconsistency between international goals and outcomes generated by network participation. Such an inconsistency can be both positive and negative. A positive inconsistency emerges when internationalization develops, despite the fact that the network contract did not foresee it (an "unintended outcome"); this regards both domestic and internationalized companies (A and C groups). A negative inconsistency occurs when internalization is not reached, even though it was formally planned in the network contract or included among companies' secondary aims (a "missing outcome"). Only in a few cases is there a perfect match between the international motives for networking and their actual outcomes ("best practices").

Finally, the network contract seems to stimulate an entrepreneur's ability to recognize and exploit business opportunities in different areas (i.e. product development) and markets (national and international) (Zahra et al., 2005; Kontinen & Ojala, 2011; Ozgen & Baron, 2007; Singh, 2000); it also seems to act as a driver of international development processes (Kabbara, 2007).

From a practical point of view, this study contributes to a fuller understanding of a new legislative tool aimed at supporting SME competitiveness and growth on the international level. It also provides a set of practical implications for the Italian government, which introduced this instrument to stimulate firms to take a coordinated approach in achieving common objectives without losing their independence (i.e., to innovate and strengthen their development), and to facilitate corporate dialogue across regions. In particular, the Italian government should question whether or not technical obstacles hinder the network contract's adoption among SMEs (i.e. its national limits compared to other European instruments such as the EEIG - European Economic Interest Grouping), and how it should be improved and adapted to include companies based abroad.

Indeed, from a theoretical point of view, this study contributes to confirm previous results regarding Italian SMEs' attitude toward gradual international development (Luostarinen & Hellmann, 1994), preference for export (Paoloni et al., 2005) and scarce creation of foreign sites for production purposes (Donkels et al., 1998; Gankema et al., 2000).

At the same time, we are aware that this exploratory study has several limitations. On the one hand, our current research can be deepened. First, our sample should be enlarged to include more observations. Second, it should be deepened to include additional variables that could explain internationalization such as industry sectors, partners' motives, and CEO's characteristics. Third, it is necessary to monitor networks' outcomes in the long term to verify if opportunities will be exploited. On the other hand, a qualitative analysis of "best practices" should be performed to understand how key variables and networking processes have generated positive outcomes. Both of these trajectories may be pursued in future research projects.

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