SMEs’ dependency on banks during international expansion

Angelika Lindstrand
Department of marketing and industry dynamics
Stockholm School of Economics
11303 Stockholm
Sweden

Jessica Lindbergh
Centre for banking and finance
The Royal Institute of Technology
10044 Stockholm
Sweden

Abstract
The purpose of this study is to investigate whether local banks are needed as partners for internationalising small and medium-sized enterprises (SMEs), and if so, in what ways they affect SMEs. The purpose can, in a wider sense, shed light on institutions’ intermediating functions for transactions in the economy, both locally and internationally. To study this gap in the literature and in our knowledge concerning banks effects on SMEs’ internationalisation a questionnaire was distributed to Swedish SMEs involved in international activities. A sample of 318 SMEs and in-depth studies of Swedish Savings banks was used. The results are presented as descriptive statistics and by using t-tests. The findings show that banks are the least used source of information for internationalising SMEs. The results also show that banks do not participate in SME business networks when SMEs are internationalising. SMEs that have been dependent on banks when developing their international business relationships, however, tend to have previously depended on the bank when conducting business.

Keywords SME, International expansion, Banks, Business network
Introduction

International expansion requires countless resources in terms of knowledge of international markets and of specific countries and partners to reduce risk and costs (Eriksson, Johanson, Majkgård and Sharma, 1997). For small and medium-sized enterprises (SMEs), which are already limited by a lack of resources, internationalisation accentuates the difficulties of expansion (Coviello and McAuley, 1999). Knowledge acquisition through interaction with other firms in business relationships can help SMEs circumvent the problem of limited international operations knowledge (Coviello and Munro, 1997; Jones, 1999). Customers, suppliers, competitors and institutional actors are valuable business partners from whom SMEs can learn.

Previous studies of knowledge acquisition in SME international expansion have not focused on institutional actors such as banks. Thus, there exists a gap in our knowledge of how these institutional actors can be of assistance to SMEs during their internationalisation process. Because of their lack of resources (both knowledge and financial), SMEs are more dependent on institutional and financial actors when expanding internationally (Bell, 1997; Spence, 2003). Consequently, banks have a critical role to play—not only as partners that can provide capital but also as partners that can increase the financial knowledge of firms by providing advice pertaining to investments and continued growth (Binks, Ennew and Mowlah, 2006).

Today’s strong focus on globalisation is derived from the growth of international trade and the increasing internationalisation of firms. Simultaneously, banks all over the world have expanded internationally by developing a foreign presence through branches or partner banks. The purpose has been not only to profit through banking with foreign customers but also to provide all customers with the benefits of the bank’s international network conveys. The latter demands that the bank’s business be sufficiently integrated so that domestic corporate advisors can contact foreign branches to help customers do business in that specific market. Indicative results from an ongoing research project with a Swedish Savings bank shows that considerable synergy effects and competitive advantage can be gained if the bank uses its resources efficiently and provides SMEs with a service that will help them expand their businesses. The Swedish Savings bank, as other international banks have, by means of their own internationalisation, the ability to connect their business customers with local business contacts. In this way, they can facilitate the acquisition of knowledge necessary for SMEs to expand internationally. Banks certainly cannot provide all necessary knowledge for an SME, but they can provide their customers with insights into foreign market risks for areas in which they have a local presence. It is currently unknown to what degree

---

1 Ongoing research project in cooperation with large Swedish Savings bank with international operations, Royal Institute of Technology and Stockholm School of Economics (see further information under Methodology section).
This is done. Little research has been done but interviews\(^2\) with bank personnel and customers shows that the full potential of the bank to use its international network is seldom realized.

Thus, research on the need for bank services and knowledge for SMEs’ international expansion is warranted. A prior guest editor for International Journal of Bank Marketing (Eriksson, 2009) has emphasised the future of retail banking lies in the importance of acknowledging the needs of the banks’ customers and to develop more knowledge and methods as how to build business relationships. Hence, our study contributes to the knowledge and research on retail banking by studying the business relationship between internationalising SMEs and banks.

The purpose of this study is to investigate whether banks are needed as partners for internationalising SMEs, and if so, in what way they affect the SMEs. The purpose can, in a wider sense, shed light on institutions’ intermediating functions for transactions in the economy, both locally and internationally. Based on a survey of 318 Swedish SMEs and their internationalisation processes, we expect to gain new insights into banks’ facilitating roles in the international growth of their SME customers. The results of the study will show the effects of banks on SME international expansion.

A limitation of this study is that we cannot differentiate between the different types of services and knowledge that banks provide. Thus, our main focus is on the need for banks in general during SME internationalisation.

**Internationalisation of SMEs**

*International expansion and experience acquisition*

The most critical resources for SME internationalisation are knowledge of foreign markets and experience conducting business in these markets (Autio, Sapienza, and Almeida, 2000; Sharma and Blomstermo, 2003). To acquire experience, an SME has to be present in the foreign market (Eriksson *et al.*, 1997). Presence in the market gives SMEs a deeper understanding of that market, which is required for successful international expansion (Yli-Renko, Autio and Tontti, 2002). In the internationalisation process, knowledge based on experience is more valuable than objective knowledge from second-hand sources because experiential knowledge can be used immediately in new situations and problems in relationships with foreign counterparts (Johanson and Vahlne, 1977, 1990). An SME’s international expansion usually begins cautiously, with few resources at stake. In reality, this means that firms initially export or do business through an agent or distributor, which demands less investment (see Figure 1). The more experience the firm gains, the more willing it

---

\(^2\) Ongoing research project in cooperation with large Swedish Savings bank with international operations.
becomes to commit to the new market and its foreign counterparts because experiential knowledge reduces risks and uncertainties connected to the market and business partners, such as cultural differences, business culture differences, and customer credit rating.

*Figure 1. International expansion with agent/distributor*

Through the experience of doing business in a market, new business opportunities can be discovered which in turn can lead to extended international activities and new useful experiences (Sharma and Johanson, 1987). The SME might discover new opportunities through its export business and decide to invest resources towards a sales office or subsidiary to take advantage of these opportunities. These resource commitments increase the possibility of gaining a deeper understanding of the market and the firm’s foreign customers (Lindstrand, 2003). A firm’s continued international business is based on previous experience of its business and markets. Previous experience can concern the home market, one specific foreign market, or different markets. What has been learned in one or several markets can be used when entering new foreign markets (Eriksson *et al.*, 1997). The SME can have operated a short or a long time in that market and have experience from different modes of business engagements, such as exports, subsidiaries, distributors, agents and other types of cooperations. This gained experienced can also be used in the continued internationalisation. Knowledge about foreign countries has been shown to be easier to attain than experience concerning a specific foreign business relationship or experience of doing business in numerous international markets (Chetty, Eriksson and Lindbergh, 2006). The gained experience can serve as a
template for continued expansion. Experiential knowledge has thus been shown to be the most critical resource in the internationalisation process of SMEs (Coviello and Martin, 1999; Sharma and Blomstermo, 2003).

**Business networks: Means for SMEs’ resource acquisition**

A general problem for SMEs is that they often face a situation of limited resources compared with large firms. During international expansion this situation becomes a major constraint for SME growth (Coviello and McAuley, 1999). The lack of experiential knowledge of foreign markets can specifically create great obstacles for SMEs. To circumvent the lack of resources for international expansion, SMEs rely on resources outside the firm (Coviello and Munro, 1997; Jones, 1999). Access to external resources is contingent upon firm participation in business relationships in which business is conducted. Thus, business relationships have been established as the primary vehicle for resource commitment and experiential knowledge generation for international business development (Blankenburg Holm, Eriksson and Johansson, 1996). Relationships are connected into networks, which means that a firm’s knowledge of a market is based on experience gained whilst interacting in a network (Blomstermo Eriksson, Lindstrand and Sharma, 2004; Chetty and Blankenburg Holm, 2000) (see Figure 2). Business networks used in internationalisation can include domestic, local foreign and international customers; suppliers; customers’ customers; sub-suppliers; banks and other institutional actors. These business networks are SMEs’ main instruments for acquisition of the experiential knowledge needed in international expansion (Madsen and Servais, 1997; Majkgård and Sharma, 1998; Moen, Gavlen and Endresen, 2004; Saarenketo, Puumalainen, Kuivalainen and Kyläheiko, 2003). Knowledge networks can also be used to access financial resources (Bell, 1997; Spence, 2003).

The relationships in the network are important assets for the firm because it is in the daily interactions with network partners that the individuals of the firm learn how to conduct operations in international markets (Lindstrand, 2003). By interacting and doing business in foreign market networks, SMEs learn where to find resources, how to commit resources and with which firms they should connect. Networks provide experiences that not only reduce uncertainties and risks but also show opportunities (Achrol and Kotler, 1999; Gulati, 1999). Therefore, knowledge generation in networks is a prerequisite for and has a positive effect on the performance and continued international expansion of SMEs (Blomstermo et al., 2004). Business networks can be seen as formations in which firms learn—through social exchange over time—to cooperate and thereby coordinate their activities. This capability to interact increases a firm’s access to knowledge, transfer
of knowledge and integration of knowledge residing both inside and outside the firm (Lorenzoni and Lipparini, 1999).

**Figure 2. Example of an international business network**

![Diagram of international business network]

**Banks as partners in international business networks**

Previous studies concerning network influence on SMEs’ internationalisation have not specifically focused on banks, which is of concern because studies have shown that banks, as part of an SME network, could provide resources for SMEs (Bell, 1997; Spence, 2003). One of the many important tasks of banks is to facilitate transactions between different business partners (North, 1991). In that way, the bank can be a co-creator of value in a business network by linking together different actors who want to be co-dependent (Stabell and Fjeldstad, 1998; Thompson, 1967). To facilitate international business transactions, banks can offer a number of services such as international cash management, payments and letters of credit. These services can, to various degrees, provide an SME with protection against the possibility of foreign customers’ faulty payments or discontinued business. Business and political risks in the foreign market can in this way be reduced with the help of bank services. Banks can, with their specialised knowledge of financial services, increase SMEs’
understanding of how payments and credits work in foreign markets. Banks can also be of assistance when evaluating financial risks based on the stability of foreign institutions.

In an article by Eriksson, Fjellstad and Jonsson (2009) concerning the importance of banks for investments in foreign business relationships, a short case illustrates the actions taken by a bank that facilitated the development of an SME’s foreign business relationship. A Norwegian bank wanted to develop its business with the bank’s corporate customers who had export businesses. The bank used a customer relationship with a Norwegian fish producer to try a new model in which the bank shifted its focus from the firm to the business relationship in which the fish producer did business. The fish producer encountered difficulties when expanding its business with a Brazilian customer, a fish importing company, because of a lack of security in international payments. The bank evaluated whether its actions could affect its customer’s export business in a positive way. The relationship manager at the bank enquired if the fish producer could ask its Brazilian customer if she (the manager) could contact the local Brazilian bank. Through contacts between the two banks, a banking relationship was created that mimicked the business relationship between the corporate customers. This banking relationship had a positive result for all involved parties. The Norwegian bank could vouch for the fish producer and its products and, based on that information, the Brazilian bank could offer the necessary letters of credit for the fish importing company.

In this case, the fish producer business with the Brazilian importing company became dependent on the relationship between the banks for the growth of its export and international business. As we previously discussed, a network of relationships was needed to achieve a comprehensive understanding and a manageable solution for the customer. The Norwegian bank became one of several necessary partners for the fish producer’s international expansion. At the same time, the bank was able to develop its own business with a new corporate customer. All involved parties gained experience in conducting successful international business, which could serve as a guide for continued expansion. Preliminary results from an ongoing research project with a Savings bank show the same pattern³.

Other studies of bank relationships with corporate customers have shown that banks can make their customers conduct business more efficiently, not only by offering services but also by teaching their customers to think rationally with regard to financial matters (Uzzi and Gillespie, 1999). For example, firms with stronger banking relationships have less suppliers’ debt and customer credits compared to firms with weaker relationships (Uzzi and Gillespie, 2002). In a study on large retail multinationals it is found that banks facilitate the international expansion and contribute to learning opportunities through corporate governance and advisory relationship (Palmer & Quinn,

---

³ Ongoing research project in cooperation with large Swedish Savings bank with international operations.
Thus, there is reason to expect that the same learning effect can be applied to other financial operations, such as investments in export activities. Banks are specially equipped for this because they act as intermediaries in the economy and create value by enhancing opportunities for their customers to conduct business together (Eriksson, Sasson and Fjeldstad, 2007). Internationalisation is closely related to financial issues. The development of foreign business relationships demands local investments, adapted credit times, international payments, tax advice and investments to support international operations. In all of these examples, banks should be able to provide customers with knowledge and services and, thus, contribute to the development of customers’ knowledge of international operations. The bank’s own increasingly international operations in different markets could also offer customers the benefits that an international bank network conveys, in terms of foreign institutional, market and network knowledge. By interacting with banks as part of their networks, SMEs could acquire not only objective knowledge but also experiential knowledge because banks often possess good knowledge of local foreign companies and potential business partners, which for SMEs could lead to further interaction with foreign firms. Depending on the relationship between the bank and its customer, this access to knowledge, as well as other financial resources, could be of great importance for the international expansion of the SME. Previous successes in which banks act as partners with SMEs during internationalisation could serve as a template, where banks could be one of several critical partners for internationalising SMEs. To what degree this actually happens is unknown. Bell (1997) for example, revealed that a major export problem for SMEs tends to be finance-related. Problems in obtaining financing were often connected to the fact that banks considered small firms to be high risk. Zineldin’s (1995) study shows that banks lack in social and information exchange activities particularly with small firms which hamper their ability to adapt to clients needs. Based on what we have discussed, there exists a motive for investigating banks’ roles in internationalising SMEs and answering the question of whether banks are needed as network partners for SMEs’ international expansion. In the following sections, we present our survey, results, a discussion and, finally, managerial implications for banks and limitations of the study.

**Methodology**

This study is a part of a larger research project that is being carried out in cooperation with a large Swedish Savings bank. The project was initiated in the spring of 2008 (Lindbergh and Lindstrand, 2008) and involves researchers from Royal Institute of Technology and Stockholm School of Economics and employees at different levels and offices at the bank, in the Stockholm region. The purpose of the project is to investigate the use of banks during all stages of SMEs’ international expansion. The performance implications, both for the SMEs and the bank are also studied. The
studies in the project include qualitative as well as quantitative studies. The former, as cases of corporate advisors and their customers (SMEs) and their perception of use of bank services, internal routines and client problem solving for the clients international operations. The latter (quantitative study) as a questionnaire of SMEs and their international expansion, which is the focus of the study at hand (see below).

Sample for the study

To answer our research question, we sent a questionnaire to Swedish SMEs that are involved in international activities. To help us distribute the questionnaire to a random sample of these firms, we utilised data from Statistics Sweden’s Business Register. At least 10 per cent of the sampled SMEs’ turnovers come from export activities, and all business sectors are included in the sample. From Statistics Sweden’s Business Register, we received data from a stratified random sample of two subgroups: small firms (6–49 employees) and medium-sized firms (50–249 employees). From each of these populations, we received a sample of 1,000 firms. The sample covered about 28 per cent of the small firms that we were interested in investigating and 90 per cent of the medium-sized firms. The reason for choosing a stratified random sample is that we expected there to be differences between firms of various sizes and that a random sample from the whole population would give us a very large group of small firms. Firms with 50 or fewer employees comprise about 96 per cent of all Swedish firms. After reviewing the sample and excluding firms that did not meet our criteria—firms that had less than 10 per cent exports, had gone bankrupt or had been bought by foreign investors—we had a final sample of 1,666 firms. The questionnaire was tested on six firms before distribution to the whole sample. The test respondents filled out the questionnaire with members of the research team present. Whilst the respondents answered the questionnaires they commented on how they understood the questions and what they thought about when answering them. After some revisions were made, the questionnaire was distributed to the chief executive officer (CEO), marketing manager or export manager of the 1,666 firms in the sample. Of this sample, 318 firms responded, giving a response rate of 19 per cent. A non-response analysis was performed, indicating no significant differences between respondents and non-respondents.

The questionnaire

The questionnaire used a combination of questions about a scenario and perceptive measures of acquisition of knowledge and experiences and use of networks. We used a 7-item scale, ranging from low to high, to evaluate the respondent’s views on the various questions. The scenario was a real-life
foreign business relationship that had been chosen and described by the respondent. For example, one respondent chose a relationship with a distributor in China that stood for 50 per cent of their turnover. The respondent firms were asked to choose an important business relationship:

We would like you to select a business relationship where your company (if you work in a firm that is divisionalised or in other ways divided into units, answer for your business unit) is expanding. Preferably, this relationship should be well underway so that you would have already started doing business with the counterpart. If this is not suitable for you, then we would appreciate it if you could choose a recently finished relationship. Examples of this relationship could be:

- A contract with a new distributor or agent in a new country
- A considerable expansion of business with an existing customer
- Doing business with a new customer within an existing market
- Entering new country markets with your existing customers
- Doing business with new customers within a new market

The respondents were instructed to do the following:

Choose a business relationship that is important to your firm. Business relationships can be long term and hard to separate from ongoing business activities, but this investigation wants to capture a larger change in ongoing business with a customer or distributor.

The respondent was then asked to rate how important various types of experience and other network relationships have been for the chosen relationship and what influence they had on the acquisition of new experiences. The respondent was also asked to rate the types of knowledge the firm lacked and how difficult it was to gather new knowledge. Some subjective performance questions were included so that we could compare the answers to the objective measurements being collected.

The questionnaire was 14 A4 pages in length and included the measurement of 322 variables. The questionnaire was divided into three parts: Part one was designed to answer general questions about the firm that cannot be collected from secondary sources. These questions addressed, amongst other things, how many patents the firm has (if any) and how many new customers the firm has sold products or services to during the past year. The second part of the questionnaire was an effort to map the assignment. The questions related to the respondent firm’s relationship with a specific international business partner (a customer, distributor or other
intermediary). The questions in this part concerned, amongst other things, the importance of the contents of the business relationship when it comes to developing new products, technology, knowledge and international business. The final part of the questionnaire endeavoured to map the local foreign and international network of the firm and the actors that surround the specific business relationship. This final part of the questionnaire also contained questions about knowledge drawn from past experiences. Through our questionnaire, we were able to collect data on the network of exchange of which the respondent firm was a part. The aim of the questionnaire aims was to map the relationships that the respondent firms have with Swedish and international customers, customers’ customers, suppliers, suppliers’ suppliers, complementary suppliers, competitors, consultants and banks and financial institutions. The questionnaire included questions about the centrality of the firm in the network, the configuration of the network, the density of business relationships within the network and the strength of ties within the network.

In addition to the questionnaire, background data on the firms in the sample were collected from secondary sources and included 29 variables. These objective data included information about age, size, export, year of international presence, financial information and information about industry and products.

Results

General characteristics of the respondent firms
The mean turnover for the respondent SMEs was 134.1 million SEK, and they, on average, had 53 employees. Their sales abroad varied (a mean of 50.5 per cent of total sales), but there were two distinct groups, each consisting of close to 25 per cent of the firms. The first group consisted of firms with 1 to 20 per cent of sales abroad (27.7 per cent). The second group of firms had 80 to 100 per cent of sales abroad (24.1 per cent). Thus, the most common characteristic shared by the respondent firms was for a minor part of their sales to be made to foreign customers. The second most common characteristic was for a large share of total sales to be in international markets. The firms also differed in terms of their first sale abroad. Fifty per cent of them had their first foreign sale after 1984 and as much as 42 per cent after 1990. Almost 20 per cent started exporting during the last decade (1997–2006).

The chosen business relationship
The initiative to form the chosen relationship was taken by the firm itself (60 per cent) or a customer (25 per cent). The relationship and the foreign market were handled by direct export (57.6 per cent),
fully owned or majority-owned subsidiary (24 per cent) or a distributor (19 per cent). These data also show that some business relationships can be handled in a number of ways. The most popular markets for the chosen relationship were (in descending order) Finland, the United States, Germany, Norway and Denmark (see Figure 3). The firms have been present in the foreign market for a mean period of 14.5 years and sell between 1 and 20 per cent of total sales to the chosen country (77 per cent).

Figure 3: The 10 most popular markets

SMEs’ use of banks in international expansion

Information sources in the initial stage of expansion

In the initial stage of an international expansion, many different sources of information can be of importance and use for an SME. The need for information and knowledge to reduce uncertainties and risks is great, and the information and knowledge the firm acquires and uses will affect its continued internationalisation. In this study, we chose to investigate nine of the most common information sources used—namely, customers, suppliers, competitors, trade organisations, consultants, government authorities, banks, databases and newspapers/magazines. The firms in our study responded that customers were the most important information source (with a mean of 4.3 and median of 5 on a 7-point scale where 1 is “not at all important” and 7 is “entirely important”) (see Figure 4). This finding was expected because the customers, their interest in internationalising an SME’s products, information about what they need and their market context are the factors that
will affect the demand and, thus, the possibility for international expansion. Customers were followed by competitors (with a mean of 2.53 and a median of 2), indicating that benchmarking and guidance about successful market extensions are valuable. Information gained from competitors might include which countries to enter and which customers to focus on, as well as both failure and success factors. Suppliers were the third most important source of information for the internationalising SME (with a mean of 2.29 and a median of 2) most likely because they not only provide information about what product adaptations are possible for foreign markets but also function, in the case of outsourcing, as the SME’s foreign counterpart.

All three sources shared one characteristic in common: They are involved in a business relationship with the respondent SME and are a part of its business network. They are counterparts with which the SME works on a daily basis or must take into account during international expansion. Thus, the information from these sources is more useful because it is adapted and idiosyncratic to the SME. As shown in Figure 4, less adapted and more general information sources such as newspapers/magazines, trade organisations, databases, consultants and information from authorities are decreasing in importance.

Figure 4: Which information sources were important in the initial stage of the business relationship? (1 = “not at all important”, 7 = “entirely important”)

When we considered the answers concerning the importance of banks as an information source, we found that banks were actually the least important information source of all, with a mean of 1.53 and
median of 1. Thus, most firms in this study did not find banks to be a useful information source at the initial stage of a new foreign business deal. Closer examination of the data revealed that 75 per cent of the responding firms did not consider banks to be an important information source at all (1 on a 7-point scale) and that 12 per cent considered the bank to be “unimportant” (2 on the scale). All together making it a total of 87 per cent of responding firms did not find the bank useful when initiating a new business relationship abroad. This finding was somewhat surprising, considering that bank relationships could be important in the internationalising SME’s business network. Like all the other parties (e.g. customers, suppliers and competitors) in business relationships, banks are a part of the firms’ daily operations in both domestic and foreign markets and should therefore be able to provide useful, adapted information to the internationalising SME.

The chosen relationship’s dependency on present banks
Our analysis continued with questions regarding the firms’ dependency on banks when developing a relationship in the foreign market. We asked the firm if the chosen relationship was dependent on the present local bank in the foreign market. The dependency can, as mentioned previously, include knowledge, business contacts and all kinds of services such as local investments, adapted payment times, tax advice, international payments and investments for international operations. Seventy-six per cent answered that the relationship was not dependent on the local foreign bank (1 and 2 on a 7-point scale). Firms that thought their relationship was in varying degrees dependent (3–7 on the scale) on the local bank accounted for 24 per cent of respondents (see Figure 5).

These results can be seen as a part of a trend when it comes to the firms and their relationships’ dependency on banks in general. We also asked if the relationship was dependent on their present domestic bank, and 73 per cent answered that it was not (see Figure 6).
Figure 5: To what extent is the relationship dependent on your most important foreign local bank? (Scale 1–7; 1 = “not at all important”, 7 = “entirely important”)  

Local bank  

- 1 = not at all important 67%  
- 2 = 9%  
- 3 = 5%  
- 4 = 10%  
- 5 = 3%  
- 6 = 5%  
- 7 = entirely important 1%

Figure 6: To what extent is the relationship dependent on your most important domestic bank? (Scale 1–7; 1 = “not at all important”, 7 = “entirely important”)  

Domestic bank  

- 1 = not at all important 64%  
- 2 = 9%  
- 3 = 7%  
- 4 = 8%  
- 5 = 4%  
- 6 = 8%  
- 7 = entirely important 0%
Finally, we asked the SME respondents about their dependency on present international banks. Firms stating that the relationship was not dependent on international bank relations accounted for 84 per cent of respondents (Figure 7). These results indicate that domestic banks were somewhat (by a few percentage points) more useful than local foreign and international banks. Domestic banks were reported by 73 per cent as having “no dependency”, whereas local banks scored 76 per cent and international banks as much as 84 per cent.

Figure 7: To what extent is the relationship dependent on your most important international bank? (Scale 1–7; 1 = “not at all important”, 7 = “entirely important”)

Previous experiences with banks

International expansion research has shown that previous experiences regarding business relationships and networks have a strong impact on SMEs’ international expansion. Based on this finding, the firms were asked the following question about their previous experiences with local foreign banks: “To what extent is the relationship dependent on previous experiences with local banks?” Eighty-one per cent of the SMEs responded “to no extent at all” (1 and 2 on the 7-point scale, see Figure 8).
We also asked about their experiences with domestic and international banks. Seventy-seven per cent of respondent firms did not think the relationship was dependent on previous experiences with domestic banks (Figure 8). Concerning international banks, the answers were about the same; 83 per cent stated that no dependency exists (Figure 8). These results suggest that SMEs were somewhat (by a few percentage points) more dependent on previous experiences with domestic banks than experiences with local foreign and international banks. These results also show that SMEs in general do not find banks useful for knowledge acquisition in any stage of their expansion. Nor do they find experiences from previous relationships with domestic, local or international banks useful during the development of a foreign business relationship. Banks are not in any position to provide these firms with useful knowledge or experiences that will facilitate their international expansion. The majority of SMEs in our study did not consider banks to be valuable counterparts in their business networks.

**SMEs’ dependency on banks**

A minority (20 per cent) of the respondent SMEs were dependent on their domestic or international bank for developing their chosen foreign business relationship (answered 3–7 on a 7-point scale).
Concerning local foreign banks, 19 per cent of responding SMEs were dependent on these banks when developing the business relationship. Of the SMEs that indicated a dependency on international or domestic banks, a majority (68 per cent) also considered their local foreign bank to be important. To test whether the difference between the two groups (“dependent on banks” and “not dependent on banks”) was statistically significant, we performed an independent t-test using Statistical Product and Service Solutions (SPSS) software. We used the cutoff point, 2 on a 7-point scale, where respondents answering 1 and 2 did not consider the business relationship to be dependent on local banks. Respondents answering 3-7 did consider the business relationship to be dependent on local banks. Group statistics are presented in Table I. Of the responding SMEs, 213 belonged to “not dependent on domestic/international banks” and 53 were in the group “dependent on domestic/international banks”. We have a missing value for 52 firms.

Table I. Group statistics

<table>
<thead>
<tr>
<th>Bank</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>local</td>
<td>≥3.00</td>
<td>53</td>
<td>3.42</td>
<td>1.802</td>
</tr>
<tr>
<td></td>
<td>&lt;3.00</td>
<td>213</td>
<td>1.55</td>
<td>1.155</td>
</tr>
</tbody>
</table>

Variables for table I and II:

Bankcon stands for the domestic and international bank and measures to what extent the business relationship depends on a domestic or international bank on a 7-point scale, where 1 represents “not at all important” and 7 represents “entirely important”.

Local stands for local foreign bank and measures to what extent the business relationship depends on the local bank on a 7-point scale, where 1 represents “not at all important” and 7 represents “entirely important”.

The result of the independent t-test is shown in Table II. The result indicates that a significant difference exists between the respondents who were dependent on their bank and those who perceived no dependency. The t-value is high (7.18) and the p-value is below 0.0001.
Table II. Independent samples test

<table>
<thead>
<tr>
<th>t-test for equality of means</th>
<th>95% Confidence interval of the difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>t</td>
<td>df</td>
</tr>
<tr>
<td>local</td>
<td>7.180</td>
</tr>
</tbody>
</table>

Of the SMEs stating a dependency on banks in their business relationships, a majority were also more likely to use previous experiences with banks when developing the foreign business relationship in addition to the current dependency on their bank relationship. For example, 76.5 per cent of the SMEs that were currently dependent on their domestic or international bank had also experienced a prior dependency on their domestic or international bank in the business relationship. As for the local foreign bank, the results show that half of the respondents (50 per cent) that currently experienced a dependency on their local bank had also experienced a prior dependency on that bank. An independent t-test was performed to determine whether a significant difference exists between the groups “dependent on banks” and “not dependent on banks”. The first test compared the means between respondents stating a current dependency on local banks and those stating no dependency on local banks and the responses concerning their prior dependency on local banks. The group statistics (see Table III below) revealed that 66 SMEs had a dependency on banks (with a mean of 2.8) and that 202 SMEs were not dependent on banks (with a mean of 1.4).

Table III. Group statistics

<table>
<thead>
<tr>
<th>explica3</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥3</td>
<td>66</td>
<td>2.80</td>
<td>1.899</td>
<td>.234</td>
</tr>
<tr>
<td>&lt;3</td>
<td>202</td>
<td>1.42</td>
<td>.965</td>
<td>.068</td>
</tr>
</tbody>
</table>
Variables for table III and IV:
The variable *local* measures the respondents’ answers on a 7-point scale concerning their dependency on their local foreign banks when developing international business relationships. The respondents who stated a dependency provided answers ranging from 3 to 7 on a 7-point scale, whereas those respondents who stated no dependency on domestic banks provided answers of 1 and 2 on a 7-point scale.

The variable *explca3* measures the respondents’ answers on a 7-point scale (1 = “not at all”, 7 = “entirely important”) concerning their prior dependency on their local banks when developing international business relationships.

The results show that the two groups are significantly different from each other, with a *t*-value above 5.6 and a *p*-value of less than 0.0001 (see Table IV below).

**Table IV.** Independent samples test

<table>
<thead>
<tr>
<th>Variables</th>
<th><em>t</em></th>
<th><em>df</em></th>
<th>Sig. (2-tailed)</th>
<th>Mean difference</th>
<th>SE difference</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>explca3</em></td>
<td>5.678</td>
<td>76.257</td>
<td>.000</td>
<td>1.382</td>
<td>.243</td>
<td>.897</td>
<td>1.867</td>
</tr>
</tbody>
</table>

We also checked whether the groups “dependent on banks” and “not dependent on banks” concerning domestic or international banks were significantly different. We compared the means of respondents stating a dependency on domestic or international banks and those stating no current dependency on domestic or international banks and the responses concerning their prior dependency on domestic or international banks.

Variables for table V and VI:
*The variable bankcon* measures the respondents’ answers on a 7-point scale concerning their dependency on domestic or international banks when developing their international business relationships. The respondents who stated a dependency provided answers ranging from 3 to 7 on a
7-point scale. The respondents who stated no dependency on domestic or international banks provided answers of 1 and 2 on a 7-point scale.

The variable expbankcon measures the respondents’ answers on a 7-point scale (1 = “not at all”, 7 = “entirely important”) concerning their prior dependency on domestic or international banks when developing their international business relationships.

As shown in Table V, a group of 206 SMEs answered “not dependent on domestic/international banks” (mean = 1.3), and 52 SMEs responded “dependent on domestic/international banks” (mean = 3.5). The results show that the two groups are different, with a t-value above 8.8 and a highly significant p-value (see Table VI below).

**Table V. Group statistics**

<table>
<thead>
<tr>
<th>expbankcon</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥3.00</td>
<td>52</td>
<td>3.5385</td>
<td>1.75412</td>
<td>.24325</td>
</tr>
<tr>
<td>&lt;3.00</td>
<td>206</td>
<td>1.3301</td>
<td>.71073</td>
<td>.04952</td>
</tr>
</tbody>
</table>

**Table VI. Independent samples test**

<table>
<thead>
<tr>
<th>expbankcon</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean difference</th>
<th>SE difference</th>
<th>95% Confidence interval of the difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.896</td>
<td>55.291</td>
<td>.000</td>
<td>2.20836</td>
<td>.24824</td>
<td>1.71094 - 2.70579</td>
</tr>
</tbody>
</table>

The result shows that there is only a limited number of SMEs stating that they are dependent of their bank when doing business in an international business relationship. However, of the SMEs that state some dependency on banks in their international business relationship a majority of the firms have used previous experiences with banks when developing the foreign business relationship in addition
to the current dependency on their bank relationship. We made an independent t-test to see if the two groups “dependent on banks” and “not dependent on banks” were significantly different from each other in their use of previous experiences with Swedish or international banks and foreign local banks when developing their international business relationship. The results showed that the groups differed significantly indicating that prior experiences of dependency in banks when doing international business increases the opportunity of a continued relationship between the bank and the SME. This confirms our preliminary results from the case study of the larger research project, where we see a continued use of bank services and dependency on the bank if the bank has proven useful in the early stages of the firms’ international expansions⁴.

Discussion
We introduced this paper by discussing the importance of business networks for internationalising SMEs. An SME’s network is a knowledge resource that can reduce risks and create opportunities during the internationalisation process. In this context, we wanted to study banks as network partners and SMEs’ need of banks during international expansion. Banks have valuable knowledge of both domestic and international markets; this is especially true of banks with their own international operations. Banks are also a vital institution of society through their intermediary and facilitating functions for transactions between firms. We have, however, shown in this study that a large number, even the majority, of our respondent SMEs have the perception that banks’ knowledge and services have no value for them when developing a foreign business relationship, such as expanding abroad. Our results also show that banks are the least important information source in the initial stage of a foreign business relationship. Instead, respondent firms mentioned newspapers and magazines and government agencies as more important, despite their low possibility of delivering customised information. The general conclusion of our study is that the need for and dependency on banks is limited in SMEs’ international operations. The respondents perceived banks as ill-equipped and not useful for knowledge and information acquisition. Additionally, as it relates to the result of low dependency on previous experiences with banks, banks did not in the past have the knowledge and information needed for problems connected to the foreign relationship and, therefore, were not of any use for its development.

Our study is based on the assumption that internationalisation demands great resources and that SMEs, with their limited resources, should be more dependent on financial partners to gain those resources. The bank is a partner that should be able to provide capital,

⁴ Ongoing research project in cooperation with large Swedish Savings bank with international operations.
services and knowledge of financial issues during international expansion. Development of foreign business relationships demands local investments, investments to support international operations, adapted credit times, international payments and tax advice, all which are services that banks offer. Because of their specific knowledge of the markets in which they operate, banks could also provide local business contacts, which could in turn increase the firms’ experiential knowledge of those markets. All these factors indicate that the bank-SME relationship could represent an important business relationship in the SME’s network. The results of this study clearly show that banks do not, with relation to SMEs, use their full potential as a supplier of financial services and knowledge to these corporate customers. However, this study does support previous research that has demonstrated the importance of other network actors as providers of useful knowledge for the internationalisation of SMEs (Blomstermo et al., 2004; Coviello and Martin, 1999; Coviello and Munro, 1997; Jones, 1999). The fact that some of the firms (20 per cent) in our sample were new to international operations may help explain why they preferred to use partners they perceived as being closer to them for solutions with regard to international operations. The foreign partner in the business relationship might have experience with other foreign suppliers and already have functioning solutions for relationship and transaction management. Thus, the respondent firms have found it unnecessary to search for other solutions outside the relationship. In this circumstance and as we have seen in our case studies, banks have reacted to customers’ questions about services instead of proactively offering customised information, knowledge and services.

In our sample, a minority of the respondent SMEs answered that they are dependent on banks for the development of foreign business relationships. We also find that SMEs responding with a dependence on a domestic or international bank, to a larger degree, find the local foreign bank important when conducting business with foreign business partners. Earlier in this paper, we used an example from Eriksson et al. (2009) to exemplify how banks, both domestic and local, played an important part in the development of an SME’s business relationship. Hence, in that particular case, the Norwegian fish producer became dependent on its domestic bank and the foreign local bank when doing business with a Brazilian fish importing company.

Our results also show that a large number of SMEs that depend on their bank today have also experienced a prior dependency, implying that the history of the relationships between bank and SME affects the character of future relations (Levinthal & Fichman, 1988). Positive previous experiences of banks have lead to a continued use and dependency on banks in present international business expansions. There may be several reasons for this. One possible reason is that the SME and the bank see each other as business partners and, as such, are important for each other’s growth. Therefore, when a relationship develops, the dependency between the actors also increases (Blankenburg Holm, Eriksson and Johansson, 1999). The SMEs’ use of bank services and increased
dependency may also be explained by the possible transfer of knowledge between banks and SMEs that are engaged in a particular relationship about, for example, financial practice (Uzzi and Gillespie, 2002). On the other hand this means that negative or useless experiences of banks could lead to less dependency and use of bank services in the future and continued internationalisation.

The results of our study cannot fully answer the question of why the majority of respondent firms did not consider the bank to be a needed partner in the development of a foreign business relationship. We can assume—based on research regarding banks’ customer relationships (Roig, Garcia, Tena and Monzonis, 2006; Leverin and Liljander, 2006), and our own ongoing research project including the banks’ own customer surveys and our interviews with bank employees—that banks do not deliver what corporate customers think they need and are, consequently, unsuccessful in creating value for those customers. By continuing to study the information and knowledge exchange between banks and their customers with international operations, we can get closer to answering why banks have such little impact on the internationalisation of SMEs today5. Previous studies have revealed that banks that use customer-oriented relationship marketing programmes are accustomed to increasing the information exchange between banks and corporate customers; in so doing, they enhance the satisfaction and loyalty amongst customers (Barnes and Howlett, 1998; Ennew and Binks, 1996).

**Managerial implications**

Our study shows that banks are unexploited resources, which is a serious problem in light of the need for resources during the international expansion of SMEs. There is much to be gained, both for SMEs and for banks, in developing the exchange and reciprocal understanding of each other’s knowledge and situation. Banks can, through a deeper and more developed understanding of SMEs’ foreign operations and their context, become a valuable and contributing partner in these firms’ business networks—in much the same way that customers, suppliers and competitors already do. SMEs can achieve large synergy effects, which will make their international operations and financial flows more efficient. Banks should provide customised solutions to credit and securities problems as well as business contacts in foreign markets through their own international networks. A higher adaptability and customisation of bank knowledge and services with regard to the firms’ actual operations will minimise needed financial resources and facilitate expansion into foreign markets. Banks could have a positive effect on SME internationalisation by becoming a more active partner in the network. To accomplish such value creation, banks, as intermediaries, need to develop methods to identify the specific elements that make up customer transactions and create services that

---

5 Ongoing research project in cooperation with large Swedish Savings bank with international operations.
simplify and develop the customer’s business in both domestic and foreign markets. By working more proactively, banks will more easily become involved early in the SME internationalisation process, thus creating a relationship in which opportunities for learning about each other’s businesses can occur. When the SME’s international business expands, there will be a greater demand for financial services that the bank may be able to offer. We believe there is much to gain for banks to become a more useful partner for SMEs and the retail banks learning to be an efficient provider of knowledge for the SME will also increase its competitiveness in the global banking arena. Indeed, such focus may be more or less easily implemented for different types of banks. However, the possibility for international banks to provide SMEs with knowledge with local foreign market through branches opens up for saving banks to become even more competitive in the internationalisation bank markets since they are they are closely identified with or linked to local communities (Peachey, Capio, Roe & Cabello (2009).

Limitations and future research
A limitation of this study is that we could not differentiate between the different types of services and knowledge that the banks provided. Future research should differentiate between the two and, specifically, take into consideration the automation and Internet development of bank services. Today, many of the services banks provide can and should be handled by the corporate customers themselves. The way to create value lies in the development of customised services and knowledge solutions. Therefore, future research needs to make distinctions amongst services, knowledge and value-creating activities to determine what SMEs need in their international expansion. Future studies could also investigate whether our results are typical for all institutional actors. Are our results a general trend for network partners that the SMEs view as further away in the network or, in embeddedness terms, as weak ties (Granovetter, 1985)? Additionally, longitudinal studies of SME-bank pairs, as in our own ongoing case studies, could be valuable in investigating how these relationships develop and what banks could do to improve firms’ perceptions of their usefulness in international expansion.

References


