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# **Internationalization of Small and Medium Sized Enterprises in Ghana: The Role of Inter-Firms and Socio-political Networks**

Case Company: Kasapreko Company Limited

Business Economics and Tourism

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I first of all wish to acknowledge my supervisor, Mr. Rosmeriany Nahan-Suomela for her guidance and directions throughout this period of this thesis. With her directions and support I was able to obtain all the relevant articles and literature for reading. Despite all her busy schedule, she never turned me down whenever I needed assistance. I, therefore, wish to take this opportunity to say a very big thank you for your time and support.

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Ibrahim Musah Donkoh

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# VAASAN AMMATTIKORKEAKOULU

Koulutusohjelman nimi

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Kansainvälistyminen on jatkuva prosessi, jossa yrityksen kasvu ja sitoutuminen johtaa suuri kasvu kansainvälistä osallistumista. useita tutkimuksia kansainvälistä toimintaa yritysten useimmiten yritysverotuksessa yrityksen suhteita keskittyy paljon suhteita yrityksiä vähemmän-tention maksettu sosiaalipoliittista verkostoja, jotka voivat myös olla hyvin merkittävä yritysten kansainvälistä toimintaa.Tämän tutkimuksen tavoitteena on korostaa jälleen merkitystä verkoston mallin pk-yritysten kansainvälistymistä Ghana, tunnistaa, jos on olemassa muita verkkojen lisäksi organisaatioiden välisiä yritysten verkkojen Ghanassa ja tutkimaan, miten pk Ghanassa mange heidän verkostoja suhteita. Kvalitatiivinen menetelmä tutkimuksen työskenteli yrittää saada ymmärrystä tutkimusongelmat. Osittain strukturoituja kysymyksiä käytettiin haastattelussa vastaaja case yrityksen jotka ovat aktiivisesti mukana com-yhtiön kansainvälistymistä.

Empiiriset havainnot paljastaa, että verkostot onko välinen yrityksiä tai yhteiskuntapoliittisia on hyvin kriittinen sekä kotimaisen ja kansainvälisen toiminnan yritys.Uudelleen JOHTAA myös, että viestintä on kriittistä johdon ja johdon pk-yritysten verkostojen Ghanassa.

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Keywords: Small and Medium Sized Enterprises, internationalisation, socio-political networks

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## **ABSTRACT**

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Most small and medium size enterprises in their attempts to extend operating overseas rely heavily on the networks it has established with other players both within the firm and outside the firm. Several studies on the international activities of companies mostly in the area of business firm's relationships focus much on the relationships between firms with less attention being paid to the socio-political networks that can be very crucial to the firm's international activities as well. The objective of this study was to re-emphasize the significance of the network model of internationalisation of SMEs in Ghana, identify if there exist other forms of networks apart from the organisations inter-firms networks in Ghana and to examine how SMEs in Ghana manage their networks of relationships.

Qualitative method of research was employed in an attempt to gain an understanding of the research problems. Semi-structured questions were used in the interview with the respondents from the case company who are actively involved in the company's internationalization.

The empirical findings revealed that networks, whether inter-firms or socio-political, are very critical in both the domestic and international operations of a firm. The result also indicated that communication is a critical management tool in the management of SME's networks in Ghana.

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## **List of abbreviations**

SME	Small and Medium Sized Enterprises
MNEs	Multi – National Enterprises
KCL	Kasapreko Company Limited
NBSSI	National Board for Small Scale Industries
GSS	Ghana Statistical Service
ECOWAS	Economic Community of West Africa States
OECD	Organisation of Economic Corporation Development
AAMI	Association of Alcohol Manufactures and Importers, Ghana
GEPC	Ghana Export promotion Council
GFZA	Ghana Free Zone Area
EPA	Environmental Protection Agency
CPA	Consumer Protection Agency

# **1 INTRODUCTION**

## **1.1 Background of the study**

Small and medium sized enterprises (SMEs) represent one of the fastest growing sectors of various economies including developing countries. As a result of this and the quest for growth, SMEs are increasingly becoming international in nature and according to Andersson et al (2004). SME are even appearing on the international stage at earlier age than was the case several years ago. However, according to Hadjikhani and Ghauri, (2001) several studies on the international activities of companies mostly in the area of business firm's relationships, focus much on the relationships between firms with less attention being paid to the socio-political networks that can be very crucial to the firms international activities as well.

One major consideration of this thesis is the assumption that, the success of the SME in the international arena in the context of business network is not only limited to the relationships it has established with their inter-firms networks, but also, the Socio-political settings both in the domestic market and the foreign market it seeks to enter. The socio-political environment of businesses consist of various actors like the government, media, political parties and other social groups and movement such as 'green movements' whose activities can influence business operations Hadjikhani et al (2004). It is believed that these socio-political actors within the SMEs environment can exert a considerable amount of influence on the firm's international operations both within the domestic market and the foreign market and, as a result, must be considered when forming networks of relationships.

## **1.2 Research Problems**

The first research problem is that, in discussing the network approach to internationalisation, industrial network researches has over the years given less

attention to the wider environment in which both parties; businesses and political actors, are connected (Welch and Wilkinson, 2002). It can be argued that the interface between the firm and the environment it operates is as important as the SMEs inter-firm networks. Earlier Findings such as the AAR model has, however, failed to acknowledge the factors that may exist beyond inter-firms interactions even though these factors could have an enormous impact on the SMEs activities both domestically and internationally (Welch & Wilkinson 2002).

Secondly, there have been quite a lot of theories that explain the internationalisation of firms, some of which have been welcomed with quite a number criticism. For example, the theory of systematic planning model according to Lei, Dan, & Tevfik, (2004), falls short of providing a reliable conclusions and outline that may assist researchers and professionals in the field to fully comprehend the internationalisation process of firms, hence, the need for the network view of internationalisation. According to (Johanson & Mattsson, (1988), networks are formed whenever an organisation establishes a mutually beneficial relationship with other actors in the firm's domestic or overseas market. However, there were less or no further deliberations on how firms, especially SMEs, manage these networks of relationships after and during their relationships formation.

### **1.2.1 Objectives**

The objectives of this thesis are focused on two main parts as indicated below;

1. To emphasize the significance of the network model of internationalisation of SMEs in Ghana.
2. To identify if there exist other forms of networks apart from the organisations inter-firms networks in Ghana.
3. To examine how SMEs in Ghana mange their networks of relationships.

### **1.2.2 Research questions**

For the above objectives to be achieved, the following research questions have been designed;

1. What is the importance of networking in Ghana and how does it contributes to the success of the SMEs international operation,
2. Are there other important networks that exist apart from the company's inter – firms' networks in Ghana?
3. What significant role does the interaction between business firms and socio-political actors play in SMEs internationalisation in Ghana?
4. How do smaller firms manage their social and political relationships in Ghana?

### **1.3 Methods**

Qualitative research methodology will be employed in this study. A case company, from Ghana, will be chosen, and with semi-structured questionnaires. Interviews will be conducted with the selected interviewees from KCL. These two interviewees have been selected because they are in charge of the company's international and the social and political activities. It is believed that with their experience and knowledge, the selected participant will be of assistance into unveiling the required responses. It has been argued by several authors like Salmi (2000) that this method, even though is not inclusive of several companies Ghana which could have been the preferred choice, is often appropriate in circumstances where there is the need to offer profound analysis of focal issue. The various questionnaires employed in this thesis were deduced from already existing materials however, it was tailored to reproduce the specific phenomenon under consideration.

The two interviewees, employed in this research are the marketing manager and the public relation officer of the company in question. These two interviewees are selected because, at the moment, the case company is not fully involved in international activities and as result does not have a designated international

operations manager who would have been the preferred choice for these studies. However, since the marketing manager is the one who is in charge of all their international marketing activities, it is believed his insight will be of great contribution to this study.

### **1.3.1 Usefulness of the study**

The findings of this research will be beneficial to management team of the case company and other SMEs in Ghana that want some insight into the need to recognise their socio-political networks as important part of their networks of relationships in their attempt to internationalise even though the result may not be generalised to all SMEs. It will also be useful to government agencies in Ghana, such as the Ghana Export Promotion Council, the Ghana Chamber of Commerce, as well as the National Board for Small Scale Industries (NBSSI) and all other relevant bodies that are charged with the responsibility of ensuring the smooth operation of SMEs in their quest to export abroad. This will help them to acquire some knowledge on when and where to focus their support to SMEs in their quest to go international. The study will also serve as a guide for future study in the area of the internationalisation of SMEs in Africa and for that matter Ghana, where there appears to be little research in the area of SMEs internationalisation and the roles of the socio and political networks.

### **1.3.2 Limitation(s) of the study**

Amongst the limitations of this research are time constraints, difficulty in information acquisition from Ghana and also the sample size. The study is restricted to KCL in Ghana and, hence, the findings may not represent the internationalisation activities of all small and medium sized enterprises in Ghana. Moreover, most companies especially in Ghana are reluctant to share information regarding what actually goes on in their networks with third parties and as a result may not reveal the necessary information needed. Also, since the interviewees are

selected from only KCL, there was not a possibility to compare their opinions with other companies which could have provided better insight.

### **1.3.3 Structure of the thesis**

This paper is divided into five sections starting with the introduction. The following section starting from the next page gives a framework of SMEs and their internationalization processes with the main focus on the three schools of thoughts of internationalisation according to Caviello and McAuley, (1999). The paper continues with a description of the socio-political environment in Ghana and some of the SMEs socio-political activities of firms such as lobbying which according to Welch and Wilkinson, (2002), is one major socio-political activity of firms. The section that follows will be on research methodology which was purely a qualitative in nature. The subsequent two sections will be based on the research findings and discussions regarding how socio political actors in the network affect firm and their activities in Ghana. The final part will be the conclusion and possible recommendations for both the case company and researchers.

## **2 LITERATURE REVIEW**

### **2.1 Introduction**

In this section, the thesis touches on some earlier studies on internationalisation of firms in the context of business relationships and socio-political networks. The definition of SMEs adopted in this paper is derived in the context of Ghana though the European Union definition is also discussed. The three schools of thought of internationalisation according to Caviello and McAuley, (1999) are discussed with the main emphasis on the relationship view of the network model of internationalisation. The section gives further details on the socio-political environment and activities of firms in Ghana by considering the role of these socio-political actors and other networks players in Ghana. The section ends with the management of networks in Small and Medium Sized Enterprises.

#### **2.1.1 Small and medium sized enterprises defined**

#### **2.2 National Board for Small Scale Industries of Ghana (NBSSI) and Ghana Statistical Service (GSS) definition of SME**

Most developing economies do not have a workable definition for SMEs, however, in Ghana; the Ghana Statistical Service considers businesses that have employees not more than ten as Small Enterprises. it further categorises other businesses that has over ten employees as Medium size enterprises. Dalitso & Quartey (2000). The National Board of Small Scale Industries (NBSSI) which was established in 1990 to intensify the support for SMEs on the other hand, considers employees as well as the fixed assets of the company. Businesses that has a maximum number of 9 workers, has a total assets excluding land, buildings and vehicles not exceeding GH¢10 million, which is equivalent to 500 Euros using the current exchange rate, Dalitso and Quartey (2000). In the table 1 below, the summary of this definition is provided.

Table 1, NBSSI and GSS definition of SME

Enterprise categories	Number of employees	Fixed assets
Small scale	Less than 10	$\leq \text{€}10\text{Million}$ excluding land, building & vehicles
Medium and large scale	More than 10	More than $\text{€}10\text{ Million}$

### 2.3 EU Definition of SMEs

The European Union on 6<sup>th</sup> May, 2003, adopted the commission recommendation regarding the definition of SMEs which replaced the earlier definition and came into effect on 1<sup>st</sup> January, 2005 Commission recommendation, (2003). According to the Commission's report, Businesses are grouped as either small or medium sized if they fulfil the requirement laid down in the commission recommendation. In addition to the staff headcount ceiling, an enterprise is defined as an SME if it meets the turnover ceiling or the balance sheet ceiling, but not necessarily both commission recommendation, (2003). The recommendation has been summarized in the table 2 below.

Table 2, Categorisation of SMEs by the EU

Firm	Employess	Wealth	Balance Sheet
Medium Sized	< 250	$\leq \text{€}50\text{ Million}$	$\leq \text{€}43\text{ Million}$
Small	< 50	$\leq \text{€}10\text{ Million}$	$\leq \text{€}10\text{ Million}$
Micro	< 10	$\leq \text{€}2\text{ Million}$	$\leq \text{€}43\text{ Million}$

(Commission recommendation 2003).

## **2.4 The scope of SME activities in Ghana**

According to Aryeetey & Ahene (2002, the significance of local businesses was not recognized during the colonial era in the early 1960s. They further argued that during that era, the activities of small-scale enterprises were considered as political pressure on the government. Previously, SMEs in Ghana just like many other SMEs in developing countries were using mainly local resources and, thus, they had less international contacts and activities Aryeetey & Ahene (2002). This could probably be attributed to their lack of willingness, expertise and the resources needed to involve in international activities. Mostly, SMEs in Ghana are very small sized in nature and as a result are able to withstand the uncertainties and adverse economic conditions that are often characterised by large business corporations Aryeetey & Ahene (2002).

However, it could be argued that in recent times, SME's in Ghana are more involved in international activities, than was the case several decades ago. For example Kasapreko Company is now employing over 250 employees and has presence in all parts of the country. They are now larger in size and are becoming more technologically oriented. SMEs in Ghana have been responsible for ensuring the efficiency of domestic markets and making productive use of scarce resources and, as a result, facilitating long-term economic growth in Ghana Aryeetey & Ahene (2002). SMEs in Ghana just like any other SMEs in the world encounter several challenges in their growth and internationalisation activities that can be attributed to lack of commitment and managerial expertise of the owner (Aryeetey et. al, 1994).

## **2.5 The nature of SMEs internationalisation**

According to Root (1987), the decision as to which internationalisation strategy to employ is very crucial for the firm's success on the international market. Amongst

the various international strategies may include but not limited to; exporting, importing, direct entry unto the foreign market in a form of direct investment and joint venture (Agndal and Chetty, 2007) Exporting is normally employed by SMEs when making their first entry in a foreign market. This option can take the form of either direct export or indirect export. Indirect export involves the delivering of goods or services through an intermediary.

According to Isobel & Lowe, (2001) another internationalisation option the SME can employ is piggybacking. In this method of indirect exporting, where an existing international distribution network of one manufacturer is used to carry the product of another manufacturer. In this instance the second manufacture is able to benefit from the existing reputation, contact and administration of the carrier with little direct investment. Forming part in the international supply change of an MNE can also lead to a SMEs piggybacking on the MNE's international development. It takes the form of domestic production or establishing a facility closer to where the MNE's new locations are established in other countries. (Isobel & Lowe, 2001). Usually, piggybacking is applicable when a company involved have related but non- competitive products. Ghauri & Cateora, (2006)

Considering the significance of the network creation in internationalisation, joint venture can be another option for the SME. According to Ghauri and Cateora (2006. P. 278 – 279), joint ventures can be attractive to the marketer under the following circumstances

- i. When there is the need to enhance the optimization of the special skills and competences of the local partner.
- ii. When it enables the SME to get access to the local partner's distribution system
- iii. When the firm lacks the needed resources either capital or personnel capability to extend international operation.

Agndal & Chetty (2006 p 1450) argue that despite the unprecedented number of theories about market choice such as the significance of psychic distance in market selection, “scholars have neglected to examine in detail the actual process

firms undergo when choosing foreign market". In the subsequent paragraphs, the paper will touch on some of the well-researched actual processes that firms go through in their internationalisation process such as the establishment of networks.

## **2.6 The role of SMEs in developing economies**

As indicated earlier, the importance of SMEs in every economy cannot be underestimated. In most economies SMEs contribute greatly to the creation of employment and an increase to the GDP of the country. As a result of this, most governments are implementing various policies to boost the sector. In Ghana for instance, SMEs are the major target of the government in its attempts to promoting economic growth and reducing poverty. This has lead to several interventions and policies by the government such as the establishment of the National Board for Small Scale Industries in 1990. SMEs in Ghana are mostly found in both urban and rural areas, and cover a wide spectrum of economic activities. It is estimated that SMEs in Ghana contributes about 22 per cent to total GDP, with the largest contribution coming from those in the agriculture, trade and transport. (African Development Bank and OECD Development Centre, African Economic Outlook 2004-2005).

Aside that, SMEs in Kenya employed some 3.2 million people in 2003 and accounted for 18 per cent of national GDP, whereas in Senegal the sector contributes about 20 per cent of national valued added. Micro and very small businesses in South Africa provided more than 55 per cent of total employment and 22 per cent of GDP in 2003. Small firms accounted for 16 per cent of both jobs and production and medium and large firms. Nigeria is not left out of these immense contributions of SMEs since the sector accounts for some 95 per cent of formal manufacturing activity and 70 per cent of industrial jobs. (African Development Bank and OECD Development Centre, African Economic Outlook 2004-2005).

As a result of these immense contributions from the sector, it can be said that SMEs have considerable amount of influence in developing economies which can be positive or negative and as such their growth must be a major concern for both government and researchers. Amongst the positive impact SMEs may have on these developing economies as stated earlier may include: creation of employment and a subsequent increases in the GDP of these economies. However, owing to the emergence of a global market, SMEs can only grow if they are able to set up and expand their operations in an overseas market. This phenomenon is what is referred in most cases as the internationalisation process of firms. (Chetty, 2007).

### **2.6.1 What is Internationalisation?**

The term, '*Internationalisation*' has been defined in several ways by different scholars as they view the term from different perspective. For example, according to Beamish, (1990), "internationalisation is the process whereby firms both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other country". Melin, (1992) also views internationalisation as an ongoing process whereby a firm's increase in knowledge and commitment results in a high increase in international involvement. For the purpose of this paper however, the second definition by Melin (1992) will be employed as it incorporates the three schools of thoughts regarding internationalisation. These three schools of thoughts are: the economic school of thoughts, the behavioural school of thought and the relationship school of thought of the network view (Caviello and McAuley, 1999). The first two schools of thoughts will be discussed shortly in the subsequent paragraphs and the relationship view of networks will be considered in detail since it is a major part of this paper.

## **2.6.2 The economic school of thought of internationalisation**

The major consideration on this economic school of thought regarding internationalisation is the theory of Foreign Direct Investment (FDI). The central argument of this theory is that firms utilize their most advantageous production capacity and choose the organisational form or location where there is a minimized cost of transaction in terms of production and operations Caviello and McAuley, (1999). Amongst the major criticisms of this theory is that the theory ignores the long term process of internationalisation as it only explains the pattern of investment such as the structure of the firm and the motivation to engage in overseas production (Johanson and Mattson, 1987, Melin 1992). Several other findings like Newbound et al (1987) consider FDI as a managerial decision making process and Ahoaroni (1966) for example went further to identify five stages of activities that characterised the FDI decision making process. These stages are:

- i. An initiating drive that attracts a non-investor
- ii. Investigations into possible investment opportunities
- iii. The outmost decision to invest negotiation review, and
- iv. Organisational change.

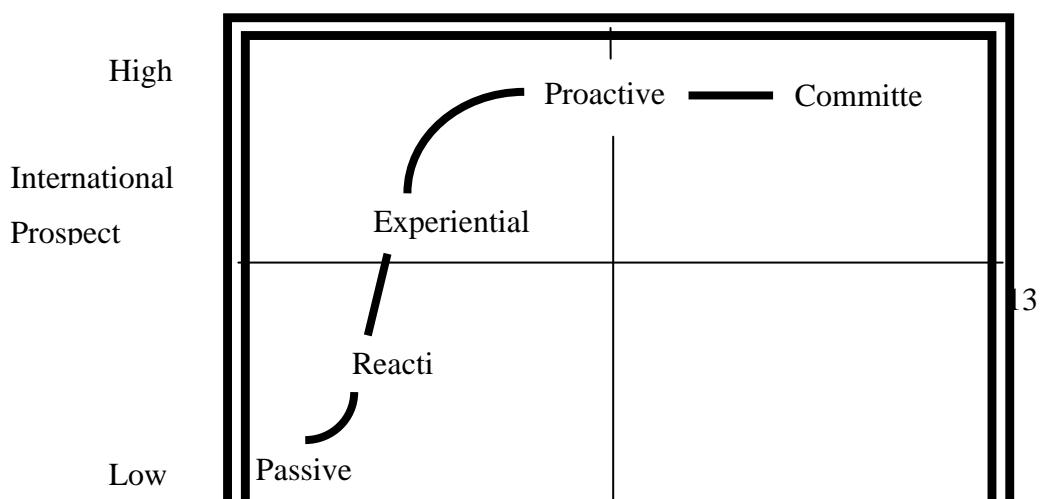
A critical look at these steps as elaborated by Ahoaroni (1996) indicates the lack of recognition for relationship building. This is because most SMEs may not have the financial capability to embark on full international production on the international market.

### **2.6.3 The behavioural school of thoughts (The Stage models of internationalisation)**

There are many stage models of internationalisation of which the first and the most widely discussed according to Caviello and McAuley, (1999) is the Uppsala model. Scholars at Uppsala university business department in 1970s conducted a survey that its outcome was different from the then international business literatures and perceptions by then (Johanson & Vahlne, 2009). The basic understanding of this traditional model (Uppsala model), is that firms begin their business operation in the domestic market without any form of international involvement. However, with the progress of time, the firm establishes a formidable domestic market and from there on, it starts to involve in international operations by exporting mostly through agents. The process continues with the establishment of a sales division in the foreign market and eventually a manufacturing subsidiary in the foreign market (Chetty & Stangl 2009 p. 1725).

Mostly, the initial markets the firm enter have a close extrasensory distance to their domestic market (Chetty 2009). This psychic distance according to Chetty and Stangl (2009) involves several factors ranging from similarities in language to similarities in business practices.

Doole (1997) also seems to have a similar assertion that internationalisation of firms is more of steps rather than being a gradual incremental process. These steps are grouped into; passive exporter, reactive exporter, experiential exporter, well established exporter and proactive exporter which are all illustrated in the figure 2 below.



## Capability

Figure 2 Internationalisation steps by SMEs

Source: Isobel and Lowe, (1999). P. 242

The passive exporter sees little or no need to engage in exporting activities. Most of these exporters only respond to unsolicited demand and orders from overseas country but have no real intention to embark on a full export operations. The reactive exporter perceives the need to embark on export but will only pay attention to key export account. They consider the export market as secondary and will make an effort to follow up on suppliers for orders. Experiential exporters tend to develop formal structures and activities that will support full export operations with high level of commitment. At the highest level of commitment towards export, the proactive exporter devotes considerable amount of resources to exporting activities, and make effort to establish a strong and healthy relationship with export partners Isobel and Lowe, (1999).

The theory also highlights the relevance of a continuous acquisition and application of appropriate knowledge in an overseas market where the SME is interested in operating. Lei, Dan, & Tevfik, (2004). The search for such relevant information in a foreign market is attainable through a gradual experience in an overseas market. The model proposes that a key determinant of a firms zeal to internationalise is the knowledge and experience it might poses in a foreign market. Hence the degree of commitment to arrive at a decision to internationalise is dependent on the relevant availability of knowledge and experience to the firm. In most cases, the SME's internationalisation is characterised with uncertainties in

the overseas market and sometimes lack of credible information. However, with a gradual experience in the foreign market could assist the SME to overcome the fear of uncertainties and also get aquatinted with the necessary information needed to succeed in the foreign market. As a result of this, the Uppsala model even though it is perceived to be most relevant and common in Scandinavian industrial firms may be applicable in other countries and therefore there is the need for broader insight into the subject (Lei, et al. (2004) even though this is not the main focus of this paper.

## **2.7 The network Model of Internationalisation**

The term '*network*' in business context has been described by several authors in different ways. According to (Johnsen, 2007, p. 136), Networks are a "set of connected exchange relationships between firms". This definitions by Johnsen (2007) do not seem to take into account the broader macro environment including the government, interest groups and other socio-political actors within the business settings that firms operates and therefore lacks the requirement for this paper. Interestingly, Johanson and Matton (1988) define networks as a long term connections that firms maintain with their industry rivals, suppliers, customers and government. This latter definition by Johanson and Matton (1988) seems more applicable and relevant to this study since it takes into consideration the wider environment such the government and other socio-political actors. A firm in one way or the other may be linked to the activities of other firms and in the broader perspective other actors in the external environment such as government and social groups hence may not operate as an isolated entity.

In line with the above argument, Håkansson and Snehota (1989) as cited by Chetty and Stangl (2009), claims that there is no business firm that can exist like an independent or isolated island without any form of networks. This is so because businesses conduct their activities interdependently with other actors in the environment. Industrial firms normally engage in production, packaging, distribution, and may as well depend on suppliers for their raw materials needed

in the production. It can be said however that even though each one of these functions may be performed separately from each other, it will require a collaborative effort by these separate actors before the firms ultimate goal of getting their goods to the final consumer will be accomplished. For example, suppliers are needed for the constant supply of raw materials for production whilst distributors are required to channel the goods to the final consumer. Chetty and Stangl (2009) further argue that, this web of businesses also includes inter-connected relationships such as the “customer’s customer, the customer’s suppliers, the customer’s competitors.

The network approach to internationalisation according Salmi (2000) is distinguished as compared to the well known traditional approaches. Conventionally, the traditional approaches of internationalisation as discussed earlier in this literature focuses on the steps and practices involved in systematic planning to penetrate an overseas market. However, the network view of foreign market entry place emphasis on “the actual process of entering the market and becoming an actor in the network (Salmi 2000)”. Axelsson and Johanson (1992) highlighted on three significant issues, with regards to the actual process of entering the foreign market and becoming an actor. These issues were; orientating, positioning and Timing.

Orientating according to Salmi (2000) involves the practice of familiarizing oneself with the network environment. Salmi further argues that for a firm to integrate into a network, it must first penetrate and actively participate in the network by which way it will acquire the necessary experience. The process of gaining grounds in the network and continuously devoting resources is what Salmi (2000) describes as positioning. Gaining such a position in a network of relationships and subsequently devoting resources may take some time and may as well require active participation. Axelsson and Johanson (1992) reveal that timing is another critical factor that must be considered when entering into a network as the firm must endeavour to spot opportunities when they turn up (Axelsson and Johanson, (1992).

In addition to this and from the perspective of the network approach to internationalisation, the firm's environment is not treated in a universal manner but rather must be considered as a broader relationship with specific identifiable players in the network. (Anderson et al, 1994). This also implies that adapting to each partners specific needs and expectations in the network is necessary since the firm may be dealing with distinct partners with different aspirations and requirement. (Salmi 2000). The question however is, in what ways can businesses identify the right partner? DiMaggio (1992) suggests that in a doubtful circumstances, firms must first outline a specific category of actors by which way they will be able to identify potential players and then engage in constant meetings and interactions with them in order to assess the reliability of possible candidates (Salmi, 2000).

### **2.7.1 When are networks formed?**

The formation of a network according to Johanson & Mattsson, (1988), occurs whenever an organisation establishes a mutually beneficial relationship with other actors in the firm's domestic or overseas market. One underlining consideration in this claim is that the formation of a network must be mutually beneficial to both parties. It could for that matter be argued that any relationship that is not mutually beneficial to both parties cannot be said to be a business network. The mutual relationships with the other firms internationally serve as a bridging gap without which entry into the market cannot be possible (Johanson & Vahlne, (1990). The establishment of these networks with other actors according to (Johanson & Mattsson, (1988) could be in a form of active or passive networks. In active networking, the initiative is taken by the seller, whereas in passive networking the initiation comes from the buyer (Johanson & Mattsson, (1988).

### **2.7.2 Components and characteristics of a network**

There are three components of any network of relationships according to Zimmerman et al; (2009). These constituents are; the core of the relationship, the administration of the ties and the organization or pattern of the relationship that emanates from the relationships (Zimmerman et al; 2009). The governance of the relationship refers to the administration or the management of the network.

Moreover, the position of a firm in a network can either be from external or internal view point (Ruzzier et al., 2006). Ruzzier et al. (2006) identified micro view point as within the firms internal environment, hence, the relationship is limited to the immediate surroundings of the business firm without further consideration on the external environment. The macro perspective involves the firm-network relationship that takes into account the wider environment. It was further argued that at the beginning of the firm's international involvement, networks can be limited to domestic partners and later on can develop wider networks as it increase in operation and subsequent zeal to go abroad. In networks, businesses maintain their own interest and contact with customers or intermediaries directly or indirectly while at the same time maintaining the kind of relationships that exist between the individual actors.

Amongst the most important characteristics of networks are interaction, cooperation, trust, and commitment and these characteristics according to Johanson & Mattson, (1987) plays very significant roles in relationship development and business networks. Put differently, Johanson and Vahlne (1990) argues that these elements are “an important ingredient for successful learning and the development of new knowledge”.

### **2.7.3 Types of relationship**

A firm that seeks to employ the network model of internationalisation may have several networking options including numerous players such as customers, suppliers, public authorities and institutions Ojala, (2009). These relationships can

be formal (Caviello & Martin (1999); (Harris & Wheeler, (2005), or informal (Chetty & Blankenburg Holm, 2002); Johanson & Thilenus, 2002).

#### **2.7.4 Formal / informal relationships**

Birley (1985) argues that formal relationships are the kind of relationships that is concerned with financial sources available to the firm. Dubini & Aldrich (1991) on the other hand are of the view that formal relationships involve the kind of relationships that exist between employees of each firm who are involved in their respective company's network activities. In most cases however, formal relationships exist at the organisational level where there are frequent interaction between firms purposely for the mutual benefit of each of the actors. This kind of relationship may be well structured as it may include the governance of the relationship the structure and the pattern of activities to be engaged in.

Informal relationships are related to contact between business firms, relatives and friends. Unlike the formal relationships, informal relationships refer to all individuals that the business owner may interact with directly. It could also include relationship amongst employees of each firm who in one way or the other engage in some form of personal interaction. It could be argued however that whether a relationship is formal or informal, it could have a profound impact on firms. For example an informal relationship between the business owner or employees and other individuals in another company may result in getting access to certain crucial information that can assist in the international activities of the firm

Other research findings also identify the significance of intermediary as another form of relationship. In intermediary relationships, there is no direct link between the seller and the buyer, but rather there is a third party that assists in the facilitation of the connection between the seller and the buyer Ojala, (2009). Aside these types of relationships, Chetty and Agndal, (2007) also elaborated on other forms of relationships namely; direct and indirect relationships, business and social relationships and proactive and reactive change.

### **2.7.5 Direct and Indirect relationships**

Formation of a network can be categorised as either direct or not direct. A relationship is considered as direct relationships if both parties deal directly with no intermediary. However, whenever an intermediary steps in, the relationship becomes indirect Ghauri and Cateora (2010). A third party by way of making relevant information available to both sellers and buyer serves as an actor in the network.

### **2.7.6 Business inter-firms networks**

A business network according to Emerson (1981); Anderson et al (1984 p, 29 as cited by Blackenburg et al (1996) can be defined as a “ set of two or more interrelated business relationship, in which each exchange relations is between business firms that are conceptualised as collective actors”. In essence, the connected actors consider their activities as inter-dependent on each other. The interconnection of two or more relations according to social exchange theory as cited by Blackenburg et al (1996) can be positive or negative. A positively connected relations implies that, the kind of exchange that exist is supportive of each other as the outcome of the network is mutually beneficial and the relation is negative if the exchange contradicts or impedes the smooth operations of each of the actors in the network. the formation of business networks mostly takes place at the highest level of the organisation and is maintained for the interest of the company. some scholars such as Johanson et al (1996) have argued that the harmonization of activities between firms mostly occur in the broader business environment that firms operate and this assertion seems to be in line with earlier claim by Chetty and Stangl (2009) that argues that there is no business operating as an island as every firm in one way or the other is expected to act in a limited number of relationships.

## **2.7.7 Knowledge and commitment building in networks**

As established earlier, knowledge and commitment are necessary ingredients in every network of relationships. Johanson and Vahlne (1990) explain that the firm's management activities are as a result of the acquisition of knowledge which subsequently results in high sense of commitment. In line with this assertion, there are two important issues that must be addressed here and this are; knowledge acquisition and commitment building. Hadjikhani & Ghauri, (2001 p. 264) argues that a firm's ability to increase its political knowledge reduces the risk that is often associated with investment, and when this perceived risk reduces, the commitment level in the network also increases. It may not be only the increase in political knowledge that might minimize the risk of uncertainties but also knowledge of the other business partner's activities and interest. According to Hadjikhani & Ghauri, (2001) "commitment can be explained in terms of the size of investment towards the counterpart alone or by studying the links of the tangible and intangible towards the partner and his connected actors".

It may be said that, to a large extent, the understanding and the appreciation of the political values and activities may be complex and difficult to comprehend, and in accordance with this statement, (Hadjikhani 2001) argues that, in the process of interacting with the various political and no –political actors, business firms are able to familiarize themselves with the norms and activities of the other partners within the network. Hence, the interaction with these political elements assists companies to understand their political environment. Hadjikhani and Ghauri, (2001) in their findings about three MNE's and their political involvement concludes that political activities supplements business activities and that firms with high level of commitment have the potential to effectively manage their political environment than firms with low level of commitment.

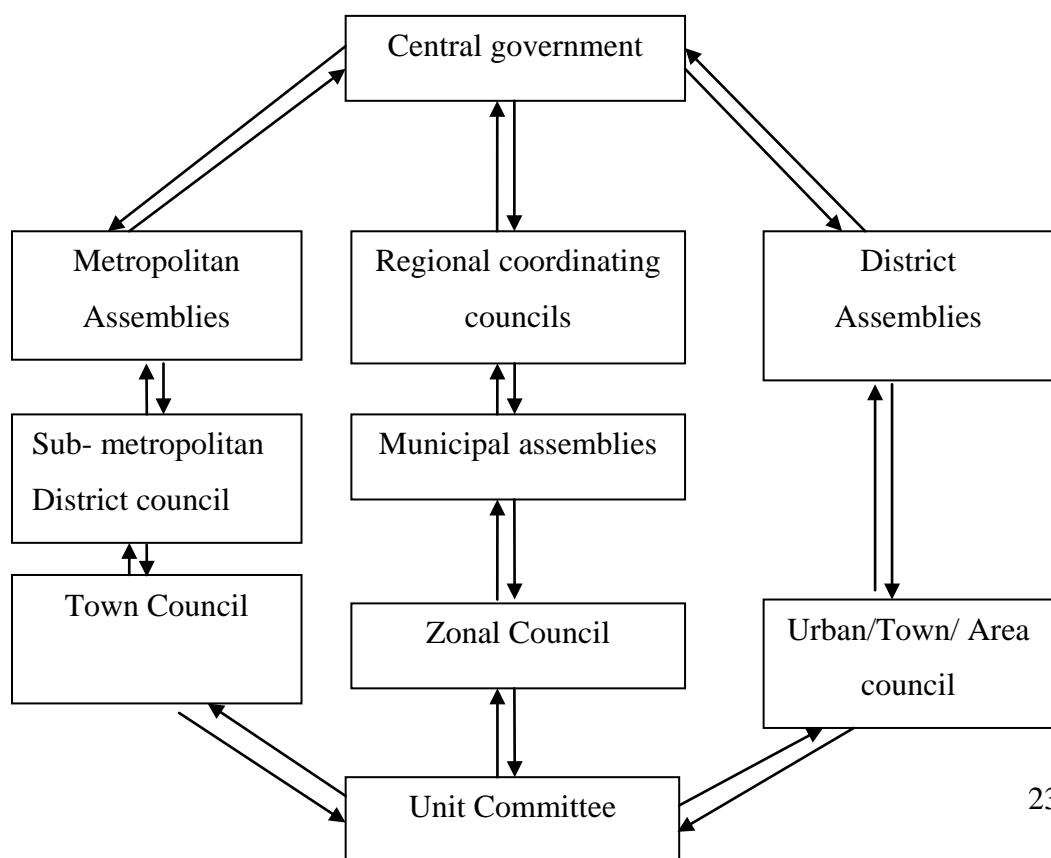
## **2.8 The Socio –Political environment of Ghana**

The socio-political environment of businesses consist of various actors like the government, media, political parties and other social groups and movement such as ‘green movements’ whose activities can influence businesses business operations Hadjikhani et al (2004). This section seeks to identify some influential socio-political actors in the Ghanaian business environment that can affect the internationalisation of SMEs by identifying the various roles these actors play. The emphasis of this section will mainly be on the government and the political system of Ghana, interest groups, international economic actors and the traditional authorities. This has become necessary to include in this study because it has been indicated earlier that in the network approach to internationalisation, industrial network researches has over the years given less attention in considering the wider environment in which both parties; businesses and political actors, are linked (Welch and Wilkinson, 2002). This according to the aforementioned authors “is one element which was lost in the shift from the first generation interaction model to the second generation AAR model”. The interaction model differs from the AAR model as it involves the interaction environment and its corresponding variables.

### **2.8.1 Government and political system in Ghana**

The political system in Ghana is based on multi party democracy with a presidential system of government. The 1992 constitution of the country provides for the three arms of government namely; parliament, the executive and the judiciary, which are distinctively independent from each other. Charged with the responsibility of enacting laws, the legislature formulates laws and policies that can affect the operation and conduct of businesses and the executive implement sees to the implementation of these laws. Aside these bodies at the central government level, the governance system is also decentralised, making provision for district, municipal and metropolitan assemblies and at the button level, the unit

committees which are all illustrated in the figure 1 below. These bodies are responsible for the implementation of government policies and programmes at the grass root level and can also formulate bye-laws within their jurisdiction which can as well have influence on business activities. According to Henisz, (2003) as cited by Hadjikhani et al (2004), firms rely on the socio-political settings.



### **Figure 1.** structure of governance system in Ghana

Source: National commission for civic education, Ghana (1998)

#### **2.8.2 Interest groups**

According to Welch & Wilkinson (2002), amongst some prevailing issues regarding political settings is the advent of political systems and values that are different and new, for example conservationism or environmentalism. In accordance with this, Aljoutsijarvi and Uirmonen (1995) suggests that such new trends such as the grow of ‘green’ movement which exert significant influence on the use of raw materials, product development and competition should be viewed as “politico-social network”.

Among the interest groups in Ghana that are politically and socially active may include but not limited to, the Trade Union Congress of Ghana (TUC), the Ghana Bar Association (GBA), Ghana journalist Association (GJA), the Environmental Protection Agency (EPA) and the Consumer Protection Agency (CPA). These bodies have considerable amount of influence on policies and decision making and can affect the operation of the business firms in several ways such as the use of raw materials, product development and competition (Aljoutsijarvi and Uirmonen 1995)

#### **2.8.3 International economic actors**

Another environmental subject according to Welch and Wilkinson (2002) is the issue of regional integration for example, the European Union (EU). In the case of West Africa, the Economic Community of West Africa State (ECOWAS) can be

said to have significant impact on businesses that want to trade across borders within the region. This economic bloc consisting of 16 West African countries have created a borderless society with a free flow of goods and services as well as free movement of people even though some form of restrictions such as cargo inspections exist. for example, exporters within the ECOWAS region who wish to avail themselves to preferential access mostly have to complete the ECOWAS Trade Liberalisation Scheme which is a document to be filled. In most circumstances, when such borderless society is formed, businesses have to broaden their existing networks thereby forming relationships with new suppliers/distributors and customers and may even go further to form relationships with the foreign government and other socio-political actors within (Welch and Wilkinson, 2002). This may be a cumbersome task for the SME who may lack the resources need to maintain such a broad network of relationships.

#### **2.8.4 Traditional authorities**

One major social actor in the Ghanaian socio-political environment is the traditional authorities. In almost every community in Ghana, these local authorities exist and they are seen as the custodians of lands in their locality. They exercises considerable amount of influence and power in the community and can have profound influence on businesses that operate in the community. The constitution of Ghana recognise the institution of the National House of Chiefs and recognises customary laws as well as the traditional court system as part of the country's judicial system (Mijiga, 1998).

### **2.9 How can these socio-political actors affect Kasapreko's operations?**

According to Henisz, (2003) as cited by Hadjikhani et al (2004), firms rely on the socio-political settings. This is because, these socio-political units have rightful position in the environment and, as a result, their activities can be in support or

against the firm. To a large extent, it can be said that the interaction between the firm and the environment it operates is as important as the SMEs inter-firms networks. Prior studies such as the AAR model failed to acknowledge the factors that are beyond inter-firms interactions Welch & Wilkinson (2002). This can be viewed as a little myopic as political setting set the tone for business operations and therefore the need to appreciate and understand the kinds of political connectedness and its impact on SMEs activities. In Ghana for example, while the government set the parameter upon which firms should operate through the enactment of laws and bye-laws, other interest groups such as the Environmental Protection Agency (EPA) and the Consumer Protection agency (CPA) may exert considerable amount of pressure on Kasapreko Company's standard level of products as well the materials that are used in the product which could range from the ingredient to the packaging. The EPA for example may compel them to use more recyclable materials in their packaging which can result in consumers demanding more environmentally friendly products. Interestingly, similar bodies and associations may exist in the firms export destination country and as a result may have profound impact on their international operations. In the same way, the traditional authorities and the regional body, which is, ECOWAS, can affect the SMEs international activities in Ghana. This is because the regional bloc is

### **2.9.1 Forms of political networks of firms**

Political connectedness according to Welch & Wilkinson (2002) can take four forms as elaborated in the table 3 below namely; political settings, political actors, the political activities of the firm and political resources. These political links can be very complex and can take several dimensions. Tornroos (1998) also considers that “temporal, spatial, social, political and technological actors are the forms that connectedness can take, but the focus of this section will be based on political networks off alliances.

Table 3 Forms of Political connectedness

FORMS OF EMBEDDEDNESS	EFFECTS	EXAMPLE
E1 Political institutions	Change in political system and socio-politico values	Political turbulence, Environmentalism regionalism
E2 Political actors	Network facilitation and disruptions by government	Bofors scandal in India, Infrastructural networks
E3 Political activities	Lobbying, Publicity	MNE involvement in India's industrial policy implementation
E4 Political settings	Legitimacy	

Source: Adopted from Catherine and Wilkinson, (2002). P 5”

It can be argued that every country has in place rules and regulations that govern the conduct of businesses and according to Salmi (1995) the political settings provides the needed frameworks for these rules and regulations to be established. It can be further argued from this earlier statement that the political settings of every country have a direct impact whether positively or negatively on firms operations. For example in 1991, the then government of Ghana initiated moves for the establishment of the Ghana Export Promotion Council. Several policies and interventions followed afterward such as the institution of the National Board for Small Scale Industries. (GEPC, 2011) and the rise of environmentalism

As indicated earlier, political actors are another aspect of political connectedness These actors according to Welch and Wilkinson (2002).may include “bureaucrats, government ministers, members of parliament, opposition parties,

interest groups and the media” and can assist in the formation of business networks through positive or negative means. This may mean that the business firm’s inability to form close ties with two or more of these actors may cause significant impediment to its operation. For example in Ghana, Globacom telecommunication company in its quest to enter the Ghanaian market had a close ties with the then government that made them to even win the bid as the fifth telecommunication operators on the Ghanaian market, however, a certain democratic change of government saw a big blow to the company since they did not have strong ties with the then opposition party. This has affected the company adversely as they have not been able to launch full operation in the country since 2007.

### **2.9.2 Socio-political activities of firms**

Consideration of a business firm’s political activity mostly centres on the role businesses play as “lobbyist of government and influencers of public opinion” (Welch and Wilkinson 2002). As a way of influencing political decisions, business firms may try to put pressure on policy makers or public officials. Amongst the most appropriate description of the term “lobbying”, is “the mobilisation of opinion to exert pressure on public authorities or bodies for commercial or competitive advantage (Harris, 1999, p. 26)”. As indicate earlier the environment in which businesses operates influence business activities and the political environment is no exception as policy makers are responsible for drawing the framework in which businesses should be conducted. It therefore appears that, the only way business can change the course of some of these policies that may affect them negatively is by way of lobbying.

However, the above definition of lobbying by Harris (1999) reveals one major social concern that must be considered. The author argues that businesses in their attempts to influencing public authorities seek to gain commercial and competitive advantage. To a large extent, it could be deduced that this attempt and motives behind lobbying by businesses can in most of the time lead to bribery and

corruption especially in most African countries. There have been quite a number of cases in Ghana regarding bribery and corruption that came about as a result of lobbying activities. In 2009 for example, the Serious Fraud Office (SFO) of Britain prosecuted one of the biggest construction companies in Britain, Mabey and Johnson, for seeking to corruptly influencing public officials between 1994 and 1999. (The guardian, 2012).

Notwithstanding this, lobbying plays a significant number of roles in business activities. Harris (1999, p. 34) argues that lobbying “is a specialist form of networking in the field of public policy-making and access can be characterised as points of linkage between separate group of actors”. Hence lobbying can serve as a link between the various partners in a network especially decision makers. However, in the case of the SME, it may not have the capacity and the resources required to engage in lobbying by their own effort but may join hands with other competitors. (Welch and Wilkinson 2002)

Table 4. The role of lobbying

Role type	Principal activities performed by practitioners
Government/Political Monitor	Responsible for scanning the political and social environment and monitoring groups, themes and trends that may give rise to legislative proposals that could impact upon the organisation

Public affairs adviser	Advising management about government and other policy thinking on issues likely to affect the organisation. Assess potential reaction to operational and organisational policies
Government Relations	Facilitates communication and contact between the organisation and government and politicians.
Regional government liaison	Regular liaison with local government and regional politicians and government officials
Parliamentary liaison	Regular liaison with politicians and officials of all political parties.
Public affairs strategist	Responsible for formulating political marketing campaigns, issues management strategies and strategic lobbying campaigns. Development of policy options for organisation to propose to government for strategic advantage.

Source: Harris P.H., (1999); adopted from Harris, Moss, Vetter, 1999, p. 213

## **2.10 Significance of Networking in SME's internationalisation**

The importance of networking in SMEs internationalisation cannot be underestimated as the SME's networks of relationships serves as a backbone for its internationalisation. It has been established earlier that in most cases the SME start the internationalisation process through a network of distributors in the overseas country which is sometimes due to the lack of financial or human resource capacity to embark on a direct entry unto a foreign (Caviello and Munro, 1997). In assessing the significant role of networking to the SMEs internationalisation, Pittaway et al (2004) highlighted on some roles networking plays in the SME's internationalisation, which includes; risk sharing, access to new market and technology, commercialisation speed, accumulations of complementary assets and the protection of property right in cases of trademarks and labels.

An SME that is operating in a network of relationships is able to minimize the risk associated with internationalisation by way of sharing the risk with other network players which otherwise would have been unbearable by a single firm. This in a way can boost the morale and interest of the SME to embark on more internalisation activities. Moreover, by acting in a network, the SME can acquire knowledge and expertise from other members in the network. This is because in every industry, there could be one or more firms that have already taken the lead in extending their operation in an overseas market and therefore their experience and knowledge can be tapped to assist the SME in its quest to internationalise. This could be the case in most SMEs in developing economies like Ghana where the SME lack the human resource base or the financial capability to hire the services of an expert or a consultant to assist in their internationalisation ambition.

Easy access to the foreign market is another significant role networking plays according to Pittaway (2004). Through their network of relationships with foreign distributors and government, the SME can penetrate the overseas market with less difficulty. In such circumstances, the problem of cultural differences, product acceptability, finding of new customers and identifying the right distribution

channel is minimised since the overseas network already familiar with these challenges. The effect of this is that, the pace of commercialising the SME's product and services is quick and faster than it would have been if entering the market by their lonely effort.

In further deliberating on the significant role of networks, Ghauri (2010) claims that most SMEs start their internationalisation process by first exporting abroad. Lei et al (2004) explain further that this action is most of the time prompted by external factors such as sudden orders or request from customers, suppliers, or partners in an overseas country. Moreover, SMEs as part of their internationalisation process develop their foreign market by exporting from their home country since this method is the easiest and less risky in terms of financial losses (Ghauri & Cateora, 2010). These claims by the above authors re-emphasize the significance and the relevance of the Network Model of internationalisation in recent time. It may also be argued that in most cases in new small businesses foreign operations, it will be difficult for a new exporter to sell overseas without first having a point of contact or a network in that country.

In all these contributions, the role of government through its agencies can be crucial as well. According to UNIDO (2003), government agencies can act as facilitators in assisting the SME to appreciate the fact that maintaining a network of relationships can contribute to their internationalisation aspirations as is the case in many developing economies. It has been cited earlier that in Ghana for example the Export Promotion council and NBSSI is in place to ensure and provide the needed assistance that SMEs may require in their internationalisation. In summary, the SME can overcome the problem of; lack of finance, lack of human resource with international expertise, lack of credible and adequate information, fear of uncertainties, problem of finding the right channel of distribution in the overseas market and any other challenges that is associated with their internationalisation by being an active player in a network which can assist in providing access to the external resources needed to overcome these challenges (Jarillo, 1988).

## **2.11Management of networks in SMEs**

According to Nilsson et al (2002), “management of business networks is mostly political game of balancing the network patter”. It has been discussed earlier that every actor in a network has their own interest and expectation which in essence means that to be able to ensure effective management of the firm’s network, there must be a collaborative effort among all the players in the network Nilsson et al (2002). Base on this premise, it can be further argued that the management of networks cannot be the sole responsibility of one single player in the network, but rather all the actors have a role to play. Nevertheless, there can still be some mechanisms that can be put in place to ensure the kind of collaboration that is needed to manage the network such as communication and feedback system Nilsson et al (2002). This will ensure that every partner contributes its quota in the management of the networks

## **3 RESEARCH METHODOLOGY**

### **3.1 Method used**

The research method that was used in this study is qualitative methods. Shank (2002), defines qualitative research as a form of a planned and an orderly way of inquiring into a subject matter under research. This method has gained quite amount of momentum because in research of this nature because it has been confirmed to be most effective for exploratory studies. A qualitative method is also appropriate in circumstances like this because it provides thorough understanding into questions like “how?”, “why?” and “what?” which in most cases cannot be answered in details when using quantitative research method (Yin, 1989; 1994). Furthermore, it has been argued by Chetty and Stangl (2010) as a useful way of obtaining adequate knowledge and information on what goes on in a firm’s network activities. This method however, is not inclusive of several companies, it is often appropriate in circumstances where there is the need to offer thoughtful analysis of central issue. (Salmi, 2000).

### **3.2 Sampling size**

According to Borch and Arthur, (1995), the case study method of research is mostly applied in network studies, especially where complex and many-sided phenomenon are studied in their real life situations. The method appears more applicable since it will assist the researcher to focus of the subject under consideration. The case company used in this thesis is Kasapreko Company Limited (KCL), which produces alcoholic beverages in Ghana Single case studies of this nature are mostly employed so as to provide a profound analysis of the issue under consideration (Salmi, 2001). The sample size of this study consisted of two respondent, including the marketing manager and the public relation officer of the case company. Also the sampling method employed was based on convenient sampling method. The reason for the selection of the two interviewees is that at the time of the research, the case company was not fully involved in international activities and as result does not have a designated international operations manager who would have been the preferred choice for these studies. However, since the marketing manager is the one who is in charge of the international marketing activities, it is believed his insight will be of great contribution to this study.

It must be noted that, the size of the case company under consideration meets the European Commission's and the National Board of Small Scale Industries of Ghana's definition of SMEs as the Company has over 250 employees.

### **3.3 Data gathering**

There are two main categories of data collection methods and these are primary data and secondary data. Primary data refers to data that have been collected for a specific purpose and does not already exist. In short, it can be described as first hand information. Secondary data on the other hand refers to data that have been

obtained and used already for another purpose rather than the purpose under consideration, examples include; annual reports, books, journals, articles and electronic sources such as the internet. One advantage of secondary data is that it is much easier and less time consuming to obtain as compared to primary data. (Zikmund, 2000).

During the course of the research, secondary data as well as primary data was used. The secondary data consisted of information that was obtained from already existing sources such as articles, journals and internet sources. The primary source was obtained through the qualitative research approach used.

To explain further, interviews were conducted employing semi-structured questions with participants from the case company who are readily involved with the internationalization activities at the company. These individuals were able to provide insights into the “how” and “why” questions posed to them by reflecting on their knowledge, experience, and expertise. The main data collection procedure used was semi-structured interviews. The interviews were conducted solely by the researcher, and lasted between 20 to 30 minutes. The interview items designed to provide insights into the variables of the model to be measured were adapted primarily from literature, modified to reflect the peculiar context of this study.

### **3.3.1 Analysis of data**

In order to present the research findings in a more logical and comprehensive manner, the interviewer noted down some salient points and arguments that emanated from the respondents during the interview. This was further critically analysed and compared to some of the literatures and earlier research findings that was employed in this thesis. It must be noted that the analysis of the interview was done objectively according to how the information was given by the respondents and as a result it is free from any form of subjectivity.

### **3.4 The issue of validity and reliability**

One important consideration in every empirical part of any study is the issue of how the information provided by the respondents could be relied upon or not. To overcome such possibility of unreliability and invalidity, the respondents were selected based on their active involvement in the case company's international activities. Based on this, it can be claimed that the information provided by them can be relied upon and at the same valid. This is because these respondents know the inside out of the company's operations both previous and present and as a result their views and answers to the questions posed to them can be described as valid and reliable.

## **4 EMPIRICAL FINDINGS**

### **4.1 Case company in brief**

Kasapreko Company limited is one of the biggest manufacturers of alcoholic and non alcoholic beverages in Ghana. The company was established in 1989 in Nungua, a neighbourhood of Accra, Ghana. The company, just like many other companies, has a vision that makes it distinct from that of other alcoholic drink manufacturers in the Ghana, the reason being that the company identifies the increasing complexities of the consumer. The company in the early days identified that its future success on the Ghanaian market chiefly depend on their ability to provide good quality beverage products for its customers and therefore, there was the need to develop a product that will meet the need of the Ghanaian consumer. Moreover, because of the need to meet the increasing demand of consumers, the company has established a new manufacturing plant and processing centres which most local manufacturers do not have. With the increasing demand for its products, the company saw the need to find a foreign market to increase its sales and profit margin. As a result, the company now

export to other West African counties including Nigeria. Its export unto the Nigerian market is connected through distributors.

## **4.2 The need for export**

Kasapreko Company Limited started its operations purely as a local manufacturer of alcoholic beverages. Hence, the company is not a born global firm as it started exporting over ten years after establishment. However, due to the increasing demand for its beverages mostly from neighbouring countries, the company begun to export its products to Nigeria, the biggest market in Sub – Saharan Africa. The need for export was necessitated by consumers both in Ghana and from Nigeria who in one way or the other have lived in Ghana before and therefore required the product after returning to Nigeria. Upon identifying the need, the company decided to export to Nigeria because Nigeria is close to Ghana, the country is an English speaking country and also due to the existence of the regional bloc, ECOWAS, which has facilitated the free movement of goods and services across borders of member states. This motivation of the company to export to Nigeria seems to be in line with earlier research findings like Johanson and Vahlne, (2009) that revealed that firms begin their activities in the domestic market without any form of international involvement but with the passage of time begins international operations mostly through distributors. Chetty (2009) also argues that the initial market which firms enter have a close psychic distance which ranges from similarities in language to similarities in business practices. It can be said that the Uppsala model though was perceived to be most common in Scandinavian industrial firms is as well applicable to other countries and for that matter to Ghana.

### **4.3 Products and Distributors**

Even though attempts are being made to introduce non-alcoholic beverages onto the market, most of the case company's products are currently alcoholic beverages. In all the company has over thirteen brands including "Alomo bitters, Brandy, Kasa vino, cardinal Liqueur, Cocoa Liqueur, Dry Gin, Kasapak, Lime Cardinal, Opeimu bitters, Tonic wine, Ogidigidi" and several others. The company presently has one hundred and thirteen (113) distribution outlets in all the ten regions of Ghana. This means that domestically, the company has established a strong domestic presence. As earlier on established by Johanson and Valhne (2009), this is the case in most SMEs internationalisation as they try to build a strong home market before going international.

### **4.4 KCL's Foreign Market**

Kasapreko Company limited presently export mostly to Nigeria through distributors, even though they are exploring other countries in the region. As stated earlier, all the neighbouring countries including Ivory Coast, Burkina Faso, are French speaking counties with the exception of Nigeria. Moreover, Nigeria is the only single largest market in Africa with a population of over 160 million. It is on this background of similarities in language, business practice and the market that is why the company chose to enter the Nigerian Market. At the moment, the case company have over six distribution outlet in Lagos and many other distributors across the region. It must be noted however, that since the company mostly relies on distributors both in the domestic and the foreign market, the signifies the relevance of the network approach to internationalisation is enormous to the case company.

#### **4.4.1 Country information**

Located in West Africa, and on the Greenwich Meridian, Ghana is increasingly becoming the investment destination of the sub Saharan region of Africa. Due to its strategic location, Ghana has excellent sea and air connections to the rest of the world, especially Europe, USA and Africa. The country is one of the fastest growing economies in Sub Saharan Africa with a market economy. It has a total population of 24,332,755 people with an income category as Lower middle income. Ghana is ranked one of the easiest country to do business in African and has a stable political environment. Doing business in Ghana, (2012). The GDP of the country stood at 4.0 per cent in 2009, 7.7 per cent in 2010 and 13.6per cent in 2011. Aside these, there has been a Significant reduction of fiscal deficit from 6.6 per cent of GDP in 2008 to 2.0 per cent of GDP as at September 2011. Inflation rate of the country stood at 8.40 percent as at September (budget highlight, 2011). The country has a free zone area which was established in 1995 by an act of parliament with the aim of creating an attractive and conducive business environment through the provision of competitive free zone incentives and operation to enhance local and foreign investment. (GFZA, 2011).

In an attempt to encourage and boost the growth of SMEs, the country has implemented a number of policies and support programmes such as the establishment of the National Board for Small Scale Industries and the Ghana Export Promotion Council (GEPC) to assist Small and medium size enterprises in their operations.

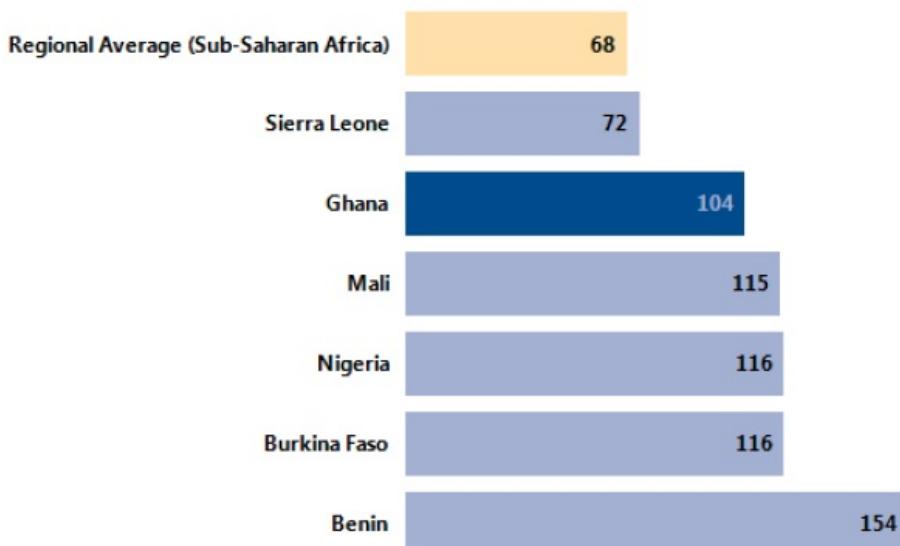


Figure 2 how Ghana is rated on the ease of doing Business

Source: Adopted from World Bank, 2012. Doing Business in Ghana p.7

## **5 FINDINGS, DISCUSSIONS AND CONCLUSION**

### **5.1 Introduction**

This section covers the discussion and analysis of the research questions that were posed to the respondents. The discussions and analysis are based on the individual networks and the networks at the corporate levels. Earlier on, it has been stated that the way MNEs may manage their networks can be quite different from how SMEs may manage theirs. It has also been established that, a company's' inter-firms networks may not be the only relevant networks as some other important networks may exist. This section, however, reveals one important form of network that exists in the Ghanaian business environment. The section also reveals that the case company manages its networks mostly, through communication and feedback

## **5.2 Findings and Discussions**

In this section, the paper touches on the findings that were revealed during the interview session. It must, however, be noted that this thesis findings and discussions may not be generalised to all SMEs in Ghana but rather, it specifically apply to the case company in question

### **Q1. What are the importance of networking in Ghana and how does it contributes to the SMEs internationalisation?**

The research findings reveal that in Africa and for that matter Ghana, having the right network of relationship facilitates the expansion process of business firms both locally and internationally. In the context of the Ghanaian business owner, establishing a good business network is not only about “Who you Know”, but more of “Who Knows you”. In drawing an analogy to this, getting to know your business partners, in this case “Whom you know”, and your business partners getting to know you in which case “Who knows you” may require a regular and a constant interaction with all the relevant parties and stakeholders and also actively participating in the network. Kasapreko Company did not initially realise the need for a strong network formation which could be attributed to the case company’s limited in capacity in terms of production capability and sales. However, with the increase in capacity and extension of business activities nationwide and also across borders, the company now considers the created networks as the backbone for its success without which the case company could have not ascended to the position as one of the biggest manufacturing companies in Ghana. This, again, makes known the fact that the broader the business operating activities, the more business owners recognize the need for broader and more sophisticated networks.

Meanwhile it was also identified that KCL entry on the Nigerian market would have not been realised without the establishment of strong networks with the Nigerian distributors. The company was initially sceptical about entering the market because of the fear of uncertainties and lack of reliable information.

Unfortunately, they were not ready and willing to invest in a comprehensive research on the market and as a result, the need for reliance on distributors. This could be the situation in most developing economies where especially indigenous companies do not have the capacity or even if they have the capacity in the case of KCL lack the willingness to embark on full and comprehensive market research to obtain the information needed. Therefore, to make things easy and simple, they heavily rely on their networks for such assistance.

KCL is a member of the Association of Alcohol Manufacturers and Importers (AAMI) in Ghana. The research findings reveal that the company has over the years been able to embark on several research and development activities at a reduced risk and cost because these risks are shared among the member companies in the industry. The findings of this research concerning the role of network could be said to be in line with earlier findings (Pittaway et al, 2004) that indicate that, access to new market and technology, risk sharing, commercialisation speed and accumulation of complementary assets are some of the significant roles of business networks. These have been re-emphasized in this discussion even though the earlier findings were more towards developed economies.

**Q2. Are there other important networks that exist apart from the company's inter – firm networks in Ghana?**

### **5.3 KCL outside the firm Networks**

As some research findings have indicated, a business firm may have to establish networks with numerous suppliers, customers, public authorities and even suppliers' customers (Ojala, 2009). The research findings based on this question reveals some interesting networks that exist apart from the inter-firms networks in Ghana. These networks have been categorised into four groups namely; national or political networks, inter-firms networks, regional networks, and local networks involving traditional rulers. For the sake of clarity and also based on the earlier

assertion by Ruzzier et al (2006) these will further be grouped into macro and micro networks. It would also be identified that in all these forms of relationships there is a regular exchange of information and interactions between the firm and the other network players. These have been illustrated in figure 4 below.

### **5.3.1 KCL Network of local authorities**

This study reveals one important network that business firms must consider in Africa and for that matter Ghana. This network is what the researcher categorises as local networks consisting basically of traditional rulers like chiefs, kings and some families and family heads. In Ghana, these traditional rulers exercise considerable amounts of control and power within their locality. For example, they are responsible for leasing and selling of lands to corporate organisations who want to operate in their locality. This means that even though the government gives permits for corporate entities to operate, the traditional rulers will provide the land needed to locate manufacturing plants and offices for the firm and, as a result, can affect the firm's operation in one way or the other.

In this regard, it was interesting to identify that KCL has long recognised the need to maintain a long lasting relationship with these traditional authorities. At the corporate level, the company has for over the years been a major partner to these local authorities in organising and supporting traditional festivals whilst in return these authorities provide the necessary assistance to the company. It may, however, be argued that this kind of network does not exist in most developed economies in Europe and America where the traditional ruling system may not exist. However, in most African countries for example Ghana and Nigeria, this system exists and as a result a firm's inability to appreciate this network can have enduring impact on its operations. Figure 3 on the next page illustrates the company's networks both inter-firms and outside the firm.

### 5.3.2 Kasapreko Company's Networks

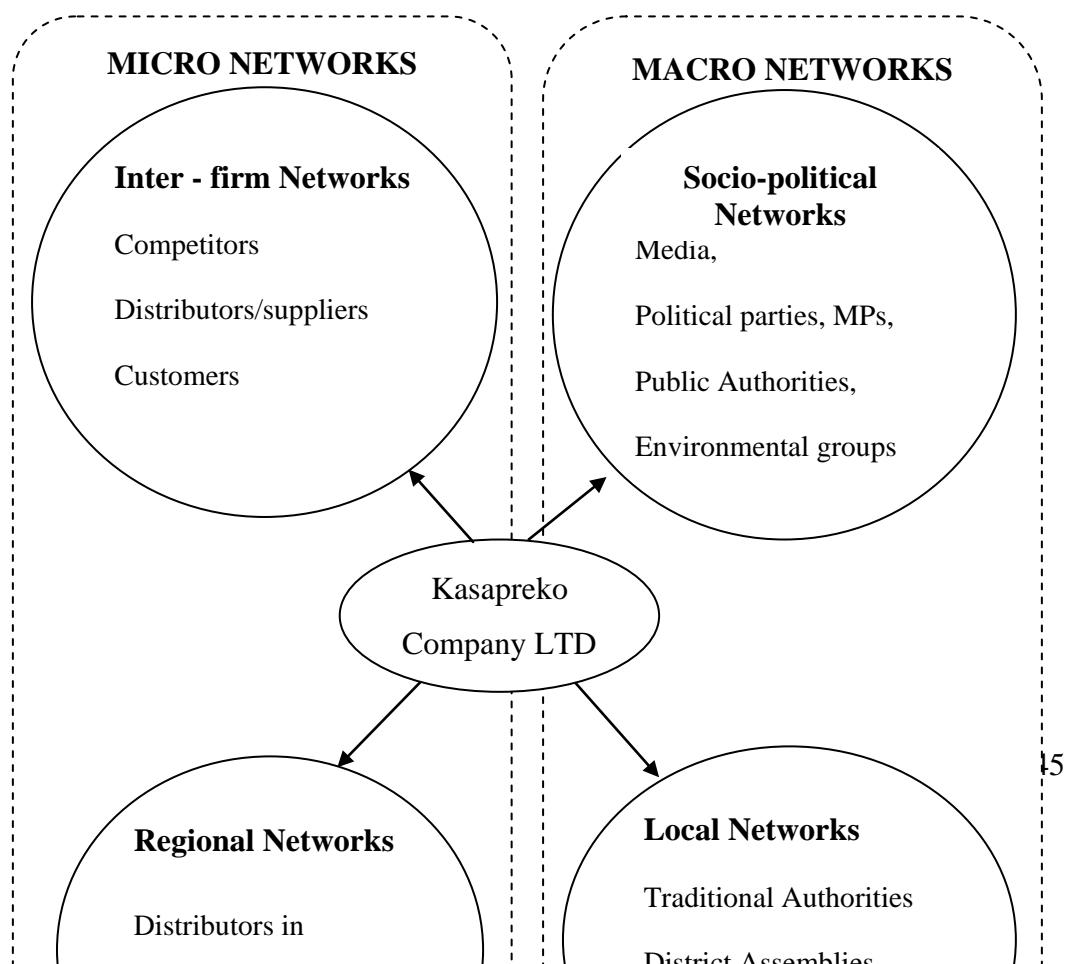


Figure 4. Kasapreko Company Limited's Networks of Relationships

**Q3. How do smaller firms manage their social and political relationships in Ghana?**

#### **5.4 Introduction**

The underlining conclusion on this question is that the case company basically manages its network of relationships through communication. In all its effort, regular communication and feedbacks between the various network members is their one major management tool.

#### **5.4.1 Management of social Networks**

The findings identified that some top management members of the company have established good relations with some specific influential individuals consisting of heads of public institutions, ministers and deputy ministers, political party heads etc. This, according to them, is a personal relationship as some of them were friends from college. However, a critical analysis of the findings reveal that they have actually established and maintained these networks not just for personal reasons but for the interest of the business as well. In the end they are able to obtain some relevant information from their individual networks and based on this information the company is able to incorporate it into their organisational policies and strategic decisions for the good of the business.

Aside this, it was also revealed that as a corporate entity belonging to an industry, there has been certain issues that are beyond individual networks' capability. For example, a drafted bill to be presented to parliament of Ghana concerning the sale and manufacturing of alcoholic beverages in Ghana. In this bill, the alcoholic manufacturing companies anticipate some challenges in it which may affect their business. To help solve this anticipated threat, the Association of Alcoholic Manufactures and Importer in Ghana, have come together in an attempt to lobby and influence relevant stakeholders and institutions. Since a single company cannot manage such impending threat all by themselves, they have to join with other industry players to overcome such threat. From this standpoint, it can be argued that this revelation seems to be in line with prior arguments by Welch and Wilkinson, (2002) concluding that SMEs may not have what it takes to influence policies or manage some environmental threat all by them and as a result may join forces with other competitors in doing so.

#### **5.4.2 Management of distributors and suppliers network**

The findings reveal some interesting arguments that need further deliberations and discussions regarding how SMEs manage their networks. It was revealed that the

company considers its networks of distributors as part of its employees and as a result does everything possible to keep and maintain good relationships with them. They maintain regular interaction with them, listen to their grievances, and provide technical and managerial support for them whenever needed. It could be argued that this may be possible in SMEs where they do not have numerous employees and distributors across the world. Moreover, most of KCL's distributors in Ghana and even in Nigeria are small in size and as a result do not have any management expertise. With the management of its network of suppliers, the company mostly set standards of which all their suppliers are to meet.

However, a relationship based on this consideration could only exist in circumstance where one party has a stronger position than the other and that the stronger party cannot do without the other party. An example could be the case of manufacturer- distributor relationship where the manufacturer depends mostly on the distributors for the supply of its products and services.

**Q4. What significant role does the interaction between business firms and socio-political actors play in SMEs internationalisation in Ghana?**

**5.5 Information and knowledge acquisition**

A firm's socio-political network enables it to acquire extensive knowledge and as a result increase its commitment and desire to embark on international operations. In answering this question, the study revealed that through the interaction with these actors the firm is able to obtain some form of support and assistance in

terms of information acquisition, technical and expert support, and governmental subsidies on domestically manufactured products for exports. This is because KCL is a member of Ghana Importers and Exporters association and as a result enjoy such subsidies from the Ghana government which would have not be possible if it were not part of this network of exporters and importers.

To a large extent, SMEs in Ghana do not have the required capability to embark on internationalisation activities all by themselves and as a result relies heavily on these socio-political networks for knowledge acquisition and the subsequent commitment to internationalise. Within the inter-firms network also, it was revealed that some SMEs at the early stages of internationalisation they rely on the experience of other firms that have already taken the lead in exporting.

### **5.5.1 Assistance in the acquisition of financial support**

It was identified that through the assistance of some of these socio-political networks, the company is able to secure considerable sums of loans from the financial institutions. This is particularly the case in most small firms in Ghana; as a result of their small size they are not able to attract financial institutions to grant those loans for operations. They, therefore, depend mostly on their social and political acquaintances for financial support. This is not to say that the mere existence of their relationships with these networks guarantees them the financial assistance but rather their networks facilitate the acquisition of loans from these financial institutions. This is because the financial institutions view the network as credible and trustworthy than an individual firm.

## **5.6 Main Findings**

### **5.6.1 Traditional authorities as major external networks**

The study has revealed that aside all the well-known forms of networks whether inter-firms or outside the firm, one important network that exists in Ghana is the network with traditional authorities. Firms operating in Ghana or wanting to operate in Ghana must take into account this network when contemplating on the kinds of networks they should establish. It must be noted, however, that this form of network may not affect the firm's internationalisation directly but could be very influential in the firm's attempt in establishing a formidable domestic market before exporting as is the case in most SMEs internationalisation.

### **5.6.2 Reliance on the experience of network members**

Within the inter-firms also, it was identified that some SMEs at the early stages of their internationalisation rely on the experience of other firms that have already started in exporting. Such experiences and knowledge can only be available to the SMEs if it forms and actively participates in networks of relationships with other actors as a result, the importance of business and socio-political networks in the Ghanaian business environment. This can be said as having direct positive impact on the firm's internationalisation

The study has also re-emphasized some existing research findings that suggest that politics and business cannot be treated separately as they are interdependent and therefore whenever a firm considers its inter-firms network it must also take into consideration the wider environment it operates including the socio-political environment

### **5.6.3 Communication as a network management tool**

As to how SMEs manage their networks, it was identified that communication is a major tactical tool. Through all its endeavours, the company engages in regular communications with the other network players as well as receive and give feedback. For their distributors, the company considers them as part of their employees even though they are independent

Another finding is that, SMEs in their attempts to managing their socio-political networks most of the time do that with the cooperation of other network members in the industry as some macro environmental issues are beyond the capability of one single business entity.

## **5.7 Suggested Areas and patterns for further research**

For the sake of further research into the area of internationalisation of SMEs and the role of socio-political networks, in Ghana, the following suggestions may be considered;

- i. The study should concentrate on SMEs in Ghana that are actively involved in exporting and internationalisation activities in the agricultural sector. This is because most SMEs in Ghana who are actively involved in internationalisation are operating in the agricultural sector and exporting mostly to Europe and America. It could, therefore, be interesting to identify how socio-political networks assist in such area of business activities.
- ii. More so, the sample size should be more than just one company so that the findings could be representative of SMEs internationalisation activities in Ghana.
- iii. Last but not least, both quantitative and qualitative methods of data gathering should be employed.

## **5.8 Recommendations and conclusions**

From the research findings two main recommendations can be drawn to assist the case company and the various stakeholders who are interested in the internationalisation of SMEs. Firstly, it is recommended that Kasapreko Company Limited do not only consider their inter-firms networks as the only relevant network to their international activities, but also consider the various forms of socio-political networks such as the traditional authorities and other forms of network that exist in the Ghanaian business environment. It has been established that these socio-political can affect the company's internationalisation either positively or negatively and, therefore, the firms inability to recognize these actors can hinder its international and domestic activities.

Secondly, owing to the significance of networking in SME's internationalisation as elaborated in this thesis, it is recommended that Kasapreko Company should widen its networks in the Nigerian market. The question, however, still remains as to how can they identify the right partner? In overcoming this DiMaggio's (1992) earlier suggestions can be utilized. He suggests that in doubtful circumstances, firms must first outline a specific category of actors by which way they will be able to identify potential players and then engage in constant meetings and interactions with them in order to assess the reliability of possible candidates (Salmi, 2000). In the case of Nigeria, the potential actors could be: World Cross Trading Company, Snow Industries, Champaneandcigar Ltd and Trails Shake and More Limited, which are all alcoholic beverage distributors in Nigeria ([www.listofcompanies.org](http://www.listofcompanies.org)). Aside these Kasapreko must also consider forming networks with some socio-political actors such as the export and import association of Nigeria by which way they can obtain relevant and up to date information to assist in their operations.

Finally, since communication has been identified as the major tool for network management, it is recommended that the case company should develop a formalised system of information sharing and acquisition. For example Electronic Data Interchange (EDI) software could be used to share and receive information with the other network members especially suppliers and distributors. The advantages of employing this formalized system are that, Information sharing becomes quicker and more efficient. This in the long run will result in a high productivity, response times is faster and management of information is easy ([electronicdatainterchange.org](http://electronicdatainterchange.org), 2012)

## **5.9 Conclusion**

Majority of Small and medium sized enterprises when operating overseas, rely heavily on the networks it has established with other players both within the firm and outside the firm. The objectives of the thesis were to: (1) emphasize the significance of the network model of internationalisation of SMEs in Ghana. (2) to identify

whether there exist other forms of networks apart from the organisations inter-firms networks in Ghana and, (3) to examine how SMEs in Ghana manage their networks of relationships. The research questions and the qualitative methods used in this thesis facilitated the above objectives.

The findings revealed that there are indeed other important networks apart from inter-firm's network in Ghana, for example, Traditional authorities. It was also identified that communication is a major management tool in the management of networks in Ghana. Though these findings cannot be said to be a representative of SMEs Networking in Ghana, it has provided some basic idea and foundations for further research.

## **Appendix I**

### **Interview Guide**

The following are the research questions used during the interview session:

1. What are the importance of networking in emerging markets and how it contributes to the success of the SMEs international operation?
2. Are there other important networks that exist apart from the company's inter – firms' networks in Ghana?
3. What significant role does the interaction between business firms and socio-political actors play in SMEs in Ghana?
4. How do smaller firms manage their social and political relationships in Ghana?

## **Appendix II**

### **Interview Details**

As indicated earlier, the sample size of this study consisted of two respondents who are engaged in the international operations of the firm. The selection of this respondent was based on convenient sampling. Below are their profiles as at the time of the interview.

#### **Profile of Respondents 1**

Name of respondent: Andrews Akolaa

Position: Marketing Manager, Nigeria and International Business

Tel. Available upon request  
E-mail: info@kasaprekogh.com  
Interview method: Skype to telephone interview  
Duration of interview: 15 – 20 minutes  
Place of interview: Office of the company, Accra - Ghana  
Date: 13th February, 2012  
Time: 1400GMT

### **Profile of Respondent 2**

Name of respondent: Hayford Adjei-Manu  
Position: Marketing manager  
E-mail: info@kasaprekogh.com  
Interview method: Skype to telephone interview  
Duration of interview: 15 – 20 minutes  
Place of interview; Office of the company, Accra - Ghana  
Date: 15<sup>th</sup> February, 2012  
Time: 1500 GMT

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