

KRATKO ILI PRETHODNO SAOPŠTENJE / SHORT OR PRELIMINARY REPORT

EXAMINING THE ROLE OF FIRM SIZE IN COMMITMENT - SMALL FIRM PERFORMANCE RELATIONSHIP AMONG SOUTHEAST EUROPEAN SMES

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Abstract: *Studies on the effect of the firm size and commitment on small firm performance indicators are inconclusive, especially in the geographic area of Southeast Europe. This study examines the role of firm size in the relationship between commitment and firm sales growth, operating profit and market share. Alterations in firm size and commitment are attributed to differences in market structures, namely, non-European union and European union member states. Results of the empirical research state that firm size and commitment have a positive and significant effect on performance indicators (sales growth rate, operating profit, and market share). Separating firms that originate from the European union member states from those that do not, suggested that firms that are not part of the European union rely on commitment more firmly than those that from the European union member states. Moreover, firm size moderates the relationship between commitment and firm performance indicators only in the non-European union countries. Larger firm size indicates a smaller effect of the commitment on firm performance for firms from the non-European union countries. The study concludes with limitations and practical implications of the empirical research.*

Keywords: *commitment, small firm performance, firm size, Southeast Europe, transition countries*

JEL classification: *M16, M21, O57, P20*

INTRODUCTION

Information is extremely important for the decision-making process; however, timely acquisition of the right information entails certain costs (Coleman, 1988). For

this reason, networks provide access to potentially important information in a cost-effective way. By networking, entrepreneurs access the information woven into the network, and thus the entrepreneur can increase their chances for making the right decision. Commitment to staying in the network is only a part of the entrepreneurial strategic networking process. Hence, this study aims to answer whether there are differences in commitment and firm sales growth, operating profit and market share based on firm size in the geographic area of Southeast Europe. We assume that these differences are mainly attributable to the markets that are slower in their transition to capitalist market system, i.e., the Southeast EU vs non-EU countries.

After the introduction, literature review explains the nature of hypotheses, followed by the methodology and data gathering process. Afterwards, results of the conducted analysis are presented, followed by the conclusion where theoretical and practical implications have been elaborated.

LITERATURE REVIEW

Networking theory states that entrepreneurs can via networking gain access to the resources not under their control, and thus can increase chances for the success of their business (Zhao & Aram, 1995; Sullivan & Ford, 2014). Stated differently, business network participation can lead to the increase in existing resources, and facilitate the acquisition of external resources (Lin & Zhang, 2005). Therefore, it can be said that business networks are formed primarily to improve firm's performance through efficient use of their resources, achieving economies of scale and higher returns on their assets, and reduce their unit operating costs (Oliver, 1990; Jiang, Mavondo, & Zhao, 2020). Moreover, through business networks, firms can reduce certain risks, reduce production costs, and simultaneously increase flexibility, efficiency, and knowledge sharing (Lin & Zhang, 2005). Gulati et al. (Gulati, Nohria, & Zaheer, 2000) found that a company's competitive advantage is based on collaborative business networks. Through collaboration and coordination, companies can pursue common interests and achieve common goals (Oliver, 1990; Castañer & Oliveira, 2020).

Furthermore, based on social capital theory, Granovetter (Granovetter, 1983) considers that individuals whose networks mainly consist of family and friends, the so-called strong ties, as a rule, have limited access to the information than the individuals whose networks also include acquaintances, the so-called weak ties. For this reason, Fischer and Reuber (Fischer & Reuber, 2003) believe that entrepreneurs must develop relationships outside their circle of acquaintances and the local community. Littunen (Littunen, 2000) suggests that entrepreneurial networks can be divided into formal and informal networks. Formal networks represent professional relationships such as relationships with accountants, clients, suppliers, and the like, while informal networks represent relationships with family, friends, and acquaintances. Furthermore, Zhao and Aram (Zhao & Aram, 1995) consider that networking can be understood in terms of range, i.e. the number of different networks in which the entrepreneur is involved, and the intensity, i.e. the frequency of the entrepreneur's use of these networks. Thus, companies involved in networking activities should achieve better business results than companies not involved in networking activities.

COMMITMENT

Commitment is a rather researched concept and is seen as an implicit or explicit persistence in maintaining a continuous business relationship among business partners (Xue, Qian, Qian, & Li, 2021). Commitment is an important determinant of a successful strategic network (Stone & Brush, 1996), and at the same time a frequent measure of the relationship between a buyer and a seller (Anderson & Weitz, 1992). Main characteristic of commitment, observed in any context, whether interorganizational, intraorganizational, or interpersonal setting, is stability and sacrifice (Anderson & Weitz, 1992). Commitment, on one hand, represents a desire to maximize efforts to maintain a useful business relationship, and, on the other hand, a belief that a relationship is worth a long-term and continuous investment in it (Anderson & Weitz, 1992; Morgan & Hunt, 1994; Krämer, 2014). Stated differently, the highest form of connection occurs when partners are committed to each other and when they believe that their relationship is continuous and long-term guaranteed. Such partners are more inclined to cooperate and share resources (Krämer, 2014) When entrepreneurs do their best to develop and maintain a relationship (connection), then such a relationship can survive even in times when various unforeseen problems arise. Thus, commitment represents a desire to maintain a stable and continuous relationship, and a willingness to take on short-term sacrifices to ensure long-term benefits (Krämer, 2014; Jap & Ganesan, 2000). Stated differently, in the context of strategic networking, network partner with high commitment to the strategic network is more willing to sacrifice its own interests with the goal of preserving the strategic network and achieving common goals. On the other hand, network partner with low commitment to the strategic network will be more inclined in not supporting or even leaving the network when faced with private sacrifice (Krämer, 2014; Andrésen, Lundberg, & Roxenhall, 2012). Mikhailitchenko (Mikhailitchenko, 2021) considers that commitment is directly associated with a mechanism of distribution and balance of resources within a network and points out that various studies in the banking and manufacturing sectors have established the empirical link between commitment and networking.

FIRM SIZE AND PERFORMANCE

When SME growth is connected to industry growth, it becomes an important part of understanding its patterns (Park & Jang, 2010). Gibrat's law (Gibrat, 1931) is most often used to inspect firm size-growth relationship (Audretsch, Klomp, Santarelli, & Thurik, 2004; Córdoba, 2008). Gibrat's law states that firm growth rate is not connected to its absolute size. However, studies on firm size-growth relationship are inconclusive. Authors such as (Bentzen, Madsen, & Smith, 2012), (Doğan, 2013) and (Avdullahi & Ademi, 2020) studied firm size-growth relationship based on Gibrat's law and found that firm growth rates tend to be positively connected to firm size. On the other hand, Evan's study (Evans, 1987) robust results confirmed that firm growth decreases with firm size. The study of 87,000 UK firms shows that growth is negatively related to firm size (Hart & Oulton, 1996). While for the largest companies there is no effect between firm size and growth, (Hart & Oulton, 1996) state that even for the smallest firms' size-growth relationship is induced from transition effects. Namely, smaller firms are more constrained in obtaining outside funds for growth and can, therefore, be expected to experience a proclivity to grow when their internally generated profits are high (Mukhopadhyay &

AmirKhalkhali, 2010). Herein, indebtedness can mediate the size-performance relationship (Lopez-Valeiras, Gomez-Conde, & Fernandez, 2016).

Differences between service and manufacturing industries show that service industry is characterised by higher growth rate of small compared to large businesses (Park & Jang, 2010). In case of manufacturing firms, firm size has a negative effect on growth rate (Park, Shin, & Kim, 2010). As Hall's (Hall, 1986) research additionally accentuates, employment does not tend to go back to previous levels, the question arises on the relationship between firm's operating profit and market share and firm size. Opposing studies herein also exist. (Abeyrathna & Priyadarshana, 2019) found that firm size has no considerable impact on profitability, while in the period 2002-2010 Croatian firms were studied for the size-growth effect and a significant positive effect of firm size on firm profitability was found (Pervan & Višić, 2012). Additionally, firm size significantly and negatively affects country growth rate (Yadav, Pahi, & Goyari, 2020), whereby larger firms dominate specific markets and can cause negative monopoly effects (Amato & Amato, 2004). Hence, this research questions the firm size-performance relationship of the Southeast European SMEs, particularly noting the differences in the sales growth rate, operating profit and market share based on the following hypotheses:

H1: Firm size affects small firm performance.

H1.1: Firm size has a positive effect on sales growth rate.

H1.2: Firm size has a positive effect on operating profit.

H1.3: Firm size has a positive effect on market share.

COMMITMENT AND FIRM PERFORMANCE

Many studies have analyzed the concept of commitment in the context of SME networks (Andrésen, Lundberg, & Roxenhall, 2012; Clarke, 2006; Krämer, 2014; Roxenhall, 2011), and at both firm and employee levels (Greenfield, 2016; Tett & Meyer, 1993), where commitment has been positively linked to the network performance (Clarke, 2006) and network resilience (Krämer, 2014). From the perspective of social capital theory, relationships consist of social interactions, and can be developed based on mutual commitment. When there is a mutual commitment in a stable relationship then independent network partners work together to better meet the needs of their customers. In such manner, they can be more successful and achieve higher profitability. By establishing mutual commitment with suppliers, manufacturers gain wider access to market information related to new product development and receive greater support for the development and marketing of new products. On the other hand, committed suppliers can also help manufacturers differentiate themselves in the market and develop competitive advantages, resulting in further strengthening the relationships with suppliers (Jap & Ganesan, 2000). As both parties invest in a common long-term and committed relationship, a higher level of commitment leads to the mutual success of all partners.

Moreover, in small business context, tendency of small firm owners and their respective management is not to use highly developed formal control mechanisms (Chen, Hsiao, & Chu, 2014), but rather rely on the use of informal control mechanisms where commitment plays a crucial role in relationship building of successful co-operative arrangements (Pesämaa, Pieper, Da Silva, & Black, 2013)). More specifically, commitment is an essential element in providing safety and security, facilitating ex-

change of information, ideas, resources and knowledge, disincentivizing opportunistic behaviour, and aligning performance goals among network members (Pinho, 2016). Committed partners increase the likelihood of continuity of the business relationship and in turn the overall performance of strategic network (Hammarfjord & Roxenhall, 2017; Agostini & Nosella, 2019). Thus, it can be concluded that commitment leads to increased performance within strategic network. Moreover, literature confirms positive relationship between commitment and firm performance (McClellan & Collins, 2011), and stresses the importance of maintaining a long-term successful business relationships (Anderson & Weitz, 1992; Garbarino & Johnson, 1999; Selnes, 1998).

H2: Commitment positively affects small firm performance.

H2.1: Commitment size has a positive effect on sales growth rate.

H2.2: Commitment has a positive effect on operating profit.

H2.3: Commitment has a positive effect on market share.

H3: Firm size moderates a relationship between commitment and small firm performance.

H3.1: Firm size moderates a relationship between commitment and sales growth rate.

H3.2: Firm size moderates a relationship between commitment and operating profit.

H3.2: Firm size moderates a relationship between commitment and market share.

H4: There is a difference between EU and non-EU countries of Southeast Europe when examining the moderating effect of firm size on the relationship between commitment and small firm performance.

METHODOLOGY AND DATA

Sample

Database of consulting companies who operate in Southeast European countries has been taken as a sampling frame. Countries included in the research were: Slovenia and Croatia representing Southeast European EU member states, while Serbia, Bosnia and Herzegovina, Montenegro, and Macedonia represented Southeast European non-EU countries. Data has been collected via online questionnaire sent to the emails of small and medium sized firm representatives, mostly to the firms' owners and respective directors. To ensure accuracy and compliance in respect to potential errors due to differences in the official languages spoken in each of the observed countries, questionnaire has been translated from English and back to each of the official languages of the countries at hand, where translation has been done by the specialized language translation agencies in each country. Moreover, online questionnaire has been accompanied by a separate letter attached to the online questionnaire explaining the purpose and objectives of the research. Operational part of the research lasted from December 2019 till April 2020, in which period 9,000 SMEs has been contacted out of which 963 firm representatives responded and correctly filled out online questionnaire., ie. making response rate rather modest of bit less than 11%.

Analysis of sample demographics reveals that 42% were micro firms, 41% were small firms, and 17% were medium sized firms, while majority of the firms operated in the wholesale and retail sector (22%), manufacturing sector (20%), and construction sector (13%). Interesting to note is that 71% of the respondents were either firm owners or firm directors, meaning that the online questionnaire managed find its way to the target group intended by this research. Moreover, majority of respondents had a bachelor's,

master, or PhD degrees (83%), while 74% worked for the firm for more than 7 years. Analysis of sample demographics further adds to the robustness of the research results considering that majority of respondents were firm owners or directors, with higher education, and with more than seven years of experience in managing the business.

Measures

Dependent variables

Sales growth rate, operating profit, and market share as dependent variables measuring small firm performance were measured by asking respondents to classify their level of satisfaction with each of these measures on a seven-point Likert scale. Research shows that subjective assessments of firm performance are highly correlated with objective measures of firm performance (Dess & Robinson, Jr., 1984; Venkatraman & Ramanujam, 1987).

Independent variables

Commitment to a strategic network was measured using (Allen & Meyer, 1990) seven-point Liker-type questions scale with 3 items (statements). Exploratory factor analysis was done initially by principal component analysis. Kaiser – Meyer – Olkin's measure of sampling adequacy = 0.761, Bartlett's test of sphericity has a p -value=0.000. All communalities are greater than 0.5 and 87.715% of total variance is explained by component loadings. Cronbach's alpha is 0.930 for the three items. Then principal axis factoring as a confirmatory factor analysis of the three items was performed to save the variables extracted from exploratory factor analysis under the factor *Commitment*.

Firm size was measured by asking respondents how many employees they have in order to classify their size by using European Union definition of small and medium-sized enterprises. Micro firm is classified with less than 10 employees, small firm with 10 to 49 employees, and medium sized firm with 50 up to 250 employees.

Control variables

Education as a control variable was measured by asking respondents of their highest achieved education level, with the following coding: 'secondary school and lower', 'university diploma', 'master/MBA diploma', and 'PhD diploma'.

Position as a control variable was measured by asking respondents what is their current position within the firm's organizational structure, and these positions were then coded in three different coding groups: 'owner', 'director', and 'manager'.

Industry as a control variable was measured by asking respondents to select one of the following industry sectors based on what they believe their main line of business is: agriculture, manufacturing, construction, transportation and communications, wholesale and retail, tourism and hospitality, financial and other services, and other.

RESULTS

Descriptive statistics and bivariate correlations are presented in Table 1. All variables are mean centred to avoid potential multicollinearity issue and variance inflation factors (VIF) of all variables are around 1 that is below the threshold value of 10, indicating that multicollinearity is not an issue (Neter, Wasserman, & Kutner, 1990).

Table 1. Descriptive statistics and cross-correlations, N = 963.

Variable	Mean	S.D.	1	2	3	4	5	6	7	8
Sales growth rate	4.89	1.39	1							
Operating profit	4.73	1.37	0.734**	1						
Market share	4.76	1.34	0.794**	0.733**	1					
Commitment	0.00	1.00	0.127**	0.150**	0.160**	1				
Size	1.76	0.73	0.114**	0.110**	0.129**	-0.021	1			
Position	2.48	0.86	-0.018	-0.054	-0.043	-0.005	-0.215**	1		
Education	2.19	0.80	0.016	0.010	0.007	0.077*	0.046	-0.041	1	
Industry	0.80	0.40	0.022	0.041	-0.006	0.036	-0.222**	-0.010	0.051	1

Source: Authors

Highest correlation is observed between the measures of financial and non-financial performance: sales growth rate, operating profit and market share, which are all dependent variables in the model. Also, significant correlations are among independent variables in the model: commitment and size, and dependent variables: sales growth rate, operating profit and market share. There are no outliers in the data, as all data are obtained from the survey using a 7-point Likert scale. Firms from six Southeast European countries are present in the sample. Breusch Pagan and White's tests are used to test for the presence of homoskedasticity of error terms. Both of the test showed a presence of heteroskedasticity. In order to correct for this issue weighted least squares hierarchical regression was used to test the hypotheses. Weighted least squares (WLS) regression model addresses this issue by attributing different weights to different cases, in this study different weights are given to firms originating from different countries. WLS regression is used to test the effects of firm size and commitment on firm performance indicators: sales growth rate, operating profit and market share (Table 2).

Table 2. Effect of firm size and commitment on firm performance

All countries	Sales growth rate			Operating profit			Market share		
	M1	M2	M3	M1	M2	M3	M1	M2	M3
Constant	4.748*** (0.214)	4.174*** (0.264)	4.198*** (0.260)	4.683*** (0.209)	4.151*** (0.259)	4.176*** (0.255)	4.969*** (0.206)	4.414 (0.254)**	4.440*** (0.250)
Control variables									
Industry	0.080 (0.114)	0.190 (0.117)	0.174 (0.116)	0.167 (0.112)	0.269* (0.115)	0.252* (0.113)	-0.057 (0.110)	0.049 (0.113)	0.032 (0.111)
Education	0.072 (0.057)	0.062 (0.057)	0.041 (0.056)	0.047 (0.056)	0.037 (0.056)	0.015 (0.055)	0.003 (0.055)	-0.007 (0.055)	-0.029 (0.054)
Position	-0.040 (0.053)	-0.005 (0.053)	-0.007 (0.053)	-0.081 (0.052)	-0.049 (0.052)	-0.051 (0.051)	-0.070 (0.051)	-0.037 (0.051)	-0.039 (0.050)
Independent variables									
Size		0.242*** (0.066)	0.260*** (0.065)		0.224** (0.065)	0.244*** (0.064)		0.234*** (0.064)	0.253*** (0.063)
Commitment			0.251*** (0.047)			0.267*** (0.046)			0.270*** (0.045)
ANOVA (p-value)	0.426	0.003	0.000	0.131	0.002	0.000	0.533	0.004	0.000
R2	0.003	0.017	0.045	0.006	0.018	0.051	0.002	0.016	0.051
Adjusted R2	0.000	0.012	0.040	0.003	0.014	0.046	-0.001	0.012	0.046
Durbin-Watson	1.977		1.981	2.007		2.018	1.986		1.989

Source: Authors

Note: *** p - value < 0.001 ** p - value < 0.01 * p - value < 0.05 † p - value < 0.1

N = 963. Standard errors in parentheses. Weighted least squares weight based on countries.

M1 represents a model only with control variables, M2 control variables and the effect of size. M3 contains control variables, size and commitment.

Results of the WLS regression with only control variables are given in Model 1, Model 2 illustrates the results with control variables and the effect of firm size, and Model 3 presents the results of hierarchical WLS regression with control variables, firm size and commitment (Table 2). Results show that both firm size and commitment have a positive and statistically significant effect on sales rate growth, operating profit and market share in the Southeast European countries. Hence, Hypotheses 1 and 2 cannot be rejected.

Moderation effects for all countries: The effect of size on relationship between commitment and firm performance

Table 3 displays the results of testing of Hypotheses 3 and 4.

Table 3. Interaction effect of firm size and commitment on firm performance

All countries	Sales growth rate			Operating profit			Market share		
	M4	M4 (EU)	M4 (non-EU)	M4	M4 (EU)	M4 (non-EU)	M4	M4 (EU)	M4 (non-EU)
Constant	4.182*** (0.260)	4.103*** (0.474)	4.131*** (0.317)	4.158*** (0.254)	4.378*** (0.463)	4.045*** (0.310)	4.423*** (0.249)	3.930*** (0.459)	4.472*** (0.303)
Control variables									
Industry	0.182 (0.116)	0.316† (0.190)	0.170 (0.143)	0.262* (0.113)	0.186 (0.185)	0.293* (0.140)	0.041 (0.111)	0.258 (0.184)	0.001 (0.137)
Education	0.039 (0.056)	-0.088 (0.103)	0.062 (0.069)	0.013 (0.055)	-0.158 (0.101)	0.046 (0.067)	-0.030 (0.054)	-0.036 (0.100)	-0.033 (0.066)
Position	-0.005 (0.052)	0.083 (0.101)	-0.016 (0.063)	-0.049 (0.051)	-0.023 (0.098)	-0.048 (0.062)	-0.036 (0.050)	0.033 (0.097)	-0.046 (0.061)
Independent variables									
Size	0.260*** (0.065)	0.307** (0.112)	0.270** (0.081)	0.244*** (0.064)	0.332** (0.109)	0.242** (0.079)	0.254*** (0.062)	0.337** (0.108)	0.257** (0.078)
Commitment	0.521*** (0.125)	0.027 (0.189)	0.661*** (0.160)	0.578*** (0.122)	0.043 (0.184)	0.717*** (0.156)	0.548*** (0.119)	-0.016 (0.183)	0.791*** (0.153)
Interaction effects									
Commitment x Size	-0.154* (0.066)	0.032 (0.092)	-0.123* (0.086)	-0.177** (0.064)	0.030 (0.090)	-0.237** (0.084)	-0.159* (0.063)	0.074 (0.089)	-0.230** (0.082)
ANOVA (p-value)	0.000	0.089	0.000	0.000	0.012	0.000	0.000	0.016	0.000
R2	0.050	0.034	0.061	0.059	0.050	0.070	0.058	0.048	0.068
Adjusted R2	0.044	0.016	0.053	0.053	0.032	0.061	0.052	0.030	0.059
Durbin-Watson	1.971	1.923	1.990	2.015	1.944	2.046	1.987	1.885	2.013

Source: Authors

Note: *** p - value < 0.001 ** p - value < 0.01 * p - value < 0.05 † p - value < 0.1

N = 963. Standard errors in parentheses. Weighted least squares weight based on countries.

M4 comprises interaction effects between commitment and firm size for all countries in the sample as well as separately for the EU member states and non-EU member states.

Model 4 shows there exists an interaction between firm size and commitment that affects sales growth rate, operating profit and market share. The interaction effect between firm size and commitment is negative, stating that size dampens the positive relationship between commitment and firm performance indicators, implying the larger the firm is, in terms of its employee size, the effect of commitment on firm performance indicators is going to be lower. Graphical representation of the effect of firm size on the commitment-firm performance relationships is presented in Figures 1-3.

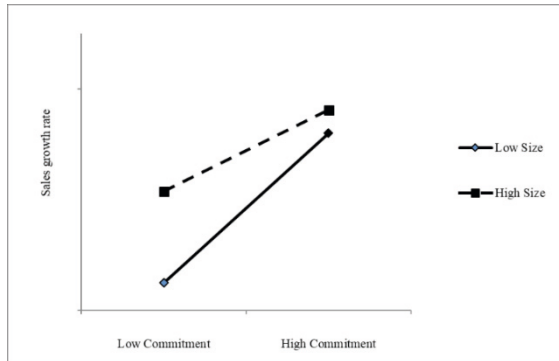


Figure 1. The effect of size on the relationship between commitment and sales growth rate

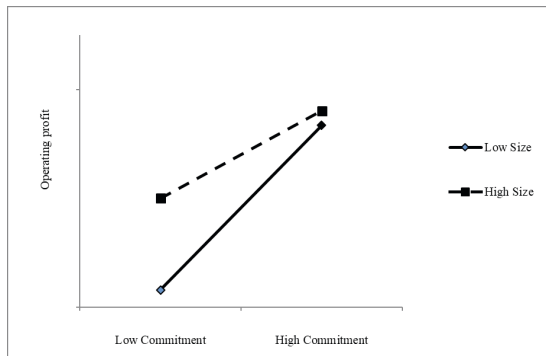
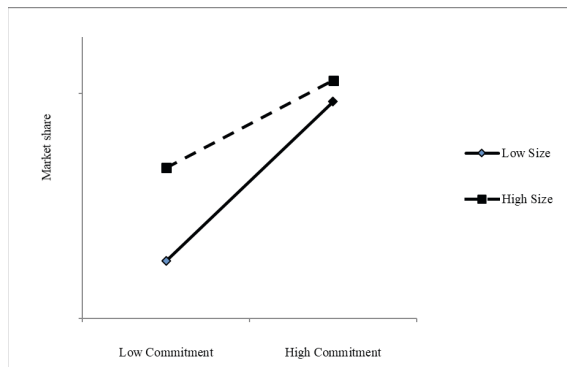


Figure 2. The effect of size on the relationship between commitment and operating profit

Source: Authors

Figure 3. The effect of size on the relationship between commitment and market share



Source: Authors' representation

Model 4 (EU and non-EU) in Table 3 show the results of Hypothesis 4 testing. Hypothesis 4 proposes different effect of firm size-commitment interaction between firms coming from non-European union (Bosnia and Herzegovina, Macedonia, Mon-

tenegro and Serbia) and European union (Croatia and Slovenia) member states. Results indicate that size is an important predictor of firm performance in both groups of countries. However, commitment differs between firms from the non-European union (Bosnia and Herzegovina, Macedonia, Montenegro and Serbia) and European union (Bosnia and Herzegovina, Macedonia, Montenegro and Serbia) European union member states. Commitment is a significant positive predictor of firm performance for firms from the non-European union member states, while it is not for firm from the European union member states.

CONCLUSION

This study attempted to inspect differences in firm sales growth, operating profit and market share based on firm size and networking commitment. The underlying notion was to attribute the differences in the effect of firm size and commitment on firms' performance indicators was to differences in market structures, namely, non-European union and European union member states. Results of the empirical research have shown that firms' size and commitment have a positive and significant effect on firm performance in terms of firms' sales growth rate, operating profit and market share. When the sample is divided between firms that are part of the European union and those that are not, an interesting finding suggests that firms that are not the European union member states rely on commitment more firmly than those countries which are European union member states. Consequently, firm size moderates the relationship between commitment and firm performance indicators only in the non-European union countries. The larger the size of the firm, smaller is the effect of the commitment on firm performance indicators for firms that are not European union member states.

Practical implications of this study are twofold. Firstly, business environment in Southeast Europe is not simple nor unique. There are cross-cultural differences that might originate from differences in institutional frameworks between the European union member states and non-European union countries. Frequently, headquarters of international enterprises are situated in one of the European union member states, while business is performed in the whole region. Managers stumble on subtle but important difference after they enter the region. This could serve as a starting point for understanding various doing business mechanisms. Secondly, doing business in different environments will incur different costs for businesses due to employee commitment based on different firm sizes. Management must take that into consideration and consider costs that are associated with increasing employee commitment.

Limitations of this study are based on the time frame in which the study was conducted. Research had been done through the online questionnaire survey performed in a specific time period that allowed for a cross-sectional analysis. Further research should be performed by a longitudinal analysis and take into account different aspects of strategic networking to gain a wider picture of the state of strategic networking in the business environments of the Southeast European countries.

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