

# Customer reference marketing in internationalizing SMEs: a service perspective

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## Abstract

**Purpose** – The purpose of this paper is to create a model that compares the effects of product content differentiation and service content differentiation on small- and medium-sized enterprises' (SMEs) perceived importance of customer reference marketing in foreign markets.

**Design/methodology/approach** – A theoretical model is developed and tested through multiple regression and mediation analysis, on an effective sample of 188 Swedish SMEs.

**Findings** – The results show that foreign market business assignments characterized by differentiated services make companies relatively more dependent on relationship learning and customer reference marketing. By contrast, situations of differentiated product content correlate negatively with customer reference marketing.

**Practical implications** – Reference customers can function as vehicles for international expansion when marketing offerings are complex. The findings imply that in service settings, SMEs need to maintain learning regimes with foreign market customers to effectively use them as references to win new business.

**Originality/value** – The study applies a service perspective to explain the contingencies of customer reference marketing, particularly in international business settings. The study contributes to international small business literature and research focusing on service–firm internationalization by explaining the marketing mechanisms at play in the internationalization of SMEs. In so doing, the findings can enrich relationship and network perspectives of internationalization and add a missing link to studies on networking and internationalization.

**Keywords** Customer reference marketing, Service differentiation, International business relationship, Small- and medium-sized enterprises

**Paper type** Research paper

## 1. Introduction

Because of innate resource shortages of small- and medium-sized enterprises (SMEs), it is well known that these companies frequently break into industrial markets abroad by the use of business relationships (Coviello and Munro, 1997; Johanson and Vahlne, 2009; Melén Hånell *et al.*, 2018). This study builds on the premise that certain customer relationships are more important than others in the international expansion of SMEs, especially those that enhance companies' legitimacy (Cavusgil and Knight, 2015) and, in this capacity, lead to the creation of new business in foreign markets (Tolstoy and Agndal, 2010). Such relationships have been labeled bridgehead relationships (Johanson and Mattsson, 1988; Holm and Eriksson, 2000), entry nodes (Sandberg, 2013) and lead–customer relationships (Li and Deng, 2017; Yli-Renko *et al.*,

2001). As indicated by the different terms used, knowledge about the characteristics of such relationships is mixed and not consistently communicated. This study intends to shed new light on which situations such relationships are relevant by drawing on customer reference marketing frameworks. We argue that reference customers can reflect uniquely differentiated marketing offerings – either in the product dimension or in the service dimension – and create compelling business cases that may attract new customers. Reference customers can thereby function as vehicles for international expansion.

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Customer reference marketing is here defined as the act of using the reputation and credibility developed in one business assignment with a particular customer to instigate new customer relationships (Charterina *et al.*, 2017; Huntley, 2006; Jalkala and Salminen, 2010; Kumar *et al.*, 2013; Terho and Jalkala, 2017; Tóth *et al.*, 2020). We argue that customer reference marketing is particularly important for international SMEs. Smaller companies lack reputational resources and means to effectively communicate the value of their offerings (Coviello and Munro, 1997; Crick and Spence, 2005; Lindstrand and Hånell, 2017; Tolstoy and Agndal, 2010). This circumstance may make it difficult for SMEs to acquire new customers (Salminen and Möller, 2006; Schweizer *et al.*, 2010). Reference customers can alleviate this problem by creating halo-effects, which reduce uncertainty among customers and make them more inclined to take on new business (Charterina *et al.*, 2017; Terho and Jalkala, 2017). Testimonials from reference customers make entering SMEs become viewed as legitimate actors, thus mitigating the “liability of outsidership” (Johanson and Vahlne, 2009).

Studies using the network lens for explaining internationalization and business development in foreign markets have argued that networks provided idiosyncratic resources (reputational, knowledge-based, financial), allowing companies to navigate in complex and diverse business environments (Tolstoy and Agndal, 2010). Hence, to extend networks and find business systems where products and services can fit in, internationalizing companies need to identify and generate value in relevant business relationships. How such relevant relationships can be leveraged is yet scarcely studied, and we propose that customer reference marketing can offer explanations for how companies develop their international networks. In this study, we investigate how differentiated service and product offerings affect the propensity of SMEs to leverage reference customers. In this endeavor, we draw on the service marketing paradigm (Erramilli, 1991; Grönroos and Voima, 2013; Vargo and Lusch, 2004), arguing that service situations in particular will warrant relationship learning for companies to be able to use reference customers to communicate attractive business cases (Erramilli, 1991). We conceptualize differentiated service (product) content as the degree to which the service (product) content in a specific business relationship deviates from the content of the company’s other business relationships (Baum *et al.*, 2015; Chetty and Campbell-Hunt, 2004; Melén Hånell *et al.*, 2018). The differentiation component in both dimensions creates challenges in the transfer of the offering. These challenges could involve demonstrating the value and (competitive) advantages of the marketing offering to customers. To overcome such challenges, customer reference marketing could be useful as they represent verifiable results.

The specific purpose of this article is to create a model that compares the effects of product content differentiation and service content differentiation on SMEs’ perceived importance of customer reference marketing in foreign markets. We thereby answer the call for research by Terho and Jalkala (2017) by exploring the contingencies determining the relevance of customer reference marketing, particularly in international business settings. We thus extend the arguments of Cavusgil and Knight (2015) by illuminating specific enablers

of internationalization in networks. This study contributes to the international small business literature by explaining under which circumstances customer reference marketing can serve as a mechanism for internationalization among SMEs, enabling companies to use certain important business relationships to pursue international business opportunities. In so doing, this study adds a relationship marketing dimension to the theoretical palette that explains how network dynamics fuel the internationalization processes of SMEs. Furthermore, recognizing that service offerings are relatively more difficult to commercialize in new international settings because of, e.g. the intangibility and inseparability of production and consumption (Erramilli and Rao, 1993; Zhang *et al.*, 2015), we shed light on the relevance of reference customers in bridging this gap in the international expansion of SMEs. The effect of service content is not specified by a binary measure. Recognizing that service content to an increasing extent is characterized by a variety of marketing offerings, we rather measure the concept on a scale. We are therefore able to capture the variability of service content differentiation in an attempt to make a nuanced contribution to research focusing on service–firm internationalization.

## 2. Theoretical perspective

### 2.1 Relationship and network models of small- and medium-sized enterprises internationalization

The internationalization of SMEs has been explained as a process driven by business and business relationships (Coviello and Munro, 1997; Oviatt and McDougall, 2005). Specifically, networks compensate for small firms’ inherent resource scarcity (Coviello and Munro, 1997; Crick and Jones, 2000) by providing an extended resource base that can fuel internationalization (Bell, 1995; Tolstoy and Agndal, 2010). Studies on so-called born globals and international new ventures have shown that these firms benefit from network relationships and, particularly, the social capital derived from these relationships (Cavusgil and Knight, 2015; Chetty and Campbell-Hunt, 2004; Schwens and Kabst, 2009; Terjesen *et al.*, 2008). Research in this area also demonstrates that networks not only provide financing, distribution channels and references, they also offer learning opportunities for internationalization (Coviello, 2006). In this respect, firms’ network relationships shape internationalization patterns, e.g. market selection and foreign entry mode (Moen *et al.*, 2004; Terjesen *et al.*, 2008).

Studies on SME internationalization tend to theoretically align with network views of internationalization, where internationalization has been conceptualized as a process of international network expansion (Axelsson and Johanson, 1992; Johanson and Mattsson, 1988). From this perspective, ongoing foreign business relationships can open up avenues to connect with new foreign market customers (Axelsson and Johanson, 1992). Throughout the course of the internationalization process, firms gradually develop relationships characterized by trust, commitment and mutual orientations, which perpetuate business operations in foreign markets (Coviello and Munro, 1997; Johanson and Vahlne, 2003, 2009). Companies that grow their networks and establish strong business relationships with

relevant actors eventually become “insiders” in foreign market networks and increase their chances of long-term success by ensuring access to relevant knowledge and resources (Johanson and Vahlne, 2009).

According to Cavusgil and Knight (2015), an intrinsic challenge for SMEs when expanding internationally is that their marketing offerings initially are unestablished and unknown to foreign customers (i.e. liability of newness), and that companies may not have adapted their business operations to local institutions (i.e. liability of foreignness). Correspondingly, studies on SMEs suggest that the prospective foreign market customers of these firms may not fully trust nor fully understand their marketing offerings (Melén Hånell *et al.*, 2014; Miller *et al.*, 2016; Tolstoy, 2014). These conditions may inhibit the possibilities of SMEs to expand their networks and grow their businesses internationally.

Certain business relationships, however, have proved to be particularly advantageous for companies to overcome challenges related to newness and foreignness. Such relationships could bridge information gaps, enhance trust and enable companies to articulate value propositions, and reduce the uncertainty for prospective customers (Chetty and Blankenburg Holm, 2000; Ellis, 2000; Hilmersson and Jansson, 2011; Hohenthal *et al.*, 2014; Johanson and Vahlne, 2003; Sharma and Blomstermo, 2003). These relationships have been referred to as “bridgeheads,” “entry nodes” and “leading customers,” all describing business relationships that are particularly apt to generate new knowledge and to open up opportunities to new business (Hohenthal *et al.*, 2014). Bridgehead relationships refer to pre-existing customer relationships that a supplier uses to initiate new business abroad (Johanson and Mattsson, 1988). By contrast, entry nodes are business relationships that facilitate foreign market entry by serving as gateways into foreign markets, allowing companies to both diversify and penetrate markets. Entry nodes will allow companies to immerse themselves in relevant network structures and grant them insidership (Hilmersson and Jansson, 2011; Sandberg, 2013). A recent study by Vedel and Servais (2019) suggests that the actual benefits provided by entry nodes depend on the fit between suppliers and customers in relevant organizational and strategic dimensions.

In a longitudinal case study of four international new ventures, Li and Deng (2017) empirically demonstrate that companies that are able to leverage certain leading customers are more likely to overcome the chasm in international expansion, allowing them to eventually scale up their operations and become multinational enterprises. The concept of leading customers (Li and Deng, 2017) differs from bridgehead relationships and entry nodes in the respect that it predominantly focuses on the social influence exerted in these relationships that can be used to gain traction in a broader customer base. Leading customers are viewed as innovative and visionary, and their behaviors (e.g. buying a certain product or service) are, therefore, likely emulated by an early majority customer group within an industry. The authors suggest that once a company wins a leading customer, the likelihood of expanding the international customer network increases.

While extant literature on SMEs’ internationalization through networks indicates that some customer relationships are particularly instrumental in the development of new

business, there is still limited knowledge about the circumstances when such relationships are leveraged. With a few notable exceptions (Li and Deng, 2017; Mort and Weerawardena, 2006; Özbek, 2016), empirical insights are missing. Consequently, a further understanding about the situations and motives that drive SMEs to use particular customer relationships to overcome their initial anonymity in foreign markets is warranted.

## 2.2 The concept of customer reference marketing

Several advantages of reference customers have been discussed in the literature pertaining to customer reference marketing. Reference customers are expected to reduce the perceived risk and uncertainty of potential buyers in supplier selection and purchasing (Anderson and Wynstra, 2010). Customer references function as indirect evidence for a supplier’s ability to provide a product, service or solution (Salminen and Möller, 2006). They showcase suppliers’ capabilities related to cooperation and problem-solving (Jalkala and Salminen, 2010; Morgado, 2021). Furthermore, they increase a supplier’s credibility and reputation (Elfring and Hulsink, 2003; Helm and Salminen, 2010; Morgado, 2018; Reuber and Fischer, 2005; Salminen and Möller, 2006). Hence, reference customers contribute both to the creation of new customer relationships and to sustain the confidence within existing relationships (Salminen and Möller, 2006).

Furthermore, Aarikka-Stenroos and Jalkala (2012) claim that customer reference marketing is dependent on the involvement of all relevant customers, including the selling company, the reference customer and the targeted new customer. From this vantage point, customer reference marketing begins when a company makes a request to an existing customer to act as a reference to facilitate the process of attracting new customers. In the subsequent step, the reference customer case is communicated to potential buyers. Communication practices covers a wide range of activities, including providing contact details from reference lists, presenting a customer’s logo on the company’s website, press releases, brochures of success stories, articles in trade journals and actively engaging reference customers to discuss business problems with potential customers (Jalkala and Salminen, 2010). A reference marketing process generally ends with potential customers evaluating the benefits and costs of a sales offer based on relevant information they have gathered from reference cases (Möller and Törrönen, 2003).

Customer reference marketing is conceptually different from “word of mouth” (WOM). The principal difference between these concepts is the strategic or tactical intent of a supplier to engage reference customers in their marketing activities (Hada *et al.*, 2014). For example, in a study conducted with managers of SMEs based in the UK, Tóth *et al.* (2020) demonstrate differences between WOM recommendations and online references in business markets. From the suppliers’ side, WOM recommendations are less strategically managed and coordinated to control client perceptions of firm attractiveness. Furthermore, their findings also reveal differences in the inclination to use different marketing approaches depending on firm size. While larger firms preferred more elaborate online references in their supplier selection, it was sufficient with WOM recommendations for smaller firms.

The literature has stressed that the ability to use reference customers effectively is contingent on several factors. First, a key observation concerns a pronounced aptitude to use customer references among companies that are planning entry into new markets where they have not yet established a reputation (Gomez-Arias and Montermoso, 2007; Jalkala and Salminen, 2009; Reuber and Fischer, 2005; Ruokolainen, 2005; Ruokolainen and Aarikka-Stenroos, 2015; Ruokolainen and Igel, 2004; Ruokolainen and Mäkelä, 2007). For example, in a study of two international new ventures in the software sector, Terjesen *et al.* (2008) show that multinational corporations were particularly effective as reference customers in the early stages of internationalization. More recently Morgado (2021), in a qualitative study of the energy sector, demonstrates cases where reference customer relationships were leveraged by suppliers in their efforts to step into foreign markets. Previous work also indicates that customer references play particularly significant roles within the areas of high-technology marketing as well as in project marketing and systems selling, arguably because the potential buyer faces a relatively higher level of risk in these situations (Salminen and Möller, 2006). Factors such as uncertainty, the level of investment and the length of commitment period involved in adopting the new product or service solution can place a stronger demand on customer references (Jalkala and Salminen, 2010). The complexity of customization of products and services has also been highlighted as a factor affecting the need for customer reference marketing among small firms (Reuber and Fischer, 2005).

Furthermore, a relevant finding from prior research relates to the nature of the relationship to the reference customer. Customers' willingness to act as references may depend on the particular characteristics of the relationship they have with their supplier. If the relationship is built on knowledge sharing and is characterized by mutual benefit, customers are likely to be more willing to serve as reference customers. The reason for this is that they can benefit from positive knowledge spillovers if their supplier prospers (Provan, 1984). Customer reference marketing, however, does not come without challenges. It is important to communicate the value generated in past business assignments in a way that makes sense and appears credible. This requires a business relationship that is characterized by learning, where relevant tacit aspects of knowledge can be interpreted, codified and shared (Ballantyne *et al.*, 2011). In service situations, an understanding of value generated in a business assignment is thus highly reflective of a learning process where companies have identified the processes, capabilities and situational requisites that are needed to generate value (Skälén *et al.*, 2015). For example, through in-depth interviews with sales managers, Terho *et al.* (2012) find that developing an understanding of customers' business models enables companies to identify the most important value drivers, ultimately reinforcing their abilities to develop compelling value propositions.

We claim that the use of customer reference marketing can spur the development of business networks and enhance market expansion (Jaakkola and Aarikka-Stenroos, 2019). Given its managerial relevance for international SMEs as well as its theoretical relevance for business relationship and network models of internationalization, the phenomenon of

customer reference marketing appears to be understudied within the international small business literature. In the following section, we use a service perspective as a lens to study the requisites for using customer reference marketing in the international expansion of firms.

### 3. Hypotheses development

#### 3.1 Product and service differentiation and use of reference customer marketing

Some of the intrinsic challenges for SMEs in entering a foreign market relate to their liability of newness and liability of foreignness (Cavusgil and Knight, 2015). To overcome such challenges, the new entrant company has to carefully consider the specific needs and wants of the customers in the foreign market. In a quantitative study of internationalizing SMEs, Tolstoy (2014) demonstrates that differentiation of the marketing offering helped companies generate and communicate value to potential foreign market customers.

Effects of differentiation have been extensively studied in multinational enterprise (MNE) settings (Rosen, 1990; Whitelock and Pimblett, 1997), but deserves more attention in the context of SMEs. Nonetheless, empirical studies have observed that many small internationally oriented companies, indeed, pursue strategies of product and service differentiation (Chetty and Campbell-Hunt, 2004; Knight and Cavusgil, 2004; Tolstoy, 2014). Recent studies point at the need for a granular understanding about how product and service differentiation shape the use of reference customers of SMEs (Baum *et al.*, 2015; Zander *et al.*, 2015).

We build our study on the general argument that differentiation of market offerings positively affects SMEs' perceived importance of customer reference marketing in foreign market ventures. Customer relationships can serve as proof of quality and, thus, provide assurance to new potential customers that certain criteria will be met (Jalkala and Salminen, 2010). For example, in a case study of four large service-oriented business-to-business (B2B)-oriented companies, Jalkala and Salminen (2010) show that reference customers can be helpful to concretize complex business solutions.

In this vein, certain customer relationships can bridge the knowledge gap between a seller and a new potential buyer in an international business setting. We argue that reference customers are especially important when products or services are differentiated, which, according to Tolstoy (2014), means that offerings involve idiosyncratic components that make them non-comparable to other offerings of a focal company.

Differentiated services are intangible and, thus, inherently more difficult to communicate and build a business case around than standardized products (Baum *et al.*, 2015; Chetty and Campbell-Hunt, 2004). There is also an inseparability between production and consumption, which makes it more difficult to demonstrate success cases. Hence, we expect a variability regarding the perceived importance of customer reference marketing in service situations and product situations. We suggest the following hypothesis:

*H1a.* Product content differentiation in a foreign customer relationship has a negative effect on SMEs' perceived importance of customer reference marketing.

*H1b.* Service content differentiation in a foreign customer relationship has a positive effect on SMEs' perceived importance of customer reference marketing.

### 3.2 The mediating effect of relationship learning on the perceived importance of customer reference marketing in foreign markets

The international small business literature has emphasized that service marketing and its effects on international expansion is largely neglected because research, by and large, is biased toward manufacturing SMEs (Zander *et al.*, 2015). Consequently, there is scarce knowledge about how service offerings impact the internationalization decisions of SMEs. Erramilli (1991) emphasized the knowledge aspect in the internationalization of service firms by showing that as companies (151 US service firms) become more experienced in doing business abroad, they will also become more inclined to diversify international market operations. This finding suggests that knowledge lowers uncertainty, allowing companies to develop new business based on knowledge gathered in prior business assignments. The marketing of differentiated service content in offerings is often complex because it involves idiosyncratic components such as usability features, reliability features, personal support, training, integration to customer systems and functions (Ulaga and Reinartz, 2011). A firm that offers differentiated services will, therefore, have to make significant investments in acquiring skills, expertise and know-how that are rare and inseparable from the production of value in the current business engagement. As the service becomes increasingly idiosyncratic, the specificity of cross-border transactions increases (Erramilli and Rao, 1993). Based on interviews with sales managers in a variety of industries, Terho *et al.* (2012) learned that to extract value from a differentiated service offering, the seller and buyer need to develop in-depth knowledge about each other's competences to reconcile the gap between the production capacity of the seller and the expected value of the customer.

Relationship learning is here understood as the process by which companies interact, share knowledge and jointly make sense of business problems (Ballantyne *et al.*, 2011; Grönroos and Voima, 2013; Lusch *et al.*, 2010; Payne *et al.*, 2008). The learning that takes place in connection to the service implementation is, thus, generated in a dynamic process of business exchange. In this process, knowledge is mutually shared, and procedures are adapted to resonate with customers' needs and wants (Zhang *et al.*, 2015). Companies that engage in learning processes with certain important customers may uncode tacit knowledge (Li and Deng, 2017), possibly enabling them to articulate value propositions to new customers. Relationship learning in differentiated service ventures, thus, increases the transferability of the service offering and decreases transaction costs (Erramilli and Rao, 1993). Hence, customer relationship marketing may appear as a more attractive marketing method in situations characterized by relationship learning. We build on this research when formulating the following hypothesis:

*H2a.* The effect that service content differentiation in a foreign customer relationship has on SMEs' perceived

importance of customer reference marketing is positively mediated by relationship learning.

Product differentiation usually refers to adjustments in features, quality and performance of the product to cater to the specific needs of customers (Bloodgood *et al.*, 1996). Product differentiation implies a deviation from the standard approach of doing business where customers are treated almost similarly across markets. Similar to service differentiation, developing differentiated products is costly and takes time. Based on a review of literature on internationalizing SMEs, Baum *et al.* (2015) suggest that product differentiation could become a burden on smaller firms because of their limited financial and managerial resources. Hence, added operational costs need to be measured against the benefits of offering products that could potentially better resonate with the specific preferences and needs of foreign market customers.

Because product implementation can be done separately from customers (unlike service differentiation), offerings can be based on formalized requirements placed on product performance, which, in turn, can be replicated for repeat business. Replication of differentiated products is facilitated by the development of protocols and monitoring systems that ensure that feature and quality standards are upheld (Jonsson and Foss, 2011). Based on this reasoning, companies may not have to interact closely with customers to develop business cases and formulate value propositions around differentiated products. Hence, we forward the argument that relationship learning in a specific foreign business relationship has no mediating effect in the relationship between product content differentiation and the perceived importance of customer reference marketing.

*H2b.* The effect that product content differentiation in a foreign customer relationship has on SMEs' perceived importance of customer reference marketing is not mediated by relationship learning.

Figure 1 displays a theoretical model that summarizes the hypothesized conceptual linkages.

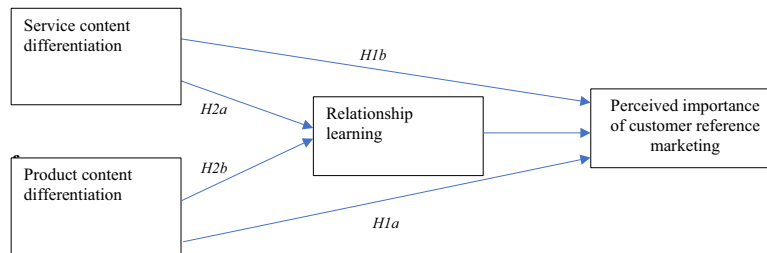
## 4. Method

To avoid common method variance and enhance the robustness of the results, this study is based on multiple source data. These include register data provided by Statistics Sweden and self-reported data obtained through a questionnaire. In this section, we address the reliability and validity of these data sources, the data collection process and the study design.

### 4.1 Data and sampling

The dataset of this study is narrowed down from an initial stratified random sample of 339 international SMEs situated in the Mälardalen region in Sweden. Companies that were included in this sample matched the following criteria: they could be categorized as SMEs (250 employees as defined by European Commission). Export sales should account for  $\geq 10\%$  of their total sales. The sample consisted of two groups: small firms (6–49 employees) and medium-sized firms (50–249 employees). As previous studies have suggested that the behaviors exhibited by microenterprises are often substantially different from those of

Figure 1 The hypothesized model



other SMEs (Becherer *et al.*, 2005), we excluded firms with  $\leq$  five employees from the sample. Stratification was used to increase variation in size among the SMEs. Without stratification, most firms in the sample would have been small, as 97% of Swedish firms have 50 or fewer employees. We focused on companies from a delimited geographical area, i.e. the Mälardalen region. This choice enabled us to maintain constancy in the sampling process and made the administration of data collection manageable. Mälardalen is an industrialized area with a population of around 2.7 million. The region comprises several major Swedish cities, including the capital of Stockholm, the university cities of Uppsala and Västerås. The original sample of 339 companies was eventually reduced because some companies were found to be too large (i.e. they were not SMEs), they had withdrawn from foreign markets or they no longer existed. This rendered a final sample of 233 SMEs. From this sample, we managed to collect 188 questionnaires, which yielded a response rate of about 82%, which compares favorably to other studies in this field. The sample size is well above the minimum threshold following the standard assumption that we need ten observations per independent variable (which implies a minimum sample of 80).

In the final sample of international firms, the average share of foreign sales amounted to 56%. The average number of employees was 48 (the average turnover was approximately €1,222,000). The firms belonged to a wide span of industries, including technology, manufacturing, retail/wholesale and consulting.

#### 4.2 Survey instrument and data collection

We used a single key informant method. We screened the respondents by making telephone calls, enabling us to approach decision-makers, primarily, chief executive officers (CEOs) and marketing managers. Investigators then visited the respondents at their offices. This data collection method was to ensure that we received surveys that were completely filled out, and that they were in fact answered by appropriate respondents. The researchers were careful to maintain passive, while the respondents filled out the surveys for the purpose of not influencing them in any direction. Data collection was conducted in the period 2003–2005.

The survey instructs the respondent to focus on one particular foreign business relationship. This is intended to make the respondent focus on concrete business engagements and avoid generalizations and social desirability bias. The relationship had to be ongoing, important for business (ensuring reliability in the sense that respondents had sufficient

knowledge of the relationship) and it had to have resulted in actual sales. In the questionnaire, respondents were asked to consider relationships with intermediaries or customers in foreign markets. Worth noting, this study design creates an empirical delimitation as observations contain business relationships of augmented strategic importance. As aforementioned, the survey data was combined with objective data that were collected from databases provided by Statistics Sweden. This data consisted of financial measures from annual reports and export sales figures. It also contained information on markets from the import/export register. Prior to data collection, the survey was tested on six respondents in a pilot study to check whether it was logical and had an appropriate length.

#### 4.3 Measures

All conceptual indicators are measured on a seven-item (minimum 1; maximum 7) categorical scale. To measure differentiation, we found that the most valid operationalization was to disaggregate the differentiation measure used by Tolstoy (2014) in a study on the same data set, resulting in two separate variables, one representing service differentiation (Cronbach's  $\alpha$ : 0.805) and one representing product differentiation (Cronbach's  $\alpha$ : 0.916). These variables, thus, only contain two indicators each, which could limit their explanation power. Operationalizations of measures are found in Table 1.

For the factor service content differentiation, the differentiation of the product itself serves as a general indicator covering the spectrum of product features that could be modified or altered. We have also included an indicator capturing the differentiation of the production process to also capture how customer requirements and specifications are taken into account that relates to the actual production of the goods.

For the factor service content differentiation, service content is a general indicator covering the spectrum of service components that could be differentiated. While service components may be integrated in the business exchange (e.g. customized logistics, deliveries, inventory control and ordering systems), we also included the specific indicator reflecting the distribution mode.

The concept of relationship learning comprises the dimensions used by Nordman and Tolstoy (2016) to capture the concept in a study of the same dataset: e.g. whether the relationship has resulted in new routines (representing the tacit dimension of knowledge), whether the relationship is important source of knowledge (representing applicability of knowledge) and whether the relationship is characterized by general knowledge exchange (representing the codification of

Table 1 Operationalizations of factor variables

Variable	Item	Mean	SD	Cronbach's $\alpha$
<i>Service content differentiation</i>	The business relationship is different from other relationships in terms of mode of distribution	2.83	1.86	0.805
	The business relationship is different from other relationships in terms of service content	2.77	1.66	
<i>Product content differentiation</i>	The business relationship is different from other relationships in terms of the production process	2.85	1.74	0.916
	The business relationship is different from other relationships in terms of product content	2.42	1.643	
<i>Relationship learning</i>	The business relationship is important for us in terms of knowledge	4.35	1.616	0.654
	The business relationship is characterized by a general exchange of knowledge	4.11	1.519	
	The business relationship has resulted in new routines	3.92	1.892	
<i>Perceived importance of customer reference marketing</i>	The business relationship is important as a reference customer	5.02	1.996	n.a.

knowledge, enabling conductivity and transfer). The construct holds up reasonably well with a Cronbach's  $\alpha$  of 0.654. While this reliability measure is slightly beneath the recommended 0.7 threshold, we recognize that Cronbach's  $\alpha$  is sensitive to a small number of items and may underestimate internal reliability. When conducting a composite reliability test, the score increases to 0.794.

Finally, the dependent variable denotes a methodological contribution by default as studies operationalizing the customer reference marketing are scarce and in need of the development of established measures. As the variable measures a defined outcome, it can be captured by a unidimensional single indicator rating how important the business partner is as a reference customer.

#### 4.4 Control variables

To check for external effects, we used data derived from financial databases. We controlled for the age of the company, years abroad, size, patents, duration in market. Age, which could have effects on organizational behavior, is measured by the number of years since inception. Effects related to the time span of international operations were measured by the number of years elapsed since the first year the company started selling internationally. Furthermore, we tested for differences in size by a scale measure

comprising the number of employees. Furthermore, cultural proximity to the market may shape business operations (Johanson and Vahlne, 2003). This construct was measured using a cultural index based on Hofstede's cultural dimensions and the formula of Kogut and Singh (1988). There were 33 country entries in the index where Japan scored highest on the cultural distance and Denmark scored lowest. The technological orientation of the company was measured using patents as a proxy. This was measured by a dummy variable where "0" denoted zero patents and "1" denoted > zero patents. Duration of the business relationship was measured from the year in which the relationship was initiated. We were unable to create meaningful distinctions about industry belongings of our sample firms, even though the inclusion of service content differentiation vs product content differentiation as well as the patent dummy account for some variations in business orientations.

The correlation matrix (Table 2) shows a high correlation between time in international markets and age. This correlation is expected as older companies will have a high likelihood of an early date for first foreign market entry. Moreover, the correlation between the patent dummy and perceived importance of customer reference marketing is interesting as it suggests that customer reference marketing is more relevant for innovative companies.

Table 2 Correlation matrix (mean and SD on the diagonal)

Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1. <i>Service content diff.</i>	0 (1)									
2. <i>Product content diff.</i>	0.64**	0 (1)								
3. <i>Rel. learn.</i>	0.268**	0.229**	0 (1)							
4. <i>Cult. dist.</i>	-0.054	-0.037	-0.069	2.62 (2.139)						
5. <i>Age</i>	0.037	-0.011	0.092	0.001	24 (21)					
6. <i>Size</i>	0.059	0.034	0.244**	-0.009	-0.021	46 (50)				
7. <i>Time in int. markets</i>	0.054	-0.025	0.121	-0.036	0.94**	0.082	8.9 (9)			
8. <i>Patent (y/n)</i>	0.065	0.106	0.148	-0.054	-0.025	0.423**	0.167*	0.4 (0.49)		
9. <i>Cust. ref. mark.</i>	0.036	0.077	0.456	-0.102	-0.082	0.043	0.043	0.228**	5 (1.8)	
10. <i>Export intens.</i>	0.048	0.04	0.14	-0.243**	-0.12	0.13	0.022	-0.109	0.117	57 (29)

Note: Variable mean (standard deviation) in the parallel line

It should also be noted that the correlation between service content differentiation and product content differentiation is above the 0.5 level. This suggests some conceptual overlap, which we believe is tolerable as we make no case of these measures being mutually exclusive (i.e. service content and product content may exist simultaneously in the same business assignment). Given this correlation, it is, however, plausible to assume a positive or negative interaction effect of the variables. In a robustness check of our results, we use a multiplicative interaction term to discern whether there is any such inference. The statistical output showed no significant effect of this interaction term in any of the models analyzed.

## 5. Findings

### 5.1 Regression

We use multiple regression as the method of analysis in this study as well as mediation analysis (Hayes, 2013). Mediation analysis is particularly suitable when investigating the complexities of a process involving three variables. In such cases, mediation analysis can disclose how variables are interrelated. Thereby the method supports conceptual development, which is the purpose in the study at hand. Our analysis followed an iterative design where we first tested direct effects of the control variables (Table 3). In Model 2, we test the effects of the independent variables. Finally, Model 3 contains all variables, including the mediating variable. Model 1 shows a small positive effect of time abroad on the perceived importance of customer reference marketing. This is logical given that it takes time to build a relationship that can be used as a reference case. The  $R^2$  of Model 1, however, is low, suggesting the model does not carry strong explanatory power. Model 2 shows opposite effects of the variables product content

differentiation and service content differentiation. While product content differentiation has a significant negative effect on the perceived importance of customer reference marketing, service content differentiation has a significant positive effect.  $H1a$  is thus supported, suggesting a need to distinguish between the effects of service content differentiation and product content differentiation. It is indeed an interesting finding that product content differentiation correlates negatively with the dependent variable, suggesting that customers that have been offered differentiated products are less likely to serve as reference customers when companies look for new business. An explanation is that the product may simply have become customized to a level that reduces its applicability in other settings.

As suggested by data supporting  $H1b$ , service content differentiation is intrinsically more malleable than product content differentiation as the ability to solve customer problems is reflected by firm capabilities that can be exerted in various settings. Companies that provide services can position themselves as problem-solvers and engage in value-based selling (Terho *et al.*, 2012). The ability to differentiate services for one customer sends a signal to presumptive customers in the foreign market, or in other markets, that the seller can provide specific solutions that could generate value also for them. In Model 3, we include the proposed mediating variable, namely, relationship learning. We see that the individual effect of relationship learning on the perceived importance of customer reference marketing is strong. Notably, the effect of service content differentiation is insignificant in the presence of relationship learning. One reason for this is that the effect of service content differentiation is mediated by relationship learning. We test this in a subsequent model where we conduct a mediation analysis.

Table 3 Regression analysis

Variables	Model 1 B (SE)	Model 2 B (SE)	Model 3 B (SE)
<i>Constant</i>	5.047 (0.857)	5.349 (0.843)	6.188 (0.891)
<i>Control variables</i>			
<i>(ln) Age</i>	0.07 (0.045)	0.024 (0.282)	−0.066 (0.284)
<i>(ln) Size</i>	−0.013 (0.286)	−0.056 (0.145)	−0.108 (0.144)
<i>Time abroad</i>	−0.006* (0.011)	−0.116 (0.011)	−0.07 (0.011)
<i>Cultural distance</i>	−0.115 (0.068)	−0.125 (0.066)	−0.1 (0.065)
<i>Patents</i>	0.848** (0.319)	0.202* (0.312)	0.223*** (0.310)
<i>Export intensity</i>	0.004 (0.008)	0.008 (0.017)	−0.029 (0.008)
<i>Duration of relationship</i>	0.059 (0.164)	−0.012 (0.161)	−0.043 (0.159)
<i>Independent variables</i>			
<i>Product content differentiation</i>		−0.379** (0.218)	−0.398*** (0.215)
<i>Service content differentiation</i>		0.424** (0.22)	0.372*** (0.224)
<i>Relationship learning</i>			0.281*** (0.145)
<i>Key statistic</i>			
$R^2$	0.087	0.146	0.207
<i>Adjusted <math>R^2</math></i>	0.042	0.091	0.15
<i>F</i>	1.934	2.691	3.61

Notes:  $p < 0.05$  \*,  $p < 0.01$  \*\* (two-tailed). Dependent variable: perceived importance of customer reference marketing in a foreign market



## 5.2 Mediation analysis

To check for a possible mediation effect of relationship learning, we used the PROCESS regression-based macro developed by Hayes (2013). The reason why we anticipate such an effect is that relationship learning allows participating parties to interpret, use and later codify knowledge into a format that can be articulated and communicated. When knowledge generated in a business assignment can be transferred, it is easier to build a business case around it and use it for promotional purposes. Here, the perceived importance of customer reference marketing served as the dependent variable, product content and service content differentiation as the independent variables, and relationship learning as the mediator. The results of the mediation analysis reported in this study followed Hayes' (2013) recommendation of using 5,000 bootstrapping samples with 95%–99% bias-corrected confidence intervals. Table 4 shows that relationship learning indeed mediated the effects of both product content differentiation and service content differentiation on the perceived importance of customer reference marketing in a foreign market. *H2a* is thus confirmed, and *H2b* is rejected as mediation effects are discerned in both cases. We interpret that relationship learning alleviates the negative effect that product content differentiation has on the perceived importance of customer reference marketing. Increased knowledge may enable companies to better replicate and adapt product offerings to new situations and use customer reference marketing to build a sales message around the offering. In the case of service content differentiation, increased knowledge about previous needs and wants among customers will make companies use reference customers with even greater accuracy and effectiveness when venturing into new business assignments. To confirm that it is a partial or full mediation, the variance accounted for (VAF) index was computed to determine the size of the indirect effects in relation to the total effect (which also includes the direct effects of the mediators). The resulting value (VAF) for both mediators are within the 20%–80% range, implying a partial mediation in both cases.

## 6. Discussion and conclusion

The specific purpose of this article was to contribute to international small business literature by creating a model that compares the effects of product content differentiation and service content differentiation on SMEs' perceived importance of customer reference marketing in foreign markets. The study delivers two principal theoretical contributions. First, the study shows that while customer reference marketing may be regarded as a salient mechanism in the international networking of SMEs, it will only be effective under certain circumstances. While prior research has applied business

relationship and network perspectives (Axelsson and Johanson, 1992; Johanson and Mattsson, 1988) to explain SME internationalization (Cavusgil and Knight, 2015; Coviello and Munro, 1997; Coviello and Martin, 1999; Moen *et al.*, 2004), they have not explained in which situations particular business relationships are apt to be actively leveraged to spur international expansion. By exploring the contingencies of customer reference marketing in an international business setting (as called for by Terho and Jalkala, 2017), particularly with a service focus, we contribute with specific insights about the conditions shaping internationalizing SMEs' marketing activities. Based on these findings, we show that business content matters for marketing decisions within the business networks that companies are a part of. In line with our theorizing, the results show that when companies operate under more uncertainty (in service situations), they will find it relatively more useful to leverage relationship marketing strategies to develop international networks and expand internationally. By contrast, product content differentiation even has a negative effect on companies' perceptions on the importance of reference customers. Hence, this study forwards the interesting idea that the service component in international business puts increased emphasis on deliberate networking strategies to leverage customer reference marketing.

Second, our findings also contribute to the understudied domain of service marketing in the field of international business, and specifically research focusing on service–firm internationalization. Previous studies have addressed the challenges related to service marketing in international settings (Moen *et al.*, 2004; Terjesen *et al.*, 2008). Because of the high degree of context dependence of services, the value of such market offerings may be difficult to translate into value propositions (Erramilli and Rao, 1993; Ulaga and Reinartz, 2011; Zhang *et al.*, 2015). Our study indicates that reference customers may serve as springboards in networks (Aarikka-Stenroos and Jalkala, 2012). This is especially relevant in service situations where uncertainty is enhanced due to the intangibility of the offering. For reference customer marketing to be effective, business relationships need to be characterized by learning. A learning climate enables SMEs to make sense of the actual components of the service offering that create value in the customer relationship. In these cases, companies are more apt to replicate value components for the purpose of creating other foreign market customer relationships. Our study, however, shows that relationship learning also allows companies to use reference customers in situations of product content differentiation. In a nutshell, the presence of relationship learning may turn a negative attitude toward using reference customers into a positive attitude. Hence, the study indicates that a beneficial learning climate will help companies leverage opportunities of customer reference marketing.

Table 4 Mediation analysis

Independent variables	B (indirect)	Bootstrapped confidence intervals	
		Lower	Upper
Product content differentiation	0.1182**	0.0293	0.2378
Service content differentiation	0.1384**	0.048	0.2709

Notes: Bootstrapped confidence intervals obtained using 5,000 samples;  $p < 0.05$ . \*,  $p < 0.01$  \*\* (two-tailed)

Based on our findings, we suggest future research to focus on the following areas (which also relate to limitations of the study at hand):

- We have here investigated conditional effects of reference customer strategies. We realize that this is only a fragmented analysis of the phenomenon as a whole. The study does not take into account actual business outcomes. In line with Terho and Jalkala (2017), we stress the importance for future studies to zero-in on the effectiveness of customer reference marketing and how performance is conditioned.
- We have here approached the concept of customer reference marketing from a strategic perspective, but not in detail explored the business implications of such an approach. We, consequently, recommend researchers to study the specific tactics and actions that reference customer marketing entails (structured approaches, experimentation approaches, online testimonials and demonstrations, etc.). By investigating and differentiating between for example digital methods of conducting customer reference marketing (Tóth *et al.*, 2020) and more personal approaches involving personal meetings, we can receive more fine-grained insight about how such activities actually are carried out in international settings.
- A more general implication of our study relates to the distinctive features of the marketing and sales of service offerings in international markets.

The study supports the notion that product content and service content carry distinct traits, implying that theoretical models related to SME internationalization have to be adjusted with considerations on exactly which type of venture that is studied (i.e. depending on at which place of the spectrum related to the service content the business assignment is situated). In this study, we do not examine how these differences influence firms from different industries. The results thus give a general indication that service and product content have distinct implications on customer reference marketing. It is plausible that these effects could be more or less pronounced in certain sectors. Finally, in this study, we do not capture how configurations of product and service content and their different threshold levels relate to customer reference marketing or other business outcomes. We, therefore, recommend scholars to look deeper into this issue to produce more fine-grained findings.

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