NETWORK RESEARCH ON INTERNATIONALIZATION OF FIRMS FROM THE EMERGING ECONOMIES: LITERATURE REVIEW AND PROPOSITIONS

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ABSTRACT

Although interest in internationalization of firms from the emerging economies is growing, research employing network theories has been limited. The article provides a systematic literature review on the internationalization of firms originating from the emerging economies, from a network perspective. The major finding is that, contrary to expectations, social networks do not play such an important role as in the case of developed market firms. To fill this gap and to advance a more nuanced view of the network effects, the paper generates hypothesis highlighting the positive impact of networks on the initiation of internationalization process, and negative impact of social networks on speed, foreign market diversity and internationalization performance.

JEL CLASSIFICATION & KEYWORDS

■ M16 ■ F23 ■ L21 ■ L26 ■ NETWORK THEORY
■ INTERNATIONALIZATION ■ EMERGING ECONOMIES
■ INTERNATIONAL NEW VENTURES ■ SMALL AND MEDIUM
SIZED FIRMS

INTRODUCTION

Research on international new ventures (INVs) and small and medium sized enterprises (SMEs) internationalization from emerging economies has received increasing attention especially in the past decade (Marinova & Marinov, 2011). One of the most popular perspectives employed. In such studies are network theories, originating from Industrial Purchasing and Marketing (IMP) research tradition (Hakansson, 1982) and social network perspective with its roots in the North American economic sociological tradition, typically associated with the seminal contributions of Granovetter (1973; 1985) and Burt (1992).

Most of internationalization literature within network perspective focused on developed markets firms and relied on these two dominant network-based theoretical logics, thus, the emerging economy scholars, in turn, inherited these perspectives from the discipline and adopted them for their own research in the emerging economy contexts (Meyer & Gelbuda, 2006). However, there are several factors, which impact how and why firms from the emerging economies may use networks in internationalization process differently compared to similar organizations operating in the contexts of developed countries. These factors pertain to differences, widely acknowledged in the extant literature, between developed and emerging economies in the following areas:

1. Institutional development
2. Economic development
3. Cultural difference
4. International mobility

Institutions

Formal and informal institutions have been found to impact greatly on economic development countries and firm behaviour (North, 1994). The impact of institutions manifests itself through establishing and enforcing "the rules of the game," providing more or less favorable environment, within which firm operate in the domestic market, shaping inter-firm behaviour and, in combination with other factors, inhibiting, stimulating or even coercively forcing firms to internationalize (Boisot & Meyer 2008). Thus, the emerging economy scholars have been increasingly focusing on the influence of the institutional context and a firm's domestic market environment, more generally, on the internationalization process of INVs and SMEs (Cieslik & Kaciak 2009). Such interest was further enhanced, first, by the differences in speed, magnitude and turbulence of change and, secondly, by the influence of relatively less efficient institutions on entrepreneurial development and subsequently internationalization process (Ahlstrom & Bruton 2010; Wright et al. 2005). More specifically, in the emerging economies, institutional constraints or poorly developed institutions, often referred to as institutional voids (Palepu & Khanna 2010), limit the range of strategic options for business development (Hoskisson et al. 2000). Thus, business networks and personal networks may play a different role in internationalization of EE firms compared to the developed firms because of institutional differences.

Economic development

Most of the network literature, with the notable exceptions of research on blat and guanxi, has been developed in the North America and Europe, especially Nordic countries. One major implication of this is that the network behaviour and impact of the networks on internationalization was studied among firms operating in highly developed economies with highly efficient formal and informal institutions. Internationalization of emerging economies firms per se implies use of business and personal networks across countries with remarkable differences in economic development. Uppsala internationalization process scholars have highlighted the importance of difference in industrial development as a core element of psychic distance (Johanson & Vahlne, 1977). In the light of these arguments, there may be significant differences in the role of the networks in internationalization process, first, in case of the emerging market firm entering developed economies, and, secondly, in case of the emerging economy firms expanding into other emerging economies.

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Cultural differences

Network behaviour in the emerging economies, especially, pertaining to unique cultural behaviour patterns has received significant attention in the disciplines of sociology, cross-cultural and international management (Ledeneva, 1998; Michailova & Worm, 2003). Such phenomena as *blat*, *guanxi*, extended families, informal market places have been studied in depth, however, very seldom the impact of these unique cultural behaviours has been analyzed in the context of the internationalization of the emerging market firms, especially, new ventures and SMEs which are much more deeply embedded in the local context than emerging market multinationals. Thus, the diversity of culture-bounded networking patterns, combined by their limited exposure to the eroding forces of globalization, suggests that networks may have a different effect on internationalization of firms.

International mobility

Another important factor which has received much attention in internationalization process research, especially, focusing on INVs and Born Globals, is international experience of the founders and rich social capital that the founders bring to the firm and its internationalization efforts (Knight & Cavusgil, 2004). However, while developed countries have been globalizing their management through expatriate assignments, education sector through faculty and student exchange, professionals through training and work assignments abroad, at an accelerated rate, the emerging economies have been exposed to the similar practices to much lower extent. Furthermore, the work and education mobility of the emerging economy residents has been subjected to less preferential access to work and study opportunities in developed countries. Thus, the emerging markets have significantly less of social capital, both in terms of the size and diversity, available for advancing internationalization processes of their firms.

The above discussion provides a rationale for why networking behavior may exhibit different patterns in the emerging economies compared to developed countries and how these differences may impact internationalization process of firms. The rest of article is structured as follows. Following this introduction, the second section presents methodology for literature review. The third section provides key findings, discussion and put forward propositions, illuminating additional insights in the role of networks in the internationalization process. Finally, the conclusion section points key ideas and outlines suggestions for further research.

Network research on internationalization of EE firms

Network analysis has been extensively applied in internationalization studies, as networks may facilitate a firm's internationalization by providing access to resources that are controlled by other firms and that cannot be obtained by other means, may act as a source of market knowledge, and enhance overall firm performance (Kiss & Danis, 2010). The role of networks in the process of internationalisation has been studied from two dominant perspectives – Network approach of internationalization, which focuses on the role of inter-firm business relationships in the industrial marketing setting (Hakansson, 1982) in foreign market entry and development (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009), and Social network theory, which emphasizes the relevance of an entrepreneur's and management team's personal ties (inter-individual relationships) in business opportunity identification and foreign market entry (McDougall, Shane & Oviatt, 1994).

In line with our arguments in the previous section, in addition to the above tie categorization, Kiss and Danis (2010) argue that in the emerging economy context it is also critical to distinguish between the entrepreneur's national and international network ties, as due to international travel and communication restrictions such firms are likely to have had fewer opportunities to develop international ties (Musteen, Francis, & Datta, 2010).

It is noteworthy, however, that networks are studied as an antecedent of internationalization under a number of other theoretical frameworks, such as for instance the resource-based view, international new venture, Uppsala model and same studies may have been discussed in our under a number of approaches if no clear attribution to a specific theory has been made in the paper by the authors. In such cases, we ascribed a paper to one or another theoretical approach based on the dependent variable under study.

Empirical research on network influence on internationalization process of the emerging economy firms is relatively sparse (Musteen, Datta, & Butts, 2013). Furthermore, in many cases, no clear distinction is made in regard to the network level (firm vs individual). Consequently, in our review of prior research based on network theories, we will focus on network effects on firm internationalization rather than their type and seek to answer the following questions:

- What role do national and international individual and/or firm-level relationships play in foreign market selection and entry?
- In what ways donational and international social and/or business network relationships assist to foreign market development and growth?

Foreign market selection and entry

Prior research findings on the role of networks in foreign market selection and entry among emerging-economy firms are mixed. In some studies, networks were found to be a relevant source of information on foreign markets and assisted in foreign market selection and entry, while in others, their effects were insignificant or even negative.

Among the first group of studies, networks were found to have been used as a relevant source of information and to have played an important role in market selection among firms from a wide range of geographically diverse emerging-economies and their industries, such as for instance biotech and IT/publishing firms in Estonia (Vissak, 2007), clothing INVs in Turkey (Riddle & Gillespie, 2003), high-tech Costa Rican SMEs (Ciravegna, Lopez, & Kundu, 2014), manufacturing (Amal & Rocha Freitag Filho, 2010) and IT firms from Brazil (Dib, da Rocha, & da Silva, 2010), high-tech and toy-producing firms in Poland (Nowiński & Rialp, 2013), engineering and confectionary firms in Russia (Shirokova & McDougall-Covin, 2012), and manufacturing firms in the Czech Republic (Musteen et al., 2010; Musteen et al., 2013).

With regard to specific network attributes, research findings point to the relevance of contacts gained through university experience (Ciravegna et al., 2014) and sharing a common language with international ties (Musteen et al., 2010). Furthermore, a study of Czech SMEs revealed that international network diversity and tie strength have a positive effect on foreign market knowledge at the time of internationalization (Musteen et al., 2013). As to the above-mentioned relevance of domestic ties vs international, inferences are difficult to make as prior research has not paid much attention to this distinction. For instance,

domestic ties were found highly relevant among Polish firms in the early stages of the country's economic transition, as international personal networks were rather limited at the time (Nowiński & Rialp, 2013) and in a sample of Bulgarian firms (Manolova, Manev, & Gyoshev, 2010). While a case study of Estonian firms revealed that both domestic and international ties played a relevant role in their internationalization (Vissak, 2007). Besides, research underlined the significance of an entrepreneur's networking skills in network-building (Batjargal, 2010).

However, there is another strand of research, which undermines the role of networks in foreign market selection and entry. For instance, networks were not considered important in facilitating internationalization of Chinese and Vietnamese firms (Liu, Xiao & Huang, 2008; Thai & Chong, 2008). For example, in case of the Chinese firms, networks were substituted by exhibition attendance (Liu et al., 2008). Another study conducted in the Chinese context showed that entrepreneurs with greater international experience and those who undertook more proactive search for business opportunity did not use existing networks in their internationalization endeavours. moreover, in similar study, proactiveness was found to be negatively associated with the use of networks in foreign market entry (Ciravegna, Majano, & Zhan, 2014). Ties did not play any relevant role in foreign market entry among Russian firms either, which to a certain extent can be explained by cultural differences and mental structures, limited international social ties, as well as the negative image on Russian entrepreneurs (Shirokova & McDougall-Covin, 2012). Similarly, the effects of the proportion of international ties, their geographical dispersion and density on the speed of internationalization were insignificant among Czech firms (Musteen et al., 2013; Musteen et al., 2010).

Given the above research findings, it can be concluded that emerging-economy firms mainly use their domestic and international business and personal ties to seek foreign market knowledge and make decisions on market selection. However, they act with more precaution in tie exploitation in facilitating their foreign market entry. Besides, trust (tie acquisition through study experience and common language sharing) and uniqueness of a national culture play an important role in emerging-economy firm reliance on ties. Respectively we put forward the following propositions 4 propositions. First, we formulate a more general proposition emerging from the literature analysis, which is then followed by three more specific propositions related to the initiation of internationalization:

Proposition 1: Exploitation of ties (domestic/international and personal/ business) plays a less relevant role in foreign market entry and is more context- specific among firms from emerging economies than among their developed-economy counterparts; national culture may explain those differences to some extent.

Proposition 2. International social ties are positively related to initiation of the internationalization process

Proposition 3. International social ties are positively related to the foreign market selection in the initial stage of internationalization.

Proposition 4. International social ties have no effect on the post entry performance in a foreign market.

Foreign market development and growth

Findings on network relevance in foreign market development and growth are also mixed. A study conducted in the Czech Republic provided evidence on positive effects

(Musteen et al., 2013). More specifically, it revealed indirect positive effects of international network diversity and tie strength on first international new venture performance (Musteen et al., 2013). In a similar study, a survey of Chinese born-global SMEs revealed mediating effects of guanxi networks in the relationship between outward internationalization orientation and export and profitability growth (Zhou, Wu, & Luo, 2007). Informal social ties were also found to mediate the relationship between inward internationalization orientation and export growth. A case study of Brazilian firms showed that networks contribute to new competence development and transformations in an entrepreneur's attitudes and vision, which in turn leads to enhanced international performance of a firm (Amal & Rocha Freitag Filho, 2010). A study of Chilean SMEs revealed that higher levels of networking are positively associated with the choice of a higher commitment mode of foreign operations (Dimitratos, Amorós, Etchebarne, & Felzensztein, 2014).

Conversely, extensive reliance on personal contacts was found to hinder the performance of the first international venture, while effects of language commonality on it were not significant (Musteen et al., 2010). The indirect effect of the network density on new venture performance was found insignificant (Musteen et al., 2013). A study of Chinese firms showed that networks were not associated with superior internationalization performance (Ciravegna et al., 2014) and their effects on export share were insignificant (Naudé & Rossouw, 2010).

The role of inter-firm networks in internationalization was found to decrease over time, which underlines their higher relevance in foreign market entry rather than development (Manolova et al., 2010). A case study of Indian firms showed that the initial social capital obtained through network ties does not necessarily contribute to international growth of a firm, as over time it depreciates (Prashantham & Dhanaraj, 2010). Respectively the authors argue that international growth necessitates dynamic social capital.

Given the above findings, we conclude that networks (domestic/international and personal/business) play a more relevant role in foreign market selection and entry rather than in their consolidation.

Proposition 5: Exploitation of ties (domestic/international and personal/business) plays a less relevant role in foreign market growth among firms from emerging economies than among their developed-economy counterparts.

Furthermore, in the light of the above discussion, existing social ties developed during the pre-internationalization stage or even in the early stage of internationalization may play a negative role, if the EE firms decide to make them a main focus and springboard of internationalization, i.e. to exploit them at the expense of further entrepreneurial network building and exploration. We coin this phenomenon as "liability of the early focus on the existing social ties", which at the beginning generates a promise of success, but in fact, from a more long term perspective, it is likely to direct EE firms to sub-optimal opportunities and to preclude them from further exploration and experimentation leading to a higher quality networks and opportunities. Our argument is based on the exploration-exploitation trade-off widely discussed in the organization and innovation literatures (March, 1991). Thus, we put forward three additional propositions, which unpack the liability effects of the early social capital on internationalization performance.

Proposition 6. Focus on existing social ties, available to the firm during the early stage of internationalization, is negatively related to internationalization speed.

Proposition 7. Focus on the existing social ties, available to the firm during the early stage of internationalization, is negatively related to performance in foreign markets.

Proposition 8. Focus on the existing social ties, available to the firm during the early stage of internationalization, is negatively related to the foreign market diversity.

CONCLUSION

The article reviewed existing empirical literature on the internationalization of INVs and SMEs from emerging economies, which primarily or to a large extent, employed a network perspective. It found that the published articles more often relied on social network theories than Industrial Purchasing and Marketing framework developed by the Nordic research community (Håkansson 1982). This can be explained by the fact that the latter framework was developed for large organizations dealing in a business to business sector and relatively highly concentrated industries, while most of the focus our review was on INVs and SMEs, which more often rely on social networks and attempts to transform them into viable business relationships or use them as a stepping stone to penetrate inter-connected networks.

The article generated interesting findings and pointed out research issues, which, to be sure, require further research. Especially, more research is needed to understand both positive and negative effects of social ties on various aspects of internationalization performance, in particular accounting for different challenges EE firms face in creating and exploiting its social capital at different stages of internationalization process. Overall, it seems that this research field offers many opportunities for contributions, in particular, given that the field lacks research on internationalization of firms on a number of countries, industries and different levels of development among the countries, falling under the emerging economy category.

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