



# Building international entrepreneurial virtual networks in cyberspace

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## ARTICLE INFO

### Keywords:

Web  
Social network sites  
Embeddedness  
International entrepreneurship  
Networks

## ABSTRACT

We examine how software international entrepreneurs in Iceland use online social network sites to develop and harness their network relationships. To study these relationships, we use a combination of participant observation on LinkedIn and open ended face-to-face interviews. The framework for this study is based on resource-based view, networks and international entrepreneurship theories. We found that entrepreneurs with the largest networks use the online social network to demonstrate their network strength and to identify opportunities to bridge relationships. Our contribution illustrates how entrepreneurs acquire resources to internationalize through online social capital formation.

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## 1. Introduction

Individuals inherit family relationships at birth but subsequently begin to develop their own network of relationships. One aspect of this relationship that we are specifically interested in is the entrepreneur's ability to construct and enhance a network of relationships. This is affected by various factors which includes social background (Anderson & Miller, 2002), institutional development (Kiss & Danis, 2008), social capital (Batjargal, 2003) and mindset (Freeman & Cavusgil, 2007). The focus of this paper is on new social networking tools on the web and how international entrepreneurs use them to develop network relationships.

One form of network relationship is the weak tie which researchers have recognized as important in the internationalization process of new ventures (Komulainen, Mainela, & Tahtinen, 2006; Sharma & Blomstermo, 2003). Internationalization requires more weak relationships because a foreign contact is less likely to be or develop into a strong relationship as the domestic contact (Duque, Shrum, Barriga, & Henriquez, 2009). Most studies on ties and entrepreneurs, however, have focused on ties with relatively high trust level which are referred to as embedded ties (Hite & Hesterly, 2001; Uzzi, 1997) or portfolios of weak and strong ties (Ozcan & Eisenhardt, 2009).

We study the mix of strong and weak ties by interviewing international entrepreneurs and by observing their large network of online relationships. These ties are often counted in hundreds

and reflect the international entrepreneurs' "wide" search for solutions across borders rather than "deep" information within local relationships. The questions addressed are: How can we assess these large networks? Are they a usable tool in venturing, often numbering hundreds of contacts? Do these much larger networks have a particular role in the entrepreneur's venture?

Indeed, the web provides users with new tools to build relationships thus providing the opportunity for individuals to have a large number of relationships (Ellison, Steinfeld, & Lampe, 2011). Although scholars have recognized the potential to improve networking by using web-based communication technologies, this field remains underexploited (Lewis, Kaufman, Gonzalez, Wimmer, & Christakis, 2008). The web has transformed "community" and social capital and made them less dependent on physical space (Wellman, 2001). Web-based services, allow individuals to (1) create a public or semi-public profile within a bounded system, (2) convey a list of other users with whom they share a connection, and (3) view and traverse their list of connections and those made by others within the system (Boyd & Ellison, 2007).

Collaboration is particularly important in small, open economies (Chetty & Campbell-Hunt, 2003) especially in a country the size of Iceland. The fact that social networks on the Internet are used more widely in Iceland<sup>2</sup> than anywhere else in the world confirms this need for collaboration. International entrepreneurs in Iceland are therefore actively using the online social networking, LinkedIn, in their business activities. Since they have less chance of achieving economies of scale within their small domestic market (Kutschker, Baurle, & Schmid, 1997), these firms are forced to go global at early stages of their development. Since these firms are

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<sup>2</sup> <http://www.washingtonpost.com/wp-dyn/content/article/2009/08/28/AR2009082800330.html>.

relatively distant from markets, traditional methods of international networking, such as international conferences are costly. Iceland therefore provides an interesting context to study the phenomenon of how entrepreneurs use the web to develop their network of relationships. As the potential for new web technology to develop business relationships advances, online social networks have become increasingly important for international entrepreneurs. Despite its importance online social networks relating to international entrepreneurial firms has rarely been studied. This paper addresses a gap in the literature by examining the influences of an online social network on international entrepreneurs. It uses resource-based view, networks and international entrepreneurship theories as a framework. It assesses how international entrepreneurs use LinkedIn to develop and harness their relationships in their internationalization activities. The study involves 12 entrepreneurial firms in the software industry in Iceland.

The paper is divided into four sections. First, it reviews the relevant literature which frames the investigation. Second, it describes the research methodology. Third, it discusses the case studies. Finally, the paper ends with conclusion, limitations and implications.

## 2. A review of related literature on the resource-based view, networks and international entrepreneurship

### 2.1. Resource-based view

Instead of looking at market characteristics to infer which resources are required by a firm to succeed, the focus might be on the resources the firm possesses (Wernerfelt, 1984). This approach is referred to as the resource-based view (RBV) which is based on the assumption that firms possess unique bundles of resources that can be combined into capabilities and be exploited to achieve sustainable competitive advantage (Barney, 1997; Dierickx & Cool, 1989). These resources are firm specific, both tangible and intangible and include physical, social, technological, reputational and financial resources, which are often costly to imitate or substitute (Barney, 1991). The RBV considers resources as internal because they reside within the firm. The RBV represents a departure from the economic view of perfect markets for resources and environmental determinism, whereby firms compete for resources that are used in order to achieve best fit with the prevailing environmental conditions and to achieve superior performance. Instead, the RBV recognizes that firms are heterogeneous as regards their resource base, that some resources are not readily tradable, and that there are multiple routes to competitive advantage (Barney, 1991; Nelson, 1991; Peteraf, 1993).

Using RBV as a framework the existing literature has shown that successful internationalizing entrepreneurs tend to have top management skills such as knowledge and networks to internationalize (Freeman & Cavusgil, 2007; Oviatt & McDougall, 2005). Although international entrepreneurs require resources such as capital, skills and labor to start or expand their business activities they often lack these critical resources. Some of these resources themselves they tend to acquire additional resources through their external relationships in order to internationalize (Agndal & Chetty, 2007; Hoang & Antonic, 2003; Maurer & Ebers, 2006). When partners interact with each other they acquire and develop new knowledge which is considered to be a knowledge based resource. This new knowledge helps them to recognize new opportunities that others cannot see (Agndal & Chetty, 2007).

### 2.2. Networks

Networks are important to help identify opportunities during the firm's internationalization process (Johanson & Vahlne, 2009).

Our use of the term network is consistent with Chetty and Agndal (2007) who refer to it as interconnected relationships between different agents. Since we are focusing on entrepreneurs, we define network relationships as dyadic relationships between two agents, particularly through social relationships. The degree to which individuals are enmeshed in the network is referred to as embeddedness (Granovetter, 1985). The embeddedness, or level of strong and weak ties in networks, can enhance the ability of entrepreneurs to acquire resources (Batjargal, 2003). Granovetter (1973) suggests that the strength of the tie is a "combination of the amount of time, the emotional intensity, the intimacy and the reciprocal services that characterize the tie" (p. 1361). These ties are either weak or strong.

Strong network ties have high levels of social relationship or personal interaction with high frequency (Granovetter, 1982). Members are motivated to assist and to protect actors who are in vulnerable positions (Hite & Hesterly, 2001). Weak ties, however, are based on less personal interaction among members of the network but may provide strategic advantage for resource availability (Granovetter, 1973). Aldrich, Elam, and Reese (1996) label network ties as "friends, acquaintances and strangers", reflecting strong, weak or market ties. Weak ties act as "local bridges" to parts of the network which would otherwise be disconnected (Krackhardt, 1992) and they present new opportunities (Burt, 1992). Individuals who transfer expectations and opportunities from existing relationships into new relationships are referred to by Uzzi (1997) as gobetweeners.

When new electronic communication was first introduced, researchers recognized its potential for stimulating bridging social capital (Lin, 1999). More recently researchers have emphasized the importance of weak ties that are formed through online social networking sites which act as bridging social capital (Ellison et al., 2011). Since social networking sites provide the opportunity to maintain weak ties easily and at low cost they increase the number of weak ties that are formed (Donath & Boyd, 2004). More specifically, the web has become a persistent means for conducting international trade especially in industrialized countries (Pitt, van der Merwe, & Berthon, 2006). Consequently, researchers have recognized that electronic communication plays a vital part in bridging emotionally distant and geographically diverse actors (Kavanaugh, Reese, Carroll, & Rosson, 2005; Wellman, 2001). Creating an effective virtual system lowers co-ordination costs and increases timely responses for an effective social system of exchange (Lee, 2009).

### 2.3. International entrepreneurship and networks

We define international entrepreneurship as follows: "... the discovery, enactment, evaluation, and exploitation of opportunities-across national borders-to create future goods and services" (Oviatt & McDougall, 2005, p. 540). International entrepreneurship theory emphasizes the dynamic and chaotic aspects of early internationalization where skills, experience, and social networks play a dominant role (Keupp & Gassmann, 2009; McDougall, Shane, & Oviatt, 1994; Sapienza, Autio, George, & Zahra, 2006). International entrepreneurship research has recently been adding a geographic dimension when studying the relationships of entrepreneurs in small high tech firms in international markets (Coviello, 2006; Harris & Wheeler, 2005; Komulainen et al., 2006; Ojala, 2009; Sharma & Blomstermo, 2003). The social networks that these entrepreneurs develop internationally are essential for the growth of these firms.

Consequently, international entrepreneurship research focuses on how social networks enable the international entrepreneurs to acquire and mobilize resources for early internationalization. The outcome of successful contacts which the entrepreneurs hold is

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