



International exposure through network relationships: Implications for new venture internationalization

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ABSTRACT

Drawing on the network literature and attention-based view, we examine the extent to which international exposure from key informal (geographically proximate firms) and formal (alliance partners) network relationships impacts new venture internationalization. Our findings are three-fold. First, international exposure from both types of network relationships positively influence new venture internationalization, and serve as substitutes for each other. Second, the effects differ based on the age of the venture. While older ventures benefit more from international exposure from alliance partners, younger ventures are more influenced by international exposure from geographically proximate firms. Third, our analysis confirms a three-way interactive effect of age and international exposure from informal and formal relationships on new venture internationalization.

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1. Executive summary

The importance of networking in the international context continues to escalate due to the increasing interdependencies between firms, countries and markets (Dunning, 1995). For new ventures that battle liabilities of foreignness and newness concurrently, the relevancy of networks is magnified even further (Johanson and Vahlne, 2009). Despite the growing literature stream on networks, there are three relatively ignored aspects of network relationships that could have significant implications for internationalizing ventures. First, although pioneering research on entrepreneurial networks has long recognized the differential benefits of informal versus formal networks (Birley, 1985), the implications of network relationship formality for internationalization remain understudied. Second, limited research has been conducted that moves beyond the extent of network relationships to alternatively consider the ability of those relationships to expose a venture to internationalization. International exposure is broadly defined as the extent to which a venture's management team comes into contact with international knowledge through prior experiences or network relationships. Third, it is unclear how the reliance on various network relationships potentially differs among younger and older ventures, despite the fact that the management literature frequently recognizes the evolutionary nature of ventures (e.g., Katz and Kahn, 1978; Lippitt and Schmidt, 1967; Quinn and Cameron, 1983; Scott, 1971).

The purpose of this paper is to respond to these gaps in the literature. We explore if international exposure through informal and formal network relationships positively impacts the internationalization of new ventures, and if so, whether or not the relationship differs according to the age of the venture. The theoretical foundation for our research is the network literature supplemented by the attention-based view.

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Our analyses of 448 U.S.-based, high-growth ventures in high-technology industries offer a series of findings. First, international exposures from both formal (alliance partners) and informal (geographically proximate firms) network relationships positively influence new venture internationalization. Interestingly, these relationships also serve as substitutes for each other. Second, the effects vary based on the age of the venture. While international exposure from alliance partners impacted older ventures more in terms of internationalization, younger ventures were more influenced by international exposure from geographically proximate firms. Third, our analysis confirms the existence of a three-way interactive effect of the international exposure from geographically proximate firms, international exposure from alliance partners, and age on new venture internationalization. The effects on internationalization were observed even after controlling for ventures' own international experience whose effects on venture internationalization were suggested in prior research.

The significance of our research is multifaceted. First, in response to multiple calls (Coviello and Munro, 1997; Fernhaber et al., 2009), this research extends the international entrepreneurship literature by investigating the varying effects of international exposure from network relationships at different ages to explain new venture internationalization. While our findings are consistent with prior studies on internationalization via networks (Alvarez and Barney, 2005; Gulati, 1999; Johanson and Vahlne, 2006, 2009), results on the differential degrees of reliance on networks for venture internationalization are intriguing. Second, our research sheds light on the general international business literature by recognizing key networking antecedents of internationalization. By examining the impact of firm age on the relationship between international exposure from network relationships and internationalization, we highlight how new ventures may potentially differ from existing firms in their internationalization efforts. Third, our study contributes to the strategy literature by broadening the application of the attention-based view to new ventures. Finally, in terms of implications for managers, our research shows that ventures aiming to internationalize can and should take advantage of their networking resources from both geographically approximate firms and alliance partners. Ventures should strategically locate in more internationalized community and build relationships with more internationalized partners in order to enhance their exposure to international businesses.

2. Introduction

The importance of networking in the international context continues to escalate due to the increasing interdependencies among firms, countries and markets (Dunning, 1995). Emphasizing the role of networks in providing valuable international exposure for firms, Johanson and Vahlne (2009: 1411) wrote that “markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns.” For new ventures pursuing internationalization, the relevancy of networks is magnified even further as these ventures battle the liabilities of foreignness and newness concurrently. Network relationships help new ventures offset the lack of a proven track record and the limited legitimacy associated with being new (Shane and Cable, 2002). At the same time, network relationships can aid in new venture internationalization by providing connections and opportunities in foreign markets (Coviello and Munro, 1995, 1997; Ellis, 2011; Johanson and Vahlne, 2003), the access to needed resources to internationalize (Zahra et al., 2000), and key information necessary to enter and compete abroad (Sharma and Blomstermo, 2003). The criticality of networks for new venture internationalization is further evidenced by the growing research stream and calls for research devoted to this topic (e.g. Coviello and Munro, 1997; Hara and Kanai, 1994; Sharma and Blomstermo, 2003).

Despite the insight being offered by this rapidly growing research stream, there are three relatively ignored aspects of network relationships that could have significant implications for internationalizing new ventures. First, although pioneering research on entrepreneurial networks has long recognized the differential benefits of informal versus formal networks (Birley, 1985), the implications of network relationship formality for internationalization have not yet been explored. This is rather surprising as learning has been found to be largely dependent upon the informal versus formal mechanisms that exist (Almeida et al., 2003; Anand et al., 2002).

Second, only a limited number of studies consider the ability of existing network relationships to expose a new venture to internationalization. For the purposes of this research, international exposure is broadly defined as the extent to which a venture's management team comes into contact with international knowledge through prior experiences or network relationships. Such a definition builds upon the recognition by Lee and Park (2008) that international exposure captures executives' *prior* experiences, knowledge and relational capital associated with international environments, but also takes into account the role of *on-going* international exposure through network relationships (Bruneel et al., 2010). Numerous studies have linked the international exposure gained through the top management team's prior foreign work experience and/or education to a greater propensity of the new venture to internationalize (e.g., Bloodgood et al., 1996; Carpenter et al., 2003; Reuber and Fischer, 1997; Sapienza et al., 2006). Yet, the impact of the on-going international exposure through network relationships tends to be overlooked. Given that the international environment is constantly changing and much of the knowledge gleaned prior to the start of the venture may become outdated over time, a need exists to examine the impact of international exposure via network relationships.

Third, the management literature frequently recognizes the evolutionary nature of new ventures given the amount of change and growth that can occur in the early years of an organization (e.g., Katz and Kahn, 1978; Lippitt and Schmidt, 1967; Quinn and Cameron, 1983; Scott, 1971). This is one of the differentiating factors between international new ventures and multinational corporations. Yet it is unclear how the reliance on various network relationships potentially varies between younger and older ventures.

To fill these research gaps, we examine *if international exposure from informal and formal networks positively impacts the internationalization of new ventures, and if so, whether or not the relationships differ according to the age of the venture.* The

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