Journal of Business Research 82 (2018) 230–245

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

The networking behavior of Indian executives under environmental uncertainty abroad: An exploratory analysis

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ARTICLE INFO

Keywords:
Internationalization
Environmental uncertainty
Networking
Profile deviation
Ideal profiles

ABSTRACT

Focused networking has become a significant source of effective internationalization. Prior research has shown that networking can improve the internationalization performance of companies, as local contacts provide access to relevant information that is typically unavailable otherwise. Several factors, such as the level of environmental uncertainty faced abroad, can significantly affect the optimal networking of senior executives in foreign markets. However, there is a lack of research about how environmental uncertainty affects ideal networking behavior. In this study, we examined the impact of the fit between environmental uncertainty and the networking behavior of Indian executives on the internationalization performance of their companies. We collected data from 197 Indian executives with significant experience in European and other markets to test our model. We examined five potential environmental uncertainty factors, including the FDI-related environment, the macroeconomic environment, the material and infrastructure environment, the consumption environment and the competitive environment, as well as four networking behavior dimensions, including proactivity, commitment, strategy and tie strength. The results from a profile deviation analysis reveal that ideal networking behavior profiles exist for different types and levels of environmental uncertainty. In summary, the findings from the study provide useful guidelines for Indian and other executives about how to network abroad given different types and levels of environmental uncertainty, and they offer new perspectives to improve the internationalization performance of these executives.

1. Introduction

The internationalization of companies from Asia is becoming increasingly more common in today's global economy. A world investment report (UNCTAD, 2015) found that the total foreign direct investment (FDI) outflows from Asia (East and South-East Asia, South Asia and West Asia) were US$ 398 billion, which was approximately 30% of the world's FDI outflow. Additionally, Indian MNCs increased their FDI outflow by ten times to $10 billion (UNCTAD, 2015). According to a European Commission report (EC, 2015), trade between the European Union (EU) and India, for example, increased significantly, from €28.6 billion in 2003 to €77.6 billion in 2015, and the outflow from India amounted to €39.4 billion. These statistics indicate the growing importance of Indian companies in other markets.

The internationalization of companies from emerging markets such as India provides a unique set of challenges (Li, Miller, & Eden, 2012; Ramamurti, 2012), compared to firms from the developed market (Ramamurti & Singh, 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005). In addition to their countries of origin and weak brand recognition, emerging market companies also face challenges due to weak formal institutions at home, as well as a late entry into the international market (Luo & Tung, 2007). These deficiencies create different levels of uncertainty and other risks with their internationalization activities (Henisz & Zelner, 2010; Liu, Gao, Lu, & Lioliou, 2016). Until now, many questions about how executives from emerging markets have attempted to reduce various types of environmental uncertainty are still not fully answered.

In this context, it is widely accepted that networking enables foreign firms to better deal with environmental uncertainty (Agndal & Chetty, 2007; Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Galkina & Chetty, 2015). This ability applies, in particular, for firms from emerging markets (Khanna & Palepu, 2000; Warren, Dunfee, & Li, 2004). More specifically, emerging market firms broaden their knowledge and competencies by building local networks of business relationships with

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http://dx.doi.org/10.1016/j.jbusres.2017.09.036
Received 24 September 2016; Received in revised form 16 September 2017; Accepted 19 September 2017

resourceful and technologically advanced foreign firms to succeed in the international market (Adler & Kwon, 2002; Li, Poppo, & Zhou, 2010). For example, the relationships of Russia's *Gazprom* and Malaysia's *Petronas* with international oil corporations helped them to learn key business aspects of international expansion. Similarly, the alliance of China's *BYD* with Daimler helped BYD to obtain know-how about the electric vehicle market, and *Tata*'s relationship with Bosch (Germany) helped Tata to source high-end technology.

However, interestingly, in addition to improving internationalization performance, networks can also hamper internationalization activities (Adler & Kwon, 2002; Gulati, Nohria, & Zaheer, 2000; Zain & Ng, 2006), although the exact reason of this obstructive nature of networks remains unclear (Andersen, 2006). Therefore, the findings provide contradictory results about the level of networking that should be used and how to manage different types of environmental uncertainty (Beckman, Haunschild, & Phillips, 2004; Laufs & Schwens, 2014; Musteen, Datta, & Butts, 2014). Furthermore, empirical evidence explaining the role of networks in the internationalization process has remained scarce (Musteen et al., 2014; Raza & Majid, 2016). More specifically, the literature has remained silent on the networking activities required for different types and levels of environmental uncertainty. As a result, there is a need to think beyond a one-size-fits-all concept of networking (Inkpen & Tsang, 2005, p. 161), especially considering the network to be a dynamic system requiring modulation at different levels (Slotte-Kock & Coviello, 2010). However, little attention has been devoted to the exact mechanism of development of environment-specific networking behavior. For example, the process of managing formal and informal or weak and strong network relationships (Hakansson, Ford, Gadde, Snehota, & Waluszewski, 2009; Thornton, Henneberg, & Naudé, 2013; Uzzi, 1996) to fine-tune them with environmental uncertainty (Kotabe, Jiang, & Murray, 2011) requires better explanation. In our study, we aim to contribute to this stream of research and to explore how executives from an emerging market (we chose India to represent emerging markets for several reasons, which we will explain subsequently) manage environmental uncertainty by developing their networking activities and subsequent networking behaviors. Therefore, we aim to explore following research questions.

1. *How does environmental uncertainty affect firms' networking behavior approaches*?
2. *What is the impact of networking behavior on firms' internationalization performance*?
3. *Is there any difference between the networking behavior approaches of high-performing and low-performing companies*?

The remainder of this paper is therefore organized as follows: First, we explore the relevant literature on the role of networks in managing environmental uncertainty during internationalization processes. Based on the literature review, we then develop our research model and the respective hypotheses. As the next step, we test our hypotheses using data on the networking behavior of 197 Indian senior executives with significant internationalization experience in Europe and other markets. Finally, we discuss our findings and propose implications for academics and executives.

2. Theoretical background

Environmental uncertainty can be explained as turbulence or a degree of change in customer markets, consumer preferences, technologies or competitive intensity (Kohli & Jaworski, 1990). The performance of companies in international markets depends on how well firms can manage market turbulence (Heide & Weiss, 1995; Ibeh, 2003) because environmental uncertainties can either hasten or slow the pace of internationalization (Johanson & Vahlne, 2009; Oviatt, Shrader, & McDougall, 2004). Prior research has identified that the levels of various environmental uncertainties in target countries are among the key factors determining the performance of emerging market companies (Brouthers, Brouthers, & Werner, 2003; Canabal & White, 2008; De Beule, Elia, & Piscitello, 2014). Therefore, the alignment or fit between strategic posture and environmental uncertainties is required in a given target market to attain higher performance and growth (Dimitratos, Amorós, Etchebarne, & Felzensztein, 2014; Figueira-de-Lemos, Johanson, & Vahlne, 2011).

Emerging market companies face higher levels of uncertainty when venturing into developed countries (Li et al., 2012; Ramamurti, 2012; Yildiz, 2014) due to weak home institutions (Khanna & Palepu, 2006) and late entry into the international market (Luo & Tung, 2007). Moreover, country of origin effects, such as inferior quality products, as well as poor environmental practices and weak brand recognition, further aggravate the situation (Ahmed & d'Astous, 2003; Verlegh & Steenkamp, 1999). This effect is so intense that it can create negative perceptions even for an established brand, for example, a Gucci product with a '*Made in China*' label. These firms develop competencies to work in weak and challenging institutional environments effectively (Ramamurti, 2009; Van Assche, 2011). However, these competencies might not work in developed countries due to different sets of institutional environments (Cuervo-Cazurra & Genc, 2008; Gaur & Kumar, 2010).

Companies from emerging countries such as India internationalize utilizing alternative paths, compared to Western multinationals (Luo & Tung, 2007; Nayir & Vaiman, 2012). Existing theories, such as the Uppsala Internationalization Model (Johansson & Vahlne, 1977) and the Ownership-Location-Internationalization (OLI) (Dunning, 1979), are not able to explain these alternative internationalization paths (De Beule et al., 2014; Dunning, 2009; Li et al., 2012). For example, the Uppsala Model states that firms pursue internationalization activities in stages, with the first activities in regions relatively closer to the home country. However, *Haier*, a Chinese white goods company, started its internationalization activities in the developed market within ten years, in contrast to the Japanese firm *Matsushita*, which took thirty years for international expansion. Other similar examples might include the rapid expansion of *Huawei*, a Chinese telecommunication company, *Embraer* and *Marcopolo*, Brazilian aircraft and bus manufacturing companies, *CEMEX*, a Mexican cement company, *Acer*, *Ispat International*, *Li & Fung*, *Hong Leong Group*, *Len*ovo, and *Samsung Electronics*. These firms might not possess ownership and technological advantages as stipulated by the OLI framework but might rather amass them through strategic alliances, acquisitions and networking activities (Johanson & Vahlne, 1990, p.20). This difference might explain the success of the Mexico-based company *Mabe* (strategic alliance with GE), as well as India based *Dr. Reddy's Pharma* (partnership with GlaxoSmithKline) and *Ranbaxy* (alliance with Eli Lilly). Acquisitions also help emerging market firms to bridge gaps in knowledge and technology more rapidly. For example, *Suzlon* (Indian wind turbine firm) gained significant market knowledge through its relationship with Studwind (Germany), which enabled Suzlon to make several successful acquisitions, such as Hansen (Belgium), RE Power (Germany) and Big Sky (USA). Other similar examples could include *Huawei*'s acquisition of the US firms OptiMight and Cognigine, as well as several acquisitions by the Indian IT firms *Wipro* and *TCS*. Moreover, the author's personal experiences with Chinese companies, such as *Heilongjiang Railways Signalling Technology* and *ZTE Corporations*, as well as *Vinyas IT* and *SatSure Pvt. Ltd.* from India, provide additional insights into the relevance of relationships in managing environmental uncertainty during internationalization processes.

Recently, vital importance has been placed on the role of networks in explaining the internationalization of emerging market firms (Ellis, 2011; Johanson & Vahlne, 2009; Wei, Zheng, Liu, & Lu, 2014). The emergence of Indian pharmaceutical companies, such as *Dr. Reddy's* and *Ranbaxy*, in highly regulated markets, such as the USA and Europe, utilizing networking activities (Bower & Sulej, 2006) has provided supporting evidence. The strategic alliance of *Tata Motors* with Fiat (Athreye, Tuncay-Celikel, & Ujjual, 2014) might also shed light on the