



## International opportunity networks

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### ABSTRACT

Opportunity seeking has become increasingly important for explaining firm internationalization, but our understanding of how opportunity is mediated within international networks is limited. This study probes the concept of network-mediated opportunities and attempts to identify what drives a firm's reception of new international opportunities. Based on the notion of opportunity in the entrepreneurship literature with the network view on internationalization, we bring together the concepts of relationships, networks, capabilities, and opportunity in a structural model, where we hypothesize that network-mediated opportunity is dependent on networking capability. This, in turn, is positively influenced by network closure and relational embeddedness. We test the model on a sample of 200 Chinese firms. The analysis partly supports the model, as we find that networking capability is a mediating factor between relational embeddedness and network-mediated opportunity, but does not mediate the relationship between network closure and network-mediated opportunity; on the other hand, we find a direct relationship between network closure and network-mediated opportunity. The paper ends with a discussion of the results and suggestions for future research.

### 1. Introduction

Opportunity seeking has emerged over the last decades as the dominant key assumption in internationalization theories. For instance, both Johanson and Vahlne (2009) and Oviatt and McDougall (1994, 2005) highlight identification of opportunities as driving factors in firm internationalization. Meanwhile, these seminal papers share the same conceptual idea, namely that a firm's network determines the acquisition of knowledge and capabilities, which, in turn, is assumed to influence how firms develop international opportunities. Over the last 20 years, network theory has emerged to explain internationalization (cf. Johanson & Vahlne, 2009), but despite the growing body of empirical studies on either networks or opportunities in firm internationalization, we contend that three research gaps remain.

*First*, with few exceptions (e.g. Coviello, 2006), there is a lack of studies on network structures and their impact on internationalization (see the literature review in Hohenthal, Johanson, & Johanson, 2014). The majority of studies either take the network as given, without analyzing its configuration and structure, and study how trust and knowledge are developed, or try to understand processes unfolding in the network but are missing discussions of the network's structure. There are some studies on network position and outsidership (e.g.

Almodovar & Rugman, 2015), which are also rare. It becomes apparent that the literature has been silent on how the firm's specific network structure influences development of networking capabilities and opportunities. This is a critical gap, as these are concepts that have attracted extensive attention from business and management scholars over the last decade (see seminal articles by Burt, 1992a; Shane & Venkataraman, 2000; Teece, Pisano, & Shuen, 1997) but have not yet been combined in a study on internationalization.

*Second*, studies on opportunities and internationalization have mostly been in the form of anecdotal evidence and case studies. Although the concept of opportunity is well-represented in contemporary international entrepreneurship literature (Mainela, Puhakka, & Servais, 2014), most extant knowledge comes from conceptual (Hohenthal, Johanson, & Johanson, 2003) or qualitative research (Chandra, Styles, & Wilkinson, 2012; Muzychenko & Liesch, 2015). The few existing studies on international opportunity have produced rich stories, new insights, and a platform from which to conceptualize, but the literature says little about causalities and does not generalize about how opportunities are identified.

*Third*, several studies (e.g., Sarasvathy, Kumar, York, & Bhagavatula, 2014) argue that identifying opportunities is a driving force in internationalization, and some studies observe and conceptualize the role of

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networks in identifying opportunity in firm internationalization (Blankenburg Holm, Johanson, & Kao, 2015; Galkina & Chetty, 2015; Kontinen & Ojala, 2011; Vasilchenko & Morrish, 2011; Zaeafarian, Eng, & Tasavori, 2016). But we lack systematic quantitative research combining the study of networks and opportunities. This lack is especially felt in the study of how firms develop capabilities and knowledge, which traditionally has been treated as the main driver in the internationalization process (Johanson & Vahlne, 2009; Sarasvathy et al., 2014).

Accordingly, we address these gaps by developing a structural model, containing three hypotheses, where the network structure is proposed to influence the firm's capabilities to act in international networks, which, in turn, exposes the firm to opportunities mediated by the network. We test the model on a sample of 200 Chinese firms. Network-mediated opportunity is a critical concept, as it captures the reception of knowledge about new business and technological opportunities from the network. It does not reflect the extent to which the firm cooperates and interacts with other firms, nor what strategy it pursues, but it does reflect the knowledge and information a firm receives either from its interactions with other firms or from its exposure to the network more generally. In addition, we argue that by having networking capabilities, which are based on experience from acting in international networks, the firm is likely to be more exposed to opportunities mediated by the network. Finally, we contend that networking capability is influenced by the firm's international network structure. The network structure is divided into two concepts, where relational embeddedness captures the quality of the firm's direct relationships, while network closure reflects the configuration of the network beyond the direct relationships. Based on this conceptual reasoning and the examined model, this study makes the following contributions to the network literature on internationalization.

First, as many studies view opportunity seeking as the key assumption when building internationalization (Johanson & Vahlne, 2009; Oviatt & McDougall, 1994), identifying opportunities is a prerequisite for a firm's continued growth and expansion. A firm unable to identify international opportunities will have difficulty growing. Our study develops a deeper understanding of how firms identify international opportunity in networks, where networking capabilities is a critical variable, leading to network-mediated opportunity in the network (Möller, 2006; Möller & Törrönen, 2003; Ritter & Gemünden, 2003, 2004).

Second, we address the impact of network structures on internationalization, which has seldom been done before, and we link two structural characteristics of networks – namely network closure and relational embeddedness – to networking capabilities. As most firms are part of business networks, international growth tends to take place in this context. Several studies demonstrate that the network is a mechanism for the acquisition of knowledge (Evers & Knight, 2008; Loane & Bell, 2006), which is not only important for existing relationships, but also critical for further international expansion (Blomstermo, Eriksson, Lindstrand, & Sharma, 2004; Ellis, 2000; Hohenthal et al., 2014). This study takes an additional step and provides knowledge about how different networks influence capability development. We anchor the theoretical framework in a combination of the notion of opportunity in the entrepreneurship literature and the network literature, particularly the studies where internationalization has been explained by arguing that relationship and network are key concepts. In line with Johanson and Mattsson (1988), we suggest that networks do not follow the borders of country markets, but are international in nature.

We begin by presenting the theoretical foundation. We review how the literature has approached the international opportunity concept and how opportunities are mediated in the network. The subsequent section presents how the networks have been analyzed in the internationalization literature, and after this we discuss network structure. The following section goes through the building blocks of the structural

model, which consists of three hypotheses explaining network-mediated opportunity in international networks. This is followed by a section on methods, and then we present and discuss the findings. Finally, we present implications for theory and practice, identify promising research areas for the future, and discuss the limitations of the study.

## 2. Theoretical framework

### 2.1. International opportunity

Over the last few decades, a shift has taken place in the approach to firm internationalization. The traditional assumption, manifested both in the Uppsala school and internalization theory, is that risk and uncertainty hamper further internationalization, and a firm will only make additional commitments to foreign markets after those risks and uncertainties have been reduced (Johanson & Vahlne, 1977). However, subsequent research instead observed that firms tend to be resistant to uncertainty and are willing to take risks in order to identify new opportunities. It seems that internationalization strategy is not merely uncertainty-reducing, but also opportunity-seeking (Oviatt & McDougall, 1994).

Opportunities usually come from either exchanges of resources or from new combinations of resources (Eckhardt & Shane, 2003; Mainela et al., 2014), but the term “opportunity” refers to any new way of using resources that transforms the existing ends and/or means (Eckhardt & Shane, 2003) and leads to increased profits and value. Consequently, it seems that an opportunity can be defined as something new or novel. For SME exports and sales (Ellis, 2011), the main drivers of opportunity are new products and technological innovations rather than new ventures in foreign markets. Some researchers consider opportunities to be objective and accessible to any firm (Kirzner, 1997), while others think of opportunity as contextual, subjective and perceptual (Alvarez & Barney, 2007). The former view comes from a traditional market perspective and argues that any given opportunity is a consequence of an imbalance between supply and demand, and that finding that opportunity is a matter of being alert. The latter view argues that no firm would be able to find all opportunities because opportunities are contextually based. In a network perspective, such an approach implies that, because each firm's network is unique, the configuration of that specific network and the activities performed within it determine not only how the firm develops opportunities, but also what types of opportunities the firm will be able to develop.

In addition, even though a firm's knowledge is a critical element in most conceptualizations of opportunity, some opportunities seem to result from chance or accidents (Chandra, Styles, & Wilkinson, 2009), or luck and surprise (Dew, 2009). Hayek (1945) challenged the implied assumption in contemporary economic models of perfect information, and claimed that opportunities are sometimes discovered through sheer ignorance (Kirzner, 1997). Of course, even after they are identified, opportunities must be developed and put into use, which is a part of process besides identification (Johanson & Johanson, 2006; Vasilchenko & Morrish, 2011). The network view says that opportunity development cannot take place in a vacuum, but rather it happens in a specific context, that is, within the firm's international network (Blankenburg Holm et al., 2015). In line with most conceptualizations of opportunity, a firm's knowledge is the critical element, and a firm with sophisticated knowledge about acting in a network is likely to pursue opportunities in different ways than an outsider firm with limited experience. Thus, we contend that, depending on a firm's network, it is more or less likely to develop the knowledge and capabilities to act in networks, which, in turn, is likely to influence how that firm identifies opportunities in the specific foreign market's network (Johanson & Vahlne, 2009).

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