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The impact of social networks on “Born Globals”

A case of de-internationalisation

ABSTRACT

This paper aims to explore the role and impact of entrepreneurs' social networks on the internationalization of "Born Global" firms, in particular, its de-internationalisation process. The research is based on a case study approach; it is guided by the social constructionist paradigm. It adopts a series of face to face and online interviews longitudinally; an inductive analysis approach was applied to develop the framework. This paper disclosed the impact of the entrepreneur's social networks on a "Born Global" firm's development. It gains useful insights in the relationships management of "Born Global" entrepreneurs and it unveils the negative impacts of social networks and the 'de-internationalisation' process. Finally, it reveals the importance of online social networks and high tech communication and management techniques for "Born Global" entrepreneurs. The most significant contribution of the study is to point out the importance of social networks in studying the internationalization of "Born Globals", in particular, its de-internationalisation process.

Key words: De-internationalization, Born Global, social networks, entrepreneurs, negative impact

INTRODUCTION

Many managers and entrepreneurs, particularly in "knowledge intensive" firms, are seeking international business growth in a more proactive manner than before (Bell et al., 2004, Child and Hsieh, 2014). Since SMEs have limited resources and knowledge, and different managerial styles, the experience and knowledge gained from the study of large corporations cannot be directly adopted and utilized by their smaller counterparts (Calof and Beamish, 1995, Mejri and Umemoto, 2010); The main purpose of this research is to explore networking knowledge and experiences from "Born Global" entrepreneurs who are embedded in their social networks and relationships.

This paper examines the roles of social networks, one of the most important aspects of the internationalization of SMEs. It investigates a "knowledge-intensive" rather than "traditional labour-intensive" firm. A small high-tech firm in the south east of England was selected because of the considerations of methods, time-scale, and resources. The South East England Development Agency (SEEDA) regional economic strategy (SEEDA, 2006), suggests that the South East is aiming to be one of the top 15 most entrepreneurial regions in the world by 2016. However, in 2006, only 3.2% of companies in the South East are actively involved in overseas markets (SEEDA, 2006). The information presented in this study is based on the empirical findings.

In this chapter, firstly, we describe the background of this study, the research problems, and what the study desires to achieve. Then, we critically analyse the existing internationalization theories and research activity in this field. In the "Born Global" start-up process, social networks play

important roles. In order to explore this field, one company was selected as an appropriate case, and the third part highlights the way in which the chosen research strategy was implemented and how the data were analysed. The 4th part analyses the data gathered about the company from multiple sources, and forms the main body of the paper. We move on to discuss the findings and, in the light of previous theories, aims to construct a new conceptual framework for understanding the internationalization of “Born Global” SMEs. We also reflect on the importance as well as the limitations of this study and suggest an agenda for future research.

LITERATURE REVIEW

There are various definitions of internationalisation (Calof and Beamish, 1995, Liesch et al., 2014), one of the most common, by Benito and Welch (Benito and Welch, 1997), being “the process of increasing involvement in international operations”. Internationalisation has been addressed as a topic of study from a variety of approaches. The limitations of the economics-based approach are its over-simplification of the organizational decision-making process and its adopting rational assumptions (Calof and Beamish, 1995). Behaviour-based process theories have been criticised as being too reactive (Autio and Sapienza, 2000) and over-orderly, like “rings in the water” (Madsen and Servais, 1997). They are inefficient in explaining the internationalisation of SMEs, particularly the “Born Global” phenomenon, which refers to a firm’s engagement in international operations from the early days of its establishment (Jones, 1999, Rialp et al., 2005). Network-based theories, which consider the advantages of a network of relationships, provide more multilateral elements than their prior economic- and behaviour-based theories (Johanson and Vahlne, 2003), and can explain the different behaviour of SMEs, which is ignored by the previous approaches mentioned. Yet, as Axelsson & Agndal (2000) point out, even such theories have not considered the importance of personal-level social networks. Even in the limited literature about the influence of social networks on the internationalisation of SMEs, factors impeding internationalisation and the phenomenon of de-internationalisation have been ignored (Chetty. and Campbell-Hunt., 2004, Benito and Welch, 1997).

Current empirical studies about “Born Global” social networks have produced varied and often quite contradictory results due to over-reliance on quantitative methods (O’ Donnell and Cummins, 1999, O’Donnell, 2014). These studies can be further divided into two main categories: those belonging to the rational perspective and those belonging to the embedded perspective. The rational perspective highlights a personal network as a lever which always provides additional resources, whereas the embedded perspective perceives the personal network as both a lever and a plug, as something the entrepreneur is embedded in for better or for worse (Klyver and Schott, 2003). Most of the existing studies adopt a rational perspective, such as for example, social relationships helping entrepreneurs minimize the risks and uncertainty of new markets (Ellis and Pecotich, 2001); social relationships can play a role as mediators and door-openers to new international business relationships, i.e. introduce potential exporters to the international actors (Komulainen et al., 2006) etc. Therefore, a need to research entrepreneurial networking in the internationalisation of SMEs from an embedded perspective occurs.

RESEARCH OBJECTIVES AND QUESTIONS

Previous network studies mostly seem to take a rational perspective. Social relationships are not only a “lever” that affords the entrepreneur with additional and useable resources useable for forthcoming activities (Klyver and Schott, 2003), but also a “plug” that makes start-up for internationalisation less viable. Thus, current propositions of driving forces, enablers and initiators inevitably will incur criticism and challenge. De-internationalization refers to any voluntary or forced actions that reduce a firm's international activities (Benito and Welch, 1997, Vissak and Francioni, 2013). Previous study, such as Komulainen et al.(2006) has discovered the role of social networks at the beginning of internationalization process. We intend to investigate the roles of the social network in initiating not only the internationalization but also the de-internationalisation of a Born Global high-tech firm. This central research question can be broken down into five research sub-questions as follows:

- 1) How does an entrepreneur build his/her social networks in order to initiate the internationalization/de-internationalization process?
- 2) How does an entrepreneur manage his/her social networks for the initiation of internationalization/de-internationalisation?
- 3) How do social networks influence an entrepreneur’s information process regarding international business opportunities?
- 4) How do social networks influence an entrepreneur’s information processes acquiring potential international business partners?
- 5) How do social networks influence an entrepreneur’s introduction to potential international partners?

RESEARCH METHODS

Prior studies on SME networks focus on structural dimensions, such as size, range and density (Aldrich, 2001, Aldrich et al., 1989). However, studies in this area have mainly employed quantitative methods and provided little understanding of the content of network relationships. Bruyat and Julien (2000) advocate that entrepreneurship research within a constructivist stance will be prosperous in the future.

Case study is very suitable to address the “how and why” questions set up for the proposed research. For the study of relationship networks, case research, subjectivist or relativist approaches have been deemed as the best option (Easton, 1995). Coviello (2005, 2015) believed that the case study is particularly suited to network research, in that it helps generate insights into social dynamics and the operations of both the firm and the entrepreneurs over time.

Stenbacka (2001) and Yin (2003) argue that small size, inductive approach and case study strategy may concern more analytical or theoretical generalization rather than statistical or population generalization for a deeper understanding of people's behaviour and motivations.

The selection of an appropriate case helps to define the limits for generalising the findings. Based on this suggestion, a “Born Global” small firm in the South East was selected. The case firm, OB’s 100% business activities were international. It was founded as an internationalisation accelerator to help other companies internationalize their business. Because it is rare, the single case design is the most appropriate for it.

Data collection involved interviews, analysis of company documentation, and consultation of public databases, and researcher observation. Although the study firm, from hereon to be called ‘IA’, is a small sized company, its management team has sophisticated international business experience, a sound educational background, a wealth of professional knowledge, and experience of working for big corporations. They have extensive documentation items including business plans, management diaries, memos, and minutes of meetings. They also have a webpage in both Chinese and English. The present study adopted personal interviews to collect primary data. The research procedure involved a series of interviews; an initial open-ended face-to-face interview, a second telephone and online re-interview and a feedback interview. The personal, face-to-face interviews gave the opportunity to the researcher to probe if anything should be unclear or require further discussion (Zikmund, 1994). The semi-structure interview addressed the research problem themes and helped explore new issues during the study (Saunders, 2011). Telephone and online instant message conversation were selected to inquire the unexploited and newly identified questions which emerged following the initial interview. This was very useful in supporting the data collection in the instances where participants could not be available for data validation and feedback.

The analyses of case study evidence followed the initial research question, literature review and the theoretical gaps. This analytic strategy helped to ignore weak or spurious data to focus attention on relevant data. It is expected that such a process of analyses could help to generate useful findings that would contribute to in-depth understanding and reliable theory development. In order to improve the validity of this study, the chapter describes the study firm’s context in detail to ensure more clarity. Credibility was also enhanced through the supply of relevant information to participants before interviews. Individual interviews, discussion, and document analyses in parallel have been used as a form of methodological triangulation. The main researcher was able to speak both Chinese and English and could therefore check the validity of primary and secondary data collections from Chinese and English based sources. Several discussions about the analyses and results were conducted with the contact persons in order to verify or refute findings, and different investigators have reviewed the draft chapter.

An interview diary was kept, and the use of digital document folder was incorporated in the protocol and served as a database (Yin 2003). At the outset of this study, the researchers emphasized the importance of maintaining confidentiality of the discussions and protecting the anonymity of respondents throughout. The interview took place in the university meeting room

and a Chinese office making the atmosphere open, warm and friendly. The study invited an assistant, second interviewer to act as an external investigator during data collection and analysis process so that any misunderstanding or misinterpretation of language would be minimized.

THE CASE STUDY

THE CASE FIRM

IA is a high-tech business service firm. IA's business concept was generated in 2002. At that time, the entrepreneur identified that there was no "market acceleration" service which provides small information and communication technology (ICT) companies in the UK to accelerate their internationalization in the Asian market.

According to IA's business plan, the vision of the business was to become known as the leading Asian market entry specialist for Western ICT companies within five years. Its mission was to provide cost-effective and accelerated market entry capabilities to its clients. IA helps clients to raise profile, build up sales channels and generate revenue. The company's unique selling proposition (USP) is to help its clients generate fast revenue from the Asian market whilst limiting their risk, costs and uncertainties, during the process of internationalization.

IA provided four types of services as indicated below:

1) Market research

Before small ICT companies enter the Asian market, IA will help them to perform a viability test which identifies chances of success. It can provide information such as existing demand, channel players, competition, product substitutes, other local requirements and the level of investment needed to launch and support products/services. IA also uses its networks to advice clients on how to select local partners including joint-venture partners, distributors, value-added resellers, and software developers or service providers.

2) Marketing services

These small ICT firms may have insufficient capabilities to promote their products and services. Therefore, IA can provide marketing services for presenting their companies to Asian audiences in local languages and in a way which is effective in the targeting market. These marketing services cover various areas such as translation of manuals, user interfaces, web sites and documentation, presentations, press releases, web marketing including web site design, search engine optimisation, newsletters, email campaigns, event management, public relations, product launches.

3) Sales services

IA can operate as its clients' local sales team in their selected market. It can adopt either a direct sales approach or a plan to select, appoint and manage partners. The sales services include selecting and appointing distributors, resellers and service providers, identifying and negotiating with joint-venture partners, conducting end-user sales programme, telesales programme, training programme, product demonstrations, and pre-sales consultancy.

4) Representation

IA is also able to take responsibility for its clients' business in China by providing a comprehensive and fully managed sales, marketing and technical support operation, effectively

becoming their branch offices. By doing so, IA will help their clients to establish their market position faster. IA is willing to share its virtual office in China (VoiC) with its clients. This service brings its clients a Beijing office address which they can put on their web sites. It provides them Chinese web pages which are optimised for Chinese search engines. It handles enquiry on their behalf in Chinese and writes summary of each enquiry in English for clients to respond to if they wish to.

EVOLUTION OF RELATIONSHIPS DURING INTERNATIONALIZATION.

The relationships with internal business partners

In 2002, the entrepreneur, hereon called Mr. EB developed the business concept for IA and discussed this with his former subordinate, hereon called Mr. BH in Beijing China. They both agreed that this high-tech ICT “market acceleration” service would have a great business potential between China and the UK. Their social relationship was the main component of the formation of the company. However, like every new partnership there were initial conflicts and disagreements which had caused some serious problems for the further development of the company.

Another business partner, Mr. S was a distributor for company CR, Mr. EB’s former employer. He had over 20 years working experience for selling IT products and solutions to large Indonesian, Singaporean and Malaysia organizations such as government departments and banks. He was currently an associate of OB in South East Asia. He contacted Mr. EB in a proactive manner and they were setting up a new subsidiary company for IA in Singapore.

The relationships with clients

IA currently has two kinds of clients; (1) direct clients (paying clients) who pay for IA services and commission based clients who are only willing to pay IA an agreed percentage of sales revenue.

IA currently had three commission based clients: T, a British electronic transaction service company and B, a British designer and manufacturer of landline and wireless telephone equipment and A, an American Instant Messaging (IM) technology company. IA’s two direct clients include R, an American software specialist for university accommodation and conference service management and F, a software company providing electronic document solutions.

In the business relationships above, the most important one in terms of revenue was the relationship with company R. Mr. EB met R’s sales director Mr. Cr. on Europe's foremost global online networking platform, www.openbc.com at the beginning of 2004. At that time, they did not know about either one’s business; they talked about computer technology problems on the Bulletin Board Service (BBS) forum openly. They also talked about personal interests such as golf and travel. In August 2004, they discovered that they would both attend the same exhibition in Bangalore, India and arranged a meeting. The first time they met each other face-to-face was at the end of 2004. The sales director Mr. Cr. was very happy to introduce Mr. EB to the CEO of the company R. they had dinner together after that introduction. When Mr. Cr. and the CEO of R

visited London, Mr. EB picked them up at the airport and treated them sequentially. Mr. EB elaborated on the potential business opportunities in China. After a couple of follow up conversations and discussions, they formulated a five stage strategic plan from market research to product launch and sales in China.

Mr. EB met A's CEO Ca. in the Infosec exhibition at London's Olympia which is Europe's Internet & Network Security show which features over 200 exhibitors from around the world. Before Mr. EB visited the exhibition, he identified some fast growing ICT companies which had not exploited the Chinese market. He did this by browsing their webpages and making some cold calls to make further enquiries. Following that, he successfully built up business contacts with the CEO of company A and formed and signed a co-operation framework agreement. Mr. EB's comments of his relationships with Ca: "The relationship is still very 'matter of fact'. He seems just interested only on talking about business and keep the relationship shortly within a planned agenda. We had short conversations and meetings since that first meeting in London. I had only spent one evening with Cr. having dinner at an Indian restaurant near the airport. I sometimes find this style difficult."

Mr EB was still employed at his previous place of work when he started his business and only ended his life as an employee when he realised the full potential of his business and the fact that he needed full attention for his own business. The other three clients are the current or former customers of Mr. EB's previous employer. According to Mr. EB, he thinks that these relationships are business orientated rather than social orientated. "I have to be partial to my [previous] boss' clients. I cannot push them sometimes these relationships are my burdens because I am unwilling to let my [previous] boss know that I am doing business with his clients. Actually, none of them are my major clients now. "

The relationships with local partners

IA's external partners in China include the potential dealers, distributors, original equipment manufacturers (OEM), outsourcing and licensing partners, buyers, software testing, localization co-operators etc.

BH's social relationships are playing a main role in the business development process. For example, one of his friends Lz, the owner of the company, offered to share office space for free and also introduced some potential business partners to IA. One of these partners is a well-known software outsourcing company. BH's social networks also helped IA to bring some potential partners in the Beijing region. However, BH's social networks have some regional restriction because most of his contact people are mainly in Beijing and North East China. Occasionally, Mr. EB suggested potential contacts that might bring some useful information for IA. BH seemed uncomfortable to contact people who are out of his existing contacts. Also, some of his friends e.g. Lz/Z in his social networks had caused some trouble for IA cooperation with other companies as well.

In other parts of the Asian market, Mr EB's social networks have also reached India, Singapore,

Korea and Japan. These social networks provide local contacts and business information for IA. The most significant social relationship is Mr. JPH, the vice president of a Korean distributor. Mr EB has a good relationship with Mr. JPH. Every time Mr. RB visits Korea, they had dinner and Karaoke together. In return, Mr. EB also entertained Mr. JPH and his wife quite a few times while they visited Singapore. When Mr. JPH's daughter came to the UK and studied at a London university Mr. EB helped her many times. Therefore, Mr. JPH became an important family friend of Mr. EB. Mr. JPH had also helped Mr EB a couple of times to check up on IA's potential business partners and had helped to prevent some potential cheats.

The relationships with common interest groups and professional service providers

Mr. EB's accountant Pa helped IA not only to perform the company's registration but to also advise on international tax issues, shareholder's agreements, the annual accounts etc. Mr. EB's solicitor Ps helps IA look after their intellectual property rights (IPR), company strategy, and international business contact issues and so on.

Also, IA benefits from Mr. EB's relationships with his friends in the European market acceleration business, such as Or. His consultant networks, www.abcol.com and internet common interest group association, www.linkedin.com and www.openbc.com. "I need to meet new people because my existing social networks do not always have the experience and knowledge of international business."