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**THE BABSON COLLEGE BERTARELLI FAMILY AWARD
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FAMILY ENTREPRENEURSHIP**

**IMPRINTING, EMBEDDEDNESS AND SOCIAL NETWORK
TIES IN THE INTERNATIONALIZATION OF SMALL-
AND MEDIUM-SIZED FAMILY ENTERPRISES**



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ABSTRACT

We study the role of social networks and embeddedness in the course of the internationalisation process of small- and medium-sized family enterprises (SMFEs). We also consider the presence/absence of original network ties in their internationalization and if imprinting explains the networking strategy. We study 15 cases from Finland and conclude that the case firms had generally no existing international network ties and that 13 out of 15 SMFEs concentrate on cultivating network closure (NC) with few international network partners. Hence, they are over-embedded in their international markets; they have continued cooperating with their original network ties throughout their internationalization history. Only two out of 15 case firms had a focus on bridging structural holes (SHs) and they were clearly the most successful firms among the 15 SMFEs. Imprinting explains very well the actions of SMFEs: their focus on international networking seems to be on keeping the very initial network ties and keeping up a good level of NC with them, instead of building a wide range of international network ties (overall or in each foreign market either).

INTRODUCTION

Entrepreneurship is socially embedded in network structures which impact on economic outcomes (Jack & Anderson, 2002; Johannisson, 2000; Jones, Hesterly, & Borgatti, 1997). Indeed, social networks have a critical role to play in the development of entrepreneurial organizations (Hoang & Antoncic, 2003). While many questions remain unanswered about networks and their role in the entrepreneurial process (Jack, 2010; Gedajlovic et al, 2013), a key issue which stands out is how little is known about how network ties influence the shape and development of entrepreneurial ventures over time (Hoang & Antoncic, 2003; Jack, 2010; McMullen & Dimov, 2013). While development of the network will affect the further development of the enterprise (Coviello, 2006; Jack, 2005), it has also been said to impact on any internationalization processes that are undertaken (Chetty & Agndal, 2007; Kontinen & Ojala, 2012). Recent studies imply that contextual circumstances might actually mean entrepreneurs are motivated to develop and activate strong ties (i.e. family, friends and close personal contacts) to increase their chances of survival (Wouter Stam, Arzlanian, & Elfring, 2014). While little is known about the role of such ties beyond start-up, even less is known about how these ties might support the emerging firm over time (Bruton, Ahlstrom, & Obloj, 2008; Kwon & Arenius, 2010).

The network model of internationalization (Johanson & Mattsson, 1988) describes internationalization as a process of networking, proposing that an enterprise can compensate for its limited resources by establishing new ties (ie. by bridging SH, see Burt 2000) or by developing its position in an existing network (referred to as network closure, see Coleman 1998) abroad. Embeddedness can be defined as the nature, depth, and extent of an individual's ties into the environment (Dacin et al., 1999; Jack & Anderson, 2002). Embedding is the mechanism in which an entrepreneur becomes part of a local structure, enabling him to draw upon and use resources (Jack & Anderson, 2002), closely related to the mechanism of NC. Nevertheless, debates about the role played by embedded ties and how applicable they are over time are ongoing (Elfring & Hulsink, 2007; Newbert, Tornikoski, & Quigley, 2013; Simsek, Lubatkin, & Floyd, 2003). Especially among small and medium-sized enterprises (SMEs) with limited resources for internationalization, network ties between enterprises have a significant role, as do the ties of individuals, especially managers or entrepreneurs (Crick & Spence, 2005; Ellis, 2008; Hadjikhani, Ghauri, & Johanson, 2005). In several studies (Coviello, 2006; Crick & Spence, 2005; Ghauri, Lutz, & Testom, 2003) such ties have been seen as major factors in initiating the internationalization process, with enterprises following their networks to foreign markets. *Imprinting* includes the notion that characteristics that are shaped during an entity's initial existence can persist for decades (Simsek et al., 2015).

Given that entrepreneurship represents the foundations of family enterprises (Chua et al, 2004) and that family enterprises tend to exist over time (Konopaski, Jack & Hamilton, 2015), we consider the situation of entrepreneurship in the small and medium-sized family enterprise (SMFE) context. We explore how entrepreneurs use structure in the creation and operation of their internationalization. Our study considers the role of embedding and imprinting among 15 small- and medium-sized family enterprises (SMFEs) throughout their internationalization history to explore how the link in between the entrepreneur and the social context (see Gidden 1979, 1984) impacts on their ability to develop their activities abroad.

The forming of social network ties appears to be the most important step in the internationalization process of SMFEs (Arregle et al., 2012; Graves & Thomas, 2008; Kontinen & Ojala, 2012). Via such ties, SMFEs have access to broader social networks that can help establish relationships with important stakeholders as internationalization is pursued. Described as "a set of actors and some set of relationships that link them" (Hoang & Antoncic, 2003, p. 167), a network develops when interaction takes place between the entrepreneur and others to whom he/she is connected. The effects of this interaction are now well recognized to play a significant role in the shaping and forming of entrepreneurial processes, practices and outcomes (Elfring & Hulsink, 2007; Hoang & Antoncic, 2003; Jack, 2005; Kahler, 2009; Slotte-Kock & Coviello, 2010). What this means of course is that those to whom entrepreneurs are linked can play a critical role in changing or influencing entrepreneurial behaviour, the decisions an entrepreneur makes and the form of the emerging and developing firm (Aldrich, Rosen, & Woodward, 1987; Elfring & Hulsink, 2007).

The two most important network drivers providing social capital are *structural holes* (SHs) and *network closure* (NC) (Burt, 1992; Coleman, 1988). According to the SHs approach (Burt, 1992), the benefits of social capital result from the diversity of information and the *brokerage opportunities* created by the lack of connections between separate groups in social networks. SHs (gaps, lacunae in networks) permit a competitive advantage for a person (or firm) whose relationships *span* the holes. Individuals whose networks have only a limited number of SHs know and have control over more rewarding opportunities. Based on this, a structural hole is defined here in the words used by Burt (2005, p. 25) as "a place in a network that could create value. The traditional view of

social capital emphasizes the positive effects of *network closure* (NC), i.e. embedded ties, in terms of social network benefits (Coleman, 1988). These two network drivers refer to a different means of creating social capital. Yet although they have been regarded as opposed to each other, they have also been seen as complementary drivers (Burt, 2000; Gargiulo & Benassi, 2000; Podolny & Baron, 1997). Burt (2000) found that the performance of a firm is at the highest point when the firm achieves high levels in *both NC and the number of non-redundant contacts* beyond the firm. Networks that span SHs may provide the manager with timely information about new opportunities, whereas cohesive ties are needed to exploit those opportunities (Podolny & Baron, 1997). According to Burt (2010, p. 151), “[w]here brokerage is about vision and growth from expanded horizons, closure is about control and productivity associated with people aligned on a shared goal.” Ahuja (2009, p. 942) also raises an interesting view in relation to the embeddedness of enterprises, “[i]f less embedded actors could link up with more embedded actors, they could then use the ties to access other more embedded actors and slowly become more embedded themselves.” This notion can be very important for SMEs during their internationalizing process. On the basis of the discussion above, we pose the following questions in this study:

1. *How do SMFES build and develop social networks for internationalization?*
2. *How is the international networking of SMFES related to network closure vs. structural holes?*
3. *How does the concept of embeddedness explain the international networking behavior of SMFES?*
4. *How is imprinting related to the international networking behavior of SMFES?*

METHOD

This study contributes to the network model of internationalization, social networking, and the internationalization process of entrepreneurial firms by exploring if, how and why embeddedness explains the internationalization process of 15 SMFES based in Finland. We theorize about social networking and embeddedness by using an inductive, multiple-case research design (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). As stated by Eisenhardt and Graebner (2007, 27), “theory building from multiple cases typically yields more robust, generalizable, and testable theory than single-case research”. In doing so, we address calls for the need for more qualitative research to increase understanding of the network phenomenon (Hoang & Antoncic, 2003; Jack, 2010). We conducted 36 semi-structured-interviews with the case companies, with more than 30 hours of interview time. The case firms are from the manufacturing industry, have more than 90% of family-ownership and at least two generations involved in running the enterprise. Furthermore, more than 50% of the sales of these enterprises come from foreign markets. Their products range from profiles structures for windows and measuring equipment to clothing items and design lamps. The companies mainly operate abroad via exports via agents or distributors and sometimes own sales subsidiaries and even production sites (Firm O). Three most important foreign markets in relation to current/historical sales to total sales of each enterprise can also be depicted in Table 2. The most important foreign markets overall are mainly Nordic countries (Sweden and Norway) and central European countries (Germany, Switzerland, France), UK and the Northern America (USA and Canada), but for Firm K the main markets are exceptionally China and South Korea.

RESULTS

We have studied the range of social network ties among case enterprises (i) prior to internationalization, (ii) in the development of the internationalization and (iii) currently. On the basis of the extensive analysis, we have considered the embeddedness of the case firms through studying the extent of their NC and their actions to bridge SHs throughout their internationalization. As regards the embeddedness of the case enterprises prior to their internationalization, they were embedded with domestic customers, suppliers, and competitors, but mainly had no international network ties at that point. Firms E and K from the design and clothing industries, however, make an exception with some existing international network ties with competitors and suppliers. Furthermore, Firms A, C, and G had indirect network ties through their highly international domestic main customers. Hence, overall, the case companies were strongly embedded in their domestic market, but embedded very little internationally.

On the basis of analyzing the level of activeness in the international networking (passive – semi-active – active) and the orientation towards NC versus bridging of SHs (or something in between these two ends), we were able to form Figure 1 below. It illustrates that 4 out of 15 case companies can be regarded active in their approach to networking. However, only two out of the 15 case companies concentrated mainly on bridging of SHs in addition to being active in their approach to networking, i.e. they have constantly looked for new foreign network ties aside their main international cooperators.

5 out of 15 case firms (Firms B, E, H, I and L) are classified semi-active in their activeness to networking, being that their main focus to international networking has been in attending trade fairs. However, in spite of looking for suitable partners from trade fairs, their orientation has been on NC: they have concentrated on cultivating their main network ties and have only concentrated on bridging SHs at times when they had no existing network ties or when they had needed to penetrate the market with a totally new product family (Firm H).

6 out of 15 SMFEs were reactive in their approach to networking; they either reacted to requests (Firm M) of or piggybacked on bigger Finnish companies (Firms A, C, G & N) or an international development project (Firm J). In relation to the NC-SHs-orientation of the case firms with a reactive approach to networking, Firms A and J have concentrated on building a good NC throughout their history, whereas Firms C, G, M and N have, at times or when necessary, bridged some SHs in the context of needing new foreign markets (Firms C, G & N), to replace agents they had lost (Firm M), or to renew the agents after a total collapse in the foreign markets (Firm N). With all the other enterprises, the trend is to keep up cooperation with the same international cooperators, in spite of not so successful sales and only stop the cooperation when there are no sales left, or the agent dies or retires without a successor.

DISCUSSION AND IMPLICATIONS

We studied the role of social networks and embeddedness in the course of the internationalization process of 15 small- and medium-sized family enterprises (SMFEs). We also considered if imprinting explains the networking strategy. We found that the case firms had generally no existing international network ties and that 13 out of 15 SMFEs concentrated on cultivating network closure (NC) with few international network partners. Hence, they were over-embedded in their international markets; they have continued cooperating with their original international network ties throughout their internationalization history. Only two out of 15 case

firms had a focus on bridging SHs (SH) and they were clearly the most successful (in relation to international sales to total sales, range of operation modes used and the variety and number of international network ties) firms among the 15 SMFEs. Imprinting explains very well the actions of SMFEs: their focus in international networking seems to be on keeping the very initial network ties and keep up good level of NC with them, instead of building a wide range of international network ties (overall or in each foreign market either). In the next stage, we would analyze in detail 4 case companies, one from each clearly distinct category (reactive + NC case; semi-active + combination of NC & SH case; active + combination of NC & SH case; active + SH case) to explore more detailed insights and explaining features on the networking behavior and its consequences for SMFEs.

Our findings shed new light on ongoing debates about the role played by embedded ties (Elfring & Hulsink, 2007; Newbert et al., 2013; Simsek et al., 2003): according to our findings, most SMFEs invest very much on embedded ties and are able to keep up with international sales via them. However, it hinders them from benefiting from a significant growth, implementing more extensive operation modes, and getting new ideas that would most generally come from building new network ties aside existing ones, ending problematic network ties, etc. We, hence, add understanding about how networks influence the shape and development of the enterprises over time. Furthermore, we show how the mechanisms of NC and SHs influence on the internationalization of SMFEs and claim that the usage of the mechanism of SHs plays a more detrimental role in the international growth and development of SMFEs (see Burt, 2000; Podolny & Baron, 1997). On the basis of their extremely strong inner social capital and high level of trust based on the unification of ownership and management (Roessl 2005; Salvato & Melin 2008), SMFEs might be less willing to bridge SHs.

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Figure 1. Networking activeness (reactive-semi-active-active) and networking orientation (in between NC and SHs mechanisms) among the case firms.

