



The Role of Social Networks and Global Mindset of Decision Makers in SME Firm Internationalization

ByoungHo Jin and Sojin Jung
The University of North Carolina at Greensboro (UNCG), USA

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Rationale and Research Purpose: A growing number of studies and cases confirmed that international opportunities are captured through their networks overseas (Ellis, 2011). For example, Victoria Secret's market entry into Kuwait happened through a simple network of an intern being a nephew of a major retail company owner in Kuwait. Social networks facilitate the acquisition of experiential knowledge about international markets; thus, play a particularly important role in selecting and expanding into foreign markets. Along with foreign social networks, global mindset of decision makers, defined as "a manager's openness to and awareness of cultural diversity and the ability to handle it" (Nummela, Saarenketo, & Puumalainen, 2004, p.54), is also found to be critical in firms' internationalization. In particular, the role of social networks and global mindset of decision makers may be more critical for small and medium-sized enterprises (SME) that lacks sufficient resources and adequate management skills. However, how social networks and global mindsets are formed and its influence on subsequent internationalization decisions has not been researched in a rigorous way and most previous studies are either conceptual or case studies. Therefore, the purpose of this study is to examine the role of social networks and global mindset of decision makers in firm's internationalization decision and performance, along with market knowledge.

Hypotheses: While the concept of social networks and its consequence has been addressed recently, the antecedents of social networks are only conceptually introduced in a couple of studies. As with conceptualization of Zhou (2007), this study posits that the sources of foreign social networks comes from *a decision maker's level of international living experience (H1a), international education (H1b), work experience (H1c) and business trip (H1d), which will increase the level of foreign social networks.* Social networks provide an access to distant and valuable opportunities in an international market (Ellis, 2011), thus *it will increase market knowledge of the market (H2).* Having more networks overseas will also help a decision maker be acquainted with global diversity. In Nummela et al. (2004)'s study, international work experience was confirmed to be a source of global mindset. Thus, *a decision maker's foreign network will increase global mindset (H3).*

Previous studies built on the Uppsala model proved the positive relationship between market knowledge and firm internationalization in various contexts. Also, recent SMEs literature maintains that a decision maker's global mindset facilitates to look for international market opportunities. Thus, *market knowledge (H4a) and global mindset (H4b) will increase likelihood of a firm's internationalization.* The positive relationship between market knowledge and firm performance has been proven in many previous studies. Also, Ellis (2001) confirmed that the global mindset of decision makers enables the firm to respond accurately and rapidly to the

changing needs of the market, thus enhanced objective firm performance. Taken together, *market knowledge (H5a) and global mindset (H5b) will increase firm performance.*

Method: A survey was sent to a decision maker of 2,250 firms (1,250 apparel manufacturers and 1,000 IT manufacturers). The questionnaires included the number of employees, a respondent's foreign experiences (i.e., residence, education, work, and business trips), foreign market knowledge (Zhou, 2007), global mindset (Nummela, et al., 2004), internationalization decision (yes/no) and perceived international performance (Nummela, et al., 2004). Following Dillman's mail survey method, 107 SME companies (i.e., less than 500 employees) were analyzed in SPSS 21.0. The data revealed that 76 (71%) firms have entered at least one international market.

Findings: With reliable measurements (i.e., Cronbach's α ranged from .871 to .950), the hypotheses were tested by regression analyses (Table 1). Among the decision maker's four dimensions of foreign experiences, only international living experience ($\beta=.292^*$) and number of business trip ($\beta=.381^{**}$) significantly contributed to build foreign networks; thus, H1a and H1d were supported. Also, foreign networks significantly increased foreign market knowledge ($\beta=.596^{**}$) and global mindset ($\beta=.495^{**}$), supporting both H2 and H3. Between foreign market knowledge and global mindset, only global mindset increased internationalization decision ($b=.372^*$), supporting H4b. In testing two antecedents of perceived international performance, only foreign market knowledge was found to be a significant ($\beta=.301^*$), supporting H5a.

Table 1. Results of Hypotheses Testing

| Independent variables | Dependent variables | β | t | R ² | F | Testing |
|-------------------------------|-----------------------|---------|---------|----------------|----------|-----------------|
| H1a. Int'l living exp. | Foreign networks | .292 | 2.340* | .410 | 17.742** | Partial support |
| H1b. Int'l education exp. | | .010 | .086 | | | |
| H1c. Int'l work exp. | | .141 | 1.559 | | | |
| H1d. Int'l business trips | | .381 | 4.511** | | | |
| H2. Foreign networks | Market knowledge | .596 | 7.598** | .355 | 57.727** | Support |
| H3. Foreign networks | Global mindset | .495 | 5.835** | .245 | 34.043** | Support |
| | | b | Wald | R ² | χ^2 | |
| H4a. Foreign market knowledge | Internationalization | .217 | 1.601 | .210 | 17.005** | Partial support |
| H4b. Global mindset | | .372 | 4.770* | | | |
| | | β | t | R ² | F | |
| H5a. Foreign market knowledge | Perceived performance | .301 | 2.539* | .155 | 9.547** | Partial support |
| H5b. Global mindset | | .125 | 1.054 | | | |

* p<.05 **p<.001

Discussions: This study empirically confirmed the sources of foreign networks (living experience and business trips), which increases a decision maker's global mindset and market knowledge. Also, this study found that global mindset facilitates international market entry but did not have an impact on subjective assessment of firm performance. In contrast, market knowledge did not help a firm internationalize but did help enhance international performance. Traditional Uppsala model emphasizes market knowledge and commitment for internationalization. However, this study provides empirical support that in the case of SMEs, global mindset and its antecedent role of foreign networks serves a critical function for a firm to enter international markets but market knowledge is important for international performance. These findings are new to the literature and suggest empirical evidence for revisiting the traditional internationalization theory.

Reference available upon request