

## **Analyzing Correlation between Internationalization Orientation and Social Network**

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### **Abstract**

The research on social networks and collaborative strategies has highlighted from the mid of 1980 which has contributed to the success and development of firms. The relationship and communication with trade partners in overseas help success of firms in entering to foreign markets and improve new partners and new markets abroad. Doing firm internationalization in foreign countries faces some barriers in external environment. These firms also face a lack of resources and capabilities and unprotected against environmental changes. Export managers through relational aspects of social network able to overcome the challenges and expand success in their internationalizing firms. The aims of this paper is to survey the correlation between internationalization orientation such as inward and outward internationalization and relational elements of social network such as trust, favor and friendship among Malaysian manufacturing firms exporting to the countries surrounding the Persian Gulf. The data was collected from 120 manufacturing firms in Malaysia by using a mail survey. The findings illustrate that two operations of internationalization means inward and outward internationalization orientation are positively and significantly correlated with all dimensions of relational elements means trust, favor and friendship. The results of this study can contribute to internationalizing firms and enhances relational marketing knowledge.

**Keywords:** Internationalization Orientation, Social Network, Relational Elements, Malaysian Manufacturing Firms, Persian Gulf.

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## 1. Introduction

The internationalization process of firms is largely driven by network relationships. Through developing networks, firms can gain support for their activities in overseas. Cooperation among firms has proved to be beneficial for promoting exports through export activities and improving export performance (Antoldi et al., 2011). The aim of this paper is the interrelationship internationalization orientation and relational aspects of social network. Based on some researcher's argument, social network ties are as tools for gaining knowledge and information, international business knowledge, managerial vision, and for identifying foreign exchange partners, which affects initial exporting (Ellis, 2000; Ellis and Pecotich, 2001; Sharma & Blomstermo, 2003; Yeoh, 2004; Haahti et al., 2005). Extant literature concerning internationalization has acknowledged the most of research depends on entering of developing nations to developed nations and vice versa from Western firms to firms in the other markets. This study examines the relationship between internationalization orientation and relational elements of social network in the context of Malaysian manufacturing firms exporting to the countries around the Persian Gulf in the Middle East. These countries are Iran as well as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE). Malaysia's economy is open to the external influence of globalization and foreign capital, which plays a major role as the aim of the government is to manage the economy. East Asia is one of the biggest areas and possesses the highest economic growth rate in the world, which has a vast opportunity for trade with other countries. Malaysia, besides having relationships with Western and Asia Pacific countries, has relationships with West Asian countries. The personal and business relationships and networks are as the key strength in Asian business practice which perform business duties and complete transactions.

The manufacturing industry in Malaysia has played an important role as a main catalyst of economic growth over the past three decades. Based on its contribution to total GDP, manufacturing industry is the second largest sector after services sector. The Middle East includes more than 29 countries comprise of all the Arab countries as well as Iran, Turkey, Pakistan and those of central Asia. The Persian Gulf area in Southwest Asia is an extension of the Indian Ocean located between Iran and the Arabian Peninsula. This study focuses on the nations located around The Persian Gulf including Iran,

Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. Trade relation between Arab speaking nations in this area has improved since 1975. Trade relationship among Malaysia and these nations enable an increase in the trade volume (Jeshurun, 2007). Trade relation between Iran and Malaysia has increased since 1997 and trade volume is considered small compared to Malaysia's world trade (Naderi, 2008).

Based on Rutashobya and Jaensson (2004), the firm's internationalization has been studied extensively, however, it has received little attention in developing countries in academic studies that reveals necessity of the further research in this area. This survey tries to fill the gap at the micro level in developing nations especially in Malaysia which tends to promote export to the Middle East, particularly, to the countries surrounding the Persian Gulf. Based on slowdown in the US economy and decreasing volume of trade with this nation has caused the Malaysian government to diversify its export market and encourage Malaysian firms to seek their business opportunities to the Middle East. This survey contributes to the export marketing knowledge with useful implications for international and relationship marketing.

The present study differs from the study by Hutchings and Weir (2006) that examined understanding of networking in firms in five Arab speaking nations in Middle East, includes Algeria, Jordan, Libya, Palestine and Yemen as well as in China. They found family, trust and favor are vital in business in these countries, which need to further empirical research. The topical area of exports and variables using in existing study differs from the study of Osman et al. (2009) who examined influence of relational variables such as adaptations, cooperation, communication, trust and commitment on the performance of Malaysian manufacturing firms exporting to the seventeen Arab speaking nations in Asia and Africa.

The next section of this research presents prior literature of internationalization orientation and relational elements of social network that continued by research objective, methodology, finding of the study, discussion and at the end, conclusion.

## 2. Related Literature

According to the relevant literature, there are important theoretical implications of conceptualization of the internationalization orientation and social network. Specifically, there is a link between inward and outward internationalization orientation and relational elements of social networks such as trust, favor

and friendship.

### 2.1. Internationalization Orientation

The firm internationalization refers to the degree of firm's sales income or operations which obtains from foreign markets (Elango & Pattnaik, 2007). On the other hand, firm internationalization relates to the process of increasing involvement in international activities (Welch, & Luostarinen, 1988; Coviello & McAuley, 1999; Fletcher, 2001; Holmlund et al., 2007). The success of firms in entering new foreign markets depends to its relationships in the current domestic and international markets. Firms by relationships and communication with business partners abroad can move from domestic to foreign markets, which serves them to expand new partners and new markets (Johanson & Mattsson, 1988). There are two operations for internationalization in body of literature on firm internationalization named, inward and outward internationalization orientation (Welch & Luostarinen, 1993; Korhonen et al., 1996; Fletcher & Bohn, 1998; Karlsen et al., 2003; Zhou et al., 2007; Holmlund et al., 2007). The explanation of these operations is as below:

### 2.2. Inward Internationalization

The inward internationalization could be related to the management international orientation. Based on this concept, those organizations that undertake to define their strategic mission, aims, and strategy making, combine different activities in firms. These activities are planning, analysis, decision making and management, which are embedded in an organization's culture and shared value system (Knight, 2000). The international managers need to be active and see the world as a marketplace. It is characterized by managerial vision and proactive organizational culture to develop particular resources aimed at achieving a firm's goals in foreign markets.

It is also necessary to actively explore new business opportunities overseas. Having a strong international orientation that leads to special competences and outlook, include continuously communicating its mission to succeed in the international market to the firm's employees and developing human and other resources for achieving goals in international markets (Knight and Kim, 2009). They also stressed that in this way management can take the risks and overcome the uncertainty to succeed abroad. Notably, business does not come to the firm, the firm has to venture abroad and seek it. Management with strong international orientation develop processes, practices and decision making operations that are associated with targeting new markets overseas to

lead firm performance. They extensively investigated the internationalization of firms and particular factors that support performance abroad. The finding has illustrated the significant dimensions of international business competence are international orientation, international marketing skills, international innovativeness, and international market orientation.

### 2.3. Outward Internationalization

Generally, firms for knowledge acquisition move across overseas to improve capabilities to enter foreign markets, which impact their international performance (Yiu et al., 2007). Developing countries in relations with developed countries could gain specific knowledge and management skills to enter international markets. These countries also update their technology through licensing agreements with developed countries, which facilitates entry to foreign markets. As part of the international licensing arrangements, licensees are given the rights to sell goods and products besides to neighboring countries to start exporting to designated foreign nations that may be a contractual requirement (Welch and Luostarinen, 1993).

Outward internationalization can refer to seeking and selling in foreign markets and improving relationship with foreign businesses. Hence, firms are motivated to benefit from potential opportunities, such as learning the new technologies and needs of international markets (Welch & Luostarinen, 1993; Ireland et al., 2002). The licensing helps firms to obtain extra income through its resourcefulness and it can open up foreign market possibilities. It is suitable for developing countries against other entry mode to foreign markets. When firms have limited resources or experience to enhance foreign markets by exporting or foreign investment or when the target markets are small or risky, the best alternatives licensing. The exporting and licensing are often simpler strategy in international marketing, less risky, less costly, less control and less interaction with customer and supplier rather than other mode of enter to foreign markets (Carstairs and Welch, 1982).

### 2.4. Relational Elements of Social Network

The social network discusses the role of personal contacts as a possible first stage in internationalization research (Ellis, 2000). Firm through social networks can get resources, gather information, cooperate in setting prices or policies, choose the functional mode and hinder competition. Therefore, firms need to create, nurture and maintain these networks by adopting a relational approach for a better understanding of

social networks as a source of competitive advantage in different contexts (Holmlund & Kock, 1998; Pablos, 2005; Ruzzier et al., 2006). Based on Batjargal (2003), there exist various aspects of social networks such as structural, relational and resources which affect the financial performance of firms. Batjargal argues the resource aspect as a third aspect of social networks besides the structural and relational aspects.

The relational elements of social networks include the interactions that lead to mutual expectation, which, as the quality of actors' personal relations, affect the extent of economic actions and outcome (Granovetter, 1990). Ahmed (2010) examined and developed a model that links between interpersonal and firm variables with commitment and trust in international business relationships. He did this research with data from exporter-importer relationships from Australia and Thailand and found the importance of interpersonal and firm factors to international business relationships.

According to the survey done by Hitt et al. (2002) that showed the relationships in firms in Asian countries, are much stronger than western firms. The personal and business relationships are as the key strength in Asian business practice, and networks to do business duties and complete transactions. The field of international and exporting is faced with arising focus on buyer-seller relationships and international partnering (Cavusgil, 1998; Phan et al., 2005).

Based on the literature, there exist many researches and reports involving this issue such as Muna (1980); Cunningham and Sarayrah (1994); Akiko (1996); Narayan et al. (2000); Sawalha (2002); Jordan Human Development Report (2004); National Human Development Report (2004); Schlumberger (2004); Neal et al. (2005); Hutching and Weir (2006); Jodie and Gorrill (2007) which revealed the important dimensions in social networks are family or friendship, trust, and favor. They revealed that these dimensions are important in business between trade managers in home country and overseas. These studies have been conducted in various countries include, United Arab Emirates, Oman, Jordan, Algeria, Yemen, Libya, Palestine, Syria and Lebanon.

### ***Friendship***

The friendship or personal relationships help individuals that improve trust among their colleagues in partnering firms. Prior research has also indicated the important role of personal connections and relationships between contracting firms (Ring & Van de Ven, 1992). It is driven by the close personal interaction, good working

relationship and close relationship that exist between the partner firms (Kale et al., 2000; Wu, 2008). Vakratsas and Ambler (1999) suggested Asian business managers believe that personal relationship ties are essential for first steps in business. In a survey concerning the capability of alliances, as a condition for facilitating knowledge creation in the creative industry in Japan, Kagami (2006) suggested organizational learning depends on the individuals' memories and their learning abilities. Personnel turnover influences intra corporate knowledge sharing, which often occurs through formal or informal exchanges on an individual basis. Such exchanges are facilitated by establishing special relationships and friendships, which maintain stable personnel in a network that can help members improve long-term interpersonal relationships.

### ***Favor***

Favor can refer to the preferential treatment in dealings, preferential access to limited resources, and increased accessibility to information (Lee et al., 2001). In the exporter-importer relationship, favor can refer to the exchange of their resources, knowledge, skills, problem solving, needs, and so forth which make easy their business. Based on Leung and Wong (2001), doing favor is as the degree of building personal ties, giving high quality services or products, offer extra human resources, knowledge and skills to foreign partners and spend extra time on the partner's project. They have stated that despite the existing official rules of reciprocity, individuals commit to each other and undertake to exchange favors. Furthermore, favor is a set of social norms that guide an individual to get along well with other people that emphasize the value of personal agreement and social order among persons situated in structured relationships.

### ***Trust***

Trust is the basis of any business relationship, review of the extant literature has acknowledged trust is important in developing, maintaining productive cross border business relationships. The result of this research showed trust mediate the relationship between learning orientation and export performance (Ismail, 2011). Trust, as another dimension of relational elements is important in understanding expectations for cooperation and planning in a relational agreement (Dwyer et al., 1987). Adler (2001) suggested that creating trust is a tendency in building firm relationships, since business is important for partners to create and support competitive benefits. Some Asian firms, for effective management, and innovation need to access necessary capabilities by

learning from their partners, which motivate business success (Child & Yan, 2001; Hitt et al., 2002). Previous studies have showed the importance of trust in the export market, for instance, based on Jones (2001) trust among the partners provides them confidence that they will work cooperatively towards aims from which there are mutual benefits. It also refers to foreign partners that do not act opportunistically or take advantage and reliable promises and being trustworthy in business issues (Yau et al., 2000; Wu, 2008; Style et al., 2008). Some researchers argued that mutual trust creates the basis for an effective relationship between firms. In addition, Bradach and Eccles (1989) described that the existence of trust between two parties results in a more agreeable sharing of resources without fear of taking advantage of the other party. Hence when trust exists, cooperative behavior, exchange and combination of resources can appear.

### 3. Research Objectives

The aim of this researches influence of internationalization orientation on relational elements of social network in developing countries. This survey reveals the results of a survey on the impact of internationalization orientation on relational elements of Malaysian manufacturing firms exporting to the nations surrounding the Persian Gulf include Iran, Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and United Arab Emirates (UAE).

### 4. Methodology

This research focuses on the relational elements of the social network and its dimensions, which include friendship, trust and favor between the firm's partners in the international arena. Three methods conducted in this study include literature review, questionnaire and a survey to investigate relationship between internationalization orientation and relational elements. The survey used mail questionnaire that was employed in this study because of its advantage of covering wide geographical area with less time and cost (Sekaran, 2003). The target population for this study is Malaysian manufacturing firms exporting to the countries surrounding the Persian Gulf. The sampling method is purposive. The unit of analysis is the organization involving strategic business activities. The positions of the respondents are managers or other responsibilities that relates in export activities.

The instrument and conceptualization for inward internationalization and outward internationalization, two dimensions of internationalization orientation is proposed as a

dimensional construct. The concept of inward internationalization was driven by four items from eleven items that measure international orientation in a study by Knight and Kim (2009). The conceptualization and instrument for outward internationalization consists of two items of internationalization orientation that were developed by Welch and Luostarinen (1993). The respondent's assessment of the firm's internationalization orientation comprises six items, which are scaled on a 5-point Likert scale ranging from 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, to 5= strongly agree.

The instrument and conceptualization for friendship, favor and trust, three dimensions of relational elements is proposed as a dimensional construct. According to the proof from several countries in the Middle East in a study by Hutchings and Weir (2006) which found family or friendship, favor and trust as important dimensions of relational elements of social networks are vital in business. The instrument for relational elements includes 13 items, three items for measuring the friendship were adapted from Kale et al. (2000), and Wu (2008), five items for measuring favor, which was adapted from Leung and Wong (2001). It is continued by five items for measuring trust that were adapted from Styles et al. (2008), Yau et al. (2000), and Wu (2008). The respondents assessment of the relational elements consist of 13 items, which are scaled on a 5 - point Likert scale ranging from 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, to 5= strongly agree.

### 5. Empirical Findings

Descriptive analysis is accomplished to illustrate the mean value and standard deviation of all the variables to determine the dispersion extent of each variable under the study. Results of mean and standard deviation of the main variables reveal in Table 1.

**Table 1 Mean and Standard Deviation of Main Variables under study**

| Description of Variables         | Mean | SD   |
|----------------------------------|------|------|
| Internationalization Orientation |      |      |
| -Inward Internationalization     | 4.08 | 0.77 |
| -Outward Internationalization    | 3.33 | 0.91 |
| Relational Elements              |      |      |
| -Trust                           | 3.64 | 0.76 |
| -Favor                           | 3.46 | 0.87 |
| -Friendship                      | 3.71 | 0.91 |

*Source:* Author

Based on results of the descriptive statistics analysis, inward internationalization shows the

highest mean score (4.08) against outward internationalization (3.33). The mean value of the three dimensions of relational elements; the highest mean score refers to friendship (3.71) which followed by trust (3.64) and the lowest mean value relates to favor (3.46).

Additionally, Table 2 represents the results of correlation analysis that was done on five variables. The results reveals the two dimensions of internationalization orientation, means inward internationalization and outward internationalization are positively and significantly correlated with all three dimensions of relational elements, namely, trust, friendship and favor.

**Table 2: Pearson's Correlation between Variables**

| Variables     | 1      | 2      | 3     | 4     | 5 |
|---------------|--------|--------|-------|-------|---|
| 1. Inward     | 1      |        |       |       |   |
| 2. Outward    | 0.51** | 1      |       |       |   |
| 3. Friendship | 0.49** | 0.25** | 1     |       |   |
| 4. Favor      | 0.48** | .43**  | .59** | 1     |   |
| 5. Trust      | 0.34** | .33**  | .37** | .45** | 1 |

\*\* Correlation is significant at the 0.01 importance level (2-tailed)

\* Correlation is significant at the 0.05 importance level (2-tailed)

As shows above, according to Table 2, inward internationalization is positively and significantly correlated with friendship ( $r = 0.49$ ,  $p < 0.01$ ). It also reveals that inward internationalization is positively and significantly correlated with favor ( $r = 0.48$ ,  $p < .01$ ). As the Table 2 illustrates, inward internationalization is positively and significantly correlated with trust ( $r = 0.34$ ,  $p < 0.01$ ). The findings also show outward internationalization is positively and significantly correlated with friendship ( $r = 0.25$ ,  $p < .01$ ). The same result happened for outward internationalization which is positively and significantly correlated with favor ( $r = 0.43$ ,  $p < 0.01$ ) and it follows with outward internationalization which is positively and significantly with trust ( $r = 0.33$ ,  $p < 0.01$ ).

## 6. Conclusion

The empirical results of this study explain both dimensions of internationalization orientation namely inward and outward internationalization that are positively and significantly correlated with all dimensions of relational elements of social network means friendship, favor and trust. These dimensions are important factors for Malaysian export managers in the relationship with targeted markets. The results of this paper agree the study done by Vakratsas and Ambler (1999) that found Asian business managers argued personal relationship ties are essential for first steps in business. Such results also agree the study done by

Hutchings and Weir (2006) in five Arab speaking nations in the Middle East and China, which found family, trust and favor are vital in business. Furthermore, the results are concurred with the study in exporter-importer in Australia and Thailand done by Ahmed (2010) who illustrated the importance of interpersonal and firm factors to international business relationships. According to the results, Malaysian export managers should be success to enter to the international markets in overseas, when they tend to see the world, instead of only Malaysia, as their firm's marketplace and also when they continuously communicate their mission to succeed in international markets to firm employees.

Furthermore, outward internationalization activities are important factors for Malaysian export managers when they use advanced management skills acquired from their association with foreign firms that accelerate to enter to foreign markets. It continued by visiting overseas which enabled exporters to succeed in international markets and also by continuously communicate their mission can acquire advanced management skills. The Malaysian managers should interact and network to other international players. All these efforts can be complemented through relational elements such as trust, favor and friendship. These dimensions are important in establishing business relationship, as Malay firms should invest its resources to develop and maintain the relationship with all stakeholders who have the capacity to assist the firm's entry and success in foreign markets.

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