



# Immigrant social networks and foreign entry: Australia and New Zealand firms in the European Union and Greater China

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## ARTICLE INFO

### Article history:

Received 22 March 2011

Received in revised form 21 January 2012

Accepted 24 January 2012

Available online 3 March 2012

### Keywords:

European Union and Greater China regions

Foreign market entry (FME)

Immigrant employee/employer

Social networks

Standardization/adaptation theory

## ABSTRACT

Based on social networking and ethnic networking theories, this paper presents a theoretical framework that hypothesizes the linkages between immigrant social networks and foreign market entry (FME) strategies for firms operating in the European Union (EU) and Greater China (GC) region. “Immigrant effect” (IE) is used as a proxy for immigrant social networks. IE refers to firms that are owned and/or hired immigrants in key decision-making positions to manage and/or market their products/services in the immigrant’s country of origin (COO). The findings of this study reveal that immigrants do play a pivotal role in affecting the choice of FME mode into their respective COO in both EU and GC regions. As such, firms could employ a standardized IE–FME framework across the EU and GC regions. However, the antecedents for choosing an IE are different for both regions, thus suggesting that a different antecedent-IE framework for the EU and the GC regions. The results suggest that both standardized and adapted approaches should be considered when formulating the antecedent-IE–FME framework for the EU and GC regions. The findings of this study has theoretical implications for research pertaining to social network/ethnic network and FME, standardization/adaptation as well as practical implications for firms that seek to use IE in transacting business in the immigrant’s COO.

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## 1. Introduction

As firms seek to expand internationally, a major challenge is to select the appropriate foreign market entry (FME) mode. Research has shown that this strategic decision can affect the success or failure of the undertaking (Anderson & Gatignon, 1986). A significant body of theories has been established in the FME literature, most notable of which are incremental internationalization theory; transaction cost theory (TCA); and eclectic theory (OLI) (Dunning, 1997; Erramilli & Rao, 1993; Johanson & Vahlne, 1977).

Ethnic network theory, i.e., networks formed on the basis of shared ethnicity, has also been used to explain a firm’s internationalization process (Camara & Simoes, 2006; Filatotchev, Strange, Piesse, & Lien, 2007; Saxenian, 2002a, 2002b; Zhao & Hsu, 2007). Ethnic network theory is a sub-division of social network theory (Zhao & Hsu, 2007). Research of this nature has suggested that a firm’s choice of FME mode is most likely related to the social networks possessed by its immigrant employer and/or employees in the target market (Chung & Enderwick, 2001; Saxenian, 2002a, 2005; Tung & Chung, 2010; Zhao & Hsu, 2007). Prior research of this nature has shown that immigrants, by virtue of their networks in

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both their country of residency (COR) and country of origin (COO), can organize “transnational communities” to facilitate the conduct of international business. Thus, transnational communities can enable smaller-sized firms to compete with large multinational corporations in transacting business across international boundaries (Chung, Rose, & Huang, 2012; Faist, 2000; Saxenian, 2002b; Snel, Engbersen, & Leerkes, 2006; Vertovec, 1999). In fact, Saxenian (2002b, p. 185) has suggested that they may represent “a more flexible and responsive mechanism for long distance transfers of skill and know-how, particularly between very different business cultures or environments”. Furthermore, transnational communities have been hypothesized to exist in both developing and developed nations (Levitt, 2001; Saxenian, 2002b; Snel et al., 2006).

This study seeks to build upon the existing literature and extend our understanding of the relationships between immigrant social networks and the choice of FME in two important aspects: first, compared to the traditional theories (e.g., TCA) that are used to explain the behavior of FME, the relationship between social networking and FME has been under-researched; as such, there is need for further insights on this paradigm (Zhao & Hsu, 2007). Though existing social networking research has investigated the role of ethnic networking in FME selection concerning firms' operation in the developing regions (e.g., Filatotchev et al., 2007; Zhao & Hsu, 2007), there is evidence that the relationship between ethnic networking and FME can apply to firms that operate in the developed economies (Snel et al., 2006). This suggests that perhaps a standardized IE–FME framework is likely to exist across developing and developed regions that stem from the knowledge and network of immigrants in their COO. Standardization strategy asserts that firms can adopt a uniform strategy or process formulation across their operations in different host markets or regions (Chung, 2003; Jain, 1989). The use of a standardized framework across both developing and developed regions could allow firms to take advantage of cost saving, uniformed image and easier implementation that are associated with a standardization strategy (Chung, 2010; Jain, 1989; Levitt, 1983; Samiee & Roth, 1992). In turn, these advantages can help firms establish or maintain their international competitive advantage when operating in the foreign host markets. As such, in this study we will explore whether a standardized framework pertaining IE–FME can be effectively deployed by firms operating in the developed and developing regions. To test this hypothesis, we will focus on firms with operations in the European Union (EU) and those that transact business in the Greater China (GC) region. The EU is a key member of the developed economy while GC represents a major economic force in the developing region. The findings of this study could lend credence to the assertion by Tsui and Farh (1997) and Redding, Norman, and Schlander (1993) that social network/ties are indeed universal. The extension of standardization theory to the IE–FME paradigm could also shed new light on the extant literature on international standardization strategies (e.g., organizational learning, decision-making structure) (Chung, 2010; Lages, Jap, & Griffith, 2008).

Second, by using data from a sample of Australian and New Zealand manufacturing and service firms, this paper will seek to develop a conceptual framework that posits the antecedent-IE relationship in the EU and GC regions. Such a framework can identify the antecedents and outcomes pertaining to IE and FME for both the developed and developing economies (Tung & Chung, 2010). As such, the findings of this study have important implications for firms that seek to operate in both developed and developing markets and for academics who seek to establish a standardized research framework across countries at different levels of economic development (Chung, 2003, 2010; Jain, 1989; Zou & Cavusgil, 2002). In summary in this study we intend to formulate a standardized/adapted set of antecedents-IE–FME guidance for firms operating in the EU and GC regions.

## 2. Immigrant effect and social networks

### 2.1. Immigrant effect

In this study, firms with immigrant effect (IE firms) are defined as organizational entities that are owned by immigrant employers and/or hired immigrant employees in key decision-making positions to manage their operations in the immigrant's COO (Chung et al., 2012). Prior research on transnational entrepreneurship and international human resource management that focused on immigrant social networks has shown that social ties possessed by immigrants can offer significant advantages to facilitate FME into their COO. Aside from pre-existing social ties, these advantages include greater knowledge of local environmental conditions, such as familiarity with customers, host government regulations, culture, languages and customs (Gao, 2003; Gould, 1994; Kyle, 1999; Saxenian, 2002a, 2005). Several studies have shown that ethnic ties can indeed be used as a proxy for social networks (Filatotchev et al., 2007; Gao, 2003).

Based on a review of the extant literature on social and ethnic networking, IE, cross-cultural management, international human resource management and FME modes, a model is developed to encompass the path frameworks that capture the relationships among these different sets of variables in the EU and GC regions. This model is presented in Fig. 1.

### 3. IE social networks and FME mode

As indicated, immigrant effect is associated with social networking theory (Filatotchev et al., 2007; Head, Ries, & Wagner, 1997; Zhao & Hsu, 2007). Prior research has shown that social network linkages can drive and facilitate the choice of market entry mode (Chen & Chen, 1998). It was proposed that firms can gain access to strategic assets in a foreign country via network connections. Social networking can help investors overcome entry barriers and reduce cross-country transaction

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