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Networking for Internationalization: Are Young Companies Different From Older Ones?

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Abstract: The internationalization process is complex, costly and uncertain. Existing theories stress the role of learning and knowledge and the role of networks in the acquisition of resources and information that affect the internationalization process. The "revised" Uppsalla model (Johanson and Vahlne 2009) incorporates relational networks, considering they have a strong impact on market selection, as well as on the identification of opportunities. The theory of International New Ventures (INV) emphasizes the importance of relational networks and vicarious learning as a way for companies to acquire knowledge about the external market. Some scholars consider that the participation in networks is particularly beneficial for younger and smaller firms. However, it is still unclear how the reliance on various network relationships potentially differs among younger and older ventures. This paper tackles this question by using a novel survey dataset of 238 Portuguese firms and a quantitative approach base on a descriptive and inferential analysis.

Keywords: internationalization, networking, young firms

1. Introduction

Currently, the expansion into international markets is vital for firms' growth, knowledge acquisition and access to new resources. But the internationalization process is complex, costly and uncertain (George, Wiklund, & Zahra, 2005). Given the importance of internationalization, a large body of research has examined numerous factors affecting it.

In the 1970s and 1980s the focus was on large, well-established multinational companies and the Uppsala model (Johanson & Vahlne, 1977) was widely used. Later, in a context of an increasing globalization of markets, scholars start to address the phenomenon of young and small international firms (McDougall & Oviatt, 2000). The Uppsala model was revisited (Johanson & Vahlne, 2009, 2011) and new approaches have emerged, namely the born global approach (Oviatt & McDougall, 1994, 1997, 2005) and the theory of International New Ventures.

All these new approaches stress the role of learning and knowledge and the role of networks in the acquisition of resources and information that affect the internationalization process. The "revised" Uppsalla model (Johanson & Vahlne 2009) incorporates relational networks, considering they have a strong impact on market selection, as well as on the identification of opportunities. The theory of International New Ventures (INV) emphasizes the importance of relational networks and vicarious learning as a way for companies to acquire knowledge about the external market, but also emphasizes congenital learning (experience and individual knowledge) as a way to recognize the importance of relational alliances and networks to the beginning of internationalization. The network approach emphasizes the use of the information acquired by the firm over a period of time and joining all the involved parties by establishing close relationships with customers, industry (including suppliers and distributors), regulatory and public agencies, as well as other market actors. Relationships are based on mutual trust, knowledge, and commitment between the firm and the aforementioned actors.

Despite the recognition of the importance of networks for the success of the process of internationalization of companies, the extant literature still misses to understand how the reliance on various network relationships potentially differs among younger and older companies. This paper tackles this question by assessing the differences between young and older companies in the reliance of different networks. With this aim it uses a novel, purposely collected, data set of 238 Portuguese firms and a quantitative approach base on a descriptive and inferential analysis.

2. Networks, social learning and internationalization

As mentioned above, internationalization theories are increasingly considering the role of networks for the success of internationalization processes. However, and with a few exceptions (e.g. Coviello, 2006), there is still a lack of studies including a detailed network analysis. Most studies either take the network as given, without analysing its configuration and structure (Bai & Johanson, 2017).

Several studies focus on access to resource and learning processes that happen through networks and partnerships and how this facilitates the internationalization process. Network literature acknowledges the role of networks in accessing a large set of resources, both tangible and intangible (Sousa & Fontes, 2012). Internationalization studies tend to focus on intangible resources, like information and knowledge. It is considered that managers may have limited information and limited capacity to collect it (i.e. inability to access, or unwillingness due to high costs). Social relations may act as facilitators in the process of information and knowledge gathering, namely when the company is entering new markets and there is the need to identify new business opportunities.

Several studies (e.g. Sarasvathy et al., 2014) argue that identifying opportunities is a driving force in internationalization, and observe and conceptualize the role of networks in identifying opportunity in firm internationalization (Holm, Johanson, & Kao, 2015; Galkina & Chetty, 2015). Networks also provide the founders of new ventures with new opportunities for enterprise and contribute to their entry into foreign markets and overcome the company's limited chance to benefit from foreign markets (Coviello, 2006; Ojala, 2009). According to Oviatt and McDougall, (1994) it seems that internationalization strategy is not merely uncertainty-reducing, but also opportunity-seeking. The network view says that opportunity development cannot take place in a vacuum. But rather it happens in a specific context, that is, within the firm's international network (Blankenburg Holm et al., 2015). In line with most conceptualizations of opportunity, a firm's knowledge is the critical element, and a firm with sophisticated knowledge about acting in a network is likely to pursue opportunities in different ways than an outsider firm with limited experience (Bai & Johanson, 2017).

Additionally, literature also suggests that, in the early internationalization of ventures, networks facilitate the access to the market knowledge and information, without which acquiring such knowledge would be costly and time-consuming (e.g. information about customer needs and market trends), identifying key clients, obtaining financial resources and supporting R&D activities (Bruneel, Yli-Renko, & Clarysse, 2010; Rezvani, Davari and Parvaneh, 2017; Vasilchenko & Morrish, 2011). Networks also enable companies to obtain initial credibility in new international markets (Vasilchenko & Morrish, 2011). Access to other resources (e.g. R&D facilities, production) is less studied. The above mentioned studies concluded that the greater the power (information, knowledge, financial resources, etc.) of people and firms in the network, the more information is granted them about new business opportunities, potential markets, etc. and more possibilities for them to make use of such information. As a result, new ventures can become internationalized in an early stage.

Acs and Terjesen (2007) proposed an intermediate model in which new ventures are internationalized through existing networks created by multinational companies and which act as facilitators of the internationalization process. Since these knowledge spillovers are local and the various markets have barriers to entry, using multinationals in this way is the most efficient method of internationalization (Alvarez & Molero, 2005).

Related to the access to knowledge and information, networks facilitate learning processes. According to De Clercq et al. (2012), vicarious learning (learning by observing others) plays a central role in the decision to internationalize the firm's operations early. The most common type of vicarious learning discussed in conceptual and empirical work involves learning with a network of partners. A central argument in these papers is that the presence or development of foreign contacts triggers opportunities for internationalization (e.g., Casillas, Moreno, Acedo & Gallego, 2009). Several authors, even without explicitly using the term "vicarious learning", clearly indicate learning "from observing others" as a mechanism that influences the beginning of internationalization decisions, either by imitating or working with others (Grosse & Fonseca, 2012), in a process that can be termed as social learning: learning related to interaction, observation and communication that occur in networks.

Another source of "vicarious" learning comes from observing other organizations that are not necessarily network partners. Fernhaber, McDougall & Oviatt (2007) have empirically investigated how the imitation of

others by young companies can affect their own foreign market entry initiatives and argue that such companies, without their own routines or precise information about the nature of the business world, imitate the behaviours of others that are geographically closest. They conclude that the more nearby companies already internationalized, the more likely it is that an international solution will involve imitation and that the company will tend to internationalize early. Yet, and although much has been learned about the role of strategic alliances in the internationalization of new businesses, the existing literature focuses largely on foreign partnerships (e.g. Leiblein & Reuer, 2004; Oviatt & McDougall, 1995).

Another line of inquiry is focused on the type of relation that is built between the network partners. Network theory usually distinguishes between formal and informal relations and between strong and weak ties (Kontinen & Ojala, 2011; Ojala, 2009; Sousa, 2012; Vasilchenko & Morrish, 2011). Formal networks involve a codified agreement, a system of authority, distribution of competences, rights and duties and a conflict resolution device. They encompass subcontracting relationships, strategic alliances or participation in an industry-wide research consortium (Smith-Doerr & Powell, 2003). Informal networks are more spontaneously created, and are frequently associated with personal relationships (Coviello, 2006; Sousa, 2012). It was observed that many new companies have become internationalized as part of a network, where strategic alliances play a prominent role (Coviello, 2006; Coviello & Munro, 1997). Dependence on alliances is so critical that the term liability of outsidership has been used to describe the disadvantages of internationalization in the absence of an appropriate network (Johanson & Vahlne, 2009). Informal networks have been less frequently addressed by internationalization studies (Bruneel, Yli-Renko, & Clarysse, 2010).

Some scholars also distinguish or argue about what kind of connections is most useful to companies in their internationalization process. For example, Oviatt and McDougall (2005) theorize that in terms of accelerating the onset of internationalization, the most important source of "vicarious" external information comes from weak ties, because these ties efficiently eliminate redundant information.

Network theory also highlights the importance of considering the composition of the network, namely in terms of the type of actors/partners who make them. This literature stresses the importance of having a diversified network in terms of the type of partners, to avoid redundancy (Burt 2009) and increase the value of information and knowledge gained through networking (Nooteboom 1999; Baum et al. 2000). Some studies on internationalization have included several types of partners, namely companies in the supply or value chain, like suppliers, distributers and customers, and investors (Bruneel, Yli-Renko, & Clarysse, 2010). However, extant research usually does not analyse the importance of each of these partners for the achievement of the company's internationalization.

Extant literature also recognizes that the use of networks may vary with the type of company. Some scholars consider that the participation in networks is particularly beneficial for younger and smaller firms (Coviello & Munro, 1997; Harris & Wheeler, 2005; Sharma & Blomstermo, 2003; Styles et al., 2006). However, it is still unclear how the reliance on various network relationships potentially differs among younger and older ventures. Empirical studies tend to focus on the size of the company is the most studied aspect. They find that, given limited resources and market power, the internationalization process of SMEs differs significantly from the already-established multinationals (Paul, Parthasarathy & Gupta, 2017). SMEs, typically, rely heavily on their network relationships as they try to internationalize (Coviello & Munro, 1997; Coviello, 2006; Musteen, Datta, & Butts, 2014). Coviello and Munro (1997) found that the internationalization process of small software firms reflects an accelerated version of the stage model perspective, and is driven, facilitated, and inhibited by a set of formal and informal network relationships. It remains unclear how the reliance on various network relationships potentially differs among younger and older ventures.

This paper tackles this topic by assessing the differences between young and older companies in the reliance of different networks. In order to assess the existence of these differences, it considers several of the network dimensions highlighted in the network theory, but less explored by the internationalization studies: the type of relation (formal or informal), the resource that is being accessed and the type of partner.

3. Data and methods

Data collection was based on a questionnaire with 33 questions. The questionnaire was developed to study the enhancing factors of Portuguese business internationalization and assess the most frequent barriers and

constraints in this process. It includes a set of questions, measured using five-point Likert scale ranging from: "not important" (1) to "extremely important" (5), that to understand the role of networks in achieving internationalization, namely by capturing the degree of importance attributed to:

- Formal network (e.g. formal relations with other companies) for the actual the internationalization of the company;
- Informal network (e.g. friends, family) for the actual the internationalization of the company;
- Partnerships with a specific type of partners for the realization of the internationalization of the company (consisting of 14 items – partner types)
- Partnerships established to obtain a specific type of resource (consisting of 10 items- resource types).

The questionnaire was sent to all companies registered in the AICEP database of Portuguese internationalized companies, by sending a link via e-mail and using the Google Forms tool. Between May 2019 and January 2020, a set of 238 valid answers were obtained. The questionnaire, before being online was submitted to the evaluation of experts and pre-tested in some firms.

The sample of 238 internationalized Portuguese companies that will be used in this research is composed of companies from different sectors (both from industry and services) and with different sizes. Considering the number of employees, the structure of the sample includes 36.1% micro firms, 40.3% small firms, 17.6% medium firms and 5.9% large firms.

Since this study aims to evaluate whether there are differences between young and older companies in their reliance of networks for their internationalization process, the founding year of the company was also considered. A new variable (young_old_firm) was created. Companies with 10 years or less were considered “young” and the remaining (those with more than 10 years) were considered “old”. The 10-year threshold was already considered in other studies (e.g. Cloninger & Oviatt, 2007; LiPuma, 2012). Therefore, two groups of companies will be considered: young (60 companies) and old (178 companies).

Data collected were treated using IBM SPSS Statistics 26.0 software. The statistical analyses used for the data analysis (Maroco, 2018) were Descriptive Analysis (frequency analysis and descriptive statistics) and Inferential Analysis (Spearman's ordinal correlation, Mann-Whitney nonparametric test and Chi-square test for independent samples).

4. Results

We start the analysis of results by assessing whether the degree of importance attributed to formal and informal networks differs depending on whether the company is young or old we use non-parametric tests (the hypothesis of Normal distribution was not verified) and perform the Mann-Whitney statistical test, which is suitable for variables measured in an ordinal scale. Results show (Table 1) that, at a significance level of 5%, there is statistical evidence to reject the hypothesis that the degree of importance attributed both to formal and informal networks is identical in the 2 groups (young and old firms) (p-value=0.006<0.05 and p-value=0.008<0.05, respectively).

Table 1: Differences in the importance attributed to formal and informal networks for the actual the internationalization between young and old companies – Mann-Whitney non-parametric test

	Formal network	Informal network
Mann-Whitney U	4117,00	4156,00
Wilcoxon W	20048,000	20087,00
Z	-2,761	-2,650
Asymp. Sig. (2-tailed)	0,006	0,008

To determine the extent to which these differences are verified in the importance attributed to formal networks, we used the Chi-Square Independence Test (p-value=0.029<0.05). All conditions of applicability of the Chi-Square test were checked. The contingency table associated with this test (Table 2) allows us to conclude that there is a tendency for young companies to consider the formal contact network more important. It turns out that while only 14.6% of older companies consider the formal network of contacts extremely important, in young companies the equivalent percentage is 31.7%.

Table 2: Contingency table for formal network

		Old firms	Young firms	Total
Not important	Count	11	2	13
	% within Informal network	84,6%	15,4%	100,0%
	% within young or old firm	**6,2%**	**3,3%**	5,5%
Not very important	Count	19	6	25
	% within Informal network	76,0%	24,0%	100,0%
	% within young or old firm	**10,7%**	**10,0%**	10,5%
Important	Count	62	12	74
	% within Informal network	83,8%	16,2%	100,0%
	% within young or old firm	**34,8%**	**20,0%**	31,1%
Very important	Count	60	21	81
	% within Informal network	74,1%	25,9%	100,0%
	% within young or old firm	**33,7%**	**35,0%**	34,0%
Extremely important	Count	26	19	45
	% within Informal network	57,8%	42,2%	100,0%
	% within young or old firm	**14,6%**	**31,7%**	18,9%
Total	Count	178	60	238
	% within Informal network	74,8%	25,2%	100,0%
	% within young or old firm	100,0%	100,0%	100,0%

The same test was used to assess the extent to which these differences are verified in the importance attributed to informal networks. The results show (Table 3) that there is a tendency for younger companies to consider the informal network more important: while only 7.3% of older companies consider the informal network of contacts extremely important, in young companies the equivalent percentage is 20%.

Table 3: Contingency table for informal network

		Old firms	Young firms	Total
Not important	Count	23	6	29
	% within Informal network	79,3%	20,7%	100,0%
	% within young or old firm	**12,9%**	**10,0%**	12,2%
Not very important	Count	53	12	65
	% within Informal network	81,5%	18,5%	100,0%
	% within young or old firm	**29,8%**	**20,0%**	27,3%
Important	Count	60	16	76
	% within Informal network	78,9%	21,1%	100,0%
	% within young or old firm	**33,7%**	**26,7%**	31,9%
Very important	Count	29	14	43
	% within Informal network	67,4%	32,6%	100,0%
	% within young or old firm	**16,3%**	**23,3%**	18,1%
Extremely important	Count	13	12	25
	% within Informal network	52,0%	48,0%	100,0%
	% within young or old firm	**7,3%**	**20,0%**	10,5%
Total	Count	178	60	238
	% within Informal network	74,8%	25,2%	100,0%
	% within young or old firm	100,0%	100,0%	100,0%

Moreover, the results show that companies give more importance to formal networks than to informal contact networks, regardless of whether the company is young or old.

Regarding the type of partner to which companies assigned the greatest degrees of importance for the realization of their internationalization, the descriptive analysis (Table 4), taking into account the median value (the average is not a good measure, not only because in the variables in question are ordinal, but also because the coefficients of variation are high), allows us to conclude that the most important partner is (undoubtedly) "customers abroad". In the case of old companies, the median is 5, which indicates that this partner is considered extremely important; in the case of young companies the median is 4, meaning that it is considered very important. Both in young and old companies, other partners are considered important, namely: "national suppliers", "national customers", "competitors in the destination country" and "national government agencies".

Table 4: Descriptive statistics for the importance of each type of partners for the realization of the internationalization of the company

Type of partner	Old companies			Young companies		
	Mean	Median	Std. Deviation	Mean	Median	Std. Deviation
National suppliers	3.33	3.00	1.350	3.31	3.00	1.303
Suppliers abroad	2.51	2.00	1.318	2.60	2.00	1.432
National customers	2.79	3.00	1.236	2.54	3.00	1.264
Customers abroad	4.34	**5.00**	0.828	4.16	**4.00**	1.089
National competitors	2.39	2.00	1.183	2.29	2.00	1.043
Competitors abroad	3.09	3.00	1.285	3.14	3.00	1.290
National consultants	2.32	2.00	1.165	2.30	2.00	1.164
Consultants abroad	2.52	2.00	1.315	2.78	3.00	1.475
National universities and research centres	2.18	**2.00**	1.165	2.51	**3.00**	1.441
Universities and research centres abroad	1.95	2.00	1.102	2.23	2.00	1.389
National business associations	2.36	**2.00**	1.201	2.75	**3.00**	1.421
Business associations abroad	2.12	2.00	1.196	2.31	2.00	1.404
National government agencies	2.66	3.00	1.332	2.84	3.00	1.424
Government agencies abroad	2.21	2.00	1.257	2.39	2.00	1.473

In view of this descriptive analysis, there seem to be differences in the degrees of importance assigned to some types of partner, namely "costumers abroad", "national universities and research centres" and "national business associations". However, the Mann-Whitney test (Table 5) only corroborates the existence of significant differences, at a significance level of 10% (p-value=0.07<0.1) in the importance assigned to the partner "national business associations". Young companies tend to attach a greater degree of importance to this partner.

Table 5: Differences in the importance attribute to different types of partner for the actual the internationalization between young and old companies – Mann-Whitney non-parametric test

Type of partner	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
National suppliers	5005.500	6775.500	-0.159	0.874
Suppliers abroad	3886.000	15667.000	-0.256	0.798
National customers	4463.000	6233.000	-1.299	0.194
Customers abroad	4279.500	5990.500	-0.817	0.414
National competitors	4773.000	6484.000	-0.375	0.708
Competitors abroad	4819.000	19525.000	-0.329	0.742
National consultants	4765.000	6418,000	-0.056	0.955
Consultants abroad	4370.500	18231.500	-1.071	0.284
National universities and research centres	4004.000	16565.000	-1.289	0.197
Universities and research centres abroad	4141.000	16544.000	-0.885	0.376
National business associations	4193.500	18389.500	-1.812	**0.070**
Business associations abroad	4497.000	17863.000	-0.577	0.564
National government agencies	4382.000	18747.000	-0.849	0.396
Government agencies abroad	4484.500	18014.500	-0.476	0.634

Finally, we analyze the degree of importance attributed to the partnerships established for each of the resources indicated, in terms of younger or older companies. Table 6 reveals that, both for young and old businesses, networks are considered very important for accessing "market information". In the case of young companies, the relationships established for accessing "distribution channels" and "credibility" are also considered very important, followed by (in the degree of importance attributed) accessing “information on possible partnerships".

Table 6: Descriptive statistics for the importance of networks to access each type of resource for the realization of the internationalization of the company

Type of resource	Old companies			Young companies		
	Mean	Median	Std. Deviation	Mean	Median	Std. Deviation
Scientific and technological knowledge	2.81	3.00	1.171	3.02	3.00	1.186
Market information	3.56	4.00	1.019	3.62	4.00	1.223
Information on funding and incentive systems	2.78	3.00	1.250	2.90	3.00	1.374

Type of resource	Old companies			Young companies		
	Mean	Median	Std. Deviation	Mean	Median	Std. Deviation
Information on possible partnerships	3.14	**3.00**	1.040	3.37	**3.50**	1.193
Information on the political and legal framework	3.02	3.00	1.099	3.27	3.00	1.326
Information on the macroeconomic and fiscal framework	2.92	3.00	1.104	3.02	3.00	1.295
Distribution channels	3.28	**3.00**	1.192	3.43	**4.00**	1.320
Production capacity	3.12	3.00	1.247	3.08	3.00	1.369
Counselling	2.89	3.00	1.122	3.02	3.00	1.200
Credibility	3.28	**3.00**	1.203	3.48	**4.00**	1.255

But to what extent is there a difference in the degree of importance attributed to the partnerships established for each of the resources indicated, in terms of younger or older companies? The Mann-Whitney test (Table 7) indicates that these differences do not seem to exist. We can only find a significant statistical difference, but at a significance level of 10% (p-value=0.099), for the "information on possible partnerships" feature. In this case it is concluded that the younger companies attach a slightly higher degree of importance to this resource.

Table 7: Differences in the importance attribute to networks to access different types of resources for the actual the internationalization between young and old companies – Mann-Whitney non-parametric test

Type of partner	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Scientific and technological knowledge	4784.500	20715.500	-1.242	0.214
Market information	4966.500	20897.500	-0.849	0.396
Information on funding and incentive systems	5085.500	21016.500	-0.566	0.572
Information on possible partnerships	4611.500	20542.500	-1.651	**0.099**
Information on the political and legal framework	4619.000	20550.000	-1.620	0.105
Information on the macroeconomic and fiscal framework	5040.500	20971.500	-0.671	0.502
Distribution channels	4857.000	20788.000	-1.082	0.279
Production capacity	5285.000	7115.000	-0.123	0.902
Counselling	5031.500	20962.500	-0.697	0.486
Credibility	4770.000	20701.000	-1.275	0.202

5. Conclusion

This paper set out to investigate the existence of differences between young and old companies in the importance they attach to networks for the implementation of their internationalization processes. To do this, it moves away from the aggregate view that most studies have in empirical studies and considers that networks are composed of different types of relationships and different types of actors and serve different purposes. Thus it distinguishes two types of relationships (formal and informal), 14 types of partners (not only companies in the supply/value chain but a broader set of actors, both in the origin country and abroad) and ten different types of resources that can be assessed through networking.

The results confirm the existence of statistical differences between young and old companies in two of the three dimensions of analysis. In terms of type of relationship, our research shows that young companies tend to attribute a greater degree of importance both to formal and informal relationships. This is in line with insights from previous research that have stressed that the participation in networks is particularly beneficial for the internationalization of younger companies, due to their lack of experience and resources (e.g Harris & Wheeler, 2005; Sharma & Blomstermo, 2003; Styles et al., 2006). Our study adds that this holds both for formal and informal networks. It also shows that formal relationships tend to be higher rated by all companies.

As stressed by previous research (e.g. Bruneel, Yli-Renko, & Clarysse, 2010) customers in the foreign markets are very important partners for the internationalization process. But our study as also found that partners in the home country are important to the internationalization process, not only at the level of the supply chain (suppliers and customers), but also governmental agencies. The results also suggest that young companies tend to attribute greater relevance to business associations in their home country, when compared to older companies. In the other types of partner, we did not find statistically significant differences between the two types of companies.

Finally, the results reveal that young companies consider networks more important to access information on possible partnerships, when compared to older companies. In the remaining types of resource, we did not find statistically significant differences between the two types of companies.

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