THE IMPACT EVALUATION OF INTERNATIONAL ETHNIC TIES ON INDUSTRIAL COMPANIES’ OPPORTUNITY EXPLOITATION WHEN ENTERING FOREIGN MARKETS

1. INTRODUCTION

There has been a steady inflow of new ethnic groups into the Western countries [Guerrini S., Milanesi M., Ottati G.D., 2017]. New ethnic groups serve as new labor forces with new approaches that widen the range of business opportunities. They also facilitate trade by connecting their home, host countries, and take on the position of cultural and economic diplomats who help locals to understand business opportunities that are available in the home countries [Butler J.S., Herring C., 1991]. For the emerging ones by small and medium-sized enterprises (SMEs) who have a shortage of resources, social capital rooted in their networks plays a vital role in business international expansion strategies. Many researchers have attempted to understand the role of various types of ethnic ties (i.e., business and personal ethnic ties) on opportunity recognition and exploitation [Ma R., Huang Y.C., Shenker O., 2011; Kuckertz A., Kollmann T., Krell P. et al., 2017]. This study investigates the effects of international ethnic ties on international opportunity exploitation on the example of Wenzhou community and argues that the potentially beneficial impact of international ethnic relations may lessen the influence of liability of foreignness on the SMEs. Next, the impact on export barriers is examined.

2. THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1. International opportunity exploitation

Identification and utilization of an opportunity are crucial to the progress of most organizations, especially when addressing entrepreneurship and international business contexts [Eckhardt J.T., Shane S.A., 2003]. For years, researchers have faced a lack of union on the conceptualization of opportunity. For instance, some researchers insisted that ‘opportunity’ has three dimensions: discovery, evaluation, and realization [Eckhardt J.T., Shane S.A., 2003; Cha M.-S., Bae Z.-T., 2010]. Another research stream centered on a two-dimensional approach, explaining that opportunity is, in reality, recognition and exploitation [Ma R., Huang Y.C., Shenker O., 2011; Kuckertz A., Kollmann T., Krell P. et al., 2017]. Though the two camps of researchers provided different numbers of opportunity phases, both groups ignore a phase in which opportunities are gained and a state where opportunities are successfully realized. The current study centers on how international ethnic ties can affect international opportunity exploitation. More specifically, the study attempts to examine the relationship between ethnic groups and opportunity exploitation as viewed through the global lens and with recognition of several boundary conditions.

According to prior research, entrepreneurs and managers tend to use their ties to gather information, search for new business partners, create new ventures, attract investment from external sources, and so forth [Jeen R.J., Tan D., Sinkovics R.R., 2011]. Further, if a country has a higher ethnic ratio of a specific ethnic group, ethnic ties help to gather more business and local environment information, which helps to mitigate the so-called ‘liability of foreignness’ effects [Zaheer S., Lamin A., Subramani M., 2009]. In addition, many minority firms tend to rely upon ethnic markets and groups even if they do not have a direct connection with or access to the new market. For the further success of the firms, it is suggested that they must jump or break into other markets by obtaining information and receiving help from external sources including those markets’ ethnic groups.

While the personal-level impact of ethnic ties on businesses has received some enlightenment, this study attempts to investigate the impact of international ethnic ties on the international business opportunity at the societal level. There is a general acceptance among Russians and Chinese that social connections with the relevant officials or individuals are beneficial to the improvement of business in terms of business and price and quality of the product or service offered. The bigger the network, the more requests can be required. The Chinese refer to this as the ‘hardness’ of a guanxi relationship [Michaëlios S., Worm V., 2003].

According to the Chinese Xinhua Dictionary, the primary meaning of guanxi comes from combining two Chinese words: guan (关) means a ‘gate or barrier,’ and xi (系) means ‘connection or link.’ Therefore, guanxi means to ‘go through the gate and get a connection.’ Therefore, guanxi means to ‘go through the gate and get a connection.’

There are at least three main differences between guanxi and interpersonal relationship:

• The reciprocal process is not always equal.
• Guanxi practice needs to comply with some existing rituals, such as gift exchanging, winning and dining, and so on.
• Guanxi relationships are not a purely emotional attachment.

People need to use guanxi to achieve specific goals, such as obtaining essential information, rare resources, individual services, and so on [Chen H., Ellinger A.E., Tian Y., 2011]. Many foreign managers regard guanxi as a rule of doing business in China. Indeed, many researchers have pointed out that guanxi has a significant influence on every aspect of the business domain including relationship marketing, supply chain management, market performance, market channeling, and so on. Business people can benefit from their social networks with either government officials or business partners.

As a baseline, some researchers assume that international guanxi networks can be helpful for Chinese in international business and state that higher international ethnic ties can lead to stronger international opportunity exploitation. The current study investigates the link between international ethnic ties and international opportunity exploitation via the potential networking resources of an ethnic population.

H1: There is a positive relationship among the strength of international ethnic ties and international opportunity exploitation.

2.2. LOF effect

When discussing the survival and the development of a non-native business venture in a host country, it becomes relevant to consider the suggestion that cultural distance matters. Cultural distance has been regarded as a factor that negatively affects organizational outcomes: the higher the cultural distance, the higher the management costs of running a company. Mainly, cultural distance is an essential factor to be considered if a decision-maker feels that there is a ‘gap’ between the two countries. Entering a country with a different culture, a different language and a different currency are LoFs. The current research shows that liabilities cause many failures. These problems are defined as Liabilities of Foreignness (LOF). It is commonly described as the additional cost of conducting business activities in a host country, a cost that native actors do not usually incur.

The costs originate from new actors’ difficulty in efficiently managing the country-specific knowledge wells and flows. The desired management efficiency is often obstructed by the actors’ inability to overcome social and cultural forces, which create intangible barriers to one’s entrepreneurial growth and tangible effects for the business development, such as errors or delays [Lord M.D., Randt A.L., 2000]. The friction between host and home countries’ cultures disrupts actors’ market integration attempts and undermines legitimacy [Zaheer S., 1995].

The sources of LOF can be summarized as follows:

• coordination costs of international business,
• firm-specific costs that are based on a particular company’s unfamiliarity with and lack of roots in a local environment and culture,
• costs resulting from the host country environment such as the lack of information networks, political influence, and legitimacy of foreign firms,
• economic nationalism among host country stakeholders [Zaheer S., 1995; Zaheer S., Mosakowski E., 1997].

Two conceivable strategies for coping with these liabilities are first, to offset these by developing a superior competitive advantage, or, second, to reduce them. Petersen and Pedersen’s empirical findings [Petersen and Pedersen, 2002] suggest that foreignness related liabilities can be reduced by exercising influence with the knowledge gained in the specific environment. The hazards are likely to diminish as the agent becomes more knowledgeable about the business environment, a pattern that makes it sensible to collapse both sets of liabilities into one group, as both are instigated by the lack of legitimacy in the particular setting and both could be reduced by building up knowledge.

V. II. HOVHANNISSIAN
PhD in Economics, associate Professor
Department of Management, Financial University under the Government of the Russian Federation, General Director of Inter-Vector LTD
Research interests: inter-firm cooperation, international relations, foreign trade organization with Chinese companies.

E-mail: director@intervectorltd.com

G. G. NALBANDYAN
Postgraduate student, assistant, Department of Management, Financial University under the Government of the Russian Federation.
Research interests: industrial companies’ development strategies, international markets entry, inter-firm cooperation, business model transformation.

E-mail: GGNalbandyan@fa.ru
The successfull business persons from Wenzhou will introduce you or your interests if you have good personal relationships. In some situations they will support you by information sharing, in other cases if they think that your project has competitive advantages in their markets, then they will finance your business.

- How did the Wenzhou community help you to start an international business?

All respondents underline that information sharing is in the first place. Some of them mentioned that mutual benefits are the first motivator for the support. No matter that Wenzhou people are widespread all over the world, they are united and like to share resources within the community.

Equipped with an understanding of these practices, we then developed an English version of the survey instrument, translated it in Chinese culture, and then back-translated the results in order to ensure conceptual equivalence and reduce bias. Third, 270 firms were found, where at least one of the top managers had Wenzhou roots. In total, we received 73 questionnaires, for a response rate of 27%. After dropping those responses that were missing several values, we were left with 56 useable responses. Utmost measures that were used in this study were adapted from the extant literature.

The first part of the questionnaire consisted of the questions that characterize the firms: number of employees, firm age, export as a share in revenue, geographic dispersion of foreign markets and industry of activity. Table 1 provides the information on the 56 participating firms that were included in the analysis. All of the firms in the sample are privately owned Chinese companies; their average age of the firms is 13.96 years. The mean number of full-time employees is 142.73. Average export as a share in the revenue of the firms is 46.95%. The mean number of presence on foreign markets is 9.52. Regarding industrial background, firms are from several industries: electronics, garment, home textile fabrics, toys, jewelry, and foundry.

The next section of the survey consisted of multi-item form questions (five-point Likert scales) that were used to operationalize variables in the current study.

The scale for opportunity exploitation was adapted from prior research [Foss N. J., Lynge, J., Zahra S. A., 2013]. It was measured as a self-reported construct. Respondents were asked to report the number of new international opportunities that their firms had successfully realized in the previous three years. To safeguard against respondents improperly counting new international opportunities only with new markets, we asked them to report on three different types of opportunities: (1) new markets, (2) production technology, and (3) products/services. Thus, we constructed the scale as the sum of the international opportunities exploited.

The scale for the strength of international ethnic ties was also adapted prior research [Seifriz M. A., Guedes Gondim S. M., Pereira M. E., 2014]. It indicates the frequency of contacts between a respondent and his international ethnic links.

The measure for liability of foreignness was designed based on the identified sources [Zaheer S., 1995; Zaheer S., Mosakowski E., 1997;]. The respondents were asked «Your ethnic ties helped you to decrease?

- coordination costs while entering a new market in a new country;
- unfamiliarity with a new country’s environment and culture;
- Your ethnic ties helped you to gain:";
- information networks in new countries;
- political influence in new countries.

### Table 1: Descriptive statistics of surveyed firms

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
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<tbody>
<tr>
<td>Number of Employees</td>
<td>5</td>
<td>500</td>
<td>107</td>
<td>138.4</td>
</tr>
<tr>
<td>Firm Age, years</td>
<td>0</td>
<td>30</td>
<td>13.96</td>
<td>8.8</td>
</tr>
<tr>
<td>Export as a share in revenue, %</td>
<td>5</td>
<td>100</td>
<td>46.95</td>
<td>27.4</td>
</tr>
<tr>
<td>Coordination costs while entering a new market in a new country (LOF1)</td>
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<tr>
<td>Unfamiliarity with a new country’s environment and culture (LOF2)</td>
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<td>Information networks in new countries (LOF3)</td>
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<td>Political influence in new countries (LOF4)</td>
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<td></td>
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<tr>
<td>Resources &amp; Exogenous Barriers (REB)</td>
<td></td>
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<tr>
<td>Risk of losing the investment (REB1)</td>
<td>5</td>
<td>10</td>
<td>7.5</td>
<td></td>
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<tr>
<td>Lack of information or help with exploiting an opportunity (REB2)</td>
<td>5</td>
<td>10</td>
<td>7.5</td>
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<tr>
<td>Lack of knowledge of potential export markets (REB3)</td>
<td></td>
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<tr>
<td>Control variable</td>
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### Table 2: Variables and Measures

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
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<tr>
<td>International Opportunity Exploitation (IOE)</td>
<td>The sum of the international opportunities exploited in the previous three years</td>
</tr>
<tr>
<td>Strength of International Ethnic Ties (SOEET)</td>
<td>The scale for the strength of international ethnic ties</td>
</tr>
<tr>
<td>Liability of Foreignness (LOF)</td>
<td>Measures the sum of the international barriers to new international markets</td>
</tr>
<tr>
<td>Resources &amp; Exogenous Barriers (REB)</td>
<td>Measures the sum of the international barriers to new international markets</td>
</tr>
<tr>
<td>Control variable</td>
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</table>
Finally, the export barriers scale was adopted from a research devoted to theidentification of export barrier measurement scale for SMEs [Artęga-Ortiz J., Fernández-Ortiz R. 2010]. The respondents were asked to designate the degree to which their international ethnic ties helped to resolve a lack of resources, insufficient production capacity, strong overseas competition, variations of exchange rates, lack of knowledge of potential export markets, lack of information about opportunities for products and services abroad. Usually, the number of employees and the revenue are used as measures of a firm size. We used only the number of employees as the measure for size due to the difficulties in collecting financial data of Chinese firms [Brouthers L. E., Xu K. 2002]. Table 2 provides information about variables and measures.

4. FINDINGS

Ordinary Least Square (OLS) regression analysis was used to estimate the study models. In the first model, only the control variable was added. The effect of firm size was not significant with R-squared = 0.014. In the second model, we decided to analyze the linear regression to test the predictive value of the strength of international ethnic ties variable in the degree of SME international opportunity exploitation. According to the results, it was statistically significant at 0.0019 with the Adjusted R-squared = 0.09. In the third model, the moderating effect of the strength of international ethnic ties and national opportunity exploitation. According to the results, it was significant (β = 1.83, CI = [1.49–4.72], p < 0.01). For the third and fourth model, Variance Inflation Factors were calculated to quantify the severity of multicollinearity [Jensen D., Ramirez D.E., 2013]. All factors were between 1.21 and 1.89. In the third model, the moderating effect of the strength of international ties on LOF variables was found to be statistically significant. The results indicate that the regression model has a good fit with the data. The R-squared value is 0.51, which means that 51% of the variance in the dependent variable can be explained by the independent variables. The adjusted R-squared value is 0.49, which means that 49% of the variance in the dependent variable can be explained by the independent variables after accounting for the number of independent variables in the model. The F-statistic is 21.585, and the p-value is 0.000, which indicates that the model is statistically significant.

5. CONCLUSION

Ethnic communities have become a vital issue for many global companies and societies [Butler J.S., Hering C., Li et al. 2018]. Notably, the strength or weakness of ethnic ties has emerged as a significant factor when researchers examine international opportunity, a foreign direct investment with location choice, and new business [Jean R.J., Tan D., Sinovksis R.R., 2011; Karremen B., Burger M.J., Van Oort F.G., 2016]. This research highlights the role of international ethnic ties in international opportunity exploitation and examines their influences on mitigating the liability of foreignness and diminishing impacts from export barriers. As a baseline hypothesis, the authors examined the connection between international ethnic ties and international opportunity exploitation via the potential networking resources of an ethnic population. The hypothesis was supported. Next, the mitigation of LOF effects through the international ethnic ties was tested. It was identified that unfamiliarity with a new country's environment and culture, shortage of information networks and lack of political influence in new countries could be mitigated using international ethnic ties. However, the hypothesis of using international ethnic ties to diminish coordination costs while entering a new market in a new country was not supported, and further consideration is needed.

Lastly, the relationship between the mitigation of export barriers and the strength of international ethnic ties was examined. In particular, this study looked at resources, exogenous and knowledge barriers. It was recognized that under high resources or exogenous barriers situation, international ethnic groups could provide little if any assistance or help with exploiting an international opportunity. However, these groups can help to overcome knowledge barriers, such as lack of knowledge of foreign export markets or lack of information about opportunities for products and services abroad.

Like all scientific research, this article has methodological and conceptual limitations, which could take different extents contingent on the difficulties mainly encountered in its development. Undoubtedly, a significant limitation lies in the representativeness of the sample. Although the Wenzhou community has a tradition in the exporting, which qualifies it for the study of company internationalization; authors are not sure that it represents the heterogeneity of Chinese SMEs.

REFERENCES