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

## ABSTRACT

The effect of international ethnic communities on international opportunity exploitation of Wenzhou industrial SMEs is examined. The following hypotheses are tested: the hypothesis on the connection between international ethnic ties and international opportunity exploitation; the hypothesis on the mitigation of "liability of foreignness" effects through the international ethnic ties; and finally, the hypothesis of the impact on export barriers. Results of the empirical study, in general, support the derived hypotheses.

## KEYWORDS

INTERNATIONAL ETHNIC TIES, OPPORTUNITY EXPLOITATION, LIABILITY OF FOREIGNNESS, EXPORT BARRIERS, WENZHOU.

## 1. INTRODUCTION

There has been a steady infiltration of new ethnic groups into the Western countries [Guercini 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-market small and medium-sized enterprises (SMEs) who have a shortage of resources, social capital rooted in their networks plays a vital role in their 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., Shenkar 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 unison 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., Shenkar 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 recognize 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 [Jean 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 frequently more important to succeed in business than the 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 [Michailova S., Worm V., 2003].

According to the Chinese Xinhua Dictionary, the primary meaning of guanxi comes from combining two Chinese words: guan (关) and xi (系). 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.»

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, wining 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 service, 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 manage-

ment, 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 hypothesis, the authors 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 also bring liabilities. Prior 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., Ranft 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 them 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 are not static costs, but vary inversely 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.

Based on the preceding, it seems logical that SMEs might be looking for a way to decrease cultural distance in the new environment while simultaneously attempting to increase knowledge. To alleviate the potential friction resulting from the host and home countries' cultural and social differences, which disrupt actors' market integration capacity and undermine legitimacy [Zaheer S., 1995], new SME actors might capitalize on the opportunity to use the legitimacy that they are granted based on their cultural and social similarities with the ethnic community members.

The initial acceptance in an ethnic network might be an opportunity for the transnational agent to initiate integration into the host country environment and acquire the necessary knowledge for realizing the broader legitimacy of operations. In that sense, the ethnic community is expected to act not only as a cultural facilitator but also as a mechanism for reducing the liabilities of foreignness.

Therefore, we hypothesize the following:

*H2a: There is a positive relationship among the strength of international ethnic ties and mitigation of coordination costs while entering a new market in a new country.*

*H2b: There is a positive relationship among the strength of international ethnic ties and mitigation of unfamiliarity with a new country's environment and culture.*

*H2c: There is a positive relationship among the strength of international ethnic ties and gaining information networks in new countries.*

*H2d: There is a positive relationship among the strength of international ethnic ties and gaining political influence in new countries.*

However, these external factors may not be enough to explain the relationship between international ethnic ties and international opportunity exploitation. Hence, to more deeply examine the relationship, the current study includes a third external environmental variable: export barriers.

### 2.3. Export barriers

Leonidou has characterized export barriers as «attitudinal, structural, operative, or other obstacles that hinder or inhibit companies from deciding to start, develop or maintain international activity» [Leonidou L.C., 1995, p. 31]. Leonidou then divided export barriers into two categories: internal and external export barriers. After his work, the concept and definition of export barriers became broader and more generalized: "...any element or factor, whether internal or external, that blocks or discourages companies from initiating, increasing, or maintaining export activities» [Arteaga-Ortiz J., Fernández-Ortiz R., 2010]. This definition is utilized in the current study as the definition of export barriers. When it comes to considering the global market and international opportunity, export barriers is one of the primary variables to examine. Depending upon the level of export barriers, decision-makers may change their mind about new markets [Trachuk A., Linder N., 2018].

We believe that under a high resources or exogenous barriers situation, such as lack of resources to face the period needed to recover export-related investments or risk from the variation of the exchange rates, ethnic groups can provide little if any assistance or help with exploiting an opportunity. Therefore, we claim the following:

*H3a: There is no relationship between the strength of international ethnic ties and mitigation of resources and exogenous barriers impact when entering foreign markets.*

Nevertheless, the authors believe that international ethnic ties can help to overcome knowledge barriers, such as lack of knowledge of potential export markets or lack of information about opportunities for products and services abroad. Therefore, we claim the following:

*H3b: There is a positive relationship among the strength of international ethnic ties and mitigation of knowledge barriers impact when entering foreign markets.*

## 3. METHODOLOGY

### 3.1. Sample

We employed a survey approach to collect data from the sampled. First, we conducted half-structure interviews with senior managers of 8 SME exporters from the eastern Chinese city of Wenzhou. The Wenzhou Community is renowned for its entrepreneurs. In many ways, it symbolizes the rise of China's private sector; over 95 percent of the local economy is based in the private sector. The development of the private economy in Wenzhou has created the «Wenzhou Economic Model» which has inspired the modernization drive in China [Liu A.P., 1992]. Historically Wenzhou served as the trading center of southeast Zhejiang and northern Fujian and as the main entrepot for trade with large northern ports such as Ningbo and Shanghai. Above all, the Wenzhou people became highly mobile and skilled in a long-distance trade, which enabled Wenzhou to sustain a larger population than its geography and natural endowment would have allowed. Out of this social and economic condition grew another of Wenzhou's traditions – outmigration. This brought to a situation that Wenzhou Community has one of the most influential international guanxi networks.

The results of the interviews were systemized and can be shown as four paragraphs.

- *Can international guanxi networks help you in international business? If yes, then how do you use it?*

Any level of guanxi makes business more convenient. For example, if you are a new player in the industry, and have a guanxi person who is familiar with the industry, then he can provide the necessary information that can help you during your operations. If you have guanxi, then you can get a priority offer opportunity. It helps you to know the host country's industry information better and faster.

- *What are the disadvantages of having guanxi in international business?*

Several respondents mentioned that sometimes one could have a black box effect because of the guanxi. The use of many relationships is not cheerful. Your business can have some risks if you share the information. If your business operations depend on relationships, then your business can be broken down after these relationships interruption.

- *In which circumstances do you feel the Wenzhou community support in international business?*

Almost all the respondents mentioned that Wenzhou people have an excellent basis of mutual assistance. They support each other to develop their business. Some of the mentioned that if the project benefits are high, then they will be supported by the funds.

The successful 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 products can have 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 into Chinese, 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. In addition, the 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

**Table 1**  
Descriptive statistics of surveyed firms

Index	Surveyed firms, %
<b>Number of Employees:</b>	
25 or less	14,3
26-50	7,1
51-100	10,7
101-250	62,5
More than 250	5,4
<b>Firm Age, years:</b>	
5 or less	17,9
6-10	25,0
11-20	30,4
More than 20	26,8
<b>Industry:</b>	
Electronics	26,8
Garment	23,2
Home textile fabrics	12,5
Toys	21,4
Jewellery	10,7
Others	5,4
<b>Number of foreign markets:</b>	
5 or less	26,8
6-10	32,1
11-15	25,0
More than 15	16,1
<b>Export as a share in revenue, %:</b>	
15 or less	10,7
16-25	5,4
26-40	17,9
41-50	19,6
More than 50	46,4

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 scale) that were used to operationalize variables in the current study.

The scale for opportunity exploitation was adapted from prior research [Foss N.J., Lyngsie J., Zahra S.A., 2013]. It was measured as a self-reported count variable. 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 implicitly equating 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 an overall measure 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 2**  
Variables and Measures

Variable	Measure
International Opportunity Exploitation (IOE)	The sum of the international opportunities exploited in the previous three years
Strength of International Ethnic Ties (SOIET)	The frequency of contacts between respondents and international ethnic links
Liability of Foreignness (LOF)	Coordination costs while entering a new market in a new country (LOF1). Unfamiliarity with a new country's environment and culture (LOF2). Information networks in new countries (LOF3). Political influence in new countries (LOF4)
Resources & Exogenous Barriers (REB)	Lack of resources to face the period needed to recover export-related investments (REB1). Insufficient production capacity (REB2). Strong overseas competition (REB3). Variations of exchange rates (REB4)
Knowledge Barriers (KB)	Lack of knowledge of potential export markets (KB1). Lack of information about opportunities for products and services abroad (KB2)
Number of Employees (EmpN)	Control variable

Finally, the export barriers scale was adopted from a research devoted to the identification of export barrier measurement scale for SMEs [Arteaga-Ortiz J., Fernández-Ortiz R, 2010]. The respondents were asked to designate the degree that 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 = 0.2023, revealing a visible improvement from the first model. The regression shows that there is a positive effect of strength of international ethnic ties and international opportunity exploitation and it is significant ( $\beta = 1.83$ , 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 tested. Effects on LOF2 and LOF3 variables were found to be statistically significant. Results of the model can be observed in Table 3.

**Table 3**  
SOIET moderating effect on LOF sources

Variable	B	CI	std. Error	P
Intercept	0.42	-0.31–1.15	0.37	0.257
EmpN	0.00	0.00–0.00	0.00	0.711
LOF1	-0.09	-0.26–0.07	0.08	0.270
LOF2	0.37	0.14–0.61	0.12	<0.01
LOF3	0.52	0.28–0.77	0.12	<0.01
LOF4	0.43	0.18–0.65	0.13	<0.01
Observations	56			
R2/adj. R2	0.546/0.511			
F-statistics	18.247			

In the fourth model, the moderating effect of the strength of international ties on export barrier variables was tested. Effects on KB1 and KB2 variables were found to be statistically significant. Results of the model can be observed in Table 4. Overall, Hypothesizes H1, H2b, H2c, H2d, H3a, H3b were supported.

**Table 4**  
SOIET moderating effect on export barriers

Variable	B	CI	std. Error	P
Intercept	-0.56	-1.52–0.39	0.48	0.244
EmpN	0.00	0.00–0.00	0.00	0.203
REB1	0.16	-0.07–0.39	0.11	0.180
REB2	0.05	-0.15–0.25	0.10	0.628
REB3	0.07	-0.16–0.29	0.11	0.547
REB4	0.00	-0.18–0.18	0.09	0.961
KB1	0.60	0.36–0.83	0.12	<0.01
KB2	0.44	0.27–0.61	0.09	<0.01
Observations	56			
R2/adj. R2	.659/.624			
F-statistics	21.585			

### 5. CONCLUSION

Ethnic communities have become a vital issue for many global companies and societies [Butler J.S., Herring C., 1991; 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., Sinkovics R.R., 2011; Karreman 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 potential 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 representa-

tiveness 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.

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