

## SOCIAL GLOBALISATION IN THE CONTEXT OF INTERNATIONAL ENTREPRENEURSHIP

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### Abstract

The old adage, “Who you know, is more important than what you know” rings true for internationally focused entrepreneurs. The network approach to internationalisation argues international business opportunities start from social interactions and evolve into strategically important relationships. In other words, interpersonal and inter-firm network relationships affect internationalisation strategies of entrepreneurial organisations. The aim of this conceptual paper is to explore the concept of social globalisation in the framework of international entrepreneurship. The authors argue that cultural-cognitive institutions define international opportunity awareness within a country and highlight the role that networks play in the process. Furthermore, cosmopolitan-oriented countries that support global interconnectedness may provide greater opportunities for favourable international cognitions. Using examples of social globalisation research on both domestic and international entrepreneurship, the argument is put forth that the greater the level of social globalisation in a country, the greater the opportunity for domestic firms to develop diverse network relationships facilitating internationalisation. Through exposure to and involvement in international networks, entrepreneurial firms gain international knowledge and develop awareness of international opportunities to commercialise innovations. The findings provide insight into external environmental conditions influencing the relationship between interpersonal networks, interfirm networks and internationalisation. Cultural proximity and international personal contacts represent social globalisation and serve as a useful measure of networks at a country level of analysis.

**Keywords:** Entrepreneurship, Internationalisation, Networks, Social Globalisation.

### 1. Introduction

The aim of this conceptual paper is to explore social globalisation in the context of international entrepreneurship. Social globalisation relates to a country’s openness to and connections with other countries. Economic theories of social globalisation find that increasing cultural proximity reduces resistance to foreign ideas and products (Dreher, 2006). In addition, social globalisation theory argues global communication networks promote international trade and economic integration (Mayer-Schöenberger & Hurley, 2000, p. 147). Therefore, it is through these interpersonal networks that ideas, information and trade flow (Koehane & Nye, 2000).

Research on international entrepreneurship explores cross-national differences in entrepreneurial behaviour as well the international behaviour of entrepreneurial firms. In the latter case, young entrepreneurial firms quickly gain international sales by targeting niche markets to capitalise on promising opportunities created through rapid technological

advancements, converging global demand, and interconnected economies (Oviatt & McDougall, 1994; Knight and Cavusgil, 2004). Thus, globalisation opens avenues for entrepreneurial firms to access and serve international niche markets (Bloodgood et al., 1996; Knight, 2000).

According to the network theory of internationalisation, entrepreneurial firms need to develop and leverage networks in order to succeed in international markets (Johanson and Mattsson, 1988; Oviatt & McDougall, 1994; Coviello, 2006). Internationalisation, thus, can be seen as simply a by-product of a firm's attempt to strengthen their position within established business networks or to cultivate new ones (Johanson and Vahlne, 2009). Therefore, interpersonal and interfirm network relationships affect internationalisation strategies of entrepreneurial organisations.

However, research shows contextual factors which influence an entrepreneurial firm's international orientation, as well as their opportunity to create networks which facilitate internationalisation. For example, factors such as the global appeal of a firm's offerings, the location of a firm's network partner and the level of global integration within the industry may increase the international orientation of that firm (Schweizer et al. 2010).

In this paper, we argue that country level forces also influence the international orientation of entrepreneurial firms and their ability to develop networks to facilitate their international trade. Within a country, the laws and regulations establish the framework conditions that indirectly shape entrepreneurial efforts. These formal institutions influence entrepreneurial motivations (Hessels et al., 2008) and export orientations (De Clercq et al., 2008). Informal institutions, represented by business norms and cultural cognitions also influence entrepreneurship quality (Stephan and Uhlaner, 2010) and network collaboration (Arenius & De Clercq, 2005; Klyver et al., 2008; De Clercq et al. 2010). Countries with informal institutional support for social globalisation increase opportunities for access to international ideas, information, and contacts and thus create favourable international entrepreneurship conditions. Therefore, these cultural-cognitive institutions define international opportunity awareness within a country and highlight the role networks play in the process. Using examples of social globalisation research on both domestic and international entrepreneurship, we put forth the argument that the greater the level of social globalisation in a country, the greater the opportunity for domestic firms to develop diverse network relationships facilitating internationalisation. This supports the old adage, "Who you know, is more important than what you know", at least in case of internationally focused entrepreneurs.

In order to contribute towards theoretical understanding on the contextual relationship between social globalisation and international entrepreneurship, we begin our discussion by exploring the nexus of institutional and international entrepreneurship theories. This is followed by a discussion of the growing body of research on globalisation in relation to entrepreneurship. Thereafter, we discuss social globalisation theory and measures and the relationship to international entrepreneurship. In doing so, we set forth our argument regarding the relationship between social globalisation and networks for internationalisation.

## **2. Nexus of Institutional Theory and International Entrepreneurship Theory**

In order to explore how country level forces influence the international orientation of entrepreneurial firms, as well as their ability to develop networks for internationalisation, we discuss insights emerging from the nexus of institutional and international entrepreneurship theories.

Institutional theory embodies contributions from economics (North, 1990), sociology (DiMaggio Powell, 1983; DiMaggio Powell, 1991), and organisational theory (Meyer Rowan, 1991). The genesis of institutional theory lies in the recognition that firms operate within a social

framework representing a country's idiosyncratic economic, political and social history. Institutional theory recognises that national environments operate differently and that the home environment influences firm strategy. Therefore, institutional theory's appeal lies in the understanding that similarities rather than differences explain organisational behaviour (DiMaggio and Powell, 1983; Peng *et al.*, 2009; Bruton *et al.*, 2010).

A country's institutional matrix includes formal institutions (e.g., laws and regulations) and informal institutions (e.g. social norms and shared cultural beliefs). Institutional theory recognises that interacting regulatory, normative and cultural-cognitive forces support and maintain stable behaviour (Scott, 2008). Regulatory forces establish the 'rules of the game' by which firms operate (North, 1990). In contrast, social norms and values define proper (Bruton *et al.*, 2010) and admired (Busenitz *et al.* 2000) behaviour. Cultural-cognitive forces relate to preconscious cultural behaviour, affecting regulatory and normative conditions (Meyer and Rowan, 1991). DiMaggio and Powell (1983) maintain that institutions exert pressure on firms and on individuals to conform through coercive, imitative, and normative expectations. The outcome becomes country-specific expectations of appropriate actions. A country's distinct blend of rules, norms, and beliefs represent a specific institutional profile (Kostova, 1997; Kostova and Roth, 2002). Busenitz, Gómez and Spencer (2000) argue that a country's institutional profile directs the type of entrepreneurship within a country.

A country's informal institutional environment contains both cultural-cognitive and normative forces (DiMaggio and Powell, 1983). In terms of cultural-cognitive forces, research recognises culturally-based heuristics which underlie entrepreneurial behaviour (Stephan and Uhlaner, 2010). Cultural-cognitive forces influence "...how societies accept entrepreneurs, inculcate values, and even create a cultural milieu whereby entrepreneurship is accepted and encouraged" (Bruton *et al.*, 2010, p. 423). Normative forces are also likely to influence entrepreneurial behaviour. Busenitz *et al.* (2000) find that norms influence the social desirability of entrepreneurship. In turn, a society's accumulated knowledge and skill sets become institutionalised as they merge into the country's shared social knowledge. Normative forces establish international commercialisation activity as normal and accepted behaviour for entrepreneurial firms (Kiss and Danis, 2008). Spillover effects occur when countries have high levels of exporters. For example, DeClercq *et al.* (2008) find a strong relationship between high export levels and new ventures with export aspirations. In addition to legitimising international expansion as a viable commercialisation strategy, informal institutional norms may influence the importance of internationalisation networks. Yeung (2002, p. 48) argues normative forces determine how inter-organisational relationships form (co-operative vs. competitive) and different relationship forms shape entrepreneurial behaviour. Trust-based relationships substitute for formal hierarchical contracts and thus represent alternative governance structures (Powell, 1990; Yeung, 2002). Oviatt and McDougal (1994), argue that new ventures use informal, alternative governance structures to overcome barriers to international commercialisation. Johanson & Valhne (2009) contend all internationalisation occurs through network relationships. In summary, normative forces within a country influence international market aspirations and collaborative network development. International entrepreneurship research indicates that informal institutions influence the type of entrepreneurship developing within a country (Spencer and Gómez, 2004).

### **3. Globalisation and Entrepreneurship**

The previous discussion suggests a self-reinforcing effect between a country's informal institutional environment and global integration level. Globalisation refers to "networks of interdependence at multi-continental distances" linked by flows of goods, capital, information, ideas, and people (Koehane & Nye, 2000; Dreher, 2006). Acs & Szerb (2010) consider a country's level of economic globalisation representative of institutional support for

international-oriented entrepreneurship. Arguably, more than economic linkages connect countries. Koehane and Nye (2000) suggest globalisation creates connections at multiple levels including economic, political, environmental and also social.

Supporting the concept of multiples levels of globalisation is the Swiss Federal Institute of Technology's Konjunkturforschungsstelle (KOF) Globalisation Index. This index provides annual, comparative data for 200 countries dating from 1970 (Dreher, 2006) and measures globalisation in terms of economic, political and social components. The KOF Globalisation Index features in a variety of research representing diverse disciplines. A partial index, representing 74 studies since 2010, is available on the KOF Index website. The majority of this research to date falls within the economic and public policy streams of research. There is a notably a dearth of business related research utilising these measures. The following is a summary of studies, including KOF measures in relation to cross-national differences in levels of entrepreneurship.

First, Vinig and de Kluyver (2007) are one of the first studies to use the KOF Index in their research exploring the relationship between a country's level of entrepreneurship and its level of globalisation. Their findings indicate a lack of statistical correlation between the variables. However, two aspects of their research spark areas for further exploration in the context of international entrepreneurship. First, Vinig and de Kluyver (2007) use Global Entrepreneurship Monitor (GEM) definitions and data to identify country levels of entrepreneurship. GEM is a collaborative effort between the London Business School and Babson College (Reynolds *et al.*, 2005) formed in 1999. GEM researchers survey entrepreneurs in 66 countries, representing 80% of the world population (Acs, Amorós, Bosma & Levie, 2009). GEM data combines nascent entrepreneurs with data on young firms (less than 3.5 years old) to create their Total early-stage Entrepreneurial Activity (TEA) measure. Although GEM's TEA is a robust and widely used measure, it includes nascent entrepreneurs. Nascent entrepreneurs are organisations in the start-up stages of development. Koellinger *et al.* (2007) find that over confidence is common among nascent entrepreneurs and optimistic biases are linked to institutional frameworks. As such, nascent entrepreneurs may be over confident about the potential success of their organisation and the international appeal of their innovative offerings. In addition, these organisations are most likely in the very early stages of developing networks for internationalisation, if at all. Therefore, a more specific measure of entrepreneurship is needed for research exploring network theories of internationalisation. Second, the Vinig and de Kluyver (2007) study relies on the full KOF Index as a measure of globalisation. Although economic and political aspects of globalisation certainly influence a firm's ability to develop networks for internationalisation, we argue the social aspect is most relevant.

A promising stream of research employing the KOF Index in the context of international entrepreneurship is in relation to the Global Entrepreneurship and Development Index (GEDI). The GEDI attempts to capture contextual features of entrepreneurship across countries (Acs and Szerb, 2010; Acs and Autio, 2011). Similar to Vinig and de Kluyver (2007), the GEDI relies on GEM TEA data, which as previously discussed, provides a comprehensive measure of entrepreneurship, which may be too broad to capture the type of entrepreneurial activity of interest in the current research. In terms of globalisation, GEDI includes the economic component of the KOF Index exclusively.

Further research by Norbäck, Perrson and Douhan (Norbäck *et al.*, 2014), explores the relationship between a country's entrepreneurship policy (measured by the World Bank's 'Doing Business' data) and globalisation (based on the full KOF Index). These authors find a negative correlation between international openness and entrepreneurial barriers of entry. In other words, the more globally integrated a country is, the easier it is for entrepreneurs to start and grow businesses.

Although the extant research exploring the relationship between globalisation and entrepreneurship has added insights into our discussion, we argue that the social component of globalisation influences the ability of entrepreneurial firms to develop networks for internationalisation.

#### **4. Social Globalisation**

Social globalisation refers to interconnectedness between ideas, information, and people from different countries (Koehane & Nye, 2000; Dreher, 2006). Following Dreher (2006), social globalisation is considered a multidimensional concept representing informal institutional support for foreign product acceptance, global exchange of ideas and information, and opportunities for exposure to and interaction with foreigners. The Social Globalisation Index is comprised of three parts, each section designed to proxy a separate aspect of global integration as the flow of ideas, information, and people.

#### **5. Global Flow of Ideas and Products**

A country's informal institutional support for social globalisation suggests a cosmopolitan orientation and normative acceptance of converging global demand (Ritzer & Stillman, 2003). Economic theories of social globalisation find that increasing cultural proximity reduces resistance to foreign ideas and products (Dreher, 2006). To capture the flow of ideas and products, the KOF Social Globalisation Index considers the number of McDonald's restaurants per capita, the number of Ikea shops per capita, and international trade in books as a percentage of GDP to represent a country's level of global cultural proximity (Dreher, 2006).

International entrepreneurship research proposes a link between the influence of converging global demand on market homogeneity and entrepreneurial firms' following niche strategies (Bloodgood *et al.*, 1996; Madsen and Servais, 1997; Nkongolo-Bakenda *et al.*, 2010). Entrepreneurial firms are engaging with foreign customers earlier and more proactively due to the globalisation of their markets (Knight, 2000). For firms in knowledge-intensive industries, internationalisation through deep-niche strategies may be a survival requirement (Shrader *et al.*, 2000). Institutional support encouraging social integration and cultural proximity creates favourable conditions for entrepreneurial firms adopting niche strategies in global markets.

We argue that entrepreneurial firms located in countries with high cultural proximity have greater potential for exposure to new, foreign products. These firms have a greater opportunity to identify internationally attractive offerings. Countries with high cultural proximity provide normative support for converging global demand and as a result, social approval for entrepreneurial firms to pursue niche-targeting strategies internationally.

#### **6. Global Flow of Information**

A country's informal institutional support to create global communication networks represents normative acceptance of idea and information exchanges internationally. Country-level conditions provide access to the Internet and other technological advances. These conditions provide entrepreneurial firms with the opportunity to exchange ideas and information necessary to source and serve foreign customers (Madsen & Servais, 1997; Knight, 2000; Vinig & de Kluijver, 2007). Acs and Szerb (2010) measure a country's networking attitude as a combination of Internet usage and entrepreneurial role-model support. The KOF Social Globalisation Index considers the number of Internet users per 1,000 people, the number of televisions per 1,000 people, and international trade in newspapers as a percentage of GDP to represent a country's information flow level. As such, the information flow sub-index measures a country's level of infrastructure for providing entrepreneurial opportunities to access and serve international markets but is not a measure of direct interaction between people across borders.

We argue that countries with higher social globalisation levels have greater access to ideas and information flows more easily between domestic and international firms. Increasing information flows may enhance international knowledge and improve the domestic firm's ability to satisfy foreign customer needs. Institutional support, facilitating higher information exchange levels, may also create favourable conditions for entrepreneurial firms to commercialise aggressively in international markets.

## 7. Global Flow of People

A country's informal institutional support for direct interactions with people from other countries represents cosmopolitan orientation and normative acceptance of multiculturalism. International personal contacts occur through foreign educational or work exchanges, tourism, and immigration (Dreher, 2006). KOF considers the level of inward and outward tourism, the immigrant population percentage, the level of international telephone traffic in minutes per person, the international exchange of letters per capita, and international transfers of wages as a percentage of GDP to represent direct interaction between people in different countries. Entrepreneurial firms located in countries with high levels of international personal interaction provide normative support for exposure to and involvement with international networks.

Several research streams study the economic consequences of international personal contacts including research on entrepreneurial global mindset (Levy *et al.*, 2007), prior international experience of top management teams (Reuber & Fischer, 1997), the immigrant effect on international trade (Enderwick *et al.*, 2011), as well as Diaspora and transnational influences on international entrepreneurship (Yeung, 2002; Tung and Chung, 2010). Recent human mobility research finds entrepreneurs with international education or work experience are more innovative than domestic entrepreneurs, better connected through their networks and social capital, and act as conduits through which knowledge spill overs occur (Liu *et al.*, 2010). Zahra, Ucbasaran, and Newley (2009) argue exposure to and involvement in international networks helps entrepreneurial firms gain and assimilate international knowledge to develop more creative offerings. Extant research finds network relationships influence entrepreneurship (Kwon & Arenius, 2010) and internationalisation (Johanson and Kao, 2010). According to Johanson and Vahlne (2009), whatever happens, happens in networks.

We argue that the more integrated a country is with the global community, the greater the opportunity for people to interact and thus, for international networks to develop. International personal contacts occur through a country's inflow and outflow of people. Inflows result in greater numbers of foreign students, visitors, or immigrants to a country and create opportunities for foreign exposure to export suitable domestic products. Outflows result in greater domestic entrepreneurial exposure to foreign products, markets, and potential network contacts. This exposure increases awareness of potential market opportunities by domestic firms. Both inflows and outflows lower the psychic distance between entrepreneurial firms and international markets. Institutional support encouraging greater international interpersonal contact may also create favourable conditions for entrepreneurial firms to aggressively develop and leverage networks for internationalisation.

## Conclusion

In this conceptual study, we argue that the greater the level of social globalisation in a country, the greater the opportunity for domestic entrepreneurial firms to develop diverse network relationships facilitating internationalisation. Therefore, social globalisation represents the ability to develop international networks at a country level of analysis. Global networks develop through cultural-cognitive and normative support for increased cultural proximity and thus the acceptance of converging global demand. In addition, informal institutional support allowing opportunities to interact with information and people from other countries stimulates awareness and interest in international market opportunities.

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