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Abstract

- **Purpose:** This study aims to utilise key insights from social network theory (SNT) to enhance understanding of overcoming the liability of outsidership as a prerequisite for firm internationalization. Specifically, it seeks to examine the influence of structural attributes of networks on the motivational stance of both network insiders and outsiders in relation to overcoming the liability of outsidership. A related aim is to explore the role of network positions of insider actors in terms of its impact on the speed of market entry.
- **Design/methodology/approach:** The article draws on the extant literatures on firm internationalization, particularly the liability of outsidership, and SNT to identify to what extent SNT can be utilised to deeply understand the process of overcoming the liability of outsidership. We put forward eight propositions linking structural and positioning attributes of networks with overcoming the liability of outsidership.
- **Findings:** SNT provides strong potential for a more comprehensive understanding of the internationalization phenomena through shedding light on the inter-relationship between the liability of foreignness and the liability of outsidership. The paper demonstrates that while the cost of overcoming the liability of outsidership is higher in closed target network as compared to open networks, the expected benefits of an insider position in closed or open network is affected by the outsider firm's perception of the liability of foreignness in the market it wishes to enter. Considering the differential enabling characteristics of closed and open network in terms of facilitating tacit knowledge sharing as opposed to explicit information flows, we reveal that liability of foreignness operates as a negative moderator for the relationship between network structure and the willingness of the outsider to invest in gaining insidership. The analysis of the paper also shows that the positional attributes of the network insider are relevant in outsiders' motivation in terms of the speed of market entry that they seek to achieve.

- **Originality/value:** This study theoretically contributes to the internationalization research through integrating SNT with the liability of outsidership understanding of firm internationalization. This is a timely attempt as no systematic application of the conceptual apparatus of SNT in the internationalization research context has been studied. It adds a more coherent inside-out perspective into the overcoming the liability of outsidership discussion which has been extensively dominated by an outside-in perspective.
- **Keywords:** Social network theory, internationalization, liability of outsidership, liability of foreignness, network structure, market entry, speed of entry

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Abstract

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1. Introduction

The literature on firm internationalization, particularly that focusing on SME internationalization and international new ventures, has highlighted the importance of network linkages in the internationalization process (e.g. Johanson and Vahlne, 2009; Larson and Starr, 1993; Loane and Bell, 2006; Coviello, 2006; Ojala, 2009; Gabrielsson *et al.*, 2008). In their revised Uppsala model, Johanson and Vahlne (2009) provided an important and influential contribution by articulating the proposition that the main impediment for internationalization is the liability of network outsidership rather than the liability of foreignness. However, despite the increasing emphasis on the network concept in the internationalization research, there is little connection thus far between the literature on internationalization and social network theory (SNT). To our knowledge, no systematic application of the conceptual apparatus of SNT in the specific context of the internationalization process has been attempted. In this respect, the criticism by Knox *et al.* (2006) that social network approaches are poorly applied in social science studies, also applies to the body of research on firm internationalization.

In this paper we seek to demonstrate the value of SNT in the context of firm internationalization. We develop our arguments with specific reference to the revised Uppsala model (Johanson and Vahlne, 2009) in which internationalization is understood as a process of building ‘insider’ positions in relevant networks. To quote the authors:

“Anything that happens, happens within the context of a relationship, and a firm that is well established in a relevant network or networks is an “insider” ... it is to a large extent via relationships that firms learn, and build trust and commitment - the essential elements of the internationalization process”(Johanson and Vahlne, 2009, p .1415).

The view of ‘networks’ implied by the above statement is a rather generic one - network seen as a general web of relationships. However, not all networks are the same nor all networked relationships necessarily engender trust and commitment or to the same extent. We argue that that applying SNT insights provides a more nuanced view of ‘insidership’. In particular, SNT helps to demonstrate that the effort needed to gain insidership and hence willingness of internationalizing firm to incur the costs of overcoming their outsidership is closely bound up with the structural and, to a lesser degree, positional attributes of the ‘targeted’ network. Furthermore, and equally importantly, the SNT approach reveals not only that overcoming the liabilities of (network) outsidership and foreignness are intimately connected, but that their connection is shaped by the structural attributes of the network in which the firm seeks to become an insider.

We adopt an ‘inside-out’ and ‘outside-in’ framing to develop the paper’s core arguments and the related propositions. ‘Inside-out’ focuses on the willingness of insiders in a network to form relationship with an outsider and the dependence of such willingness on the structural attributes of the network within which the insider is embedded. ‘Outside-in’ focuses on the willingness of an outsider internationalizing firm to become an insider in a targeted network in the foreign market it wishes to enter. The willingness of the internationalizing firm is dependent both on the structural attributes of the targeted network and on its perception of the extent of the liability of foreignness of the target country. Additionally, the speed of entry that the internationalizing firm wishes to achieve will influence its preference with respect to the positional attributes of the inside member it connects to.

The remainder of the paper is structured as follows. Section 2 focuses on the revised Uppsala model (Johanson and Vahlne, 2009) in which the main impediment for internationalization was given as the liability of outsidership. Section 3 provides an overview of the social network theorising, highlighting the main concepts and contending theories as to

the potential benefit of insidership. Sections 4 and 5 provide the paper's core arguments in relation to how network structure and positions of network members influence the attempts by an internationalizing firm to gain network insidership. These arguments are crystallised in eight propositions. Section 6 concludes with implications for internationalization research and suggestions for future research.

2. Liability of foreignness, liability of outsidership and internationalization

In their original model, Johanson and Vahlne (1977) analysed internationalization as an incremental, gradual, learning based process, which supports cumulative market commitment starting from psychically close markets. In their subsequent contributions, Johanson and Vahlne shifted from the relatively atomistic and firm centric perspective, to a more business network one (Johanson and Vahlne, 1990, 2003, 2009). The 2009 paper is the full blown statement of this shift, whereby network insidership replaces market commitment as the state variable (see also Vahlne et al., 2012). The revised model sees internationalization as a process pursued in a network and posits the network relationships of firms as providing a potential for learning, building trust, and commitment (Johanson and Vahlne 2009; Schweizer, 2013).

Compared to the original Uppsala model (Johanson and Vahlne, 1977), the revised model affirms that liability of outsidership is a more appropriate framing than the liability of foreignness to explain obstacles to opportunity recognition and internationalization barriers (Johanson and Vahlne, 2009). The liability of foreignness is essentially a reflection of level of psychic distance between the home and host country, whereas the liability of outsidership reflects a firm's lack of a network position in the 'targeted' network in the foreign market.

However, as Johanson and Vahlne note, liabilities of foreignness and of outsidership are related; the greater the liability of foreignness, the more difficult it will be to develop insider positions in the targeted networks in the host country. Fundamentally, an internationalizing firm's 'liability', whether couched in terms of foreignness or outsidership, signifies lack of particular types of knowledge which engenders a perception of uncertainty. One influential study (Eriksson *et al.*, 2015) identified two key dimensions¹ of knowledge that underpin effective internationalization: foreign business knowledge and foreign institutional knowledge. The liability of foreignness can be associated with lack of foreign institutional knowledge, while the liability of outsidership is more likely indicated by lack of foreign business knowledge. Both liabilities are reduced or 'overcome' through a largely experiential learning process (Johanson and Vahlne, 2009) though other leaning processes also have a role to play (Forsgren, 2002).

A key point, however, is that, unlike in the original Uppsala model, in the revised model experiential learning is conceived as an 'interactive' process entailing the development of mutual commitment between relationship partners (Johanson and Vahlne, 2009). Such mutuality is crucial with respect to gaining foreign business and market knowledge but is also important with respect to foreign institutional knowledge, particularly the more informal dimensions of institutions in psychically distant and emerging economies, which are often a greater impediment to internationalization than formal rules and laws. The implication is therefore that gaining country specific knowledge also entails relationship building and hence network engagement. Arguably, knowledge sets that help reduce liabilities of foreignness and outsidership are largely *jointly created* through network engagement. A number of studies lend support to this argument. For example, Elango (2009), while focusing specifically on foreign firms' strategies for 'minimising' their liability of foreignness, showed that a

¹ A third dimension identified was 'internationalizing knowledge'. Although this was not found to be significant in their study, its general analytical relevance has since been acknowledged (Johanson and Vahlne, 2009).

particularly effective way was through gaining the network benefits that come from joining business groups in the host country. Another relevant study is by Luo (2007) who stresses the importance of strategic ‘insider’ positions with a focus on political and policy networks and relationships with governments. Another line of analysis that connects with network outsidership is by Rangan (2000) who emphasise the relevance of social networks in overcoming or reducing the search and deliberation barriers to exchange (especially in cross border contexts). Also arguable is the phenomenon of the psychic distance paradox (O’Grady and Lane, 1996) i.e. the observation that firms’ performance in foreign markets may be *positively* affected by psychic distance is explicable in terms of the liability of network outsidership. Thus, psychic distance can improve performance in unfamiliar and ‘distant’ markets because firms adopt a more cautious approach and devote greater resources to learning about the market (Evans *et al.*, 2000; Yamin and Sinkovics, 2006), which likely entails developing relationships with ‘key players’ in the targeted networks. Thus we conclude that, from an analytical standpoint, foreignness and outsidership can be considered to be closely intertwined and, furthermore, that overcoming them entails a process of ‘interactive’ learning whereby the internationalizing firm develops relationships with firms and or other organizations in the ‘host’ country. As such, it is important to explore how the structural and positional features of networks in host countries affect the internationalizing firm’s effort at gaining insidership.

2.1. Network dependency of the liabilities facing the internationalizing firm

Because overcoming liabilities is an inherently ‘interactive’ learning process, we cannot fully understand it without reference to structural and actor positioning attributes of the network in which the outsider wants to build an insidership position. The process of overcoming the liability of outsidership involves both the outsider and the insider(s). We

need a broad lens which not only deals with the process through an ‘outside-in’ but also an ‘inside-out’ perspective. The crucial relevance of the ‘inside-out’ perspective is actually strongly implied by Johanson and Vahlne (1990, p. 19) in an earlier contribution:

“To enter a network from outside requires that other actors have to be motivated to engage in interaction, something which is resource demanding, and which may require several firms to make adaptations in their ways of performing business. Thus, foreign market or network entry of the firm may very well be the result of interaction initiatives taken by other firms which are insiders in the network in the specific country”

Thus, the entry of a firm into a network is not only a result of initiatives taken by outsiders. Insiders in the relevant network also need to be motivated to accept forming a relationship with the outsider, which creates an additional cost of investing time and resources into these relationships. However the structure of the targeted network affects the insider’s motive regarding whether to facilitate the entrants in building an insidership position in the network.

3. The social network theoretic lens

A social network is defined as “a finite set or sets of actors and the relation or relations defined on them” (Wasserman and Faust, 1994, p. 20). The actors (nodes) in social network analysis can represent different levels of any kind of social unit such as individuals, firms, organizations (Contractor *et al.*, 2006; Borgatti and Li, 2009). A main purpose of social network theorising is to explain network consequences². Two types of consequences are considered. One type of consequence can be labelled as ‘contagion’ whereby the interest is to understand how networks may create or spread homogeneity (e.g. in attitudes or organizational practices). The other type of consequence, and of more relevance to

² Network theorising is concerned with both the consequences and the antecedents of networks (or ‘where do networks come from?’). However the majority of studies are concerned with the consequences of networks and consider networks as the ‘independent variable’ (Borgatti and Foster, 2003).

understanding ‘insidership’, is ‘evaluative’ and is interested in performance outcomes for network members.

From the performance perspective, the distinctiveness of social network theorising is that it focuses on network relationships as the key influence on performance outcomes for network members, rather than on the attributes of the individual network nodes or members. Thus, for example, firm attributes (e.g. size, absorptive capacity or managerial capability) are not the main data for network analyses. On the contrary, what is of interest to network theorising is how actors (e.g. firms) with similar attributes may perform differently as a result of the influence of the characteristics of the network(s) to which they belong or their different positions in the same network³.

There are two fundamental axioms of social network theory. One axiom is that structure, which is the pattern of relationships between the nodes (or members), matters. The second axiom is that the position within the network matters; that is the set of opportunities and constraints faced by a node is partly determined by the node’s location in the network.

The majority of network theorising deals with network ties primarily as *flows* of information and knowledge. Here network theory asks how the structural configuration of networks and nodal positions within them generate information and knowledge advantages (or disadvantages) for the networks and/or particular nodes. Additionally, ties which connect the nodes in a network may be ‘*bonds*’ without knowledge or information necessarily flowing between the nodes. For example, SMEs may seek to connect themselves with firms or organizations with high status in order to compensate for their own lack of reputational capital (see e.g. Giuliani, 2013; Borgatti and Li, 2009)⁴. In our application of network theory

³ This standpoint has been criticised by Kilduff and Brass (2010, p.322) who observe that to define “network research mainly or exclusively in terms of opposition to attribute-based approaches...restricts the scope of the research program in its specifically organizational instantiation”.

⁴ As Borgatti and Li (2009, p. 11) point out, the logic behind network-ties as bonds’ is, in part, that ‘people are judged by the company they keep’. As Borgatti and Li observe, the logic is “well illustrated by the story of a time when the financier Baron de Rothschild was asked for a loan by an acquaintance. Reportedly, the Baron said, “I won’t give you a loan myself,

for understanding the motivational stance of internationalizing firms to seeking insidership, the ‘flow’ perspective provides the main framing. However, the ‘bonding’ perspective also has relevance to our understanding of the outsider’s motivation, particularly in terms of its implications for the speed or pace of internationalization.

The potential advantages arising from network features are often articulated through the concept of ‘social capital’. A generally accepted definition of social capital is “the sum of the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or social unit” (Nahapiet and Ghoshal 1998, p. 243). The concept of social capital embodies the proposition that actors ‘doing better’ are those who are ‘better connected’. However, the disagreement between network theories is rooted in different perspectives on the meaning of ‘better connected’ (Burt, 2001). The two foundational theories are network closure and structural holes. While the network closure (Coleman, 1988) argument asserts that social capital is created in densely connected network structures, Burt’s (1992) structural holes approach argues that social capital is created as a function of brokering relationships between otherwise disconnected groups in the network. In the following two sections, through adopting an ‘inside- out’ and ‘outside-in’ framing, we consider the implications of these theories with respect to insidership.

4. Inside-out perspective: network structure and insiders’ willingness to accommodate new members

This section discusses how network structure influences the willingness of the insiders within a network to form relationship with an outsider, such as an internationalizing firm seeking to become an ‘insider’ in the network. We assume that insider actors do not proactively initiate

but I will walk arm-in-arm with you across the floor of the Stock Exchange, and you soon shall have willing lenders to spare” (Cialdini 1989, p. 45).

interaction with an outsider wishing to gain insidership and that, while they may *respond* to an outsider's move more or less willingly; the degree of their willingness is only a function of the structural attributes of the surrounding network⁵.

4.1. Network closure and insidership

Closure refer to network structures in which each actor is connected directly or through the common third parties, to every other such that none can fully escape the notice of others, which usually means a dense network in operational terms (Coleman, 1988; Burt, 2001). According to Coleman (1988), the tight interdependence curbs opportunism and reduces relational uncertainty and hence fosters collaborative norms of behaviour among actors (Walker *et al.*, 1997; Gargiulo et al., 2009), which enables the mobilization of network resources for group members (Coleman, 1994; Granovetter, 1985). Thus the level of social capital available to an actor is seen as a function of network closure surrounding him or her (Gargiulo and Benassi, 2000).

However the tight interdependence between network members also entails a constraint in terms of 'opening doors' for newcomers. Firms embedded in cohesive networks may not have enough flexibility to negotiate their roles vis-a-vis their contacts and create new space for outsiders (Gargiulo and Benassi, 2000). The underlying reason for this is that, the maintenance of relational reciprocity between actors in a closed network entails costs which increase with the degree of closure i.e. with the number relational ties that need to be recalibrated as the network incorporates a new member (Ahuja et al., 2012). In a closed network, the new arrival does not only affect the entry node; rather a whole series of adaptations will cascade throughout the network as a result of the new arrival. High degree

⁵ This is a simplifying assumption. It may be the case that network actors have a different motivational stance vis-a-vis forming a relationship with an internationalizing firm seeking to gain an insider position in the network. For example actors with a peripheral position (in a closed network) or a low degree of centrality (in an open network) may have relatively higher willingness to form new relationships so as to improve their position in the network. However this may in turn provoke counter moves by other network actors, the cumulative effect of which is that the structural attributes of the network will change.

of resource interdependence increases the mutual adjustment between insider actors and hence leads sacrifice of actor autonomy (Jansen et al., 2012). Therefore, an insider contemplating forming a relationship with the outsider must consider how the new entrant would affect its own relationships with other existing network members. This can disincline network members from initiating or promoting new cooperative relationships with actors from the outside of the network. The greater the degree of closure and hence interdependence between network incumbents the less the inclination of any member to facilitates new relationships. Thus we put forward the following proposition:

Proposition 1: *The greater the degree of network closure, the less the willingness of the insiders to help an outsider to gain an insidership position.*

4.2. Open networks (structural holes) and insidership

An alternative argument is developed by Burt (1992), which emphasizes the potential of open networks to create social capital. He asserts that the network positions generating the highest returns lie *between* densely connected regions (i.e. ‘structural holes’) rather than *within* these regions (Walker *et al.*, 1997). Open networks maximize information flow benefits specifically of non-redundant information through exploiting structural holes and exchanging information between various actors from across different social, organization and institutional boundaries (Reagans and McEvily, 2003; Hilmersson and Jansson, 2012). Therefore, social capital is described as a function of brokerage opportunities (Burt, 2001). Consequently, actors in open networks have more flexibility in their cooperation strategies (Walker *et al.*, 1997) and would be less constrained in forming relationship with outsiders. In fact, since in an open network new entrants increase brokerage opportunities and hence social capital, insiders have an incentive to forming new linkages (Burt, 2000). Accordingly we put forward the following proposition:

Proposition 2: *The greater the insider firm's network is infused with structural holes, the greater the willingness of the insider to help an outsider to gain an insidership position.*

5. Outside-in perspective: motivation of the outsider to invest in overcoming the liability of outsidership

In this section we focus on the motivational stance of the internationalizing firm wishing to enter a particular foreign market, which is affected by both the attributes of the network the firm seeks to become an insider in and the firm's perception of its liability of foreignness in relevant market.

We consider two aspects of the motivational stance of the internationalizing firm vis-a-vis market entry: whether to enter the market and how rapidly. Prior research has acknowledged that the speed or the pace of market entry is an important aspect of the internationalization process, not least in the Uppsala model (Johanson and Vahlne, 1977; Forsgren, 2002; Vermeulen and Barkema, 2002; Chetty et al., 2014). We assume that the firm's motivational stance for entering a market and the speed of entry into the focal market are formed sequentially. Specifically, the internationalizing firm's motivational stance with respect to entering a particular country or market is formed prior to its preference for the speed of entry in the focal market. Consequently, as entering a foreign market requires building an insidership position in the relevant network, choosing the target network (open or closed network structure) is treated as prior to the selection of the insider actor based on its positional attributes which is more related to speed of market entry, since different positional attributes of insider actors might either slow down or accelerate market entry.

Building on social network theorising, we argue (a) that overcoming the liability of outsidership is related to the cost of overcoming the potential reluctance of insiders to form

relationship with an outsider internationalizing firm, (b) that willingness of an outsider to incur the cost entailed in overcoming the liability of outsidership is a function of the internationalizing firm's perception of its liability of foreignness in the market it wishes to enter, (c) that the willingness of an internationalizing firm to connect with insiders displaying different positional attributes is a function of the speed of entry that that the internationalizing firm wishes to obtain.

5.1. Network closure, knowledge transfer and the outsider's motivation to invest in overcoming outsidership

The cost of gaining insidership essentially stem from efforts needed in overcoming the reluctance of insiders in a network to 'open doors' for an outsider. The extent of the such costs is roughly indicated by Johanson and Vahlne (2009) who note that a working relationship is the outcome of considerable investment and requires managerial effort and time as long as five years. The length of time taken to form a working relationship is probably partly related to the need to provide opportunities for other network members, in addition to the node initially interacting with the outsider, to observe the entrant and evaluate whether the new entrant can be accommodated without negative impacts on them. In this way the general atmosphere of trust and the normative environment that helps to foster cooperation in a closed network is maintained (Coleman, 1988, 1994). As already noted, in a closed networks 'none can escape the notice of others' (Burt, 2001; Coleman, 1988), hence by investing resource in interacting and gradually developing a relationship with the entry node, the outsider can also gain a network-wide recognition as a worthwhile addition to the network. We conclude that the actor interdependence characteristic of network closure is key factor in making network entry costly. The greater the degree network closure and hence interdependence between actors in a closed network, the greater the difficulty and the cost of

gaining insidership for the outsider (Kinch, 1992; Halinen *et al.*, 1999; Sminia, 2003). On this basis, we put forward the following proposition:

Proposition 3a: *The greater the degree of network closure, the lower the willingness of an outsider internationalizing firm to seek insidership.*

Clearly, internationalizing firms will only incur the likely high cost of forming relationships with insiders if the expected benefits exceed the cost. The potential benefits an internationalizing firm can expect from an insider position in a closed network would stem from network density's enabling feature vis-a-vis facilitating the transfer and sharing of complex, tacit and context specific knowledge with respect to institutional and business conditions in the foreign market. The greater the firm's the liability of foreignness in the market it wishes to enter, the greater the value that the firm would attach to an insider position in a closed network. The reason for this is that, while foreignness may adversely affect the internationalizing firm's ability to acquire market specific knowledge in an standalone dyadic relationship with a local firm, the negative effect reduces or disappears if both parties in the dyad are members of (the same) closed network (Ahuja, 2000; Reagans and McEvily, 2003; Tortoriello *et al.*, 2012).

Prior studies have argued that the higher the degree of 'homophily'- similarity of interacting units in certain attributes-between the dyadic partners, the easier the sharing and transfer of knowledge between them (Szulanski, 1996; Gupta and Govindarajan, 2000; Simonin, 2004). Homophily helps knowledge transfer as it enhances the willingness (or reduces the reluctance) of the source to transfer knowledge to the recipients (Yamin et al. 2011). In the present context, the liability of foreignness manifests itself as the absence of homophily and hence as a barrier to knowledge transfer /sharing in a dyadic relationship. The network perspective on knowledge transfer, by comparison, considers that network closure

boosts knowledge transfer *irrespective* of the absence of homophily between relationship partners belonging to the same network:

“Cohesion around a relationship can ease knowledge transfer by decreasing the competitive and motivational impediments that arise, specifically the fact that knowledge transfer is typically beneficial for the recipient but can be costly for the source. Dense third-party ties around the relationship may serve to overcome those impediments... The cooperative norms promoted by cohesion can act to mitigate potential conflict and promote knowledge transfer” (Reagans and McEvily, 2003, p. 246).

Given the high cost of overcoming outsidership vis-a-vis a closed network, the benefits are likely to exceed the cost only in cases where internationalization requires highly tacit and diverse knowledge relating the institutional and business conditions. In particular, if the firm is seeking to enter a highly psychically distant market, it needs to spend time and other resources to develop linkages in a dense targeted network to gain tacit market knowledge and the network support necessary to implement effective entry into the market (Johanson and Vahlne, 2009, p. 1414). The observation, noted earlier, that there may be a positive relationship between psychic distance and internationalization performance is pertinent in this context. It implies that, for firms seeking to enter psychically distant markets, the knowledge-transfer-enabling benefits associated with network closure will exceed the perceived costs associated with linkage development and insidership in closed networks. By comparison, firms seeking to enter markets with low psychic distance (low liability of foreignness) will not consider the cost of building an insidership position in close networks to be worthwhile. We conclude that the liability of foreignness (negatively) moderates the

negative impact of network closure on the firm's willingness to gain insidership in a closed network⁶. Accordingly, we put forward the following proposition:

Proposition 3b: *The greater the outsider's perception of liability of foreignness in the market it wishes to enter, the weaker the negative impact of network closure on willingness of an outsider internationalizing firm to seek insidership.*

As noted already, we assume an internationalizing firm to form its willingness to invest in market entry and hence insidership is prior to its preference as to which network member to connect with initially. The emblematic positional locations in a closed network are core and peripheral.⁷ Seeking an insider position via a peripheral insider is more likely if the outsider prefers a gradual/slower route to insidership (Hilmersson and Jansson, 2012). Connecting to a peripheral node will be a slower route compared to connecting to a more core member for two reasons. First, by definition, a peripheral node has fewer direct connections with other members compared to a node displaying core position. Assuming that direct ties yield a more speedy circulation and sharing of knowledge, it will take longer for the internationalizing firm to build the required level of market specific knowledge if it connects to a peripheral rather than to a core actor. Second, it is arguable that other network members may be more sceptical of the credibility of a newcomer connected to a peripheral actor compared to one connected to a core actor. Connecting to a peripheral actor may thus lengthen the time required for the newcomer to gain network-wide recognition as a worthwhile addition to the network. By contrast, connecting to a core actor shortens the time required to gain network-wide reputation. Nevertheless, it is possible that an internationalizing firm may prefer connecting to a peripheral insider, particularly if it

⁶ Moderator effect occurs when a third variable "changes the strength or even the direction of the relationship between two constructs" (Hair et al., 2017, p.41).

⁷ "The core periphery model consists of two classes of nodes, namely a cohesive subgraph (the core) in which actors are connected to each other in some maximal sense and a class of actors that are more loosely connected to the cohesive subgraph but lack any maximal cohesion with the core" (Borgatti and Everett, 2000, p. 377).

perceives that market conditions do not imply a high premium for rapid entry. The focal firm may choose to initially connect with a relatively peripheral node in a targeted network and use this connection to accumulate knowledge and hence gain cognition of the pattern of inter-relationship and power in a tightly knit network (Krackhardt, 1990). Similarly, if rapid market entry is not perceived as strategically crucial, the firm may choose the slower route to building social capital within the network rather than connecting with a core and 'high status' network member. The obverse is the case if the firm perceives rapid market entry to be strategically necessary and beneficial.

***Proposition 3c:** Given the firm's perception of the liability of foreignness in the target market, the greater the motivation of the outsider to enter the market rapidly, the greater the incentive to connect to an insider actor registering higher core position in a closed network.*

5.2. Open networks (structural holes) and the outsider's motivation

Open networks encourage flow and exchange of explicit, codified and hence easy to transfer information rather than tacit and context specific knowledge (Reagans and McEvily, 2003; McEvily and Zaheer, 1999; Kurt and Yamin, 2016). The level of interdependence in an open network is relatively low and the autonomy of network actors is considered as a crucial asset (Burt, 1997; Gargiulo and Benassi, 2000). Consequently, an insider contemplating forming a new linkage with an outsider firm has relatively low level of reciprocal obligations and hence does not necessarily need to consider the reaction of the other members. From the perspective of an internationalizing firm, the structural features of open networks imply that the effort level and the cost incurred by outsiders for gaining an insider position in such networks is relatively low. In particular, it is not critical for an outsider to gain network-wide reputation (or 'approval') in order to become an insider. On this basis, the willingness of firms to gain insidership is positively related to the degree of openness of the network. As the

presence of structural holes corresponds to the ‘openness’ of a network, we put forward the following proposition:

Proposition 4a: *The greater the extent to which the network is characterised with structural holes, the greater the willingness of an outsider internationalizing firm to seek insidership.*

Firms building insidership in an open network can enhance their access to novel information and related non-redundant resources (Reagans and McEvily, 2003). However such linkages entail relatively loose connections rather than close relationships between network members (Gargiulo and Benassi, 2000). An internationalizing firm seeking to enter a market in a country with low psychic distance and hence liability of foreignness may perceive a net benefit from entering into an open network. However, this is not the case if the firm is considering entering a psychically distant country as it would require mostly tacit knowledge relating to (informal) institutions and market characteristics. Open networks do not have the knowledge transfer benefits of dense networks, and may not generate the kind of insidership that would be required when firms seek to enter markets with high psychic distance. Hence, since the cost of entering an open network is low, the expected benefits are likely to be sufficient to motivate the entry into an open network if the perceived liability of foreignness is low. Thus, the degree of the liability of foreignness negatively moderates the positive relationship between network openness and the willingness of the internationalizing firm to build insidership. Accordingly we put forward the following proposition:

Proposition 4b: *The higher the perceived liability of foreignness of the host country that the firms wished to enter, the lower the positive impact of the extent to which the network is characterised with structural holes on the willingness of an outsider internationalizing firm to seek insidership.*

The emblematic positional locations in an open network relate to the degree of a node's 'centrality'⁸. The internationalizing firm's preference as to whether it should connect to an actor displaying low or high centrality is related to the firm's willingness to build insidership and hence foreign market entry in a rapid or gradual way. Connecting to an actor with high rather than a low centrality in the targeted network will potentially enable the outsider to benefit from a wider range of non-redundant information flow and hence gain knowledge regarding market opportunities in the foreign country more quickly. Additionally connecting to a node with high centrality may also make the entrant a more credible and hence a more attractive relationship partner for other nodes in the open network. For example, it may be easier for the entrant to form alliances that enable it to exploit market opportunities more quickly.

However the internationalizing firm may perceive a trade off in terms of connecting with an insider displaying a high degree of centrality. Unlike in a closed network, relational trust is low in an open network and network mechanisms for punishing opportunistic behaviour are weak. In particular, a new entrant may be vulnerable to exploitation by a powerful central actor. While a central actor is in a better position to act as bridge connecting actors possessing non-redundant information, it can also use its power over the flow of information to gain benefits for itself by adopting the tactic of 'divide and rule'⁹. Given such a trade-off, the internationalizing firm may perceive a net benefit from connecting to a central actor, only if it has a strong desire for a rapid entry into the foreign market. Accordingly we put forward the following proposition:

Proposition 4c: *Given the firm's perception of the liability of foreignness in the target market, the greater the motivation of an outsider internationalizing firm to enter the market*

⁸ "Actors on whom others are locally dependent are central in the network" (Wasserman and Faust, 1994).

⁹ Burt (1992) labels this effect as the *tertius gadens*, or 'the third who benefits'. See also Chen (2003).

rapidly, the greater the incentive to connect to an insider actor registering higher centrality in an open network.

Figure 1 presents the conceptual model which is developed based on the eight propositions which deal with both ‘inside-out’ and ‘outside-in’ perspectives and also structural and positional attributes of networks.

Insert Figure 1 about here

6. Conclusion and implications for internationalization research

This paper has sought to link the social network theoretic lens with internationalization research. Even though network perspectives have recently been broadly favoured in internationalization research, the application of a social network theoretic approach has been rare. In this paper we focus on the revised Uppsala process model which forcefully argues for putting network insidership as the central issue for overcoming internationalization barriers. While our approach is sympathetic to the notion of insidership, we argue that the application of a social network theoretic lens sharpens our understanding of the insidership. Our paper formulates eight propositions, which are built on the insights derived from the SNT lens and shed light on the motivational stances of insiders and outsiders vis-a-vis insidership. We believe that these propositions constitute a contribution to enhancing our understanding of insidership and its interconnection with the liability of foreignness. There are three key aspects of our contribution.

Firstly, the cost entailed in building insidership is affected by the structural attributes of networks that the internationalizing firm seek to enter. Thus, the observation by Johanson and Vahlne (2009) that building a relationship is a time consuming and arduous undertaking for an outsider, is more likely to be the case for firms seeking to enter a network displaying high closure rather than a network displaying structural holes. In short, while Johanson and Vahlne (2009) stress the importance of network insidership for the internationalization of the firm, there is no consideration of how differences in network structure affect insidership. The current study by comparison puts network structure at the centre for understanding insidership and its relationship with internationalization.

Second, while Johanson and Vahlne (2009) acknowledge that overcoming the liabilities of outsidership and foreignness are related, the nature of the relationship remains somewhat vague in their analysis. Our propositions (3b and 4b) posit that liability of foreignness operates as a negative moderator for the relationship between network structure and the willingness of the outsider to invest in gaining insidership. Our study highlights that the value of different network structures - closed or open - can vary in different contexts, depending on what actors look for and seek to achieve (Stam *et al.*, 2014). Even though closed and open networks can generate benefits, from the liability of outsidership perspective, the value of these networks depends importantly on the degree of liability of foreignness. While open networks can work efficiently in low psychic distance, closure structures are more beneficial when psychic distance is high and the actor needs to access cohesiveness benefits of social capital.

Third, while Johanson and Vahlne (2009) frequently refer to the importance of an 'insider position', the positional attributes of networks are not a feature of their analysis of insidership. However, as we have argued in the support of the propositions 3c and 4c, the

network position of the insider actor that an internationalizing firm links to, has an implication for the speed at which insidership and hence internationalization can be obtained.

An important implication of the SNT approach to understanding network insidership is that trust and commitment are not necessarily always the ‘essential elements’ of internationalization as Johanson and Vahlne (2009) assert. Arguably, the Johanson and Vahlne (2009)’s narrative with regard to insidership and internationalization implicitly assumes that internationalization invariably takes place within networks displaying relatively high degrees of closure. Interestingly, in the context of cross border alliances, some authors have introduced a distinction between knowledge acquisition and knowledge accessing alliances (Lew et al 2016; Grant and Baden-Fuller, 2004). The latter type of alliance implies looser relationship between partners in which interpreter cooperation is easier to maintain as partner does not feel vulnerable that their core competence will be captured by their partner. Presumably knowledge accessing cross border alliances are more likely to be embedded in networks displaying features of an open network whereby firms exchange or share relatively explicit and non-firms specific information and knowledge. Clearly, a useful line of future research would be to empirically examine the link between network structure and the nature of the internationalization process. Existing research mostly concerns with firms’ particularly SMEs’ *relationship building* but is less focussed on whether these relations may be embedded in closed or open network and how different network structures influence the internationalization effort of firms (Zhou et al., 2007; Ojala, 2009).

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