Exploration and exploitation in accelerated internationalization: Evidence from the global wine industry

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Abstract:

Purpose - To examine the use of social ties by late entrant firms into a dynamic market context, the global wine industry. Using social network theory and the entrepreneurial model of internationalization, we compare the opportunity-seeking behaviour of newer and smaller firms with older and larger ventures from new entrant countries into the wine industry. New venture survival depends on transitioning from the founder's interpersonal to inter-organizational networks, with the importance of such links in internationalization decreasing over time. Much is known about networks in internationalization, less about the interpersonal effects on internationalization relating to firm age.

Design/methodology/approach - Analysis of data from a four-country quantitative survey of firms' international marketing and growth strategies investigated the differential use between newer and older firms of social and inter-organizational ties in opportunity exploration and exploitation.

Findings - We identified that the knowledge-intensive wine industry context pushes smaller, newer ventures to simultaneously pursue exploration and exploitation strategies. New entrants into a global industry under conditions of fast-moving change accelerate the formalised management of exploratory social ties to move quickly to exploitation, while simultaneously maintaining exploration possibilities through informal social ties.

Practical implications - Managers need to know how to balance exploiting the opportunities they currently have with exploring new ones. We contribute to theory by explaining how firms in an international sample of firms in one industry do this and balance the two in an ambidextrous approach to their internationalization strategies.

Keywords: Social ties, exploration and exploitation, internationalization

1. INTRODUCTION

The objective of this research is to investigate the use of social ties by 'New World' firms in their international marketing strategies in the global wine industry (Johanson and Vahlne, 2009). We begin from the assumption that firms use their social ties to develop capabilities and that the social ties of individuals are available for use by the firm (Ellis, 2011). Network theory views economic action as embedded in ongoing social ties, which can both facilitate and sometimes 'derail exchange', yet there is 'theoretical indefiniteness' about how these processes develop (Uzzi, 1996, p.35). Entrepreneurs in new ventures rely heavily on their social ties to explore opportunities and these ties can be a *source* of the actual international opportunity (Vasilchenko and Morrish, 2011). Better understanding of the role in internationalization processes (Wouter, Arzlanian and Elfring, 2014) of opportunity individuation (Wood, McKelvie and Haynie, 2014) and how firms develop operational and dynamic capabilities to serve multiple purposes (Helfat and Winter, 2011) remain under-researched. We investigate how this nexus of issues plays out in practice in the specific activities and strategies pursued by relatively new entrant firms into global markets.

As companies grow they may diversify and small and medium-sized enterprises (SMEs) especially must balance new approaches and efficiency (Raisch, Birkinshaw, Probst and Tushman, 2009) as they are at greater risk through a lack of resources or competences available to larger firms. However, in a growing, dynamic sector, the differentiation between large and small firms may be blurred, based on innovative approaches albeit with differential asset bases, because of the speed of internationalisation (Oviatt and McDougall, 2005). Our paper addresses firm-level use of micro-level social ties within an international industry context. Our contribution comes from understanding social ties as micro-foundations of internationalization, which are individual-level factors that help to explain a collective phenomenon (Felin, Foss, Ployhart, 2015), to explain the behaviour of both smaller and larger firms.

Network theory argues that entrepreneurs use social ties and business networks for internationalization *but* in *different* ways (Vasilchenko and Morrish, 2011). These change as the internationalization of the firm proceeds, because the role and the nature of networks also change. As opportunities are refined, resources and knowledge are developed further and new problems emerge, requiring more formal strategies (Fernhaber and Li, 2013). The change from social to more calculative interactions (e.g. business networks) tends to develop in the later stages (Sleuwaegen and Onkelinx, 2014). Yet, we know very little about *where* and *how* these interactions of inter-firm cooperation occur; and what *features* of these social and business relationships are important to managers. To investigate these two *lacunae* our study addresses four interrelated questions: (1) What local sources and inter-firm cooperative relationships enable international marketing opportunities? (2) What joint international marketing activities do firms envisage? (3) In which groups do managers discuss inter-firm marketing co-operation? (4) What are the important features managers look for in their partners and other sources of international marketing advice? Our aim is to respond to recent research by providing a more precise explanation of how networks affect opportunity beliefs (Wood et al., 2014) and processes such as internationalization (Fernhaber and Li, 2013), which are useful for theory and practice. We firstly review the literature on embedded ties, business networks and the entrepreneurial model of internationalization. We then examine the activities within the opportunity exploration, recognition and exploitation process, and the differences new and older ventures may experience, given their differential resource bases. A discussion follows on the impact of environment and industry type on the process of exploration-exploitation and the role of social ties and inter-organizational networks. We then present results from a survey of the degree to which firms engage with others in their international marketing and provide conclusions, managerial implications and future research.

2. LITERATURE AND THEORY DEVELOPMENT

2.1. Social ties and internationalization

Research emphasises the role of tie-based opportunities (Ellis, 2011), contacts and personal networks (Welch, Welch, Wilkinson and Young, 1996), alliances (Johanson and Mattsson, 1988) and social ties of managers (Bangara et al., 2012; Manolova, Manev, and Gyoshev, 2010) in internationalization. Firm-level analysis has shown how entrepreneurs use their personal and social ties to seek opportunities to locate information about foreign market opportunities (Wood et al., 2014). Social ties have benefits and limitations, i.e. home-based networks are constrained by geographic, psychic and linguistic distance (Ellis, 2011) and their closeness can limit opportunities, the paradox of overembeddness (Uzzi, 1997). An optimal network structure relies on links that include a mix of arm's-length and embedded ties (Uzzi, 1997). Despite increasing interest in interpersonal and inter-organizational networks and social capital of SME entrepreneurs (Wouter et al., 2014) we still require more in-depth studies into how social ties shape economic and collective action (Uzzi, 1996; 1997). Instead of discrete "production units" as in traditional economic theory, firms embedded in networks have unique network positions which have significant strategic implications (Johanson and Vahlne, 2009). While tightly clustered or embedded ties are seen as enriching the network, arm's-length ties in transactional relationships can prevent the networks from being isolated from market demands and new possibilities (Uzzi, 1997, p. 59). So a balance is needed to ensure that the network remains open to opportunities.

The entrepreneurial model of internationalization explains how the speed of firm internationalization is influenced by various forces (Oviatt and McDougall, 2005), beginning with an entrepreneurial opportunity, enabled by technology, motivated by competition, mediated by perceptions of entrepreneurs, and moderated by knowledge and networks that collectively determine the speed of internationalization. In the early years after foundation, ventures tend to rely on geographically (domestic) proximate firms (informal relationships) to explore and learn what information and knowledge is needed for survival and growth. Over time, they exploit their knowledge by devoting more attention to alliance partners (formal relationships), becoming more structured and formalized in their decision-making (Fernhaber and Li, 2013). We know that social ties can also the trigger commercialization of a venture's product (Vasilchenko and Morrish, 2011). Network theory argues that the entrepreneur's knowledge of the foreign market and previously developed network connections can lead to inter-organizational relationships with foreign suppliers and customers (Gilsing and Nooteboom, 2006; Keen and Wu, 2011; Parmigiani and Rivera-Santos, 2011). Yet, we do not know how social ties and business networks interact together for entrepreneurial exploration and/or exploitation of international opportunities, how firms can move from exploration to exploitation, or how they may balance the two.

2.2. Exploration and exploitation

Exploration strategies are associated with new and young firms and involve learning and innovation with a focus on building new value-creating activities (Parmigiani and Rivera-Santos, 2011). Exploitation is associated with more established firms and builds on value-creating activities to address expansion and efficient (Parmigiani and Rivera-Santos, 2011). Greater formality and the need to codify and build on existing knowledge with a focus on organization processes (Gilsing and Nooteboomb, 2006) feature strongly. During opportunity exploration, entrepreneurs can use their social ties as information channels, to gather information about international markets and. For SMEs social ties allow them to quickly explore and exploit opportunities thus improving their competitiveness and, thereby survival (Vasilchenko and Morrish, 2011). Entrepreneurs might actively search for opportunities, but the decision on the initial market selection is often influenced by the location of their personal ties (Freeman, Edwards and Schroder, 2006). Networks are sources of internationalization opportunity and this "element of discovery" involves other actors, acting on their own knowledge and information and locating focal firms (Vasilchenko and Morrish, 2011, p. 102). Entrepreneurs can also take active steps to engage external experts, to assist them identify or to evaluate an opportunity. However, studies are needed that examines entrepreneur-centered networks and their role in the internationalization process. This would provide more knowledge of the logic behind patterns of network-driven internationalization, including "access to prior networks, discovery through the actions of new networks, and the role of serendipitous contacts" (Vasilchenko and Morrish 2011, p. 102) and benefits including new venture survival and post-entry growth (Sleuwaegen and Onkelinx, 2014).

2.3. Theory development

International competition is no longer confined to foreign markets, so regardless of whether firms participate in international business, they may face international competition which they must address to survive in their home market (Keen and Wu, 2011). Thus survival and post-entry growth of local firms and new ventures in global, *fast moving change* industries (such as wine) depend on their capacity to utilize resources and capabilities to compete globally (Sleuwaegen and Onkelinx, 2014). It also depends on how quickly such firms can "adapt and reshape themselves" (Keen and Wu, 2011, p. 319). Debates in the literature relate to the importance of the industry context. Knowledge-intensive markets are regarded as the most turbulent in terms of their speed of technological change and market uncertainty but, under conditions of *fast moving change* "it is especially challenging to achieve the right balance of strategic orientation…or strategic directions implemented by a firm to guide its activities toward continuous superior performance" (Ruokonen and Saarenketo, 2009, p. 18-19). Intangible know-how is facilitated through social ties and business networks and SMEs engaged in rapid internationalization are seen to be more likely in knowledge-intensive sectors, as information sensitive advice and tacit knowledge favours personal relationships. Despite evidence of this dynamic behaviour, we know very little about how knowledge-intensive (other than high-technology) ventures use social ties and business networking in changing industry environments - such as international FMCG wine markets - in their activities and strategies to commercialize products globally (Vasilchenko and Morrish, 2011).

It is increasingly argued that firms must exploit their existing positions and explore new opportunities simultaneously (Keen and Wu, 2011; Raisch et al, 2009). Drawing on the entrepreneurial model of internationalization, we expect that the need for quick, agile behaviour in exploration and a simultaneous focus on exploiting their innovative products is far greater for new and small firms than for old and larger firms, which have greater access to resources. Likewise, due to their greater size, economies of scale provide advantages for larger and older firms, based on economic-based resources rather than people-based capabilities. Synthesizing our analysis of critical concepts of the use of ties in opportunity seeking and the differential use of formal and informal ties by smaller and larger firms during internationalization, we developed the following propositions. The extant literature leads us to expect newer and rapidly internationalising smaller firms to use more informal social ties to pursue exploration activities, and older and more established larger firms to use more formal ties to pursue exploitation activities. However, we argue that, because the global wine industry is a fast-moving highly dynamic context, smaller, newer firms will accelerate their use of formal ties to use a mix of exploration and exploitation, and larger, older firms will maintain such a mix for the same reasons of growth in the global wine market. Hence:

Proposition 1: In a fast-moving industry context newer and smaller firms move quickly from exploration to an ambidextrous mix of exploration and exploitation.

Proposition 2: In a fast-moving industry context older and larger firms continue exploration in an ambidextrous mix of exploration and exploitation.

3. RESEARCH METHOD

We argue that the context of industry dynamics strongly influences the balance of exploration-exploitation among new and more established new entrant country firms in the global wine industry (Cusmano, Morrison, Rabellotti, 2010). To examine entrepreneurial firm internationalization under conditions of *fast moving change* within this industry, our data come from a four-country survey of *New World* entrants located in the Southern Hemisphere (Cusmano et al, 2010), which is known for its innovative, knowledge-intensive processes within global supply chains. We sought to identify the nature and use of ties through an email survey of firms in the wine sector in Argentina, Australia, Chile, and New Zealand. Our initial quantitative analysis found that the key differences among the firms were age and size. We then conducted a second stage of analysis to give a richer interpretation to explain differences in approaches according to the age and size of the firms. The questions in our survey sought responses in 5-point Likert scales covered three areas: the first set of items on the strategic use of social ties, sought to elicit the reasons, opportunities enabled, and benefits of developing and using such ties. The second set explored the types of interactions used and the third asked about the identity, characteristics and features the firms sought and valued with their co-operative relationship partners.

The differences in the results between the larger and smaller firms were: Section 1 (mostly items of significance to smaller firms); Section 2 (more items of significance to larger firms); Section 3 (a mix of the two). To explore the differences regarding the three areas of interest, we split the sample into smaller firms (n=47) defined as firms employing fewer than 10 employees and larger firms (n=59) employing between 11 and 249 staff respectively. We used nonparametric Mann-Whitney U-tests to investigate systematic differences between the two groups of firms regarding the key variables of interest. These tests are a procedure to compare two groups when distributional assumptions for conducting a t-test are not met for individual variables or when sample sizes are limited (c.f. Gielnik et al., 2012; Santangelo, 2009). On the basis of these tests, we drew inferences about the extent to which the mean response of small firms differs from their larger counterparts. This analysis provided us with deep insights about similarities and differences between small and large firms regarding the role of social ties in the internationalization process.

4. MAJOR RESULTS[7] AND DISCUSSION

4.1. Strategic use of social ties

An issue which was generally more important for small firms was the use of local ties. Over 12 items, 6 showed significance for smaller firms on our sample, and the rest showed no difference between large and small firms. In answer to RQs 1 and 2, the important local sources and activities were functional ones related to making sales, especially local sales, and gaining access to knowledge, innovation and NPD, all important exploratory activities (Parmigiani and Rivera-Santos, 2011) in export marketing for SMEs. This suggests that smaller firms are more reliant on social ties for competitiveness and to improve export readiness. Interestingly, however, there are no differences regarding the strategic use of social ties for increasing international market demand directly.

4.2. Identity and features of partners

On the most important sources of advice reported by firms, only two items showed any differences between large and small firms: the important roles for smaller firms of friends ($p<0.05$) and family members ($p<0.1$). This confirms the importance of the personal networks of the founder/CEO in smaller firms. Larger firms, by contrast, are less dependent on such personal social ties and may be more embedded in a complex network structure of inter-firm relationships for exploitation (Parmigiani and Rivera-Santos, 2011). When looking at the characteristics of crucial sources of advice (RQ 4), of 12 items there were few significant differences between large and small firms. Most differences are related to the expertise and knowledge obtained from their sources of business advice. Larger firms placed more value on the knowledge of their partners. With the exception of 'local market knowledge' (which became almost significant at the .1 level) all items relating to collaboration partner's knowledge are more important to larger than to smaller firms. Hence, the knowledge-seeking motive is somewhat stronger for larger firms in that they require more specialised knowledge from their partners. Larger firms may have become more discerning as they have invested in

[7] For reasons of space constraints we highlight two key findings. Full details of data analysis and tables are available on request.

internal capabilities and require activating knowledgeable social ties in order to successfully augment their exploitation strategies (Parmigiani and Rivera-Santos, 2011). Interestingly, the differences between larger and smaller firms are mostly restricted in the types of knowledge, factors pertaining to the characteristics of the interaction such as mutual trust, respect reciprocity and friendship are equally important for small and large firms.

4.3. Large/Small firm crossover

In assessing the importance of characteristics of their business partners, the larger firms placed higher importance on being able to trust their partners. The most salient characteristic for the smaller firms, however, was their geographical proximity. Table 1 is an illustrative example of our data. We found a number of important similarities and differences between large and small firms regarding their strategic use of social ties, the types of interactions used, and characteristics and features the firms sought and valued with their co-operative relationship partners. Jointly, these findings provide insights into how firms nurture and leverage social ties in the internationalization process. In nurturing social ties, in relation to RQ 3, formal and informal meetings are generally similarly important, except for ties with trade associations where larger firms tend to rely on a higher degree of formality compared with smaller firms. Moreover, smaller firms find creating social ties more costly and prefer working with partners in their physical proximity, suggesting that smaller firms face higher costs in becoming socially embedded. Such costs to embeddedness are also reflected in the tendency of smaller firms to rely on family and friends as a main source of business advice rather than on formal social ties.

Table 1: Strategic use of social ties

	Large		Small		Mann–Whitney *U*-test	
	Mean	SD	Mean	SD	*z*	*p*
Access to skilled labour	3.46	1.14	3.63	1.32	-0.922	0.3567
Selling intermediate goods to other firms	2.77	1.17	2.65	1.21	0.409	0.6825
Buying intermediate goods from other firms	3.25	1.16	3.15	1.35	0.176	0.8604
Providing access to new technology	2.85	1.22	3.13	1.20	-1.114	0.2654
Providing access to better specialised suppliers	3.28	1.26	3.20	1.32	0.2	0.8418
Greater local market demand	2.83	1.33	3.74	1.16	-3.225	**0.0013**
Greater international market demand	3.25	1.36	3.00	1.48	0.727	0.4671
New customers for your firm	2.89	1.27	3.58	1.30	-2.541	**0.0111**
Enhanced reputation or credibility of your firm and products	3.55	1.20	4.13	0.92	-2.516	**0.0119**
Finding new customers in new markets	2.89	1.25	3.78	1.25	-3.285	**0.0010**
Greater market and marketing information/knowledge	2.89	1.34	3.73	1.20	-2.951	**0.0032**
Greater innovation and new product development	2.87	1.24	3.33	1.11	-1.773	**0.0762**
Inter-cluster referrals to your firm	3.00	1.16	3.33	1.23	-1.369	0.1711
Inter-cluster referrals from you to other firms	3.11	1.16	3.35	1.23	-0.949	0.3426

5. CONCLUSIONS AND IMPLICATIONS

Our paper offers some new findings which questions assumptions about the growth strategies of internationalising firms. Our data come from a comparative study of the social micro-foundations (Felin et al, 2015) of the strategies used by new entrant internationalising firms in the global wine industry, which is a mature but dynamic industry, which means that they must accelerate their learning. Persistence of both exploration and exploitation in older and larger firms and rapid moves to exploitation among newer, younger firms suggests ambidexterity because of dynamic market conditions. Our quantitative analysis and descriptive statistics revealed interesting but inconclusive results so Mann-Whitney U-tests were conducted to investigate differences between small and large firms. The rankings show that, while there are differences, they do not conform to the differential patterns of behaviour between smaller and larger firms that would be expected from the literature. Our analysis identified that newer and older firms were using social ties in mixed ways, with older firms continuing their use of social ties longer than anticipated based on previous research findings, and newer firms moving away from their reliance on social ties quicker than might have been anticipated. Because of the industry context and the fact that the surveyed firms were from new entrant locations into a dynamic growing global industry already dominated by established incumbent firms from traditional locations, the surveyed firms were forced to accelerate their internationalization and thus could not go through traditional pathways of moving from exploration to exploitation strategies. We found that an ambidextrous mix was needed by both older and newer firms, thus supporting our propositions. Our analysis prompts further theorising to explore explanations of our results in more depth, since previous research has found that there is differential use of social ties by younger and smaller and older and larger firms.

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