Industrial network membership: Reducing psychic distance hazards in the internationalization of firms

ABSTRACT

The network approach to internationalization of firms has warranted the research focus of many international business scholars. Firms are increasingly involved in international business endeavors and arguably need to learn to adapt to idiosyncratic milieus they encounter in the foreign markets. This paper proposes a conceptual model suggesting that membership in industrial networks strengthens corporate competitiveness in international markets. Network membership provides access to market-related knowledge and a wider array of physical, technical, financial and other tangible resources, and social and reputational endorsement provided by the networks that facilitates adaptation to the various dimensions - economic, political, legal, and cultural – of the international business environments. Membership in social and business networks is likely to improve performance in foreign markets by easing internationalization and reducing firms' perceived psychic distance.

Keywords: Networks, internationalization theories, psychic distance.

INTRODUCTION

The increasing globalization of markets and production, most prominent in the last three decades, has led to multiple challenges for firms, namely those that needing to internationalize lack experience in foreign markets or in conducting international operations altogether. The gradual decrease of the traditional trade and investment barriers and the lowering of transportation costs makes it easier for firms to seek markets beyond their national (or domestic) setting into distant spaces. These markets are becoming open to all sorts of foreign competitors (Buckley & Casson, 1998). Even within their national, and previously protective, borders foreign competitors come to challenge local players. For firms, this means a need to reconsider their strategies at a domestic and global level, including choices regarding which markets to enter and the best locations for each stage of the value chain (Aulakh, Teegen & Kotabe, 2000). For governments and policy makers, the challenges lie on the policies to foster firms' competitiveness, which may include actions to improve the infrastructures, education and R&D, but also policies promoting a wide array of strategically crafted partnerships among firms.

Internationalization of firms may be seen as an incremental process (Vahlne & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Brouthers & Hennart, 2007) of involvement in foreign operations. Internationalization as an incremental, evolutionary, process entails the selection of the entry modes but also of the markets entered. In essence, firms start internationalizing to markets that are less psychologically distant and move gradually to more distant markets. By selecting more proximate markets firms are able to exploit their resources held and may gain experience in carrying out international operations (Johanson & Vahlne, 1977; Brouthers & Hennart, 2007). Vahlne and Wiedersheim-Paul (1975) argued that uncertainty about foreign markets is related to the home-host countries' psychic distance. Psychic distance (PD) is "the result of factors that prevent or hinder the flow of information between firms and the market" (Johanson & Wiedersheim-Paul, 1975, p. 307), or put in another way, PD is the degree of ignorance of a firm on the characteristics of a foreign market (Kogut & Singh, 1988). Because of PD there are many concerns regarding the transferability of market-specific knowledge, and how effective firms are in transferring knowledge internally to subsidiaries where it may be put into productive use (Wang, Tong & Koh, 2004; Minbaeva, 2007). Another set of concerns emerge as to the actual sources of firms' competitive advantages which, at least in some instances, may be embedded in firm-specific resources (Barney, 1991; Minbaeva, 2007). In any instance, it is likely that firms may overcome potential difficulties and hazards of foreign operations by partnering with others. These partnerships may be the sources of market opportunities but they may also be effective vehicles to identify and capture novel knowledge. Firms arguably reduce the perceived uncertainties of carrying foreign operations by integrating networks along with domestic and/or other foreign firms.

Firms need to engage in continuous innovation and constantly seek optimal combinations of their operations to meet the requirements of international competition. Failure to act internationally may lead to a loss of market opportunities, but also to a more severe inability to survive in the long run (Ghemawat, 2001, 2007). That is, firms must find new ways to develop a competitive advantage (Porter, 1980) which entails searching for and acquiring new skills, resources and capabilities (Barney, 1991). Knowledge is an important strategic resource (Wernerfelt, 1984; Peteraf, 1993) due to its impact on competitive capacity. In many instances, firms may access those resources, including market-specific knowledge, through alternative governance forms, such as 'industrial networks' (Nohria & Ghoshal, 1997). In fact, firms seem to gain international competitiveness by being integrated in 'industrial networks'. Network membership may facilitate access to a flow of market-specific knowledge that a firm in isolation would not hold.

Membership in a network has potentially several benefits as predicted in the social networks literature and is likely to ease foreign market entry and strengthen firms' competitiveness in international markets (Bradley, Meyer & Gao, 2006). For instance, network membership provides a variety of benefits that range from access to legitimacy (Ford, Gadde, Hakansson & Snehota, 2002, 2003), financial and technical resources (Gadde & Ford, 2008) and flows of technical and of market-specific knowledge (Furlan, Grandinetti & Campagnolo, 2009). Following Elo (2005) we use the term industry network to reflect the "long-term relationships between legally independent companies that exploit mutual complementarities and exchange information / knowledge". The core assumption when examining the value of networks is that firms may rely on their ties to other firms to access a variety of physical, social and reputational resources (Johanson & Mattsson, 1988; Axelsson & Easton, 1992; Reagans & McEvily, 2003; Solberg, 2008). In the context of firms internationalization it is far less unclear how membership in a network may contribute to attenuate the known risks and uncertainties of market entry, namely the psychic distance separating firms from their foreign environments.Although there is some research on the effect of PD and networks in the internationalization of firms (Blankenburg, Eriksson & Johanson, 1996; Chetty & Blankenburg, 2000) it is not clear whether and how firms' network membership reduces the effects of PD in the internationalization of firms. In this paper we contribute to the discussion on how firms' membership in industrial networks is likely to decrease the effects of psychic distance thus improving firms' competitiveness and performance in foreign markets, by proposing a conceptual model that scrutinizes the network benefits on reducing the perceived psychic distance that may pull firms away from market entry.

This paper is organized in three main parts. First, we present different conceptual approaches on the internationalization of firms, namely including a brief overview of the literature on internationalization as an evolutionary process and on the concept of industrial networks and psychic distance. Second, we put forward a conceptual model scrutinizing the network benefits on the perceived psychic distance when firms internationalize, advancing a set of propositions. We conclude with a broad discussion and pointing out implications and avenues for future inquiry.

INTERNATIONALIZATION: DIFFERENT PERSPECTIVES

A wealth of research has addressed the internationalization of firms under different theories and perspectives. It is largely beyond our immediate scope in this paper an extensive review but it is worth noting that some explanations for firms' internationalization are founded on increased market power (Hymer, 1976), internalization theory (Buckley & Casson, 1976), international product life cycle (Vernon, 1966), eclectic paradigm (Dunning, 1988) and transaction costs theory (Hennart, 1988). Yet, other approaches include the internationalization as a process that depends on factors such as attitudes, perceptions and behavior of managers (Andersen & Buvik, 2002) and internationalization as a sequential and evolutionary process (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; 1990; Sousa & Bradley, 2006; Smith, Dowling, Rose, 2011). Noteworthy are also the explanations based on network concepts and theory (Ford, 1980; Hakansson, 1982; Hakansson & Johanson, 1984; 1992; Tornroos, 2002; 2004).

The theory of internationalization in stages, known as the Uppsala evolutionary model, was developed by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977), among other scholars, who suggest that internationalization is a gradual process whereby the mode firms select to operate in a specific foreign country is a function of prior internationalization in which they accumulated knowledge on foreign markets and on how to operate internationally. Johanson and Wiedersheim-Paul (1975) advanced that psychic distance - or the differences between countries that cause uncertainty (Cavusgil & Zou, 1994)

– is a major determinant of the entry modes selected. Briefly stated, the theory proposes that firms seek to minimize uncertainties by entering initially closer countries (proximity evaluated as to the economic and cultural profile and geographic distance) and as they gain experience (experience may be evaluated as the experience in conducting foreign operations and of operating in a specific country, for instance) start expanding to farther countries. In the same vein, when entering unchartered territories, firms prefer to do so using low involvement/low investment modes and as they gain knowledge of those markets evolve to more investment-intensive entry modes (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). In sum, the implicit proposition in the extant research might be formulated as follows: *the largest the perceived psychic distance of home and host country the riskier the performance in foreign markets and the more firms prefer to mitigate the risks involved through low involvement entry modes*.

Other conceptual approaches on internationalization are based on market imperfections and the internalization theory, developed by Buckley and Casson (1976), Rugman (1981) A, positing that firms should internalize their activities, both in national and international markets, when carrying the exchanges in the market is less efficient and/or more expensive (Rugman, 1981) than the hierarchical governance mechanisms. In these instances firms undertake direct foreign investment operations maintaining in-house their foreign ventures, rather than using alternative foreign entry modes. John Dunning's envelope paradigm (1977, 1981, 1988) – the Eclectic paradigm – is a framework used to rationalize on the decision to internationalize, and how to do it, requiring that we examine three core dimensions: ownership, location and internalization advantages.

A more recent conceptual perspective has relied on examining firms' resources and how these may be best leveraged (exploited) or augmented (explored) in the foreign markets. The traditional standpoint generally claimed that internationalization was a way of exploiting firms' competitive advantages in foreign markets (Buckley & Casson, 1976). Other scholars put forward that firms may simultaneously leverage and augment their pool of resources.

Network-supported internationalization

The extant research has employed different terms to designate industrial networks, including networked organizations, organizational networks, inter-organizational networks, network businesses, networking among firms, social networks, relationship network, inter-organizational networks and enterprise networks, among other. Regardless of the actual usage, a network refers to a set of business relationships, both horizontal and vertical, with other organizations - be they suppliers, customers, competitors, or other entities. A network is a structure in which multiple nodes are connected to each other by specific relationships (Hakansson & Ford, 2002) and consists of firms and the relationships between them (Ford, Gadde, Hakansson & Snehota, 2003). According to Hakansson and Ford (2002) a network is a structure in which multiple nodes are connected to each other by specific relationships. The relationships are inter-organizational ties of strategic importance for the firms involved and may include strategic alliances (Gulati, Nohria & Zaheer, 2000), as well as other "long-term relationships between legally independent companies that exploit mutual complementarities and exchange information / knowledge" (Elo, 2005). For these interactions to last there must be benefits for all parties involved (Johanson & Wiedersheim-Paul, 1975).

Industrial network theory describes the market as a social system where industrial relations link customers, suppliers, competitors, family and friends. The nature of the relationships between the various parties will influence strategic decisions. One basic assumption in industrial networks is that individual firms are dependent on the resources controlled by other firms, be it for obtaining needed inputs or for placing outputs. Only by establishing a position within a network may firms access these resources (Andersen & Buvik, 2002).

It is crucial for firms' internationalization process to have business relationships with other firms around them, therefore firms must be able to create and sustain these business relationships (Gadde, Huemer & Hakansson, 2003). To improve firms' performance, firms must continuously combine and recombine their resources with the resources of others firms belonging to the network. This is likely to lead to the identification of new resource dimensions that may be further developed within business relationships (Freeman, Edwards & Schroder, 2006).

Network research in international business studies has witnessed many contributions. Hakansson and Johanson (1984), for instance, put forward a model of industrial networks known as ARA model (Actors-Resources-Activities) pointing that the main actors in the internationalization process are institutions, firms and individuals that interact to facilitate exchanges (Hakansson & Johanson, 1992). These actors include importers and exporters, financiers, government institutions and consultants, to name but a few. The activities consist on the various forms of exchanges – direct and indirect - that occur between actors within the network. The direct activities affect the exchange process, as in the case of individual firms, while the latent and indirect links are derived from actions of governments and multilateral organizations. Another distinction of activities differentiate between the processing activities – where the resources, held by a particular actor, are altered in some way – and transfer activities – resources are shared by the actors (Hakansson & Johanson, 1992).

Firms internationalization based on network explanations are somewhat more recent and are founded on the core idea that firms have much to gain from partnering with others for both access to scale and scope resources but also to gain market-related knowledge (Weisfelder, 2001). In fact, Dunning (1995) noted how increasingly important are the inter-firm modes of cooperation, be it using strategic alliances, networks or other hybrid governance forms. Johanson and Mattson (1988) has already suggested that network membership is compulsory for businesses - as strategic resources are increasingly scarce and firms in isolation are often unable to hold a pool of resources that may render them competitive. Johanson and Vahlne (1990) and Welch and Welch (1996) also posited that firms should be seen as embedded within a network of relationships – and networks that may be unintentional or strategically planned (Hite & Hesterly, 2001) - namely when entering foreign markets. Firms in a network each carries out different activities and exchange valuable resources, based on cooperative trust relationships and an alignment of long-term interests (Johanson & Mattsson, 1988; Easton & Hakansson, 1996; Ford et al., 2002).

A core assumption in network theory is that individual firms have to rely on other firms for at least some of the needed resources and to gain access to these resources they must hold a position in a network of inter-connected firms (Johanson & Mattsson, 1988; Axelsson & Easton, 1992). Network resources include products, raw materials, information, different types of knowledge, capital and technology (Johanson & Wiedersheim-Paul, 1975), but also market opportunities and social endorsement (Tornroos, 2004).

Networks may be strategically crafted as Hite and Hesterly (2001) suggested but they may be formed in an unplanned, non-strategic, manner and the knowledge acquired in networks and the development of the networks themselves may influence the manner and mode that firms chose to internationalize (Welch & Welch, 1996). The degree of internationalization of firms reflects not only the resources allocated abroad, but also the degree of internationalization of the network on which firms are inserted. Thus internationalization is not just a matter of moving products or productions to foreign countries and rather may be better understood as the exploitation and exploration of potential cross-border relationships (Johanson & Vahlne, 1992, Andersson & Johanson, 1997). Collaboration in relationships among firms of the network is crucial for success in international markets.

According to Freeman, Edwards and Schroder (2006) and Svensson (2004) the use of networks is fundamental to small and medium-sized enterprises (SMEs). Similarly, networks allow SMEs' to develop their business activities by overcoming the geographic and psychic distances that divide buyers, sellers, and partners in foreign markets. Ghauri, Lutz, Tesfom and Eritrea (2003) suggested that networks are essential to SMEs in overcoming export-marketing problems.

Psychic distance and the internationalization of firms

We described how the internationalization of firms may be examined as an incremental process. As firms internationalize they accumulate experience and knowledge and feel capable of evolving to higher commitment foreign entry modes, namely investing directly in foreign markets (Johanson & Vahlne, 1977). A crucial element in this evolutionary model is firms' perceived risks that according to Johanson and Wiedersheim-Paul (1975) leads firms to begin internationalizing to nearby markets - markets in close geographic proximity, with cultural, political and legal systems that resemble, or are similar to, those found in the home country – and only later searching for more distant markets. The initial expansion to proximate locations seeks to reduce perceived risks by avoiding unfamiliar spaces and by selecting entry modes that entail low commitment of resources. As firms deepen their internationalization they start expanding to farther countries also assuming greater risks and deploying high involvement entry modes.

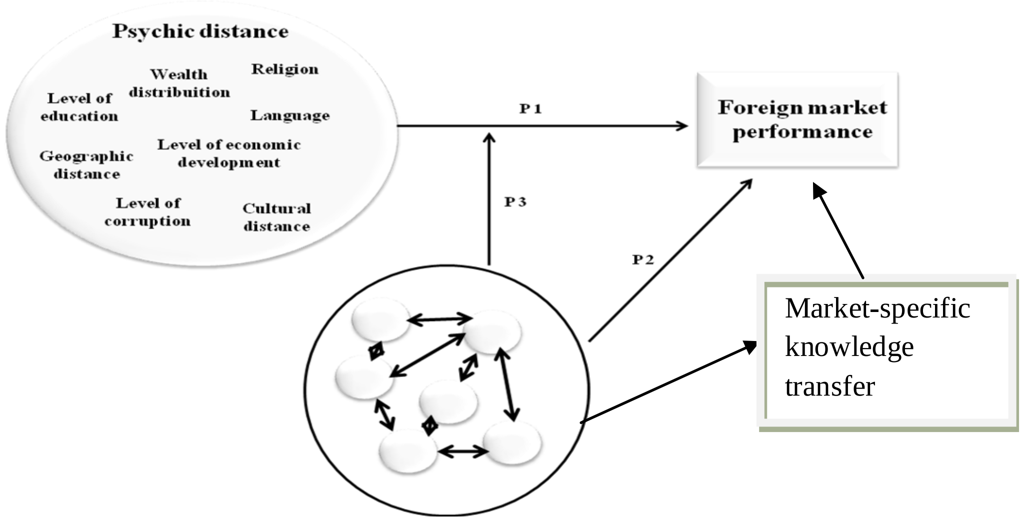
The first researcher referring the concept of "psychic distance" (PD) was Beckerman (1956) to point out the perceived distance between countries and the consequences for international trade. According to Beckermen, trade between countries was not only determined by the physical distance between countries, but also by other factors that create a sense of dissimilarity, such as language, culture and personal relationships between entrepreneurs. Johanson and Wiedersheim-Paul (1975, p. 307) conceptualized psychic distance as "the result of factors that prevent or impede the flow of information between firms and the market". In a complementary manner, Johanson and Vahlne (1977, p. 24) further stated that psychic distance was "the set of factors that impede the flow of information and the market". Kogut and Singh (1988) defined psychic distance as the degree of ignorance of a firm on the characteristics of a foreign market. Yet Evans, Treadgold and Mavondo (2000a, 2000b) argued that PD is the distance between domestic and foreign market, resulting from the perception and understanding of the existence of cultural differences and negotiation between them. Then, it is clear that the construct of psychic distance entails those elements (observable or silent) that make home and host countries' environments differ, including such aspects as language, religion, level of economic development, wealth distribution, level of education, degree of technological sophistication, geographic distance, pervasiveness of corruption and cultural differences (Johanson & Wiedersheim-Paul, 1975) and make the operations of firms difficult or more likely to fail.

CONCEPTUAL DEVELOPMENT

Membership in a network is likely to strengthen firms' competitiveness in international markets. Networks comprising related and unrelated firms provides a variety of benefits that range from access to legitimacy (Ford et al., 2003), financial and technical resources (Hite & Hesterly, 2001) and flows of technical and, perhaps more important, of market-specific knowledge (Hakansson & Snehota, 2006) thus reducing possible hazardous effects of psychic distance.

We propose to scrutinize the network benefits for firms foreign market performance, not only directly but also as network membership reduces the impact of perceived psychic distance – and advance a conceptual model, depicted in Figure 1 below.

FIGURE 1. Conceptual model



Internationalization of firms is done incrementally. Initially, firms select markets less psychologically distant, which allows them to gain experience in carrying out international operations generally and operations in that specific market particularly. To minimize risks while gaining knowledge about customers, suppliers, bureaucratic procedures, exchange rates, taxation, customs barriers, and so forth, firms begin to enter foreign markets through exports (Johanson & Vahlne, 1977). As they accumulate knowledge on the market they may take on alternative entry modes probably involving larger stakes and investment, such as joint ventures, acquisitions or even establishing greenfield startup subsidiaries in those countries.

Firms following an incremental internationalization process seek to reduce uncertainty and potential hazards. Vahlne and Wiedersheim-Paul (1975) argued that uncertainty about foreign markets is related to the psychic distance home-host countries. For instance, the psychic distance between Brazil and any given foreign market is determined by a number of factors such as level of development, level of education, business language, cultural differences, language and relationships of many kinds between the country of origin and the host. The greater the difference between such factors the greater the psychic distance perceived by firms seeking to internationalize (Sarala & Vaara, 2010). A larger PD will arguably lead to greater uncertainty in operating in those countries (Carlson, 1975; Ford, 1984; Sousa & Bradley, 2006). A proposition may thus be specified as follows:

Proposition 1. *Psychic distance is likely to have a negative impact on firms' performance in foreign markets.*

It is further worth noting that PD is posited to bear an impact on entry mode decision. A manager's choice of the specific entry mode in a foreign market in based on his perceptions of the environment, and most notably of his perception of the psychic distance involved in a certain market entry (Harzing, 2003). Specifically, a high degree of psychic distance between countries is expected to have negative impact on a firm's desire for high control of foreign market operations (Dow & Larimo, 2009). This negative impact of PD has been supported by several empirical studies which have found a significant negative correlation between PD and entry mode selection (Zhao, Luo & Suh, 2004; Magnusson, Baack, Zdravkovic & Staub, 2006). Nonetheless, albeit relevant, it is not our purpose in this paper to examine the impact of psychic distance on the choice of the entry mode, but rather on the performance of those entries.

When firms decide to internationalize they need to make a set of decisions, namely on the market/country in which to operate and which mode to deploy. According to Ghemawat (2001) the decision to internationalize may be seen in two perspectives. On one hand, considering the convergence of markets as a result of globalization (Levitt, 1983), internationalization is nothing more than entering a new market, already known, so the perceived risk is reduced. We should point out that Ghemawat's argument presupposes highly internationalized firms and not an inexperienced firm entering for the first time a foreign country. On the other hand, realizing that markets differ, the decision to internationalize a firm involves high risks and the need to adapt to an entire set of norms and rules different from those of the home country. To succeed in this adaptation, firms may require new skills and resources.

Internationalization is an often recurring consequence of the growth process and is seen as an incremental process (Hallen & Wiedersheim-Paul, 1993). The speed and sequence of the internationalization process depends on the degree of knowledge on foreign markets (external environment), experience, etc. The degree of knowledge will reduce the PD between the domestic and external environment (Johanson & Vahlne, 1977) and we argue that network membership contributes positively to attenuate those effects.

Network membership provides small and medium firms with the know-how to access foreign markets that increase their chances of survival in international markets (Bradley et al., 2006).In sum, received wisdom supports a broad proposition as follows:

Proposition 2. *Firms' membership in a network is likely to contribute positively for improved performance in their foreign operations.*

The networks literature pointed out an array of benefits and resources firms may access from their partners in a network. In conditions of uncertainty, firms are likely to value and seek bits of information that permit a reduction in the uncertainties. Sharing and transfer of market-specific knowledge may be superior for firms integrated in an industrial network. This sharing of knowledge and resources among network members probably reduces effects of psychic distance for firms entering a new country. The reduction of the effects of PD is attained primarily through information and knowledge on foreign markets that are shared among network members (Nohria & Ghoshal, 1997), but also through the reputational and social spillovers from the other firms in the network, which may reasonably lead us to conclude that firms' performance should improve vis a vis a firm that walks alone. Thus we may advance, in proposition form that:

Proposition 3. *Firms' industry network membership positively moderates the negative impact that psychic distance has on foreign market performance.*

Membership in industrial networks may be a vehicle for better absorbing market-specific knowledge. International transfer of knowledge, even within the boundaries of a firm – between subsidiaries of a parent MNC, is faced with many aspects of the local cultures in which subsidiaries operate. The hazards are heightened when operating in unfamiliar territories. In these instances, learning *a priori* about the foreign markets through the network members is a viable manner to mitigate losses. The network helps in providing an understanding about the prevailing cultural norms and practices (Hakansson & Snehota, 2006).

A network is a set of exchange relations among firms that are linked by long-term relationships and joint interests or commonalities (Cook & Emerson, 1978). However these relationships are in constant flux (Johanson & Mattsson, 1988). Firms develop and / or alter the relationships with partners, in accordance with its objectives (Hite & Hesterly, 2001). For instance, a firm entering a new market has to establish new relationships and sometimes terminate others (Hakansson & Snehota, 1995) – that is, firms need to manage strategically their networks. The more dense, or inter-connected the firm's network is the fewer the changes firms need to do, because firms trust more in their partners (Smith et al, 2011).

Networks promote an environment conducive to sharing market-specific knowledge but also other resources, as posited by network theory, which enables firms to achieve competitive advantages in both domestic and external markets. Unlike centralized and hierarchical management, which may not allow an exchange of information, firms belonging to industrial networks put particular emphasis on knowledge transfer between all partners/firms, including among subsidiaries (Nohria & Ghoshal, 1997). It may be that the knowledge absorbed from local partners is market-related, while the ties binding other firms may rely on the transfer of technology-related knowledge, labor practices, process-related best practices, R&D efforts, new distribution channels, and so forth. The ultimate purpose is to apply this market-specific knowledge to improve performance. In sum, we propose an effect of network membership on knowledge transfer, noting that this is a crucial transfer – albeit knowledge may refer to many different issues:

Proposition 4. *Firms' industry network membership is likely to positively impact performance by promoting market-specific knowledge transfer among network members.*

DISCUSSION AND FINAL REMARKS

Industrial networks assume an important role in the internationalization of firms worldwide, as confirmed by an increasing number of published articles on the topic (Ford et al., 2002). These networks provide firms with an array of resources and market- and client-related information, improving the odds of survival and success. Moreover, networks may be intentionally and strategically constructed so as to serve the goals of firms in a specific moment. Due to their facilitating role, research on the influence of networks in international business literature is warranted.

Firms construct industrial networks to reduce the barriers and hazards faced pre-, during and post-internationalization and it is the responsibility of managers to identify opportunities to integrate networks, which networks to enter and from which to exit. The success of each firm in a network is the result of the conduct of all firms in the network (Tornroos, 2002, 2004), thus deserving managers' attention to the evolution and performance of the network they belong to.

Understanding the importance of network membership is relevant for practitioners of both internationally inexperienced as well as multinational corporations. Through the network ties firms may access resources they do not hold and that they could not access otherwise, namely through internal development. It is also interesting to consider network membership as a manner to reduce firms' exposure to unchartered countries risks. Using network ties firms may avoid employing other entry modes that involve greater risk. In fact, network membership may be seen as an alternative entry mode to add to the pool of available strategies. Arguably, networks may be of even greater interest for small and medium enterprises that lack the human, technical and financial resources to undertake internationalization alone.

For theory, network research may present avenues that have been somewhat underexplored. It is now recurrently referred to that firms should focus on their core competences and core business. All activities outside the core that are not of strategic importance may be contracted out in the factor market. Indeed, firms may use this rationale when selecting and constructing their networks. The value of a network depends on the moment and on the medium and long term strategy for a specific market. Future research could explore how firms are reshaping their networks to face different needs and strategies in foreign markets.

Future research may evolve in a number of different paths. For instance, what is the composition of firms' networks that better support internationalization in different stages. That is, how should networks differ for firms that are looking for their first international experiences from those that have accumulated a wealthy track record of foreign deals? How stable or unstable are networks? This is important in understanding whether firms in a network tend to assume opportunistic behaviors and as soon as they capture a certain benefit whether they remain or exit the network. What is the ideal network configuration for supporting internationalization? In sum, a number of questions emerge from applying a network rationale to the study of internationalizing firms, that may be pursued in future research endeavors.

To conclude, network membership may prove to be a valuable distinctive factor and one with the potential to provide a competitive advantage. It seems reasonable to suggest that the degree of embeddedness in a network lowers the perceived psychic distance hazards of internationalizing firms. The consequence should be on better performance and improved odds of survival. For instance, foreign entry into countries of the former Soviet sphere of influence where the economic and cultural realities are quite different from those found in other Western European countries, warrants that we investigate not only how much perceived psychic distance is involved but also how this distance and associated hazards may be overcome by partnering with either local or other foreign firms.

As we begin to question how far should firms go in their diversification efforts – including geographic diversification – other theories may be brought to bear on examining the actual implications and modes to deal with the increased risks. The current strategists warrant that firms need to focus on their core competences, which is coherent with the configurations that may emerge from networked firms.

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