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# Immigrant social networks and foreign entry: Australia and New Zealand firms in the European Union and Greater China

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### ABSTRACT

Based on social networking and ethnic networking theories, this paper presents a theoretical framework that hypothesizes the linkages between immigrant social networks and foreign market entry (FME) strategies for firms operating in the European Union (EU) and Greater China (GC) region. “Immigrant effect” (IE) is used as a proxy for immigrant social networks. IE refers to firms that are owned and/or hired immigrants in key decision-making positions to manage and/or market their products/services in the immigrant’s country of origin (COO). The findings of this study reveal that immigrants do play a pivotal role in affecting the choice of FME mode into their respective COO in both EU and GC regions. As such, firms could employ a standardized IE–FME framework across the EU and GC regions. However, the antecedents for choosing an IE are different for both regions, thus suggesting that a different antecedent–IE framework for the EU and the GC regions. The results suggest that both standardized and adapted approaches should be considered when formulating the antecedent–IE–FME framework for the EU and GC regions. The findings of this study has theoretical implications for research pertaining to social network/ethnic network and FME, standardization/adaptation as well as practical implications for firms that seek to use IE in transacting business in the immigrant’s COO.

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## 1. Introduction

As firms seek to expand internationally, a major challenge is to select the appropriate foreign market entry (FME) mode. Research has shown that this strategic decision can affect the success or failure of the undertaking (Anderson & Gatignon, 1986). A significant body of theories has been established in the FME literature, most notable of which are incremental internationalization theory; transaction cost theory (TCA); and eclectic theory (OLI) (Dunning, 1997; Erramilli & Rao, 1993; Johanson & Vahlne, 1977).

Ethnic network theory, i.e., networks formed on the basis of shared ethnicity, has also been used to explain a firm’s internationalization process (Camara & Simoes, 2006; Filatotchev, Strange, Piesse, & Lien, 2007; Saxenian, 2002a, 2002b; Zhao & Hsu, 2007). Ethnic network theory is a sub-division of social network theory (Zhao & Hsu, 2007). Research of this nature has suggested that a firm’s choice of FME mode is most likely related to the social networks possessed by its immigrant employer and/or employees in the target market (Chung & Enderwick, 2001; Saxenian, 2002a, 2005; Tung & Chung, 2010; Zhao & Hsu, 2007). Prior research of this nature has shown that immigrants, by virtue of their networks in

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both their country of residency (COR) and country of origin (COO), can organize “transnational communities” to facilitate the conduct of international business. Thus, transnational communities can enable smaller-sized firms to compete with large multinational corporations in transacting business across international boundaries (Chung, Rose, & Huang, 2012; Faist, 2000; Saxenian, 2002b; Snel, Engbersen, & Leerkes, 2006; Vertovec, 1999). In fact, Saxenian (2002b, p. 185) has suggested that they may represent “a more flexible and responsive mechanism for long distance transfers of skill and know-how, particularly between very different business cultures or environments”. Furthermore, transnational communities have been hypothesized to exist in both developing and developed nations (Levitt, 2001; Saxenian, 2002b; Snel et al., 2006).

This study seeks to build upon the existing literature and extend our understanding of the relationships between immigrant social networks and the choice of FME in two important aspects: first, compared to the traditional theories (e.g., TCA) that are used to explain the behavior of FME, the relationship between social networking and FME has been under-researched; as such, there is need for further insights on this paradigm (Zhao & Hsu, 2007). Though existing social networking research has investigated the role of ethnic networking in FME selection concerning firms’ operation in the developing regions (e.g., Filatotchev et al., 2007; Zhao & Hsu, 2007), there is evidence that the relationship between ethnic networking and FME can apply to firms that operate in the developed economies (Snel et al., 2006). This suggests that perhaps a standardized IE–FME framework is likely to exist across developing and developed regions that stem from the knowledge and network of immigrants in their COO. Standardization strategy asserts that firms can adopt a uniform strategy or process formulation across their operations in different host markets or regions (Chung, 2003; Jain, 1989). The use of a standardized framework across both developing and developed regions could allow firms to take advantage of cost saving, uniformed image and easier implementation that are associated with a standardization strategy (Chung, 2010; Jain, 1989; Levitt, 1983; Samiee & Roth, 1992). In turn, these advantages can help firms establish or maintain their international competitive advantage when operating in the foreign host markets. As such, in this study we will explore whether a standardized framework pertaining IE–FME can be effectively deployed by firms operating in the developed and developing regions. To test this hypothesis, we will focus on firms with operations in the European Union (EU) and those that transact business in the Greater China (GC) region. The EU is a key member of the developed economy while GC represents a major economic force in the developing region. The findings of this study could lend credence to the assertion by Tsui and Farh (1997) and Redding, Norman, and Schlander (1993) that social network/ties are indeed universal. The extension of standardization theory to the IE–FME paradigm could also shed new light on the extant literature on international standardization strategies (e.g., organizational learning, decision-making structure) (Chung, 2010; Lages, Jap, & Griffith, 2008).

Second, by using data from a sample of Australian and New Zealand manufacturing and service firms, this paper will seek to develop a conceptual framework that posits the antecedent-IE relationship in the EU and GC regions. Such a framework can identify the antecedents and outcomes pertaining to IE and FME for both the developed and developing economies (Tung & Chung, 2010). As such, the findings of this study have important implications for firms that seek to operate in both developed and developing markets and for academics who seek to establish a standardized research framework across countries at different levels of economic development (Chung, 2003, 2010; Jain, 1989; Zou & Cavusgil, 2002). In summary in this study we intend to formulate a standardized/adapted set of antecedents-IE–FME guidance for firms operating in the EU and GC regions.

## 2. Immigrant effect and social networks

### 2.1. Immigrant effect

In this study, firms with immigrant effect (IE firms) are defined as organizational entities that are owned by immigrant employers and/or hired immigrant employees in key decision-making positions to manage their operations in the immigrant’s COO (Chung et al., 2012). Prior research on transnational entrepreneurship and international human resource management that focused on immigrant social networks has shown that social ties possessed by immigrants can offer significant advantages to facilitate FME into their COO. Aside from pre-existing social ties, these advantages include greater knowledge of local environmental conditions, such as familiarity with customers, host government regulations, culture, languages and customs (Gao, 2003; Gould, 1994; Kyle, 1999; Saxenian, 2002a, 2005). Several studies have shown that ethnic ties can indeed be used as a proxy for social networks (Filatotchev et al., 2007; Gao, 2003).

Based on a review of the extant literature on social and ethnic networking, IE, cross-cultural management, international human resource management and FME modes, a model is developed to encompass the path frameworks that capture the relationships among these different sets of variables in the EU and GC regions. This model is presented in Fig. 1.

## 3. IE social networks and FME mode

As indicated, immigrant effect is associated with social networking theory (Filatotchev et al., 2007; Head, Ries, & Wagner, 1997; Zhao & Hsu, 2007). Prior research has shown that social network linkages can drive and facilitate the choice of market entry mode (Chen & Chen, 1998). It was proposed that firms can gain access to strategic assets in a foreign country via network connections. Social networking can help investors overcome entry barriers and reduce cross-country transaction

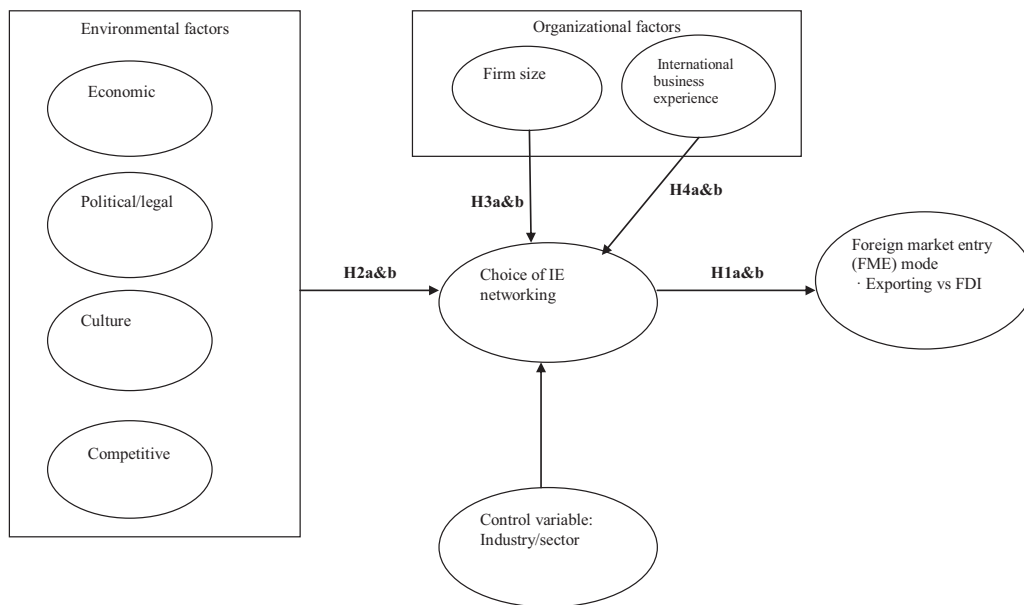


Fig. 1. Theoretical framework: the case of firms operating in the European Union and Greater China regions.

costs as network linkages can compensate for augment the weaknesses in a firm's capabilities. Extant research has shown that the social capital embedded in business networks can help shorten a firm's psychic distance and thus influence its choice of FME mode (Blankenburg Holm, Eriksson, & Johanson, 1996; Chetty & Blankenburg Holm, 2000). Johanson and Vahlne (1977) have suggested that firms are likely to pursue a higher resource commitment FME where the psychic distance between the home and host market is low. Past research has found that the generally reliable information and resources provided by informal ethnic networking can help firms reduce their uncertainty about the host markets, thus overcoming the psychic distance between the home and host markets (Coviello & Martin, 1999). This advantage can thus enable the firm to engage in a higher commitment mode when entering into the host markets (Zhao & Hsu, 2007).

Several empirical researches on the developing and developed regions have revealed the existence of a relationship between IE and high source commitment FME selection (Camara, 2006; Filatotchev et al., 2007; Snel et al., 2006; Zhao & Hsu, 2007). When operating in the developing regions of the world, the unique knowledge and understanding of the host markets, rich contacts and access to capital have prompted IE firms to engage in a higher resource commitment FME (Chung & Enderwick, 2001; Gould, 1994; Rauch & Trindade, 2002; Saxenian, 2002a, 2005). Firms with an immigrant effect are more likely to adopt an entry mode that is associated with higher risks and resources (Tung & Chung, 2010).

The IE–FME relationship is also evident in firms that operate in the developed regions (Duncan et al., 1997). Prior research has shown that Spanish and US immigrants have frequently engaged in foreign direct investment, a higher risk of entry strategy, in their COO (Glückler, 2006; Snel et al., 2006). Immigrants' knowledge about their country of origin has encouraged firms to adopt a higher risk of entry strategies when conducting business in the immigrants' COO. This special knowledge and understanding can often promote smaller and less experienced firms to adopt a higher resource commitment FME.

Based on the above analysis, we propose that the IE–FME relationship can apply to firms that operate in the GC and EU regions. Hence,

**H1a.** When operating in the Greater China, the presence of an IE social network is positively related to the level of resource commitment to the host market, i.e., IE firms are more likely to resort to a foreign direct investment mode.

**H1b.** When operating in the European Union, the presence of an IE social network is positively related to the level of resource commitment to the host market, i.e., IE firms are more likely to resort to a foreign direct investment mode.

#### 4. Local environmental factors

Social network theory has proposed that firms can use their managerial ties to reduce the effect of business uncertainty (Geletkanycz & Hambrick, 1997; Zhao & Hsu, 2007). This line of research suggests that social ties can be established on the basis of kinship, friendship, linguistic affinities, formal jobs, schooling, and business connections. The information and intelligence embedded in managerial social ties can be used to reduce the liability of foreignness and the negative consequences associated with uncertainty in the host markets (Li, Zheng, & Shao, 2009). Recent studies on immigrant effect

have found that immigrant managers often have strong social ties in their COO (Chung et al., 2012) and such ethnic social ties can serve as a bridge between the host and home countries' environments. In particular, ethnic ties can be particularly useful in target markets where the institutional environment is less developed (Chen & Chen, 1998). Therefore firms that seek to operate in markets that are very dissimilar from that at home are more likely to rely on an immigrant effect to overcome the barriers and resistance associated with market entry.

The relationship between environmental factors and the choice of IE is evident in firms operating in the developing and developed region. In a study of transnational communities in the high-tech sector established by Taiwanese immigrants, Saxenian (2002a) found that skilled immigrants often enjoy advantages over their competitors in doing business in Taiwan because of their language skills, cultural know-how and contacts there. These findings were consistent with Gould's (1994) who showed that immigrant advantages included greater knowledge of the target market, local language, consumer preferences and business contacts. Similarly, Rauch and Trindade (2002) also found that immigrant social ties are particularly useful when conducting business in countries with volatile political and legal environments. In these situations, social relationships can substitute for the lack of institutionalized law, to a certain extent at least.

In research on firms operating in the developed regions of the world, it is found that the immigrants' knowledge of the local language and socio-cultural environment can also help firms to overcome the barriers of marketing products in the immigrants' COO (Chung, Enderwick, & Naruemitmongkonsuk, 2010; Rauch, 1999). For example, in a recent study on firms' operation in Switzerland and Germany, Chung et al. (2010) reported that immigrant employees' language capability has successfully assisted firms in establishing an operation in the immigrants' COO. Furthermore the immigrants' transnational communities can also help reduce the impact associated with the host markets' economic, political and socio-cultural conditions in the developed regions (Levitt, 2001; Snel et al., 2006).

Taken collectively, prior findings have suggested that the degree of environmental divergence between the home and host markets is likely to be a determinant in the deployment of immigrant social networks in both the developing and developed regions of the world. As such, firms are more likely to resort to an immigrant effect when there is substantial environmental variation between the home and host countries.

**H2a.** When operating in Greater China where the institutional environment is very different from that at home, firms are more likely to pursue an IE social network.

**H2b.** When operating in the European Union where the institutional environment is very different from that at home, firms are more likely to pursue an IE social network.

## 5. Organizational factors

### 5.1. Firm size

Organizational factors, such as firm size, have also been recognized as an important determinant of variations in international human resource management and social networking development (Jackson & Schuler, 1995; Zhao & Hsu, 2007). Prior research has suggested that social networking can assist smaller sized firms in acquiring adequate market intelligence and resources that are needed to undertake FDI activities (Chen & Chen, 1998). As such, it appears that firm size can explain for ethnic social network usage when operating in the developing and developed regions (Saxenian, 2002a, 2002b; Zhao & Hsu, 2007).

In a study of immigrants from Taiwan and China, Saxenian (2002a, 2002b) found that immigrant social networks can enable small-sized firms to venture into international businesses. She argued that ethnic networks can assist small firms to compete in sectors hitherto dominated by large multinational corporations. Through their social networks, small firms that are established by immigrants were able to raise sufficient funds to invest in their COO (Saxenian, 2005). Similarly, in studies on firms operating in China and Taiwan, Chen and Chen (1998) and Zhou, Wu, and Luo (2007) reported that network contacts could assist smaller-sized companies to overcome the liabilities often associated with smallness, such as the lack of international business experience and insufficient resources to engage in extensive and intensive market research of the target country. Zhao and Hsu (2007) have also revealed that ethnic networking can assist small-medium sized (SMEs) firms to acquire adequate information and local resources that are normally only available to large sized firms. This assistance allows SMEs to engage in a higher resource commitment FME.

Though previous studies have not specifically explored the relationship between firm size and the choice of IE concerning firms' operation in the developed region, there is an indication that small-sized firms are more likely to employ an immigrant effect for firms operating in the developed region (Chung et al., 2010). For example, in a study of small-sized firms' internationalization activities, it is found that companies established by Spanish immigrants in the US have often utilized their immigrant effect when venturing into Spain (Camara, 2006). McDougall, Shane, and Oviatt (1994) also reported that international new venture firms in the developed regions, such as Europe and the US, often rely upon an immigrant effect when transacting business in the immigrants' COO. Similarly, Chung et al. (2010) has shown that small-sized New Zealand firms also used IE to penetrate the marketplace when conducting business in the immigrants' COO.

Based on the foregoing, it is proposed that small firms are more likely to resort to an immigrant effect to increase the likelihood of success in entering foreign markets when operating in the developing and developed regions of the world.

**H3a.** When operating in Greater China, small-sized firms are more likely to pursue an IE social network.

**H3b.** When operating in the European Union, small-sized firms are more likely to pursue an IE social network.

## 5.2. *International business experience (IBE)*

To date, the impact of IBE on the deployment of IE has not been widely explored in the ethnic network literature. The available research appears to suggest that firms with limited IBE are more likely to utilize immigrant networks when venturing abroad. For instance, in her study of firms operating in India and China, [Saxenian \(2005\)](#) found that organizational entities established by immigrants tend to be “born global”, i.e., they were able to embark on international business almost immediately after they were established. This is so because immigrants with social networks can more readily raise capital, identify suitable partners in the target country to begin manufacturing, and start marketing their products and services. In their study of firms operating in Taiwan, [Saxenian and Hsu \(2001\)](#) also found that small and inexperienced firms were better able to capitalize on their immigrant social networks to obtain the necessary know-how and skills when conducting business in the immigrants’ COO. This transnational knowledge can enable these firms to operate profitably in their COOs within a relatively short period of time ([Saxenian, 2005](#)).

In a study of firms operating in Europe, [Chung et al. \(2010\)](#) also showed that IE can substitute for lack of IBE when conducting business in countries such as Germany and Switzerland. It is reported that firms with more limited IBE can capitalize on the advantages associated with IE to establish a solid foothold in the immigrant’s COO. Similarly, in their study of European firms, [Camara and Simoes \(2006\)](#) found that immigrant social networks could enable firms inexperienced in international business to operate successfully abroad, particularly where the target markets involved the immigrants’ COO.

Collectively, these findings suggest that firms with less IBE are more likely to resort to IE to help them surmount the barriers that could exist between the home and host markets, thus enabling them to leapfrog the learning process in the target market. This applies to firms that operate in both the developing and developed regions of the world.

**H4a.** When operating in the Greater China, firms with less IBE are more likely to pursue an IE social network.

**H4b.** When operating in the European Union, firms with less IBE are more likely to pursue an IE social network.

## 6. Control variable: industry/sector characteristics

Services are associated with characteristics such as intangibility and perishability ([Buckley, Pass, & Prescott, 1992](#); [Nicoulaud, 1989](#)). These features often necessitate that the marketing of services be more localized. In general, ethnic networks often possess greater knowledge of the local market and, as such, their presence could facilitate marketing services in the target country ([Chung et al., 2010](#); [Saxenian, 2002b, 2005](#); [Wong & Ng, 2002](#)). Due to its possible influence on the choice of IE, the industry/sector factor was therefore used as a control variable in both the Greater China and European Union regions ([Chung et al., 2010](#)).

## 7. Research design and measurements

### 7.1. *Data collection and sample selection*

To investigate the hypotheses presented in the foregoing section, a sample of Australian and New Zealand firms with operations in the EU and GC (Greater China) regions were selected. Both Australia and New Zealand have welcomed immigrants from around the world. The first settlers in both countries were British, followed by other Europeans. More recently, peoples from other countries, particularly Chinese from GC ([Tung & Chung, 2010](#)), have also emigrated to Australia and New Zealand. Furthermore, given the abundance of trade between these the EU and GC, on the one hand, and Australia and New Zealand, on the other, it is appropriate to use firms in the latter two countries to examine the hypotheses posited in this study.

The sampling frames in both regions were drawn from *Dun and Bradstreet’s* directory of firms with international operations. The Dun and Bradstreet database was used as it includes most firms that are involved in international business in Australia and New Zealand. After adjustments, the sampling frames were 848 and 1006 firms for the EU and GC, respectively. A 10-page questionnaire was mailed to prospective respondents with a return self-addressed stamped envelope. A total of 161 (EU) and 233 (GC) usable questionnaires were obtained for a response rate of 19% and 23%, respectively. The questionnaires were completed by the highest-ranking executive (managing director) or the manager in charge of the firm’s operations in the host market, although the latter has to be based in the home country. There was one respondent per organization. To test for non-response bias, *t*-test and chi-square were performed on several key factors including firm size, and industry type on the early and late respondents ([Armstrong & Overton, 1977](#)). No significant difference was observed between these two groups of respondents.

A number of approaches were adopted to avoid possible common method bias ([Podsakoff, MacKenzie, Lee, & Podsakoff, 2003](#)). Common method bias may occur from the use of a common rater, measurement context or the features of the items. To reduce the common method bias items, we have guaranteed the anonymity of respondents and respondents were

informed that there is no right or wrong answers to the research question items. In addition, previously validated measurement items (on a five-point or binary scale) used in prior research (e.g., Chung & Enderwick, 2001; Chung et al., 2012; O'Grady & Lane, 1996) were used. By adopting this practice, our survey questions are specific, precise and easy to understand (Tourangeau, Rips, & Rasinski, 2000). Furthermore, this study has also used the proximal separation method that was suggested by Podsakoff et al. (2003). The questions that pertain to the predictor and criterion variables were placed in different sections of the survey and are presented in different response formats. These steps have helped to reduce the measurement-related common method bias effect.

## 7.2. Measurement

This study adopted a “product-market” approach by focusing on the respondents' most important product/service marketed in their most important host market in the respective regions at the time the survey was conducted (Cavusgil & Zou, 1994). The respondents were asked to identify the specific FME mode they used to enter the target market. In this study firms have adopted both FDI (wholly owned operations and joint ventures) and exporting modes. Details of these entry modes are reported below. Based on this response, FDI was coded as “1” and exporting was coded as “0”.<sup>1</sup> We have focused on the traditional FDI modes (i.e., wholly owned operations and joint ventures) for the reason that the respondents in our study tended to have a shorter international business experience when compared to firms based in other Western countries (e.g., the US, UK). This characteristic suggests that the respondent firms might not have sufficient financial and management resources to pursue other more comprehensive forms of FDI modes such as acquisitions or mergers when entering into international markets. In general, firms only adopt a more advanced FDI mode when they have accumulated enough business experience, resources and local knowledge. This approach is consistent with other research that has also focused on firms based in Australia and New Zealand (Chung, 2003). This limitation will be addressed further in the final section of the study.

Following Chung and Enderwick (2001), McDougall et al. (1994) and Tung and Chung (2010), Enderwick, Tung, and Chung (2011), “IE social networks” was measured in two ways: first, the respondents were asked if their company had employed immigrants from the target market (for example, British in the case of the UK; Mainland Chinese in the case of China) to manage their current marketing activities (e.g., FME) in the host markets. The immigrant employees all hold key decision-making positions such as export marketing manager or international marketing managers and are in charge of their firms' operations in the host markets (Chung et al., 2012). The immigrant employees in question have to be based at the firm's headquarters because strategic decisions, such as FME, were likely to be made there. When operating in the host markets, due to their unique and abundant knowledge about their COO, immigrant employees are responsible for the formulation of their firms' strategic decisions such as FME decisions in the COO host markets (Tung & Chung, 2010). Second, IE social network was coded as “1” if a firm had hired immigrants and/or were established/controlled by immigrants; otherwise it was coded as “0”. The immigrant owners/controllers are also responsible for the formulation of their firm's strategic decisions in the host markets.

Firm-related characteristics were gauged in terms of (1) firm size – the number of employees; (2) international business experience (IBE) measured along two dimensions: (a) the total number of years in conducting business internationally; and (b) the number of countries participant firms have ongoing operations in, aside from the target market. Industry/sector characteristics were determined by whether firms were operating in the manufacturing (consumer and industrial) or service sector (SV) (SV = 1; 0 = others). This grouping follows the practice adopted in prior research of a similar nature (Park & Luo, 2001).

Based on other studies (Luo & Peng, 1999; O'Grady & Lane, 1996), local environmental conditions were gauged in several ways (for details, see Table 1). Environmental conditions were determined by the level of heterogeneity between the home and host countries in terms of the similarities/differences in various aspects of their environments, including legal, political, economic, cultural and competitive. The respondents were asked to assess each dimension on a 5-point scale, where “1” represents a high degree of similarity.

Consistent with the OECD convention, firms that hired less than 200 employees were classified as small- to medium-sized firms (SME). Using this classification system, the majority of respondent firms included in this study fell into the SME category (87% and 76% in the EU and GC samples, respectively), although there were also some large firms. The average number of IBE is 14 and 22 years for firms in the EU and GC samples, respectively while the average number of countries that the respondent firms operated in was 12 and 15, respectively for the EU and GC samples.

The majority of firms in both samples were engaged in consumer durables and non-durables (e.g., food and beverage, apparel, and electrical), and industrial products (e.g., equipment, material, components, and chemical) in the target countries. About 26% and 17% of the firms in the EU and GC samples came from the service sector (e.g., financial, shipping, advertising, education, marketing research, and consulting). The most important target markets identified by the respondents were: the United Kingdom (54%), Germany (17%), Italy (6%), France (5%), Spain and Sweden (3% each), Switzerland and Belgium (2.5%

<sup>1</sup> We have attempted to accommodate other classification systems (e.g., exporting = low resource commitment FME; IJV = moderate resource commitment FME; and wholly owned operations = high resource commitment FME). However, because we were unable to establish meaningful results based on this three-category classification, we have adopted a binary classification scheme instead.

**Table 1**  
PLS results.

Constructs	Measurement items	PLS model results		
		Loadings	t-Values	CR, AVE
Legal	Regulations on price and sales conditions	0.786 (0.971) <sup>a</sup>	2.755 (4.092)	CR = 0.870 (0.886)
	Regulations on packaging requirements	0.809 (0.766)	3.455 (3.088)	AVE = 0.691 (0.724)
	Regulations on content performance and safety	0.893 (0.946)	4.647 (3.935)	SQRT AVE = 0.831 (0.850)
Economic	Stage of economic development	0.671 (0.796)	2.369 (3.386)	CR = 0.855 (0.847)
	Per capita income level (GNP/capita)	0.873 (0.770)	3.513 (3.503)	AVE = 0.510 (0.490)
	Cost of labor	0.802 (0.865)	3.281 (3.200)	SQRTAVE = 0.714 (0.700)
	Consumer purchasing power	0.846 (0.594)	3.314 (2.454)	
	Distribution infrastructure (e.g., wholesaling/retailing system)	0.473 (0.449)	1.330 (1.476)	
	Promotion infrastructure (e.g., media availability)	0.500 (0.637)	1.561 (2.454)	
Competitive	Competitive nature of the market	0.958 (0.960)	3.700 (2.884)	CR = 0.842 (0.780)
	Market share position of the product/service	0.736 (0.616)	2.562 (1.582)	AVE = 0.731 (0.651)
				SQRT AVE = 0.854 (0.806)
Culture	Linguistic and connotative implications	0.597 (0.672)	2.124 (2.515)	CR = 0.836 (0.852)
	Understanding and interpretation of Advertisement	0.955 (0.812)	3.352 (3.265)	AVE = 0.637 (0.594)
	Consumer literacy & education level	0.800 (0.898)	2.916 (2.888)	SQRT AVE = 0.798 (0.770)
	Socio-cultural customs and taboos	– (0.675)	– (2.537)	
IBE	Number of countries operating	0.682 (0.703)	1.850 (1.958)	CR = 0.792 (0.852)
	Number of years in international business	0.924 (0.937)	2.948 (2.680)	AVE = 0.661 (0.594)
				SQRT AVE = 0.813 (0.770)
Political <sup>b†</sup>	Political interference of the government	–	–	–
SV <sup>†</sup>	Industry/sector	–	–	–
Firm size <sup>†</sup>	Number of full-time employees	–	–	–
IE social network <sup>†</sup>	Immigrant effect	–	–	–
FME mode <sup>†</sup>	Market entry mode	–	–	–

<sup>a</sup> Figures in parentheses represent those related to the developing (i.e., Greater China) sample; others are related to the developed sample.

<sup>b</sup> This factor is excluded from the PLS model, due to its high correlation with other factors.

<sup>†</sup> Single-item measurement factors. –: not included, not significant or not applicable. \* $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ .

each), the Netherlands and Austria (2% each), Greece and Ireland (1% each). The most important target markets identified by the respondents in the GC sample were: China (48%), Hong Kong (31%) and Taiwan (21%).

These percentages are in line with the overall demographic profile of the general populations in Australia and New Zealand in terms of source countries of immigrants. According to the 2006 census, for example, one-quarter of residents in New Zealand were born overseas. Of the foreign-born, England was the largest source country, followed by China, Australia, Samoa, India and South Africa (Statistics New Zealand, 2007). Both China and the UK were also the fourth and fifth largest trading partners of New Zealand (NZ\$6 billion and \$3 billion, respectively) (New Zealand External Trade Statistics, 2007). Similarly, in Australia, the UK was the largest source country of foreign-born residents in that country, accounting for 24% of the total foreign-born population there. China and Hong Kong represented the fourth and fourteenth largest source countries of immigrants, accounting for 4% and 2%, respectively, of total foreign-born population in Australia (Yearbook Australia, 2007). In 2005–2006, China, the UK, and Germany were among Australia's top ten trading partners. For that time period, Australia's bilateral trade with China, UK and Germany were AU\$50 billion, AU\$13 billion and AU\$10 billion, respectively. Australia's bilateral trade with Hong Kong was around AU\$5 billion for the same time period (Yearbook Australia, 2007).

Over one-half of the firms (67% and 74%, respectively, in the EU and GC samples) entered both the EU and GC via exporting, including direct (exporting by overseas marketing intermediaries such as agents and distributors) and indirect exporting (exporting via domestic marketing intermediaries such as export management firms, international trading house and piggybacking) (Terpstra & Sarathy, 2000). The rest has entered via FDI in the form of wholly owned operations (marketing and production) or joint ventures (Terpstra & Sarathy, 2000).

The proportion of IE to non-IE users is 44–56% in the GC region, and 32–68% in the EU sample. Thus, more firms used IE when operating in the developing region. However, there were more immigrants as owners in the EU sample. In terms of IE source countries, China had the highest proportion (56%), followed by Hong Kong (27%) and Taiwan (17%). In the EU region, source countries were: the UK (64%), followed by Germany (11%), Italy (9%), France (6%), Spain (4%), Switzerland, the Netherlands and Austria (2% each). Again, these statistics are consistent with the COO of immigrants to Australia and New Zealand (Statistics New Zealand, 2007; Yearbook Australia, 2007).

## 8. Statistical analysis methods

### 8.1. PLS analysis

In line with studies of a similar nature, this study adopted a structural equation modeling technique (Blankenburg Holm et al., 1996) to examine its proposed path framework. Given the objective of this study, namely to build a FME theory based on the use of IE, Partial Least Square (PLS) was undertaken (Chin, 2001).

PLS was used to determine the relationship between: (1) IE and FME mode; and (2) environmental and organizational factors, industry/sector and IE social network. The results met the validity criteria identified in Gefen, Straub, and Boudreau (2000). The detailed path results are presented in Table 1. The path coefficients were estimated by the PLS-Graph bootstrapping procedure with  $n=200$  re-samples technique (Chin, 2001). Because the political environment was found to be highly correlated with other factors in the framework, it was excluded from the PLS analysis.

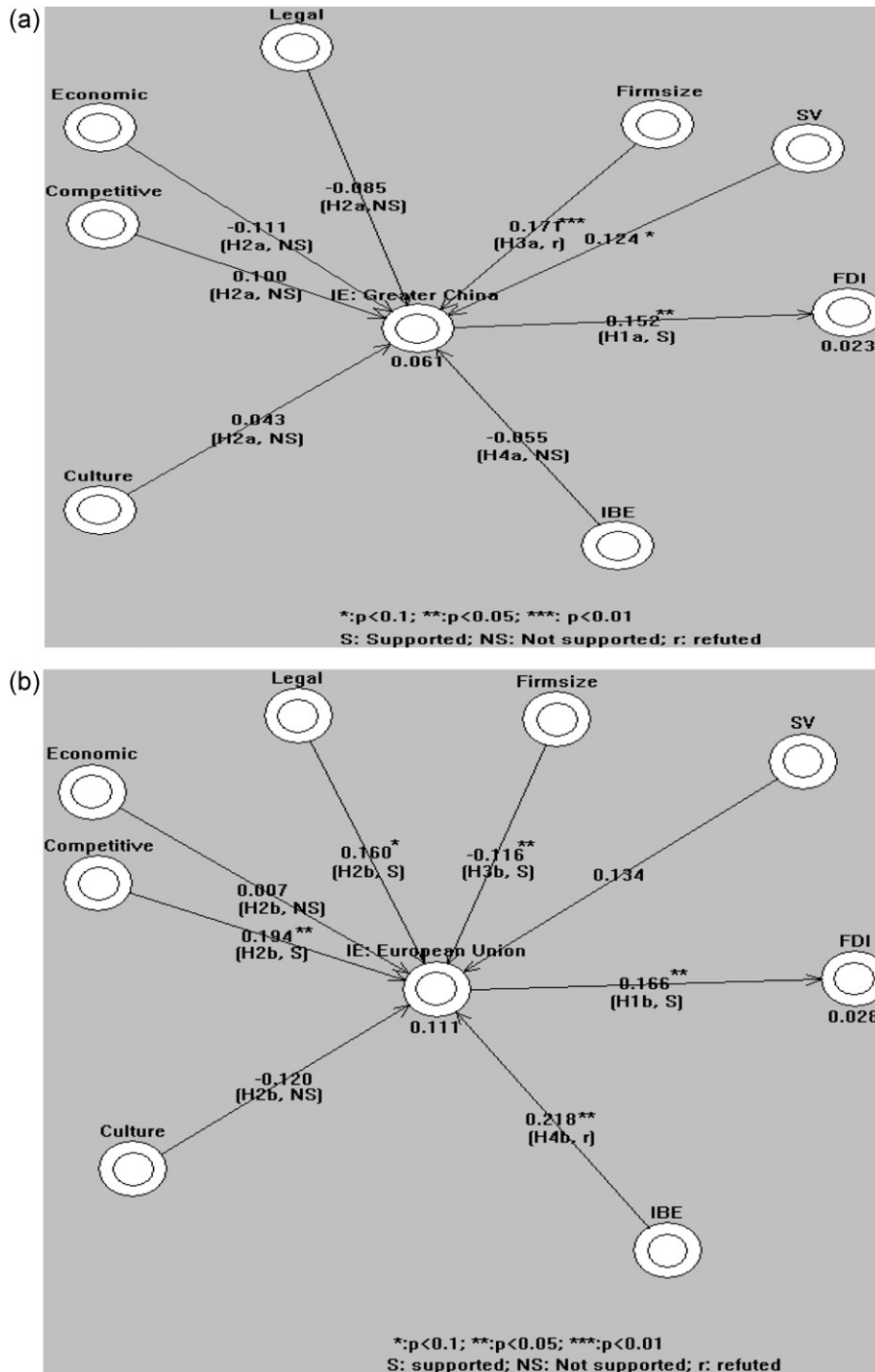


Fig. 2. (a) Modified theoretical framework: Greater China region. (b) Modified theoretical framework: European Union region.



## 9. Research findings

### 9.1. Path framework results

In the developed and developing markets, the choice of FME mode was significantly influenced by IE social network (Fig. 2a and b). For both regions, firms that possessed IE social networks were more likely to adopt a FDI mode. Thus, H1a and H1b were supported.

H2b that pertained to the competitive and legal environments was confirmed for the EU region but H2a was not supported in the GC sample as none of the environmental factors had a direct influence on the use of IE social networks in the GC region.

In the EU region, small-sized firms relied on IE social networks to assist them when entering via a FDI mode (Fig. 2b). In the GC region, large firms tended to employ IE social networks to assist them when adopting a FDI mode (Fig. 2a). These results suggest that H3b was supported for the EU sample while H3a has to be revised for the GC sample.

Contrary to expectations, firms with a longer history of IBE were more likely to use IE social network to help them choose a FDI mode in the EU sample. H4b was supported, but the direction of its influence needs to be revised in the EU sample. H4a, as applied to the GC sample, was not supported due to the insignificant results associated with IBE.

The relationship between industry/sector and the use of IE was significant in the GC sample but insignificant in the EU sample. Based on the findings of this study, the theoretical framework needs to be revised and is presented in Fig. 2a and b. The factors in the amended framework are discussed below.

## 10. Conclusions and discussion

### 10.1. IE social network and FME

The finding that IE social networks can affect the choice of FME mode in both the GC and EU samples provides empirical support to prior research that posits that immigrants, through their ethnic networks in their COO, can play a pivotal role in facilitating business transactions abroad. The presence of IE social networks was found to be positively related to the adoption of a higher resource commitment FME mode. Since the bulk of earlier research has focused on emerging markets (e.g., Saxenian, 2002a, 2005), the comparative analysis of the EU and GC regions here has shown that the relationship between immigrant social networks and FME strategy holds in both the developed and developing regions of the world.

The findings of this study have made several important contributions to the literature in the fields of immigrant social networks and FME. First, it confirms that immigrant social networks, in the form of IE, which have hitherto been studied primarily in the context of transnational entrepreneurship can be extended to the analysis and understanding of FME strategies (Portes, 2001; Portes, Guarnizo, & Landolt, 1999). IE was found to be an important explanatory factor in understanding the choice of high- versus low-resource commitment FME modes in both the developing (GC) and developed (EU) regions of the world, thereby suggesting that future research on FME modes should include the role of IE (e.g., Dunning, 1997; Johanson & Vahlne, 1977). The findings of this study support the *generalizability* of the influence of IE on FME (Redding et al., 1993; Tsui & Farh, 1997) due to its universal consistency across GC and EU regions. Second, the standardized IE–FME framework also adds new insights to existing research on IE and standardization strategy (Chung et al., 2012). In addition to those uncovered in the prior literature that a standardized IE can be used across different markets within a given economic region (Chung et al., 2012), the findings of this study suggest that a standardized IE–FME can be applied to firms operating in both the GC and EU regions. This finding has thus provided a new research paradigm in research on standardization (Chung, 2003, 2010; Jain, 1989; Zou & Cavusgil, 2002). In light of the findings here, future research on standardization strategies should consider incorporating the immigrant effect, especially as they relate to firms that operate across different host markets (e.g., the cross-market scenario, see Chung, 2003, 2010).

Third, previous studies have suggested that emigrants from developed countries, such as the US and Ireland, have used social networks to facilitate their business operations in their COO (Levitt, 2001; Saxenian, 2002b; Snel et al., 2006). The results of this study extend these findings to other Western countries in the EU as well, such as the UK, Germany, Italy, and France. Collectively, these findings show that immigrant social networks are indeed a global phenomenon that merit further research attention in the FME literature (Caponio, 2008; Saxenian, 2005; Tsui & Farh, 1997).

Fourth, due to the possible existence of a reverse relationship between IE and FME, this study has sought to examine the FME–IE relationship in both the EU and GC regions. Our study did not reveal such a relationship, thus suggesting that the function of IE in the FME implementation (e.g., FME → IE framework) might not be as significant as far as information search and networking resources are concerned (i.e., IE → FME framework). This results might stem from the reality that the successful implementation of FME might require more than what IE only can offer. In other words, in order to successfully implement a FME mode, the firm has to rely on a wider range of resources and competencies that beyond the mere possession of IE.

### 10.2. Local environmental conditions

Though prior research has suggested that environmental factors can most likely affect the deployment of IE (e.g., Gould, 1994), this study has yielded mixed findings. As shown in Fig. 2a and b, in the GC region, environmental factors had no

**Table 2**  
Descriptive analysis.

	European Union (n = 161) (Non-IE: n = 109; IE: n = 52)	Greater China (n = 233) (Non-IE: n = 130; IE: n = 103)
Firm size (full-time employees)	263 (282; 221)	486 (210; 842) <sup>b</sup>
IBE-number of years in IB	14 (12; 19)	22 (22; 21)
IBE-number of other countries operating	12 (11; 15)	15 (15; 15)
IE	32%	45%
Non-IE	68%	55%
FDI	33% (28%; 44%)	26% (20%; 33%)
Non-FDI	67% (72%; 56%)	74% (80%; 67%)
Product type (service)	26% (23%; 33%)	17% (13%; 21%)
Product type (manufacturing)	74% (77%; 67%)	83% (87%; 79%)
Legal <sup>a</sup>	2.18 (2.09; 2.39)	3.19 (3.22; 3.15)
Economic <sup>a</sup>	2.46 (2.42; 2.57)	3.77 (3.81; 3.73)
Competitive <sup>a</sup>	2.72 (2.60; 2.96)	3.22 (3.15; 3.29)
Culture <sup>a</sup>	1.99 (2.16; 2.23)	3.74 (3.76; 3.70)

<sup>a</sup> Variables are measured on a 5-point scale (1 = very similar; 5 = very different).

<sup>b</sup> The first set of figures within the parentheses represents the mean ratings for non-IE users, while the second set of figures within the parentheses constitutes the mean for IE users.

significant influence on the choice of IE; whereas in the EU region, both legal and competitive environments appeared to have a significant influence on the choice of IE. Because of this mixed finding, the effect of local environmental conditions on the social network was further analyzed through a comparison between IE and non-IE users (Table 2). Table 2 shows that the difference in means between IE and non-IE users for both the legal and competitive environments was smaller in the GC sample than that in the EU sample. At least four possible reasons could have contributed to this mixed result. One, environmental factors might affect the use of IE social networks only where the perceived level of environmental differences has reached a critical threshold level, below which it is unlikely to yield an effect. For example, the perceived differences between IE and non-IE users in the GC sample on these two environmental factors (legal and competitive) ranged from 0.07 to 0.14, while the perceived difference on these same two dimensions in the EU sample were between 0.30 and 0.36 (Table 2).

Two, from a completely different perspective, this finding may suggest that the use of immigrant social networks alone might not be sufficient to counteract the impact of environmental factors when entering markets where the perceived level of difference between the home and host markets is too large (e.g., GC region). Under such conditions, IE social networks cannot mediate the effect of environmental factors as far as the choice of FME is concerned. If this condition were to hold in other samples, then earlier research (Gould, 1994; Saxenian, 2002a, 2005) that suggests that IE social networks can be used to overcome challenges posed by environmental variations between home and host markets needs to be revisited. In other words, IE may be useful only under specific circumstances. The finding here also suggests that managers should probably utilize a variety of mechanisms to overcome the barriers associated with the host market environment (Dunning, 1997).

Three, while firms in both the GC and EU regions may use IE social networks, the reasons for their deployment might be different. As reported in the literature, in addition to their knowledge of the host country environment, IE networks could also be used to assist firms to acquire important market information/intelligence and gain access to capital to help fund business operations in the GC region. Therefore, it is possible that instead of using IE to help overcome the barriers associated with environmental differences, immigrant networks are used to gather market information and acquire useful business connections, when operating in this region. If this finding were to hold in other samples, future research should explore the broader roles that IE could play in their COOs besides overcoming the uncertainties associated with environmental factors (Froschauer, 2001).

Four, the finding that difference in legal environment is positively related to the use of IE social networks is consistent with that reported in the literature (Rauch, 1999; Saxenian, 2005). The information and resources embedded in IE social networks can be used to cope with legal differences between COR and COO. In addition, the fact that a variation in the competitive environment is positively related to the deployment of IE social networks provides further empirical support that suggests the advantages associated that immigrants, through their social connections, can enable the firm to gain proficiency rapidly in managing complex business relationships across two different countries (Saxenian, 2002a). Where the competitive environment is highly different between the home and host markets, firms can rely on their IE social networks to assist them to manage their international business relationships.

In summary, though environmental factors are suggested to have a significant impact on the selection of IE regarding firms' operation in the developing and developed regions in the literature, our analysis suggests that firms might need to adopt a modified environment-IE framework for their operations in the developing (GC) and developed (EU) regions as the findings across both regions are different. The results of this study suggest that the explanatory factors of IE established in one economic region needs to be carefully assessed before it can be transferred to firms operating in another region at a different level of economic development (Chung, 2004). Our result suggests that a common standardized environment-IE framework that is applicable across regions at different stages of economic development has yet to be established.

### 10.3. Firm size

The PLS outcomes of this study suggest that firm size can act as an explanatory factor in both the developing and developed regions. In the EU region, small-sized firms tended to use IE social networks to assist them in making their FME decisions, while large-sized firms were more prone to rely on such networks in the GC sample. The PLS outcomes is consistent with the descriptive statistics on firm size in Table 2. In the GC sample, the average firm size for non-IE and IE users was 210 and 842 employees, respectively. In the EU region, the average number of employees was 282 for the non-IE users and 221 for the IE users (Table 2). The mixed results are consistent with the conflicting findings in the extant literature on the impact of size.

Several reasons could have contributed to this mixed result. First, the difference in findings might be attributed, in part at least, to the difference in industry under investigation. Saxenian (2002a, 2002b), for example, focused on the high-tech industries in the Silicon Valley. Given the more entrepreneurial focus of these start-ups where the objective is to establish dual beach-heads of business in both the COO and COR of the immigrants, it appears logical that small-sized firms in Saxenian's studies were more likely to pursue an IE social network. However, in this study that surveyed firms that were engaged in the food sector, clothing and raw materials, large-sized firms might be in a better position to benefit from the social networks associated with immigrants. A second possible reason may pertain to the fact that since the majority of firms in Australia and New Zealand are smaller in size than their counterparts in the US (Akoorie & Enderwick, 1992), only firms that have reached a certain critical mass (i.e., a certain firm size and, hence, large by Australian/New Zealand standards) could afford to hire immigrant employees to assist them in transacting business in the immigrants' COO.

A third possible reason as to why small-sized firms in the EU sample were more likely to rely on IE could be that their social connections might have enabled them to gain access to capital to transact business internationally more quickly than those firms without such immigrant networks (Levitt, 2001). This advantage might have enabled small-sized firms to commit to FDI modes when operating in the developed region. Typically, only large companies could afford to enter via FDI modes that entail higher resource commitment.

Lastly, the findings on the relationship between firm size and the deployment of IE in EU and GC are more complex than hypothesized in earlier research, thus calling into question the existence of uniform firm size-IE framework for both developing and developed regions. Due to the nature of the industry and/or product and the effect of local host market environment, firms would most probably need to customize their firm size-IE framework for their operations in the developing vis-a-vis developed regions of the world.

### 10.4. International business experience (IBE)

This study has found that the presence of IE social network is positively related to a firm's IBE in the EU sample, while no difference was found in the GC sample between firms with more or less years of IBE. That is, firms with a longer history of IBE were more likely to pursue an immigrant social network when doing business in the EU, while there was no difference among firms that were operating in GC. In the GC sample, the two items that measured IBE (number of years in IBE and number of other countries) were almost equal between IE and non-IE users (22 versus 21 years; 15 versus 15 countries, respectively) (Table 2). This suggests that firms with both low and high IBE relied on immigrant social networks. The finding here appears to contradict previous research that hypothesizes that firms with less IBE were more likely to use an IE (Chung, 2004; Hsu & Saxenian, 2000; Saxenian, 2002a, 2005).

Several reasons might have contributed to this finding: one, since China has been consistently ranked as the most attractive destination for FDI, competition in the GC market has become very intense. Thus, firms that seek to enter this region, regardless of years of IBE, must resort to all available sources (e.g., IE networking) to increase the likelihood of success. Two, when operating in the EU region, perhaps only firms with more years of IBE can truly appreciate the benefits that can be derived from the existence of IE social networks (Chung, 2004; Hsu & Saxenian, 2000; Saxenian, 2002a, 2005). Table 2 shows that there are significant differences between IE and non-IE users in the EU sample in terms of number of years in IB and number of countries that the firms operate in (19 versus 12 years; 15 versus 11 countries). Therefore, it is possible that IE users in the EU might have realized that because of the benefits they have derived from immigrant social networks in their operations in other regions of the world, they are more inclined to duplicate their "tried and true" strategy when doing business in the EU. In other words, if a strategy works in one market, it may be counterproductive to deviate from it in other markets (Björkman & Kock, 1995; Camara & Simoes, 2006; Yeung & Tung, 1996).

This finding on IBE and IE has contributed to the immigrant social networks and standardization literature in four important ways: one, it shows that the presence of immigrant social networks can benefit firms with varying degrees of IBE. Two, while previous research has shown that immigrant social networks are more useful in developing countries (Saxenian, 2002a, 2005), this study found that they can be equally as efficacious in the developed (EU) countries of the world. Three, this finding can complement Johanson and Vahlne's (1977) research on the incremental approach to internationalization with regard to the important role of the firms' experience in the internationalization process. Thus, future research should incorporate IE in their research framework because of its potential in speeding up a firm's internationalization process. Finally our results on firms' operation in the EU and GC regions indicate that firms would need to employ a customized IBE-IE framework for their operations in the developing vis-a-vis developed regions due to the different effect of IBE on IE in both

regions. This lends support to Chung's (2003, 2010) assertion of a regional approach; in other words, the IBE-IE framework is more likely a within-economic region rather than across-region phenomenon.

### 10.5. Managerial implications

The outcomes of this study have two implications for practitioners and researchers who are interested in uncovering the role of IE in international business management (Tung & Chung, 2010). First, managers who operate in the EU and GC regions should take advantage of standardization strategy by implementing a standardized set of IE–FME framework specific to the region of the world in which they are operating. In addition to formulating their regional-specific standardized marketing program strategies (product, price, place and promotion) (Jain, 1989; Chung, 2010), managers should seek to hire immigrants who have special knowledge and contacts in their COO to manage their operations in the host markets. The findings of this study suggest that firms should consider adopting a more integrative approach when operating in the EU and GC regions regarding their IE–FME formulation as the experience in both regions can probably be shared with each other. Second, managers should be aware that the conditions for utilizing an immigrant effect are different in the EU vis-a-vis GC regions. This outcome suggests that the antecedent-IE framework needs to be adapted for the EU vis-a-vis GC regions. This implies that when adopting the IE in their operations, managers need to carefully evaluate the effect of local environment conditions and their firm characteristics as they relate to IE. In other words, it is unwise for managers to adopt a standardized set of assessment criteria for IE selection without a thorough review of the impact of environmental and firm factors on IE.

### 10.6. Limitations and future research

Similar to research of this nature, this study has suffered from several limitations which need to be addressed in future research. First, this study has only focused on Australian and New Zealand firms with operations in Greater China and the EU. Thus, it is not possible to generalize the findings of this study to firms in North America, such as the US and Canada, that have sizable immigrant populations. The expansion to other regions might also help resolve the inconsistent result in the antecedent-IE–FME framework. It is possible that the varied results in the antecedent-IE framework might only occur in the EU vis-a-vis GC scenario. To help resolve the inconsistency, future research should examine this relationship among firms operating in other regions (e.g., North America vis-a-vis South America). Such studies can clarify the antecedent-IE results. Second, future research should investigate whether the findings concerning antecedents, IE and FME can be applied to other forms of entry modes. In particular, future research should investigate if the findings revealed in this study can be applied to other FDI modes such as acquisitions (full or partial) and mergers. Due to their relatively shorter international business experience, our respondents have not adopted these more sophisticated FDI modes in their FME decision. By focusing on a wider range of FDI modes in future research, it can broaden our current understanding of IE and FME. Third, future research should continue to explore the antecedents of IE as the research on IE is still developing. For example, future research could investigate if firms that operate under conditions of high market turbulence, technological turbulence and competitive intensity are more likely to use an IE (Jaworski & Kohli, 1993). These factors are considered as important for firms operating in the international business context (Cadogan, Cui, & Li, 2003). Insights garnered from future studies on their relationship with IE can significantly advance our understanding of these factors as they relate to IE. Fourth, future research should attempt to integrate ethnic and social networking theories in their framework formulation. In this regard, research could explore whether IE is associated with political and business ties as both forms of social ties have been proposed in the social networking theory (Acquaah, 2007; Li et al., 2009). Fifth, future research could further investigate the inconsistent results obtained in this study between developed and developing regions by using a secondary oriented data set (e.g., Rauch, 1999). Studies of this nature could consider environmental differences gauged in terms of GNP per capita, infrastructure and other secondary data measures. Findings from studies of this nature can help clarify the relationship between antecedents and IE. Furthermore the usage of secondary data can also help to resolve the possible errors occurred in the primary data collection process. As this study has included firms operating in a wide range of industrial sectors and host countries, perhaps there may be inconsistencies in responses among the subjects surveyed. This limitation might have also affected the robustness of the results established. The usage of secondary data might rectify this possible error. Lastly, among the hypotheses proposed for the two regions under investigation in this study, only selected hypotheses were supported (e.g., H1a, H1b, H2b, H3b). This limited support of the hypotheses investigated in this study may be related to the early development of the cross-regional antecedent-IE–FME theory. Though previous literature has suggested that it is possible to establish a standardized antecedents-IE–FME framework, this hypothesized framework has not yet been tested in prior empirical research. Due to the varied environmental conditions of the host countries across the developed and developing regions, perhaps it is unlikely that a standardized framework can be applied across both regions. As such, further research should continue to investigate the antecedent-IE–FME framework across both regions as the differences in FME strategies into the developed and developing countries are decreasing. It is possible that a completely standardized framework can be applied when the gap between these two regions has narrowed further.

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