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### Why Do EEFs Invest in other Emerging Markets? Examining the Role of Familiarity with the Emerging Market Context and Interpersonal Networks

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### لماذا تستثمر الشركات الريادية من الدول الناشئة في دول ناشئة أخرى؟ دراسة دور الإلمام بسياق السوق الناشئ والشبكات الشخصية

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#### ABSTRACT

The current study responds to calls for bridging the research divide between the internationalization of emerging-market entrepreneurial firms (EEFs) and their familiarity with the emerging market context. Theoretically, the present study explains how familiarity with the emerging market context is powered by formal and informal interpersonal networks for reasons pertaining to the facilitation of the internationalization of EEFs. Data collected from 166 Saudi entrepreneurial firms indicates the significant impact of familiarity with the emerging market context in regard to the internationalization of EEFs, and this association is mediated by formal and informal interpersonal networks. The data also reveals the negative role of cultural distance in moderating the correlation between interpersonal networks and the internationalization of EEFs. A series of governmental and managerial implications are detailed in this study, as well as the identification of potential avenues for further research.

#### المخلص

تستجيب الدراسة الحالية للعديد من الدعوات الرامية إلى سد الفجوة البحثية بين التدويل المرتبط بالشركات الريادية من الدول الناشئة من طرف ومدى الإلمام ومعرفة هذه الشركات بسياق السوق الناشئ من طرف آخر. نظرياً، تشرح الدراسة الحالية كيف تعزز الشبكات الشخصية الرسمية منها وغير الرسمية من الإلمام ومعرفة الشركات الريادية بسياق السوق الناشئ لأهداف تتعلق بتدويل أعمال هذه الشركات. تشير البيانات المستخلصة من عدد 166 شركة ريادية سعودية إلى الأثر البالغ للإلمام والمعرفة بسياق السوق الناشئ فيما يتصل بتدويل عمليات هذا النوع من الشركات، مع الإشارة إلى الدور الهام الذي تلعبه الشبكات الشخصية الرسمية وغير الرسمية في الوساطة بين طرفي هذه العلاقة. كما كشفت البيانات أيضاً عن الدور السلبي للمسافة الثقافية في التفاعل بين الشبكات الشخصية وبين التدويل المرتبط بالشركات الريادية من الدول الناشئة. تقدم هذه الدراسة مجموعة من الآثار الحكومية والإدارية، فضلاً عن تحديد مجموعة من السبل المحتملة لأبحاث مستقبلية في ذات المسار.

## 1. Introduction

Over the last few decades, the rise of emerging-market entrepreneurial firms (EEFs) has been encouraged by market liberalization along with advancements in information and communications technologies. This strong economic growth pattern persists above the world average (UNCTAD, 2015). Global-service trade patterns evince that EEFs offer innovative and high value-added services in highly competitive and developed markets, in contrast to the perception of these markets offering only low-cost outsourcing options (Milberg & Winkler, 2013). Innovative services are considered among the fastest-growing sectors globally (Dotzel et al., 2013). Despite their success and prevalence, however, these services are challenging in comparison to traditional services because of credence qualities, uncertainty, ambiguity, and customizations that increase complexity (Radulovich et al., 2018).

There is a set of key decisions that conceptualizes the process of internationalizing a firm that includes the location of the host country for investment, the mode of entry, the amount of investment, and the management of foreign operations (Beugelsdijk et al., 2018). Strategically, these decisions play an important role in the overall performance of a firm. Any slip-up could make a detrimental impact on a firm and lead to the failure of foreign operations altogether. It is therefore challenging to expand a company's operations abroad compared to an expansion in a domestic setting. For instance, firms may incur additional costs, face legitimacy challenges, and experience a liability of foreignness due to economic as well as political risks in the host country (Maitland & Sammartino, 2015). These challenges are caused by a lack of familiarity with the host country, a scarcity of information about the risks and opportunities, discrimination against "foreign" entities by local constituents, and a

lack of adequate organizational capabilities to deal with ongoing risks (Beugelsdijk et al., 2018). All of the stages and aspects of a firm's expansion and operation can be permeated by these risks in a host country, risks that can be addressed through appropriate internationalization strategies to some extent.

Trade flows are the rationale behind the increased growth rate in the majority of emerging markets and likewise, state economies correspond with an increased integration into the worldwide economy. Recently, EEFs are experiencing significant alterations in their government and business structures owing to evolution from state-owned enterprises to privately owned enterprises (Liao, 2015). Advanced countries are criticized by entrepreneurship research due to little attention directed toward the emerging economies despite their growing significance (Ratten et al., 2016; Bruton et al., 2010). Moreover, the majority of the empirical and theoretical perspectives on entrepreneurial intention emphasize the developed countries without exploring the different government and industrial mechanisms that drive economic growth in other parts of the world, notably emerging countries. The EEFs' lack of access to funding from banks and financial institutions is considered an economic barrier to entry in regard to foreign markets. Similarly, social norms and cultural barriers must be overcome in order to run a business in the international market (Ratten et al., 2016). EEFs use different approaches to cope with economic and cultural barriers, making it imperative to understand the relationships between the familiarity with the context of the host emerging market, the interpersonal networks, and the cultural distance in the internationalization of these firms.

The significant role that entrepreneurs and their networks play is highlighted by few past studies that clearly explain their strategy of rapid internationalization (Coviello, 2006; Zucchella et al., 2007; Kiss

& Danis, 2008; Musteen et al., 2010; Robson et al., 2012; Baier-Fuentes et al. 2018). The success of EEFs is also associated with human and relational capital because these intangible assets allow entrepreneurs to exploit entrepreneurial opportunities outside national boundaries (Baier-Fuentes et al. 2018). Human capital and relational capital have a significant impact on entrepreneurship in different ways that depend on the host country (Rugman et al., 2011). The elements of entrepreneurship differ strongly across countries, not because of differences in economic development but rather because of differences in cultural, demographic, and institutional characteristics. There is a lack of studies that analyze the determinants of rapid internationalization and the differences that arise at different levels of development. Therefore, there is a need to focus on how cultural distance resulting from a limited understanding of the norms, values, and institutions in other countries hinder an entrepreneurial company's utilization of interpersonal networks to push its internationalization. Similarly, this research proposes a theoretical framework that examines the relationships among the familiarity with the context of an emerging market, interpersonal networks, cultural distance, and the internationalization of entrepreneurial firms. The questions answered by this research are as follows;

- How does the familiarity with the context of the host emerging market influence the internationalization of Saudi entrepreneurial firms through interpersonal networks?
- How does the cultural distance interaction with interpersonal networks impact the internationalization of Saudi entrepreneurial firms?

## 2. Theoretical Framework and Hypothesis Development

### 2.1. Familiarity with the Context of the Emerging Market and the Internationalization of EEFs:

The process of internationalization emerged gradually with Saudi companies' involvement and commitment to international markets. Calof and Beamish (1995) reflected on the operational adaptation of companies to the international environment. Previously, the central focus of theories on internationalization was on the major multinationals while small- and medium-sized enterprises were actively increasing their worth in international markets. A diverse set of theoretical perspectives was specified by Wach (2014) for explaining internationalization in the context of three dominant approaches: network perspective, incremental perspective, and international entrepreneurship perspective. A similar approach was adopted by Costa et al. (2017) to describe the traditional theories of internationalization (incremental perspective). This is generally applied to various internationalization activities of EEFs through the innovation model and the Uppsala model. Traditional theories consider internationalization to be an incremental process, as firms opt to target international markets in countries that display geographic and cultural proximity.

Internationalization is integrated into emerging streams of research. The Uppsala model was adjusted by Schweizer et al. (2010), as the process of internationalization was considered an entrepreneurial process that identified and developed opportunities within the network setting. The process of internationalization is mainly an effectuation process (Schweizer et al. 2010). Under the influence of Schweizer's model, Sarasvathy et al. (2014) developed a model that integrated an effectual approach to international entrepreneurship. Three major characteristics of internationalization—network dynamics, cross-border uncertainty, and limited resources—are identified by Sarasvathy et al. (2014). Moreover, firms tend to follow existing relationships in foreign markets since network relationships play an important role in market selection (Chetty et al., 2015).

The EEFs are likely to face several critical decisions during internationalization, such as investing, organizing, governing foreign ventures to minimize risks and losses, and maximizing benefits (Marano et al., 2016). The core of the international business field includes theories related to internationalization that explain adequate strategies and processes. The only differences in domestic firms and multinational companies are on the basis of degrees, as well as in kind, as they are embedded in multiple and diverse social contexts simultaneously (Beugelsdijk et al., 2018). This has had a significant impact on firms and their inbuilt strategies that create distinct opportunities and challenges, which require careful management.

Previous studies have shown disagreements regarding the similarity between the internationalization process of firms from emerging markets that expanded abroad compared to their counterparts from developed countries (Dunning et al., 2008; Ramamurti, 2009). The characteristics of emerging markets, i.e., economic and political volatility, regulatory instability, cultural differences, and technological backwardness have a significant impact on the flexibility, risk aversion, and the acceleration capability associated with the internationalization of EEFs (Fastoso et al., 2012). Thus, it is supposed that the international commitment of EEFs is developed by and manifested in the degree of their acquaintance with the host emerging country's context. More specifically, it is not necessary that the organizational manifestations of EEFs reproduce similar experiences in relation to their counterparts that have expanded earlier internationally. The familiarity with the context of emerging markets entails multiple dimensions such as institutional settings, industrial settings, national innovation systems, national entrepreneurship ecosystems, policies, social norms and cultural patterns, and the market environment (Sharma et al., 2006; Wood et al., 2011). Therefore, the current research proposes the following hypothesis:

- **Hypothesis 1.** The EEFs' familiarity with the context of emerging markets is positively related to its internationalization in emerging markets.

### 2.2. The Mediating Role of Interpersonal Networks:

The notions of social ties, personal connections, social relations, social networks, interpersonal relationships, personal networks, and relational networks are used as personal networks for information. For instance, Zhao and Hsu (2007) employed the term "personal networks" to define the informal structure of personal relations in foreign countries. Personal or interpersonal networks are built on trust and goodwill and can be strong, formal and informal, and identity-based. The interpersonal networks of decision makers play a significant role in the internationalizing of EEFs. According to Manolova et al. (2010), interpersonal networks are instrumental during the time of a firm's emergence, particularly within a specific market. The closest and longest-lasting relationships in business networks, such as with suppliers and customers, depend on established interdependencies among the different firms (partner firms) that are doing business together (Johanson & Vahlne, 2009; Jin & Jung, 2016).

The main reasons behind the motivation toward internationalization include pressure from local competition, limited opportunities for domestic business, and new opportunities to appear in international business (Musteen et al., 2014). Camra-Fierro et al. (2012) considered the simplest method of internationalization of EEFs to be the increase in competition and exports as the result of internationalization in the industrial environment and marketplace. EEFs are assisted in internationalization through interpersonal networks, which serve as a source of competitive advantage due to

the information benefits (Ahmad, 2014). This also increases the chance of successful internationalization (Torkkeli et al., 2012). Those engaged in the decision-making processes of internationalization at EEFs need to consider the opportunities of internationalization through interpersonal networks, as the network position is considered to be a market asset by the firms. Firms need to realize that they have to interact with other firms in the marketplace and that they cannot be separated from the environment in any way.

A recent study by Udomkit and Schreier (2017) commented that the central emphasis of interpersonal networks is on enhancing the resource controls and the knowledge capacities of firms. Oparaocha (2015) stated that it is important to distinguish between different networks to understand the significance of the internationalization process of EEFs. Despite interpersonal networks, EEFs might face difficulties in the internationalization process due to unfamiliar and inconsistent business practices in foreign markets, lack of financial streams, insufficient foreign market information, and increasing competition (Ahmad, 2014). Rahman et al. (2017) focused on the major economic barriers (political and legal factors) faced by EEFs. These barriers distinguish between EEFs and their foreign consumers while considering sociocultural features, habits, and attitudes. Likewise, a recent study by He et al. (2018) described the significance of interpersonal networks, stating that internationalization of EEFs needs to be augmented by new, higher-level commitment modes in foreign markets through the extension of the EEFs' network base.

EEFs mainly focus on hiring internationally experienced business consultants and managers to develop their business networks (Fletcher & Harris, 2012). Additionally, previous studies have shown that EEFs develop business networks by participating in exhibitions and trade fairs (Kontinen & Ojala, 2011; Senik et al., 2011; Measson and Campbell-Hunt, 2015; Jin & Jung, 2016). The main reasons for developing interpersonal networks include mitigating the risks and uncertainty when entering a foreign market, reducing transaction costs, and enhancing credibility among exchange partners. The main decision maker can recognize the international opportunities, identify and establish foreign exchange partners, and gain access to foreign markets through the established social networks of EEFs (Ellis, 2011; Jin & Jung, 2016). For instance, Zain and Ng (2006) asserted that firms enter international markets through the network of their relatives and friends. Considering the case of Victoria's Secret market entry into Kuwait, it was observed that the simple social network of an intern (the nephew of a major retail owner in Kuwait working for the firm) resulted in the firm's selection of the market, along with the selection of its international partners (Jin & Jung, 2016). The choice of entry timings and intermediate modes is further facilitated by interpersonal networks. Based on the arguments above, the following hypotheses are formulated:

- **Hypothesis 2.** Formal interpersonal networks mediate the relation between familiarity with the emerging market context and the EEFs' internationalization.
- **Hypothesis 3.** Informal interpersonal networks mediate the relation between the familiarity with the emerging market context and the EEFs' internationalization.

### 2.3. The Moderating Role of Cultural Distance:

The increased attention on emerging economies affects business creation given the role of product innovation by firms in specific regions (Sun & Lee, 2013). It is not clear how the process of business creation is affected by network knowledge, despite developments in emerging economies. EEFs face difficulties in getting established, as they lack resources to overcome the cultural, political, and institutional barriers. This makes improvement in the understanding of these barriers urgent for entrepreneurship in emerging economies,

to explore differences in new business creation (Ratten et al., 2016).

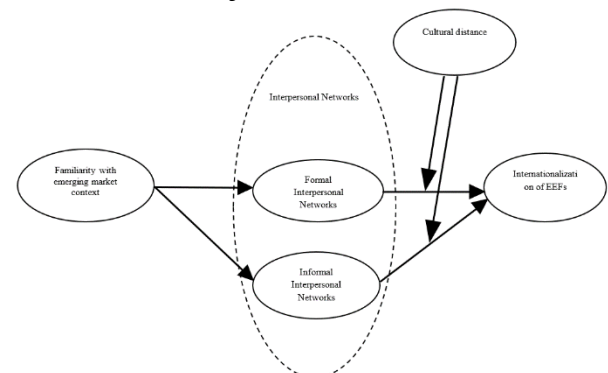
Kogut and Singh (1988) were the first to use cultural distance as a construct explaining the choice of entry mode. The study introduced a Euclidean distance measure for capturing cross-country cultural differences in one index. The difference in national score on each of Hofstede's cultural dimensions (Hofstede, 1980) is taken by way of the Euclidean distance index and then the differences are added under one index. The calculation of cultural distance depends on the distance to a single country. This approach to operationalizing and measuring cultural distance is followed by a majority of the studies (Kirkman et al., 2006; Kirkman et al., 2017; Beugelsdijk et al., 2018). Depending on the sample structure, the cultural distance effects are conflated on multiple grounds;

- Present simple ways to use the cultural-distance construct in theory building as it assumes an equivalent (negative) effect of cultural distance on different organizational outcomes.
- Ignore important statistical properties of the index.
- Use outdated Hofstede's data to compute the index of cultural distance.

All the stages of the internationalization process are affected by cultural distance (such as the preinvestment stage, for example). At the preinvestment stage, the firm must decide on investment in a market, use of entry mode, and allocation of the total amount of investment. The decision depends on the firm's integration with the foreign location through common cultural practices and patterns. This further explains that cultural distance can negatively moderate the positive effect of formal and informal interpersonal networks on the EEFs' internationalization. Cultural distance leads to the increased complexity and cost of running a business abroad, although there is significant variation in the impact of cultural distance based on the decision and stage of internationalization. A study by Van Hoorn and Maseland (2016) demonstrated the differential impact of cultural distance on decisions related to the different stages of the internationalization process. The results suggest that cultural distance affects the process of internationalization based on the firm's strength and underlying theoretical explanations. Therefore, there is a need to examine cultural distance and its impact on the internationalization of firms originating from and moving to emerging markets. Most importantly, it is the interest of this research to understand the moderating impact of cultural distance on the relationship between interpersonal networks and the internationalization of EEFs. Based on the arguments above, the following hypotheses are formulated:

- **Hypothesis 4.** Cultural distance negatively moderates the positive effect of formal interpersonal networks on the EEFs' internationalization.
- **Hypothesis 5.** Cultural distance negatively moderates the positive effect of informal interpersonal networks on the EEFs' internationalization.

Figure 1: Theoretical Model



### 3. Research Methodology

#### 3.1. Data:

The research adopted a longitudinal survey method to gather data from 166 Saudi entrepreneurial firms based in Jeddah, Riyadh, and Eastern Province for testing the research hypotheses. There were three major reasons for selecting study samples from these areas. First, the selected areas included the largest number of internationalizing firms in Saudi Arabia, which means the validity of collected data can be attained. Second, the Saudi pro-international investment agencies, through their regional offices in Riyadh, Jeddah, and Eastern Province, have been supporting local firms, including EEFs, in order to enhance these firms' international competitiveness and to help pave their way into the international market through different commercial diplomacy activities. Third, firms in these cities are often equipped with well-established and mature business orientations in comparison to firms in other cities within Saudi Arabia.

The respondents are mostly the founders, owners, and CEOs of EEFs, each with a high degree of engagement in the internationalization process of their firms. The data was collected in the form of primary data through online surveys (in most cases), as well as on-site surveys, as the research samples were comprised of some Small and Medium Enterprises (SMEs) that did not tend to publish adequate information on their key people. The data gathering process was, to some extent, driven by the assistance of the Commerce Chambers in the geographical areas covered by the present research. Such relational support resulted in bringing together the key personnel of more than 200 EEFs through collective study meetings to explain the objective of the research and discuss the mechanism in which it would be carried out. This allowed a better filtration of the participating EEFs such that the research sample was limited to firms that showed an explicit willingness to support the study and contribute to it. Thus, the questionnaires were submitted to respondents after confirming their consent to participate.

The data gathering process was conducted in an incremental way. During the first phase, which took place in the initial months of 2020, a total of 250 founders, owners, and CEOs of EEFs provided their personal details along with their insights into familiarity with the emerging market context, interpersonal networks, and cultural distance from the EEF perspective. The emphases raised by Podsakoff et al. (2003) were seriously considered to avoid potential single-respondent bias. Therefore, each section of the questionnaire was handled independently. This eventually gave way, however, as the research results showed that there was no bias pertaining to different respondents. The second phase of the data gathering process began in the middle of March 2020. In this phase, the respondents were asked about information related to the internationalization of their firms in an objective way. For example, they were given the chance to provide their perceptions on the number of years their firms took to internationalize, the time their firms spent while operating internationally, and the ways and amount of time required to either engage in or form interpersonal networks abroad.

Questionnaires were distributed to 250 respondents. Accurately filled questionnaires with no missing information were received back from 232 respondents (a response rate of 92.8%). The final sample for this study comprised 166 EEFs and 232 respondents, with an overall response rate of 79.1%. Considering the age of the selected EEFs, approximately 27.4% of the firms were operating for 5 years, while others were founded more than 10 years previously. In terms of firm size, the majority of firms (68.6%) were medium-sized, while 31.4% were small-sized firms.

#### 3.2. Measurement:

##### 3.2.1. Familiarity with the emerging market context

For decades, emerging markets have been a major attractant to scholars in need of greater consolidation and coherence, especially in the case of accelerated managerial demand for such studies. Firms undergoing internationalization face large-scale changes due to sociocultural and technological upheavals in diverse, emerging economies. The innovation potential of emerging markets has never been satisfactory in the wake of internationalization. This makes different groups of stakeholders eager to benefit from an updated understanding of the perception of doing business in emerging economies (Pedada et al., 2019). This implies that firms, including EEFs, need to develop a mature level of knowledge accumulation to possess a comprehensive understanding of the context of their host emerging markets. Therefore, this research measures familiarity with the emerging market context via two indicators: "Compared with entrepreneurial firms from developed markets, EEFs can accumulate internationalization knowledge on emerging markets better," and "EEFs can constantly accumulate internationalization knowledge on emerging markets." Respondents were required to assess the items of familiarity with the emerging market context on a 7-point Likert scale.

##### 3.2.2. Interpersonal networks

Firms and their employees are likely to gain access to various resources corresponding to their interpersonal and interorganizational relations (Hoang & Antoncic, 2003). Formal and informal interpersonal networks in the light of firm internationalization are measured based on the concept of information sharing, which is manifested in a firm's ability to exchange, assemble, integrate, and deploy valuable information across different international firms (Li & Lin, 2006). This can be translated into two measurement items in line with the assertions established by Hånell and Ghauri (2015) and Johanson and Vahlne (2009): "We are able to use interpersonal networks in recognizing international opportunities," and, "We are able to use interpersonal networks in exploiting international opportunities." Respondents were asked to identify their responses based on options ranging from 1 ("strongly disagree") to 7 ("strongly agree").

##### 3.2.3. Cultural distance

A prevalent way to measure cultural distance is to understand it in the context of the variation between the home country and the host country by considering the four cultural dimensions of Hofstede. The four dimensions Hofstede described for measuring cultural distance are uncertainty avoidance, individualism, power distance, and masculinity/femininity. The approach proposed by Kogut and Singh (1988) was adopted in this research to integrate the four dimensions within a single composite variable. This procedure was also adopted by some previous studies (Brouthers et al., 2008; Cheng & Yang, 2017). Taking into account cultural distance, a high score associated with this variable denoted the convergence between the home and the host country, whereas a low score expressed a state of divergence between the home country and the host country.

##### 3.2.4. Internationalization of EEFs

Firm internationalization is defined as a piecemeal process in which firms are acquainted and involved with foreign markets over sequential time points, and which are facilitated by gradual commitment, absorption, and networking (Coviello & Munro, 1997; Johanson & Vahlne, 1977, 2009). Previous research used well-recognized measures of firm internationalization according to the notion of exploring the foreign composition of a firm. Examples of these measures include the ratio of foreign sales to total sales, the ratio of foreign employees to total employees, the ratio of foreign

assets to total assets, the ratio of foreign businesses to total businesses, and the ratio of foreign offices to total offices (Qian et al., 2008; Sullivan, 1994). The present research uses the latter tool to measure EEFs' internationalization, taking into account that entrepreneurial firms (particularly from Saudi Arabia) usually internationalize through Greenfield investments in the form of offices rather than using exporting entry modes.

Table 1: Descriptive Statistics and Correlations

	Mean	SD	Size	Industry	Familiarity with the emerging market context	Formal interpersonal networks	Informal interpersonal networks	Cultural distance	Internationalization of EEFs
Age	2.87	1.45	-	-					
Size	1.16	0.34	0.21	-					
Industry	3.60	2.05	0.15*	0.01	-				
Familiarity with the emerging market context	2.54	0.60	0.03	0.06	0.08	-			
Formal interpersonal networks	2.81	0.59	-0.16*	-0.13*	0.001	0.37**	-		
Informal interpersonal networks	2.84	0.64	-0.03	-0.08	0.015	0.39**	0.58**	-	
Cultural distance	3.28	0.47	0.01	0.02	-0.20	-0.07	0.04	-0.01	-
Internationalization of EEFs	0.79	0.21	0.003	0.03	0.03	0.18*	0.21**	0.19**	-0.01

\*p < 0.05. \*\*p < 0.01

### 3.2.5. Control variables

The current research controls three main variables. The first variable is the age of the firm, which depicts the total number of years of the firm since its inception. The age of the firm helps in estimating how firms cope with the challenges, as well as the opportunities, that influence their familiarity with the international market. This ultimately has an impact on the firms' internationalization (Agarwal & Gort, 2002). The second variable is the size of the firm which usually represents its resource base (Mishina et al., 2004). Therefore, the strategic trajectory of a firm is basically an expression of its size (Chandy & Tellis, 2000). The third variable is the type of industry the firm is operating in, which denotes the firm's positioning compared to its competitors within the industry.

## 4. Results

### 4.1. Mediated Relations:

The descriptive statistics and correlations of the research variables are presented in Table 1. The familiarity with the emerging market context is positively and significantly correlated with formal interpersonal networks ( $r = 0.001, p < .01$ ). Similarly, familiarity with the emerging market context is positively correlated with informal interpersonal networks ( $r = 0.015, p < .01$ ). Moreover, familiarity with the emerging market context is positively related to internationalization of EEFs ( $r = 0.03, p < .01$ ). For the control variables, size of firm and industry type are negatively correlated with formal interpersonal networks ( $r = -0.16; r = -0.13, p < .01$  respectively). The same is applied to size of firm and industry type for their correlations with informal interpersonal networks ( $r = -0.03; r = -0.08, p < .01$  respectively).

Regression analysis was used to scrutinize the research hypotheses due to its ability to combine different moderator effects and control variables (Hair et al., 2010). Hypothesis 1 was tested by linear regression in two steps. Initially, the control variables (age, size, and type of industry) were inserted into the regression equation, while the internationalization of EEFs was identified as the dependent variable. Furthermore, familiarity with the emerging market context was considered in the regression equation as the independent variable. Table 2 (model 6) displays that control variables do not entail significant effect in regard to the EEFs' internationalization in emerging markets. However, there is a positive relationship between EEFs' familiarity with the context of emerging markets and their

internationalization. Therefore, hypothesis 1 is supported.

Some stipulations offer a complete mediating effect identified by Baron and Kenny (1986), which are as follows:

- A significant correlation is attained between the independent variable (familiarity with the emerging market context) and the mediators (formal interpersonal networks and informal interpersonal networks).
- A distinct correlation is attained between the independent variable (familiarity with the emerging market context) and the dependent variable (internationalization of EEFs).
- An apparent correlation between the mediating variables (formal interpersonal networks and informal interpersonal networks) and the dependent variable (internationalization of EEFs).
- A nonsignificant correlation is attained between the independent (familiarity with the emerging market context) and the dependent variable (internationalization of EEFs) when the mediating variables (formal interpersonal networks and informal interpersonal networks) are inserted into the regression equation.

The main argument of hypothesis 2 is that formal interpersonal networks mediate the relation between familiarity with the emerging market context and EEFs' internationalization. According to Table 2, familiarity with the emerging market context is positively associated with both formal interpersonal networks ( $r = 0.29, p < 0.01$ ; Model 2), and EEFs' internationalization ( $r = 0.07, p < 0.01$ ; Model 6) independently. Formal interpersonal networks are significantly and positively associated with the internationalization of EEFs ( $r = 0.13, p < 0.01$ ; Model 7). However, an insignificant association is found between familiarity with the emerging market context and internationalization of EEFs, after the integration of formal interpersonal networks ( $r = 0.11, ns$ ; Model 9). In this perspective, hypothesis 2 is supported, as the results showed that formal interpersonal networks act as a complete mediator between familiarity with the emerging market context and internationalization of EEFs.

Hypothesis 3 is developed on the notion that informal interpersonal networks mediate the relationship between familiarity with the emerging market context and EEFs' internationalization. Familiarity with the emerging market context is positively associated with both informal interpersonal networks ( $r = 0.30, p < 0.01$ ; Model 4) and internationalization of EEFs ( $r = 0.07, p < 0.01$ ; Model 6) (Table 2). Moreover, there is a significant positive correlation between informal interpersonal networks and internationalization of EEFs ( $r = 0.10, p < 0.01$ ; Model 8). Nevertheless, familiarity with the emerging market context is not significantly tied to the internationalization of EEFs with the integration of informal interpersonal networks ( $r = 0.04, ns$ ; Model 10). This shows that the association between familiarity with the emerging market context and internationalization of EEFs is completely mediated by informal interpersonal networks, which supports hypothesis 3.

### 4.2. Moderation of the Mediated Relationship:

The study of hypotheses 4 and 5 suggests "second-stage moderated mediation models," so that the moderating variable (cultural distance) is interlinked with the mediating variables (formal interpersonal networks and informal interpersonal networks) to influence the outcome variable (internationalization of EEFs). Moderation effects were tested after calculating interaction terms to mitigate the hazards of multicollinearity (Porter et al., 1994). Table 2 exhibits a negative relationship between the interaction of formal interpersonal networks and cultural distance with the internationalization of EEFs ( $r = -0.03, p < 0.1$ ; Model 11). The same negative relationship exists between the interaction of informal interpersonal networks and cultural distance with the internationalization of EEFs ( $r = -0.05, p < 0.01$ ; Model 12). The

protocol suggested by Aiken et al. (1991) was utilized in this study to confirm the significant interactive effects while considering the standard deviation and the mean of cultural distance. The results revealed a strong relationship between both formal and informal interpersonal networks from one side and the internationalization of EEFs from the other side, in the event that cultural distance is low. This outcome supports hypotheses 4 and 5 simultaneously.

Table 2: Results of Hypotheses Testing

	Formal interpersonal networks		Informal interpersonal networks			Internationalization of EEFs						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Control variables												
Age	-0.08*	-0.08*	-0.03	-0.03	0.001	0.001	0.02	-0.002	0.02	0.002	0.02	0.003
Size	0.02	0.002	0.02	0.004	-0.005	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
Industry	-0.19	-0.22	-0.15	-0.18	0.03	0.02	0.05	0.04	0.04	0.03	0.04	0.02
Independent variable												
Familiarity with the emerging market context		0.29**		0.30**		0.07**			0.04	0.04	0.04	0.04
Mediating variable												
Formal interpersonal networks							0.13**		0.11**		0.10**	
Informal interpersonal networks								0.10**		0.09**		0.09**
Moderating variable												
Cultural distance											-0.002	0.002
Interaction												
Formal interpersonal networks x cultural distance											-0.03*	
Informal interpersonal networks x cultural distance												-0.05**
R2	0.05	0.13	0.02	0.10	0.003	0.05	0.12	0.10	0.13	0.11	0.14	0.14
F	3.35*	8.33**	0.82**	6.60	0.22	2.5*	7.56**	6.5**	6.62**	5.75**	5.24**	5.50**
ΔR2	0.05	0.09	0.02	0.10	0.003	0.04	0.12	0.10	0.09	0.11	0.14	0.14
ΔF	3.35*	22.5**	0.82	23.8	0.22	8.96	7.56	25.0	22.7	2.90	9.99	5.50

## 5. Discussion and Implications

### 5.1. Findings and Contributions:

The present study has made a number of contributions to the literature of international business, generally in the scope of EEF internationalization and specifically in the scope of Saudi entrepreneurial firms' internationalization in different dimensions. First, and most importantly, the study has developed a novel approach to understanding the phenomena of EEFs' internationalization through examining the triadic association between familiarity with the emerging market context, interpersonal networks, and cultural distance. Such an approach can deepen the understanding of EEFs' internationalization from the perspective of the elements of that association either collectively or separately. Second, the study's finding on the positive association between the familiarity with the emerging market context and the internationalization process of EEFs can be seen as a shift in focus compared to the findings of previous studies. Most of the previous studies (e.g., Huang et al. 2017; Holburn and Zelner 2010) examined the internationalization acceleration of firms, including the entrepreneurial ones, in the light of the well-established home market context. Thus, these studies stress that the pace of EEFs' internationalization is not affected by risk if their home markets' context is well-established, and if they do not encounter institutional constraints within that context. Other previous studies attempted to examine the internationalization of EEFs in the light of the familiarity with the host market context, specifically in the settings of emerging countries, nevertheless limiting their examination to a single element of that context. For instance, Coeurderoy and Murray (2008)

examined the internationalization of EEFs from the perspective of the existence of regulatory protection in the host emerging market, which only represented one element of the context of that market. This distinguishes the current study as it examines the familiarity of the entire context of emerging markets. The study would, therefore, be helpful in enhancing an EEFs institutional entrepreneurial capability, relational capability, and adaptable capability for the purpose of creating new potential interests in the international market.

Third, the study provided a further opportunity to confirm existing findings but in different settings, represented by the Saudi entrepreneurial firms. This can be clearly found in the indication that there is an apparent correlation between the internationalization of EEFs and the mediating variables of formal interpersonal networks and informal interpersonal networks, which agrees with the study made by Idris and Saridakis (2018) that showed an increase in the likelihood of firm internationalization by the firm increasing its interpersonal networks. Similarly, Autio et al. (2011) commented that interpersonal networks are helpful in the context of new ventures developing an organizational capability that can exploit the voids of the international environment. The current study contributed to a more in-depth understanding of the mediating role played by interpersonal networks in the internationalization of entrepreneurial firms from and to emerging markets.

Last, the results also contributed to the international business literature in the channels of culture and internationalization by showing the negative role of cultural distance in moderating the relationship between interpersonal networks and internationalization of EEFs. Although the issue of cultural distance has been researched intensively in recent years (Bauer, Matzler, & Wolf, 2016; Cheng & Yang, 2017), these studies came up with uncertain impacts. To avoid such uncertainty, this study attempted to incorporate cultural distance in a well-established relationship between interpersonal networks (formal and informal) and EEFs' internationalization, so that a clearer impact could be traced. This can be applied to other cultural distance contexts, in which different variables can be examined in well-established relationships.

### 5.2. Governmental and Managerial Implications:

The results of this study provide essential implications for governments in emerging countries to construct appealing entrepreneurial environments for EEFs. The gap between developed and emerging countries in luring international entrepreneurial activities can be reduced if the latter devised national initiatives to promote their market context and business institutions to prospective EEF entrants. Accordingly, policymakers in emerging countries need to support the inward internationalization activities of EEFs through cultivating global-oriented and open national cultures, with a specific flavor tailored to firms from other emerging countries. When they launch their national promotional plans, emerging countries' governments should avoid running them directly should be advised to appoint well-experienced advertising agencies to make sure the commercial message is robustly embedded in these initiatives, so that target EEFs can clearly ascertain the latent messages composed by the initiatives.

For founders and executives of EEFs, especially those who are critical to the internationalization decision-making process, increased efforts have to be exerted in regard to accelerating the process of their firms' internationalization considering the factor of familiarity with host emerging market context. In particular, they should be encouraged to internalize their firms' activities strategically through coevolution by way of interpersonal networks, instead of considering the exogenous factors for promoting the firms' international growth. This can aid EEFs' early adaptation to government policy and strengthen

communications with different institutional partners within the target emerging market.

Entrepreneurs from emerging markets should also interlink their firms' business model and international strategy with the sensing and seizing processes of the firms' dynamic capability (Teece, 2018). This can advance their firms' ability to recognize insider positions within business and social networks in lucrative foreign emerging markets, which eventually shortens the cultural distance between their home market and their target host market.

### 5.3. Limitations and Future Research:

In spite of its contributions, there are a few limitations of the present study that need to be addressed by upcoming studies. For instance, the generalization of the study results is not guaranteed due to its exploratory nature and given that data is exclusively derived from a single geographical context represented in Saudi Arabia. Consequently, future studies might use a larger sample from different geographical settings and compare their results against the present study's results. It might also be imperative to highlight the differences in the process of internationalization between entrepreneurial firms from developing countries and their counterparts from developed countries by testing the current study's model through comparative studies.

The choice of the mediating variables in the present study was limited to formal interpersonal networks and informal interpersonal networks through examining their role in the relationship between familiarity with the emerging market context and internationalization of EEFs. Thus, it is worth investigating the potentially similar role played by other variables such as entrepreneurial marketing and interfirm learning. Moreover, future researchers are encouraged to examine how other moderating variables might negatively the relationship between interpersonal networks and internationalization of EEFs, similarly to what the current study has done with cultural distance.

## 6. Conclusions

The results of the current study illustrate the association between familiarity with the emerging market context and internationalization of EEFs. To deeply understand this association in the light of interpersonal networks and cultural distance, a moderated mediation framework was developed. The study results concluded that there is a significant impact of familiarity with the emerging market context on the internationalization process of EEFs. The results are also shown that the relationship between familiarity with the emerging market context and internationalization of EEFs is completely mediated by formal interpersonal networks and informal interpersonal networks. Meaning that interpersonal networks are critical to enhancing the internationalization experience of EEFs. Therefore, it is pivotal for EEFs to position themselves in international interpersonal networks, so that their acquaintance with foreign emerging markets can be improved. The study revealed that the association between interpersonal networks and internationalization of EEFs is fully moderated by cultural distance. This marks the inhibited role played by cultural distance in the EEFs' absorption of foreign emerging markets. The study entails different implications for governments of emerging countries and the key people of EEFs to inform their understanding of the mediating and moderating effects of formal interpersonal networks, informal interpersonal networks, and cultural distance on the internationalization of EEFs.

## Bio

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