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An examination of the foreign market knowledge of exporting firms based in the People's Republic of China: Its determinants and effect on export intensity

Li Ling-yee*

Department of Marketing and International Business, Lingnan University of Hong Kong, Tuen Mun, New Territories, Hong Kong, PR China

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Abstract

Although the critical role of knowledge in generating organizational advantage has been increasingly recognized in the strategic management field, there is little research examining firm-specific foreign knowledge, the construct itself, its determinants, and impact on export performance. This study seeks to extend the foreign market knowledge literature in three ways. First, the current study develops a conceptual model of determinants of foreign market knowledge, based on the social capital theory. It explains how structural and relational social capital affects the creation of foreign market knowledge. Second, this study substantiates the theoretical link between foreign market knowledge and export intensity, which has been put forward by the internationalization process model with empirical evidence. Third, to expand the generalizability of the present foreign market knowledge model, this study tests the model using firms from different industrial types and product categories in a newly developing country, that is, the People's Republic of China.

Keywords: Social capital theory; Foreign market knowledge; Export intensity

1. Introduction

Common wisdom say that export market knowledge and export sales intensity go hand in hand. But, how can a firm build up its foreign market knowledge? Here comes the social capital formula?

Knowledge, and its acquisition and exploitation, has been upholded by organizational researchers as the key resource to create sustainable competitive advantages (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998; Yli-Renko, Autio, & Sapienza, 2001). In the new era of global competition, it is asserted that firms succeed not because they have superior control over scarce resources but because they are able to learn (Inkpen, 1998) and to use this learning more efficiently than others (Larsson, Bengtsson, Henriksson, & Sparks, 1998).

Although the critical role of knowledge in generating organizational advantage has been increasingly recognized in the strategic management field, there is little research examining the effect of firm-specific foreign knowledge on its export performance (Morgan & Katsikeas, 1998). The few studies that did investigate the performance effect of foreign knowledge, however, reported significant positive effect of such knowledge on export satisfaction (Wang & Olsen, 2002), new export product advantage, and market performance in host countries (Li & Cavusgil, 2000). In addition, the lack of export marketing knowledge was specified as a major exporting problem and turned out to be an important impediment to export development (Morgan & Katsikeas, 1998). According to the internationalization process model, firms learn new foreign market knowledge incrementally through the commitment of resource to do business in specific markets (Johanson & Vahlne, 1977), and foreign market knowledge affects how current activities are conducted. While the extant literature suggests that export intensity correspondingly reflects differences in the export behavior of firms (Czinkota & Johnson, 1983; Diamantopoulos, 1988), empirical studies concerning a firm's foreign market knowledge and its export intensity are very limited.

* Tel.: +852-2616-8232; fax: +852-2467-3049.
E-mail address: estherli@ln.edu.hk (L. Ling-yee).

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In the light of the importance of knowledge as a central value-adding resource of firms, there are repeated calls (Li & Cavusgil, 2000; Morgan & Katsikeas, 1998) for additional research to identify the antecedents on foreign knowledge. Yet, little or no research works on it. For the few studies (Chetty & Eriksson, 2002; Wang & Olsen, 2002; Yli-Renko, Autio, & Tontti, 2002) that identified the antecedents of foreign knowledge, certain conceptual limitations and methodological shortcoming exist that warrant further consideration. First, researchers have either explained the variations of foreign knowledge by differences in firm-specific resources, like managers' awareness of export environment (Wang & Olsen, 2002), or by differences in relational commitment within the business network (Chetty & Eriksson, 2002). The researchers have largely neglected that the variations of foreign knowledge need to be accounted for by a combination of both internal resources-based and external relationship-specific factors. Second, the three empirical studies conducted on the antecedents of foreign market knowledge were sourced from research environments in developed countries like the United States, Finland, and Western European countries. Consequently, attempts to draw generalization from such evidence and to infer the same to other research context, like newly industrial countries or recently liberalized economies, can be misleading and potentially ill founded. Third, the generalizability of the results of the study of Yli-Renko et al. (2002) is constrained by its focus on technology-based, new firms. While the influence on foreign market knowledge was shown as predicted among technology-based new firms, whether the same general influences apply to medium- and low-technology firms demand further examination.

In the light of the above limitations, this study seeks to extend the foreign market knowledge literature in three ways. First, the current study develops a conceptual model of determinants of foreign market knowledge, based on the social capital theory (Nahapiet & Ghoshal, 1998). The model covers two types of social capital, namely, intrafirm structural social capital and interfirm relational social capital, in explaining and testing their roles in creating foreign market knowledge. Second, this study substantiates the theoretical link between foreign market knowledge and export intensity, which has been put forward by the internationalization-process model (Johanson & Vahlne, 1977), with empirical evidence. Third, to expand the generalizability of the present foreign market knowledge model, this study tests the model using firms from different industrial types and product categories in a newly developing country, that is, the People's Republic of China.

2. Foreign market knowledge in the internationalization process

The internationalization process model, in its original version, explicitly used only one explanatory variable—the firm's knowledge about foreign market (Johanson, 1990). It explains internationalization as a process of increasing experiential knowledge of the market, the clients, the problems, and the opportunities abroad (Eriksson, Johanson, & Majkgard, 1997). It is also posits that the gradually accumulating foreign market knowledge increases both the firm's ability to coordinate its international activities as well as the firm's willingness to make resource commitment to these activities (Hadjikhani, 1997). Drawing on this body of internationalization process research, experiential foreign market knowledge pertains to two major aspects: foreign institutional knowledge and foreign business knowledge (Eriksson et al., 1997).

Foreign institutional knowledge refers to experiential knowledge of government, institutional framework, rules, norms, and values (Eriksson et al., 1997). "A lack of foreign institutional knowledge is problematic, as it is difficult for the company to acquire an adequate understanding of the technical and commercial laws and norms that apply in a foreign market. It may be a question of the import and export of goods and services, tariffs and low taxes, general conditions in the market, as well as related problems and prospects" (Eriksson et al., 1997). For instance, the knowledge of export procedures enables the firm to deal effectively and efficiently with financing, shipping, and forwarding, paperwork processing, and payment collection (Wang & Olsen, 2002). Lack of this knowledge leads to improperly completed documents, delays in honoring letters of credit, and cash flow problems for the exporters. Whereas inadequate foreign institutional knowledge makes exporting seem risky and exotic (Sullivan & Bauerschmidt, 1989), improved foreign knowledge reduces such perceptual export barrier (Kedia & Chhokar, 1985; Moini, 1997) and prompt exporters to seek procedural knowledge to solve technical and transactional problems associated with exporting (Wang & Olsen, 2002).

Foreign business knowledge refers to the experiential knowledge of clients, the market, and competitors (Eriksson et al., 1997). The lack of experiential knowledge of a particular client's way of working and its particular needs regarding goods and services is problematic for an internationalizing firm, as it is costly for the company to spend resources on detecting and exploiting business opportunities in international markets (Eriksson et al., 1997). Knowledge coming from foreign business contacts facilitates the firm's acquisition of first-hand feel of preferences in the market (Denis & Depelteau, 1985), interpretation of the information in a firm-specific context (Carlson, 1974), accessibility to new experiential knowledge, and, hence, reduction of costs for further internationalization (Eriksson et al., 1997).

3. A theoretical model of the determinants of foreign market knowledge

Based upon the social capital theory (Bolino, Turnley, & Bolldgood, 2002; Tsai & Ghoshal, 1998; Yli-Renko et al.,