



Internationalization of young technology firms: A complementary perspective on antecedents of foreign market familiarity

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ABSTRACT

Foreign market familiarity is a central construct, which both traditional Process Theories of Internationalization (PTI) and International New Venture Theory (INVT) emphasize. The present study combines PTI and INVT reasoning and develops an entrepreneurial process view to study pre- and post-entry antecedents of technology firms' foreign market familiarity. Combining PTI and INVT reasoning, we theoretically examine the role of prior foreign market analysis, interaction with foreign market players, and exposure to foreign market particularities as antecedents of foreign market familiarity. We test hypotheses on a dataset of $n = 248$ internationally acting German technology firms. The results show that technology firms internationalize in a proactive manner as suggested by INVT scholars, but in a systematic way as suggested by PTI scholars. Hence, the present study leads to a further convergence of the two domains of IB and IE.

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1. Introduction

Firms venturing into foreign markets are usually at a disadvantage compared to indigenous competitors in terms of their familiarity with the local institutional and business environment (Pedersen & Petersen, 2004). This is because entrant firms face "liabilities of foreignness" (Hymer, 1960; Zaheer, 1995), which arise from differences in, for example, cultural, legal, and financial facets of the host country (Johanson & Vahlne, 1977). Being unfamiliar with the host country's institutional and business setting may cause the firm to make costly errors impeding foreign market development and success (Eriksson, Johanson, Majkgard, & Sharma, 1997).

Scholars have emphasized that familiarizing with the foreign market is of particular importance for young technology firms (Bell, McNaughton, & Young, 2001; Bloodgood, Sapienza, & Almeida, 1996; Boter & Holmquist, 1996; Crick & Spence, 2005; Preece, Miles, & Baetz, 1998). Young technology firms have often been reported to venture into foreign markets quickly pursuing various motives such as striving for business opportunities in niche markets (Bell, McNaughton, Young, & Crick, 2003), seeking growth opportunities in markets of large size (Ojala & Tyrväinen, 2007) or to quickly amortize initial R&D expenditures (Burgel & Murray, 2000). However, venturing abroad early may have major drawbacks due to limited resources and scant experience (McDougall, Shane, & Oviatt, 1994; Westhead, Wright, & Ucbasaran, 2001). Thus, in addition to facing "liabilities of foreignness" (Hymer, 1960; Zaheer, 1995), young technology firms suffer from "liabilities of size and newness" at their first internationalization (Singh, Tucker, & House, 1986). Hence, it is critical for young technology firms to quickly

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become familiar with the foreign market to avoid errors, which may jeopardize their growth and performance (Sapienza, Autio, George, & Zahra, 2006).

The centrality of foreign market familiarity in the internationalization of the firm is reflected by the fact that both, traditional Process Theories of Internationalization (PTI) (Johanson & Vahlne, 1977; Johanson & Vahlne, 1990) and the International New Venture Theory (INVT) (e.g. Oviatt & McDougall, 1994) emphasize its importance. Research, to date, has discussed the PTI and INVT mostly contradictory, as the two theories take different perspectives. PTI answers “why the internationalization process unfolds in an incremental manner”. Thus, PTI has a *post-entry focus* emphasizing a *systematic* internationalization approach in which the firm *gains experiences in the context of the foreign market*. INVT answers “how it is possible that firms internationalize right from inception”. Hence, INVT primarily has a *pre-entry focus* emphasizing a *proactive* internationalization approach in which *enablers such as alternative governance structures (i.e. networks)* allow for rapid internationalization. However, internationalization of technology firms does not end at initial foreign market entry. Although originally focusing on manufacturing firms, PTI reasoning may allow for explaining parts of technology firms’ internationalization as well.

Thus, the aim of the present paper is to combine PTI and INVT reasoning and to develop an entrepreneurial process view in order to study the antecedents of technology firms’ *perceived institutional familiarity* and *perceived business familiarity*. Perceived institutional familiarity is the extent to which the firm’s management assumes to be familiar with the rules, norms, and values in terms of, for instance, formal legal decisions or formal regulative issues (Eriksson et al., 1997; Peng, 2000). Perceived business familiarity is the extent to which the firm’s management assumes to be familiar with the customers, suppliers, and local business culture (Eriksson et al., 1997). Drawing on PTI and INVT reasoning, we develop a model explaining the perceived foreign market familiarity as emerging from *prior foreign market analysis*, *interaction with foreign market players*, and *exposure to foreign market particularities*. Prior foreign market analysis is the extent to which the firm collects market specific information prior to entering the market. Interaction with foreign market players describes the extent to which the firm interacts with customers, suppliers, and other cooperative partners in the foreign market and exposure to foreign market particularities means the extent to which the firm is exposed to new market segments, different market forces or altered customer preferences in the foreign market.

Our paper is an essential addition to current research. Researchers have extensively examined determinants of international new venturing (e.g. Bloodgood et al., 1996; Reuber & Fischer, 1997; Zuccella, Palamara, & Denicolai, 2007). They have also examined antecedents of foreign market knowledge and the role of social networks (e.g. Presutti, Boari, & Fratocchi, 2007; Yli-Renko, Autio, & Sapienza, 2001). Yet, although they have begun to suggest that PTI and INVT are complementary (Autio, 2005; Chetty & Campbell-Hunt, 2004; Johanson & Vahlne, 2009), they have been rather silent about how *social* and *contextual factors from the pre- and post-entry phase* affect and shape perceived foreign market familiarity. Hence, we take a novel perspective that what a firm knows about a foreign market emerges in a *systematic and proactive* process of shaping and development (Dimov, 2007). Such a perspective has not yet been taken in IB and IE research, because it combines entrepreneurial and process view thinking and goes beyond the scope of the single PTI and INVT perspectives. Thus, we contribute to a more holistic understanding of the internationalization of technology firms and to a further convergence between the two domains of IB and IE.

The paper is structured as follows: In the next section we develop our research model and its underlying hypotheses drawing on complementarities between PTI and INVT. We then test our hypotheses on a dataset of 248 technology firms. Finally, we discuss our empirical findings, address limitations of our study, and point at implications for future research.

2. Theory and hypotheses development

2.1. Two views of internationalization

In the following, we briefly sketch the PTI and INVT view to internationalization. Addressing PTI we refer to the Uppsala Internationalization Model (U-model) (e.g. Johanson & Vahlne, 1977; Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975). PTI’s perception of an incremental process of internationalization is primarily based on the assumption that the firm is lacking experiential knowledge making the internationalization process a risky endeavor. According to Eriksson et al. (1997) the dimensions of experiential knowledge include institutional knowledge and business knowledge. The central argument is that the more familiar a firm is with its foreign market, the more it increases its foreign market commitment. Thus, the firm incrementally increases foreign market commitment after it has become gradually familiar with the host country’s contextual setting primarily in the post-entry phase. The commitment stages that a firm gradually progresses are described by the establishment chain including four steps: no regular exports, export through agents, founding of an overseas sales subsidiary, and overseas production (Johanson & Wiedersheim-Paul, 1975). The first internationalization activities of the firm are based on a solid and well-developed domestic market. As expressed by the concept of psychic distance, the choice of the foreign market unfolds in an incremental manner as well. First, firms venture into foreign markets with a close psychic distance between the domestic and host country market and afterwards they gradually expand their activities into countries with greater psychic distance.

A large proportion of small and new ventures pursues an internationalization path in line with the PTI view and internationalizes slowly or has an explicit focus on the domestic market (Wright, Westhead, & Ucbasaran, 2007). However, some researchers have reported young ventures to pursue a proactive and rapid internationalization process starting right

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