International Business Review 20 (2011) 409–422

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

A conceptualization of e-risk perceptions and implications for small firm active online internationalization

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ARTICLE INFO

Article history:
Received 29 May 2009
Received in revised form 13 June 2010
Accepted 15 June 2010

Keywords:
Active online internationalization
Conceptualization
E-risk
International business
Online
Risk
SME

ABSTRACT

A sound conceptualization of international e-risks has grown in demand, because of the increasing penetration of the Internet, and specifically the enabling-facility of the Internet technology for small firms. Yet, to date, there has been no study explicitly attempting to build an international business risk framework for the online environment, nor to explain online internationalization decisions. The purpose of the present paper is threefold, (1) to combine and complement the existing traditional international risk constructs and the emerging views on e-business risks into a comprehensive and unified international risk framework for the online context; (2) to develop propositions regarding SMEs' active online internationalization decisions by drawing on Dunning's OLI framework; and (3) to explore the online–offline risk trade-off inherent in online internationalization decisions by integrating the e-risk framework into the eclectic paradigm.

1. Introduction

With growing competitive pressures, companies are increasingly deploying the Internet as a strategic tool (Ching & Ellis, 2004; Porter, 2001). The use of information and communication technology (ICT) not only impacts on communication, control and collaboration processes (Jean & Sinkovics, 2010; Jean, Sinkovics, & Cavusgil, 2010; Jean, Sinkovics, & Kim, 2008; Jean, Sinkovics, & Kim, 2010; Yamin & Sinkovics, 2007), it also promises a fast-track option of international expansion (Sinkovics & Penz, 2005). The deliberate use of ICT for internationalization purposes is termed "internetalization" by Bell, Deans, Ibbotson, and Sinkovics (2001) and "active online internationalization" (AOI) by Yamin and Sinkovics (2006). It is a form of foreign market entry which takes place *"in the virtual rather than the real or spatial domain"* (Yamin & Sinkovics, 2006, p. 340). Consequently, companies opting for this mode of entry have no equity based market presence in the host country. While active online internationalization is possible for both large and small firms, especially in the initial stages of internationalization, small firms are more likely to adopt this mode of market entry (Bennett, 1997). Thus, in this paper we exclusively focus on small and medium-sized firms engaging in AOI. To date, research on the phenomenon of active online internationalization is limited.

International business (IB) deals with a multitude of contingencies in its external environment and is thus considered inherently risky (Shrader, Oviatt, & Phillips McDougall, 2000). Therefore, the online analogue to traditional physical exchange also exposes firms to an array of risks (Scott, 2004; Viehland, 2001; Wat, Ngai, & Cheng, 2005). While some of these risks are only relevant in the online context, others have their origins in the traditional international business environment. Even though many risks belonging to the latter category are regarded less relevant for companies predominantly doing business in the virtual domain, they need to be carefully examined, as due to their latent nature they might still affect these

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0969-5931/$ – see front matter.
doi:10.1016/j.ibusrev.2010.06.004

companies in a different and/or less visible way. Understanding international risk in both its traditional and virtual forms is crucial for three reasons: (a) the conscious and controlled handling of risks can be seen as a capability and thus represents an important source of sustainable competitive advantage (Barney, 1991); (b) the lack of a thorough risk assessment can not only deprive a business of future profits but might also lead to complete business failure; (c) companies' entry mode choice has been found to be contingent on the level of perceived risk in the target country (Brouthers, 1995). Despite this background, however, the international business literature not only lacks an extensive international e-risk framework, there is also little known about the factors influencing online internationalization. While there are studies speculating on the potential advantages and disadvantages of e-commerce adoption, as well as on the Internet's impact on the internationalization process and existing export marketing theories (e.g. Gregory, Karavdic, & Zou, 2007; Karavdic & Gregory, 2005), the literature lacks a conceptual framework that explicitly details the reasons for online market entry choice over more traditional entry modes.

This paper has three main objectives. Firstly, it aims at combining and complementing the existing traditional international risk constructs and the emerging views on e-business risks into a comprehensive and unified international risk framework for the online context. Secondly, it seeks to develop propositions for future research which help to explain why SMEs' opt for active online internationalization. For this, we draw on Dunning's (1980) OLI framework and more recent work that examined the extent to which the eclectic paradigm of international production, and its composite theories, can help in the online domain (Dunning & Wymbs, 2001). Thirdly, it endeavors to explore the online–offline risk trade-off inherent in online internationalization decisions by integrating the e-risk framework into the eclectic paradigm. The OLI framework was selected for three distinct reasons, i.e. (1) its explanatory value for traditional entry mode choice has a sound track-record (e.g. Brouthers, Brouthers, & Werner, 1996; Dunning & Wymbs, 2001); (2) its relevance has been successfully tested for SME entry mode decisions; and (3) traditional international (offline) risks are a building block of the existing OLI framework. To this end, integrating e-risks in the existing OLI framework helps to demonstrate the online–offline risk trade-off in internationalization decisions. The main contributions of the paper thus are the conceptualization of e-risks in international business and the exploration of the latent online–offline risk trade-off in small firm online internationalization decisions by drawing on the eclectic paradigm.

The structure of the paper is as follows: Section 2 starts with a theoretical discussion of the role of ICT for small versus large firm internationalization followed by the introduction of the e-risk framework and its implications for small firm internationalization. Section 3 presents our propositions for future research. Section 4 concludes by considering implications and limitations.

2. Conceptual background

2.1. The role of ICT for small and large firm internationalization

The Internet as an alternative means to physical market entry is expected to be more relevant for smaller firms than large multinational enterprises (MNEs) for several reasons. Small and medium enterprises (SMEs) are inherently resource-poorer than large corporations and their vulnerability threshold to business failure is lower. Consequently, while for large MNEs, failure in one country can still be compensated for by successes in other countries, for SMEs such a failure is most likely to result in business closure (Buckley, 1989; Welsh & White, 1981). On-site knowledge development and learning is arguably a major driver of MNE internationalization (Forsgren, 2002; Hadjikhani & Johanson, 2002), while SMEs will utilize ICT to compensate for experiential learning opportunities (Jean, 2007). Another implication of smaller firms' limitations in terms of resource endowments is their constrained ability to make significant resource commitments in a host country for the purpose of initial relationship building or uncertainty reduction (Figueira-de-Lemos, Johanson, & Vahlne, 2010). While large MNEs benefit from direct physical market presence via their subsidiaries (Andersson, Forsgren, & Holm, 2001) and although the fact that their subsidiaries are embedded in the local country's context provides them with an "advantage of multinationality" (Yamin, 2002), they lose some of their flexibility due to their large size (Moini & Tesar, 2005) and organizational inertia (Kelly & Amburgey, 1991). Although ICT has the potential to reduce MNEs' internalization propensity (Rangan & Sengul, 2009), their ICT adoption is still not likely to result in a shift from a physical to a mainly virtual presence. In cases where ICT use reduces internal transaction costs or enhances internal monitoring, it may even strengthen the multinational's internalization process (Rangan & Sengul, 2009).

Small companies, on the other hand, are suggested to be able to compensate for some of their inherent disadvantages by trading off direct physical market embeddedness against strategic use of the Internet (Moini & Tesar, 2005). They can improve flexibility by speedily engaging in parallel market entries, facilitated by information and communication technology (ICT), thus benefitting from "dilution of sequencing" in international expansion (Yamin & Sinkovics, 2006). Yet, whether the Internet is suitable as an alternative to SMEs' physical internationalization also depends on the nature of the business and the products sold (Zaheer & Manrakhan, 2001) as well as on industry characteristics.

2.2. An international e-risk framework (Appendix B)

Table 1 lists 25 risk dimensions identified in the literature, classifying them into three categories: (1) traditional IB risks contain dimensions which have their origins in the physical environment (to date, these have been excluded from emerging