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Synergies and tensions between and within domestic and international market activities of firms

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ABSTRACT

The distinction between domestic and international market activities has an idiosyncratic meaning for international business research. This study examines the significant yet unclear role of domestic market activities for the internationalizing firm through the theoretical lens of exploitation and exploration. By means of five qualitative case studies, we show that both the dynamics between domestic–international market activities and the interplay between exploitation–exploration are intrinsically concerned with synergies and tensions. Our findings uncover how firms leverage these synergies and manage these tensions that manifest between and within their domestic and international markets. Synergies and tensions are found to revolve around ambidexterity, networks and organizational market information processes.

1. INTRODUCTION

The domestic market often serves as a pre-stage for internationalization (Johanson and Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), and a profit sanctuary whilst the liabilities of foreignness are being overcome abroad (Hymer, 1976; Vernon, 1966). Domestic and international expansion can thus be conceived as two inseparable forms of firm growth (Bell et al., 2004Luostarinen, 1979; Wolf, 1977). Domestic market activities are more likely to benefit international market activities of early internationalizers and to constrain international market activities of late internationalizers (Blomstermo, Eriksson, & Sharma, 2004). As firms get older, they develop mental models that hinder their ability to grow in new environments (Cohen and Levinthal, 1990). However, complex domestic mindsets of large and established domestic firms, which experience environmental pressures to internationalize, facilitate their initial international steps (Nadkarni et al., 2011).

International business (IB) studies have sporadically identified synergies and tensions between and within domestic and international market activities of firms. Nevertheless, the role of the domestic market has remained nebulous (Nadkarni et al., 2011; Nadkarni & Perez, 2007; Lu, Liu, Filatotchev, & Wright, 2014; Salomon & Shaver, 2005). A thorough literature review reveals that the research question of what explains the emergence of synergies and tensions between and within domestic and international market activities has not been answered yet, and that such research might be supported by the theoretical perspective of exploitation and exploration. While the exploitation–exploration approach articulates complementarities and tradeoffs between exploitation and exploration, this approach can be applied to the market and the product domains (Voss and Voss, 2013). This study finds that the dynamics between domestic and international markets, and the interplay between market exploitation and market exploration overlap. Our case study research illustrates how firms leverage exploitation and exploration synergies and manage exploitation and exploration tensions that unfold between and within domestic and international markets.

Specifically, we uncover a significant yet underexplored theme in international business research by means of the exploitation–exploration approach, which has surprisingly received limited scholarly attention in IB (Hsu, Lien, & Chen, 2013). We consequently build theoretical links between domestic–international market activities and market exploitation–exploration. Our empirical evidence provides support for these links and a framework for discussing synergies and tensions between domestic and international market exploitation and exploration. This novel perspective contributes to a more comprehensive understanding of international firm growth (cf. Bell et al., 2004; Luostarinen, 1979; Nadkarni et al., 2011; Wiedersheim-Paul, Olson,

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& Welch, 1978; Wolf, 1977). At the same time, it contributes to the research calls for multi-level and multi-domain analyses of exploitation and exploration (Gupta et al., 2006; Raisch & Birkinshaw, 2008; Turner, Swart, & Maylor, 2013). More importantly, this study reveals the overarching role of ambidexterity, networks and organizational market information processes (OMIP), which all underlie the examined complementarities and tradeoffs.

In the following section, we unfold the synergies and tensions between domestic and international market activities that have already been identified in IB literature. Then we build the link with exploitation–exploration literature. Next, we outline the method of research before presenting and discussing the findings and implications. Finally, we draw conclusions.

2. THEORETICAL BACKGROUND

The origin of this research theme dates back in the early IB literature. In the product life-cycle model (Vernon, 1966), domestic activities can be a source of competitive advantage; innovation and production commence in the domestic market, before the market potential evolves abroad. Similarly, in the 1970s and 1980s, the various process models implicitly or explicitly considered domestic activities as an initial stage of the internationalization process, and perceived a synergy between preceding domestic expansion and first international steps. The most prominent example is Johanson and Vahlne (1977) internationalization model.

In Hymer's market power approach (1976), a multinational's capability for foreign investment initially depends on its domestic market power. When the performance potentials of domestic and international markets are compared, the domestic market is generally considered a profit sanctuary due to the absence of disadvantages of foreignness. On the other hand, superior international performance is expected when the firm has overcome the inherent disadvantages of foreignness and its firm specific advantages are stronger than those of its domestic competitors and the local international firms. For instance, before the Japanese firms developed lucrative international portfolios, they had had robust domestic performance; particularly in the 1970s, when they had been accumulating profits predominantly in their domestic market (Ito and Rose, 2010).

Turning attention to theme specific studies, Wolf (1977) conceived domestic and international expansions as components of a single growth strategy. He showed that the domestic and international aspects of expansion share a common basis with respect to the firm's multifaceted innovation, production and marketing strategies. Whereas Luostarinen, 1979 distinguished between home and overseas expansion, Wiedersheim-Paul et al. (1978) developed a pre-export behavioral model that shed light on the role of domestic activities in the start of the internationalization process. Bell et al., 2004 emphasized the role of knowledge intensity in domestic and international activities of UK SMEs. Drawing on the argument that internationalization is part of and inseparable from the overall firm growth and development (Bell & Young, 1998), Bell et al. (2004) found that proactive product and market specific strategies both domestically and internationally, and rapid internationalization are more evident in UK knowledge-intensive SMEs as compared to UK traditional and family-owned SMEs.

Casson (1992) highlighted the distinction between domestic and international marketing know-how. He stressed transaction costs in knowledge transfer between different activities and locations. The author argued that whereas technical knowledge is universal in its geographical coverage, market knowledge is location specific. McNaughton and Bell (2001) found that the channel used by small knowledge intensive companies in the domestic market is usually extended to their international markets. This synergy between domestic and international channel decisions was attributed to anticipated economies of scale, to similar characteristics between domestic and international products and to strategic momentum from the domestic market. Salomon and Shaver (2005) tested the interrelationships between export and domestic sales, hypothesizing that they are determined simultaneously. Whilst domestic and export sales were found to be substitutes for Spanish foreign-owned firms, domestic and export sales were found to be complementary for smaller, Spanish-owned firms. Lu et al. (2014) found that domestic industrial and domestic regional diversification positively influences international diversification of Chinese listed firms. They demonstrated that the impact of domestic diversification is increased by top management team's international experiences, whereas top management team's political network weakens the effect of domestic diversification on international diversification of firms.

As far as early internationalization is concerned, early internationalizers are argued to possess learning advantages of newness, whereas older entrants are suggested to face learning liabilities (Autio, Sapienza, & Almeida, 2000; Sapienza et al., 2006; Zahra, Ireland, & Hitt, 2000). Late internationalizers therefore have to restructure their existing processes in order to learn and grow in new dynamic environments, such as international markets. However, their ability to change is hampered by cognitive, structural and positional patterns developed during domestic activities. In a similar vein, Blomstermo et al. (2004) proposed that prior domestic experience benefits the international knowledge development of early internationalizers but hinders the international knowledge development of late internationalizers.

Nadkarni and Perez (2007) and Nadkarni et al., 2011 furthermore clarified the synergies between domestic mindsets and initial international steps of large and established domestic firms that experienced environmental pressures to internationalize. Nadkarni and Perez (2007) contended that complex domestic mindsets of top managers developed through domestic resource diversity and domestic action complexity could assist firms to identify crucial differences between domestic and international markets, and leverage domestic resources in international markets. Accordingly, firms with complex domestic mindsets could better envisage the type and sources of critical international market information and could therefore acquire it more quickly and less costly. Nadkarni et al., 2011 also claimed that the match between domestic mindsets and international industry conditions maximizes early international performance. Depth and breadth of domestic mindsets were found to affect differently early international performance in global, multidomestic and transnational industries.

McDougall (1989) and McDougall, Oviatt, & Shrader (2003) suggested two separate firm behaviors and structures, namely domestic and international, after studying new venture firms that operated entirely in the domestic market (DNVs), and new venture firms that began to receive revenues from international markets (INVs). DNVs were associated with strategies of production expansion and customer specialization, and INVs were associated with strategies of broader market coverage through accessing numerous distribution channels and targeting diverse market segments. Prior technical experience of top management teams was negatively related to overseas activities, and the decision-makers of DNVs were mainly scientists with highly technical backgrounds. Indeed, technical entrepreneurs are mainly interested in product and production development, and internationalization may occur as a result of these activities; whereas marketing entrepreneurs are more proactive in internationalization (Andersson, 1990).