MARKET ENTRY STRATEGIES:
EFFECTS OF INTRAFIRM NETWORKS AND INTERNATIONALIZATION STAGE

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Abstract

Structural economic disincentives to international trade are disappearing rapidly. The passage of NAFTA in North America, the successful conclusion of the GATT talks, and the breakup of the former Soviet Union have signaled unprecedented opportunity in foreign markets. However, many firms, pre-occupied with domestic markets, have typically engaged in low-involvement, "arms-length" modes of foreign market entry with foreign distributors or other types of international middlemen. To capitalize on global opportunities, firms are finding it necessary to move beyond arms-length modes and develop explicit strategies for foreign market entry. Importantly, developing these strategies requires high-involvement on the part of the exporter and demands "partnering" relationships with foreign middlemen.

In this paper, an exporting firm's level, or stage, of internationalization is shown to antecede its ability to engage in the highly-relational partnering necessary to develop and implement successful market entry strategies. The authors integrate the two leading theories of internationalization—the Uppsala school and the Innovation-Related school—in demonstrating that the firm's internationalization stage is dependent on the diffusion of export knowledge and commitment within the firm. This intrafirm diffusion is shown to be accomplished through the diffusion of export knowledge and commitment among the firm's network of relevant functional managers.

The authors conceptualize this intrafirm network of functional managers as the Export Decision Center (EDC)—those individuals whose job roles impact the firm's international business strategy and tactics—analagous to the concept of the Buying Center in the Business-to-Business literature. For example, a typical firm's EDC might consist of the CEO, the Marketing VP, the Export Manager (occupying the firm's boundary-spanning role), the Sales VP, the Production VP, and the Finance VP. Each member of this network is influenced by the demands of his or her job role. Role demands are shown to impede the diffusion process for export knowledge and commitment, thereby lowering the firm's achieved level of internationalization. Thus, for each member of the intrafirm network, job role demands are often at odds with the firm's ability to develop successful strategies for foreign market entry.
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Introduction

Structural economic disincentives to international trade are disappearing rapidly. The passage of NAFTA in North America, the successful conclusion of the GATT talks, and the breakup of the former Soviet Union have signaled unprecedented opportunity in foreign markets. Yet many firms historically have been pre-occupied with domestic markets and have exported mainly through low-involvement modes of foreign market entry with foreign distributors or other types of international middlemen (Root 1987). Consequently, CEOs interested in capitalizing on foreign market opportunities are finding that their ability to develop more effective foreign market entry strategies is limited by their current "arms-length" relationship with foreign trading partners. Historical price-mediated export market relationships make it difficult for firms suddenly to "partner" or otherwise develop the closer ties necessary to successfully conceptualize and execute appropriate new foreign market entry strategies.

In this article, an export firm's level of internationalization is shown to antecede its ability to engage in relational partnering with foreign distributors and other types of international middlemen. The authors specify ways in which senior executives can raise their firm's level of internationalization, enhancing its ability to effectively develop and implement foreign market entry strategies for their exported brands. To accomplish this, the article notes that: (1) effective market entry strategy choices depend on the degree of internationalization of the exporter; (2) internationalization, in turn, is determined by the diffusion of export knowledge and commitment throughout the firm; (3) the "firm", for this purpose, is shown to be the network of relevant individual functional managers (conceptualized as the Export Decision
Center); and (4) the diffusion of export knowledge and commitment among this intrafirm network faces barriers which must be surmounted.

Market Entry Strategy

A wide variety of foreign market entry strategies exist for the firm seeking to capitalize on global business opportunities. Jeannet and Hennessey (1992) delineate eight discrete options (plus a number of combinations they term layering) that Root (1987) reduces to three categories: indirect exporting (e.g., through export merchants, international trading companies, and domestically-based agents); direct exporting (through foreign-based agents or distributors); or establishing a direct ownership presence through sales offices or full vertical integration (establishing an entire business unit in the foreign market). Anderson and Coughlan (1987) note that vertical integration maintains ownership which "gives the entrant control over its international distribution channel" (p.71). Along with increased control, however, comes "responsibility, commitment, and attendant risks" (p.71; see also Ahmed 1977).

Root (1987) holds that the inexperienced international firm "is more concerned with minimizing international market and political risks than with maximizing control over international marketing operations" (p.53). In particular, Root insists "direct investment should be made only after a company has an intimate understanding of the investment climate, the market, competition, and production in the target country" (p.54). Export intermediaries possess strong local market knowledge, crucial contacts with foreign buyers, and the ability to provide sophisticated marketing services (Clasen 1991). Therefore, Root (1987) argues, arms-length exporting arrangements through intermediaries serve as an international learning experience enabling the firm "to obtain knowledge about foreign markets and its ability to compete in them" (p.53), which leads the firm to greater international sophistication and commitment. Thus, the ability of the firm to adopt more relational, aggressive market entry strategies depends on the
firm's knowledge of, and commitment to, doing business internationally. Knowledge and commitment also are at the heart of a related concept, internationalization theory.

Internationalization

Internationalization of the firm is defined by Welch and Luostarinen (1978, p. 36) as "the process of increasing involvement in international operations." As a firm increases its level of internationalization, it moves through "a typical progression of stages: initially a manufacturer ignores foreign orders, then limited exporting is conducted, followed by more active export efforts, and finally foreign and domestic activities merge into a single business strategy" (Bello and Verhage 1989, p.68). Internationalization theories identify the underlying factors that account for the process and may be grouped into two basic camps: the Uppsala school and the Innovation-Related school (Andersen 1993), which are examined below.

The Uppsala Paradigm: Knowledge and Commitment

The Uppsala school (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Wiedersheim-Paul, Olson, and Welch 1978) posits that the mode of market entry and psychic distance of markets become more complex as a firm advances to higher stages of internationalization. The basic mechanism that explains how a firm moves through the progression of stages is proposed by Johanson and Vahlne (1977, 1990). Increased internationalization is propelled by two critical factors: managerial commitment to exporting and knowledge about foreign markets and operations. That is, as a firm increases its international knowledge and commitment, foreign operations become increasingly important.

The authors further note that "a characteristic of the internationalization process model is that the firm is viewed as a loosely coupled system in which different actors in the firm have different interests and ideas concerning the development of the firm" (Johanson and Vahlne 1990, p.12). Managers of a firm with a low level of internationalization tend to be uncommitted
to exporting. A lack of commitment could be manifested by an unwillingness to invest design and production resources to customize products for export markets as well as an inflexibility in extending lengthy credit terms to foreign buyers in their own currency. Similarly, such a firm would have little foreign market knowledge. Managers in production, finance, and marketing would have little information about business conditions and operations in foreign countries. In contrast, managers in the highly internationalized firm are committed to exporting as an integral part of business strategy. Functional managers would have in-depth knowledge of overseas business requirements and a cause-effect understanding of how foreign marketing activities and processes lead to increased export sales.

The Innovation-Related Paradigm: Exporting as Innovation

The Innovation-Related paradigm of internationalization (Bilkey and Tesar 1978; Cavusgil 1980; Reid 1981; Czinkota 1982) holds that internationalization is a gradual learning process, whereby the firm adopts exporting as an innovation for the organization (Andersen 1993). Based on Rogers' (1962) work on diffusion of innovation, these are also stage theories. As an example of the genre, Reid (1981) posits that the export expansion process occurs in five stages: export awareness, export intention, export trial, export evaluation, and export acceptance. The awareness stage is a problem or opportunity awareness stage; the intention stage is a motivation stage that "involves motivational and attitudinal factors which affect expectations as to the results of foreign involvement and more specifically what type of entry is likely to be considered" (p. 102). He continues: "The trial stage represents an exporting response to foreign orders or the initial stages of export engagement" (p.102). The evaluation stage is an evaluation of the results of the exporting trial versus expectations or goals such as profitability, sales targets, or sales stability. If the evaluation is positive, the organization is likely to continue exporting activities.
Consistent positive evaluations will lead to the adoption stage, where the firm "decides to continue the full use of the innovation" (Hisrich and Peters 1991, p.287).

This paradigm squares nicely with Rogers' (1962) typology of innovation adoption: awareness, interest, evaluation, trial, and adoption. Rogers' first two stages correspond to Reid's (1981) awareness stage; Rogers' evaluation stage—in which the potential adopter mentally applies the innovation to present and anticipated future situations and then decides whether to try it (Hisrich and Peters 1991)—is analogous to Reid's intention stage. Rogers' trial stage subsumes Reid's trial and evaluation (of trial) stages, while the adoption stages are identical. Yet, there are barriers to the adoption of the exporting "innovation." As Hisrich and Peters (1991) note: "The movement through stages in the adoption process seems to depend on two important variables: need and risk" (p.288).

Theoretical Integration: Diffusion Of Knowledge And Commitment

The Uppsala school of internationalization suggests that firms gain knowledge about and commitment to exporting. The Innovation-Related school holds that exporting is an innovation that is adopted by the firm. In terms of emphasis, the models conceive of internationalization as largely a firm-level phenomena. Yet, how do firms "do" anything? After all, firms are not monolithic entities with wills of their own, they are collections of individuals (e.g., Blau 1987). Incorporating the manager-level nature of internationalization is straightforward for the Innovation-Related paradigm. Replacing a single-actor company with numerous individual actors in a social system (the firm) yields a more complex, but more accurate, conceptualization. Rather than the firm as a whole adopting the innovation of exporting, the innovation is diffused throughout the individuals within the firm, where "the diffusion process is the aggregate of all individual adoptions over time" (Hisrich and Peters 1991, p. 282). Moreover, what drives the organization-wide diffusion of this "exporting" innovation? Referring again to Reid's (1981)
paradigm, it is clear that the adoption of exporting is dependent on knowledge and commitment—the trial stage generates knowledge about exporting; positive evaluations build commitment to exporting and lead to its adoption. Thus, the authors submit that the two paradigms of internationalization are complementary, not competing views; both relying on a foundation of diffusion of export knowledge and commitment cross-departmentally among many individual decision-makers.

How Firms Internationalize

It is argued that a high degree of internationalization in an exporting firm is crucial to the success of relational partnering strategies; in fact, it is a necessary (though not sufficient) condition. However, as Welch and Luostarinen (1988) show, increasing a firm's level or degree of internationalization is a complex task for senior management. Internationalization is a multi-dimensional construct, and increasing the firm's degree of internationalization requires overcoming structural, intrafirm barriers to the diffusion of knowledge and commitment.

Dimensions of Internationalization

Welch and Luostarinen (1988) have proposed a four-dimensional model of internationalization. The first dimension deals with the sales objects (e.g., goods, services, systems, expertise) that the firm sells abroad. They posit that "as a company increases its involvement in international operations there is also a tendency for its offering to foreign markets to deepen and diversify" (p.40). The second dimension is "how" the firm will enter foreign markets; that is, its international channel structure. Initially, the firm exports through independent middlemen; at the opposite end of this dimension, the company vertically integrates through wholly-owned sales and manufacturing subsidiaries.

The third dimension is the "where" dimension referring to the target countries the firm selects. Wiedersheim-Paul, Olson, and Welch (1978) found that firms tend to first approach
markets of less psychological distance. That is, the entered markets are more familiar culturally, appear simpler to operate within, and are less costly to enter. The final dimension, organizational capacity, may be thought of as a measure of the firm's ability to generate the resources necessary to pursue and successfully manage increased internationalization. Welch and Luostarinen (1988) postulate a number of aspects of the organizational capacity dimension, but delineate three--finance, personnel, and organizational structure--as a core minimum.

This dimension is the cornerstone of their model. As Welch and Luostarinen (1988) note: "the first three dimensions concentrate on the components of actual foreign market activity. Such an approach leaves aside the variety of internal company changes which are consequent upon, and therefore reflect, the degree of internationalization but also form the foundation for additional steps forward in the overall process" (p.41). The greatest internal company change is that the "key players" within the company (i.e., those individuals that either hold authority/influence within the firm or are affected by export decisions) must agree regarding the wisdom of internationalization. Importantly, the multi-dimensionality of the model requires that this consensus (driven by an increase in export knowledge and commitment) must range cross-departmentally among a number of people.

The Intrafirm Network

As companies attempt more complex forms of exporting in terms of the product, channels, or market distance dimensions of the Welch and Luostarinen (1988) model, more departments within the company (and more managers within these departments) have a role in planning and executing the firm's international business functions. These managers interact increasingly to establish and execute the firm's international business strategy and tactics. Thus, this group of managers may be conceptualized as a network, which lends itself to role theory analysis.
Role Theory

As Tosi (1966) notes, an organization is composed of a system of interrelated role positions, where each position is an individual who performs different roles. "Positions contribute some value that the society (or group) considers to be necessary and desirable. Each position in a system is thus related to other positions and in some way to the purpose of the entire system" (Tosi 1966, p.516). Moreover, he continues, "Each position is associated with roles that are necessary and integral parts of the position system" (p.517). Rizzo, House, and Lirtzman (1970) amplify further: "A role is most typically defined as a set of expectations about behavior for a position in a social structure. Expectations define behavioral requirements or limits ascribed to the role by the focal person filling that position, or by others who relate to the role or simply have notions it" (p.155).

The environment in which roles are defined and norms are invoked is termed the role set. Jackson and Sciglimpaglia (1974) provide a concrete analogy that also serves as a cogent model of a network: "A role set can be thought of as a large net in which each office is represented by a knot. If one were to pick up any one knot, it would be easy to see the offices that are attached directly to the one being held" (p. 72).

The Export Decision Center

The Export Decision Center (EDC) may be conceptualized as the role set, or network, within the company that is involved in decision making for a particular export channel relationship (see Figure 1). The EDC is analogous to the concept of the buying center, found in another highly relational environment, industrial buying behavior (cf. Johnston and Bonoma 1981). Figure 1 illustrates the network-like features of an EDC for a firm at an advanced level of internationalization whose export activities impact six upper-level managers: the CEO; the Vice Presidents of marketing, sales, productions, and finance; and the export manager.
The paths in the figure represent communication episodes between the role occupants that deal with exporting and foreign market entry issues. Most of the roles are shown to communicate with each other, reflecting the relatively high level of internationalization achieved by the firm. A defining characteristic of greater internationalization is the tendency for role occupants to initiate, receive, and respond to communications from others regarding exporting issues. Thus, the EDC for a highly internationalized firm is a network of roles highly interconnected with export-oriented communications.

In terms of the Figure 1 illustration, the CEO is directly attached to each of the other positions. The export manager occupies a boundary-spanning position, which Adams (1976) defines as being "at organization boundaries for the purpose of effecting transactions with the environment" (p.1176). Thus, the VP of marketing, the VP of sales, and the export manager are postulated to enjoy strong linkages since it is the role of marketing and sales to support whatever export sales are made—transactions that are effected through the conduit of the export manager.

In addition, the VP of marketing and VP of sales are likely to experience linkages with the VP of production—whose cooperation is essential to offering export products that foreign customers want when they want them—and the VP of finance—whose input into foreign pricing and oversight of expenses, for example—impact the sales and marketing functions. Moreover, the VPs of finance and production, share a strong linkage as each helps determine the success of the other position. As examples, the VP of finance approves the acquisition of a crucial new piece of equipment needed by the VP of production to modify products for export markets, and the VP of production skillfully schedules labor and manages production runs in order to deliver cost-savings for the finance VP’s budget.
Thus, to summarize, the CEO and the VPs of marketing and sales are directly connected to each member of the EDC; the export manager is attached only to these three positions; and the finance and production VPs are attached to each member of the EDC except the export manager—an omission that can cause problems for this firm in achieving still higher levels of internationalization (see Barriers to Diffusion, below).

In terms of a firm that is not very internationalized, Figure 2 depicts an EDC network that depicts the situation facing the CEO who desires to prod a largely domestic firm—one that has exported as an afterthought, and has done so through arms-length transactions with foreign middlemen—into capitalizing on unprecedented international business opportunities. The CEO's ability to guide the firm through developing, evaluating, choosing, and effectively executing foreign market entry strategies is a consequence of how well these managers resolve complex intrafirm issues; this, in turn, depends upon the level of export knowledge and commitment possessed by these functional managers. The levels of knowledge and commitment attributed to the various managers in the Figure 2 EDC are what we would expect in an initial state—that is, where management has been focused primarily on the domestic market and has just begun to consider the potential rewards of increased involvement in foreign market opportunities. Role occupants tend not to communicate with each other about export issues since their low knowledge and commitment minimize tendencies to initiate, receive and respond to export-related communications.

Barriers to Diffusion

The rate of diffusion of knowledge and commitment varies across firms because some managers resist "adopting" exporting as a business activity. As more managers in more roles become involved in export issues, resistance towards the changes required by exporting becomes more likely. Anderson and Chambers (1985, p.8) offer an explanation for such resistance by
noting: "Organizational members are induced to contribute toward the attainment of organizational objectives because they receive rewards for doing so." They propose a reward/measurement model that consists of two submodels: one that deals with the reward-based motivation of individuals and the other that delves into the processes of group interaction and consensus formation.

In the Figure 2 example EDC, executives vary in their levels of export knowledge and commitment. The production VP’s role prescriptions and accompanying reward system have been established for many years in the face of purely domestic market demands (e.g., bonuses based on reducing unit costs through long lead-time, large production runs of highly standardized products), and provide a strong disincentive to this VP to accept more aggressive exporting strategies. Such a strategy may require shorter production runs of partially customized products on more flexible timing—requirements that may run counter to the way the production VP’s job performance is measured and rewarded. Similarly, an opportunistically inclined strategy may require extended payment terms and fast credit approvals for foreign end-users, while the finance VP’s performance may be measured and rewarded based on his or her ability to minimize working capital costs and risks.

Additionally, Rizzo et al. (1970) suggest that behavioral requirements and limits accruing to a role are based on expectations, which are "conditioned by general experience and knowledge, values, perceptions, and specific experience" (p.155). Indeed, Rizzo et al. (1970) conclude, "they serve as standards for evaluating the worth or appropriateness of behavior, and they tend to condition or determine such behavior" (p.155). In both examples, this results in high role conflict, which Rizzo et al. (1970, p.155) define "in terms of the dimensions of congruency-incongruency or compatibility-incompatibility in the requirements of the role, where
Congruency or compatibility is judged relative to a set of standards or conditions which impinge upon role performance."

Moreover, note that one of the champions of increased internationalization is the export manager. Even if this individual occupies the same hierarchical stratum within the firm as the functional VPs, his or her recommendations may be viewed with suspicion simply because they come from a boundary-spanning position. Adams (1976) maintains that boundary-spanning positions have unique properties that leave them open to suspicion or mistrust from those positions further inside the firm’s boundaries: (1) occupants of boundary-spanning positions are "more distant psychologically, organizationally, and often physically" (p.1176) from other members of the firm than they are from each other; (2) he or she is closer to the environment and boundary-spanners from other organizations; and (3) the boundary-spanner is the conduit between the organization and the external environment. The first property results in lack of knowledge, and, thus confidence, about the boundary-spanner's ability to meet the role expectations that other, more interior positions have. The second property raises fears that the boundary-spanner may "go native," "turn traitor," or otherwise identify more with the interests and needs of external organizations than with his or her own firm's interests and needs. Finally, if the boundary-spanner is the primary conduit to the firm's new focus, intrafirm power may flow to the boundary-spanner, perhaps triggering efforts by "threatened" internal positions to protect their turf—a problem exacerbated by the lack of knowledge and trust caused by the first two properties. Thus, there may be systemic barriers to the diffusion of knowledge and commitment towards the necessary changes in business practices performed by these key executives.

Moreover, Bonoma (1985) argues that there are structural intrafirm barriers to diffusion. He argues that for new business strategies like exporting "execution takes place at four structural
levels in the firm: actions, programs, systems, and policies" (p. 22). Execution against a goal (in this instance, internationalization, which stems from the diffusion of knowledge about and commitment to exporting throughout the EDC) can fail at each level. At the action level, failure occurs when "Management asks its subfunctions to do things for which they were not designed, and which they cannot deliver without massive amounts of preparation, rethinking, and perhaps reorganization" (Bonoma 1985, p. 56).

Program failures can occur when a CEO simply declares that the firm will embark upon an aggressive export program. Bonoma (1985) notes this program can be an "empty promise" of support "because declaring marketing programs is easily done, whether or not management has in place the low-level marketing structures to execute such programs or the high-level resolve to consummate them" (p. 63, emphasis in the original). Similarly, a firm's reward/measurement systems, as discussed previously, and its broad policies (e.g., corporate culture stressing the domestic market) may hinder the diffusion of export knowledge and commitment. Thus, a CEO who wishes to internationalize his or her firm faces a highly complex task.

Implications

The primary implication for senior executives who want to aggressively pursue international opportunities is that they must first increase the degree of internationalization of their own firms. This is accomplished by increasing the knowledge of and commitment to exporting (the "innovation") and diffusing it throughout the Export Decision Center.

Drawing on the work of Rogers (1962), Hisrich and Peters (1991) note: "The perceived attributes or characteristics of the innovation may regulate the rate at which diffusion occurs. These characteristics are relative advantage, compatibility, complexity, divisibility, and communicability" (p. 288). Relative advantage is the degree to which an innovation is superior
to what it supersedes, though Hisrich and Peters (1991, p, 288) caution: "It should be emphasized, however, that the relative advantage of an innovation depends extensively on the perception of the members of a given social system."

Hisrich and Peters (1991) categorize the other characteristics as follows: compatibility is the degree to which the innovation is consistent with existing values and experiences of the target audience, the EDC; complexity is the degree of difficulty in understanding or using an innovation, divisibility is the degree to which a new product may be tried on a limited basis; and communicability is the degree to which information regarding a new product may be easily communicated to other people (in the EDC). Therefore, implementing a program to diffuse knowledge of and commitment to exporting throughout the EDC, and, thus, increasing the internationalization of the firm, requires three steps:

1. **Remove the negatives**—begin changing the basis on which EDC members are rewarded (Anderson and Chambers 1985) and begin changing policies, systems, and programs (Bonoma 1985) to eliminate disincentives to the diffusion of knowledge of and commitment to exporting.

2. **Internal marketing**—"Sell" the benefits of doing business internationally. Effective internal marketing requires developing a cogent statement of the benefits to the firm (and members of the EDC) from exporting. This increases the communicability, reduces the complexity, and allows the strongest presentation of the relative advantage of exporting, which aids diffusion. Additionally, increased communications between other members of the EDC network and the boundary-spanner should increase knowledge about, and comfort with, the occupant of that position, calming fears of other members of the EDC and reinforcing their expectations of the boundary-spanning role.
3. Implement the positives—institute policies, systems, and programs (Bonomo 1985) and new reward structures (Anderson and Chambers 1985) consistent with providing positive incentive to the Export Decision Center to internalize knowledge of and commitment to exporting.

This three-step process will serve to engender consensus (Anderson and Chambers 1985) and will increase the rate at which export knowledge and commitment may be diffused cross-departmentally among the different individuals comprising the EDC. This leads to a more highly internationalized firm that possesses greater flexibility in conceptualizing, selecting, and implementing aggressive new market entry strategies to capitalize on burgeoning international opportunities.

Future research should empirically examine the proposed linkage among market entry strategies, internationalization, and knowledge/commitment. Additionally, it would be worthwhile to develop a richer network conceptualization of the EDC—perhaps exploring the interactions between members on both qualitative and quantitative bases (cf. Iacobucci and Hopkins 1992), or through studying the composition of EDCs across firm sizes, industries, and countries.
FIGURE 1

EXPORT DECISION CENTER
An Advanced Internationalized Firm
FIGURE 2
EXPORT DECISION CENTER
An Initial State Internationlized Firm

NOTE: $K$ is the manager's level of knowledge about export markets and $C$ is his/her level of commitment toward exporting.
REFERENCES


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