Customer-embedded opportunities in entering complex foreign markets

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ABSTRACT [Italian, English]

Questo studio mira a contribuire alla letteratura esistente sulla creazione di opportunità e sull'internazionalizzazione delle imprese imprenditoriali, affrontando il caso dell’entrata in mercati complessi – considerato come lo scenario relativo all’internazionalizzazione in mercati incerti. L’analisi empirica consiste in un caso di studio multiplo di 10 piccole medie imprese italiane. I risultati dimostrano che le decisioni in tale contesto sono guidate dalla presenza di clienti omogenei nei mercati di riferimento, nonché dalle possibilità di apprendimento dagli ambienti esterni. Questo studio dimostra che l’entrata in mercati complessi migliora la performance internazionale delle piccole e medie imprese durante le prime fasi del processo di internazionalizzazione.

This study aims to contribute to the existing literature on opportunity creation and enactment in the process of internationalization of entrepreneurial firms, by addressing the case of entering complex markets - conceived here as a scenario of internationalization towards uncertain markets. The empirical work consists of a multiple case study of 10 Italian small and medium sized enterprises (SMEs). First, we find that opportunity creation and enactment in entering foreign environments is embedded in customers: market entry decisions are driven by the availability of homogeneous customers in the target markets. Second, both pre-internationalizes and already internationalized firms all share the availability of one type of learning from the external environment in guiding their entry decisions in prospective markets that we define as “customer oriented” learning. The paper further contributes to the international business literature by arguing that entering a complex market enhances the overall international performance of the firm and that SMEs entering one or more complex markets during the first stages of their internationalization process upgrade their general knowledge and develop competencies in managing complexity that can be transferred to other (complex) markets.

Keywords: Opportunity, Internationalization, SMEs, Foreign Market Entry

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1– Introduction

In this study, we investigate how smaller firms create and enact opportunities in entering foreign markets, which are
characterized by high degrees of uncertainty, here represented by the entry into so-called complex markets (Zucchella & Servais, 2012). The ability of firms to create opportunities is constrained by the context in which they operate because they have to face the liability of foreignness (Zaheer, 1995) and the liability of outsidership (Johanson & Vahlne, 2009). Since the early process studies in International Business (IB), it is argued that uncertainty and risk determine the internationalization behaviour of firms in foreign markets (Johanson & Vahlne, 1977).

At the same time, these studies argue that interaction with foreign counterparts (Wiedersheim-Paul, Olson, & Welch, 1978) and, later, embeddedness in networks (Johanson & Vahlne, 2009) are sources of opportunities. Markets peculiarities thus pose threats in the form of uncertainty, but also reveal opportunities. This is also argued by Scholars in the recently born field of Strategic Entrepreneurship (SE) (Hitt, Ireland, Camp, & Sexton, 2001) as well as in International Entrepreneurship (IE) studies (Sarasvathy, Dew, Velamuri, & Venkataraman, 2003) where the so-called “context embeddedness approach to international opportunities” assumes firms entering new markets through creating opportunities (Mainela, Puhakka, & Servais, 2014), as the means to overcoming the inherent liabilities of foreignness and outsidership. In these studies, opportunity creation is a “continuous process and a flexible activity of creating meaning, sense-making and sense-giving in a social context” and is “actualized through enactment by means of human imagination and social interaction” (ibid, p. 108). In the creation process of opportunities, the source of competitive imperfection is represented by enacted opportunities formed endogenously by entrepreneurs seeking to exploit them (Alvarez, Barney, & Anderson, 2013).

It has to be noted that the view of opportunity creation implies that the internationalization process may not follow linear paths, rather it may be characterized by discontinuities and breakthroughs because entry decisions are driven more by the mentioned flexible activity of creating opportunities (Ellis, 2006) rather than by minimizing the costs of overcoming distance through experiential learning and incremental internationalization from “more similar” to “less similar” markets, as advocated by classical IB process studies.

The extant study has therefore foundation in the stream of literature contending that the internationalization process can be non-linear/irregular/non-incremental because of the presence of different degrees of uncertainty – and not only risk -1 that characterize markets (Vissak & Francioni, 2013) and that at the same time may reveal opportunities, as advocated by the mentioned IE “context embeddedness approach to opportunities”. At least part of a firm’s international location decisions has to be conceived as undertaken in the realm of uncertainty because decision makers have to confront with foreign markets specificities that in our view are often (i) neither completely predictable, (ii) nor classifiable in homogeneous groupings by way of analogy to previous market experience.

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1Leveraging the seminal distinction of the two constructs made by Knight (1921), (a) risk corresponds to those situations where the decision maker is able to draw the distributions of the outcomes of a group of events, but perhaps is able to group such instances thanks to the fact that they share traits of similarity, or because historical data are enough to predict future events. While (b) uncertainty is attributable to situations where past data are not useful for predicting the distribution of future outcomes, neither instances are easily classifiable too.
In the face of *Knightian uncertainty* (Knight, 1921), opportunities are created through an evolutionary enactment process: entrepreneurs rarely have enough information to know the alternative outcomes associated with their decisions and the probability of those different outcomes (Alvarez et al., 2013).

In this paper a specific case of SMEs international growth in the realm of uncertainty is addressed as particularly appropriate to investigate creation and enactment of entrepreneurial opportunities across national borders in the realm of uncertainty, that is represented by the entry in complex foreign markets, building on the recent literature on this topic (Zucchella, 2010; Zucchella & Servais, 2012). *Market complexity* typically refers to a set of dimensions faced by firms in their process of internationalization, including psychic distance, institutional distance, cultural distance and also subsets of the foreign market heterogeneity and volatility, competitive conditions, and channels to access market opportunities (e.g. distribution channels, business networks) (ibid).

Successful entry into (complex) foreign markets still remains a challenge for smaller firms (Laufs & Schwens, 2014), as these ventures are highly sensitive to external challenges and uncertainties (Schwens, Eiche, & Kabst, 2011) and thus exposed to the liability of foreignness or newness (Zaheer, 1995). At the same time, entrepreneurial behaviour – in both young and established firms – enable them to create and enact opportunities.

Despite an agreement around the fact that in the face of Knightian uncertainty, opportunities are created and enacted, relatively little is known about how entrepreneurial firms create and enact opportunities in approaching foreign environments characterized by uncertainty. The primary objective of the field work was to identify how opportunities are created and enacted in entering foreign markets characterized by high degrees of uncertainty, in relationship with firm’s learning. The setting is represented by firms’ entry in complex markets through an exploratory study of 10 Italian SMEs. The sample contains both established - already internationalized firms, and novice internationalizers, as we assume that firms in these three stages of growth face incomplete information and uncertainty when approaching complex markets. We draw special attention to the pre-internationalization phase, about which a number of previous studies have highlighted the importance (Tan, Brewer, & Liesch, 2007; Wiedersheim-Paul et al., 1978).

We contribute to the IB literature by empirically exploring how smaller firm create and enact opportunities when entering markets characterized by high degrees of uncertainty. We find that entry decisions of both novice internationalizers and pre-international firms are driven by the availability of homogeneous customers in the target country.

Second, we find that entering a complex market enhances the international performance of the firm, in terms of longevity and commitment.

This study follows a process view in that (i) first, analyzes the pre-entry phase assessing firms’ perceptions about the dimensions of complexity; (ii) second, analyzes the learning type supporting the entry in complex markets – of both already internationalized and pre-international firms; and (iii) third, examines the effects of entering a complex market on the international performance of the firm and on its stock of knowledge.

The remainder of this paper is organized as follows. We begin by discussing our theoretical framework. We continue by presenting our methods of analysis and by discussing the key findings arising from our case studies, and the implications for research. We conclude the paper by identifying the limitations of the study and the directions for further research.
2 – Theoretical framework: Uncertainty and opportunities in the internationalization process

We commit to the epistemological approach of *evolutionary realism* (Azevedo, 1997; McKelvey, 1999) according to which agents socially construct their reality but at the same time test the veracity of those social constructions against objective reality (Alvarez et al., 2013). In their review of the concept of international opportunity in IE, Mainela and colleagues (Mainela et al., 2014) identify an emerging stream of research which emphasizes the socially constructed nature of international opportunities, “context-embedded” and dynamically enacted in a continually changing environment. Thus, we take the stance of “opportunity creation” where opportunities are then “enacted opportunities formed endogenously by entrepreneurs seeking to exploit them” (ibid., p. 35).

Opportunities are created in the sense that they are not objectively existent in the external environment, but they are endogenously formed by entrepreneurial action (Alvarez et al., 2013). As the opportunity emerges more clearly in its features, the result in an accumulation of artefacts, tools, practices, rules relevant to exploit the opportunity itself, through a process of enactment (Weick, 1979). This is particularly evident for entrepreneurial internationally growing firms which have a proactive attitude toward opportunities (Dimitratos, Plakoyiannaki, Pitsoulaki, & Tüselmann, 2010).

The process of creating and enacting opportunities is embedded in a world made of Knightian uncertainty where supply and demand does not exist (Sarasvathy et al., 2003), where knowledge is not yet formed and decision making is “incremental, inductive and intuitive” (Alvarez et al., 2013). It has to be stressed that committing to this perspective does not mean to disregard the role of prior knowledge: the ability of an actor to interpret the environment and thus to enact it creating new opportunities is implicitly influenced by her/his prior experiences. Learning in this sense does not only involve acquiring information about the environment, but it coevolves with understanding about the way to exploit the opportunity in terms of resource and network interactions (Baker & Nelson, 2005; S. Sarasvathy, 2001). The process of enacting opportunities is thus a proactive process based on the interaction with partners and customers (Mainela et al., 2014).

According to the behavioural stream of IB (Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975) the decision of entering new markets - and thus the level of commitment - is affected by a decreasing level of perceived uncertainty and it is a linear process. The Uppsala School and the stage models theorize that uncertainty is reduced through incremental (market and general) experiential learning and commitment (Johanson & Vahlne, 1977)

According to this “linear” perspective of internationalization, firms internationalize from closer, more similar (in terms of psychic distance) countries to farer and less similar ones (Chetty & Campbell-Hunt, 2004; Davidson, 1983; Erramilli & Rao, 1990; Stöttinger & Schlegelmilch, 1998), or less “familiar” ones (Bell, 1995; Dunning, 2004; Pedersen & Petersen, 2004).

At the same time, Johanson & Vahlne (1977) themselves were among the first to acknowledge the presence of lacks in their theory, arguing that if market conditions are very unstable, experience cannot be expected to lead to decreased uncertainty. Indeed (Knightian)
uncertainty is as a situation in which past experience cannot support the decision maker (Knight, 1921; Rakow & Newell, 2010). Prior knowledge influence opportunity identification, development and exploitation (Chandra, Styles, & Wilkinson, 2009; Shane, 2000), but at the same time “if experiential knowledge is critical for international market opportunities and for regulating the firm’s commitments to international markets, then how do firms transition from the situation where their experience is domestic and international opportunities remain hypothetical?” (Michailova & Wilson, 2008).

In the network version of the Uppsala model, “insidership” in relevant networks has been argued as a major source for developing opportunities through network relationships and interconnections (Johanson & Vahlne, 2009) where opportunity development is an interactive process characterized by increasing learning and commitment of an opportunity where trust between the parties involved in the relationship intensifies and reinforces both learning and trust (ibid).

Opposite to the “market similarity approach”, entry decisions were found to be driven more by market opportunities than by minimizing the costs of overcoming distance (Ellis, 2006). This is consistent with the entrepreneurship view on internationalization which sees it as a process of opportunity identification, development and exploitation across national borders (Shane & Venkataraman, 2000). “Opportunity identification, the means to market recognition, capture and advantage, is entrepreneurship-in-action and is behavioural” (Muzychenko & Liesch, 2015).

Similarly, IE studies pose international entrepreneurship as “the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services” (B. Oviatt & McDougall, 2005). New entry into international markets has been discussed as an inherently entrepreneurial act (Covin & Miller, 2014). Behaviour is the central and essential element in the entrepreneurial process and that actions and decisions are what make it entrepreneurial (Covin & Slevin, 1991). Entrepreneurial behaviour is manifested both newly born firms where entrepreneurs perceive international opportunities from the first day they start their business (Oviatt & McDougall, 1994; Zacharakis, 1997) but also in established organizations (Shane & Venkataraman, 2000). In this latter case, the decision to approach foreign markets is one of the possible expressions of entrepreneurship: foreign markets involve a liability of foreignness with uncertainty to cope with and at the same time disclose a wider range of opportunities. Opportunities are provided by recognition or enactment processes in foreign markets or may be the result of knowledge transfer from different locations and its recombination inside the organisation, given the existence of combinative capabilities (Filatotchev, Liu, Buck, & Wright, 2009; Kogut & Zander, 1993).

2.1 – The case of SMEs entering complex markets

The process of internationalization of small and medium sized enterprises is often described in the IE literature as more innovative and entrepreneurial, and market entry is seen as an innovative and entrepreneurial act (Chandra, Styles, & Wilkinson, 2012; Jones & Covjello, 2005) that may not necessarily follow linear paths. We frame the analysis of SMEs entering complex markets as a case ascribable to those recent IB studies acknowledging the possibility of non-linear internationalization processes because of the presence of different degrees of uncertainty that characterize markets (Vissak & Francioni, 2013) that can, at the same time,
reveal opportunities. The case of the entry in complex markets is here conceived as a process undertaken in the realm of Knightian uncertainty, and thus ascribable to a process of irregular/non-incremental behaviour of firms (Hadjikhani, Hadjikhani, & Thilenius, 2014). This context further represents a particularly fruitful context of analysis as complex markets represent simultaneously a challenge for SMEs (as sources of costs coming from bearing risk and uncertainties) and an opportunity because successful entry in a complex market could bring highly valuable resources of knowledge, consumers and international recognition. The uncertainty embedded in complex foreign contexts affects these firms’ ability to identify and enact opportunities, possibly through a process that is the result of bearing uncertainty (Butler, Doktor, & Lins, 2010).

Within SMEs opportunity creation is more specific to the firm and the owner-managers, but how they actually create and enact opportunities is not very well understood. Entrepreneurial opportunities can range from identifying the need for fundamental changes in how products or services are configured, to carrying out more incremental modifications to existing products and services.

Both young and established firms are observed in line with a strategic entrepreneurship perspective. The latter argues that the firm’s external environment influences its ability to discover and create opportunities (entrepreneurship), as well as the ability to exploit them in order to sustain the competitive advantage (strategic management) (Hitt et al., 2001; Ireland, Hitt, & Sirmon, 2003). As a consequence, the unit of analysis is not restricted to a focus on start-ups, but it also embraces established firms as these are the entities where – in a process perspective - we can observe how does competitive advantage is sustained over time.

3 – Methods

The research design is a multiple case, inductive study (Eisenhardt, 1989), classifiable as exploratory (Yin, 1994) with a process approach (Van de Ven & Engleman, 2004). The process approach is thought as appropriate as we investigate firm’s orientations and behaviors (Marshall & Rossman, 2014) to understand the dynamic and evolutionary processes (Kamakura, Ramón-Jerónimo, & Gravel, 2012) of opportunity creation in entering foreign uncertain markets. Because the goal is to identify commonalities among companies’ opportunity creation and enactment in entering complex markets, rather than analyze cross-sectional differences, the disadvantages of case study research in limiting the research sample is less critical (Allaire & Firsirotu, 1989).

Firms were selected purposefully (Patton, 2015) to include both start-ups in their pre-internationalization phase and established firms, in order to maximize theoretical variation (Eisenhardt, 1989). We assume that both novice internationalizers and established firms face uncertainty when their internationalization process entails entering complex markets.

Firms were selected on the basis of several purposeful criteria out of a own database of SMEs previously involved in a quantitative study: (i) first firms had to be SMEs [i.e. firms with fewer than 500 employees (Narula, 2004; Van de Vrande, De Jong, Vanhaverbeke, & De Rochemont, 2009)], (ii) their informants had to be key executives (either founders or CEO) in the internationalization process, (iii) they had to be available to be in-depth interviewed and willing to be followed up afterwards, (iii) the firms should not have public or government ownership to avoid biases due to public intervention aims in firms decision making processes (Chandra et al., 2012).
The number of cases is guided by theoretical sampling, meaning that we stop interviewing firms when we got no additional variation in the emerging patterns (Eisenhardt, 1989). The final sample consists of 10 manufacturing small and medium enterprises. In all cases the entrepreneur coincides with the manager in charge with the internationalization process (Table 1 summarizes the relevant information about the surveyed sample). The firms are mixed in terms of industry (traditional manufacturing, high, medium tech, and low tech), and in terms of age (the first three are more than 50 years old, two are 15 years old, and the last four are 1 or 2 years old).

<table>
<thead>
<tr>
<th>Firm</th>
<th>Size</th>
<th>Age</th>
<th>Nature of business</th>
<th>Turnover (in €) in 2015</th>
<th>Export intensity</th>
<th>Markets served and mode of entry (in order of entry)</th>
<th>Informants</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>300</td>
<td>60</td>
<td>Measuring &amp; controlling devices B2B</td>
<td>40.000.000</td>
<td>85%</td>
<td>1980 Russia and Switzerland Unsolicited export through network of personal relationships 1980 – 2000 France, Belgium, Spain UK, Ireland (Ex) Rest of US, EU, Canada, Mexico, Egypt, Turkey, India, China, Japan (Ex) Rest of US, EU, Canada, Mexico, Egypt, Turkey, India, China, Japan (Ex) Unsolicited export through network of representatives 2000 – 2013 alliances in France and Belgium WOS (Commercial) in USA, and Singapore. 2008 China: wholly owned commercial facility 2011 German official distributor for all German-speaking markets</td>
<td>CEO (funder’s heir)</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
<td>52</td>
<td>Knit outerwear mills B2B</td>
<td>3.000.000</td>
<td>30%</td>
<td>1985-1995 Japan, Hong Kong, US, Northern Europe Buyer, agents, intermediaries 2000 US, France Export through network of distributors</td>
<td>Funder</td>
</tr>
</tbody>
</table>
|   |   |   | Description of the case firms |   | 1950s: European countries  
Unsolicited export/Local distributors  
North, Centre, and South America  
1960s: Far East  
Unsolicited export/Local distributors  
1970s: Brazil (in temporal sequence):  
- subcontractors for large international groups  
- collaboration with the group Klein -subsidiary  
Late 1980s: China  
Subsidiary  
2000s: Germany, France, UK, Spain, US, India  
Subsidiary |
<table>
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</thead>
<tbody>
<tr>
<td>D</td>
<td>300</td>
<td>67</td>
<td>Cutting of flexible and semi-rigid materials B2B</td>
<td>70,000.00</td>
<td>80%</td>
</tr>
<tr>
<td>E</td>
<td>1</td>
<td>15</td>
<td>Household audio and video equipment B2C</td>
<td>428,000</td>
<td>50%</td>
</tr>
<tr>
<td>F</td>
<td>49</td>
<td>15</td>
<td>Food preparation, B2B and B2C</td>
<td>4,478,000</td>
<td>0%</td>
</tr>
<tr>
<td>G</td>
<td>5</td>
<td>1</td>
<td>Use of photonic technologies and laser light, by combining opto-electronic integration, miniaturization and cost-effectiveness B2B</td>
<td>5,000 + financing from European commission (ongoing)</td>
<td>0%</td>
</tr>
<tr>
<td>H</td>
<td>5+ a variable number of collaborators</td>
<td>2</td>
<td>Hi-tech clothing B2B and B2C</td>
<td>150,000 financing granted by the regional authority</td>
<td>0%</td>
</tr>
<tr>
<td>I</td>
<td>6+ a variable number of partners</td>
<td>10 months</td>
<td>Gifts and souvenirs B2C</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>J</td>
<td>10</td>
<td>2</td>
<td>Software for sports B2B</td>
<td>70,000</td>
<td>0%</td>
</tr>
</tbody>
</table>

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<th></th>
<th></th>
<th></th>
<th></th>
<th>CEO</th>
</tr>
</thead>
</table>
|   |   |   | 2012-2013: Canada, USA, Ita, Fra, Bel, Lux, Olanda, Germania, Romania  
Export through network of local distributors |
|   |   |   | 2002: Greece  
Partnership  
2013: Planned countries to enter: Russia, India  
Planned strategy: export through network of distributors |
|   |   |   | 2014: Planning to enter Germany, France and Czech Republic through contacting local distributors and establishing a long lasting relationship with them |
|   |   |   | 2013: Planning to enter Middle East and Finland through a network of local distributors |
|   |   |   | 2013: Planning to enter UK and US through setting up commercial subsidiaries |
|   |   |   | 2013: Planning to enter Italy and Poland |

Table 1 - Description of the case firms
3.1 – Data collection

Informants of every firm had been directly in-depth interviewed; each interview lasted on average one hour and a half. The primary objective of the field work was to identify how opportunities are created in entering foreign markets characterized by high degrees of uncertainty (i.e. complex markets), in relationship with the firm’s strategy and previous market experience. The set of questions used is designed as part of a wider research project undertaken about the internationalization of firms in uncertain environments. We first ask respondents to classify all potential complex markets – both past and future ones - highlighting for each one the perceived dimensions of complexity. Then we ask the market factors they focus on to select and enter those countries.

Since the entry into complex markets is by definition a process of events that occur over time, this study is longitudinal for the sub-sample of established mature, intensively internationalized firms (A, B, C, D): in these cases, the entry in complex markets was retrospectively built and took the form of asking the questions “What are the most complex markets you have approached in your process of internationalization? What are, for each of them, the most relevant dimensions of complexity?”. Throughout the interview, in order to minimize informant bias we put the informants “back in time”, and asked them to give a step-by-step chronology of events during country entry (Bingham & Eisenhardt, 2011). In order to minimize the retrospective bias, we follow the guidelines by (Huber & Power, 1985), i.e. we identify the person most knowledgeable about the issue of interest i.e. the CEO/funders; at the same time hence have a high emotional involvement, hence their ability to recall facts is greater. We combined both real time and retrospective data (Leonard-Barton, 1990) and we relied on the so-called courtroom procedure (Eisenhardt, 1989) asking informants to step through a timeline of specific behaviours, events, and facts to limit subject bias (Bingham & Eisenhardt, 2011).

For the pre-international firms (E, F, G, H, J), the investigation of the process of entering complex markets had the form of asking “What are the future internationalization plans? Which countries do they target? Could you mention what are the most relevant sources of complexity for each of them? The interviews were conducted in Italian and recorded. Within a day after interviews, they were transcribed and translated to English. Data were also collected from other sources – the firm’s homepage, annual reports and other documents – (1) for data triangulation (for instance, to confirm that certain events occurred in the years the interviewees thought they did) and (2) improving the understanding of the firm’s nonlinear internationalization process: for example, to get an overview of additional factors that could have affected its internationalization that the respondents did not remember or consider important enough during the interview (Leonard-Barton, 1990).

3.2 – Data analysis

To analyze and interpret the data, we follow the inductive theory building from multiple cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). First, we perform within case analysis and the cross-case analysis. For the sake of the former, individual case histories of the internationalization process of the four established firms pooling in-depth interviews, archival data and. We then create individual cases of pre-international firms based on intentions and plans to enter foreign markets. To perform within case analysis we follow the three phases
suggested by Miles and Huberman (Miles & Huberman, 1994): (1) data reduction (reducing and organizing the mass of qualitative data through coding, writing summaries and discarding irrelevant data); (2) data display (creating tables and charts to draw conclusions) and (3) the verification of the initial conclusions through field notes and further data collection. Within-case analysis is structured into three sections: (i) first we analyze the pre-complex market entry with firms’ perceptions of the dimensions of complexity; (ii) second, we analyze the market factors that are crucial to create opportunities in foreign market entry – of both already internationalized and pre-international firms; (iii) third we examine the effects of entering a complex market on the international performance of the firm and on its stock of knowledge. Second, cross-case analysis involved checking the emergence of similar macro-themes and constructs across multiple cases (Eisenhardt, 1989; M. B. Miles & Huberman, 1994)). A set of propositions were developed thanks to a back and forth analysis of case evidences and literature (systematic combining).

4 – Findings

4.1 – Pre-entry: Market complexity perception and framing

Respondents showed to have clear perceptions about the existence of complex markets for their business. Table 2 aggregates those markets respondents have addressed as being complex, and the corresponding dimension(s) of complexity. Relevant quotes are reported.

The role of distribution channels – acknowledged as one of the critical dimensions of complex markets (Zucchella, 2010) – has been recognized by many respondents both as a barrier and a strategic asset to cope with complexity. It is interesting to highlight how respondents of both E and J report Italy (i.e. the domestic market) to be particularly complex in terms of institutional setting, and ongoing societal evolution. Next to institutional and cultural distances – that still emerge as critical factors – demand heterogeneity and sophistication, competition, and difficulties in networking or partnering with local firms are other important dimensions of complexity identified by our respondents. Tan and colleagues (Tan et al., 2007) have described the pre-internationalization phase as a state that firms experience prior to their decision on initial foreign market commitment. Firms F, G, H, I, J in our sample have been interviewed at this stage of the internationalization process, hence the dimensions of complexity they have mentioned refer to those markets they were targeting and planning to approach in the near future. The dimensions of complexity mentioned by the pre-internationalized firms are often described as related to “cultural-gaps”, while already internationalized firms A, B, C, D, and E – that have entered markets and assessed the presence of actual complexities – describe those complexities in terms of sophistication of demand, difficulties in networking and partnering, inefficiency of distribution channels.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Market</th>
<th>Already approached</th>
<th>Plan to enter</th>
<th>Dimension(s) of complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Italy</td>
<td>X</td>
<td></td>
<td>“Unfavorable institutional environment (excessive bureaucracy; unfavorable tax policy and inefficient management of resources resulting in systematic waste, inefficient system of incentives)”</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
<td>X</td>
<td></td>
<td>“Language barriers, cultural gaps, difficulties in finding the right partners”</td>
</tr>
<tr>
<td></td>
<td>Country</td>
<td>X</td>
<td>Opportunity</td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>---</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>Every market</td>
<td></td>
<td>“Sophistication of demand”</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Japan</td>
<td></td>
<td>“Interaction with the other parties involved, communication barriers, sophistication of demand”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td></td>
<td>“Competitors are too strong because the industry is considered as “strategic” and is supported by the government”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>China</td>
<td></td>
<td>“Low prices”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>India</td>
<td></td>
<td>“Inefficient distribution channels and low prices”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>East Europe</td>
<td></td>
<td>“Inefficient distribution channels”</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>Far East, China</td>
<td>X</td>
<td>“Complex markets are those we contingently consider the most important and relevant”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Far East, China</td>
<td>X</td>
<td>“Language barriers, cultural gaps”</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Italy</td>
<td></td>
<td>“We currently have a cultural problem in Italy, plus an unfavorable institutional environment (tax burden too high, no aids from the state)”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>X</td>
<td>“Nationalism”</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>Arabic and Islamic countries</td>
<td></td>
<td>“Cultural gaps”</td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>Middle East</td>
<td>X</td>
<td>“Cultural gaps”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finland</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>US</td>
<td>X</td>
<td>“Legal system and contractual arrangements”</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Eastern countries</td>
<td>X</td>
<td>“Cultural gaps”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UK, US</td>
<td>X</td>
<td>“Competitors”</td>
<td></td>
</tr>
<tr>
<td>J</td>
<td>Italy</td>
<td>X</td>
<td>“Institutional and political problems”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Poland</td>
<td>X</td>
<td>“Cultural gaps”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>X</td>
<td>“Cultural gaps”</td>
<td></td>
</tr>
</tbody>
</table>

Table 2 - Perceptions of market complexity

4.2 – Entering complex markets: “customer-embedded” opportunities

One of the traits related to the entry into complex markets that clearly emerged from the interviews is its twofold nature, having both an objective dimension (market structure and dynamism) and a subjective one (the firm perception, orientation and knowledge) (Zucchella & Servais, 2012). Complex markets represent simultaneously a challenge for SMEs (as sources of costs coming from bearing risk and uncertainties) and an opportunity because successful entry in a complex market could bring highly valuable resources of knowledge, consumers and international recognition. For instance, firm A’s CEO stresses: “The crisis is a source of new opportunities. It has been a push from 2008 onwards to be more directly present in markets and stay close to customers”.

Table 3 illustrates the most relevant factors – through our respondents’ quotes and through our codes - firms have taken into account when they have approached complex markets in the past, and those they take into consideration for prospective entry choices.

The analysis of the case studies reveals that one of the most critical factor related to the entry into a complex market is the importance about the presence of a customer base – that mostly resembles same niche of customers of the domestic market. Many respondents report that when they sense the market is characterized by dimensions of complexity, then it is necessary to focus on customers, developing a customer-oriented understanding of that market. By
focusing on whether the market presents clusters of customers similar to those the firm already serves in the domestic markets, seems a successful path for creating opportunities.

<table>
<thead>
<tr>
<th>Firm</th>
<th>In the past when entered one or more complex markets</th>
<th>In the future, to approach complex markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>“We have approached past complex markets that I have mentioned through trying to focus on customers' needs. I think we’ll maintain this kind of focus”</td>
<td>“If the market is difficult, it means that you have to travel, meet customers directly, get to know the people. The tight relationship with the customer is crucial”</td>
</tr>
<tr>
<td>B</td>
<td>“We could strive and resist in complex markets thanks to following what our customers were asking...their requests and needs”</td>
<td>“We try to adapt to customers’ needs to enter new countries” “Following clients’ needs”</td>
</tr>
<tr>
<td>C</td>
<td>“We have been always following our clients and try to increase their loyalty”</td>
<td>“If you are able to satisfy customer needs... you are able to penetrate the market, that’s how we plan future internationalization”</td>
</tr>
<tr>
<td>D</td>
<td>“Be the close the most in the country to be directly present in the market and be able to promptly answers clients’ needs is the way we have coped with complexities”</td>
<td>“For future internationalization, I target those markets where I see potential niche customers for my products”</td>
</tr>
<tr>
<td>E</td>
<td>“The important thing is the relationship with the distributor. Personal trust with the local distributor is critical to the process of internationalization”</td>
<td>“I listen to what the public and the distributors tell me...developing synergy with foreign customers and distributors”</td>
</tr>
<tr>
<td>F</td>
<td>“We have been focusing on those countries – regardless they were uncertain, complex – if we saw there was a group of customers there that we were able to address with our own offer”</td>
<td>“We plan to enter the UK market because we see a niche of potential customers which is keen to prepared food consumption. We believe Scandinavia has very similar consumers to UK ones, hence this is another target market”</td>
</tr>
<tr>
<td>G</td>
<td>“The specialization on solving customers’ needs and requests for specialized and customized products has been one of the key successful ways to reduce the overall uncertainty in markets and be focused on one specific task”</td>
<td>“We plan to enter the military market because it is a niche where we can employ our technology...I am not referring to specific countries, I think about this type of customers” “Our decisions, so also internationalization decisions, are often customer-driven”</td>
</tr>
<tr>
<td>H</td>
<td>“The presence of a customer base that you decide to address with specialized offer is a good way to focus on something in the market, and try avoid other distractions that stem from uncertain sources”</td>
<td>“I can tell you the same as what we did in the past...we’ll try to penetrate the market – even if complex – if we see there is a group of customers that we can realistically address with our own offer”</td>
</tr>
<tr>
<td>I</td>
<td>“Penetrate those markets we saw there were a niche of potential customers”</td>
<td>“I think I will focus on the fact that there is a targetable customer base when I think about future internationalization plans. Yes, I need to scan the market, but I need more to know whether there are potential customers I can satisfy”</td>
</tr>
<tr>
<td>J</td>
<td>“We have been offering a unique service for a well-defined need of a niche of customers and this has helped a lot when you have in front of you a lot of complexity”</td>
<td></td>
</tr>
</tbody>
</table>

Table 3 - Most critical factors in entering complex markets: Quotes from interviews

This may be because it implies a sort of “strategic de-focusing” from other environmental more country-specific variables i.e. the mentioned dimensions of complexity. In this sense, the choice of concentrating on segments of homogeneous clients (in respect to those the firm already has in its domestic market) reduces the level of market complexity and paves the way for enacting opportunities. The customer orientation in entering foreign complex markets does not only relate to the focusing on the homogeneous customer base, but, according to our cases, also to the
development of a problem-solving attitude, and a customer orientation in terms of addressing needs and offering customized solutions, thanks to a close engagement with them and the accumulation of knowledge about their needs (see quotes in Table 2).

In both the two instances just described, opportunities are so to say, “embedded in customers”. Learning is related to the acquisition and accumulation of knowledge regarding either the presence of a homogeneous customer base or about customers’ needs (or both).

On the one hand, this type of learning is similar to Johanson & Vahlne’s (1977) notion of general knowledge i.e. a type of knowledge that “concerns marketing methods, and common characteristics of certain types of customers, irrespective of their geographical location, depending, for example, in case of industrial customers, on similarities in the production process” (ibid, p. 28).

This kind of learning seems to be transferrable from one complex market to another, regardless the heterogeneity of dimensions of complexity in each market. On the other hand, in our sample, the pre-international and the already internationalized firms entering complex markets all seem to share the unavailability of “market-specific knowledge” - as it is described in the literature i.e. the business climate the can be gained with direct experience in the market (Johanson & Vahlne, 1977) - as a factor for creating opportunities.

If we assume complex markets as a case of international growth in the face of true Knightian uncertainty, the marginal role of previous market experience as a tool for guiding future market entry decisions should not be surprising. The case of pre-international firms in our sample is informative in this respect. According to the evidence, such firms are not planning to target countries that, overall, show similar characteristics to the domestic one. Rather, they plan to enter a number of complex markets that are, in many regards, dissimilar to their home country. The main market-related characteristic that seems to guide entry decisions regards the possibility to track global clusters of homogeneous clients.

This kind of behavior also emerged in the case of firm E - a “novice internationalizer” in its first steps toward international markets. Its internationalization started in 2012, first in US and Canada, later in France, Belgium, Luxemburg, The Netherlands, Germany and Romania, now it plans to enter Japan, China and Russia. These latter have all been identified as complex markets and have been chosen - including prospective ones – with the aim of following global customers. In all, market characteristics, for instance in terms of geography, institutions, politics, culture etc. are in a sense overcome by the firm orientation towards customers.

4.3 – Post-entry effects on performance and stock of knowledge

In this section, we take into consideration only those mature already internationalized firms in our sample, of which we have retrospectively built the internationalization history during our in-depth interviews (see Table 1 for the list of market served and mode of entry in chronological order). For these firms, the entry into complex markets can represent a critical stage of firms’ internationalization process that may results in the development of a set of dynamic competencies in creating and enacting opportunities in complex environments.

Our case studies’ evidence seems to confirm previous findings in the literature (Zucchella & Servais, 2012) that firms entering one or more complex markets during the first stages of their internationalization process upgrade their general knowledge in terms of “customer-oriented” learning. Furthermore, we obtain other insights in terms internationalization performance of these firms. Four firms in our sample (A, B, C, D) have been growing internationally since
around respectively 35, 30, 60 and 65 years and, they have been approaching one or multiple complex markets.

When we look at the whole internationalization process we can assess that their international performance is positive according to two measures: longevity (i.e. an enduring behavior in growing internationally), and escalating commitment (i.e. increasingly deep engagement in the market in terms of mode of investment).

These firms are still currently intensively internationalizing at the time of this study: during the interview, respondents have described us their plans to enter other complex (and/or also less complex) markets in the near future. Being extremely enduring in their internationalization is evidence of these firms’ longevity in growing internationally.

Moreover, the commitment in terms of mode of establishment have been incrementally escalating, each time after they have entered a complex market. For instance, firm A approached two foreign complex markets in the 1980s (Russia and Japan); later, at a second stage, it established a wholly owned subsidiary in Europe, a country that apparently could have been considered less complex/uncertain from the perspective of the distance-similarity assumption.

Firm D, after having exported its products to two complex markets (i.e. the Far East and China) during the late 1970s, has subsequently established a subsidiary in China itself in the late 1990s.

We thus might conclude that, in a process perspective, if the internationalization path involves the entry in complex markets in the very first stages of international growth, the internationalization performance in the mid-long term will be positively affected.

Figure 1 depict a hypothetical internationalization path of a firm that first enters Country A and Country B – two countries that are not regarded as complex; then it approaches Country C, considered complex, and finally Country D which on the contrary was not perceived as complex in any dimension.

Figure 1 - The effect on performance of entering a complex market

Source: Adapted from Zucchella and Servais (2012)
Market knowledge gained in the first two countries has no influence on the entry in the third complex market, while entering Country C presents a steeper jump in the stock of general knowledge (Zucchella & Servais, 2012). In terms of commitment, entering a complex market produces a positive rebound in terms of resources invested in the country following the complex one (Country D in our case). For instance, the establishment of a greenfield foreign direct investment. We conclude that the overall international performance is positively affected after the entry in the complex market (i.e. Country C in Figure 1).

5 - Discussion

This study results in three Propositions, phrased as below.

Proposition 1: Opportunities in foreign environments characterized by high degrees of uncertainty are created and enacted through concentrating on global segments of homogeneous clients.

Proposition 2: Opportunities in foreign environments characterized by high degrees of uncertainty are created and enacted leveraging a type of learning from external experience that is learning about global customers’ characteristics, that we define “customer-oriented” learning.

Proposition 3: Entering a complex market has a positive impact on the internationalization performance of the firm, either in terms of longevity of the internationalization path or in terms of escalating commitment in future markets.

5.1 – Implications to the issue of country similarity

From both an economics and strategic management perspective the problem of choice of foreign market entry under uncertainty may essentially be controlled by increasing the amount of information available to the decision maker (R. Miles & Snow, 1978; Miller & Friesen, 1978; Mintzberg, 1973).

At the same time a paradox seems to arise. On the one side, if we assume that the entry in foreign markets is a situation pervaded by Knightian uncertainty, the information (available at t) is not helpful by definition for estimating future outcomes (at t+1). The Uppsala School and the stage models theorize that uncertainty is reduced through incremental (market and general) experiential learning and commitment.

According to Johanson & Vahlne (Johanson & Vahlne, 1977, 1990) the entry in foreign markets is influenced by the reduction of uncertainty/risk via experiential learning (and more recently also via insidership in networks) (Johanson & Vahlne, 2009). In this case, when assuming the presence of Knightian uncertainty in the process of internationalization - i.e. past historical series are not useful to draw inferences for the future - can decision-makers rely on the role of increased information as a coping strategy for foreign markets entry decisions in conditions of uncertainty?

In the Process School decisions about internationalization are led by past experiences in the target country and/or in other foreign similar (in terms of psychic distance) countries.

On the other side, some literature (Knight, 1921; Rakow & Newell, 2010) conceptualizes uncertainty as a situation in which past experience cannot support the decision maker. Can we still fully support the idea of internationalization via experiential learning? Are patterns or characteristics found in previously approached foreign countries useful to make (analogical) inferences for actual (and future) internationalization choices? Michailova and Wilson (2008)
have asked: “If experiential knowledge is critical for international market opportunities and for regulating the firm’s commitments to international markets, then how do firms transition from the situation where their experience is domestic and international opportunities remain hypothetical? If knowledge about the whereabouts of opportunities and resources facilitate the rapid international engagement of international new ventures or born-globals, then how do entrepreneurs generate this foresight?”.

The fact that foreign markets selection is based on a distance-similarity assumption (i.e. nearer countries are the more similar, hence they are assumed to be more likely to be approached by the firm) has been repeatedly disconfirmed by empirical studies (Ellis, 2006; Erramilli, 1991). Several studies have also empirically tested the Uppsala model in recent decades, some supporting it, whereas others not (Coviello & McAuley, 1999). In this study, the (general) market similarity assumption does not seem to hold among the analysed firms, regardless their precocity of internationalization. The only market characteristic that seems to be relevant in prospective market entry choices is the presence of a segment of global homogeneous customers in the target country. This means that the firm learns about the customer base – spread on a global scale – where institutional and cultural differences, as reflected in customers’ behaviors, represent multiple learning sources. The pre-internationalization cases all target global customers in the near future, following this reasoning.

By definition, “structurally similar problems must receive correspondingly similar solutions” and “The greater the relevant similarity, the stronger the analogy. The less the relevant similarity, the weaker the analogy” (Gabbay & Woods, 2005, p. 205). In the strategy literature analogical reasoning was found to be helpful for managers - aiming to gain a competitive position in a new industry - to transfer wise practices from similar settings experienced in the past (Gavetti, Levinthal, & Rivkin, 2005). We believe there is still much to research in the process of firms’ internationalization to investigate how cognition – and in particular whether and how analogical reasoning – operates in entry decisions. According to the evidence and our set of propositions, we may advance that, in entering complex markets, firms perform analogical inferences to previous market experiences in terms of the customer base characteristics. This means that complex markets approached in the past can guide prospective entry in other (complex) markets because managers can leverage on analogical thinking where the analogy is represented by assuming that a country is approachable because it has a similar customer-base of a previous approached one.

5.2 – Implications to the issue of market entry in IB

Proposition 1 offers implications for the issue of location in International Business literature: distance is overcome not by focusing on location in terms of space, rather by concentrating on one singular dimension of place: global customers.

The debate on location and location-specific advantages/assets is central to IB research (Cantwell, 2009; Dunning, 2009), as well as to international trade, and new economic geography literatures (Beugelsdijk, McCann, & Mudambi, 2010). The concept of location can be subdivided into “place” and “space” (ibid.) where the former is the geographic unit of analysis, that is not restricted to the geography, while the latter is related to the characteristics and heterogeneity among places, i.e. physical resources as well as relational resources, including customers (Zaheer & Nachum, 2011) Both the “place” and “space” acceptance of location is indeed linked to another discussed construct in IB, i.e. distance. Often, it is assumed
that the greater the distance (geographic, cultural, psychic, institutional etc.) the greater the challenges the firm face in “managing the complexity of interactions, because they must manage “multiple embeddedness” across heterogeneous contexts at both internal and subsidiary level (Meyer, Mudambi, & Narula, 2011). Accordingly – at least from the Uppsala School perspective - the greater the distance, the lower the commitment, the more hybrid the mode of entry.

Location-specific factors are all the advantages that firms get when operating in a specific location. It has been argued (Buckley, 1990; Casson, 1987; Dunning, 1980, 1988) that firm-specific advantages are contingent to the characteristics of the hosting country (especially competition).

On the contrary, within the behavioral/subjective stream of research, (Zaheer & Nachum, 2011) contend that firms have firm-specific location capability, that is the capability to create proprietary value from location, where location-advantages and ownership-advantages (Dunning’s OLI model) are no more distinct, “strategic choices, in part, determine the benefits that MNEs derive from locations”. According to the findings of the extant research, we go a step further, and argue that distance in location is overcome by firms through the implementation of a strategy that does not entail focusing on location in terms of space, rather focusing on one single dimension in terms of place: customers. Internationalization toward complex markets, where uncertainty, distance, heterogeneity and variation make the process uncertain, highlights this finding even more markedly. Firms seem to cope with market complexity – as a special case of uncertainty, variability and distance - by focusing on a single element of the environment.

Global homogeneous customers are indeed the rationale to decide which countries to enter: they are the market. Our findings seem to be part of a case where location and localization has a secondary importance in firms’ internationalization strategies. Location-specific characteristics alone cannot fully describe market entry decisions.

Our findings about the fact that experience gained in operating in similar countries does not emerge as a tool for prospective location choices have direct implications for studies looking at learning and experience. Indeed, the role of experience is mentioned by some firms, mostly as a way to develop progressively their competences and products/services offering, but it is not observable in internationalization intentions and decisions as process theory suggests. The pre-internationalizes and the already internationalized firms entering complex markets all share the unavailability of previous experience as a factor for reducing uncertainty. Learning is so to say “customer oriented”.

6 - Contributions to managerial practice

For managers, particularly of small and medium sized firms in their first moves to international markets, our findings provide a number of insights to internationalization. These firms shall leverage on one type of market knowledge, which is represented by getting to know about the presence of clusters of homogenous customers in the markets they target to enter. Moreover, managers should also recognize that markets’ complexities shall not be regarded only as impediments to penetrate the market, but often these can be overcome by focusing on customers’ traits, upgrading the knowledge of the firm and enhancing the internationalization performance in the mid-long run.
7 - Limitations and future research

There are of course some boundary conditions to this study that affect generalizability. First, the fact that the empirical work takes into consideration mostly (apart one) firms based in one country (Italy), hence further research might extend exploration to other countries in order to get confirmation or rejection of our preliminary findings. This would also allow performing cross-countries comparisons with respect to the dimensions of foreign markets’ complexity, and the relationship among strategy and location choices itself. Second, the fact that four firms in our sample are mature enterprises may have an effect at the strategy level, meaning that they do act the way we observe just because they are older. At the same time, it is also true that - since the goal is to identify commonalities among companies’ strategic orientation in location choices rather than analyze cross-sectional differences - the disadvantages of case study research in limiting the research sample is less critical (Allaire & Firsirotu, 1989). Furthermore, these firms are family businesses, hence in future studies we shall be able to control for this variable, as still there is no agreement on the fact that family owned businesses are less or more risk adverse than non-family firms.

It is also important to consider there could be a reverse causal sequence within propositions, presented in the end of the paper. For example, it is possible that increased internationalization will lead to a strengthening of the focus on global customers itself and to more learning from internal experience. The nature of the causal relationship is subject for future research. Further empirical research may involve designing a quantitative study which entail the enlarging the number of observations, operationalizing the construct of market complexity, and of learning from internal experience.
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