Internationalisation of Firms: Relationship between Firm Characteristics, International Market Orientation and the Degree of Internationalisation

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Abstract

This paper examines the relationship between firm characteristics, international market orientation and the degree of internationalisation. The degree of internationalisation was measured using a non-single-item measure. The results suggest that firm characteristics influence the degree of internationalisation. It was also found that international market orientation mediate the relationship between firm characteristics and the degree of internationalisation.

Keywords: firm characteristics, international market orientation, degree of internationalisation

Introduction

Research in international marketing has moved from exporting activities to a broader focus, i.e. internationalisation (Turnbull, 1987; Welch and Loustarinen, 1988; Andersen, 1993; Sullivan, 1994; Oviatt and McDougall, 1994). Research on the degree of internationalisation has become as significant as other studies which investigate market selection and market entry, and problems of standardisation or differentiation (Kutschker and Baurle, 1997). Unlike the previous studies, which measured the degree of internationalisation by using a single-item measure, this study employed various dimensions to measure the degree of internationalisation. Based on previous research which looks at the relationship between market orientation, learning orientation and business performance, this study examined the relationship between firm characteristics, market orientation in an international context, learning orientation and the degree of internationalisation.

Degree of Internationalisation

Previous studies show that the degree of internationalisation has usually been measured by foreign sales relative to total domestic sales (Geringer et al., 1989; Grant, 1988;

Welch and Loustarinen, 1988; Sullivan, 1994). This indicator of performance of internationalisation provides very little information about the nature of and capacity to conduct international operations (Welch and Loustarinen, 1988). A broader framework to assess the extent of a firm's international involvement with the diversity in types of international operations, level of organisational commitment, types of markets served, types of product offered is needed (Welch and Loustarinen, 1988; Sullivan, 1994).

A firm, which has international operations in many foreign countries, is considered more international than a company which is engaged in only a few foreign markets (Welch and Loustarinen, 1988; Kutschker and Baurle, 1997). As companies' involvement in international operation increases, they tend to offer more product variation (Welch and Loustarinen, 1988). They may "deepen and diversify" their offering in foreign markets by offering more products within the existing product line, or offer products which require the establishment of a new product line, modify the product to include services (pre and after sales support), systems, know-how, or some combination of them as a result of lack of trained technicians, or lack of specialist support and maintenance facilities in international markets (Price Waterhouse Associates, 1982). International involvement may vary from country to country, from export to completely self-sustaining subsidiaries. The allocation of firm's activities in the value chain or configuration of firm's activities, and how like or linked activities are performed in different countries are coordinated with each other is a further measure of internationalisation (Porter, 1986). Therefore, this study included broader measures of the degree of internationalisation. Firm performance in internationalisation was based on the share of foreign to domestic sales, profit, investment and employment, along with number of markets served, marketing strategy, coordination and configuration.

Firm Characteristics

The differences in degree of internationalisation is expected to be related to factors internal to the firm, i.e. management characteristics, organisational characteristics and perception of risk in foreign markets (Fletcher, 2001). Factors internal to the firm may facilitate or hinder the firm's involvement in international markets (e.g., Bilkey, 1978; Cavusgil, Bilkey and Tesar, 1979; Cavusgil and Nevin, 1981). This research incorporates firm size, management commitment, perceived risk of engaging in international operations and international experience as precursors to internationalisation.

Firm Size

Most studies found a positive relationship between firm size to export sales (Cavusgil, 1984b; Cavusgil, Bilkey and Tesar, 1979). Larger firms are assumed to be more likely to start exporting because they have advantages which make them better equipped to perform and develop their business in international markets (Leonidou, 1998). However, other studies found no significant relationship (Cavusgil, 1984a; Reid, 1982) or inverse relationship with profitability (Samiee and Walters, 1990), export growth (Cooper and Kleinschmidt, 1985). In this study, number of full time employees was used as an indicator of firm size.

$H1_{abcde}$: The larger the firm the higher the degree of internationalisation

Management Commitment

Management commitment to exporting is an important factor for export success (Cavusgil and Nevin, 1981; Cavusgil and Zou, 1994). Management commitment includes foreign market information collection, regular visits to international markets, the existence of an export department and export planning and control (Cavusgil and Naor, 1987; Beamish et al, 1993). Other forms of management commitment are financial, human resource commitment, responding to export opportunities, and giving priority for export activity (Evangelista, 1984; Zou and Stan, 1998).

$H2_{abcde}$: The greater the management commitment the higher the degree of internationalisation

Risk Perception

Positive attitudes and perceptions toward export activities show a significant positive relationship with export success (Aaby and Slater, 1989; Leonidou, 1998; Ahmed, 2006; Leonidou, 2007). Managers seem to develop expectations concerning profit opportunities, growth and market development and risk of exporting based on their experience and perceptions of foreign countries (Cavusgil and Naor, 1987). A lower risk aversion to exporting contributes to the presence of export activities (Cavusgil, 1984; Cavusgil and Naor, 1987), whereas higher risk aversion is likely to be a substantial barrier to exporting (Axinn, 1988).

$H3_{abc}$: The higher perceived risk toward international involvement the lower the degree of internationalisation

International Experience

International experience gained from operating in foreign markets is developed over time. Through experiential knowledge the risk of engaging in foreign operation can be reduced (Johanson and Vahlne, 1977). Experiential knowledge also facilitates the acquisition of knowledge from internal and external resources, and ways of combining them (Johanson and Vahlne, 1977). Foreign market selection tends to be correlated with a firm's level of international experience (Erramilli, 1991). A number of studies have reported a positive link between international experience and export performance (e.g., Amine and Cavusgil, 1986; Christensen et al., 1987; Madsen, 1989; Mitchell, Myles and Young ,1992).

$H4_{abcde}$: The greater international experience the higher the degree of internationalisation

International Market Orientation

Recent studies have focused on the concept of market orientation and its impact on business performance (e.g., Narver and Slater, 1990; Jaworski and Kohli, 1993; Diamantopoulos and Hart, 1993; Greenley, 1995 and Pitt et al., 1996). The importance of incorporating market orientation in an integrated model as the determinants of performance is emphasised by studies which show the influence of market orientation on customer orientation (Siguaw et al., 1994), organisational commitment and *esprit de corps* (Jaworski and Kohli, 1993) and financial performance measures, such as return on assets (Narver and Slater, 1990), sales growth (Slater and Narver, 1994; Pitt et al., 1996) and profitability (Slater and Narver, 1994; Pitt et al., 1996).

The relationship between foreign market orientation and internationalisation has been identified (e.g, Cavusgil, 1980; Cavusgil, 1984b). For example, foreign market research became more important as the firms move forward through the internationalisation stages (Cavusgil, 1984b). Dalgic (1994) suggested that relationship between market orientation and international business activities should receive further attention. Cadogan and Diamantopolous (1995) have developed the concept of international market orientation as a refinement of the main-stream literature on market orientation. They integrated the market orientation concepts of Kohli & Jaworski and Narver & Slater and added a further dimension related to interfunctional activities -the coordinating mechanism. The reason for adding this dimension is related to the dynamics of the interaction between members within individual functions, which may influence the organisation's ability to create superior value for target buyers. Therefore, there are four elements of international market orientation, i.e., intelligence generation, intelligence dissemination, responsiveness and coordinating mechanism.

$H5_{abcde}$: International Market Orientation mediates the relationship between firm characteristics and the degree of internationalisation.

Management Commitment and International Market Orientation

To progress internationalisation, firms need to commit resources (Johanson and Vahlne, 1977). To gain more information requires greater commitment of financial resources (Hart et al., 1994). Activities to disseminate information also require commitment, because to disseminate information rapidly a sophisticated dissemination infrastructure is needed (Diamantopoulos and Cadogan, 1996). As a result, firms can ensure a timely response to opportunities and changes taking place within the foreign markets. Based on this rationale, it is proposed that greater commitment leads to higher degree of international market orientation.

H6: Management commitment has a positive relationship with international market orientation

International Experience and International Market Orientation

As firms become more experienced in international markets, their knowledge of these markets and information sources increases (Johanson and Vahlne, 1977). Companies in advanced stages of exporting have a greater variety of sources of information (Cavusgil, 1984b). Furthermore, with greater experience these companies find that internal information systems are essential for their foreign market research purposes. By having more access to more information sources, they are able to become more geographically diverse and to select more psychically distant markets (Erramilli, 1992). This illustration indicates that firms at advanced stages of internationalisation, and therefore have more experiential knowledge, become international market oriented. It is then postulated that firms with higher degree of international market orientation gain more information and this leads them to be more internationalised.

H7: International experience has a positive relationship with international market orientation

Marketing Strategy and Firm Performance

Aaby and Slater (1989) suggested that marketing strategy should be incorporated in export performance relationship study. Previous study found that marketing strategy has a direct impact on export performance (Cavusgil and Zou, 1994). In broader context, it is postulated that marketing strategy has positive relationship with firm performance in international market.

H8: Marketing strategy has a positive relationship with firm performance in international market

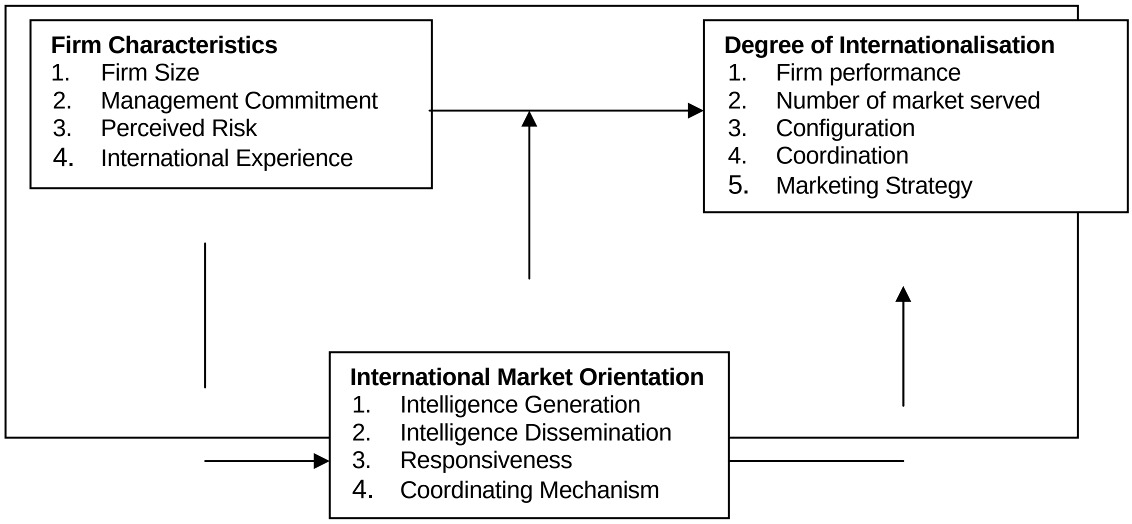

Figure 1. Conceptual Model

Methodology

Data Collection

This study focused on Australian firms that engage in international business activities. The information was collected from senior managers or managers who have knowledge of firms' international expansion or who are directly involved in the firms' international operations. Data collection was done through the mail survey method. This method was chosen as previous research in the same area used the same method (e.g., Kohli and Jaworski, 1990, 1993; Baker and Sinkula, 1999; Sundqvist et al., 2000) and can cover a wider geographic area (Kinnear and Taylor, 1996). The questionnaire was bound as a 7 page, double-sided, and pre-coded questionnaire. A database from Dun and Bradstreet was employed as a sampling frame. This database included 1675 Australian firms which have export operations and have at least 30 full-time employees. 134 companies were not suitable for the purpose of the study and lead to effective sampling frame of 1541 companies. The final effective response rate was 13.75% (212 final usable questionnaires out of 1541 potential respondents).

Measurement Instruments

Most of the constructs of the study were adapted from established scales and measured on a 7-point Likert-type scale. Measures for firm size, number of market served and firm performance were using non-Likert-type scale. The Cronbach's α of the constructs are as follows: management commitment (5 items) α = 0.7471; international experience (3 items) α = 0.8290; international market orientation (20 items) α = .8997; configuration (10 items) α = 0.9184; coordination (16 items) = 0.9663; marketing strategy (9 items) = 0.8738.

Data Analysis

SPSS was used to analyse the data. Path analysis was carried out using AMOS to test the hypotheses.

Result and Discussion

Figure 1 shows the conceptual model. Table 1 summarises the findings. Overall, the model fits the data rather well. The result of the model fit test are as follows: χ^2 = 30.660; p = 0.022; df = 17; χ^2/df = 1.804; GFI = 0.975; AGFI = 0.903; RMSEA = 0.062; NFI = 0.939; TLI = 0.901; CFI = 0.969. The results of the hypotheses are displayed in Table1.

Table 1. Direct, Indirect and Total Effect

Hypotheses	Direct Effect		Indirect Effect		Total Effect	
	β	σ	β	σ	β	σ
Fullemp→ Firmperfrm ($H1_a$)	.072	.066	.025†	.0148	.097	.0662
Fullemp→ Nmktserved ($H1_b$)	.125†	.069	-	-	.125†	.0688
Fullemp→Configur ($H1_c$)	.177**	.086	-	-	.177**	.0862
Fullemp→ Coordina ($H1_d$)	-.193**	.067	-	-	-.193**	.0862
Fullemp → MktStrat ($H1_e$)	.157**	.054	-	-	.157**	.0543
Mgtcommi→ Firmperfrm ($H2_a$)	.222**	.076	.118*	.0520	.340***	.0590
Mgtcommi→ Nmktserved ($H2_b$)	.177**	.065	-	-	.177**	.0651
Mgtcommi→ Configur ($H2_c$)	.307**	.104	-.125*	.0544	.181*	.0725
Mgtcommi→ Coordina ($H2_d$)	-.133	.091	.029	.0560	-.104	.0753
Mgtcommi→ MktStrat ($H2_e$)	.302***	.077	.091†	.0487	.393***	.0597
Risk→ Firmperfrm ($H3_a$)	-.164**	.057	.010	.0122	-.155**	.0573
Risk→ Configur ($H3_b$)	.080	.060	-	-	.080	.0598
Risk→ MktStrat ($H3_c$)	.060	.063	-	-	.060	.0627
Intlexp→Firmperfrm ($H4_a$)	.101	.070	.027	.0185	.128†	.0708
Intlexp→Nmktserved ($H4_b$)	.173*	.078	-	-	.173*	.0783
Intlexp→ Configur ($H4_c$)	.173*	.079	-.031	.0199	.142†	.0793
Intlexp→ Coordina ($H4_d$)	-	-	.007	.0156	.007	.0156
Intlexp→ MktStrat ($H4_e$)	.061	.078	.023†	.0132	.084	.0794
IMOOrt→ FirmPerfrm ($H5_a$)	.096	.083	.026	.0215	.122	.0855
IMOOrt→ Configur ($H5_b$)	-.221*	.093	-	-	-.221*	.093
IMOOrt→ Coordina ($H5_c$)	.051	.097	-	-	.051	.0965
IMOOrt→ MktStrat ($H5_d$)	.160*	.081	-	-	.160*	.086
Mgtcommi→ IMOOrt (H6)	.462***	.062	.106***	.0322	.568***	.0580
Intlexp→IMOOrt (H7)	.099†	.057	.042†	.0250	.142*	.0594
MktStrat→ FirmPerfrm (H8)	.161*	.071	-	-	.161*	.0708

β is standardised regression weights, σ is standard error.

Significant levels: *** = ρ<0.001, ** = ρ<0.01, * = ρ<0.05, † = ρ<0.1.

Fullemp = Number of full time employee
Mgtcommi = Management commitment
Risk = Perceived risk in international business
Intlexp = International experience
IMOOrt = International market orientation

Firmperfrm = Firm performance
Nmktserved = Number of market served
Configur = Configuration
Coordina = Coordination
MktStrat = Marketing strategy

Firm size is positively associated with number of market served ($H1_b$), configuration ($H1_c$) and marketing strategy ($H1_e$). It is negatively associated with coordination ($H1_d$). Previous study shows that large firms have problem of coordination because of complexity in communication and cooperation between different functional departments (Liu, 1995; Witcher, 1990). The relationship between firm size and firm performance is not significant ($H1_a$). However, firm size does show an indirect relationship with firm performance which is in line with what has been suggested by Hoang (1998). Management commitment is positively associated sith firm performance ($H2_a$), number of markets served ($H2_b$), configuration ($H2_c$), marketing strategy ($H2_e$) and international market orientation (H6). However, its relationship with coordination is not significant ($H2_d$). This may be related to some problems which may arise in coordination activities such as government restriction on the flow of information required for coordination, language problems and cultural barriers to communication (Porter, 1986). Perceived risk toward international operation is negatively associated with firm performance, but its relationship with configuration and marketing strategy is not significant. International experience has significant relationship with number of market served ($H4_b$) and configuration ($H4_c$). Its association with firm performance ($H4_a$) and marketing strategy ($H4_d$) is not significant. However, it is indirectly related to marketing strategy. This indirect relationship suggests that the link between international experience, marketing strategy and firm performance is explained by mediation effect of international market orientation (H7), although it is not strongly related. International market orientation does not appear to have direct relationship with firm performance in this study, which is in line with previous research (Greenley, 1995). Its relationship with marketing strategy ($H5_d$), which provides further support to prior study (Narver, Park and Slater, 1992), suggests that the relationship between market orientation and firm performance is mediated by marketing strategy. International market orientation is expected to be positively associated with configuration ($H5_b$). However, it shows negative association with configuration. According to Porter (1986), competitors may force firms to modify their strategy from a geographically dispersed international strategy with separate manufacturing facilities in many countries to be more geographically concentrated, by choosing limited countries for production facilities and serve the international markets from there. Therefore, this figure suggests that with higher degree of international market orientation (more information generated about customers and competitors), firms tend to concentrate their activities in limited countries. International market orientation also does not have significant association with coordination ($H5_c$). This suggests that some tailoring activities to may reduce the need for central coordination (Porter, 1986).

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