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Abstract

The paper outlines three different predictions of how the Internet might affect the way in which firms expand their activities into foreign markets, and examines associated theoretical issues. The first prediction is that the effect of the Internet on firms' foreign market expansion will be very modest since an important limiting factor in the internationalisation process, the accumulation of experiential knowledge, remains largely unaffected by the Internet. In contrast, the second prediction is of faster foreign market expansion as a result of the "border-less marketplace" induced by the Internet. The third prediction maintains that the Internet will prompt firms to undertake faster international expansion than has been seen until now. However, attempts to penetrate foreign markets more thoroughly will reveal the "border-less marketplace" to be illusory. Consequently, an internationalisation pattern of gradual consolidation, or gradual contraction, emerges as geographically diversified firms experience the serious cost disadvantages of foreignness in certain markets. The second and third predictions challenge mainstream internationalisation theory as to the role of knowledge: the Internet is expected to change the role of knowledge from being one of constraint into being a factor that propels firms into foreign market expansion.

Key words: Internationalisation process of firms, e-business, the Internet, knowledge.

Introduction

An important aspect of recent information and communication technology advances is the Internet and the World Wide Web (hereafter we will only refer to the Internet, implicitly including the WWW). The Internet is expected to have a major impact on the business world (Business Week, 1996; The Economist, 1999). Unlike other existing media, it has truly global reach and is predicted to re-define the way business is conducted (Sivadas, Grewal and Kellaris, 1998). This is not only because of the speed and ease with which the Internet conveys information across borders. In the early nineties, before the Internet took off, many multinational corporations introduced Electronic Data Interchange (EDI) systems as a means of achieving fast and smooth communication not only among the dispersed units of the corporation, but also between the corporation and its worldwide network of core suppliers and main customers (The Economist 1999, 2000a; Mol and Kopius, 1999). In contrast to the EDI, the Internet is a public and potentially all-embracing, global network. With full utilization of its network externalities, the Internet's searching properties are immense. As such, the Internet holds the potential of reducing the uncertainty that adheres to doing business in foreign markets. Since the uncertainty about foreign markets (as perceived by firms' decision-makers) has been considered to be a major barrier to foreign market expansion, in the hands of international managers the Internet may be the instrument that accelerates foreign market expansion.

It seems indisputable that the Internet expands the quantity of foreign market data and information potentially accessible to, and manageable for, decision-makers. However, in order to establish whether this will actually increase the pace with which firms undertake foreign market expansion, one also has to assess the properties of the Internet in terms of its ability to enhance the *quality* of foreign market data or the amount of *useful* information that may qualify as foreign market knowledge. Apart from aggravating the risk of information overload of managers subject to bounded rationality, the Internet also creates opportunities for creating a virtual reality that decision-makers misconceive to be actual business life. Thus, the Internet might induce firms to embark on what might be considered rash foreign market expansion, in this way following a "strategy" of rapid geographical diversification in contrast to a more cautious strategy, involving entry to fewer foreign markets (Ayal and Zif, 1979). Alternatively, decision-makers may downgrade Internet use because they have a preference for information acquired in a personal way.

In spite of the forecasts of huge impact, the effect of the Internet on firms' foreign market expansion is disputable and far from obvious. In this paper we outline three different predictions of how the Internet may affect (or not affect) firms' foreign market expansion, including the speed of initial entry into foreign market operations Thus, our focus is on exporting firms in the early stages of internationalisation rather than on well-established multinational corporations. Furthermore, we focus on the geographical pattern of foreign market expansion more than the pattern of resource commitment to individual foreign markets, including firms' choice of foreign operation mode.

The paper is organised in the following way: In the next three sections the different predictions are outlined and related to existing positive and normative theories of foreign market expansion. Thereafter we discuss whether the three predictions are competing or complementary. The final section, conclusion and managerial implications, includes an evaluation of the role that the three predictions assign to knowledge in the internationalisation process of firms.

PREDICTION ONE: Modest Internet Effect on Foreign Market Expansion of Firms

The first prediction is that, apart from firms operating in some special product markets (commodities and certain Internet-transferable products - see later), the Internet effect on firms' foreign market expansion, will be very modest, if measurable at all. While the Internet offers indisputable advantages in terms of facilitating repeat buying transactions across borders, company managers will find that it is an unsuitable medium when it comes to new task buying and selling transactions. The support for this postulate can be found in mainstream internationalisation theory (the Internationalisation Model) as well as in agency theory (the Hidden Information Model).

Underlying PREDICTION ONE is the argument that foreign market penetration through the Internet, as a general rule, is not feasible, simply because market penetration requires a local presence. Conducting export business exclusively through the Internet may, at best, allow for a skimming of foreign markets, but certainly not penetration. In other words, if companies rely on the Internet as their sole international transaction medium they will sacrifice most of the sales potential of foreign markets.

Very few products can be sold on a global scale without some modification to local customer needs and/or in response to government regulation, and the modification process is often difficult to carry out without a local presence. Modification does not restrict itself to the adaptation of the physical product, but encompasses physical distribution, marketing, sales and after-sales activities as well. A few product markets, however, are characterised by a minimum need for modification when sold internationally, either because they are very generic and commodity-like by nature (a raw material such as crude oil is an obvious example), because the product market consists of unique, but very universal products (English literature, CDs, etc.), or because the processing, marketing, transfer and final consumption of the product takes place electronically (e.g. computer software).

Internationalisation theory arguments: Mainstream theory on firms' internationalisation considers information and knowledge to be critical resources for the international expansion of the firm. IB-scholars have underscored the importance of information obtained through business experience as decisive for the speed with which the firm's internationalisation advances (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988; Ursic and Czinkota, 1984; Denis and Depelteau, 1985; Reid, 1984). Experiential knowledge is acquired through action and is not easily expressed formally and transmitted to others, and is to a large extent tacit and implicit. In contrast, objective knowledge is acquired through standardized methods of collection and transmission of information (von Hayek, 1937; Penrose, 1959; Polanyi, 1966). Clearly, the Internet has a vast potential for facilitating firms' acquisition of objective knowledge, whereas its role as a provider of experiential knowledge is much more questionable. Of course, use of the Internet in international operations also can be assumed to demand the development of various forms of experiential knowledge (eg how to deal with customers in high context cultures) that may constrain the rate and pattern of market expansion. Thus, it is an open question as to whether the Internet qualifies as a medium for accumulation of experiential knowledge. If not, the Internet should be allotted a minor role as an agent of internationalisation

Agency theory arguments: Normally, the acquisition of market-specific knowledge is assumed to reduce perceived market uncertainty. Indisputably, the Internet expands the quantity of data and information accessible to, and manageable for, decision-makers, but does not necessarily enhance the quality of the data or the amount of useful information that may qualify as knowledge.

It is conventional to introduce information as having two aspects, the one "syntactic" referring to the volume of information, and the other "semantic" referring to the meaning of information (Dretske, 1981; Nonaka and Takeuchi, 1995). Nonaka and Takeuchi (1995) acknowledge the importance of the semantic perspective in the context of the role of information in knowledge creation. It is meaning, not volume, that furthers understanding through knowledge accumulation. Information is inextricably antecedent to knowledge (Dretske, 1981). Knowledge is created from information and the messages that are conveyed in information, with the unique belief systems of individual managers and manager coalitions ensuring that the relationship between information flow and knowledge creation is not monotonic. Nonaka and Takeuchi (1995, p. 58) note that "information provides a new point of view for interpreting objects and events," whereas "knowledge unlike information is about beliefs and commitment. Knowledge unlike information is about action." Stehr (1994 p. 120) concurs with this interpretation in observing that the interpretive skills of the knowledge creator are essential in establishing mastery over contextual circumstances. Information that "merely reflects the products from which it is abstracted" is harnessed to set an action into motion. The active involvement of an agent is fundamental to knowledge creation, while information has more of the characteristics of a public good. The adage 'we are drowning in information but starving for knowledge' bears testimony to this interpretation and to the value of talented individuals and synergistic teams in the knowledge creation process.

Nonaka and Takeuchi (1995) have dichotomised knowledge into two types: tacit and explicit. Polanyi's (1966, p. 4) comment that "we can know more than we can tell" alludes to the tacit dimension of knowledge, of which its possessor is either unaware or simply cannot articulate. Tacit knowledge is embedded in its possessor and can only be acquired through experience or imitation; it is not codifiable in that it is unable to be transferred through formal language. Conversely, explicit knowledge is objective, sequential, and digital (Nonaka and Takeuchi, 1995). It is acquired from formalized means, such as books, directories and – the Internet.

Apart from aggravating the risk of information overload of managers subject to bounded rationality, the Internet also creates opportunities for creating a virtual reality that decision-makers misconceive to be how business life in the broad actually functions. As an example, company home pages constitute a new, easy-to-access source of information available to firms looking for overseas business partners. Seemingly, in this form, the Internet is an uncertainty-reducing information source (Sullivan, 1999). However, the Internet will also be an electronic playground for those who are apt to misinform potential, information seeking business partners about their qualifications. Hence, companies searching for business partners on the Internet face an adverse selection problem (Akerlof, 1970) in as much as the opportunities for false signalling (Spence, 1973) have been improved with the emergence of the Internet. Barua, Savindran and Whinston (1997) demonstrate how the costs of evaluating potential suppliers identified through the Internet may be substantial.

Thus, the Internet may appear to be a poor foreign market expansion instrument due to adverse selection problems (low perceived credibility) and because of its shortcomings in terms of mediating experiential knowledge. Accordingly, company managers are likely to be more inclined to follow a foreign market expansion strategy of concentration (Ayal and Zif, 1979) or concentric expansion (Lee and Yang, 1990), i.e. concentration of company resources in a few foreign markets with gradual expansion into countries of successively greater home country dissimilarity.

PREDICTION TWO: The Internet Induces Faster Foreign Market Expansion

The second prediction is that, over time, the Internet will evoke faster foreign market expansion of firms in contrast to PREDICTION ONE. In other words, PREDICTION TWO promotes a much more positive view of the Internet's capabilities and impact.

Experiential learning?

This second prediction questions the conventional emphasis on experiential learning as being pivotal to the foreign market expansion of firms. The emphasis on experiential learning is speculative, i.e. a largely theoretical construct with no empirical foundation. Several empirical studies on the internationalisation of firms have examined the role of knowledge in general (Sullivan and Bauerschmidt, 1990; Millington and Bayliss, 1990; Erramilli and Rao, 1990; Pedersen and Petersen, 1998). Other studies have investigated the importance of knowledge associated different aspects of internationalisation (Eriksson et al. 1997; Barkema, Bell, and Pennings, 1996). To date, no empirical studies have provided definitive support for the assertion that experiential knowledge plays a particularly important role in firms' foreign market expansion.

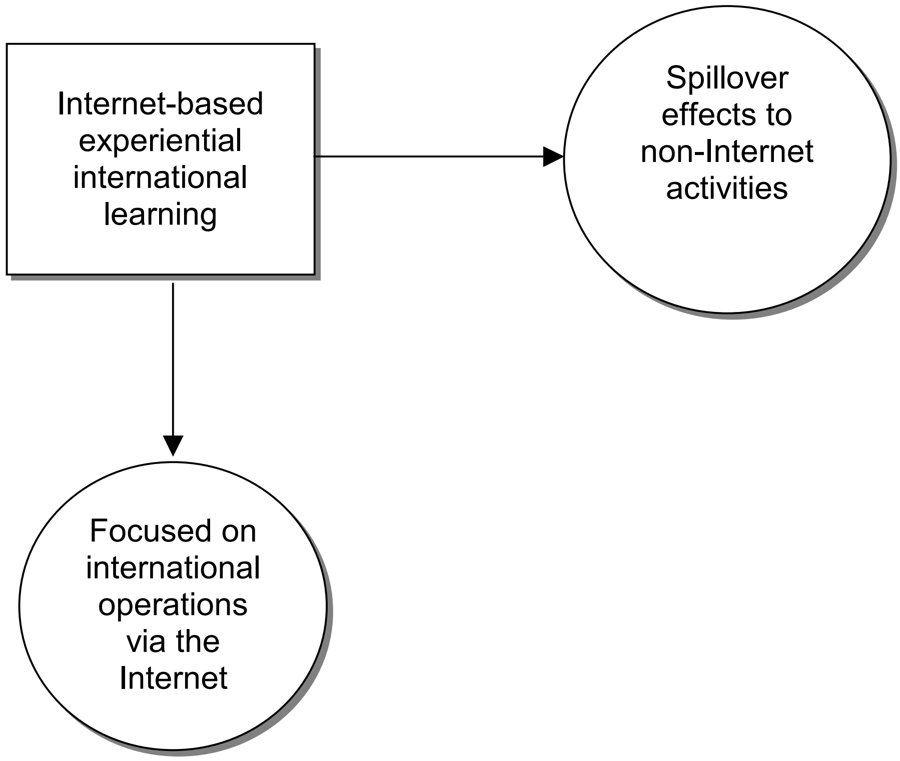

Figure 1: Experiential learning via the Internet

However, even if it is accepted that experiential learning is an important factor in firms' internationalisation , PREDICTION TWO argues that the Internet *does* facilitate experiential learning – directly and/or indirectly - and managers take account of this.

Directly: Internet-based activities in the international arena can be expected to generate experiential learning in a way that enhances those operations (see Figure 1). Even if international operations are totally internet-based, staff will be required to develop a range of techniques for handling foreign clients and cross cultural exchanges through the internet, including the impact of language differences. Dealing with clients from high context cultures over the Internet may be particularly demanding, requiring the development of special skills through experience. This learning process, though focused on Internet use, is likely to have spillover effects to more traditional forms of international operations (see Figure 1). Many cross cultural communication lessons (e.g. surrounding language differences) learned on the Internet should be just as applicable in face to face situations**.**

Indirectly: The Internet facilitates the conduct of current business activities in foreign markets, and thereby supports the development of experiential learning. For example, contact with foreign business partners is easy to initiate using email, and also to maintain subsequently, even though direct, face-to-face contact may be critical in the early stages of doing business. In general, the Internet allows more frequent and faster cross-border communication to occur between business parties, in the context of which some experiential learning can be presumed to arise.

While in this second prediction the adverse selection problem of the Internet is recognised, it is assumed that the problem can be mitigated through various instruments and institutions. Thus, searching via the Internet should reduce the cost not only of identifying potential buyers and suppliers, but also of evaluating them (Business Week 1996; Mol and Koppius, 1999). In this regard, it can be expected that companies will develop Internet-related routines, as a result of their experiences, for assessing information obtained via the Internet, and evaluating potential clients.

As an extension of Levitt's (1983) argument about globally converging demands, PREDICTION TWO advances the idea that the Internet holds the potential for exploiting this convergence to its full extent . Given the existence of an unexploited need for standardized, but price competitive and easy accessible products, companies *can* penetrate foreign markets via the Internet without involving themselves in substantial and irrevocable foreign direct investments. The opportunities for Internet-mediated foreign market penetration are substantial across industries and are not limited to a few, "special case" product markets, as claimed in PREDICTION ONE. Recently, many business-to-business markets have appeared amenable to Internet exchange. By March 2000 more than 20 product markets, at a combined value of more than US $ 100 billion, were trading publicly on the Internet and this figure is expected to multiply in the years to come (The Economist, 2000a). Moreover, the Internet exchange is not restricted to very standardised, commodity markets, but includes fairly sophisticated products, such as dental equipment, gas-valve supply chains, and car components (The Economist, 2000a). Furthermore, the range of products that can be transferred via the Internet (not involving any physical transportation) might increase to a substantial proportion of world trade; thus, many services, such as business consulting and higher education, hold great potential for international exchange.

A conclusion flowing from PREDICTION TWO is that the Internet will pull companies in the direction of *diversified* foreign market expansion (Ayal and Zif, 1979), that is, rapid and simultaneous or closely spaced entry into a large number of foreign markets. Concentric patterns of market expansion precipitated by the decision-maker's psychic distance will be absent or difficult to find.

PREDICTION THREE: The Internet Causes Impetuous Foreign Market Expansion

In line with PREDICTION ONE it might be conceivable, at least from a medium-term perspective, that company decision-makers in general will underestimate the potential of the Internet as a mechanism for international business transactions. As an example, company managers in general may overestimate the adverse selection problem of the Internet. The low credibility assigned to the Internet results in a collectively low use of the Internet in international business, forsaking profits and welfare gains. If true, this would not challenge the outcome of PREDICTION ONE, namely that the Internet will have only a modest, if any, effect on the foreign market expansion of firms. However, in a long-term perspective, it is most likely that the competitive pressure would allow under-utilization of the Internet. Currently, the Internet does not enjoy as high an information credibility among consumers as do the well-established media of newspapers, radio and television (The Economist, 2000). But this may very well turn out to be a temporary, collective misjudgement of the Internet , that will be remedied as consumers become more confident about using it over time .

Likewise, one could also think of a situation of a temporary, collective *over*confidence in the Internet's attributes as an international business transaction medium. The hype surrounding the Internet and e-business may hinder managers as a whole in reaching a balanced assessment of Internet opportunities. A bandwagon effect similar to what has been observed in relation to foreign direct investment behaviour (Aharoni, 1966; Shaver and Flyer, 2000) cannot be excluded. Di Maggio and Powell (1983) description of mimicry in the strategic behaviour of firms may also apply to the use of the Internet and international market expansion. Furthermore, excessive investment in new technology has been reported in connection to the introduction of railways in Britain and other European countries in the 19th and 20th century (see for example Cipolla, 1973). A more recent example is the over-investment in the 1980s and early 1990s in computer hardware and software (and correspondingly insufficient investment in the development of employee computer skills) by US and European companies (The Economist, 2000b/2000c).

PREDICTION THREE pursues this line of thinking: that firms *en bloc* might be enticed by the Internet to embark on rash foreign market expansion - "rash" in the sense that the Internet generates rapid, diversified international expansion as a dominant, but chiefly unsuccessful strategy. Normative research on companies' choice of international expansion strategy does not give any answer as to whether a strategy of concentration or diversification is preferable. Empirical studies are fairly split in terms of their recommendations; some studies have recommended a market concentration strategy (BETRO Trust Committee, 1976; ITI, 1979; Jung, 1984) other studies suggest a market diversification strategy (Piercy, 1981; Hirsch and Lev, 1973; IMR, 1978; Airakinsen, 1982; Cooper and Kleinschmidt, 1985). The study by Lee and Yang (1990) is inconclusive. Presumably, the divergence as to what is an appropriate strategy is to a large extent due to the very different research methodologies of the studies (including different categorizations of firms as to their international market expansion strategy), but the divergence does also stress the fact that the choice of the "right" expansion strategy is contingent upon situational factors (Ayal and Zif, Piercy, 1981). PREDICTION THREE argues that companies will misjudge situational factors associated with the use of the Internet, leading to an over-emphasis on diversification strategy.

Why this misjudgement? It has already been mentioned that the hype surrounding the Internet may mislead firms into imitating other companies (in other industries – eg the effect of Amazon's experience) that are reported as being successful role models for other firms. Thus, the notion of the "borderless marketplace" of the Internet has been featured strongly in the international media. The fear of getting a reputation as being "technologically backward" probably haunts most company managers, and has even become a feature of some advertising (e.g. IBM's Internet advertisements in the Australian media).

In addition to this kind of sociological explanation of impetuous foreign market expansion, a more straightforward explanation is available. As a company links up with the Internet, e.g. through its website, its exposure to potential foreign business partners (suppliers, customers, sales agents) increases drastically. Although companies have been identifiable to foreign companies through other means than the Internet (export directories, embassies, etc.) the searching efficiency of the Internet is far greater than previous electronic or non-electronic information sources. Unsolicited inquiries have been shown to be important in past export starts (Bilkey and Tesar, 1977; Wiedersheim-Paul, Olson and Welch, 1978). Setting up a web site creates the basis for a company, whether deliberate or not, to be noticed and contacted regarding its products and services. In this way a company may, in a relatively short time, find itself involved in exporting to a large number of foreign markets without having performed any other pro-active export activities.

These Internet-mediated contacts and businesses may work out well for market skimming purposes, but do not necessarily lead to any deeper penetration. In order to further penetrate the foreign markets in question companies often will have to establish some physical presence. Even e-commerce companies find it necessary to establish a presence in foreign markets (popularised as `clicks and mortar'). American online companies such as Amazon.com achieved a high degree of penetration initially in the Australian market: reaching 50% in 1999. However, this has dropped significantly in only one year, to be 34% in mid-2000 (Hopkins, 2000a). In a short time Australian retailers have been able to combine the advantages of an established local presence with an increasing range and sophistication of online services. Some US retailers had already built local operations (e.g. Dell and Gateway) and have been able to take advantage of an existing local base. Others, though, such as Amazon.com, face the difficult question of whether, and in what form, to build a local presence in response to the emerging local online competition. Australian information technology and Internet companies face a similar question in seeking to penetrate the US market. The Australian trade commissioner has advised Australian companies that they need to set up an office in Silicon Valley if they want to succeed: "don't expect anything unless you're willing to move here. Everything else can stay, including Rand D, but they (Silicon Valley companies) want constant access to the management" (Hopkins, 2000b).

Only at this stage are the entrant companies confronted with the disadvantage of foreignness. Until then, companies may have experienced a false confidence conveyed by the unrestrained world of the Internet. In particular, companies from English-speaking countries tend to be exposed to a false confidence (Marschan-Piekkari, Welch and Welch, 2000) in so far as most of the Internet-information and communication is in English. A study of Canadian retailers' inroads into the US market (O'Grady and Lane, 1996) indicated that managers' false confidence about similarity between the two markets led to poor financial performance. Apparently, operations in psychically close countries are not necessarily easy to manage, because assumptions of similarity can prevent executives from learning about critical differences – a phenomenon O'Grady and Lane (1996) described as "the psychic distance paradox".

Furthermore, national environments of firms often resist changing (Whitley, 1992; Zucker, 1987). The mere introduction of advanced communication technology, including the Internet, is not likely to lead to a reduction of environmental barriers, such as cultural differences and business regulation (Mol and Koppius, 1999). In other words, instead of alleviating the disadvantage of foreignness the Internet may simply delay or shift the hurdle of doing business in a foreign country to a different and later part of the international activity. Establishment of a physical presence exposes the novice international firm to the disadvantages of foreignness with its concomitant high costs of learning by experience.

Before looking at the resulting effects of the Internet in PREDICTION THREE we can summarise the underlying assumptions of the three predictions, as shown in Table 1.

Faced with the true costs of operating in foreign markets, companies will be forced to consider consolidation of their international business or even giving up attempts to penetrate certain foreign markets. Thus, a stage of geographical contraction could follow a strategy shift from diversification to concentration. Since withdrawal or downsizing business activities are likely to be most pronounced in those countries where psychic distance is greatest, reversion to a pattern of foreign market operations in fewer markets

Table 1: Underlying assumptions of the three predictions

PREDICTION	**I**	**II**	**III**	
			INITIAL PERCEPTION	REALITY
Foreign market risk/disadvantage	Substantial	Minor	Minor	Substantial
Transfer of tacit knowledge via Internet	Not possible	Possible	Possible	Not possible
Adverse selection problem of Internet	Serious	Negligible	Negligible	Serious
Need for local adaptation/local presence	Substantial	Little	Little	Substantial

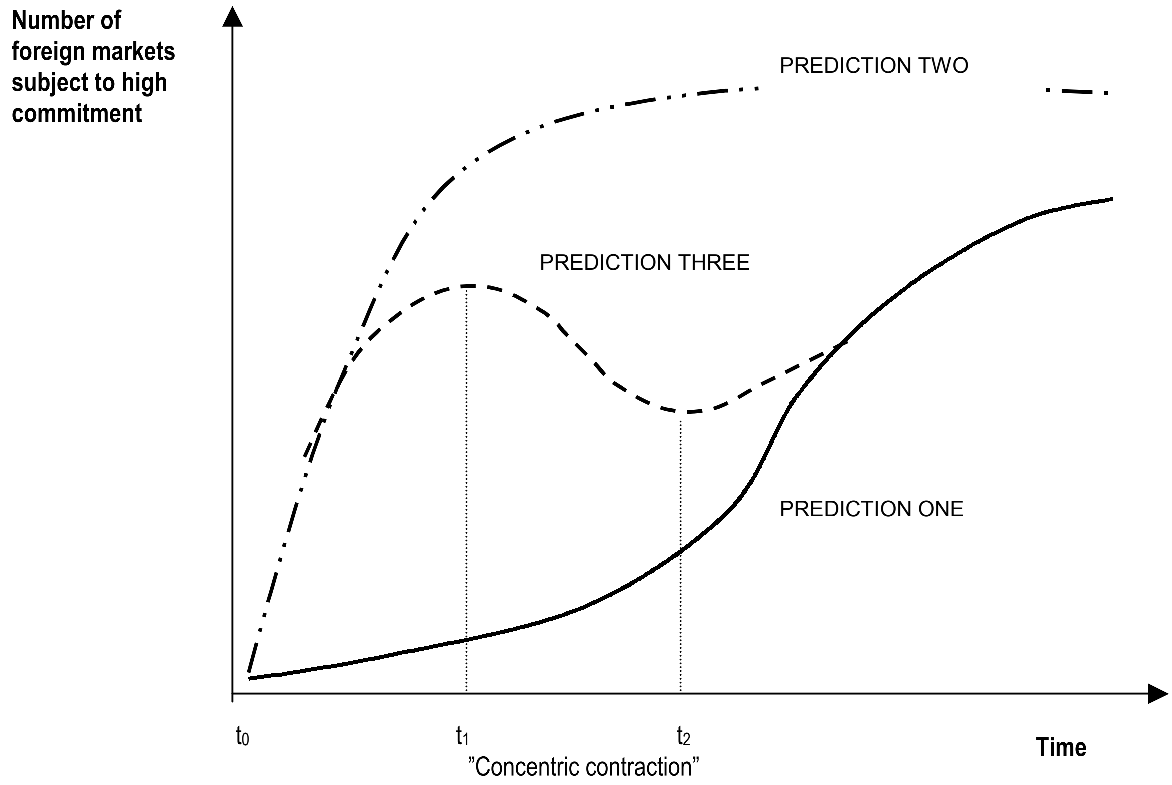

Figure 2: Three different predictions of dominant foreign market expansion patterns following worldwide proliferation of the Internet

and based on psychic distance may emerge. The development from an initial diversified market expansion to concentration on fewer markets is depicted in Figure 2.

During the time period t_0 - t_1 (indicated on the horizontal axis in Figure 2) firms diversify rapidly, spurred by the seemingly promising Internet-based opportunities. As firms realise the problems of operating in foreign business environments they will give up high commitment to those foreign markets that turn out out to be the most troublesome, thereby precipitating a pattern of gradual, or concentric, contraction (t_1 - t_2). After a period of consolidation (i.e. from t_2 onwards) they re-engage in foreign market expansion, but this time in a more cautious, gradual way. Figure 2 also indicates the other two predictions of dominant foreign market expansion patterns following worldwide proliferation of the Internet.

Table 2 summarises the patterns of foreign market expansion of firms as outlined in the three predictions.

Table 2: Resulting Internet effects on international market expansion of firms

PREDICTION	**I**	**II**	**III**
Predicted pace of expansion	No/moderate change of pace	Faster expansion	Faster, but impetuous expansion
Pattern of geographical expansion	Concentric expansion	Indeterminate	Indeterminate → Concentric contraction
Allocation of int'l marketing resources	Concentration	Diversification	Diversification → Concentration
Role of knowledge in expansion process	Constraining	Catalytic	Catalytic → Constraining

Competing or complementary predictions?

By and large, the three predictions have been presented as applying to *all* companies that will engage in foreign market expansion in the future as the full effect of the Internet is played out. Being very general in their application, the three predictions have been presented as being competitive and mutually exclusive. However, one should not exclude the possibility that the three predictions are complementary in the sense that they comply with different and separable firm segments**.** As indicated already, the circumstances in which the prediction should be used as an explanation may differ in terms of the product area. In some product areas (or industries) the Internet effect will be very modest (PREDICTION ONE) whereas in others, the Internet will result in faster foreign market expansion (PREDICTION TWO).

Especially in relation to PREDICTION THREE one may speculate that the circumstances will differ even among firms operating in the same product area (industry). Let us assume that the foreign market penetration capabilities of the Internet in fact are very limited. Some managers, but not all, will realise this and revise their market expansion strategy accordingly (PREDICTION ONE). Other decision-makers, operating companies in the same industry will overestimate the suitability of the Internet as a foreign market penetration instrument. PREDICTION THREE would therefore apply only to this group of “mismanaged” companies. Hence, to acclaim one prediction to be applicable to the entire population of firms in the process of internationalising is hazardous. A contingency approach would seem more appropriate.

Conclusion and Managerial Implications

It is by no means evident what effect the Internet will have on firms' foreign market expansion. Depending on various theoretical perspectives, for example internationalisation theory and agency theory, and the interpretation of the future Internet developments, a range of outcomes is feasible. Instead of promoting a single, unified prediction of how the Internet will affect foreign market expansion we have outlined three opposing forecasts. Individually, the three predictions are quite extreme, and as such, they are not very likely to be fulfilled. Nevertheless, the three predictions taken together can be seen as 'fencing off' a wealth of in-between possibilities, among which the reality of future, diverse foreign market expansion patterns is likely to be found.

A comparison of the three predictions outlined in the paper suggests a need to re-think a key issue in internationalisation theory; namely the role of knowledge, in this case as a determinant of the pace with which companies expand internationally. In PREDICTIONS TWO and THREE the conventional role of knowledge as a limiting, slowing factor in the international market expansion process is reversed to that of being a catalyst . Thus, the optimistic Internet predictions of the business press, seeing the borderless virtual marketplace just around the corner, if realised could pose a major challenge to internationalisation theory as currently understood.

Clearly, there is much empirical and theoretical research to be done in order to get behind the hype and develop a clearer picture and understanding of how the Internet is changing the world of international business – including that of internationalising SMEs. Hopefully, the three predictions and associated theoretical issues analysed in this article will provide a useful framework for some of this research. So far, the empirical data that can underpin predictions are scarce and anecdotal. A particular need, in the light of the three predictions framework, would appear to be longitudinal studies of the effect of the Internet on internationalisation behaviour, wherein it will be possible to analyse the impact in areas such as foreign operation mode development, which has not been focused on in this article, as a way of discerning short term and long term effects. As with foreign market expansion, after initial atypical expansion without a local presence, many companies may then have to build local operations in some form, embarking on a process of mode development that looks similar to past patterns.

As to managerial implications this paper deals with a number of issues relevant to managers. PREDICTION THREE may be seen as a warning to managers not to be "seduced" by the Internet hype when they define their foreign market expansion strategy. So far, the warnings in business magazines and journals have tended to be in one direction: against "Internet backwardness" This has been viewed as being potentially detrimental to the international competitiveness of the individual company. PREDICTION THREE, however, calls for a more critical and cautious approach to the Internet as a means of penetrating foreign markets. It is effectively a warning that there is still a need for careful planning of the rate and pattern of foreign market entry, so that the possibilities opened up by the Internet do not cause firms to over-reach their capabilities.

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