EXPOSURE, EXPERIENCE, AND EXPECTATIONS IN SME FOREIGN MARKET OPPORTUNITY DEVELOPMENT

Abstract

Limited resources and less rigid structures call for more focused approaches to SME internationalization than the traditional attention on market selection and operation modes. In that spirit, this paper focuses on the development of opportunities in foreign markets. In particular, the paper examines the relations between experience and expectations in opportunity development. While experience is a central concept in international business, almost nothing has been written about expectations. The paper formulates a set of interrelated hypotheses on the effects of international exposure, international business experience and perceived importance of customer and competitor knowledge on foreign market opportunity expectations. They are combined in a structural model which is tested on a three-country sample through LISREL. The main conclusion drawn from the study is that firms expect opportunity development based on their concrete business experience, which is a result of variation and longevity of international exposure.

Keywords: Opportunities; Expectations; Internationalization; Experience; Learning

Introduction

Globalization and information technology development have led to increased international competition, which is more likely to be difficult to handle for smaller firms than for larger firms, due to their lack of resources (Bonaccorsi, 1992). At the same time, small and medium-sized enterprises (SMEs) have come to account for a substantial proportion of exports from most of the developed countries and these firms will not wait until they are mature domestically before seeking international customers (Knight, 2001). Competing on the international arena has thus become more important for SMEs everywhere. For small firms from small countries, the only way to growth often lies in international expansion (Madsen, Rasmussen and Servais, 2000).

Most theories about international expansion study large multinational corporations (e.g. Buckley and Casson, 1976; Dunning, 1988). Coviello and McAuley (1999) found very few journal articles specific to the internationalization of SMEs. SMEs do however differ from larger MNCs in a number of aspects, as they often have different managerial styles than larger ones and they also differ in independence, ownership and scale or scope of operations (O'Farrell and Hitchins, 1988). SMEs are also often limited in financial, management, human and information resources (Buckley, 1989). These aspects make international expansion more difficult for SMEs. On the positive side, SMEs often have less rigid and complex structures than larger MNCs (Barkema and Vermeulen, 1998), which should make international expansion easier for these enterprises. The lack of resources and the less rigid structures of SMEs call for more focused research than the usual internationalization studies dominated by market selection and operation mode in foreign markets. A richer understanding of SME internationalization can be reached through placing attention on opportunity development in foreign markets (Mathews and Zander, 2007; Oviatt and McDougall, 2005).

When firms enter foreign markets, they face cultural, political, economic and institutional settings that may differ from those they know. Entering foreign markets is generally agreed to involve uncertainty and lack of knowledge. Much of the internationalization literature, therefore, deals with how lack of knowledge and uncertainty affect entry decisions and international expansion strategies, and the important role of experience has been stressed in a number of studies (Barkema, Bell and Pennings, 1996; Davidson, 1980; Delios and Beamish, 2001; Erramilli, 1991; Luo and Peng, 1999).

However, irrespective of whether it is a matter of an entry into a foreign market, an increased commitment to a foreign market or a foreign direct investment or any kind of opportunity in the foreign market, the results of the efforts made are only realized in the future. It seems that firms not only base their internationalization strategies on what they know, but also on what they think will happen if they expand their business. An international expansion is based on the fact that the firm expects that it can defend existing business or achieve growth. Thus, it seems that expectations are at the core of the field of internationalization and international expansion. " 'Expectations' and not 'objective facts' are the immediate determinants of a firm's behaviour, although there may be a relationship between expectations and 'facts' – indeed there must be if action is to be successful, for the success of a firm's plans depends only partly on the execution of them and partly on whether they are based on sound judgment about the possibilities for successful action." (Penrose 1959, p.41) It seems reasonable to assume that expectations are especially critical in the early international expansion of firms with relatively limited resources (e.g. SMEs). Against that background, the purpose of this paper is to study the formation of SMEs' growth expectations associated with foreign market opportunity development. In particular, we are interested in the relation between experience and expectations in that context.

A model of foreign market opportunity development

The concept of expectation has been surprisingly neglected by international business scholars and very seldom explicitly studied. In fact, the only study we know is that of Hadjikhani and Johanson (2001; 2002). Based on two case studies of foreign market entry, they introduce expectations into the Uppsala internationalization process model. A review of the international business literature conveys, however, the impression that expectations do not have any importance in international business. A broader look at the business literature on expectations shows that research has concerned, first, the impact of expectations on decisions and strategies (Cyert and March, 1963; Penrose, 1959; Simon, 1976; Weick, 1979), and, second, the post-decision consequences of the expectations (Barney, 1986; Grönroos, 1990; Harrison and March, 1984). No studies seem to have treated the formation or building of expectations.

Expectations are, however, crucial for the decision to start pursuing opportunities in a foreign market and in this paper we examine how experience and market knowledge influence expectations of opportunity development in a foreign market. We start from the assumption that firms going abroad are opportunity seeking, an assumption which is generally made in the recent research on international entrepreneurship (Oviatt and McDougall, 1994) and born globals (Knight, 2000; Chetty and Campbell-Hunt, 2004). The focus on opportunity recognition as a driving factor in the entrepreneurial process is also a growing research stream in entrepreneurial research (e.g. Shane, 2000; Eckhardt and Shane, 2003). Evidently, opportunity recognition is very much a matter of expectations. Although recognition is important, Ardichvili, Cardozo and Ray (2003), in their theory of entrepreneurial opportunity, argue that opportunity development should be in focus. “The need or resource ‘recognized’ or ‘perceived’ cannot be a viable business without this ‘development’.” (2003, p. 106) They also add evaluation as an important element in the opportunity process and stress that this evaluation often is informal. Both formal and informal evaluations can only be made on the basis of expectations of the future development.

Thus, the purpose of this paper is to investigate the formation of expectations on foreign market opportunity development in SMEs. In order to achieve this, we develop a structural model (see figure 1) that aims to grasp the dynamics of opportunity development in foreign markets. The constructs of international business exposure and international business experience reflect developing opportunities in foreign markets in the past, while the construct of growth expectations captures the future of the dynamics. It is the firm’s perception of market-specific knowledge that is important, in this model knowledge about customers and competitors can be viewed as fulfilling the function as a bridge between the past and the future of opportunity development. In the light of the purpose, the paper is structured in the following way. After a discussion of the expectation concept, the subsequent section analyses the link between expectation and opportunities. This is followed by a formulation of seven hypotheses on which we base a structural model. This model is tested empirically on a three-country sample of SMEs’ early foreign market commitments.

The concept of expectation

Viewing internationalization as a process implies that at each moment of time firms are to a great extent ignorant, but not completely ignorant, about the market where they are expanding their operations. This means that the internationalizing firm faces an uncertain future and radical uncertainty (Shackle, 1979). It means also that the objective facts and data that are accessible for all firms (Barney, 1986; Penrose, 1959; Kirzner, 1973) cannot be a determinant of a firm’s behaviour, although there may be a relationship between expectations and ‘facts’ (Penrose, 1959, p. 41). Firms can only imagine what the future will bring and therefore they have to rely on guesses, hopes and subjective beliefs in order to find guidance for their operations, which Cyert & March (1963) label expectations.

Firms' expectations drive behaviour and strategies, but they also filter input in terms of impressions and perceptions as people tend to be more interested in confirming than rejecting expectations (Weick, 1979). Expected event features tend to be processed quickly. Cost and time pressure encourages people to seek confirmation of expectations, which, at least in the short run, makes expectation-confirmation into an efficient behaviour.

Thus it seems that firms tend to act on their expectation, and that they strive to find confirmation of their expectations. What they anticipate and predict will happen "[a]nd when they see what they have enacted, using their predictions as lens, they often confirm their predictions" (Weick, 1979). So even when expectations are based on initially false assumptions, the mere assumption can evoke behaviour that eventually makes the false conception come true (Merton, 1968). These self-realizing expectations point toward the importance of expectations in the internationalization of the firm.

When firms act on their expectations, they participate in the market process, and by doing this they gain experience about specific aspects of the market, but they also learn and gain insight about what knowledge is actually important in order to find and develop opportunities that can result in profit and growth.

Expectations and opportunities

Furthermore, we assume that knowledge is dispersed over markets and that firms are ignorant about market conditions (Dew, Velamuri and Venkataraman, 2004; Hayek, 1945; Kirzner, 1973). Finally, like Penrose (1959), we want to stress the heterogeneity of resources but while she considers the internal resources of the firm, we want to place attention also on the heterogeneity of resources in the market. In this world, opportunities do not exist out there in the market waiting for exploitation by any market actor. Instead, specific opportunities are found and developed in a firm's interaction with specific, other market actors. The firm does business with specific firms, which makes a platform for what types of opportunities the firm can perceive. Following Kindleberger (1969), we speak of a firm's opportunity horizon which defines the field in which relevant opportunities can be seen by the specific firm. The larger the area within this horizon and the more differentiated the view of this area, the higher the growth expectations of the firm. Within the opportunity horizon, we identify two types of opportunities, which are supposed to precede growth.

First, there are opportunities which are related to the already existing and ongoing business with customers and suppliers in the foreign market. Expanding ongoing business can, for instance, be achieved by starting to use or exchange new products, services or new raw materials, but also by applying new methods of production and new ways of organizing in already ongoing business (Schumpeter, 1934), which, in turn can result in growth and financial profit in this already ongoing business.

But, *second*, ongoing business can also give other opportunities. Through current business, the internationalising firm can find new customers and markets (Schumpeter, 1934). We can thus view ongoing business with existing customers as a bridge to opportunities to new markets and new customers.

Opportunities have been defined as situations in which new ways to do business can be introduced through transformation of existing ends and/or means (Casson, 1982; Eckhardt and Shane, 2003). The existence of opportunities is a result of the fact that knowledge is imperfectly distributed among different actors in the market (Hayek, 1945), which makes opportunity a subjective and perceptual concept, based on what the individuals know and perceive (Choi and Shepherd, 2004; Shane, 2000). Consequently, there is no such thing as an objective opportunity, which can be found by all firms, and no firm is able to find all opportunities. Instead, opportunity can be regarded as finding something new and incorporating it into something already existing. This means that there is need for fit (Ardichvili *et al.*, 2003) between the opportunity and the firm's existing knowledge. We follow Ardichvili *et al*. (2003) when they argue that opportunity development should be in focus because "[o]pportunities begin as simple concepts that become more elaborate as entrepreneurs develop them" (p.109). Thus, opportunities may initially be vague and wide. Opportunities may, in consequence, comprise the whole foreign market or only a very specific part of it. The opportunity development can then be expected to be a process in which there is a gradual specification and consolidation of the opportunity as it is enacted or, in some cases, evolves in interaction with other actors (cf. Shackle, 1979). This is perfectly consistent with the internationalization process model that regards the process as interplay between commitment and experiential learning (Ghauri, Hadjikhani and Johanson, 2005; Johanson and Vahlne, 2006).

This learning is based on the experience from interactions with other firms. In the same way, development in a specific market may be highly specific since the expectations of the firm are based on the opportunities to improve already ongoing business with customers and suppliers and to find new exchanges that the firm can see through its interaction with other firms. Against that background, we expect that growth expectations are dependent on the experience of the firm and on the importance that the internationalizing firm gives to market-specific knowledge.

<u>International business experience and growth expectations</u>

First we expect that experience about how to conduct international business gives the firm better ability to identify and develop opportunities. Parker (2006) found that entrepreneurs give much more weight to past experience than to new information when forming their growth expectations. In a study of the Canadian software industry, Reuber and Fischer (1997) show that SME management teams with more international experience use more foreign strategic partners and internationalize faster than firms with less internationally experienced management teams. Experience will therefore be of utmost importance in forming the growth expectations of SME management.

The experience in the internationalization of the firm is important because firms tend to trust their experience. Experience is rich in details and contains both codified and non-codified pieces of knowledge as well as cognitive and affective pieces of knowledge. Moreover, experience is a result of the firm's operations and it is generally accepted that the experience the firm gains results in experiential knowledge, but the strength of experience for firms' internationalization lies also in the fact that experience contains pieces of both codified and non-codified knowledge. Moreover, as experience is a result of the firm's operations, it also gives the firm insight into how knowledge can be gained, and not only knowledge in itself. A wide international business experience from several markets gives the firm a solid platform to see opportunities, compare opportunities, reflect on opportunities and act on opportunities. There are three reasons why experience is such an important factor in the internationalisation of the firm:

1. Experience is not only the knowledge itself, but also the "acquisition mode", that is knowledge about how the experience was gained, which gives the firm knowledge about how to acquire experience and a comparative advantage as other firms have not found the same means of experience;
2. Experience contains both codified and non-codified knowledge as well as both affective and cognitive pieces of knowledge. These pieces tend to strengthen each other;

3. Experience is difficult to transfer, which means that there is no market where experience is bought and sold.

Gathering experience is a cumulative process that takes time (Cohen and Levinthal, 1990; Zollo and Winter, 2002). Length of experience can therefore be thought to have a positive impact on the ability to see and act upon opportunities (Shane, 2000). In the context of internationalizing firms, the effect of the duration of prior experience is investigated with respect to the likelihood of further foreign investment (Mudambi, 1998), country selection and entry mode choice (Erramilli, 1991; Davidson, 1980), and the longevity of international joint ventures (Barkema *et al*., 1996).

Referring to the distinction between opportunities in existing business with customers and suppliers, and opportunities that are related to expanding the operations beyond this existing business, prior experience of these two opportunities are of interest. We mean that opportunities in existing business come from combining and re-combining products. Expanding business beyond the existing business is, on the other hand, an issue of finding new customers and new markets and to begin to do business with them. The more the firm has managed these types of processes in the past, the more it can be claimed to have gained international business experience. Firms which have this experience will be confident that they can manage similar situations, which is a result of reduced perceived uncertainty. Experience gives the firm a feeling of "we have done this before" and the firm is therefore likely to have established routines and to have people that can manage a process of expansion, which, in turn, means that the firm is likely to expect that it can develop the opportunities that can result in profit and growth in the future.

Hypothesis 1: When a firm develops opportunities in a foreign market, its international business experience has a positive effect on the growth expectations associated with the opportunities.

Perceived importance of market-specific knowledge and the growth expectations

One of the critical problems in organizations is that managerial time and attention are scarce resources (Cyert and March, 1963). Evidently, this problem is particularly serious in SMEs with their limited managerial capacity. This means that opportunity development in a foreign market, in addition to the international business experience of the firm, is a matter of the time and attention the firm allocates to those opportunities. It is likely that the firm will allocate managerial resources to those problems and actors that they consider important for opportunity development and it also seems likely that this will be a matter of the perceived importance of knowledge about those problems and actors. Two types of actors are usually considered as critical for the firm and especially for the firm's possibility to achieve growth: the customers and the competitors.

Several lines of research stress the importance of knowledge about customers. In marketing, market orientation has become a central concept during the last decade and in market orientation, customer orientation is considered critical (Kohli and Jaworski, 1990). Customer orientation emphasizes the importance of knowledge about the customers' needs and situation (Slater and Narver, 1994). Two of the components in the market orientation concept are acquisition of information and knowledge and the subsequent dissemination and use of the information and knowledge (Jaworski and Kohli, 1993). It is considered to be important that the collection of knowledge takes place not only through formal means like market research and surveys, but also through interaction with the customers. The perception that it is important to have knowledge about specific customers' needs and what they see as valuable has been observed to have a positive effect on the performance of the firm (Kirca, Jayachandran and Bearden, 2005; Narver and Slater, 1990). To be able to satisfy the needs of the customers, we mean that knowledge about the products the customers offer to their markets and the production process that produces these products is essential. Consequently, the market orientation literature supports the idea that the more the firm perceives that it is important to have knowledge about the customers, the more it is likely to expect growth in the market.

Similarly, relationship marketing places attention on the relation to the customer and in this relation, knowledge and learning are central (Dwyer, Schurr and Oh, 1987). In the closely related business network view, business relationships between suppliers and customers are central concepts with focus on learning and knowledge, but the difference from relationship marketing is that the customer's network is considered important in addition to needs and strategies (Ford, 2002; Håkansson and Snehota, 1995). Both the relationship marketing literature (Anderson and Narus, 1990; Morgan and Hunt, 1994) and the business network view (Håkansson, 1989) claim that the cooperation that is performed in the relationships between customers and suppliers is critical in the market, but also that cooperation is a typical element that makes up the glue of business relationships. In line with this, we mean that having knowledge about the customers' willingness and ability to cooperate is of strategic importance. Knowing with whom and how to cooperate therefore seems to make up the foundation for the possibility to expect that the firm's business can grow in the future. We mean that perceived importance of knowledge about the customer has a positive effect on expected outcome of foreign market opportunity development.

Hypothesis 2: When a firm develops opportunities in a foreign market, the perceived importance of knowledge about customers has a positive effect on the growth expectations associated with the opportunities.

Factors that are likely to have an impact on the firm's performance in the foreign market are its competitors and their behaviour. First-mover advantages (Lieberman and Montgomery, 1988) and timing of an entry in foreign markets (Delios and Makino, 2003; Gaba, Pan and Ungson, 2002) are concepts that have emerged as a way to analyse the firm's performance in relation to other firms. Although a debate is going on whether this advantage prevails in the long run (Isobe, Makino and Montgomery, 2000), the general underlying assumption is that there is an advantage to be the first firm, or at least among the first, to enter a foreign market. However, we mean that it is not only being ahead of the competitors in entering a market that influences the possibility to achieve growth. Knowing the competitors also gives the firm an advantage, since this type of knowledge gives the firm a possibility to sense opportunities (Porter, 1991). With roots in industrial organization theory, the structural analysis of industries gives rivalry among competitors a central role (Porter, 1980). This approach to strategy places attention on knowledge about competitors and their offerings. This means that firms realise that there is an advantage to have knowledge about the competitors in general, but especially, to have knowledge about the products they are offering the firm's customers, and their ability to develop strong relationships with these customers. This knowledge gives the firm a possibility to predict and to react to the competitors' behaviour. Thus, there seems to be reason to believe that perceived importance of competitor knowledge has a positive effect on expected outcome of opportunity development.

Hypothesis 3: When a firm develops opportunities in a foreign market, the perceived importance of knowledge about competitors has a positive effect on the growth expectations associated with the opportunities.

In the case of SMEs, with limited resources and flexible structures, in particular, there is reason to expect that opportunity development will occur either within, or closely related to, business relationships with specific customers. Given that business is conducted in some form of business relationships, we mean that the more attention the firm pays to its customers, the more it learns about them and their operations, and when doing this, it also realises that it may be useful and important to have knowledge about its competitors as well. The reason for this is that knowledge about the competitors gives the firm a possibility to compare the offerings of the competitors with their own offerings. Since the firm and its competitors are rivals and aim to sell to the same customers, which, in turn, affects their performance in terms of market share and turnover, this knowledge can give the firm a possibility to adapt and improve products, deliveries, spare parts, services etc. so that it can strengthen the already ongoing business. Thus, we expect firms to discover the importance of knowledge about competitors in connection to specific relationships with customers.

Hypothesis 4: When a firm develops opportunities in a foreign market, the perceived importance of knowledge about customers has a positive effect on the perceived importance of knowledge about competitors.

International exposure and international business experience

Experience in SMEs is usually connected to the management of the firm and to their assessment of their experience. When the firm is exposed to international business, it accumulates experience. The exposure is, in turn, a product of how long and varied the international exposure of the firm has been. Experience from a larger variety of situations exposes a firm to many different ideas, routines and practices from which it can learn (Huber, 1991; Walsh, 1995). Moreover, variation in experience is important because it makes comparison and generalization possible. Comparison helps the firm to select between different experiences gained in different markets. Firms with experiences in a larger number of foreign markets, for instance, have been exposed to a wider variety of business practices and solutions to problems from which they can choose when they discover a new opportunity. With a large variety of experience at hand, exploration of new options is enhanced (March, 1991). The effect of variation in prior international experience is discussed previously with respect to knowledge accumulation (Eriksson *et al.*, 2000), longevity (Barkema and Vermeulen, 1998), and survival and profitability (Delios and Beamish, 2001). Eriksson *et al*. (2000) found that variation in terms of the geographical spread of prior international operations has a positive effect on the accumulation of experiential knowledge in internationalizing firms. Erramilli (1991), furthermore, finds that variation of experience in particular is effective in preparing firms for entry into culturally distant markets, because it reduces uncertainty. Luo and Peng (1999), find that experiences from a wider variety of activities in China proved beneficial to the performance of foreign subsidiaries in this complex and uncertain host market. The positive performance effect appeared to last over time, supporting the view that exposure to variety allows firms to develop competence in exploitation of new opportunities.

The reason why exposure gives international business experience is that longevity gives the firm time to repeat and to put experience to use. Moreover, time gives the firm the possibility to test and to reflect over the experience gained. If the experience is not rejected, the firm is likely to trust the experience, which, in turn, means that the firm will make use of it when strategies are outlined. According to the organizational learning literature, experience makes it possible to develop operational knowledge and problem solving routines in prior situations, and to use these routines in solving similar problems later on (Levitt and March, 1988; Cohen and Levinthal, 1990). These experiences make it possible to evaluate a new opportunity and adapt routines to it when necessary. New experiences and the knowledge and routines developed from those experiences can be retrieved when necessary to solve problems in similar situations (Cyert and March, 1963; Nelson and Winter, 1982; Cohen and Bacdayan, 1994). Thus, the bigger exposure to international business, the wider the experience and the more likely that the firm can identify the pieces of experience that it trusts.

In the international business literature, it is generally assumed that variation and duration of exposure to foreign markets and operations can be used as a direct measure of international business experience. In this study, however, we make a distinction between international exposure and international business experience. We mean that experience is a form of knowledge – experiential knowledge – that can be expected to affect opportunity development. Most studies' references to the effects of experience (e. g. Barkema *et al*., 1996; Davidson, 1980; Erramilli, 1991; Mudambi, 1998) are really effects of exposure and, by introducing experience as the knowledge that influences opportunity development, we can get a more precise idea of the role of experience in the opportunity development process. Thus, we expect longer and more varied international exposure to have a positive impact on the accumulation of relevant international business experience in SMEs.

Hypothesis 5: International business exposure of the firm has a positive effect on its international business experience.

As mentioned above, the firm does not only learn routines for international business operations through international business exposure, it also learns which kinds of knowledge are important. Thus we have reason to hypothesize that there is a relation between international business exposure and perceived importance of different kinds of knowledge, such as knowledge about customers and competitors. Based on the marketing literature on market orientation and the industrial organization literature mentioned above in connection with hypotheses 2 and 3, we expect that through international business operations, firms learn that customer and competitor knowledge is more important than before they were exposed to foreign markets.

Hypothesis 6: International business exposure has a positive effect on perceived importance of knowledge about customers.

Hypothesis 7: International business exposure has a positive effect on perceived importance of knowledge about competitors.

A structural model

Based on the interrelated hypotheses, we formulate a structural model of opportunity development in which expectation is the dependent variable, the international business exposure is the independent variable and international business experience and perceived importance of market specific knowledge are intermediary variables. The model is shown in Figure 1.

------------------Insert figure 1 here---

Methodology

Following the recommendation of Gaglio and Katz (2001) to use methods that encourage individuals to think instead of just recalling past experience, we designed a study in which the respondent started out with identifying a specific international expansion step and answering the questionnaire with that step in mind. This means that we use the business assignment associated with the specific expansion step as a proxy for an opportunity in the foreign market.

Sample

The tests are based on a sample of 1807 managers in charge of international operations in small and medium-sized Swedish, Danish and New Zealand firms. We used the business directory for each country as sampling frame. From these directories, we sampled SMEs with at least 10 % of sales going abroad. The net response rate for the study was 27.3 %, giving 494 firms to test our hypotheses on. Due to some missing values, the effective sample size after listwise deletion is 460. The average age of the firms was 40 years and the firms had been involved in international business for an average of 24 years. The firms had 97 employees on average. In order to test the hypotheses, we used a statistical analysis technique known as structural equation modelling (Jöreskog and Sörbom, 1993). The statistical package used is LISREL 8.5.

Constructs

As shown in figure one, we use five constructs to test the relation between experience and expectations: **Growth expectations** is measured by a combination of three indicators: what increase the firms expect in sales in the market; what increase they expect in profit in the market; and what increase they expect in new customers in the market. This is in line with the idea that there are two main types of sources for the opportunities, either finding and exploiting opportunities in the ongoing business assignments or finding opportunities beyond the ongoing business assignments. **International exposure** is measured as a combination of how many countries the firm has business in and how long the firm has been involved in international business. **International business experience** is measured as a combination of the respondents' assessment of the firm's experience of doing business in new markets, doing business with new international customers, and developing and adapting products in foreign markets. This construct is also designed in order to grasp the two types of opportunities. The first two questions aim to give an indication whether the firm has experience from finding new markets and new customers, that is, finding and exploiting opportunities beyond the ongoing business assignment. On the other hand, we view developing and adapting products in existing business assignment as a question that covers the idea that opportunities are also to be found in the business that the firm already performs in the international markets. The perceived importance of knowledge about competitors and customers has been measured by use of three indicators, which correspond with the ideas that by gaining knowledge about the customers and competitors, the firm gains a better position in the market. The **perceived importance of knowledge about competitors** in the market is measured as a combination of three indicators, the problems associated with lack of knowledge about the competitors' product, production process and cooperativeness. **Perceived importance of knowledge about customers** in the market is measured as a combination of three indicators, the problems associated with lack of knowledge about the customers' product, production process and cooperativeness. The reason for asking about lack of knowledge instead of knowledge is that knowledge is difficult to assess, given the tacit nature of most knowledge (Bourdieu, 1990). Lack of knowledge, however, is a result of exposure to a specific situation and thus directly observable. This approach has previously been used in the internationalization literature by

Chetty, Eriksson and Lindbergh (2006) and Pedersen and Petersen (2004). Constructs and indicators are shown in table 1.

---------------------------------Insert table 1 here---

Structural model analysis

According to Jaccard and Wan (1996), we should use fit indices other than chi-square tests since this test is sensitive to sample size and non-normal data. We should, therefore, use one out of each of three classes of fit indices: the first class measures absolute model fit and includes the goodness-of-fit index (GFI), the second class also measures absolute fit, but with a penalty for being too liberal in the specifications of parameters to be estimated, and it includes the root mean square error of approximation (RMSEA), and the third class compares the absolute fit to alternative models and it includes the comparative fit index (CFI). The measures used in this paper to check for statistical validity are: 1) the GFI, which checks for sample size effect, and which should be above 0.90 (Jaccard and Wan, 1996); 2) the RMSEA, which measures population discrepancy per degree of freedom and should be below 0.08 for adequate model fit and below 0.05 for good model fit (Browne and Cudek, 1993); 3) the CFI, checking for non-normal distributions and which should exceed 0.90 (Jaccard and Wan, 1996), 4) the P-value, which should be above 0.05 (Jöreskog and Sörbom, 1993), and 5) the NNFI, which combines measures of parsimony into a comparative index between the proposed and null models and should be above 0.90 (Hair, Anderson, Tatham, and Black, 1998). To check the separate relationships, we use t-values of the factor loadings, which should be above 1.96 (Hair *et al.*, 1998).

The measurement model is valid since it has a chi-square of 132.9 with 71 degrees of freedom at a probability of 0.0001 (RMSEA = 0.048, NNFI = 0.97, GFI = 0.95, CFI = 0.97).

Construct validity is established through establishing convergent validity, discriminant validity and nomological validity. To establish convergent validity, we need to examine factor loadings which should be at least .5 and preferably .7 and significant (Hair *et al.*, 1998). We also need to check variance extracted and construct reliability. In table 1, we see that all factor loadings are above .54 and all t-values above 6.72 and we can thus claim convergent validity. All t-values for the separate relationships are above 7.38, the extracted variance for the constructs is above 0.6 and the construct reliability of the constructs is above 0.5, which indicates good construct reliability (Anderson and Gerbing, 1988; Hair *et al.*, 1998). We can thus safely go on to test the structural model. The structural model is valid since it has a chi-square of 119.17 with 69 degrees of freedom at a probability of 0.0017. The P-value is low for both the measurement model and the structural model, but given the sample size this is to be expected (Hair *et al.*, 1998) and all other fit indices are acceptable (RMSEA = 0.042, NNFI = 0.97, GFI = 0.96, CFI = 0.96). The proposed structural model has better fit than the measurement model, the one-factor model and the null model, which indicates convergent validity (Anderson and Gerbing, 1988). To check for discriminant validity, the difference was computed between a model that allowed the constructs to be perfectly correlated and another model that allowed the correlations of the constructs to be free. This was done for one pair of constructs at a time. This test confirmed the discriminant validity of the constructs. In figure 2 below we show the structural model.

-------------------------------- Insert figure 2 here---

As can be seen in figure 2, we find that hypotheses 1-2 and 4-6 are supported while hypotheses 3 and 7 are not. International exposure does lead to more perceived international business experience and to an increase in the perceived importance of customer knowledge.

More perceived international experience and increased perceived importance of customer knowledge do lead to higher growth expectations in the foreign market. Increased perceived importance of competitor knowledge does, however, reduce the growth expectations in the foreign market and we found no significant influence of international exposure on the perceived importance of competitor knowledge.

Final discussion

The support for hypotheses 1-2 and 4-6 does support the study's general idea that it is experience that leads firms to have certain foreign market opportunity expectations. International exposure leads to more international business experience. This confirms the basic assumptions of the internationalization process model (Johanson and Vahlne, 1977), as well as the findings of a number of other studies in international business (Eriksson, Johanson, Majkgård and Sharma, 1997; Barkema *et al.*, 1996). International experience does lead to higher expectations to develop opportunities in the foreign market. Firms with more international experience will have developed capabilities of developing opportunities in a specific market.

The unexpected sign of the relation between perceived importance of competitor knowledge and growth expectations, and the non-significant relation between international exposure and perceived importance of knowledge about competitors does, however, highlight the central role of the specific relationships with customers. Opportunity development in foreign markets takes place in relation to specific counterparts and only if and when competitors influence that specific relationship does competitor knowledge become important. This also means that when competitor knowledge is perceived as important, that means that competitors are perceived as an obstacle to opportunity development in the foreign market. Homburg, Grozdanovic and Klarman, (2007) found that customer and competitor information is handled by different mechanisms. Firms are more prone to react on richer customer information than on relatively scarcer competitor information. Steenkamp, Nijs, Hanssens and Dekimpe (2005) also found that managers tend to ignore competitors when making routine decisions in stable environments. It is thus often only as competitors start to influence the routine handling of the customer relationship that the firm has to take them into consideration and then usually as a confounding factor.

The five supported hypotheses lead us to concur that firms, via their experience, do in fact shape reality according to their expectations. This is an interesting observation, because it indicates that two types of experience have a positive effect on firms' expected opportunity development. General experience about international business and how to run international operations probably gives the firm the possibility to reflect on and compare experience between different foreign markets (Eriksson *et al.,* 1997). Moreover, firms operating in many foreign markets probably believe they can re-use experience from one market in another market. Thus, having developed opportunities in one foreign market, a firm is likely to believe that it will be able to find and develop opportunities in other markets as well.

In the same way, specific experience about how to run business in a specific market, in terms of knowledge about customers and their production, production process and cooperativeness, gives the firm insights into where opportunities can be expected to be found and how much of the pie it has to share with other firms. While these types of experience give the firm a foundation for what can be imagined and where the firm has its opportunity horizon, perceived importance of competitors will be seen as a constraint. Competitors are a potential obstacle to opportunity development, but it becomes important to acquire knowledge about them only if the firm realizes that they do in fact influence the specific business relationships it tries to develop.

Although experience has a fairly long tradition as a central concept in international business, it has always been indicated by time or variation of international operations. In this study, we separate time and variation from experience and measure experience more directly as a set of capabilities that the managers judge that the firm has gained from international exposure in terms of time and variation. The strong causal relation between the two constructs supports the traditional way of measuring international business experience but shows also that the two constructs are most definitely separate. A related finding is that international exposure has an impact on the perceived importance of knowledge about customers directly, and indirectly also knowledge about competitors. This is an aspect of international business experience that has not been considered in earlier studies.

Limitations and future research

In international business research, it is generally assumed that culture and institutions have strong impacts on business in foreign markets. This study does not consider such possible effects on opportunity expectations. There are several possible effects of those factors. The culture and institution in the host country can influence opportunity expectations. A comparison between host countries is a simple way of investigating such factors. It is also, as variables like psychic distance, cultural distance and institutional distance suggest, possible that the distance between the home country and the foreign market country in those respects means that opportunity development is affected. This would be expected, based on a lot of findings regarding the effects of such distances.

The centrality of a focal business relationship in this study leads to another type of interesting questions for future research. Is it only in connection to specific business relationships that factors like culture and institutions become important for firms in terms of developing new opportunities in foreign markets? Thus, are the effects of such factors mainly mediated by the business relationship or is there a direct effect of these factors on opportunity development? Evidently, that is an important question from a managerial point of view. If the effect is mediated, this should be handled within the relationship, otherwise it can only be accepted as a given.

An interesting detail of the analysis concerns the indicators of expected opportunity development. In addition to indicators based on growth and financial profit expected from opportunity development, one indicator is expected increase in business with other customers. This suggests that the firm expects new opportunities to follow the existing one. This leads to the interesting question about learning to develop foreign market opportunities. Thus, does the firm learn from opportunities previously developed with the same counterpart? Does it learn from other opportunities in the same country market? Does it learn from other opportunities developed in other country markets? These are simple but interesting research questions.

References

Anderson, J.C. and Gerbing, D.W. (1988) ‘Structural equations modelling in practice: A review and recommended two-step approach’, *Psychological Bulletin* **103**(3): 411-423.

Anderson, J. C. and Narus, J. A. (1990) ‘A model of distributor firm and manufacturer firm working partnerships’, *Journal of Marketing* **54**(1): 42–58.

Ardichvili, A., Cardozo, R. and Ray, S. (2003) ‘A theory of entrepreneurial opportunity identification and development’, *Journal of Business Venturing* **18**(1): 105-123.

Barkema, H. G., Bell, J. H. J. and Pennings, J. M. (1996) **‘**Foreign entry, cultural barriers and learning’, *Strategic Management Journal* **17**(2): 151-66.

Barkema, H. G. and Vermeulen, F. (1998) ‘International expansion through start-up or acquisition: A learning perspective’, *Academy of Management Journal* **41**(1): 7-26.

Barney, J. B. (1986) ‘Strategic factor markets: Expectations, luck and business strategy’, *Management Science* **17**(1): 99–120.

Bonaccorsi, A. (1992) ‘On the Relationship Between Firm Size and Export Intensity’, *Journal of International Business Studies* **23**(4): 605-636.

Bourdieu, P. (1990) *The logic of practice*, Cambridge: Polity Press.

Browne, M.W. and Cudek, R. (1993), ‘Alternative ways of assessing model fit’, in: Bollen, K. and Long, J.S. (eds.), *Testing Structural Equation Models*, Newbury Park: CA: Sage Publications, 136-162.

Buckley, P. J. (1989) ‘Foreign Direct Investment by Small and Medium-Sized Enterprises: The Theoretical Background’, *Small Business Economics* **1**: 89-100

Buckley, P.J. and Casson, M. (1976) *The Future of the Multinational Enterprise*, London: Macmillan.

Casson, M. (1982) *The entrepreneur*. Totowa, NJ: Barnes and Noble Books.

Chetty, S. and Campbell-Hunt, C. (2004) ‘A strategic approach to internationalisation: A traditional versus a “born global” approach’, *Journal of International Marketing* **12**(1): 57-81.

Chetty, S., Eriksson, K. and Lindbergh, J. (2006) ‘The effect of specificity of experience on a firm's perceived importance of institutional knowledge in an ongoing business’, *Journal of International Business Studies* **37**(5): 699–712.

Choi, Y. R. and Shepherd, D. A. (2004) ‘Entrepreneurs decisions to exploit opportunities’, *Journal of Management* **30**(3): 377-395.

Cohen, W. and Levinthal, D.A. (1990) ‘Absorptive capacity: a new perspective on learning and innovation’, *Administrative Science Quarterly* **35**(1): 128-152.

Cohen, M.D. and Bacdayan, P. (1994) ‘Organizational Routines Are Stored as Procedural Memory’, *Organization Science* **5**(4):

Coviello, N. E. and McAuley, A. (1999) ‘Internationalisation and the Smaller Firm: A Review of Contemporary Empirical Research’, *Management International Review* **39**(3): 223-256.

Cyert, R. M. and March, J. G. (1963) *The behavioural theory of the firm*. Cambridge, Massachusetts: Blackwell Publishers.

Davidson, W. (1980) ‘The location of foreign direct investment activity: Country characteristics and experience effects’, *Journal of International Business Studies* **11**(2): 9-22.

Delios, A. and Beamish, P.W. (2001) ‘Survival and Profitability: The Roles of Experience and Intangible Assets in Foreign Subsidiary Performance’, *Academy of Management Journal* **44**(5): 1028-1038.

Delios, A. and Makino, S. (2003) ‘Timing of entry and the foreign subsidiary performance of Japanese firms’, *Journal of International Marketing* **11**(3): 83-105.

Dew, N., Velamuri, S. R. and Venkataraman, S. (2004) ‘Dispersed knowledge and the entrepreneurial theory of the firm’, *Journal of Business Venturing* **19**(5): 659-679.

Dunning, J.H. (1988) ‘The Eclectic Paradigm of International Production: A Restatement and some Possible Extensions’, *Journal of International Business Studies* **19**(1): 1-31.

Dwyer, F.R., Schurr, P.H. and Oh, S. (1987) ‘Developing buyer-seller relationships’, *Journal of Marketing* **51**(2): 11-27.

Eckhardt, J. T. and Shane, S.A. (2003) ‘Opportunities and Entrepreneurship’, *Journal of Management* **29**(3): 333-349.

Eriksson, K., Johanson, J., Majkgård, A. and Sharma, D. (1997) ‘Experiential knowledge and cost in the internationalization process’, *Journal of International Business Studies* **28**(2): 337-360.

Eriksson, K., Johanson, J., Majkgård, A. and Sharma, D. (2000) ‘Effects of variation on Knowledge Accumulation in the Internationalization Process’, *International Studies of Management and Organization* **30**(1): 26-44.

Erramilli, M. K. (1991) ‘The experience factor in foreign market entry behaviour of service firms’, *Journal of International Business Studies* **21**(3): 479-502.

Ford, D., ed. (2002) *Understanding Business Marketing and Purchasing.* Third edition. London: Thomson Learning.

Gaba, V., Pan, Y. and Ungson, G. R. (2002) ‘Timing of entry in international market: An empirical study of U.S. Fortune 500 firms in China’, *Journal of International Business Studies* **33**(1): 39-55.

Gaglio, C. M. and Katz, J. A. (2001) ‘The Psychological Basis of Opportunity Identification: Entrepreneurial Alertness’, *Small Business Economics* **16**(2): 95-112.

Ghauri, P., Hadjikhani, A. and Johanson, J., eds. (2005) *Managing Opportunity Development in Business Networks.* Hampshire: Palgrave.

Grönroos, C. (1990) *Service management and marketing: Managing the moment of truth in service competition.* MA: Lexington Books.

Hadjikhani, A. and Johanson, M. (2001) ‘Expectation: The missing link in the internationalization process model’, in: Håkansson, H. and Johanson, J. (eds.), *Business Network Learning*, Amsterdam, London, Oxford: Elsevier Science Ltd. Pergamon, pp. 146-168.

Hadjikhani, A. and Johanson, M. (2002) ‘The fifth dimension: expectations in the internationalization process model’, in: Havila, V., Forsgren, M. and Håkansson, H. (eds.), *Critical Perspectives on Internationalisation*, Amsterdam, London, Oxford: Elsevier Science Ltd., Pergamon pp. 146-168.

Håkansson, H. (1989) *Corporate technological behaviour: Co-operation and networks*. London: Routledge.

Håkansson, H. and Snehota, I. (1995) *Developing relationships in business networks*. London: Routledge.

Hair, J. F., Anderson, R. E., Tatham, R. L. and Black, W. C. (1998) *Multivariate data analysis*. 5th ed. New York: Macmillan.

Harrison, J.H. and March, J.G. (1984) ‘Decision-Making and Postdecision Surprises’, *Administrative Science Quarterly* **29**: 26-42.

Hayek, F. A. (1945) ‘The use of knowledge in society’, *American Economic Review* **45**(4): 519-530.

Homburg, C., Grozdanovic, M. and Klarman, M. (2007) ‘Responsiveness to Customers and Competitors: The Role of Affective and Cognitive Organizational Systems’, *Journal of Marketing* **71**(3): 18-38.

Huber, G. (1991) ‘Organizational learning: The contributing processes and the literatures’, *Organization Science* **2**(1): 88-115.

Isobe, T., Makino, S. and Montgomery, D. B. (2000) ‘Resource commitment, entry timing, and market performance of foreign direct investments in emerging economies: The case of

Japanese International joint ventures in China’, *Academy of Management Journal* **43**(3): 468-484.

Jaccard, J. and Wan, C.K. (1996) *LISREL approaches to interaction effects in multiple regression*, Thousand Oaks, CA: Sage publications.

Jaworski, B. J. and Kohli, A. K. (1993) ‘Market orientation: Antecedents and consequences’, *Journal of Marketing* **57**(3): 53-70.

Johanson, J. and Vahlne, J-E. (1977) ‘The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments’, *Journal of International Business Studies* **8**(1): 23-32.

Johanson, J. and Vahlne, J-E. (2006) ‘Commitment and opportunity development in the internationalization process: A note on the Uppsala internationalization process model’, *Management International Review* 46(2): 1-14.

Jöreskog, K-G. and Sörbom, D. (1993) *LISREL 8: Structural equation modelling with the simplis command language*, Hillsdale, NJ: Lawrence Erlbaum Associates Publishers.

Kindleberger, C. P. (1969) *American Business Abroad: Six Lectures on Direct Investment*. New Haven, CT: Yale University Press.

Kirca, A. H, Jayachandran, S. and Bearden, W. O. (2005) ‘Market orientation: A meta-analytic review and assessment of its antecedents and impact on performance’, *Journal of Marketing* **69**(2): 24-41.

Kirzner, I. M. (1973) *Competition and entrepreneurship*. Chicago: University of Chicago Press.

Knight, G. (2000) ‘Entrepreneurship and marketing strategy: The SME under globalization’, *Journal of International Marketing* **8**(2): 12-32.

Knight, G. (2001) ‘Entrepreneurship and strategy in the international SME’, *Journal of International Management* **7**(3): 151-171.

Kohli, A. K. and Jaworski, B. J. (1990) ‘Market orientation: The construct, research propositions, and managerial implications’, *Journal of Marketing* **54** (2): 1-18.

Levitt, B. B. and March, J. G. (1988) ‘Organizational learning’, *Annual Review of Sociology* **14**: 319-340.

Lieberman, M. B. and Montgomery, D. B. (1988) ‘First-mover advantages’, *Strategic Management Journal* **9**(1): 41-58.

Luo, Y. and Peng, M. W. (1999) ‘Learning to compete in a transition economy: Experience, environment and performance’, *Journal of International Business Studies* **30**(2): 269-296.

Madsen, T. K., Rasmussen, E. S., and Servais, P. (2000) ‘Differences and similarities between born globals and other types of exporters’, in: Yaprak, A. and Tutek, J. *Globalization, the multinational firm, and emerging economies. Advances in international marketing,* (Vol. 10) (247–265). Amsterdam: JAI/Elsevier.

March, J.G. (1991) ‘Exploration and exploitation’, *Organization Science* **2**(1): 71-87.

Mathews, J. A. and Zander, I. (2007) ‘The international entrepreneurial dynamics of accelerated internationalization’, *Journal of International Business Studies*, **38**(3): 387-403.

Merton, R. K. (1968) *Social Theory and Social Structure*. Free Press.

Morgan, R. M. and Hunt, S. D. (1994) ‘The commitment-trust theory of relationship marketing’, *Journal of Marketing* **58**(3): 20–38.

Mudambi, R. (1998) ‘The Role of Duration in Multinational Investment Strategies’, *Journal of International Business Studies* **29**(2): 239-261.

Narver, J. N. and Slater, S. F. (1990) ‘The effect of market orientation on business profitability’, *Journal of Marketing* **54**(4): 20-35.

Nelson, R. R. and Winter, S. G. (1982) *An evolutionary theory of economic change.* Cambridge, MA: Harvard University Press.

O'Farrell, P. N. and Hitchins, P.W.N. (1988) ‘Alternative Theories of Small Firm Growth: A Critical Review’, *Environment and Planning* **20**(10): 365-83.

Oviatt, B. M. and McDougall, P. P. (1994) ‘Toward a Theory of International New Ventures’, *Journal of International Business Studies* **25**(1): 45-64.

Oviatt, B. M. and McDougall, P. P. (2005) ‘Defining international entrepreneurship and modelling the speed of internationalization’, *Entrepreneurship Theory & Practice* 537-553.

Parker, S.C. (2006) ‘Learning about the unknown: How fast do entrepreneurs adjust their beliefs?’, *Journal of Business Venturing* **21**: 1-26.

Pedersen, T. and Petersen, B. (2004) ‘Learning about foreign markets: Are entrant firms exposed to a ‘shock effect’?’, *Journal of International Marketing* **12**(1), 103-123.

Penrose, E. T. (1959) *The theory of the growth of the firm*. Oxford: Basil Blackwell.

Porter, M. (1980) *Competitive Strategy*. New York: Free Press.

Porter, M. (1991) ‘Towards a dynamic theory of strategy’, *Strategic Management Journal* **12**(S2): 95-117.

Reuber, A. R. and Fischer, E. (1997) ‘The influence of the management team’s international experience on the internationalization behaviors of SMEs’, *Journal of International Business Studies* **28**: 807-825.

Schumpeter, J. (1934) *Theory of economic development*. Cambridge, MA: Harvard University Press.

Shackle, G.L.S. (1979) *Imagination and the Nature of Choice.* Edinburgh: Edinburgh University Press.

Shane, S. (2000) ‘Prior knowledge and the discovery of entrepreneurial opportunities’, *Organization Science* **11**(4): 448-469.

Simon, H. (1976) *Administrative Behavior* (3rd ed.), New York: The Free Press

Slater, S. F. and Narver, J. C. (1994) ‘Does competitive environment moderate the market orientation-performance relationship?’, *Journal of Marketing* **58**(1): 46-65.

Steenkamp, J-B. E. M., Nijs, V. R., Hanssens, D. M. and Dekimpe, M G. (2005) ‘Competitive Reactions to Advertising and Promotion Attacks’, *Marketing Science* **24**(1): 35-54.

Walsh, J. P. (1995). ’Managerial and Organizational Cognition: Notes from a trip down memory lane’, *Organization Science* **6**(3): 280-321.

Weick, K. E. (1979) *The social psychology of organizing* (2nd ed.). Reading, Mass.: Addison-Wesley Publishing Company.

Zollo, M. and Winter, S.G. (2002) ‘Deliberate learning and the evolution of dynamic capabilities’, *Organization Science* **13**: 339-351.

Table 1. The indicators of the constructs

	Measures	Interna-tional exposure	Interna-tional business experience	Customer know-ledge	Competitor knowledge	Growth expec-tations
Number of countries with sales	Loading t-value R^2	0.88 8.17 0.77				
Length of international exposure	Loading t-value R^2	0.55 6.72 0.25				
What is your firm's international experience in the following areas?						
development and adaptation of products	Loading t-value R^2		0.89 n.a. 0.79			
to do business with new customers	Loading t-value R^2		0.93 18.12 0.87			
to do business in new markets	Loading t-value R^2		0.54 11.0 0.29			
A lack of knowledge in the following factors is an obstacle when executing the chosen assignment abroad:						
Your customer's product	Loading t-value R^2			0.68 n.a .46.		
Your customer's production process	Loading t-value R^2			0.93 15.22 0.87		
Your customer's cooperativeness	Loading t-value R^2			0.88 14.99 0.77		
Your competitors' product	Loading t-value R^2				0.86 n.a. 0.74	
Your competitors' production process	Loading t-value R^2				0.86 19.39 0.74	
Your competitors' cooperativeness	Loading t-value R^2				0.80 17.9 0.64	
What outcome do you expect from the chosen business assignment?						
Growth	Loading t-value R^2					0.64 n.a. 0.40
Financial profit	Loading t-value R^2					0.80 9.64 0.48
Increased future business with other customers	Loading t-value R^2					0.69 9.79 0.79
VE		0.51	0.65	0.70	0.71	0.51
CR		0.67	0.84	0.87	0.88	0.75

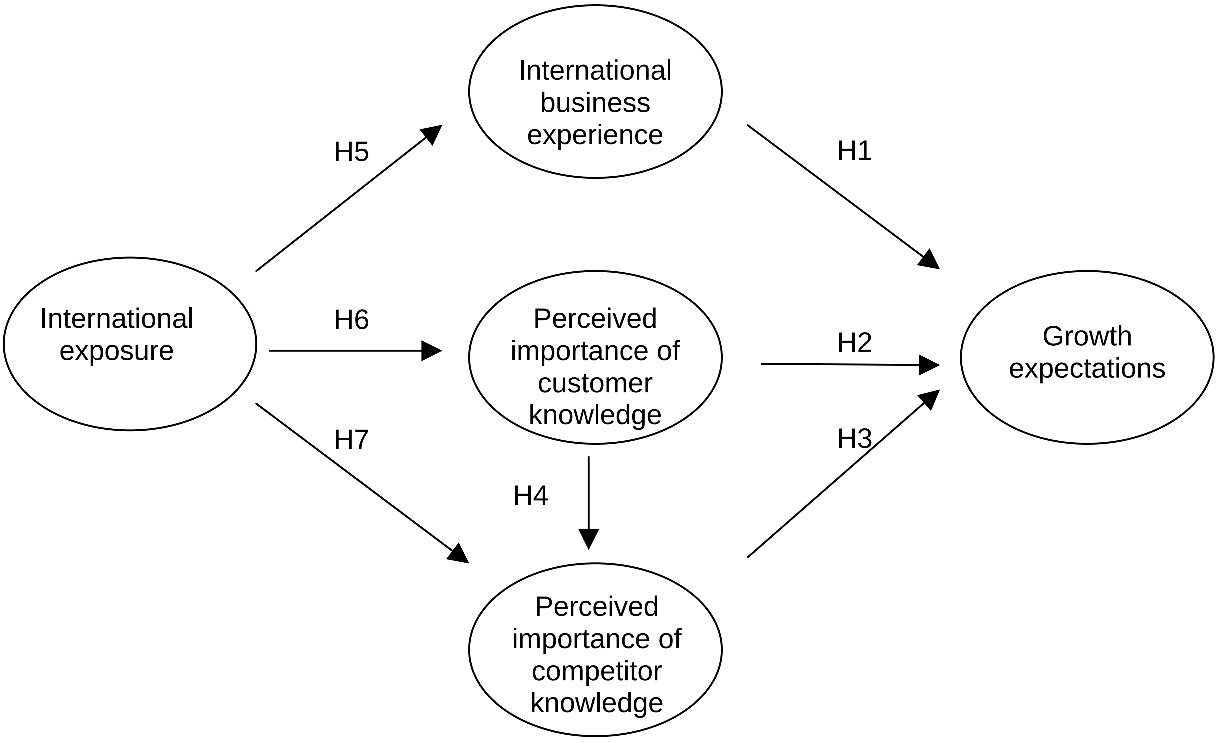
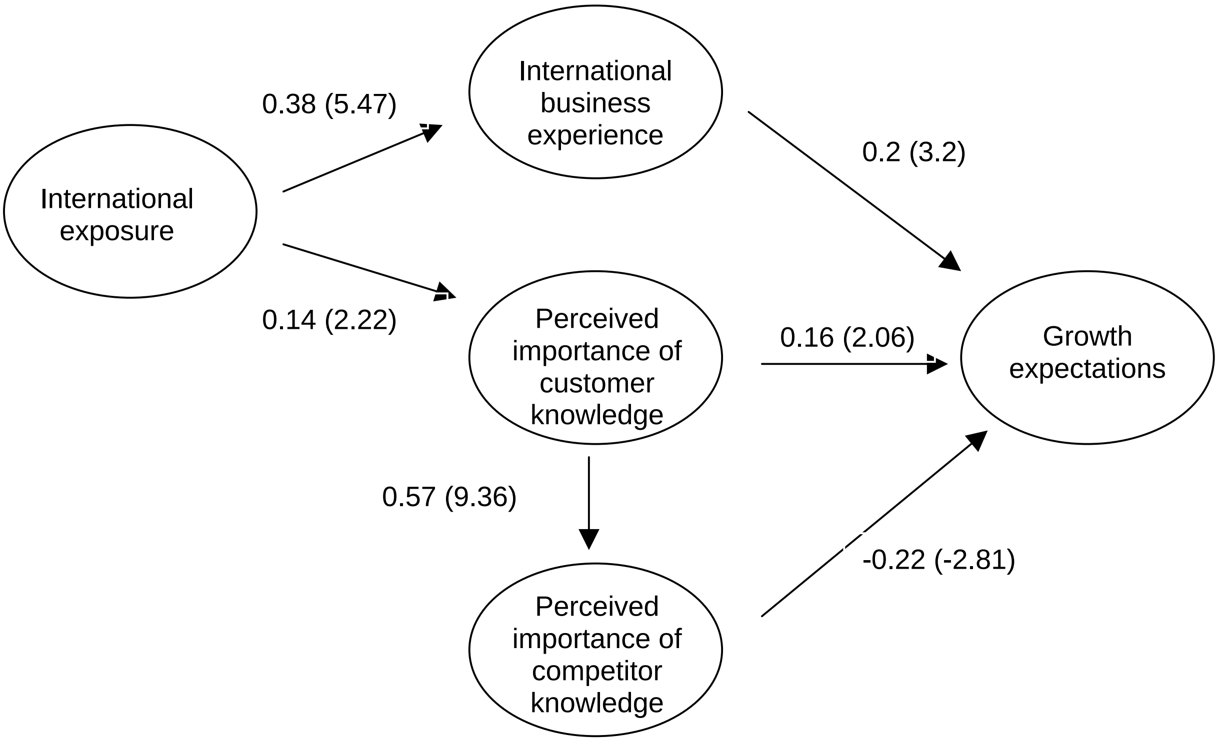


Figure 1. A structural model of the hypothesized relations between international exposure, international business experience, perceived importance of customer knowledge, perceived importance of competitor knowledge, and growth expectations.



Chi-square=132.9, df=71, RMSEA=0.048, GFI=0.95, NNFI=0.97, CFI=0.97, standardized factor loadings shown in figure with t-values in brackets

Figure 2. The resulting structural model