The Internationalization Process of Small- And Medium Sized Firms as a Non Linear Learning Process

Abstract:

The overall aim of this contribution is to add new insights to the research in the field of international entrepreneurship and international business with some new conceptualization of the variables that influence market selection and expansion on global scale from the point of view of small and medium sized enterprises. In particular the article proposes a perspective of the internationalisation process based on learning and shows that this learning is not linear, because it is not based on gradual accumulation of international experience. To understand better this phenomenon, the paper introduces a new type of liability affecting organizations when coping with the difficulties of entering a new market. This new source of costs, risks and learning for firms should be analyzed as a complement to the liability of foreignness (Zaheer, 1995), developed building on Hymer (1960) cost of foreign ownership and to the liability of outsidership developed recently by Johanson and Valhne (2009): we define this novel construct the liability of complexity. Building on qualitative research carried out in Denmark and Italy, we find evidence of this construct as a relevant one for firms international learning. In particular, the entry in complex markets determines a relevant potential step-up in learning processes, causing non linear learning phenomena. Moreover, there is not sufficient evidence to reject the constructs of physical and psychic distance in the internationalisation decisions: it means complementing these issues with the perspective which considers more deeply the characteristics of some markets. The latter may be understood as complex because of their economic, social and institutional structure and their continuous dynamism. To some extent, complexity is an expression of distance, and in particular of psychic distance, because it involves lack of specific market knowledge and experience. The construct of market complexity has thus both an objective dimension (market structure and evolution) and a subjective one (the firm perception, orientation and knowledge), hence more research is needed to fully understand this new construct.

The process of firms' internationalization

A number of models have been developed to explain the processes through which firms internationalize their activities. Following Coviello & McAuley (1993), these models can be categorized as the Foreign Direct Investment (economic efficiency) approach, the behavioral or ‘Uppsala’ school and the Network approach. Each approach builds on different premises regarding the rationale for international activities by small- and medium sized firms. This contribution focuses on the behavioral aspects of the internationalization process and the stages' approach which views internationalization as involving changes in the firm as it increases its commitment to foreign markets. Firms start with the entry mode that requires the lowest commitment of resources and gradually increase it (Bilkey & Tesar, 1977; Cavusgil, 1980), however these studies tend to be cross-sectional in nature and do not address the dynamic nature of internationalization. The `learning' approach, on the contrary, attempts to explain rather than describe patterns of internationalization behavior. With this approach, the process is treated as an evolutionary, sequential build-up of foreign commitments over time due to interaction between knowledge of foreign markets, on the one hand, and increasing commitment of resources to their development, on the other (Johanson & Wiedersheim-Paul, 1975, Johanson & Vahlne, 1977).

During the last 5-10 years new empirical studies on the internationalization process of firms have challenged many findings of actual export behavior as reported in the traditional internationalization literature. It has been demonstrated that many firms now do not develop in incremental stages with respect to their international activities. Firms are often reported to start international activities right from their establishment, to enter very distant markets right away, to enter multiple countries at once, to form joint ventures without prior experience, etc. Such firms have been labeled International New Ventures (Oviatt & McDougall, 1994) or Born Globals (Knight & Cavusgil, 1996; Madsen & Servais, 1997). The explanation for this new picture of internationalization of firms is claimed to be globalising market conditions, new developments in transportation and communication technologies, and the rising number of people with international experience. Some authors, e.g. (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994), have launched these empirical observations as a challenge calling for a new theory, whereas others, e.g. (Madsen & Servais, 1997) argue that even though such firms overtly behave differently they do not necessarily differ from other firms with respect to more fundamental processes. According to the latter argument, the phenomenon may not require new theories, but may be explained by already well known constructs. This perspective may well accommodate also novel constructs, which explain, discontinuities an path changes in the internationalization process as well in the corresponding learning processes, not only dependent on business and firm-specific issues but also on the nature of markets themselves.

The overall aim of this article is to add new insights in the field of international entrepreneurship and international business in respect to a conceptualization of the variables that influence market selection and expansion on global scale from the point of view of small and medium sized enterprises. In particular the article introduces a new type of liability affecting these firms when coping with the difficulties of entering a new market. The paper proposes that the new source of costs and risks for firms should be analyzed in conjunction to the liability of foreignness (Zaheer, 1995), developed on the work of Hymer (1960) on cost of foreign ownership, and to the liability of outsidership recently developed by Johanson and

Valhne (2009). The paper suggests that this novel construct could be labelled as **liability of complexity**.

In order to give a more comprehensive description of the market complexity construct and a theoretically sustainable description, the chapter will first present a general overview of the concepts developed over time starting from Hymer (1960). In the second part, building upon this framework, we will introduce the new concept of **liability of complexity**. The latter should thus be interpreted not as a separated attempt to develop a different internationalization theory, but as a tentative to contribute to the fully understanding of the issues and elements intervening in the international decision making process of organizations. This contribution aims at adopting a process-based view of international entrepreneurship (Jones and Coviello, 2005) following the idea that entrepreneurship is better represented as a process over time rather than as an isolated act (the foundation of a company, for example). A process view permits to highlight antecedents and consequences of action, as well as the development of capabilities to act as entrepreneurial organizations (Zucchella and Scabini, 2007).

In particular this contribution focuses on the process related to the decision of entry in a complex market, as a relevant expression of international entrepreneurial attitude from a small firm. The entry in complex markets qualifies better an international entrepreneurial organization because it involves both orientation and capabilities to face the risks and the uncertainty involved in this decision. The definition of complex market is actually missing in the international business agenda and we think that considering this dimension would add new perspectives to the liability of foreignness construct.

The analysis of when and how a firm takes the decision about entering into a complex market, how the latter is perceived by entrepreneurs and managers in terms of its relevant dimensions and how the liability of complexity contributes to the knowledge base of the firm, through non linear learning processes, all represent the aims of the present work.

This contribution starts from a conceptualisation of market complexity and the related liability of complexity, then it considers which is the firm behaviour in approaching this liability as well the firm learning processes involved and then proposes an exploratory analysis on case studies, in order to test better constructs, provide some theoretical modelling and hypotheses for future developments and quantitative analyses.

Market entry and the liability of foreignness

When firms enter into foreign markets they will usually be disadvantaged compared to existing local firms due to the lack of familiarity with the local business environment. This unfamiliarity, often denoted ‘liability of foreignness’ (Zaheer 1995), makes effective decision-making almost impossible due a high degree of uncertainty. Also the entrant firm will suffer difficulties in dealing with local governments and local partners. Diverse local preferences, cultures, and business systems increase the cost of foreign firms when establish operations abroad. Many of these obstacles and difficulties are due to a foreign firm’s lack of local market knowledge (Johanson and Vahlne 1977). Local market knowledge is knowledge that is specific to a host country regarding its language, culture, politics, society, and economy; hence acquisition of local market knowledge becomes critical for the successful planning and implementation of almost all aspects of entry into a new market (Pedersen and Petersen, 2002).

This acquisition is often critical to SME’s, hence the liabilities of newness and smallness are often mentioned in connection with research of small- and medium sized firms (Stinchcombe

1965; Eisenhardt & Schoonhoven 1990). Entrepreneurs face significant challenges because typically they have not developed relationships as well as existing firms due to lack of business- and market knowledge etc. (newness) and because they possess limited resources (smallness). Lacking resources for internal growth, which is typical of the small company, close relationships with customers and distributors serve as vehicles for growth through external resources (Lorenzoni & Ornati 1988; Lechner & Dowling 2003). Small companies also utilize customer relationships to improve innovation, by connecting external and internal expertise and capabilities (Lipparini & Sobrero 1994). Moreover, close relationships also serve to reduce risk and uncertainty (Larson 1992). Hence, building relations will become vital to newly established firms. This contribution rests on the assumption, that the new firm has not yet established close relations in foreign markets. Furthermore is it based on two conceptual pillars: on one side we consider the firm, its bundle of resources and capabilities, how it accumulates international knowledge through learning processes, how it approaches new markets; on the other side we build on the construct of complex markets and the related liability of complexity, which represents a relatively unexplored field of research.

The prime construct relevant for firm decision to internationalise is represented by the liability of foreignness. Coping with the liability of foreignness has been viewed by a number of authors as an expression of international entrepreneurship. Traditionally foreign markets have been approached in two different ways; One, being uniformly “different”. For example, Schumpeter (1934) described internationalization as an act of entrepreneurship and innovation , without differentiating foreign markets. Secondly, being “progressively” different. The attention to the characteristics of the single foreign markets (or clusters of foreign markets) is relatively more recent and finds its origins in the “behavioral turn” of IB studies (Madsen, 2005). The attention to the internationalization process (Joahnsson and Vahlne, 1977) gave rise to studies on markets’ psychic distance (Johansson and Wiedersheim-Paul, 1975), paralleled by research on cultural distance in international organizations (Hofstede, 1983). The concept of psychic distance is particularly relevant to this research because it underlines a subjective perspective of differences among countries, dependent on firm experience and vision.

Figure 1 describes the original construct of market unfamiliarity, which was at the centrepiece of Hymer’s conceptualisation of the liability of foreignness from the cognitive and learning perspective. This has been progressively enriched and deepened through different contributions, which constitute the frame in figure 1.

Market Unfamiliarity	Liability of Foreignness	Countries	*Geographic distance*
		Objective/Subjective	*Cognitive, Institutional, Cultural distance*
		Linear learning process	*Psychic distance*
	Opportunity vs Risk	Network position	*Liability of Outsidership*
		Non-linear learning process	*Liability of Complexity*

Figure 1. The construct of market unfamiliarity: a conceptual enrichment through different research streams

The literature in international business has traditionally adopted the country as a unit of analysis. Only the recent work by Johanson and Vahlne (2009) proposes the business network as key unit of observation. The concept of market unfamiliarity has been progressively articulated in alternative dimensions of unfamiliarity – or distance (Petersen, Pedersen, 2002) with a basic assumption is that unfamiliarity (distance) generates costs. Only later on – partially thorough the contribution of International Entrepreneurship studies- some authors built on the idea that costs and risks should be viewed in the light of opportunities exploration and exploitation (Johanson and Vahlne, 2009; Zucchella, 2010). Furthermore, the perspective of analysis is partly objective (observable characteristics of the country in terms of distance measures) and subjective (perception of the individual firm about distance, based on cumulated knowledge, uncertainty/risk propensity and firm goals). The learning process in entering markets is supposed to be fundamentally linear, and only recently some Authors hypothesise non linear learning processes (Zucchella, 2010).

The liability of complexity

The **Cost of Foreignness**, developed building on Hymer (1960) is based on the idea that internationalizing firms are at a disadvantage compared to indigenous firms with respect to operations in a foreign country. Over the years many authors have explained this phenomenon as cost function of (figure 1) :

i. *Geographical Distance*; determining increasing costs of transportation and difficulties in monitoring the market and firm's activities. Many authors wrote about this element as potentially important to explain global commercial flows, such as Elzinga and Hogarty (1973).

ii. *Psychic Distance*; first coined by Beckerman (1956) and later popularized by Johanson & Wiedersheim-Paul (1975, 24), as "*the sum of factors preventing the flow of information to and from the market. Examples are differences in language, education, business practices, culture, and industrial development.*" It is assumed that greater psychic distance generates higher cost for the firm in terms of rising information, dealing with suppliers, costumers, competitors and institutions. The concept is built on the idea of **linear experiential learning,** according to which every previous experience in a foreign market gives a stock of knowledge usable as background when entering a different country.

iii. *Cultural distance*; which usually refers to the concept developed by Hofstede (1980) *"Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values."* In recent years many other authors tried to extend or redefine the concept such as those offered by Trompenaars (1993), Schwartz (1994), Maznevski and DiStefano (1995), Inglehart (1997) and the GLOBE team (House et al., 2004). They differ in various aspect mainly concerning which variables must be considered to measure cultural differences (Taras et al, 2009), but from the point of view of an internationalizing firm we can summarize that increasing **cultural distance increases costs of entering a market**.

iv. *Cognitive Distance*; which originates mainly in the innovation economics field, but is relevant for IB and IE in that it explains relevant changes in knowledge base. Cognition denotes a broad range of mental activity, including proprioception, perception, sense making, categorization, inference, value judgments, emotions, and feelings, which all build on each other (Noteboom, 1992). According to this view, people that have been raised in different environments or conditions interpret, understand and evaluate the world differently (Berger Luckman 1966, Nooteboom 1992, 2000). From a firm's perspective, this implies that a firm's development along a specific path determines its organizational focus. The upshot of this is that to the extent that firms have developed in different technological environments, they operate at certain cognitive distances that thus influence **how costs are structured**.

v. *Institutional Distance*, which is relevant in international business because legal, political and administrative systems determine the attractiveness of a location. Institutions affect the capacity of a firm to interact and therefore the relative **transaction and coordination costs** (Mudambi and Navarra, 2002, 636; Verwaal and Donkers, 2003; Eden, Miller, 2004).

While geographic distance is fundamentally an objective construct, given the home location of the firm, for cultural, cognitive and institutional distances we may have a **subjective** versus an **objective** view, where the former is based on the organisation perceptions. Regarding the **trade-off opportunity/risk**, we separate this issue from the liability of foreignness because it widens the area of analysis considering as key element, influencing internationalization decisions, the evaluation of the trade-off between opportunities of entering a market and the correlated risks. In other words is not a question of costs that determines the attractiveness of a location, but its relation with the opportunities a market could present independently from psychic, cultural or any other distance construct. In this frame we include the work of Johanson and Vahlne (2009) which suggested that is **outsidership** to the relevant network for a certain country, market or firm - more than psychic distance - the root of uncertainty and thus costs. Widening the concept, we can state that **insidership** into the relevant network can bring knowledge and consequentially easier and cheaper opportunities of entering this particular market.

Building on this theoretical background we introduce another element to increase the understanding of foreign markets selection from both the point of view of managers and researchers. The **liability of Complexity** is *double-faced*, because this term indicates the presence of a twofold effect, in the above mentioned trade-off between opportunities and risks, (a) very complex markets can represent a difficult challenge for SMEs, as they are a source of costs and uncertainties, (b) on the other hand, being able to dominate this same complexity could bring inestimable resources to enterprises in terms of knowledge, customers, international reputation. For this reason the entry in a complex market involves a very relevant learning discontinuity, which may modify radically the knowledge base of the firm and originate a high potential growth. In this view, the entry to a complex market can be viewed as an expression of international entrepreneurial process.

The issue of complexity has been adopted across very different disciplines and fields of research (Simpson, Weiner, 1989; Stacey, Griffin and Shaw, 2000), but it has been rarely applied to the internationalisation process of the firm. From this perspective the key dimensions of complexity (number and variety of elements/events, uncertainty and variability over time) can apply well to a foreign market characteristics. The internationalising firm perceives a market as complex when it is characterised by these issues in a particularly significant way (Zucchella, 2010). Few studies have adopted the construct of complex market in IB, as we noted above. "Environmental complexity as perceived by foreign managers concerns the extent to which environmental factors in a host country are diverse and heterogeneous" (Duncan, 1972). Luo (2002) analyses how MNEs exploit and develop capabilities when entering a foreign complex market: in this study the latter applies to some emerging economies and is defined as a set of contextual hazards: "environmental complexity (the host country diversity), industrial structure uncertainty (its volatility), and business culture specificity (its culture uniqueness)." (ibid, p.48).

This contribution shares these views regarding complexity of foreign markets, but proposes that it can apply to both developed and developing countries. For example the US market has been repeatedly reported as a complex one by many European firms, notably SMEs (Zucchella, Costa, 2007). This is due to its institutional complexity (a federal system, many states, each one with its own regulatory frame on a number of matters,...), consumer complexity (large population with many sub-cultures, advanced consumer preferences and behaviour, loyalty to local brands but also volatility of preferences,...), market structure (role of differentiated distribution channels , barriers to channels access for foreign firms,...), competitive domestic industry structure, fast evolving managerial practices and so on. O'Grady and Lane (1996), in their study on Canadian retailers expanding in the nearby US market, report losses and even retreats because of underestimation of the two countries' differences. The Authors do not explore the possibility that the high complexity of the US market may be one of the reasons of these failures and concentrate exclusively on the firm lack of knowledge and underestimation of the venture, even though the two issues may be strongly related. Zucchella (2010) found that paradoxically for some firms the domestic market is perceived as the most complex one, due to high levels of competition and very demanding customers.

The attitude of a firm towards complex markets is related to its entrepreneurial posture, as defined by Covin and Slevin (2002). Complex markets involve a wider set of opportunities, counterbalanced by a higher set of risks, related to the heterogeneity/variability/number of elements for the decision maker and to the uncertainty of performance. International entrepreneurial organisations (Zucchella, Scabini, 2007) possess the posture to face these challenges.

In approaching complex markets an issue arises: due to their high specificity, can complex markets be approached in the light of experiential learning and progressive extension of geographic scope, as the traditional Uppsala model suggests, or do they represent a discontinuity in firm's foreign operations so that cumulated experiential knowledge is helpful to a limited extent? And which are the consequences in terms of knowledge and learning processes deriving from the entry in a complex market?

Building on the gap left in the literature regarding the concept of *linear /incremental learning process*, we assume in this paper that there are two kinds of cumulative knowledge, as suggested by Johanson and Vahlne (1997, 28):

- **General Knowledge**; which can often be transferred from one country to another, concerns the marketing methods and common characteristics of certain types of costumers irrespective of their geographical location, this type of knowledge is the one that facilitates lateral growth (establishment of technically similar activities in dissimilar business environments).
- **Market Specific Knowledge**; which refers to the characteristics of the specific national market, its business climate, cultural patterns, structure of the system and, most importantly, characteristics of the individual customer firms.

While general knowledge is inter-exchangeable and can be reused with similar outcomes in different markets, specific knowledge can be gained mainly through experience and for its major part is only partially useful outside a certain national context. For this reason the

learning process looks like a sequence of steps, even though the approximate line of the overall learning is basically linear (Figure 2).

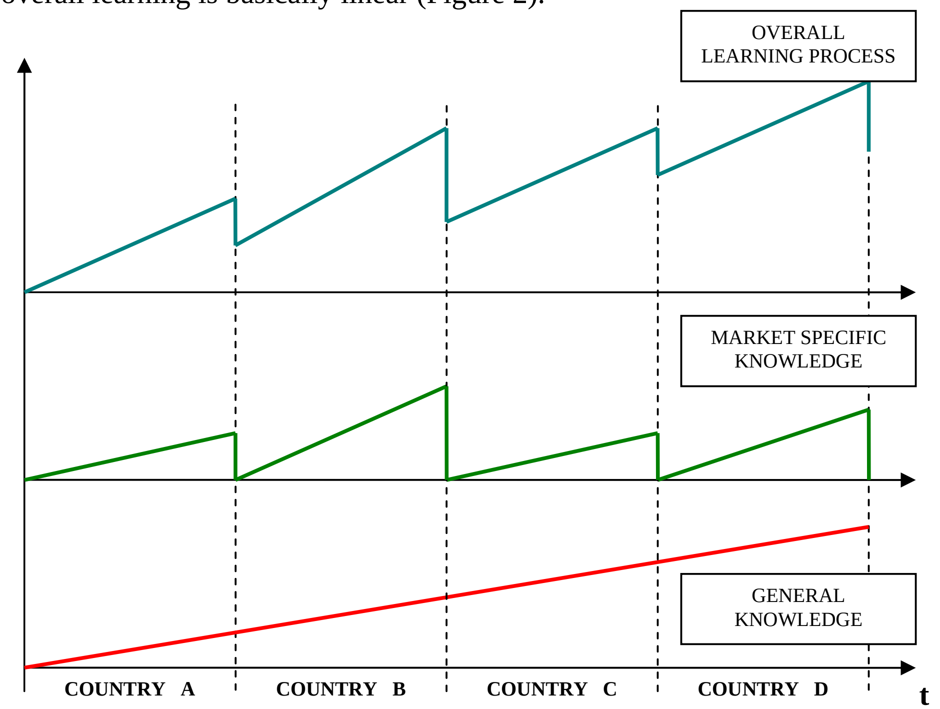


Figure 2: Learning Process according to an incremental internationalisation path

In other words when entering a certain country the firm has a stock of knowledge it can use to reduce uncertainty and costs, but also an empty stock in regard to some specific national knowledge. In some cases the general knowledge would be enough to substantially reduce uncertainty allowing the firm to have an easier and convenient entrance, in other cases the gap is too big for the firm to overcome.
For simplicity in the figure is assumed that in all the nations the general knowledge developed is constant. This is obviously unlikely but not of particular relevance in order to understand the general idea underlying the representation.
Returning to the **liability of complexity**, we can hypothesise, briefly, some common elements that identify the complexity of a market:

- Peculiarity in terms of regulations, law and administration practices,
- High level of competitiveness,
- Presence of barriers to entry and/or barrier to permanence
- Difficult to understand or to serve from the point of view of the consumer needs,
- Fast changing,
- Leading market of the relevant technology.

It is thus possible to understand the double-faced effect that a firm will have to deal with when deciding to enter such markets:

a) **High Costs/Risks**; arising from difficulties in finding resources, understanding the consumers, fighting the competitors and carrying out a business activity. We can interpret it as a market in which firms need high level of **market specific knowledge** in order to compete efficiently, and in which the previous **general knowledge** is not fully applicable, or at least doesn't produce the same output for the enterprise. It also happens that a complex markets also requires a radical step up in general knowledge (for example market and business intelligence competencies, network practices, etc)

b) **High Revenues/Opportunities**; being able to enter and compete in a complex market can give the firm a competitive advantage in terms of experience and market recognition. We can thus infer that a complex market will bring to the firm an high level of **general knowledge** reusable in the future to better face eventual new markets.

In Figure 3 we show a representation of how the entry to a complex market can influence the overall **learning process** of an internationalizing organization.

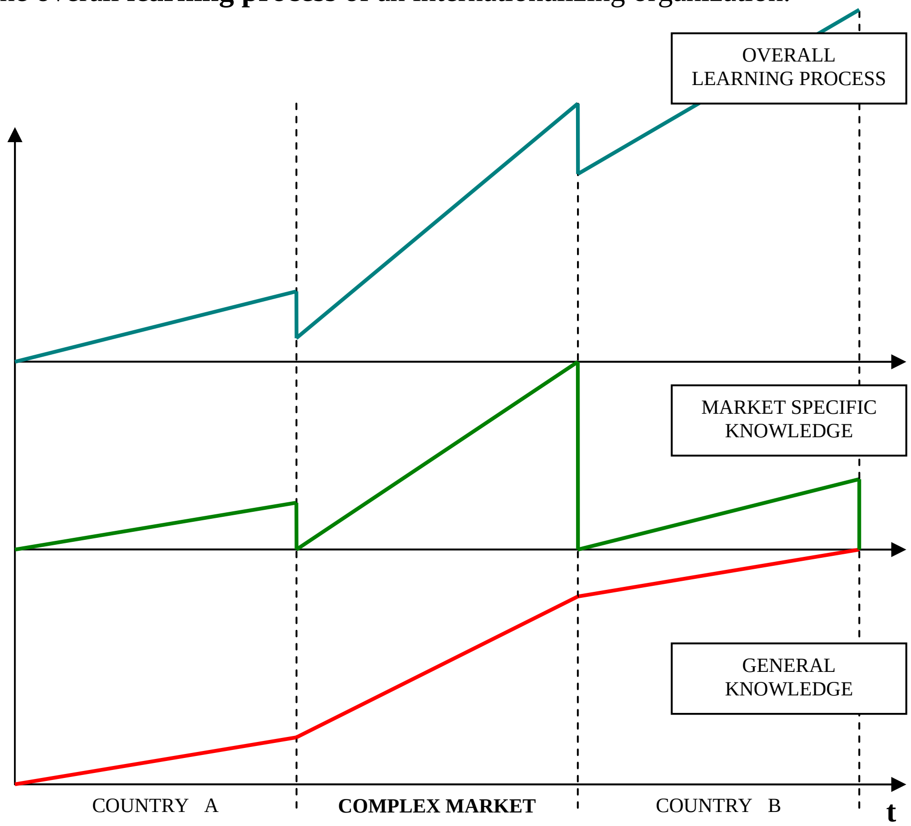


Figure 3: How the entry in a Complex Market Influences the Learning Process

Entering a complex market firms will need more time and use more resources in order to acquire the **specific market knowledge** necessary to compete – green line. On the other hand they will gain an extraordinary amount of **general knowledge** spendable globally in almost every other country – red line. The **overall learning process** will than present a steeper jump in the stock of knowledge the great majority of which can represent a valuable asset for the firm in future international ventures. We hypothesise that the international learning process of the firm may be characterised, due to the decision to enter in complex markets, by a “waves in the water”, rather than a “rings in water” model (Madsen, Servais, 1997).

Methodology

The purpose of this study can be described as mainly exploratory and, to some extent, descriptive, as our aim is “to build a rich description of complex circumstances that are unexplored in the literature” (Marshall and Rossman, 1999, p. 33). The qualitative approach implies an emphasis on processes and meanings that are not measured in terms of quantity, amount, intensity or frequency. This approach provides a deeper understanding of the phenomenon within its context. Moreover, qualitative researchers stress the socially constructed nature of reality that states the relationship between the researcher and the phenomenon under investigation. According to Sullivan (2001), when there is little theoretical support for a phenomenon, it may be impossible to develop precise hypotheses, research questions, or operational definitions. In such cases, qualitative research is appropriate because it can be more exploratory in nature.

Six case studies have been developed, based on direct semi-structured interviews with CEOs and/or entrepreneurs. The study was carried out partially in Italy (three companies) and partially in Denmark (three companies) in order to observe the market complexity perceptions from different countries perspective. The choice of the two countries depends on respective locations of the two Authors, because accessing to local firms, speaking their language and understating local market conditions are all grounding issues for this kind of research. We selected well established firms, in order to have longitudinal data. The firms belong to different industries, in order to avoid industry biases in complex markets perceptions, but they all pertain to the manufacturing sector. In table 1, it is provided a synopsis of the six firms, each one described essentially in terms of key traits relevant for this study.

The interviews were focused on a pre-determined set of discussion topics. However, opportunity was left open for any type of response. In fact we used the interview guide approach in this study, because it provides topics or subject areas within which the interviewer is free to explore, probe and ask questions that elucidate and illuminate the subject under investigation. The interview guide enabled us to build a conversation within a particular subject area, to ask questions spontaneously, and to establish conversational style, but with the focus on a particular subject that has been predetermined (Marshall and Rossman, 1999).

The type of interview conducted was face-to-face and in-depth enabling the interviewer to explore a few general topics through discovering the participant's view (Marshall and Rossman, 1999). Though much more like conversations than formal interviews with predetermined and structured questions, interviews were focused on certain topics (research problems and research questions).

We carried out interviews with the CEO/entrepreneurs and with the marketing/foreign operations officer of the six firms, lasting two hours each, due to the number of questions and to the risk of misinterpretation by the interviewed people about some qualitative questions on firm internationalisation process and the key constructs of this contribution.. The interview data and notes were carefully transcribed and read through in order to form a general understanding of the studied phenomenon. They were conducted between January 2010 and June 2010.

The interviews tried to focus on indicators and examples of complex markets, showing that the construct is partially dependent on country indicators and partially dependent on the firm situation (governance, experience, resources, capabilities) and perceptions.

On the basis of the case studies, a more refined conceptualisation of complex markets will be provided, together with some critical issues in defining the appropriate decision making and managing framework for handling successfully this entrepreneurial strategy.

Findings and discussion

The firms interviewed have all a substantial international experience into various foreign markets and are small and medium sized companies (table 1). Their foreign sales ratios are very high, ranging from a minimum of 40% up to 85%. They have a broad geographic scope, even though their main export area is for most cases the European one. Nevertheless they all showed a clear vision of what are their strategic markets (in many cases external to the

European Union) and what are the most complex markets in their view , triggering their international expansion.

INSERT TABLE 1 ABOUT HERE

Table 2 shows some common paths in the internationalization process of the six firms.
The first impression is that all the firms interviewed followed an initial internationalization path accordingly to the "*rings in the water*" model (Madsen, Servais, 1997).

INSERT TABLE 2 ABOUT HERE

The first countries to be entered were all "near" in terms both of *geographical* elements and *psychical* factors and the means of entry were the same, namely unsolicited export (*Export on Demand)*. What we've also been able to note is the ways in which the first foreign experiences were triggered, in particular all the firms seemed to capture the opportunities given by:

- *personal relationships* of the entrepreneur or employees, allowing the firm to access the *network* in the foreign country;
- *international exhibitions and trade fairs* working as bridges to foreign markets and- most important- to foreign relationships and networks.

The internationalization process then continues in a second stage, in which the firms have accumulated a sufficient amount of *knowledge* and market shares (entering similar markets enable the firm to use the *specific market knowledge* arisen also in the others countries reducing the liability of foreignness), allowing them to venture in more distant countries and developing a broader internationalization *strategy*.
Here we can spot the first signs of incongruence with the gradual and linear internationalisation approach, because firms show some jumps into apparently very distant and risky markets with direct acquisitions of competitors in the country or the opening of subsidiaries. From this perspective, we might hypotheses that – if a firm has an entrepreneurial posture- some markets require a twofold leapfrogging, both in terms of distance (in all its dimensions) and in terms of committed entry modes. These markets have a very high strategic value in the view of the firms, which thus target them almost immediately after the first foreign experiences.
Many interviews report the wording *strategic markets*, defined by interviewees as those countries bearing such conditions given from history, culture, technology, institutions etc, shaping them as extremely important for the firm in their particular business (for example Northern Italy for car design or Silicon Valley in the IT). In most cases strategic markets are also complex to understand and most of all to penetrate, because it happens that some factors which make them *strategic* (sophisticated demand, key customers and competitors, institutions, etc.) also make them *complex*, according to the conceptualisation we have sketched in the first part. If a market is complex but it is not strategic there is no point for a SMEs to commit resources to such a venture. If the market is complex and strategic, then also SMEs have to consider seriously this entry strategy if they want to be international players and enhance their growth. The **complexity** of these markets is what makes their entrance sometimes vital or central for the firm future survival and competitiveness. Being able to enter and eventually succeed in such countries could give the enterprise various sources of competitive advantages like brand recognition on a world basis, reputation, knowledge, lead customers.
The important element we would like to focus on is the *type of knowledge* arising when entering a strategic ***complex market***. We suggest that firms will acquire and develop

capabilities useful for the enterprise not only in that specific market but also and especially abroad. The level of reusable *general knowledge* would be much higher justifying the higher risks and the early entrance.

The question that spontaneously comes next is how to define more precisely this **complexity**, what are the elements that qualify a market as complex.

What we've been able to state is that after the second stage in which the principal strategy was driven by *exporting* - opening commercial facilities, agents and local distributors– the six firms started to change their approach. Almost all the organizations interviewed show a radical change of rhythm and level of commitment in their internationalization process, more or less 20-30 years from their first foreign experience – numbers varying because of differences in the amount of resources of the firm and of other elements like Vekso being taken-over in 2006.

We can thus observe a third stage in which a more advanced internationalization strategy develops. Firms start to understand the linkages and synergies between different markets and to manage their actions from a global perspective. They have also accumulated sufficient *general knowledge* to enter new markets, exploiting more opportunities and deepen their presence in the already conquered countries with FDIs. Fedegari Autoclavi opened new *WOS (Commercial)* in USA and Singapore, while creating *Strategic Alliance*s (*new product developments*) in France and Belgium with trusted people that already worked with them. Kenda Farben opted for *Joint Ventures (Production)* in Brazil and China (now totally acquired) and *WOS (Production)* in Serbia, India, Vietnam. Moreschi started to open *WOS (Commercial)* or partnering with retailers around the World with the form of *exclusive shops*. GASA Young Plants has its *Own Sales Organisation* in Holland, Germany, England, Sweden and Italy. Juliana choose to perform some *Acquisitions* in UK while opening *WOS (Production)* in China and on the same time changing its marketing channel taking over the role previously performed by the wholesalers and dealing directly with the retailers and end-users in Europe. Vekso implemented a chain of *Independent Distributors* around Europe, Middle East, Australia and a *WOS (Production)* in Latvia.

During the interviews many details came to surface suggesting the existence of a *learning process* but also of another factor concerning the entry strategies and market choices in relation with **market complexity**. Each of the firms interviewed has been asked to give a definition of complex market and to suggest which of the countries entered has been somehow the most difficult and why (Table 3).

INSERT TABLE 3 ABOUT HERE

The majority of the markets listed as complex are also highly strategic for the firm global business and competition.

The firms have cited as common elements of complexity the following ones:

- Local Competition;
- Demanding and heterogeneous customers
- Cultural complexity,
- Outsidership and more specifically the difficulties of entry in the inner networks of distribution
- Institutional distance.

The key role played by both competition and customers in determining the liability of complexity, as well as the opportunities linked to it (strategic markets), also explains why some companies report their home market as complex. This involves that from the competitive marketing viewpoint the home country may be as "foreign" and complex to penetrate as international markets or even more complex.

This finding also highlights the role of industry and firm specific patterns. In fact in the case of fashion and high quality leather shoes Italy is a leading market, strategic and complex also for domestic manufacturers. Moreover the firm specific issues are very relevant because the interviews highlight very well the subjective nature of the perception about the liability of complexity, which also depends on experience and management propensity to face uncertainty and pursue strategic opportunities.

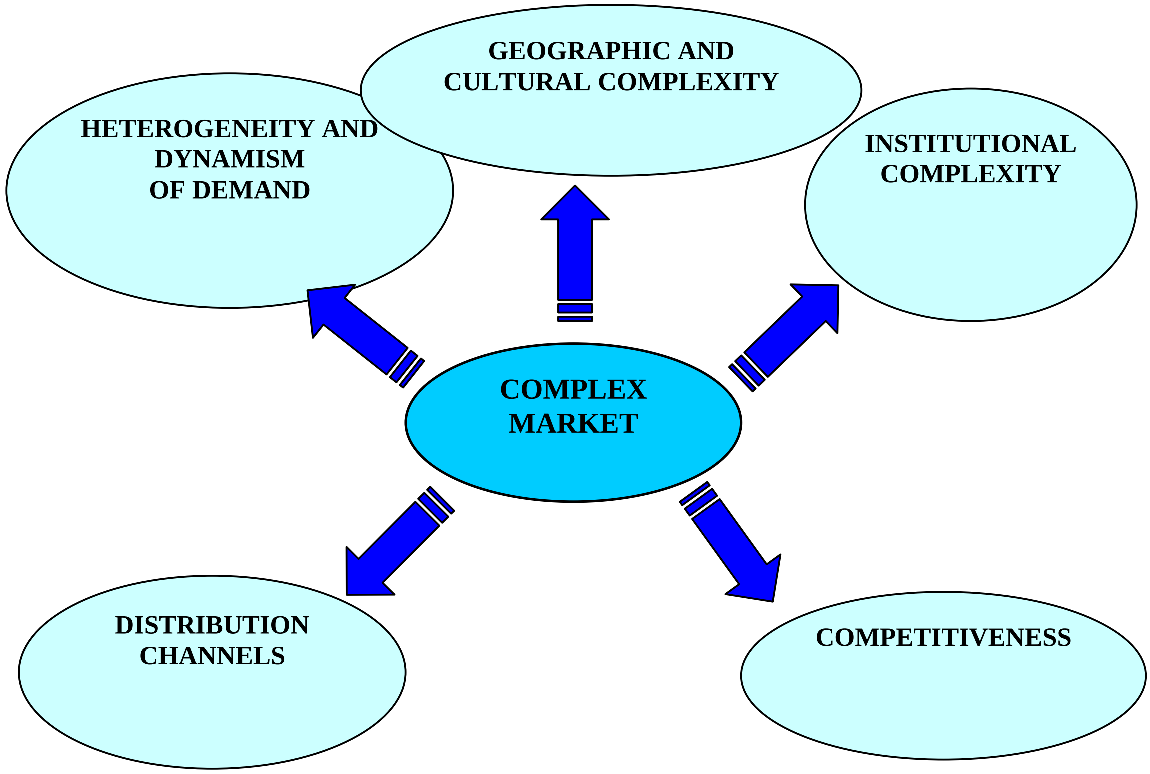
These elements that have been highlighted can be grouped into a wider concept of ***liability of complexity***. Each of the factors delineating a complex market are also sources of costs for the firm in terms of more resource needed, more risks and uncertainty.

The upside of these additional costs is the *knowledge* that can be gained together with assets and skills the firm may acquire. Also for these reason we noted that almost in all the complex markets the firms, both Italian and Danish, used the same approach through high commitment entry modes like **FDI**s. We hypothesise, building also on the interviews made, that committed entry odes enhance learning opportunities about the complex foreign markets.

The figure n. 4 models the dimensions of complexity as perceived by the internationalising firm (Zucchella, 2010), the upper three represents barriers to market knowledge and understanding, the two below represent barriers to market/customer access. The decision to enter into these markets is driven by entrepreneurial posture and international growth orientation in particular. This decision involves what we have labelled a twofold leapfrogging and consequently a relevant resources commitment.

For these companies the growth in complex markets needs to be supported by committed entry modes, which do not only improve sales but also enhance learning, as a pre-requisite of sales. In many cases market complexity involves a significant marketing mix adaptation, starting from the product and implies additional investments. Complex market are defined as “resources consuming” by all firms, meaning that they requires not only financial investments for establishing local subsidiaries and for product adaptation –which determines product range simplification and focusing-, but also for the “use” of valuable human resources such as members of the top management team, who are required to commute frequently from home country in order to enhance knowledge sharing.

On the other hand, the costs and risks (or better, uncertainties) of complex markets need to be balanced by relevant opportunities of doing business there and of developing learning which can enhance global competitive positioning, innovation and overall performance.



Source: Zucchella (2010)

Figure 4 Towards a definition of complex market through its dimensions

Conclusion

The entry in foreign markets represents a critical decision for the firm, influencing its growth and performance over time. This contribution highlights the decision to enter into a complex strategic market, which represents a novel construct in the international business literature. Our findings highlight that entrepreneurs and export managers have a mental map of foreign markets based both on subjective and objective issues, according to their level of complexity, especially if we refer to markets which are strategic for the firm global competitiveness sand future growth. Market complexity refers to dimensions such as:

- Geographic and institutional complexity rather than distance between home and destination country;
- Internal market complexity, rather than cultural distance i.e. diversity between home and destination country;
- Internal demand heterogeneity, sophistication and dynamism rather than cultural distance between consumer markets;
- Market access complexity, due to the power and role of distribution channels and to the nature of local competition and to the role of networks as means of market entry and permanence.

This does not mean to reject the constructs of physical and psychic distance in the internationalisation decisions: it means complementing these issues with the perspective which considers more deeply the characteristics of some markets. The latter may be understood as complex because of their economic, social and institutional structure and their continuous dynamism. To some extent, complexity is an expression of distance, and in particular of psychic distance, because it involves lack of specific market knowledge and experience. The construct of market complexity has thus both an objective dimension (market structure and dynamism) and a subjective one (the firm perception, orientation and knowledge).

The interviewed firms share the idea that the relevant distance is mainly –though not exclusively-a distance between firm and final customer, between firm and foreign networks, more than between firm and market in general. The former is mostly determined by the nature of local needs (heterogeneity and variability) and by length and role of distribution channels and determines the need of committed entry modes, adapted marketing mix and customer experience development.

The entry in complex markets represents a discontinuity in the international growth of firms, which involves uncertainty taking and resources commitment. Managing complex markets involves mainly experiential learning and . the development of experiential learning involves committed entry modes from the beginning, thus high lightening that country and mode decision are neither a linear processes (a complex market entry represents a path discontinuity, the establishment of a subsidiary before exporting constitutes a leapfrogging behaviour) nor independent ones (the market complexity requires committed entry modes, the establishment chain may prove ineffective and time consuming). From the both the cognitive and the operational perspective the internationalisation process of SMEs with International entrepreneurial posture, which face the challenge of the entry in complex markets, can be portrayed as a “waves in the water”, more than a “rings in the water” process.

Finally, the subjective nature of market complexity also refers to firm orientations and to its entrepreneurial posture: international growth orientation and willingness to trade higher risks (uncertainty) for higher opportunities characterise the entrepreneurs and top managers of the interviewed companies when approaching complex markets. Relevant organisational capabilities are also needed to manage the process effectively, from internalising information to operations management.

This contribution may have relevant managerial implications, because it supports the strategic approach towards some markets, addressing the issues to be mostly considered and the way to approach these markets. It also has policy implications because it provides new insights for public intervention in supporting the internationalisation of firms and in addressing the knowledge gaps which need to be filled.

Finally this work has also important limitations, because it is based on an exploratory study model, and some findings cannot be generalised yet. Its main outcome is to throw some new light on the internationalisation process and in particular on the relationship between firms and foreign markets, introducing a new construct and leveraging on it to improve the understanding of non linear internationalisation decisions.

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Table 1 A synopsis of the six firms

VARIABLES	DESCRIPTION
FIRM	**KENDA FARBEN SPA** Located in Garlasco (PV), Italy
INDUSTRY AND BUSINESS	Manufacturer of special Chemical Products for footwear, leathergoods and accessories industries. Adhesives, varnishes, finishes, colouring pastes.
SIZE	200 Employees, Turnover of the Group in average 50 millions euro
YEAR OF CONSTITUTION	1963, Kenda Farben s.p.a.
FIRST INTERNATIONAL VENTURE	1965 - Spain, Greece and Yugoslavia **Export on Demand** through International Fairs
% FOREIGN SALES	**75%** of total sales are foreign
PRINCIPAL MARKETS	Europe
STRAEGIC MARKETS	Italy, China, India, Russia, Brazil
COMPLEX MARKETS	**Italy**
DIMENSIONS OF COMPLEXITY	**Product Peculiarity** – producers **Competition Level** - in the host country **Rate of Innovation** **Changing Needs** (shoe producers and final consumer) **Culture** influencing production (cost oriented not quality oriented) **Burocracy**

VARIABLES	DESCRIPTION
FIRM	**FEDEGARI AUTOCLAVI SPA** Located in Albuzzano (PV), Italy
INDUSTRY AND BUSINESS	Sterilizers for the pharmaceutical industry.
SIZE	200 Employees, Turnover of the Group in average 40 millions euro
YEAR OF CONSTITUTION	1933, Fedegari Autoclavi s.p.a.
FIRST INTERNATIONAL VENTURE	1980s – Russia, Switzerland and Germany **Export on Demand** through Network of Personal Relations

% FOREIGN SALES	**85%** of total sales are foreign
PRINCIPAL MARKETS	Europe
STRAEGIC MARKETS	USA, Russia, India and China
COMPLEX MARKETS	**Japan**, **Russia**
DIMENSIONS OF COMPLEXITY	**Local Competition** - in the host country **Demand Complexity** **Language** barriers **Cultural** Gaps **Burocracy** **Difficulties in finding the right partners**

VARIABLES	DESCRIPTION
FIRM	**CALZATURIFICIO MORESCHI SPA** Located in Vigevano (PV), Italy
INDUSTRY AND BUSINESS	Shoes Manufacturer.
SIZE	400 Employees, Turnover of the Group in average 30 millions euro
YEAR OF CONSTITUTION	1946, Calzaturificio Morres s.p.a.
FIRST INTERNATIONAL VENTURE	1950 – Switzerland, **Export on Demand** through Personal Network of relationships
% FOREIGN SALES	**75%** of total sales are foreign
PRINCIPAL MARKETS	Europe
STRAEGIC MARKETS	Italy, USA, China and India
COMPLEX MARKETS	**USA, India**
DIMENSIONS OF COMPLEXITY	**Local Competition** – producing in Italy costs more, products very expensive in developing countries **Demand Complexity** – high demanding consumers, extremely peculiar preferences (India), price sensitivity **Fast Changing Needs** (final consumer) **Regulation and Laws** barriers to entry **Cultural** Gaps – especially religions (can't use some leathers in India) **Access to the distribution Channels** – extremely difficult (USA)

VARIABLES	DESCRIPTION
FIRM	**GASA YOUNG PLANTS A/S daughter of GASA GROUP** Located in Odense, Denmark

INDUSTRY AND BUSINESS	Deals in seeds, cuttings, young plants, half-grown plants, bulbs and other accessories for growers.
SIZE	28 Employees of Gasa Young Plants, 330 for Gasa Group Turnover of the Group in average 30 millions euro
YEAR OF CONSTITUTION	1978, Gasa Young Plants s.p.a.
FIRST INTERNATIONAL VENTURE	1985 - Sweden **Export on Demand** thanks to relationships and advertising on plants magazines
% FOREIGN SALES	65% of total sales are foreign
PRINCIPAL MARKETS	Sweden and Denmark
STRAEGIC MARKETS	Sweden, Holland, Italy, China
COMPLEX MARKETS	**USA**, **Holland**, **China**
DIMENSIONS OF COMPLEXITY	**Currency fluctuations** Risks of **Knowledge leakages** **Local Competition** – especially in Holland and USA **Language Barriers** – you have to speak their languages **Regulation and Laws** barriers to entry **Cultural** factors **Access to the distribution Channels** – extremely difficult (USA)

VARIABLES	DESCRIPTION
FIRM	**JULIANA A/S** Located in Odense, Denmark
INDUSTRY AND BUSINESS	Manufacturer of special Green Houses, Conservatories, Mail boxes, Rotatory dryers.
SIZE	200 Employees, Turnover of the Group in average 27 millions euro
YEAR OF CONSTITUTION	1963, Juliana A/S.
FIRST INTERNATIONAL VENTURE	1980s – Germany and Sweden **Export on Demand** International Exhibitions
% FOREIGN SALES	**70%** of total sales are foreign
PRINCIPAL MARKETS	Europe
STRAEGIC MARKETS	UK, Germany
COMPLEX MARKETS	UK, USA

DIMENSIONS OF COMPLEXITY	**Market Structure** – supply chain, peculiarities typical to each country unknown to foreign actors, geography Difficult **Network Access** – especially the distribution chains Different **Costumers Needs** **Competition** – and understanding of brand values **Culture** influencing preferences and **Institutions**

VARIABLES	DESCRIPTION
FIRM	**VEKSO A/S** Located in Taulov (Fredericia), Denmark
INDUSTRY AND BUSINESS	Manufacturer of high quality design Urban Furniture, Lamping, Bikes Stands, Shelters.
SIZE	140 Employees, Turnover of the Group in average --- euro
YEAR OF CONSTITUTION	1950, Vekso A/S.
FIRST INTERNATIONAL VENTURE	1986 - Germany **Foreign Direct Investment** through opening a sales office.
% FOREIGN SALES	**40%%** of total sales are foreign
PRINCIPAL MARKETS	Europe
STRAEGIC MARKETS	UK, Italy, Germany
COMPLEX MARKETS	Italy, UK, Germany
DIMENSIONS OF COMPLEXITY	**Competition Level** - in the host country **Difficulties in Managing Foreign Human Resources** – culture, psychic distance, institutions **Distribution Issues** **Culture** of the costumers

Table 2 The internationalisation process of the six firms

	Fedegari Autoclavi	**Kenda Farben**	**Moreschi**	**GASA Young Plants**	**Juliana**	**Vekso**
Foundation	**1963**	**1933**	**1946**	**1978**	**1963**	**1950**
S1 **Export on Demand**	**1980** Russia and Switzerland - *Personal Relationships*	**1970** Spain Greece and Yugoslavia – *International fairs*	**1950** Switzerland, UK, Germany, France – *Personal relationships*	**1985** Sweden, Finland – *International fairs, people, magazines*	**1980** Germany, Sweden - *International Fairs*	**1970** Scandinavian countries – *Personal Relationships*
S2 **Export Strategy**	1980 – 2000 Europe, USA, Canada, Mexico, Asia, Australia, Egypt and Turkey - *Representatives*	1970 – 1990 Europe, South America, Africa, Asia - *Independent retailers with deposit*	1950 – 1980 Europe, Asia, USA – *trusted Italian personnel (employed agents)*	1985 – 2005 Europe, USA, Canada, Corea – *trusted Danish personnel*	1980 – 1993 All Europe, USA, China – *through international distributors (Long Channel)*	1986 – 2006 Germany, Sweden, UK – *hiring local personnel*
S3 **FDI and Global Strategy**	2000 – 2010 *WOS (Commercial)* in USA, and Singapore. *Alliances* in France and Belgium.	1990 – 2010 *Joint Ventures* in Brazil and China (now WOS).	1980 – 2010 *WOS Commercial Facilities* or *exclusive shops* around the	2005 – 2010 *Own sales organisation* in Holland, Germany, England,	1993 – 2010 *Acquisitions* in UK, *WOS (Production)* in China *Direct*	2006 – 2010 *Distributors* around Europe, Middle East, Australia *WOS (Production)*

		WOS in Serbia, India, Vietnam	World	Sweden and Italy	*distribution* to the end user in Europe	in Latvia

Table 3 Complex markets for the six firms

	Fedegari Autoclavi	**Kenda Farben**	**Moreschi**	**GASA Young Plants**	**Juliana**	**Vekso**
Strategic Markets	USA, Russia, India, China	Italy, China, India, Russia, Brazil	Italy, USA, China, India	Sweden, Holland, Italy, China	UK, Germany	UK, Italy, Germany
Complex Markets - entry mode	**Japan** - FDI	**Italy** – Direct investment	**USA** - FDI **India** - FDI	**USA** - export **Holland** - FDI **China** - export	**UK** - FDI **USA** - FDI	**UK** - FDI **Italy**- export **Germany** - FDI
Elements of Complexity	*Local Competition* *Demand Complexity* *Culture Gaps* *Language barriers* *Burocracy* *Searching Costs* - Difficulties in finding the right partners	*Local Competition* *Burocracy* *Changing Needs* (shoe producers and final consumer) *Rate of Innovation* *Culture* - influencing production decisions *Product Peculiarity* – difficult to explain to costumers	*Local Competition* *Demand Complexity* – needs, preferences (India), price sensitivity *Fast Changing Needs* *Culture* – religions *Purchasing power* – low in developing countries *Regulation and Laws* *Distribution Channels*	*Local Competition* *Currency fluctuations* *Culture* Risks of *Knowledge leakages* *Language Barriers* – find people *Regulation and Laws* *Distribution Channels* – extremely difficult access (USA)	*Local Competition* *Different Costumers Needs* *Market Structure* – country peculiarities unknown to foreign actors *Culture* - influencing preferences and Institutions *Low Brand awareness* *Difficult Network Access* – distribution chains	*Local Competition* *Difficulties in Managing Foreign Human Resources* – culture, psychic distance, institutions *Culture* - influencing the costumers *Distribution Issues* – access in the distribution chain
