

International Expansion Scope and Timing: A Modeling Approach

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Abstract

The aim of this study is to explore strategic alternatives of exporting firms when considering international market selection and expansion. For the first time these alternatives, are studied as a continuum of options, derived from the same conceptual domain. A sample of exporting companies is investigated and a complex multivariate model is proposed and tested. The results reveal that such a simultaneous examination of strategic options does take place and firms perceive them in one, unified conceptual domain, while confirming the strong relationship of the degree of company's export involvement to company's export success. To a satisfying extent, the adopted strategies are explained by idiosyncrasies of the product, the adopted approach to international markets and the acts of international players and competitors, whereas factors of the market environment and the internal characteristics of the exporting firm act as moderators to the aforementioned relationship.

Keywords: Expansion Strategies, Diversification, Concentration

Track: International Marketing & Marketing in Emerging Countries

1. Introduction

The selection of a suitable expansion strategy is the most crucial decision a company takes during the process of internationalization (Cavusgil and Zou 1994). Two critical questions have to be answered in order for an expansion strategy to be designed: a) Will entry be concentrated or diversified across international markets? and b) Will entry be incremental or simultaneously to various markets? (Hollensen 2011). Although these strategies have been studied in pairs in the past, no evidence has been found supporting their strategic consideration as a set.

The main objective of this study is to investigate the consideration of these strategies by marketing managers, during their strategic evaluation of international markets. We examine whether marketing managers make concurrent decisions about the number of countries and the speed of international expansion, i.e. selecting between one of the four targeting strategies which emerge by this combination.

An extensive list of items, grounded in literature and related to company, product, technology, market and competition characteristics (Katsikeas and Leonidou 1996; Kalish, Mahajan and Muller 1995) act as antecedents of such options, and can be used in order to explain and predict successfully the reported adopted strategy. Although these items have been previously examined as antecedents of each strategic dilemma (Katsikeas and Leonidou 1996; Katsikea et al, 2005; Kalish, Mahajan and Muller 1995), in this study we attempt to contribute to the literature by investigating their explanatory power for the complete set of options, as derived by the combinations of strategic alternatives.

In the past, a number of studies have investigated the relationship between the market expansion strategy and the company's international performance (Cieřlik, Kaciak and Welsh, 2012), but with emphasis on the number of markets entered, partially ignoring the speed of internationalization. In this paper, we study for the first time, the relationship between the many facets of the adopted international expansion strategy and company's exports success, controlling for company's international experience and attitude to exports. Finally, company's success is connected to the degree of company's export involvement, as suggested in the literature.

2. Theoretical Background, Conceptual Model And Hypotheses

During a company's internalization process, the market selection stage is followed by the selection of the expansion strategy (Hollensen 2011). In particular, it is supported that a

company has to take two major decisions in order to design its expansion strategy to international markets. The first one is related to the number of international markets the company targets, whereas the second is associated with the time frame of internationalization.

The first dimension, which is related to the number of international markets, identifies two alternatives along a concentration - diversification continuum (Ayal and Zif 1979; Katsikeas and Leonidou 1996; Katsikea et al. 2003). Companies following a strategy closely to the one end, focus their efforts and resources on few, carefully chosen, foreign markets. In contrast, companies which adopt the strategy at the other end of the spectrum, disperse efforts and resources in as many as possible foreign markets.

At the same time, companies have to decide along a timing dimension from incremental to simultaneous entry. These strategies have been named “waterfall” and “sprinkler / shower” respectively (Kalish, Mahajan and Muller 1995). In the first option the company chooses to enter all foreign markets gradually, while in the second case the company chooses to enter the same number of market, simultaneously (Keegan 2000).

The literature provides seminal efforts in developing typologies of internationalization strategies, which thought focus either on the time dimension of expansion (eg. Kuivalainen, Saarenketo and Puumalainen 2012; Vissak and Masso 2014; Oviatt and McDougall 1994) or at the number of markets penetrated or targeted (Rugman and Verbeke 2004). The authors have failed to pinpoint published research that investigates concurrent decision making along the dimensions of time and number of markets entered, which in this paper is studied.

Following the stream of previous research which identifies two separate strategies for the number of foreign markets (concentration vs diversification) and two similarly separate strategies for the timing of entry (waterfall vs sprinkler), it is evident that the combination of these produces for distinctive strategic options among which companies can select. Therefore, companies can either (a) focus resources on few international markets, in which they expand gradually or (b) diversify efforts and resources among many markets in which again choose to expand incrementally. In addition, firms can (c) either expand in many global markets simultaneously, a strategy that requires the deployment of the greatest amount of resources, or (d) to expand at the same time but to a limited number of carefully chosen markets.

The strategic expansion options in this paper are conceptualized, for the first time, along a continuum of varying degrees of involvement. This is achieved through the measurement approach of the firms’ adopted strategy and by the construction of a latent formative variable which is comprised by the two distinct options of expansion (Hollensen 2011, Katsikea, Morgan, Theodosiou and Papavasiliou 2005; Kalish, Mahajan and Muller 1995). The use of a

more complex construct which depicts the adopted strategy, necessitates the reshuffling of the proposed in the literature antecedent variables. The resulting constructs are thus formed by items which have previously been used for the modeling of either the degree of diversification or the speed of expansion, are deployed concurrently in one model for the first time.

Having combined the two main decisions for International Expansion Strategy into a coherent framework, it is apparent that their antecedents should also be merged. Following a careful review of the literature, it became evident that the argument of Bell, Crick and Young (1998) still holds true. Indeed, the nature and the pace of internationalization is conditioned by (a) company specific factors as well as (b) variables of the external, global environment. More specifically, firm characteristics, export marketing efforts, and export-related perception variables were viewed as potentially important discriminating factors between the strategic alternatives (Katsikeas & Leonidou, 1996). Katsikea et al. (2005) presented the discriminating variables grouped in factors related to the approach to market, the export organization, the market information processing and product factors, in order to predict the number of international markets a firm decides to enter. In addition, in a study about the time frame of internationalization, Kalish et al. (1995) showed that firms should either choose rapid expansion or slowly expand, depending on the industry environment in domestic and foreign countries (e.g. demand, growth, number of competitors) and the cost of entering foreign markets (Sleuwaegen & Onkelinx, 2013).

Following Leonidou et al.'s (2010) induce to investigate simultaneously the various dilemmas export managers are facing, by focusing on issues relating to the market, the product and the competitive environment, the present study proposes five antecedent constructs that capture all of the proposed variables. In particular, market issues are covered by "Level of foreign market development", product issues by "Product factors" and "Company's Dynamism & Innovativeness" and issues of competition by the construct "Company's Dominance".

Thus, we develop the following hypothesis:

H1 a: Market expansion strategy is determined by Product factors.

H1 b: Market expansion strategy is determined by Company's dynamism and innovativeness.

H1 c: Market expansion strategy is determined by Company's approach to markets.

H1 d: Market expansion strategy is determined by Company's strength of dominance.

H1 e: Market expansion strategy is determined by Level of foreign market development.

In accordance to previous studies (Katsikea et al., 2003; Cieřlik, Kaciak and Welsh 2012), a construct of internationalization success or performance of international activities

acts as the main dependent variable, providing evidence on the successful deployment of the selected internationalization strategy. Performance in this instance is conceptualized as a formative construct of two items, i.e. (a) Degree the Internationalization path provides results better than anticipated (Crick et al., 2000, Crick & Jones, 2000) and (b) Degree to which the International Operations perform better than the domestic ones. These measures of export performance were preferred to the single variable called export intensity (i.e. export sales as a percent of total corporate sales) not only because of Reid's detailed discussion (Cooper & Kleinschmidt 1985, Reid, 1982), but also because of the overall low export orientation of the firms in our sample (less than 20% for the 53% of the firms – Table 3) which could result in the production of erroneous results.

Therefore the following hypothesis is formed:

H2: The Adopted Strategy is positively associated with the company's export success.

In an effort to clearly distinguish the effect of the adopted strategy on export performance, a number of control variables were introduced in the model. The variables are well established in the literature as antecedents of export success (for extensive reviews see Aaby & Slater, 1989; Zou & Stan, 1998; Sousa, Martinez & Coelho, 2008; Chen, Sousa & He, 2016) and include: Firm's Experience in Global markets (measured as a two-item formative construct, including (a) Years International Presence and (b) Number of foreign markets covered), Firm's Involvement in Exports (measured as the percentage of revenue from global markets to the total corporate turnover), Firm's Attitude to Exports (measured as a two-item reflective construct, including (a) The view of the Foreign markets as a longstanding strategic goal, and (b) The view of the Foreign markets as a significantly greater challenge to the domestic), and Firm's Deployed Resources (measured as a three-item formative construct, including (a) Number of Employees in the International Department, (b) Corporate Turnover and (c) Corporate Profits.

Therefore the following hypotheses are formed:

H3a: Firm's Experience is positively associated with the company's success.

H3b: Firm's Involvement in Foreign Markets is positively associated with the company's success.

H3c: Firm's Attitude to Exports is positively associated with the company's success.

H3d: Firm's Resources are positively associated with the company's success.

3. Research Methodology

3.1 Scope of Research

The main aim of this study is to investigate whether firms examine their international market expansion options as a function of two major variables: (a) the total number of foreign markets to be penetrated and (b) the number of markets selected for simultaneous entry. Concurrent examination of these two variables creates a continuum of strategic options from a very limited number of markets entered sequentially at the one end, to a broad number of markets entered simultaneously to the other end. It is suspected that the examination of these two variables in conjunction by marketing managers, creates a considerably different dynamic of decision making patterns than those studied in the existing literature.

In order to achieve this main objective, international market expansion decision is modeled as a consequence of a mix of previously researched antecedents (Hollensen 2011, Katsikea, Morgan, Theodosiou and Papavasiliou 2005; Katsikeas and Leonidou 1996; Kalish, Mahajan and Muller 1995), which are brought to bear for the first time as a combination, in order to predict decisions of market scope and timing concurrently.

3.2 Sampling Frame and Sample Description

In order to investigate the perceived deployment of the four targeting strategies, a mail survey took place among export companies in a single southern European country. The sample, which was provided by a Gallup subsidiary, consisted of 1000 export companies, from various sectors, including pharmaceuticals and cosmetics, electronics, plastic materials, chemicals, timber furniture and cement, providing thus a cross-sectional sample of high and low technology sectors of varying dynamism (mature vs emerging markets).

After a second reminder, the collection yielded a final usable sample of 139 completed questionnaires resulting to a 13.9% response rate. The firms in the sample are representative to a good extent to the majority of exporters in the area, i.e. small and very small family firms with small to medium exporting experience. More specifically, 53.2% of the firms employ less than 25 employees, whereas only 4.3% employ more than 500. In addition, for more than half of the responding firms (53.3%), the ratio of foreign to domestic sales does not exceed 20% of total sales. Only 7.2% of the firms report sales from foreign markets which exceed 75% of total revenue.

In contrast, 43.2% of managers who answered the questionnaire reported greater than 11 years international experience, indicating a strong antithesis in the sample which is comprised by relatively experienced managers – respondents, employed by relatively inexperienced firms.

3.3 Research Instrument

For the purposes of the research a structured questionnaire has been developed, being comprised of four parts. The first part of the questionnaire consisted of questions about the company's internationalization experience. In the second part, respondents were asked to position the followed expansion strategy along two distinct dimensions (axes). Firstly, they had to indicate on the Y axis, their adopted strategy regarding the number of new international markets they were entering and then to indicate on the X axis the adopted strategy regarding the speed of entrance to these markets, using in both cases a 20-point scale.

In the third part of the questionnaire the variables reflected the antecedents of the adopted strategies were included. These items were reflecting all relevant factors as suggested in the literature, i.e. product and technology factors, competition & international market factors and company factors. Most of these items were derived from Hollensen (2011) and were enriched from Katsikea, Morgan, Theodosiou & Papavasiliou (2005) regarding the number of foreign markets decisions and Kalish, Mahajan & Muller (1995) for decisions about the time frame of internationalization and measured by 7-point Likert scales.

3.4 Data Analysis

The structural equation modeling (SEM) using the WarpPLS 5.0 software was used for data analysis. The WarpPLS 5.0 applies the partial least squares (PLS) based SEM technique (PLS-SEM). The PLS-SEM was favorably selected in this study because it is better suited for complex models with large number of constructs and links (Pavlou and Fygenon 2006; Ahuja et al. 2007; Au et al. 2008) and equally important PLS-SEM is more suitable than other statistical tools for testing the effects of moderators (Pavlou and Sawy 2006; Limayem et al. 2007), as in the case of the current study. Further, WarpPLS 5.0 is equipped with measures related to the quality of the model, such as the ten powerful goodness-of-fit indices, p-values and multi collinearity estimates (Kock 2015).

4. Findings

In accordance with the nature of the firms which participated in the survey, i.e. relatively small firms of limited international experience, it is of no surprise that the majority of the companies (56,1%) has been found to focus efforts and resources on a few new foreign markets. At the same time and for the same reasons, almost 80% of the sample enters into new international markets gradually, reporting thus a slow pace of internationalization.

In order to obtain a clearer picture and following the expansion strategies' classification described above, the responding companies have been allocated accordingly. Thus, it can be said that 55.4% of the firms opt for a concentration strategy to a limited number of international markets in which they enter incrementally, whereas 29.2% of the sample keeping their gradual pace in time, chooses to diversify into a large number of markets. On the contrary, 12.3% of the firms follow a diversification strategy but deploying it on a rapid time frame, while the remaining 3.1% of the sample opts for a concentration strategy in the number of markets, but entering them at a very fast pace.

The amalgamation of the alternative expansion strategies into one continuum of options has been tested in the proposed model, which includes 24 items describing five latent constructs: Approach to market, Company's dynamism and innovativeness, Product factors, Company's dominance, Level of foreign market development. The structural equation modeling (SEM) using the WarpPLS 5.0 software was used to provide the necessary analysis to serve the objectives of this study. The measurement model test resulted in statistically accepted goodness of fit between the data and the proposed measurement model. The various goodness-of-fit statistics are shown in Table 1. Consequently, in accordance to Kock (2015), the model has a good fit to the data.

Table 1. Model evaluation overall fit measurement		
Measure	Value	P-values
Average path coefficient (APC) (<0.05)	0.209	P= 0.003
Average R-squared (ARS) (<0.05)	0.374	P< 0.001
Average adjusted R-squared (AARS)	0.358	P< 0.001
Average block VIF (AVIF)	1.342	Good if ≤ 5 , ideally ≤ 3.3
Average full collinearity VIF (AFVIF)	1.633	Acceptable if ≤ 5 , ideally ≤ 3.3
Tenenhaus GoF (GoF)	0.413	Small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36
Sympson's paradox ratio (SPR)	1.000	Acceptable if ≥ 0.7 , ideally = 1
R-squared contribution ratio (RSCR)	1.000	Acceptable if ≥ 0.9 , ideally = 1
Statistical suppression ratio (SSR)	1.000	Acceptable if ≥ 0.7
Nonlinear bivariate causality direction ratio (NLBCDR)	1.000	Acceptable if ≥ 0.7

Table 2 presents the significant structural relationships among the research variables and the standardized path coefficients with their respective significance levels. Three out of the five paths composing H1 have been found significant. The remaining two constructs (Company's dynamism and level of foreign market development), as discussed in the following paragraph, are acting only as moderators and more precisely as boosters of (a) the reported significant direct effect of the "approach to market" variable and (b) the effect of variable "company' dominance" respectively.

Table 2					
Variable	Hypothesis	Main effects		Interaction	
		β	p	β	p
Main effects					
Product factors	H1a	.12	.07		
Company's dynamism and innovativeness	H1b	.01	.45		
Company's approach to markets	H1c	.15	.03		
Company's strength of dominance	H1d	.14	.04		
Level of foreign market development	H1e	.07	.20		
Moderating effects					
Company's dynamism and innovativeness X Product factors				.12	.07
Company's dynamism and innovativeness X Company's approach to markets				.27	< .01
Company's dynamism and innovativeness X Company's strength of dominance				.23	< .01
Level of foreign market development X Company's strength of dominance				.22	< .01
R ² (dependent variable Strategy)		.54			
Main effects					
Strategy	H2	.19	.01		
Control variables					
Company's attitude to exports	H3a	.15	.03		
Company's experience in global markets	H3b	.14	.04		
Company's export commitment	H3c	.44	< .01		
Company's descriptive characteristics and resources	H3d	.10	.12		
R ² (dependent variable Performance)		.50			

The model explains substantial variance of the adopted strategy ($R^2=0.54$), which acts as a significant determinant of company's self-reported internationalization success, while controlling for company's attitude to exporting, involvement to exports and internationalization experience. Overall, 50% of the variance of internationalization success is explained by our model, providing support for H2 and H3.

5. Discussion

This current study has revealed that exporting firms during international market expansion, take decisions by judging the number of foreign markets and the time horizon of further internationalization, simultaneously. Such decisions are finally reflected in the adopted expansion strategy. This strategy is determined by a number of factors related to the product, the characteristics of the exporting firm, the international market environment, etc., as has already been well documented in the existing literature.

More specifically, it has been deduced that Product factors, Company's approach to market and Company's Dominance to foreign markets are significant determinants of the followed strategy.

The study also identified the moderating role of *Company's dynamism & innovativeness* and the *Level of foreign market development* for the selection of foreign market expansion strategy. In reality, this type of analysis is absent from the relevant literature. Therefore, this

study can be considered as a first attempt to hypothesize the relationships among constructs in the expansion model to be moderated by company's and market's dynamic development.

Taking a closer look at the derived results, product and marketing organization's level of adaptation to the various market differences, favors the rapid expansion to a larger number of foreign markets. Such an expansion is further stipulated by the innovativeness of new products, which require careful adaptation.

Equally rapid and diverse expansion, is favored by firms which adopt a proactive approach to internationalization, have set international expansion issues at a priority to domestic ones and the global markets they wish to operate are characterized by high sales volume and high potential.

On the other hand, companies which exhibit high degree of dominance over their competitors in their foreign markets, tend to prefer a more conservative strategy of gradual concentration. Dominance is achieved when firms are confronted with ample and easily accessible market data and with a relatively stable environment, characterized by the lack of significant opportunities. Such dominance creates the equivalent of an international comfort zone and leads to some complacency effects because firms stick to their successful "formula". This strategy is further supported by high costs of entry into new markets in which few, weak competitors are prone to cooperate with a new international entrant.

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