

**INTERNATIONAL NEW VENTURES AS “SMALL MULTINATIONALS”: THE  
IMPORTANCE OF MARKETING CAPABILITIES**

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## **ABSTRACT**

This paper aims to explore how marketing capabilities contribute to the international expansion of international new ventures, and the influence of these capabilities on the entry mode these firms choose. Specifically, the study examines how marketing capabilities can help international new ventures to use entry modes involving higher resource commitment in international markets. The model proposed to develop the above relationship was tested on country-level data from Spain, using a structural equation model to analyze relationships between the latent variables.

The results show that the development of marketing capabilities by international new ventures positively influences their international performance when this is considered in terms of financial and non-financial results with respect to their main competitors in their international markets. The results also show that marketing capabilities contribute to a firm's decision to choose entry modes involving higher resource commitment in foreign markets.

This study extends previous international entrepreneurship research, including insights on antecedents of international new ventures' choice of higher commitment entry modes in foreign markets. Additionally, the results of this work encourage international entrepreneurs to look beyond the explicit value of experiential market knowledge to realize the potential value of marketing capabilities as an antecedent to higher commitment entry modes.

## **KEYWORDS**

International new venture, marketing capabilities, entry mode, performance

# **INTERNATIONAL NEW VENTURES AS SMALL MULTINATIONALS: THE IMPORTANCE OF MARKETING CAPABILITIES**

## **INTRODUCTION**

Today, barriers to international trade and investment are significantly eroded. Internationalization has been eased by improvements in technology, infrastructure and deregulation. Nevertheless, rapid international market entry alone is not a sufficient strategy for international new ventures (INVs). It must be supported by entry mode strategies (McDougall & Oviatt 1996; Jones & Coviello, 2005). For that reason it is particularly striking to note the paucity of studies analyzing the factors that may influence the governance structure INVs use to expand internationally (Autio 2005; Zahra 2005; Jones & Young 2009). The lack of these studies is especially surprising with regard to entry modes involving greater commitment of resources in foreign markets (Aspelund et al. 2007) since INVs are subject to the liabilities of newness and youth (Burgel & Murray 2000; Jones & Young 2009). This research sheds light on the current literature on this topic and lays the basis for future research.

Previous studies have highlighted market entry decisions as one of the major topics for international marketing focusing on managerial "how-to" as one of the main areas of research interest (Kotabe, 2001). INV theory (Oviatt & McDougall, 1994), however, has been excluded from recent comprehensive literature reviews (e. g. Brouthers & Hennart, 2007). Hence much of the research on SMEs, international marketing and the process of internationalization has been ignored. In this regard, entry mode is fundamental to a fuller understanding of international entrepreneurship. Indeed, entry mode is a formal part of the internationalization process, and indicative of the competitive stance of SMEs in foreign and global markets. An amazing number of

studies have failed to accommodate any discussion on the role of entry mode or mode of operation as a component of international venturing (Jones & Young, 2009).

Furthermore, the few available studies do little more than observe entry modes reported by respondents and add little to extant knowledge on strategic choices (Jones & Young, 2009). This research lays the basis for future research by establishing marketing capabilities as an antecedent of higher commitment entry modes in INVs. By contemplating marketing capabilities as a key factor in the choice of entry modes, especially ones involving higher commitment of resources, this study helps to further understanding of INVs' international behaviour.

It would seem logical to assume that INVs choose relatively lower commitment entry modes like indirect exporting or licensing whenever possible in order to overcome resource constraints and handle foreign risk (Burgel & Murray 2000; Coviello & Munro 1997; Jolly et al. 1992; McDougall et al. 1994; Aspelund et al. 2007). The use of entry modes involving higher commitment in foreign markets does not seem to be a realistic way into international markets in the early stages (McAuley 1999). Nevertheless, some authors have recently shown that not only do INVs use entry modes involving higher commitment in foreign markets right from the start (Aspelund et al. 2007) but that it also seems to be a competitive strategy (Zahra et al. 2000).

Of the possible factors influencing the choice of entry modes involving higher commitment of resources (Brouthers 2002; Brouthers & Nakos 2004), INVs' knowledge of foreign markets is key to understanding that choice. The greater the knowledge the more likely it is that the INV will use methods involving a higher resource commitment (Johanson & Vahlne 1977, and 1990). Therefore, the development of marketing capabilities can play a fundamental role in the understanding of how INVs increase

their commitment of resources in foreign markets (De Clercq et al. 2005; Oviatt & McDougall 2005; Prashantham 2005; Weerawardena et al. 2007).

This study contributes to international entrepreneurship research in several ways. First, given its high relevance, numerous empirical studies have addressed the entry mode decision (Sarkar & Cavusgil, 1996; Brouthers & Hennart, 2007; Canabal & White, 2008), the third most researched field in international management (Werner, 2002). However, little effort has been made in the field of international entrepreneurship. Our study contributes to fill this lack of empirical studies explaining the antecedents of entry mode decision in international new ventures. Second, we examine a wider range of modal choices rather than simple bivariate like equity/non-equity modes thereby enriching the analysis. Third, for research on international entrepreneurship and international new ventures to develop further, we need to know more about the factors affecting the entry mode choice of these companies. Most of the research developed has centred its attention on the external that conditions entry mode choice (Morschett et al. 2009). However our research is focused on company-specific variables, as marketing capabilities are. Finally, because international entrepreneurship research is lacking notions from international business theories (Young et al., 2003), such theories are needed to broaden the scope of the research field. This study contributes to international entrepreneurship research by integrating concepts from a resource-based view of firms with international entrepreneurship research.

In this paper we develop a theoretical model that explores the effect of marketing capabilities on higher commitment entry modes and INVs' international success. We construct our theoretical model on contributions coming from the resource-based view of firms (RBV). This choice has been motivated by the fact that RBV emphasizes the

role of the firm's capabilities when explaining entry mode choice. We then test this model in an empirical study of a multi-industry sample of Spanish INVs operating in foreign markets. Finally, we discuss the results of the study, together with its limitations, implications and possible future research lines.

## **THE INFLUENCE OF MARKETING CAPABILITIES ON ENTRY MODE CHOICE IN INTERNATIONAL NEW VENTURES**

International market entry modes refer to the methods of business organization employed by companies to enter international markets for the purpose of undertaking value-creating activities. They signify the formal organizational arrangements of business practices that cross borders; transfer aspects of business into the host country; and indicate the form of return in terms of revenue and investment (Jones & Young, 2009). With the choice of entry mode, a firm also tries to develop the specific resources and capabilities needed to compete in its new environment.

Authors have offered different typologies of market entry modes; however, the approach pursued here follows that of Anderson and Gatignon (1986) and Erramilli and Rao (1990) in which modes represent a spectrum of involvement ranging from licensing and indirect exporting through to wholly owned firms. This categorization assumes that the different methods represent a continuum of control, commitment and risk, which implies differences in their effectiveness in actually transferring resources and capabilities (Anderson & Gatignon, 1986, Jones & Young, 2009).

In entry mode literature, different models have been developed to analyze the main factors that could explain entry mode choice. For example, there is the eclectic approach (Dunning, 1979, and 1980); the approach based on networks (Johanson & Matson, 1987); gradualist approaches (Johanson & Vahlne, 1977, and 1990) or, more

recently, company capability-based models with a theoretical basis in RBV theory (Madhok, 1997; Peng & Wang, 2000; Chang & Rosenzweig, 2001). Originally formalized in 1991 as a rather static list of ingredients for competitive advantage, RBV has evolved into a dynamic recipe explaining how to use the ingredients. According to this paradigm a firm must have valuable, rare, inimitable, non-substitutable resources and capabilities. In addition to possessing these ingredients, firms seeking a competitive advantage must also demonstrate the ability to alter them so as to realize their full potential.

The study model is based on the contributions of RBV, particularly the recent contributions facilitating dialogue with transaction cost theory (for a critical review of the main contributions to RBV theory on this point, see Newbert, 2007). We adopt this theory because INVs lack resources and so their choice of foreign market entry modes cannot be principally resource-based. It is more reasonable to suppose that this choice may be based on the capacity of INVs to leverage a collection of fundamental capabilities and on each method's effectiveness in transferring INV capabilities (Gleason & Wiggernhorn, 2007). By doing this, we are also following recent calls in international entrepreneurship (IE) for further integration of concepts from the RBV of firms (Knight & Cavusgil, 2004; Jantunen et al., 2005; Weerawardena et al., 2007).

Foreign market knowledge is an important factor influencing INVs' entry mode choice (Johanson & Vahlne, 1977, and 1990; Eriksson et al. 1997). Following De Clercq et al. (2005) two main arguments may be given for this positive relation: first, when INVs become more comfortable with the particular situations encountered in foreign markets, the uncertainty related to further increasing the intensity of international activities may diminish and second, the more market knowledge an INV

has gained, the more willing it will be to utilize and exploit this knowledge through subsequent international activity.

Marketing capabilities will therefore play a major role in INVs' choice of entry modes. Marketing capabilities can be considered as the skills and competences a firm possesses that help it to understand changes taking place in its markets, together with those that enable it to operate more effectively in that market place (Day, 1994). They are capabilities "where "marketing" is interpreted as a verb, rather than an adjective" (Gibbert et al., 2006: 149). These capabilities include market sensing capabilities, such as market research; market bonding capabilities, such as customer relationship management (CRM), and spanning capabilities. Spanning capabilities include information sharing and dissemination throughout the organization, coordination mechanisms to integrate market knowledge into internal processes, and activities to generate new market knowledge. Thus, the definition of Day's marketing capability is the result of an integration process designed to apply collective knowledge, business strategy and organizational structure to the market-related needs of the business (Vorhies, 1998).

According to RBV, INVs will prefer to use higher commitment entry modes when their competitive advantage is associated with capabilities that are difficult to transfer (Madhok, 1997). In this case, the foreign partner cannot replicate this capability without losing some of the value. Under such circumstances, the INV may undertake internal transfer to preserve the value of their capabilities. Marketing capabilities are based on how INVs manage market knowledge to develop substantive business capabilities, so they have a high tacit component (Teece et al., 1997), are firm-specific (Nonaka, 1994), valuable to customers and are not easily codified or articulated (Nelson & Winter, 1982; Teece et al., 1997; Peteraf & Bergen, 2003). Similarly, the processes by



which knowledge is acquired are complex and highly firm-specific (Day, 1990).

Transmission of such capabilities through different countries may lead to serious value-erosion and loss of competitive advantage for INVs. As a result, INVs are more likely to choose entry modes that give them higher control when transferring tacit know-how capabilities (Madhok, 1998; Luo, 2001), especially because these capabilities are essential for understanding long-term competitive advantage in INVs. In this regard, Fahy et al. (2000) state that wholly-owned subsidiaries will be a more efficient vehicle through which to transfer marketing knowledge than other organizational arrangements.

But the preference for higher commitment entry modes is also based on their capacity to leverage marketing capabilities (Gleason & Wiggenghorn 2007). Aspelund et al., (2007) report that the most obvious disadvantage resulting from lower commitment entry modes, such as licensing or indirect exporting, is the reduced learning which is often a consequence of using partners that are responsible for the direct contact with foreign customers. Higher commitment entry modes, such as direct export, joint ventures and different types of acquisitions, contribute more to learning than lower commitment entry modes (Zahra et al., 2000). In the long run, lower commitment modes can further inhibit international development and can erode the development of marketing capabilities in INVs. The need INVs have to strengthen their marketing capabilities may therefore encourage them to prefer the use of foreign market entry methods involving a higher level of resource commitment when they possess marketing capabilities.

INVs seeking to enter an international market can use their bonding capabilities for building social networks to obtain the resources they need to rapidly increase their commitment in international markets. Firms with strong bonding capability have access

to more partnership opportunities and use them to gain access to valuable resources, such as technology, distribution channels and customer bases (Baucus et al., 1996). Networking with various strategic partners contributes to legitimacy (Lounsbury & Glynn, 2001), information exchange and coordination (Larson, 1991), increasing the speed of know-how and technology transfer and acquiring core human resources (Zahra et al., 2000), reducing innovation uncertainty (Ramachandran & Ramnarayan, 1993), and is an effective way of striving for competitive advantages for new ventures. Consequently, a lack of resources does not necessarily determine the choice of entry mode in INVs (Gleason & Wiggernhorn, 2007). On the contrary, it could be suggested that INVs may try to protect their marketing capabilities by using entry modes that involve greater commitment of resources in foreign markets.

Following the above arguments, we propose that the higher INVs' marketing capabilities, the more they tend to use higher commitment entry modes. Thus, the following hypothesis is proposed:

H<sub>1</sub>: Higher international new ventures' marketing capabilities foster the choice of higher commitment entry mode.

## **INFLUENCE OF ENTRY MODE ON INTERNATIONAL PERFORMANCE IN INTERNATIONAL NEW VENTURES**

In the context of entry modes, RBV (resource-based view) has been mainly used to explain entry mode decisions (Sharma & Erramilli 2004) although it can also be used to explain the relationship between entry mode choice and international performance. Entry modes differ in terms of their effectiveness to actually transfer and leverage firms' resources and capabilities (Anderson & Gatignon, 1986). Therefore, they may have a different influence on international performance (Sichtmann et al., 2007).

Empirically, no consensus has been reached over which entry mode is associated with better performance. This diversity in empirical results is also accompanied by a great diversity in theoretical arguments concerning the influence of each entry mode on firm performance (Yip, 1982, and 1982a). Therefore, rather than propose a better entry mode for an INV, it would appear more appropriate to propose a model that helps INVs choose between different entry modes by taking into account the circumstances in which entry occurs (Brouthers, 2002; Brouthers & Nakos, 2004, and 2005). Based on this approach, it is argued that it is not a matter of better or worse modes, but rather of the correct choice of a mode that will yield the best results. The choice of a specific mode will positively influence performance when firms make this choice in accordance with the circumstances surrounding entry (Brouthers 2002; Brouthers & Nakos, 2004, and 2005).

Following RBV, marketing capabilities can be considered among the factors that can influence entry mode choice. As we have argued above, marketing capabilities are not easily transferable; consequently, marketing capabilities will encourage INVs to use entry modes that involve higher resource commitment. In this situation, higher resource commitment entry mode will be associated with higher profits, because there will be none of the competitive advantage erosion related to lower commitment entry modes such as indirect exporting or licensing.

Moreover, INVs can gain economic benefits by exploiting various assets across a large number of international markets through higher commitment entry modes (Kuivalainen et al., 2007). Aside from the benefits gained from the internationalization of proprietary asset exchange across international borders, foreign commitment in diversified locations enables an INV to leverage various location-based advantages (Kogut, 1985), such as a competitively priced labor force, to gain access to critical

resources (Deeds & Hill, 1998) and to develop new knowledge that will enhance its international competitiveness (Shan & Song, 1997). The potential to promote organizational learning in diverse international markets has been put forward as a key benefit of international expansion through higher commitment entry modes (Zahra et al., 2000). This global learning may translate into an increase in the resources devoted to adapting supply to the characteristics and needs of the new business environment (Day, 1994). Moreover, as INVs are still “in the middle range of internationalization” (Li, 2005), the administrative costs associated with higher levels of commitment do not materialize (Kuivalainen et al., 2007). We can thus propose that:

H<sub>2</sub>: Higher commitment entry modes have a greater positive effect on the international performance of international new ventures with strong marketing capabilities.

## **INFLUENCE OF MARKETING CAPABILITIES ON INTERNATIONAL PERFORMANCE IN INTERNATIONAL NEW VENTURES**

Much of the research seeking to understand the impact of marketing on performance is theoretically anchored in RBV. This theory views heterogeneity in resources among firms as fundamental in explaining firm performance, where valuable, rare, inimitable, and non-substitutable resources are considered to be the most beneficial (Wernerfelt, 1984, Barney, 1991).

“Marketers, whether of full-time stature or in ‘the crucial role’ (Gummeson, 1991) of part-time marketer, whether working in a large or micro enterprise, whether operating in a big or small network, need to deepen existing expertise and learn new competences,” (O’Driscoll et al., 2000: 193). During the creation phase, the INV will face changes and unforeseen circumstances that will require slight variations to the initial project (Greiner, 1972). INVs’ success will therefore depend on their capacity to

identify and adapt to the changes the business opportunity requires once activity has been initiated (Fernhaber & McDougall, 2005).

The challenge facing a firm aiming to generate superior performance is to identify a set of marketing capabilities as grounds for that performance (Ramaswami et al., 2009). Younger organizations typically have less knowledge about markets and customers; they may engage in inefficient practices until they learn; they may need time to forge relationships with external partners, including customers and channels members; and may also not know about what they can do or should do (Lippman & Rumelt, 1982). Further, they may not be sufficiently endowed with resources to execute their strategy (Venkatraman et al., 1990).

INVs operating in foreign markets face disadvantages vis-à-vis local competitors, who are more familiar with local conditions, political and exchange risks. There are also the added travel and communication costs incurred in conducting business abroad (Caves, 1971). Nevertheless, INVs with marketing capabilities are able to develop the expertise that increasingly allows them to confront new information and challenges in a more timely and opportune manner. By developing marketing capabilities, INVs will be able to identify and carry out the changes their business opportunities require in order to better meet the demands of their foreign customers. The ability to learn about the overseas market — both in terms of consumer preferences and competitors' actions — is essential for developing effective marketing mix strategies and can lead to sustained superior returns. Marketing capabilities enable the firm to match products to the needs of niche markets, put across the credibility of the firm and its range, find appropriate distribution options, and price appropriately for the value of the product in its market (Weerawardena et al., 2007). In fact, Ramaswami et al., 2009 found a stronger impact of customer management on financial performance in younger than older firms.

In addition, once the creation stage has been successfully negotiated, INV success also involves the ability to identify and develop new business opportunities in international markets (Autio et al., 2000; Knight & Cavusgil, 2004; Fernhaber & McDougall, 2005). In this regard, the development of marketing capabilities is generally an important source of competitive advantage and a positive association between these capabilities and local performance has been demonstrated (Day 1994, Fahy et al. 2000). As marketing capabilities can be used to create and disseminate useful knowledge (Bharadwaj et al., 2005), and have the characteristics of value, inimitability, immobility, and non-substitutability (Vorhies & Morgan, 2005), firms with stronger marketing capabilities should be better positioned to create demand growth and appropriate the accompanying growth in economic revenues. In the case of INVs, marketing capabilities lead to improved knowledge of international markets, which in turn allows them to develop more realistic assumptions about the viability of these new business opportunities (Fernhaber & McDougall, 2005). They will also encourage the development of proactive behavior by making it possible to exploit these business opportunities more successfully and quickly than their competitors (Weerawardena 2003).

Superior market-sensing capabilities allow a firm to identify underserved segments and those where its rival's offerings may not be fulfilling customer and channel requirements (Slater & Narver, 2000). These underserved and/or unsatisfied segments provide good targets for the firm's efforts to grow revenues by attracting new customers. The customer intelligent aspects of market sensing should also provide insights for managers concerning opportunities within the existing customer base to expand the share of customer requirements that the firm can exploit (Morgan et al., 2005). Firms with strong market-sensing capabilities are also better able to identify the

least price-sensitive customers and prospects, which enable them to charge higher prices. These capabilities should also provide new insights into how a firm's product and service offerings may provide the greatest non-price value to customers and channel members (Slater & Narver, 2000).

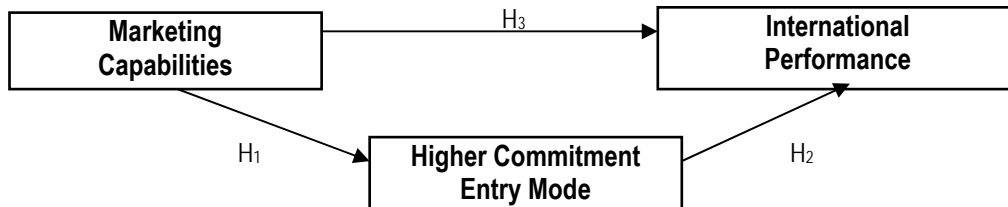
Strong CRM capabilities focus the firm's attention on the profitability of acquiring prospective customers and retaining existing customers (Bolton et al., 2004; Reinartz et al., 2005). Firms with strong CRM capabilities should focus their resources on the most profitable customers and those with a high potential for future profits (Bolton et al., 2004). Such firms continuously increase their knowledge of and experience with these customers, lowering the cost of serving them over time (Reinartz & Kumar, 2000). This maybe reinforced by higher customer retention among firms with strong CRM capabilities, leading them to have more experienced users of the firm's products and services, which further lowers the cost of servicing their customers over time (Ryals, 2005). In addition, by continuously focusing on customers for whom price is not the only purchase driver, firms with strong CRM capabilities should also be better able to increase prices for their products and services (Cao & Gruca, 2005). The results of Morgan et al. (2009) clearly indicate that marketing capabilities can explain significant variance in the components of a firm's profit growth performance.

In conclusion, we can argue that marketing capabilities allow INVs to access and penetrate multiple markets effectively and rapidly with their leading-edge innovative products because they are firm-specific, valuable to customers, cannot be substituted, are difficult to imitate and are easily transferable between markets (Teece et al., 1997; Peteraf & Bergen, 2003). Consequently, this study proposes that the possession of marketing capabilities will result in greater performance potential in INVs.

H<sub>3</sub>: Higher marketing capabilities in INVs positively influence their international performance.

These hypotheses are illustrated in Figure 1.

**Figure 1. Model of the influence of marketing capabilities on international performance**



## **METHODOLOGY**

To test these hypotheses, data was gathered from a sample of Spanish international ventures operating in several industries. Firms were selected from the Dun & Bradstreet (2002) database, which contains references to 850,000 Spanish firms, in terms of turnover. The 2002 Database was used to ensure that the youngest companies interviewed had surpassed a minimum survival threshold after creation. Following most studies of international new ventures (Coviello & Jones, 2004; Knight & Cavusgil, 2004), three criteria were used to select the companies for the survey. Firstly, the companies had to be new ventures. Although Oviatt and McDougall's (1994) definition suggests an international new venture needs to be international "at inception", in general the length of time considered to define an international new venture varies from three years (Madsen & Servais, 1997) to six years (Zahra et al., 2000), seven years (Jolly et al., 1992) eight years (McDougall & Oviatt, 1996) and up to ten years (Milanov & Fernhaber, 2009) after the firm's creation.

Biggadike's (1976) pioneering new venture research established an 8-year time period for new firms to reach the operational levels of established firms. Paralleling prior research (McDougall & Robinson, 1990; McDougall & Oviatt, 1996) and, since the aim of this research is to study how early generation of marketing capabilities can influence



international new ventures' entry methods and their international performance, we required sample firms to be no more than 8 years old.

Secondly, the companies had to be engaged in international activities. In the case of INVs, Oviatt and McDougall (1994) believe that the existence of a significant percentage of sales coming from foreign countries is the key defining dimension. Previous studies considered a company to be international when international sales comprised 5 % or more of total sales of the international ventures (McDougall & Oviatt, 1996). Nevertheless, we established a more conservative threshold: firms whose level of exports was more than 25% of their annual sales were regarded as having a consolidated international presence. In this way we eliminated firms with isolated activities abroad, as other studies have previously done (Knight & Kavusgil, 1996, Moen, 2002, Pla-Barber & Escribá-Esteve, 2006, Kuivalainen et al., 2007; Milanov & Fernhaber, 2009; Jantunen et al., 2008).

Thirdly, in line with other studies of new ventures (Carpenter et al. 2003, Robinson & McDougall 2001), firms should not be subsidiary or affiliated companies; thus, only independently owned and operated new ventures were included in our sample. After these selection procedures, our sample comprised 537 international new ventures. The field research was carried out during the second quarter of 2005 and the final sample consisted of the 135 international new ventures that responded to the questionnaire (a response rate of 25.14 per cent). For the field research, interviewee collaboration was requested, together with confirmation of the e-mail address. After the questionnaire had been sent out, follow-up contact was made by telephone to increase the response rate. The questionnaire was posted on the Internet and an e-mail with a link to it was sent to each manager. Table 1 summarizes the main characteristics of the sample.

**Table 1. Characteristics of the sample**

<b>Economic sector</b>	<b>Age</b>	<b>Turnover (x 1000) €</b>	<b>Employees</b>	<b>International activity</b>
Industrial = 55.6 %	1 - 4 = 47.4 %	Below 800 = 47.3%	3 - 15 = 60%	25% - 50% = 43.2 %

Commercial = 17.8 %	5 = 24.4 %	800 - 5,000 = 33.3%	16 – 55 = 25.4%	51% - 75% = 35.6 %
Others = 26.6 %	6 – 7 = 28.1 %	Over 5,000 = 19.4%	58 – 165 = 14.6%	75% - 100% = 21.2 %

To test for non-response bias, the responses of early and late respondents were compared. Analysis of the t-test showed no significant differences at the 0.05 level, indicating an absence of non-response bias (Armstrong & Overton, 1977). To ensure that the effects on the main results of the model variables (marketing capabilities, entry mode and international performance) were not influenced by sample characteristics, a MANOVA was conducted using firm sector, age, size (turnover and employees) and international activity as independent variables. Analysis results showed no significant differences at the 0.05 level in any of the model variables.

## **Measuring instruments**

### *Marketing Capabilities*

In this paper marketing capabilities are defined as the integration processes designed to apply the firm's collective knowledge, skills and resources to the market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats (Day, 1993, and 1994). From this point of view, marketing capabilities are related to customer orientation, gathering and processing information to help management steer the firm in the desired direction, selection and strategic management of key products and markets, and management of marketing activities (Larréché, 2000). Consequently, they are not measured in the same way as substantive marketing capabilities that are related to marketing assets. Day (1994) classified these as inside-out, outside-in and spanning capabilities. In addition, firms create alliances and networks with others that enable them to leverage further assets and competencies from partner firms (Hooley et al., 1998).

Cadogan et al (2002) developed a scale to measure these firms' marketing capabilities. This scale identifies the factors for the assessment of marketing capabilities broadly in line with the typology presented by Day (1994), but with the addition of a separate factor concerned with networking capability. Thus, Cadogan et al.'s (2002) capabilities are grouped as network capabilities, outside-in capabilities, inside-out capabilities and spanning capabilities. However, as Day's (1994) inside-out capabilities were more closely related to substantive capabilities, we limited the scale to other three dimensions (Table 2).

**Table 2. Marketing Capabilities Scale**

<p><b>Networking capability</b>  Mutual trust with our strategic partners (Network1).  Good at sharing mutual commitment and goals with our strategic partners (Network2).  Good at pooling expertise with our strategic partners (Network3).</p> <p><b>Outside-in capability</b>  Good at creating, maintaining and enhancing relationships with customers (Outside1).  Good at ascertaining customers' current needs and what products they will need in the future (Outside2).</p> <p><b>Spanning capability</b>  Ability to launch new products successfully (Spanning1).  Quality of customer service (Spanning2).  Good marketing management abilities (Spanning3).  Good at using information coming from the market (Spanning4).</p>
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As the authors originally tested this scale on a sample of firms with over 20 employees, to ensure that it was also applicable in the case of international new ventures we verified that all the items could be answered regardless of firm size. An ANOVA was then performed in order to reveal any significant differences between firms with more than 20 employees and firms with fewer than 20. The test showed no significant differences in any scale item depending on the size of the group (Table 3).

**Table 3. ANOVA for differences depending on firm's size**

Item	Mean group 1 <sup>a</sup>	Mean group 2 <sup>b</sup>	F	Sig. of F
Network1	4.289	1.043	2.184	0.142
Network2	4.036	3.638	3.806	0.053
Network3	3.735	3.340	3.766	0.054
Outside1	4.530	4.447	0.402	0.527
Outside2	3.614	3.936	1.889	0.172
Spanning1	3.434	3.681	1.622	0.205
Spanning2	4.072	3.936	0.932	0.336
Spanning3	3.373	3.213	0.744	0.390

Spanning4	3.795	3.340	3.892	0.051
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<sup>a</sup> Fewer than 20 employees

<sup>b</sup> 20 employees or more

### *Entry mode*

In specifying the entry modes, we followed studies that have considered entry modes as a spectrum of involvement and, consequently have tried to overcome the dichotomy between equity and non-equity modes (Burgel & Murray, 2000; Zahra et al., 2000; Brouthers, 2002; Wei et al., 2005). Accordingly, to construct an entry mode index, the CEOs were asked how frequently (from 1 = never to 5 = always) their businesses had opted for each of the following ten entry modes to grow in foreign markets: brand licensing, commercialization agreements, franchising, production agreements, direct export, joint-venture, acquisition of a sufficiently high capital share to control a business that was operating in the new market, acquisition of 100% of the capital of an already existing business and creation of a new business or a subsidiary. Answers above 1 were then recoded following a hierarchical order of entry modes according to the resources committed to each of them (Pan & Tse, 2000) in such a way that (1) a higher frequency of a mode scored higher than a lower frequency of the same mode; (2) where frequencies were equal, modes requiring a higher resource commitment scored higher; and (3) low frequency in a mode requiring higher commitment scored higher than high frequency in a mode requiring lower commitment.

Although this procedure allows us to construct an index that captures the frequency of choice of each entry mode, it should be noted that it also involves a loss of accuracy due to the lack of information about the causes driving the selection of each entry mode. This should therefore be borne in mind when considering the results obtained in this study. Further studies should ask interviewees to report the entry mode chosen for each of the markets the firms entered.

### *International performance*

Although international performance has attracted a lot of attention from researchers during the last couple of decades, there is no common valid operationalization of the concept. Nevertheless, there appears to be widespread agreement that international performance is a multifaceted concept and that it cannot be correctly measured by any single indicator (Aaby & Slater, 1989; Birley & Westhead, 1990; Cavusgil & Zou, 1994; Shoham, 1998, Katsikeas et al. 2000). It is more in accordance with the complexity of international performance to construct a scale from a set of variables (Madsen, 1998). Moreover, multi-indicator measures tend to be more reliable and have less measurement error than single indicator measures (Churchill, 1979). These indicators can be objective or subjective, absolute or relative, reflecting either the scale of international operations or their success.

The use of objective international performance indicators may be of little use for comparisons across business and cross-country studies because of differences in terms of competition, technology intensiveness, market structure (Katsikeas et al. 1996), accounting and sales (Styles, 1998). Moreover, most small firms are privately owned and as a rule are very reluctant to disclose sensitive financial information. In situations where firms are hesitant to provide objective performance data collecting subjective data provides researchers with a better ability to understand the values that a manager may place on performance (Hult et al., 2008). Thus, growing numbers of researchers are starting to use subjective measures to assess firms' international performance (Cavusgil & Zou, 1994). In addition, there is evidence to suggest that subjective and objective measures are positively associated (Shoham, 1998; Styles, 1998) and that subjective measures of performance can accurately reflect objective measures (Lumpkin & Dess, 2001). The use of subjective measures therefore appears

to be advantageous because data is easier to collect (Shoham, 1998). Furthermore, management assessments of a firm's performance appear to be guided more by their subjective perceptions than by objective measures (Madsen, 1989). These arguments would seem to support the adoption of subjective measures to assess international performance.

Considering that all the firms in our sample were small firms (see Table 1), we also opted to use subjective performance measures. Furthermore, Johnson and Kaplan (1987) outlined the limitations of economic measures and proposed that a selection of non-economic indicators should be employed, based on organizations' strategies, and including measures of manufacturing, marketing and research and development. Howell and Soucy (1987) devised a series of non-economic measures that emphasized quality, inventory, material scrapping, equipment maintenance and delivery throughout. Bromwich and Bhimani (1989) highlighted the importance of measures such as quality, delivery time, inventory reduction and machine performance. Thus, to measure international performance we adopted a subjective and relative approach in order to improve the response rate. The CEOs were asked to state the position of their business in their foreign markets in terms of non-financial (development of products, adaptation to style, specifications and packaging requirements, after-sales service, price policies, access and control of distribution channels, personal selling, promotion and advertising) and financial (profitability, profit and market share) indicators with respect to their main competitors in that market. These indicators have been also used in similar studies (Cavusgil & Zou, 1993, and 1994, Katsikeas et al., 1996; Zou et al., 1998, Zahra & Garvis, 2000, Leonidou et al., 2002, Knight & Cavusgil, 2004, Brouthers & Nakos, 2005, Jantunen et al., 2008; Nakos & Brouthers, 2008).

### *Validity and reliability of the scales*

Most researchers in the social sciences assume that indicators are effective indicators, whereby items (i.e., observed variables) making up a scale are perceived as reflective indicators of an underlying construct (i.e., latent variable) (Diamantopoulos & Winklhofer, 2001). Nevertheless, cause indicators are more appropriate when an indicator could be viewed as causing rather than being caused by the latent variable measured by the indicators (MacCallum & Browne, 1993). This alternative measurement perspective involves the creation of an index rather than a scale (Bollen & Lennox, 1991). Key features of formative models are (Jarvis et al., 2003): (1) the direction of causality is from measure to construct, (2) there is no reason to expect that measures are correlated, (3) dropping an indicator from the measurement model may alter the meaning of the construct, (4) measurement error is taken into account at construct level, (5) the construct possesses "surplus" meaning, and (6) the scale score does not adequately represent the construct. Two of the constructs of the model proposed in this article have the above characteristics: entry mode and the financial dimension of international performance.

Four issues are critical to successful index construction (Diamantopoulos & Winklhofer, 2001): content specification, indicator specification, indicator collinearity, and external validity. To ensure the content and indicator specification of our indexes, all the items were taken from a review of related literature. Furthermore, we attempted to ensure that they met the conceptual definition and reflected all the relevant dimensions. The analyses of multicollinearity among the indicators of the different indexes show that the maximum variance inflation in each index (1.757 in entry mode and 4.290 in financial international performance) is far below the common cut-off threshold of 10 (Kleinbaum et al., 1988). Finally, following the recommendations of Jarvis et al. (2003) for the

assessment of external validity, reflective indicators were added to the formative construct and a multi-indicator, multi-cause model was estimated for each index. Table 4 shows the reflective indicators and the estimates of the models that resulted in good overall fits.

**Table 4. External validity of indexes.**

Scale	Entry Modes	International Performance
<b>Reflective indicators</b>	1. My business prefers to undertake foreign market entry modes with high risk investment. 2. When my business faces entry in a foreign market, it adopts a bold position.	1. Developing new products. 2. Adapting export product design style. 3. Meeting export-product quality standards/specifications. 4. Meeting export packaging/labeling requirements. 5. Providing technical/after sales service. 6. Price policies. 7. Accessing export distribution channels. 8. Maintaining control over foreign middlemen. 9. Personal selling. 10. Advertising. 11. Promotion design.
<b><math>\chi^2/df</math></b>	1.70	2.44
<b>RMSR</b>	0.039	0.077
<b>GFI</b>	0.99	0.97
<b>NFI</b>	0.99	0.96
<b>CFI</b>	0.99	0.96
<b>IFI</b>	1.00	0.96

In relation to marketing capabilities, the technique most frequently used by social researchers to evaluate convergent validity in reflective measures is confirmatory analysis. Since the aim of our analysis is to describe the validity of indicators as measurement instruments of this scale, the different initial model was adjusted following the indications of Jöreskog and Sörbom (1993). The following criteria were applied: each indicator had to reach a lambda of 0.5 to ensure its continuity on the scale, and the t value had to be significant. Following these criteria, the items Spanning2 and Spanning4 were eliminated from the scale. The results of the validity and reliability analyses are detailed in Table 5.

**Table 5. Results of marketing capabilities measurement model analysis.**

Parameters	$\chi^2/df$	RMSR	GFI	NFI	CFI	IFI	$\alpha$	CR	EV
0.56-0.94	2.96	0.049	0.95	0.94	0.96	0.96	0.79	0.92	0.62



In order to test the discriminant validity between the scales two tests were used: the confidence interval (Anderson & Gerbing, 1988) and the extracted variance (Fornell & Larcker, 1981). According to the confidence interval test, the value "1" should not appear in the confidence interval of the correlations between the scales in the same level of analysis. According to the extracted variance test, to indicate discriminant validity, the extracted variance for each construct should be higher than the squared correlation between that construct and any other construct. Table 6 shows the results of this test, which were satisfactory in all cases.

**Table 6. Discriminant validity tests**

<b>Confidence interval test</b>		
<b>Scales</b>	<b>Correlation</b>	<b>Confidence interval</b>
Marketing Capabilities – Entry Mode	0.14	[0.00; 0.28]
Marketing Capabilities - International Performance	0.36	[0.22; 0.50]
Entry Mode - International Performance	0.36	[0.16; 0.56]
<b>Extracted variance test</b>		
<b>Scales</b>	<b>EV</b>	<b>Squares correlation between constructs</b>
Marketing Capabilities	0.62	Marketing Capabilities – Entry Mode = 0.02
Entry Mode	0.42	Marketing Capabilities - International Performance = 0.13
International Performance	0.61	Entry Mode - International Performance = 0.13

## Results

Structural equation models have proved to be particularly useful when the research aim is to establish the direct causal contribution of one variable to another in a non-experimental situation (Jöreskog & Sörbom, 1993). This type of analysis was used in the present study. Table 7 shows the results of the estimation of the relationship model with the SEM. To simplify the model, the marketing capabilities measurement scale was narrowed down to four indicators, which corresponded to its dimensions. To do this, the items making up each dimension were averaged.

**Table 7. Results of standardized parameters estimation for the model of marketing capabilities influence on international performance.**

Marketing Capabilities – International Performance	0.31	3.83 (p<0.001)	H1	Accepted
Marketing Capabilities – Higher commitment Entry Modes	0.14	2.06 (p<0.05)	H2	Accepted
Higher commitment Entry Modes – International Performance	0.31	2.89 (p<0.01)	H3	Accepted
<b>Measurements of quality of fit</b>				

$\chi^2/df = 1.77$	RMSR = 0.056	GFI = 0.94	NFI = 0.87	CFI = 0.94	IFI = 0.94	RFI = 0.80
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As expected, the results show that firms' marketing capabilities positively influence their choice of higher commitment entry modes and their international performance, thus confirming hypotheses H<sub>1</sub> and H<sub>2</sub>. Finally, the effect of higher commitment entry modes on international performance is also positive and significant, thus confirming hypothesis H<sub>3</sub>.

## **DISCUSSION**

The results obtained in this study advance the IE literature in two major directions: firstly, the importance of marketing capabilities for the internationalization of INVs has been demonstrated. Thus, in addition to the founder's personal and business networks or experience (Fernhaber & McDougall, 2005; Weerawardena et al., 2007), this study suggests that the international performance of INVs is also linked to their ability to develop marketing capabilities. We have confirmed that market knowledge and the processes by which INVs develop this knowledge are essential to understanding their international performance (Autio et al., 2000; Zahra et al., 2000; Oviatt & McDougall, 2005; Zahra, 2005; Weerawardena et al., 2007).

Marketing capabilities have been defined as a firm's skills and competences relating to market information gathering, sharing and dissemination throughout the organization; launching successful new products, and customer relationship and supplier relationship development. The results of the study show that the development of marketing capabilities by INVs positively influences their international performance, when this is considered in terms of financial and non-financial results with respect to their main competitors in their international markets. As suggested by RBV, INVs must also be capable of developing capabilities related to the management of market

information and knowledge, and to the appropriate use of this information and knowledge in designing the INV's future activities.

Secondly, the results of this study give us a greater insight into the factors that may be involved in the choice of entry mode taken by INVs. In this paper we have argued that for INVs, the benefits associated with entry modes involving greater resource commitment are more important than the challenges posed by these modes (Anderson & Gatignon, 1986; Erramilli & Rao, 1990). Especially in the case where INVs develop marketing capabilities, as these capabilities are difficult to transfer without running the risk of loss of value.

Our results provide a better understanding of how firms experiencing the liabilities of newness and foreignness can bypass stages and enter foreign markets using higher commitment entry modes. Although this study coincides with gradualist approaches in the need to understand the processes by which firms acquire and develop market knowledge in order to understand the keys to entry method choice, the results appear to suggest the existence of an alternative internationalization model to that put forward by these approaches. Thus, in addition to physical presence in foreign markets, INVs' need to develop marketing capabilities can also be important in understanding the level of resource commitment INVs make in international markets. Moreover, higher commitment entry modes can protect INVs against the risk of appropriation associated with indirect exporting or licensing. It may appear that these results do not coincide with the arguments developed in much of the IE literature, as it is argued that INVs might prefer to use non-commitment agreements with distributors and international agents. Limited resources, and the need to guarantee operational flexibility in international markets would lead INVs to establish relationships with independent agents able to facilitate sales in these markets (Zacharakis, 1997; Zheng & Kavul,

2005; Knight & Cavusgil, 2004; Jantunen et al., 2005). However, past empirical studies have not been able to corroborate unequivocally the existence of a positive relationship between the use of independent distributors and the success of INVs (Burgel & Murray, 2000; Leiblein & Reuer, 2004). The results of our research may help to explain the findings of these authors. Indeed, they would appear to suggest that, in order to analyze the suitability of an entry mode for INVs, the characteristics conditioning entry must be taken into account (Brouthers, 2002; Brouthers & Nakos, 2004). Along these lines, this study complements the work of Hashai and Almor (2004). Hashai and Almor (2004) conclude that in important markets, wholly-owned subsidiaries are the preferred foreign market-servicing mode. Our research contributes an additional factor to the analysis of entry mode preference for greater resource commitment: INVs' marketing capabilities.

## **CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH**

This article set out to demonstrate the important role of marketing capabilities in the internationalization of new ventures. The results of the empirical research have shown that marketing capabilities improve the international performance of international new ventures and enable them to opt for high order entry modes in foreign markets. Thus, the study contributes to the International Entrepreneurship literature by identifying marketing capabilities of one of the factors that influence the governance structure INVs use to expand internationally. Consequently, our results offer a route to the targeted development of policies designed to encourage more firms to accelerate their internationalization process. These policies might focus on helping international new ventures to develop marketing capabilities.

Our study has found a positive relationship between international new ventures' marketing capabilities and their higher commitment entry mode choice, furthering

understanding of international entrepreneurship by introducing discussion on the role of entry mode as a component of international venturing as proposed by Jones and Young (2009). Nevertheless, more research is needed in order to explain other variables that may be involved in this decision, an objective that lies beyond the scope of this paper. For example, the number of countries in which the company is operating, the risk associated with each of these countries, or the learning demands associated with the new market may influence entry mode choice (Andersen, 1993). Another factor to be considered is the uncertainty deriving from the specific characteristics of the market itself, such as changes in technology or in consumer tastes. The risk of obsolescence of technological assets may favor the use of lower resource commitment modes to enter new markets (Yip 1982, and 1982a). However, the need to develop capabilities associated with technological development in the sector might lead to the use of entry modes involving a higher commitment of resources, as these entry modes can encourage learning in INVs (Zahra et al., 2000).

The characteristics of the products or services INVs offer can also influence the entry mode they choose; INVs whose products or services are characterized by a high level of tacit knowledge may prefer to use entry modes involving greater resource commitment. In this case, the risk that a firm's specific advantages might be expropriated through a license or a partner in a joint venture may be more significant than other factors in understanding why this choice was made (Brouthers & Nakos, 2004).

This article has focused on demonstrating that marketing capabilities allow higher commitment entry modes to be used. Future research could analyze the kind of capabilities that drive lower investment entry modes and how this kind of entry mode is related to international performance.

Considering the effect of marketing capabilities on international performance, it seems worth insisting on the need for more in-depth research to reveal sources of marketing capabilities for international new ventures, bearing in mind the lack of experience this kind of company has. For example, following recommendations by Sharma and Blomstermo (2003) or Laanti et al. (2007), who highlight the need to take the characteristics typical of this type of firm as a starting point in order to understand their international behavior, an interesting line of investigation would be to discover whether early international entry can contribute to the development of marketing capabilities in these firms. International new ventures, which are created with international status, may quickly establish routines for managing multicultural forces, for coordinating international resources and for selling in different countries (McDougall et al., 1994; Oviatt & McDougall, 1994). As Autio et al. (2000) point out, the cognitive, political and relational impediments associated with older firms are obstacles that could limit the firm's ability to identify, assimilate and respond to new foreign market information (Eriksson et al., 1997; Hitt et al. 1997; Wagner, 2004). Early international entry can reduce fears over the effort required to learn about foreign markets and these firms are less constrained by existing domestic relationships and more likely to develop knowledge through relationships that have been built internationally (Sapienza et al., 2005). These are some reflections we believe should be taken into account to better understand the absorptive capacity of INVs.

The design of the survey instrument has been recognized as influencing measurement error (Sudman et al., 1996). In web surveys, the screen size, settings, web browser, and color palette used by the designer can significantly change the appearance of the measure (Batagelj & Vehovar, 1998; Tedesco et al., 1999; Couper et al., 2001; Miller, 2001). Following recommendations in the literature, the

questionnaire web page was designed to fit the width of the screen and was scrollable to minimize context and order effects. Instructions were given at each step: in the web mode drop-down boxes were used, offering either one choice from a list, or check boxes for multiple-choice questions. Nevertheless, the appearance of the survey will depend on the user's computer and software configuration and as such, some influence of measurement error cannot be ruled out.

Although we designed a procedure that allowed us to measure the frequency of entry mode choice, it also involves a loss of information and precision related to the combination of modes driven by different causes. Impacts of this way of measuring entry mode on the results can not be absolutely discarded. Future research could focus on one specific market, each firm answering for its multiple markets separately.

On the whole, using primary or secondary sources of data alone to measure performance does not necessarily capture the entire domain of the construct. It may introduce the dilemma of single data source bias and/or lead to inaccurate inferences (Hult et al. 2008). Thus, to draw conclusions about performance more effectively, further research should consider using both primary and secondary sources of data. The measure of non-financial international performance focused mainly on commercial aspects. In our view, it would also be interesting to discover the effects of the variables studied here on other aspects of non-financial performance, such as customer satisfaction or positioning.

Finally, a general contribution of this study has been to test and confirm the explanatory power of the resource-based view of firms in the field of international entrepreneurship research.

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