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Title: Small and New Venture Entry into Distant Foreign Markets

Year: 2010

Version:

Please cite the original version:

Ojala, A., & Oviatt, B. (2010). Small and New Venture Entry into Distant Foreign Markets. In Proceedings of 13th McGill International Entrepreneurship Conference. Proceedings of 13th McGill International Entrepreneurship Conference.

Small and New Venture Entry into Distant Foreign Markets

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Abstract

More often than we would expect, small and new ventures, which already suffer from few resources and lack of industry legitimacy, take on the additional uncertainties of entry into foreign markets and foreign direct investment. Some of these foreign entries involve countries that are geographically quite distant and socially quite different from the firm's home country, which makes entry and the initiation of sales by ventures into those foreign countries difficult. Recent studies have criticized the approaches taken in prior academic literature to understanding these difficulties (Ellis, 2008; Shenkar, 2001, 2008). Using a single concept of distance and looking primarily for main effects appears to be ineffective. Instead, entry by new and small ventures into distant and distinctive foreign markets is complex and factors influencing it are interactive. The aim of this conceptual paper is contribute the body of literature on distant foreign market entry by highlighting the most influential factors and their interactions. We develop testable propositions and research questions, and we highlight research methods for further research in this increasingly important arena of inquiry.

Keywords: Cultural Distance; Geographic Distance; Psychic Distance; New Ventures; SMEs; Foreign Market Entry

INTRODUCTION

For about two decades now, scholars have explored the internationalization behaviors of small and new ventures around the world (Bell, McNaughton, Young & Crick, 2003; Coviello, 2006; Jones & Coviello, 2005; McDougall, 1989; Oviatt & McDougall, 1994; Oviatt & McDougall, 2005). It is increasingly evident that some of these firms are taking advantage of international business opportunities despite relatively limited resources, significant risk, low negotiating leverage, and scant foreign market experience (Child, Rodrigues & Frynas, 2009; Ojala, 2008, 2009; Shrader, Oviatt & McDougall, 2000). These opportunities sometimes span great geographic distance and social differences. For example, taking advantage of former colonial relationships, British ventures sometimes are able to sell their goods in distant parts of the globe like Hong Kong, New Zealand, and Australia. However, recent research has also highlighted international commerce where the historical and natural relationships are not so obvious, such as sales by British ventures in Brazil (Child et al., 2009) or sales by small Finnish firms in Japan (Ojala, 2008, 2009). Great geographic distance and important social differences would seem to be significant barriers in those situations. Yet sales over great distances by small firms with few resources or by new ventures with little marketplace legitimacy appear to be happening with surprising frequency, even in the face of the significant trade collapse during the 2008-2009 recession (Battisti & Deakins, 2010).

Scholars have explained some of these foreign commercial exchanges (Dow & Karunaratna, 2006; Johanson & Vahlne, 1977; Terpstra & Yu, 1988), but research has also shown explanations are often complex and incomplete. For example, it is clear that large markets attract foreign sellers (Bell et al., 2003; Ojala & Tyrväinen, 2007). Yet, empirical research has only recently shown that psychic distance interacts with foreign market size to make large size less attractive when psychic distance is great (Ellis, 2008; Malhotra, Sivakumar & Zhu, 2009). Such results contrast with prior research that depicts psychic distance as having direct, rather than interactive, effects on firm internationalization (Dow & Karunaratna, 2006; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975).

Other research has explored additional factors that appear to influence the speed of venture internationalization into distant foreign countries. Recent studies have shown personal and business networks have supported early foreign sales by new ventures (Agndal, Chetty & Wilson, 2008; Coviello & Martin, 1999; Sharma & Blomstermo, 2003), but the patterns of network activity associated with successful internationalization are not clear and appear idiosyncratic to some scholars (Coviello, 2006). Even less well understood are the likely interactions among networks and the characteristics of the entrepreneurs that lead new ventures into distant foreign markets.

To study such issues, we strive to avoid the application of broad theories about distance that requires illusory assumptions and results in methodological problems (Shenkar, 2001). Instead, we build on the emerging attention by scholars to interactions by multiple forces (e.g., Ellis, 2008; Malhotra, Sivakumar & Zhu, 2009). This article seeks to accomplish three related purposes. First, we delineate *testable propositions* where existing theory and some empirical findings suggest possible new explanations for distant foreign entry. These new explanations involve a logical but previously unexplored explanation for differential effects by geographic, cultural, and psychic distances on the initiation of foreign sales. Second, we specify *interesting research questions* for the more complex and less understood areas of inquiry regarding the initiation of distant foreign market entry. Third, we highlight *research methods* we believe to be most appropriate to test our propositions and to answer our questions. It is our belief that collecting essential knowledge about distant foreign market entry into this article along with academically supported propositions, critical research questions, and suggestions about research methods will stimulate valuable research in this increasingly important arena of inquiry.

FOUNDATIONS AND ASSUMPTIONS

Our attention is focused on small and new ventures. Figure 1 below highlights that focus in blue, and the explanation for it follows.

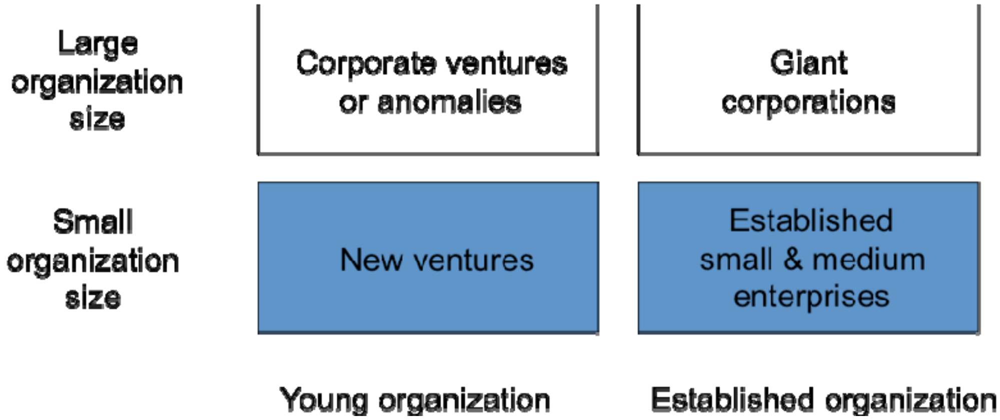

Figure 1. Focus on Small & New Organizations

While it is undoubtedly interesting to study corporate ventures and the unusual young organizations that are large at formation, those organizations are so distinctive that we leave that to another paper or to other scholars. Giant established corporations have received the most attention already from scholars, and many have long been multinational. Readers may consult this voluminous literature on their own.

Small organizations, however, have relatively few resources to devote to internationalization. New organizations have relatively weak legitimacy in their industries and among potential customers either in their home markets or in foreign markets. Leaders of these small and new ventures are often inexperienced at international business. Thus, securing entry into distant foreign countries is especially uncertain for such organizations. As a consequence, every action they take in distant locations has significance for their survival (Bell et al., 2003; Coviello, 2006; Jones & Coviello, 2005; Oviatt & McDougall, 1994). Yet as noted earlier, selling goods and services internationally, including sales to distant markets, appears to be increasing among such ventures, which makes their distant foreign sales an especially interesting, although infrequent, focus of scholarly study.

A variety of factors motivate firms to enter foreign lands (Bartlett, Ghoshal & Beamish, 2008). Some firms do so mainly to obtain access to inputs essential to their business, such as companies involved in mineral industries. Others find low-cost factors of production, such as labor, in foreign countries. The scale economies found in locating an activity in a single, sometimes foreign, location to centrally serve a large region of the world may also encourage international business. The opportunity for sales growth outside a firm's home country is, of course, an important motivation, and the motivation we focus on here.

Sales revenue derived from exports or other foreign operations has been of interest to many scholars over many years (Autio, Sapienza & Almeida, 2000; Hitt, Bierman, Uhlenbruck & Shimizu, 2006; Sullivan, 1994; Tallman & Li, 1996; Yu & Cannella, 2007). Sullivan argued that "a company's foreign sales are a meaningful first-order indicator of its involvement in international business" (1994: 331). Conceptually, compared with other indicators of internationalization, such as foreign assets and foreign employees, the presence of foreign sales not only reflects a venture's presence in international markets, but also suggests its ability to succeed there. In summary, we believe the initiation of sales in foreign countries that are distant from a venture's home is worthy of scholarly investigation.

Great market size and/or growth are the clearest indicators of significant opportunities for sales (Dow, 2000). Firm leaders seeking expansion into foreign markets prefer large opportunities to small ones because such markets may offer a large customer base for their products and services and, therefore, potentially larger profits and margins. That applies to large established corporations and to small or new ventures, (Bell et al., 2003; Ojala & Tyrväinen, 2007, 2008). Bell et al. (2003) argue that rapidly internationalizing knowledge-intensive firms tend to focus on leading markets, such as the U.S. and Japan. Ojala and Tyrväinen (2007, 2008), focusing on small and medium sized software enterprises, found large foreign market size was the main attraction. Thus, throughout this article we assume new ventures and small firms desiring sales growth are attracted by large markets. However, complexity is introduced when such markets are in distant locations.

One complexity is demonstrated in Figure 2. While large size and proximity are two attractive characteristics of markets, when one is absent the market is less attractive, and when both are missing, a market is unattractive.

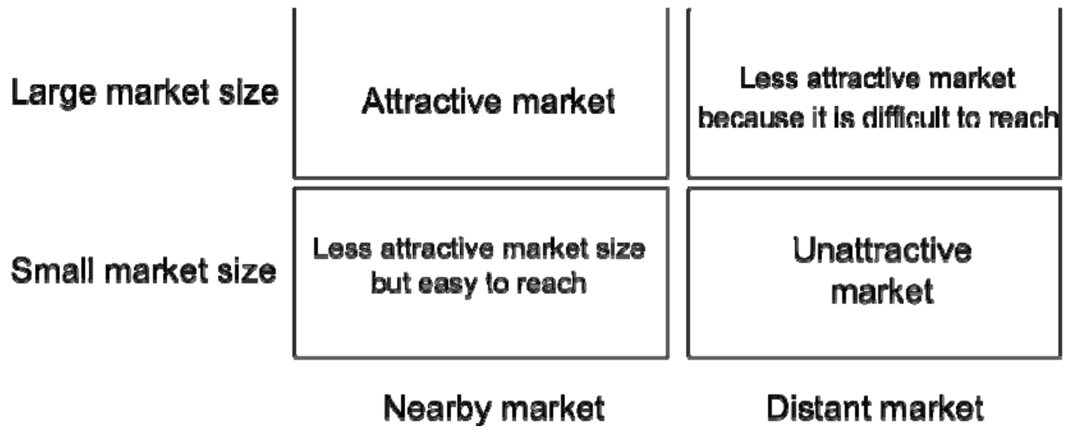

Figure 2. Market size and Market distance

The remainder of this article explores the factors that further influence which large foreign markets are actually entered. We find distance to be among the most interesting factors because it has multiple dimensions that interact with a variety of additional influences. Such complexity is difficult to overcome for small ventures with few resources, for new ventures with little market legitimacy, and for venture leaders with little international experience.

DISTANCE

Distance is a multidimensional concept. Ghemawat (2001) discusses the commercial effects of cultural, administrative, geographic, and economic distances among countries. Shenkar (2001) identifies many additional dimensions in the literature, including psychic, linguistic, religious, educational, and political. He also criticizes “cultural distance” as a clumsy metaphor (Shenkar, 2008). Nonetheless, its use continues, and we believe this paper overcomes some of the metaphor’s most clumsy aspects. We believe distance dimensions can be usefully organized into three types—geographic, cultural, and psychic.

Three Dimensions of Distance

Geographic distance is the physical separation between one location and another, such as the space between the home of a firm and the foreign location in which it is selling or exploring possible sales. Increasing the physical space between a firm and its market adds time and costs to commercial transactions, and, therefore, makes a market less attractive. Geographic distance is commonly measured as kilometers or miles between two countries or cities. For example, international business scholars have used the air distance between capital cities (Luostarinen, 1980; Terpstra & Yu, 1988), the number of miles between a capital city and the closest major city in the target country (Grosse & Trevino, 1996), the miles between the closest seaports in two countries (Ellis, 2008), and the kilometers between the geographic centers of countries (Ojala & Tyrväinen, 2007).

Cultural distance is the difference in values and behavioral norms between groups of people. It is common to study how differences among groups in various countries affect foreign entry and trade in negative ways (Shenkar, 2001). Examples of this type of distance are studies of the differences in values among people (Hofstede, 1980, 2001; House et al., 1999; Schwartz, 1994) and studies of differences in communication style (Hall & Hall, 1990). However, usage of national cultural distance to explore firm or individual level phenomena has revealed conflicting empirical results (Ellis, 2008; Tihanyi, Griffith & Russell, 2005) and conceptual problems (Shenkar, 2001, 2008). One problem is that the various measures of culture tap different values and norms, and it is difficult to know a priori which factor is most salient in predicting firm behavior (Shenkar, 2001). A measure of power distance (Hofstede, 1980), for example, captures a different aspect of culture than a measure of personal space. Whether differences in either of these aspects contribute to an explanation of why one firm initiates sales in one distant foreign country and not another is often difficult to say.

Furthermore, national cultures are not homogeneous (Child et al., 2009; Hebdige, 1979; Shenkar, 2001; Williams, 2006). Within them exist intra-cultural differences that have disparate influences on international commerce. For example, some age groups in ancient Asian cultures are now more than ever influenced by Western habits and rapidly changing fashion. However, the norms of some isolated groups, such as Native Americans on reservations, may be changed only slowly by the wider national culture. Cultural values might also vary between cosmopolitan cities and rural areas within a country. Child et al. (2009) found that the managers of small UK firms perceived the culture of Sao Paulo more familiar than the culture in other parts of Brazil. Thus, cultural distance is a broad term encompassing a variety of beliefs and norms that have different influences on various groups of people. In attempting to explain the initiation of foreign sales from one foreign location into another, specificity about which groups are influenced by which cultural factors is important.

Psychic distance is the disturbance in information flows between organizations and foreign markets caused by psychological issues, whether they are actual, potential, or perceived (Child, Ng & Wong, 2002, Child et al., 2009; Johanson & Wiedersheim-Paul, 1975). Misunderstanding of the negotiation practices of a manager in another country is an example. While psychic distance may be influenced by culture, language, education, political systems, and level of development (Child et al., 2002; Johanson & Wiedersheim-Paul, 1975), it is regarded as distinct concept from those factors (Shenkar, 2001). Some scholars view psychic distance as strictly an individual level concept (Sousa & Bradley, 2006), but we believe it is more useful to distinguish it from cultural distance by its focus on individuals plus other relatively small collectives, such as work groups and organizations, that can sometimes deliberately initiate changes (Child et al., 2002) which bring about alterations in behaviors, beliefs, and norms. In contrast, cultural change is likely to be more emergent than deliberate.

Distinguishing distance as three types of dimensions--physical space, social norms, and psychological issues—provides exhaustive coverage of the usual distance concepts that interest scholars. It also addresses some of the problems that using a single “distance” metaphor implies (Shenkar, 2001). Perhaps most important, it highlights for scholars how important careful measurement is to understanding these distinctive dimensions. We believe attention to that issue is likely to yield more significant empirical results.

Distance Dimensions and Foreign Market Size

Ellis (2008) theorized that psychic distance and cultural distance interacted negatively with market size in determining the attractiveness of export markets. He did not consider geographic distance. His results showed that only psychic distance seemed to make large markets less attractive. However, psychic distance was derived directly from the perceptions of exporters, while cultural distance came from a composite of Hofstede's (2001) various national values. We have already noted the weaknesses of such broad measures of cultural distance, and Ellis (2008) admitted similar concerns. Thus, we believe Ellis's (2008) original theory remains correct; his results simply suffered from a weak measure of cultural distance. Furthermore, it seems likely that his same theoretical reasoning about the interactive effect of psychic and cultural distance applies equally to geographic distance. The logic is made explicit below in Propositions 1 and 2.

> **Proposition 1:** Geographic, cultural, and psychic distances diminish the positive effect of market size on the attractiveness of foreign markets.
>
> **Proposition 2:** Cultural distance to foreign markets increases the negative effect of psychic distance.

Compared to cultural distance, geographic distance is a unitary concept measured by miles, kilometers, or perhaps time to cover those physical distances. Probably because it is not multidimensional, its empirical effect on foreign entry and the initiation of foreign sales has been relatively clear, strong, and negative (Dow, 2000). The effect of cultural distance, however, is not empirically clear because there are many concepts and measures of culture and because it is sometimes difficult to distinguish the relevant group to which a measure applies (Shenkar, 2001). Psychic distance is reinforced by cultural distance (Ellis, 2008), and since change in psychic distance is sometimes deliberate, understanding its effect may be even more elusive than the effect of cultural distance. Therefore,

> **Proposition 3:** The power of distance to influence the attractiveness of foreign markets diminishes from most powerful to least powerful in the following order: geographic distance, cultural distance, and psychic distance.

Propositions 1, 2, and 3 and the relationships explained above are depicted in Figure 3 below. The relative sizes of the distance boxes imply the progressively diminishing powers of the three types of distances on market attractiveness.

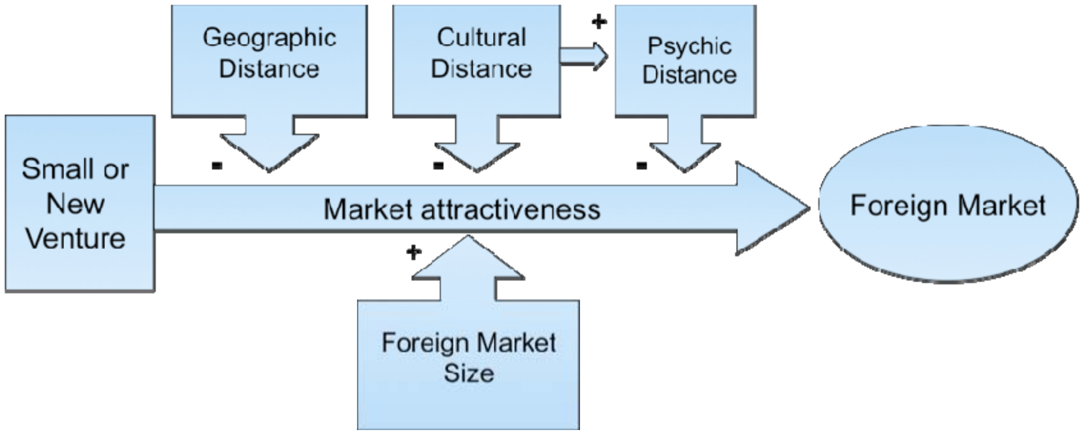

Figure 3. Types of Distance and Foreign Market Size

The authors know of no prior study that considers the relative power of these different types of distances to influence the initiation of foreign sales by new and small ventures. We believe such studies would improve our understanding of foreign market entry.

The Stability of Distance

An additional complicating issue is that all these distances change over time. Movement in Earth's tectonic plates notwithstanding, geographic distance is the most stable among the three types of distances because it is concerned with the space between rather constant positions on the surface of the Earth. However, the perception of geographic distance does slowly change. Modern rapid air transport and communication reduce the experienced and perceived physical distance between home and foreign locations and ease commercial interaction. Child et al. (2002) call these "distance-compressing factors."

Such factors also affect cultural distance (Child et al, 2002). As political issues and administrative institutions change, such as has happened in China in recent decades, firms in previously estranged countries and cultures interact. As scientific knowledge disseminates internationally and technologies standardize, common understandings emerge, and the distance between some aspects of culture compresses. International migration has similar distance-compressing effects. Because there are multiple compression forces influencing multiple cultural issues and groups, we believe the speed of change in cultural distance will vary but, on the whole, will be faster than change or even perceived change in geographic distance.

Child et al. (2002) also highlight alterations in psychic distance that are due to the initiative of firms and individuals, which they call "distance-bridging factors." Examples are using personal networks to understand significant perceived differences in markets, and employing trusted colleagues or family members to ensure organizational operations in foreign locations are consistent with home-country expectations. Because such actions are deliberate and perhaps even abrupt, some changes in psychic distance may be more rapid than changes in cultural distance. For the same reason, changes in psychic distance may seem idiosyncratic and difficult to understand for observers.

The degree of stability among the three types of distance is depicted in Figure 4 and the logic in the prior paragraphs is summarized in the propositions delineated below.

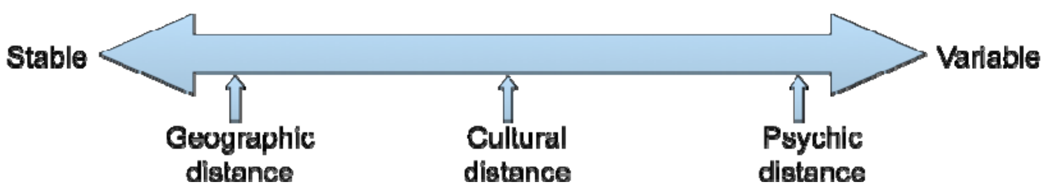

Figure 4. Types of Distance and Their Stability.

Proposition 4: The geographic distance to foreign markets is relatively stable compared to cultural and psychic distance because physical space on Earth and perceptions of physical distance change slowly.

Proposition 5: The cultural distance to foreign markets is relatively stable compared to psychic distance because it impacts a relatively large group of people.

Proposition 6: The stability of cultural distance to foreign markets depends on the sub-cultures and the specific dimensions of culture being considered.

Proposition 7: The psychic distance to foreign markets is relatively variable compared to cultural and geographic distance because its change may be deliberate and affect a relatively small group of people.

The preceding propositions indicate that the passage of time is likely to have varied effects on different types of distance between markets in various countries. If the propositions are supported, it will be clear that time is another factor that must be considered as scholars explore the effect of distance on the initiation of foreign sales.

Complex Interactive Factors

With an understanding for which types of distance are most powerful and most variable, we now consider four factors that can alter the influence of distance on the attractiveness of large foreign markets to new and small ventures. The four factors are (1) product and industry standardization, (2) foreign market experience, (3) pro-activeness, and (4) social and organizational networks. Scholarly theoretical and empirical interest in them indicates each can compress or bridge distances between home and host locations. Their effects are complex and interactive.

Product and industry standardization. With standardized outputs that may suit a large number of buyers in varied locations, as is true, for example, with some business and consumer software and some medical devices, ventures may quickly enter a relatively large number of countries (Hoch, Roeding, Purkert, Lindner & Müller, 2000; Kotha, 1995; Pine II, Victor & Boynton, 1993). Product standardization across countries tends to compress psychic distance by establishing a common understanding of a product and how it is used. Thus, less deliberate action to overcome psychic distance is required to sell a product in an otherwise distant foreign market. Sometimes product standardization eases the way sufficiently that entry into multiple foreign markets is planned at a venture's inception (Oviatt & McDougall, 1994).

> **Proposition 8:** Product standardization compresses psychic distance between home and host country, thereby tending to speed the initiation of sales in distant foreign markets.

Some global industries, such as the computer industry, have even emerged that have their own worldwide norms and language despite differing national backgrounds among industry players (Andersson, 2004; Hannerz, 1990). Such distance compression makes large, geographically distant foreign markets easier for ventures to enter because not only is the product standardized, but so is much of the way it is produced, discussed, marketed, sold, and used (Child et al., 2002). Thus, cultural distance may be compressed within an industry in a country where other industries are culturally and geographically distant.

> **Proposition 9:** Industry standardization compresses both psychic and cultural distance between home and host country, thereby tending to speed a venture's initiation of sales in distant foreign markets.

Foreign experience. Experience of foreign markets by individuals (Reuber & Fischer, 1997) and by organizations (Johanson & Vahlne, 1990) is among the most studied influences on firm internationalization. Prior foreign experience is most often associated with increased international behavior in the form of more exports, higher revenues derived from foreign sources, a large number of countries entered (Erikson, Johanson, Majkgård & Sharma, 1997; Luostarinen & Welch, 1990), and early firm internationalization (Oviatt & McDougall, 2005). Valuable experience of foreign markets may come from education, travel, participation in international commerce, and spending time in foreign locations. The knowledge derived from such experience varies from explicit knowledge that can be recorded and clearly explained to tacit know-how that is difficult to explain and often evident only in practice (Kogut & Zander, 1993; Johanson & Vahlne, 1977, 2003; Nonaka, 1991). As an organization becomes increasingly saturated with foreign marketing knowledge and know-how, the greater ability it has to overcome the liabilities of distance (Shenkar, 2001). Prior theory suggests that tacit knowledge might be more important than explicit knowledge in that regard (Johanson & Vahlne, 1977), but advances in technology and communication make that belief uncertain (Oviatt & McDougall, 2005). To understand, predict, and eventually to advise entrepreneurs about their foreign business activities, it is important to understand whether there are differing roles for explicit knowledge and tacit know-how. Thus, interesting research questions are apparent:

> **Research Question 1:** What are the differential effects, if any, of explicit knowledge and deeper tacit know-how on psychic distance and cultural distance and on a venture's decision to enter distant foreign markets?

> **Research Question 2:** What are the differential effects, if any, of explicit knowledge and deeper tacit know-how on outcomes in distant foreign markets; that is, exporting, revenue, number of countries, and early international entry?

It is said that foreign market experience reduces psychic distance by making business practices in foreign lands familiar (Johansen & Vahlne, 1990, 2003; Reuber & Fischer, 1997). Thus, familiarity based on foreign experience, similar to the effects of product standardization, may even lead a venture to internationalize at inception. These effects may be observed in the compression of psychic distance, but are only observed in cultures or sub-cultures as psychic distances among individuals and organizations are collectively compressed. In other words, the compression of cultural distance may result from the accumulation of many compressed psychic distances within a culture. Thus,

> **Proposition 10:** Foreign experience compresses psychic distance between home and host country, thereby tending to speed the initiation of sales in distant foreign markets, but has no direct effect on cultural distance or geographic distance.

Pro-activeness. Entrepreneurs that act in anticipation of future demand are said to be proactive (Lumpkin & Dess, 2001). Proactive behavior by entrepreneurs in search of new information is an important element that may lead to the recognition of new business opportunities (Baron, 2006). Individuals differ in their willingness to be pro-active, but it is a commonly ascribed, albeit often risky, characteristic of entrepreneurs (Khilstrom & Laffont, 1979; Shane & Venkataraman, 2000). In the presence of supportive product standardization and/or foreign experience, pro-activeness, logically, may put a venture ahead of competitors and lead to successful early internationalization by a venture in a distant market. Without those supports, however, the results of international pro-activeness alone are more uncertain. Despite that risk, if it is successful in generating sales and a long-lasting presence in distant foreign markets, pro-activeness may, over time, lead to the compression of psychic distance through a natural process of increasing personal and organizational familiarization across national borders. Thus, endogenous actions by entrepreneurs may reduce psychic distance, which is the opposite of the usual way the relationship is modeled. That is, the proactive action of the entrepreneur is the cause and the reduced psychic distance is the effect. Thus,

> **Proposition 11:** Successful proactive distant foreign entry by a venture is subsequently associated with compressed psychic distance in that venture.

Networks. Social and business relationships can reduce or "bridge" psychic distance (Child et al., 2002; Coviello & Martin, 1999) and help managers enter distant countries. According to Johanson and Mattsson's (1988) network model, internationalization is initiated when a firm starts to develop relationships with other firms that are embedded in a network of foreign firms, and resources are accessed by developing a position in that established foreign network. These firms share objectives that motivate them to maintain working relationships with each other in ways that provide mutual benefits (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003).

Several studies (Agndal et al., 2008; Coviello, 2006; Coviello & Martin, 1999; Sharma & Blomstermo, 2003; Zain & Ng, 2006) have focused on the personal and business networks of new and small ventures, and it is clear that networks play an important role in their internationalization (Coviello, 2006), including country selection and the management of entry and operations in markets that are distant from the venture's home (Child et al., 2009; Ojala, 2009). These network relationships are used to obtain new knowledge, to ensure that knowledge is reliable, and to guard against opportunism by network partners (Burt, 1992; Coleman, 1988).

These objectives are achieved through the existing relationship networks of existing employees, by recruiting new employees with ties to the host or target country, and by acquiring new firms and their accompanying networks. Ranft and Lord (2000) asserted that access to the embedded knowledge and to the network relationships of employees was the most important motivation for acquisitions in high-technology industries. Ojala (2008) revealed that some Finnish software firms recruited Western managers who had long working experiences in Japanese markets to manage their business operations in very distant Japan. These employees acted as cultural mediators between Finland and Japan and significantly decreased the perceived psychic distance between the markets. In addition, firms were able to use recruited managers' and employees' personal and business networks in foreign markets to develop their business further. Thus, the business and personal networks of ventures and their leaders are important external influences on distant foreign market entry. Yet much of the structure and content of networks seems idiosyncratic to each venture seeking to grow internationally (Coviello, 2006).

Nonetheless, some network influences on the pattern of international growth are emerging (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003). Coviello and Munro (1995) found that business and personal associations were important influences in the selection of countries entered by small firms and new ventures. The proactive entrepreneurs leading the firms were clearly interested in foreign markets and rapid growth, but their network partners strongly shaped decisions about which countries to enter and how to enter them.

In other studies that focused especially on large distant markets, the role of networks was observed to be more complex (Ojala, 2009). When venture leaders were not proactively seeking foreign sales, informal personal associations were essential for the firms to focus on opportunities in geographically and psychically distant markets even when they were large and attractive. In such circumstances, the opportunity to sell in a foreign market was initiated by the buyer, and that means the relevant psychic distance is that of the buyer's perception about the distance of the seller, which may be significantly different than the reverse (Ellis, 2008). In contrast, where venture leaders were proactively seeking new opportunities in large and distant foreign markets, existing business and personal networks had little influence on which countries were entered (Ojala, 2009). The distance-bridging role of formal and mediated (e.g., export promotion organizations) network relationships, instead, were observed actively developing and managing the foreign market entry process. Network ties would introduce new customers, identify the most appropriate sources for distribution, and, where needed, help establish the most appropriate foreign subsidiary structures (Child et al., 2009; Ojala, 2009).

In summary, the role of networks on distant foreign entry by small and new ventures seems to be influenced by a variety of factors. When entrepreneurs are not proactive in seeking new markets, personal network partners seem to play a prominent role in country selection. However, further empirical confirmation is needed. There is conflicting evidence about whether proactive entrepreneurs use network partners to select countries for entry or to manage the entry process after those entrepreneurs select the country. Perhaps it depends on the size and distance of the foreign market. Furthermore, from the logic in the prior sections of this paper, it is possible that the degree of product standardization and the degree of foreign market experience in the venture may also interact with personal and business networks to influence foreign market entry and entry management. However, with inconsistent empirical evidence and no clear theory to suggest a specific proposition, we are left with a research question that we hope will stimulate research.

> **Research Question 3:** How do entrepreneurial pro-activeness, business and personal networks, foreign market experience, product standardization, foreign market distance, and foreign market size interact to influence which foreign markets ventures enter and how entry is managed?

Unraveling such complex interactions will require detailed theoretical development, multiple research methods, and multiple studies.

RESEARCH METHODS RECOMMENDED TO STUDY DISTANT ENTRY

In this section, we highlight research methods we believe to be most appropriate to test the propositions and explore the research questions developed in this study. According to Edmondson and McManus (2007), we categorize the propositions and the research questions, based on the state of prior theory, into (i) mature, (ii) intermediate, and (iii) nascent theories (see Table 1). Classifying our propositions and research questions this way enables us to suggest the most useful methodological approaches for further study.

State of Prior Theory and Research	**Mature**	**Intermediate**	**Nascent**
Proposition 1	x		
Proposition 2	x		
Proposition 3	x		
Proposition 4	x		
Proposition 5	x		
Proposition 6	x		
Proposition 7		x	
Proposition 8		x	
Proposition 9		x	
Proposition 10		x	
Proposition 11		x	
Research Question 1			x
Research Question 2			x
Research Question 3			x

Table 1. Propositions, Research Questions and the State of Prior Research

Mature theory presents the most establishment constructs that have been well studied by scholars and offers the most cumulative knowledge (Edmondson & McManus, 2007). Propositions 1 through 6 emerge from mature theory. However, not all have received empirical support, and few empirical studies have tested for the interactive relationships proposed in the current article. As explained above, theory indicates that great geographic, cultural, and psychic distance all tend to make large foreign markets less attractive, but empirical studies have supported that belief only for psychic distance (Ellis, 2008). We have redefined psychic distance to focus on small groups and organizations and to recognize the possibility of deliberate change. Thus, psychic distance is defined in a familiar and intuitive way and more clearly distinguished from cultural distance.

To provide better tests of these ideas, as well as the ideas about the relative power and stability of each distance type highlighted in Propositions 3 through 6, we believe future researchers must emphasize greater care and creativity in their operational measures. For example, country-wide measures of culture are not valid in most circumstances (Shenkar, 2001), and because technology changes rapidly, stability over time in perceptions of distance, even perceptions of geographic distance, cannot be assured. For testing these propositions, we recommend the use of quantitative methods in large-scale surveys over time to better understand small and new venture entry into distant foreign countries.

Intermediate theory refers to provisional explanations of phenomenon that are related to tentative relationships between new and established constructs (Edmondson & McManus, 2007). Propositions 7 through 11 fit this classification. Studying the degree of stability in different types of distance and exploring whether various influences compress various types of distance are relatively untested ideas. Such studies benefit from the integration of quantitative and qualitative approaches that help elaborate complex phenomena and preliminarily test the proposed relationships. The approach provides both insight into new concepts and rigorous empirical tests (Edmondson & McManus, 2007). Thus, we recommend future studies employ qualitative case studies to refine the concepts in Propositions 7 through 11 and larger-sample, quantitative methods as the concepts become more elaborated and perhaps generalizable.

Nascent theory suggests preliminary answers to novel phenomena where little or no previous research exists (Edmondson & McManus, 2007). The first two research questions in this article ask whether and how differing types of knowledge influence entry and outcomes into distant foreign markets. The third research question asks whether foreign entry by new ventures is influenced by the complex interactions of multiple forces. Little research exists about these issues, but answers would tell scholars a great deal about the mechanisms of distant foreign entry.

To initiate such research, we recommend qualitative case study methods to refine the concepts and to identify the most fruitful directions for subsequent study. The case study method makes possible an in-depth investigation of theoretical constructs and provides more persuasive explanations of cause-and-effect relationships than broad quantitative studies (Eisenhardt & Graebner, 2007; Siggelkow, 2007). Thus, interviews with entrepreneurs and venture executives might reveal new insights that have not been found in previous studies related to distance factors and their interactions. As these concepts become better understood, research directions are clearer and theoretically based propositions emerge, testing with large-scale quantitative methods will be useful.

CONCLUSIONS

Based on recent empirical research and criticism of prior research, this article has refined concepts about distance and foreign market entry and sales by new and small ventures. New propositions and research questions have been offered, and it is hoped that interesting future studies will be initiated.

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