



# International opportunity identification in the internationalisation of the firm



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## ABSTRACT

We study the internationalisation efforts of entrepreneurs who intentionally orchestrate opportunity identification activity in the internationalisation process. The internationalisation of the firm is a process of entering new international markets that becomes possible only after an individual within the firm has identified opportunities in those markets. Using case evidence, we apply the theory of planned behaviour from social psychology to explain why some individuals identify international opportunities and overcome the liability of foreignness and the liability of outsidership inherent in a new international market entry. We offer a behavioural model of international opportunity identification, and we outline factors that determine an entrepreneur's perception of international opportunity identification to be a feasible and desirable activity.

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## 1. Introduction

Opportunity identification, the means to market recognition, capture and advantage, is entrepreneurship-in-action and is behavioural. Opportunity identification and the exploitation of opportunities in international markets is acknowledged in the literature on internationalisation and new enterprise development to the extent that some scholars define the internationalisation of a firm as “the recognition and exploitation of entrepreneurial opportunity that leads to new international market entry” (Chandra, Styles, & Wilkinson, 2009: 31). Of particular interest to entrepreneurship scholars is why some entrepreneurs and not others create, discover and exploit opportunities (Shane & Venkataraman, 2000; Peng, Lee, & Hong, 2014), while in the original version of the long-standing internationalisation process model in the international business field, “knowledge of opportunities or problems” (Johanson & Vahlne, 1977: 27) is assumed to initiate commitment decisions which motivates the internationalisation decision. Likewise, in the more recent version of the internationalisation process model, Johanson and Vahlne (2009) consider opportunity development to be an iterative process of

recognition and exploitation, and that knowledge of opportunities motivates change in the firm to advance the internationalisation process through relationship commitment decisions.

The identification of opportunities in international markets is made problematic by the liability of foreignness (Zaheer, 1995) experienced by the internationalising firm, alongside a liability of outsidership that Johanson and Vahlne (2009) observe to be a primary restriction on a firm's international expansion as relationships with other firms and organisations enhance opportunity recognition and capture in international markets. However, as Johanson and Vahlne (2009) do not explicitly address why, when and how the process of new international market entry begins, other than to assume ‘knowledge of opportunities and problems’ initiates commitment decisions, these questions remain unexplained in internationalisation process research. We contribute to an explanation of how knowledge of opportunities in international markets arises. In doing so, we respond to the implicit agency attributed to the ‘firm’ in the firm internationalisation process through a behavioural perspective on international opportunity identification.

In the entrepreneurship literature, individuals are central to the process of opportunity identification, whereas the internationalisation process model does not include them explicitly, attributing agency to the firm. Because identifying opportunities is a subjective process (Kirzner, 1997), explaining how the internationalisation process of a firm occurs, assuming a new international market entry begins with knowledge of opportunities,

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requires explicitly including the entrepreneur who identifies the opportunity (ies) abroad. With knowledge of opportunities motivating the internationalisation process, analysis at the individual level is fundamental to understanding internationalisation as a process of opportunity identification and subsequent capture and exploitation. Opportunity capture is a vibrant topic with increasing appeal across the entrepreneurship and management fields. Recently, in the Chinese new venture context, Li, Chen, Liu, and Peng (2014) tested and confirmed a model of the effects of social capital achieved through managerial ties on opportunity capture, with organisational learning moderating this relationship. Increasingly, in this research domain, perspectives from cognate fields are being integrated; in the case of the Li et al. (2014: 287) application "... from an exogenous level".

While a more thorough understanding of entrepreneurial opportunity identification has emerged recently (Ardichvili, Cardozo, & Ray, 2003), the nexus between these two domains, entrepreneurship and internationalisation, can usefully be exploited to extend the theory explaining the internationalisation process of the firm. We adopt a cognitive perspective – at the endogenous level – through application of the theory of planned behaviour (TPB) (Ajzen, 1991) to elaborate the international opportunity identification activity, as it applies in the firm internationalisation process. This is in response to recent calls to probe the entrepreneur's sense-making mechanisms and behavioural drivers such as entrepreneurial intent, motivations, mindset, perceptions and self-efficacy to understand why some individuals identify international business opportunities (Mainela, Puhakka, & Servais, 2013; Zahra, Korri, & Yu, 2005).

Entrepreneurial actions are intentional behavioural processes (Krueger, Reilly, & Carsrud, 2000). We argue that although accidental developments can prompt a new international market entry and even trigger the process of internationalisation itself (Crick & Spence, 2005; Styles & Harcourt, 2001), international opportunity identification necessarily entails at least some intentional activity (Chandra et al., 2009; Ellis, 2011). TPB provides a framework for understanding determinants of an intentional behaviour that cause an individual to perceive the behaviour in question to be both feasible and desirable. As such, our research question asks why an individual entrepreneur perceives international opportunity identification to be a feasible and a desirable activity. Our domain is an environment in which the liability of foreignness and the liability of outsidership are defining features.

This paper is structured as follows. We next review the entrepreneurship and international business literatures to explain the intentional nature of international opportunity identification. We then introduce TPB and examine its application in the study of opportunity identification and internationalisation of the firm. After introducing our analysis and methodological approach, we present findings from our case analyses, draw discussion from these findings and offer a model. We present the contributions of this study to theory and practice along with suggesting directions for further research. Conclusions terminate the paper.

## 2. International opportunity identification: A planned behaviour

### 2.1. Defining international opportunity identification

The notion of international opportunity has become increasingly important in both the international business and international entrepreneurship domains with a strand of research into internationalisation of a firm re-focussing towards international opportunity development and exploitation (Johanson & Vahlne, 2009; Mainela et al., 2013). However, a widely accepted conceptualisation of international opportunity identification is still to emerge (Jones, Coviello, & Tang, 2011; Mainela et al., 2013).

In addition, an explicit definition of international opportunity is not often provided. Ellis (2011: 101) defined international opportunity "as the chance to conduct exchange with new partners in new foreign markets". He further highlighted that opportunity is only meaningful when it leads to the formation of a new international exchange that embodies risk bearing entrepreneurial activity. We note however that such exchange in the context of internationalisation can occur with both new and with existing partners (Johanson & Vahlne, 2009).

The importance of going "beyond the simple notion of exchange across national borders" and defining international opportunity as "a situation that both spans and integrates elements from multiple national contexts in which entrepreneurial action and interaction transform the manifestations of economic activity" has been argued by Mainela et al. (2013: 16). Contrary to Ellis (2011) and the entrepreneurship literature (e.g., Ardichvili et al., 2003; Wood, Williams, & Grégoire, 2012), Mainela et al. (2013) demand a tangible outcome to entrepreneurial action rather than a potential only that has been envisioned by an entrepreneur who yet has to materially exploit it. We therefore define an international opportunity as the likelihood of conducting exchange with new or existing partners, such as foreign intermediaries or foreign customers, in new international markets.

Another area of definitional ambiguity surrounds the concept of opportunity identification. There is a broad agreement in the literature that commitment to exploit an opportunity and its subsequent exploitation are preceded by two processes (Wood et al., 2012). First, an individual becomes aware, through accidental discovery or deliberate search, of a possibility to create value by introducing a transformation to manifestations of economic activity. Second, general awareness of the opportunity is followed by its evaluation when the individual assesses whether this opportunity is for them to exploit, given available resources, abilities and motivations (Lindsay & Craig, 2002; Wood et al., 2012). A number of concepts such as opportunity perception, recognition, development, identification and discovery (Renko, Shrader, & Simon, 2012) are used interchangeably to label this process and to describe the relevant entrepreneurial activities (Ardichvili et al., 2003). The international business literature generally uses the term opportunity recognition, but it is either undefined (e.g., Ellis, 2011) or is assumed identical to international opportunity per se (e.g., Kontinen & Ojala, 2011). Other authors use the term identification and recognition interchangeably (e.g., Johanson & Vahlne, 2009).

Our focus is with the stage preceding commitment to a new market entry in the process of the internationalisation of a firm, and we explore what motivates an entrepreneur's behavioural activity that leads to this commitment. We see the activities that occur at the pre-exploitation stage as a distinct context for theory building on opportunity identification (Ardichvili et al., 2003; Lindsay & Craig, 2002). We therefore define international opportunity identification as the emergence of the situational condition which immediately precedes formation of a commitment to proceed with an exchange in a new international market.

### 2.2. Intentionality in international opportunity identification

Contrary to the entrepreneurship literature that places the concept of intention at the transition from opportunity identification to opportunity exploitation in the context of a new venture start-up (Wood et al., 2012), we argue that international opportunity identification has an intentional nature as this activity combines serendipity with planned behaviour. While serendipitous discovery can be a catalyst for new international market entry (Chandra et al., 2009; Styles & Harcourt, 2001), its importance should not be overstated (Spence & Crick, 2006). Ellis (2011: 99) concluded that although more international opportunities in his

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