Journal of Business Research xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

Firms' capability portfolios throughout international expansion: A latent class approach☆

Lauri Haapanen *, Mari Juntunen, Jouni Juntunen

University of Oulu, Oulu Business School, P.O. Box 4600, FI-90014 Oulu, Finland

ARTICLE INFO

Article history:
Received 1 September 2015
Received in revised form 1 January 2016
Accepted 1 March 2016
Available online xxxx

Keywords:
Resource-based view
Capabilities
International expansion
Latent class approach
Finite mixture structural equation modeling

ABSTRACT

Resource-based view suggests that heterogeneity in resource and capability endowments provides firms with a necessary advantage to compete on foreign markets. Separate discussions focus on different perspectives on capabilities, leaving room for a more comprehensive approach. This study is aiming at combining previous results and proposes that international expansion requires a bundle of key capabilities, a capability portfolio, in which capabilities' relative importance varies as internationalization proceeds. This study is also one of the first attempts to use a questionnaire in which only yes/no answer is possible. The authors develop a method to handle binary data and use finite mixture structural equation modeling (FMSEM) to reveal three differently behaving latent classes, the preparing international, the novice international, and the experienced international. Findings indicate that the time of initial entry is an important watershed in terms of how firms allocate their financial resources between key capabilities, a manifestation of higher-order capabilities.

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

The hurdle of being a foreigner when expanding in international markets is one of the cornerstones in the international business. Extant literature on the resource-based view (RBV) offers a framework to explain how heterogeneous firm-internal resources and capabilities might generate a value-creating competitive strategy (Barney, 1991, 2014; Wernerfelt, 1984). If a firm's resources and capabilities are valuable, rare, inimitable, and the firm's organizational processes are able to exploit their potential (VRIO), they may provide firm with an advantage (Barney & Hesterly, 2012). Competitive advantage may compensate the liability of foreignness that especially small firms face when entering foreign markets (Hymer, 1976; Zaheer, 1995).

Many scholars in international business (internationalization process models, RBV, dynamic capabilities, international new ventures) quite simply assume that firms possess those strategically valuable resources and capabilities they need in international activities. However, in the first place, resources and capabilities in the home markets are often not suitable in operations in foreign markets (Kumar, 2009). Secondly, firms hardly can transfer highly specific resources and capabilities from one firm function to another (Lecerf, 2012). Thirdly, young and small firms with tight resource and capability constraints have to consider how to balance between domestic and foreign operations, growth and international expansion (Baker & Nelson, 2005). Separate discussions acknowledge the above-mentioned resource constraints and the key role of capabilities in international expansion, and therefore, this study is aiming at answering for calls to bring these scattered findings together (see Barney, 2014; Hewerdine, Rumyantseva, & Welch, 2014).

The authors suggest that small firms have a collection of key capabilities – a capability portfolio – that allows small firms to internationalize. These capabilities originate from firm's activities and depend on firm's financial resources. The purpose of this study is to reveal, under a limited resource endowment, how capabilities' relative importance in this capability portfolio varies along with internationalization. As researchers call for new forms of gathering data besides the use of traditional methods, such as Likert scales (Woodside, 2014), the authors build a method to handle binary data from a questionnaire that consists of claims with only a *Yes* or *No* answer available. The authors use a data-driven but statistically acceptable technique called finite mixture structural equation modeling (FMSEM) to analyze the data. FMSEM is able to uncover unobservable behavioral segments and estimate segment-specific path coefficients in a research model of each segment in the data simultaneously (Bart, Shankar, Sultan, & Urban, 2005), thereby revealing the existence of multiple realities (Woodside, 2014) and unobservable heterogeneity among respondents (Bart et al., 2005). Finally, this study contributes to an understanding of how small size firms exploit and allocate limited resources and capabilities between their key activities when growing and expanding on international markets, especially at the time of initial international entry.

☆ The authors thank Jan-Erik Vahlne, Rebecca Piekkari, and Pia Hurmelinna-Laukkanen for their valuable insights into an earlier version of the results, Guest Editors Piyush Sharma and Nebojsa Davcik for their helpful advices, and two anonymous reviewers for their valuable comments on the earlier version of this paper.

* Corresponding author.
E-mail addresses: lauri.haapanen@oulu.fi (L. Haapanen), mari.juntunen@oulu.fi (M. Juntunen), jouni.juntunen@oulu.fi (J. Juntunen).

http://dx.doi.org/10.1016/j.jbusres.2016.03.065
0148-2963/© 2016 Elsevier Inc. All rights reserved.

Please cite this article as: Haapanen, L., et al., Firms' capability portfolios throughout international expansion: A latent class approach, *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2016.03.065

ARTICLE IN PRESS

2. Theoretical background

2.1. Resource based view and international expansion

Resource-based view (RBV) suggests that firms' competitive advantage results from firm-internal resources (Barney, 1991; Wernerfelt, 1984). RBV builds the potential to create sustainable advantage on two fundamental assumptions: First, firms possess different bundles of strategically relevant resources that are not identical or heterogeneous within an industry, and thus, some firms are better at performing some activities than others (Barney, 1991). Second, the above-mentioned scarce resources are firm-specific. RBV considers resources as stocks of available productive factors that firm owns and controls, that is such financial, tangible and intangible assets that firm can draw on to execute its strategies. Capabilities are the firm's capacity to deploy resources and an ability to take advantage of and improve the productivity of its resources (Barney & Hesterly, 2012). Capabilities are firm-specific, they develop over time and have different dimensions and hierarchies. Ordinary capabilities are more like routines and best practices, whereas higher-order (dynamic) capabilities create, extend, or modify firm's resource and capability bases (Teece, 2014).

Under continuously changing market conditions, sustainable competitive advantage is even harder to achieve, and thus, firms might rather accept transient short-lived opportunities (McGrath, 2013) with series of temporary competitive advantages (Eisenhardt & Martin, 2000). When firms base their strategies on temporary advantages, they need to be able to continuously renew their resource bases. Hence, under a limited resource endowment, the role of firm's capabilities, and how firms use these capabilities to make the most of resources, becomes important (Day, 2014). Capabilities are firm-specific, and thus, building of capabilities takes time and is costly. Capability development sets additional limits for growth and international expansion, for small firms their available resource endowment is an internal antecedent of providing a competitive advantage (Eriksson, 2014).

2.1.1. International orientation

International expansion comes with risk and involves costs and uncertainties. For this reason, internationalization is often more challenging for smaller firms with fewer financial, tangible and intangible resources and capabilities (Knight & Kim, 2009). The smaller the resource endowment is, the less flexible firms are, as regards allocating these resources between domestic and foreign operations (Teece, Pisano, & Shuen, 1997). Especially smaller firms with limited resources need to rely more on their intangible resources and capabilities when expanding on foreign markets (Knight & Cavusgil, 2004). To make such commitments in international markets, firms need not only a competitive advantage but also a strong international attitude (Ripolles Meliá, Blesa Pérez, & Roig Dobón, 2010). The authors label this attitude an international orientation (IO) and follow Knight and Kim (2009) when defining IO as a capability which consists of increased commitment, learning, and cultural dimensions. IO features a bundle of specific management-level capabilities to initiate and perform international business activities in foreign markets in an effective way (Knight & Kim, 2009). Not surprisingly, earlier studies show that firms with stronger international orientation tend to initialize their international operations earlier than their counterparts without such a capability (Knight & Cavusgil, 2004).

The role of marketing and sales is to generate income and also to provide research and development with customers' needs (Griffin & Hauser, 1996). Day (2014) differentiates market sensing (marketing) capabilities and customer-linking (sales) capabilities, the former representing the intelligence to sense changes in the market and the ability to anticipate the responses, the latter referring to buyer–supplier relationships providing the firm with sales revenues. This said, the authors consider marketing and sales as two distinctive key activities calling for different capabilities (see e.g. Ramaswami, Srivastava, & Bhargava, 2009).

2.1.2. Marketing capabilities

Many market-based resources (e.g. brands, relationships, and market sensing) are intangible and complementary (the presence of one marketing resource strengthens the presence of another) in their nature. Hence, competitors cannot identify and reproduce them easily. For this reason, market-based resources and capabilities also provide a strong potential for sustainable competitive advantage (Kozlenkova, Samaha, & Palmatier, 2014). Marketing capabilities (MC) enable firms to absorb market knowledge and interpret competitor information, and allow firms to convert market information into successful strategies (Barrales-Molina, Martínez-López, & Gázquez-Abad, 2014).

2.1.3. Sales capabilities

Buyer–seller relationships are complex undertakings, take time to evolve, and are difficult to imitate. The ongoing development of such relationships calls for sales capabilities (SC). These capabilities include strong interactions and relationships with customers, which in turn provide firms with deep customer insight (Ramaswami et al., 2009). Salespeople's professional experience, knowledge, and high level of selling skills are instrumental in enhancing SCs, and consequently, competitors cannot adopt these capabilities (Menguc & Barker, 2005). Success in generating revenues requires, not only superior SCs, but also support from MCs to convert expenditures into sales and customer satisfaction (Narasimhan, Rajiv, & Dutta, 2006).

2.1.4. Research and development (R&D) capabilities

R&D requires highly important specific capabilities that are providing a strong basis for firms to develop competitive products and to respond to changes in their markets (Eisenhardt & Martin, 2000; Teece & Pisano, 1994). The main tasks of this function, conversion of discoveries into commercially successfully innovations and updating of existing products, call for specific R&D capabilities. Strong innovative and technological base requires substantial R&D resources and capabilities but, in turn has a favorable influence on sales. If product-based competitive advantages are more temporary in their nature firms need to come up with new innovations more frequently, thus requiring even more R&D capabilities (Dutta, Narasimhan, & Rajiv, 1999).

Relative importance of R&D and marketing varies throughout international expansion. The source of competitive advantage shifts from R&D to marketing at the time of initial entry (Griffin & Hauser, 1996). Initial international expansion refers to those operations in international markets that firms carry out when they start their internationalization for the first time (see e.g. Buckley & Casson, 1998). R&D is responsible for designing and engineering competitive products, while further marketing activities are enhancing sales revenues and performance (Gnizy & Shoham, 2014). Obviously firms that are on the verge of internationalization, entrants that have just initiated their international expansion, and those firms that have already gained more experience in the international arena have different need of firm-level resources and capabilities.

2.1.5. Financial resources

International expansion calls for resources and capabilities that are not available equally to all firms (Hewerdine et al., 2014), and unfortunately, resources and capabilities on home markets rarely suit the operations on foreign markets (Kumar, 2009). Moreover, simultaneous international expansion, marketing, sales and product development require such capabilities which firms cannot transform from R&D to internationalization, or vice versa (Lecerf 2012). Resources are costly and the development of suitable R&D, marketing and sales capabilities is time-consuming. Firms that are young in age and small in size – or still in the phase of developing their first products – have typically less

Please cite this article as: Haapanen, L., et al., Firms' capability portfolios throughout international expansion: A latent class approach, *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2016.03.065

Download English Version:

https://daneshyari.com/en/article/5109628

Download Persian Version:

https://daneshyari.com/article/5109628

Daneshyari.com