EARLY INTERNATIONALIZATION DECISIONS FOR NEW VENTURES: WHAT MATTERS?

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ABSTRACT
Although much research has investigated the factors that explain new ventures’ successful entry into international markets, after a firm has internationalized, little is known about the considerations that guide entrepreneurs’ decisions in this regard, before they make such decisions. Because of this, there is a danger that policy efforts meant to encourage early internationalization focus on levers that do not actually influence entrepreneurs’ decisions. To address this problem, we use survey and conjoint analysis techniques to reveal entrepreneurs’ “theory in use” regarding early internationalization decisions. In addition, we explore whether human capital factors influence entrepreneurs’ reliance on distinct sets of decision factors.

INTRODUCTION
Because of its implications for the growth of their firms, the decision to expand activities abroad is a critical issue for entrepreneurs (Bell, et al., 2003). The decision may also have important consequences for the economies of the venture’s home and host countries (OECD, 1997). For example, firms that decide to grow aboard often need to invest in additional production equipment, distribution facilities, and/or new employees. In turn, successes abroad lead to wealth creation and its re-distribution through new investments, new hires, increased tax revenues, etc (Lu & Beamish, 2001).

Prior research on the early internationalization of new ventures has challenged prevalent theories of when and how firms should expand their activities abroad (cf. McDougall et al., 1994; Oviatt & McDougall, 1994). In a nutshell, research has shown that under certain conditions, there are important advantages for new ventures to internationalize their activities early in their existence (Oviatt & McDougall, 1994; Sapienza, et al., 2006). Along this line, several studies have explored the conditions that are favorable to early internationalization – including the characteristics of the entrepreneurs and management team (Reuber & Fischer, 1997), the resources and capabilities of the new venture (Knight & Cavusgil, 2004; Yli-Renko et al., 2002), the particular mode of entry chosen (Burgel & Murray, 2000; Zahra, Ireland, & Hitt, 2000) and the general conditions of the industry, both domestically and abroad (Bell et al., 2003; Shrader, Oviatt, & McDougall, 2000). Scholars have also studied the reasons why internationalizing at a young age may have negative or positive consequences for a firm’s chances of survival, rate of growth, and performance (Sapienza, et al, 2006). In sum, research in this area has led to a refined understanding of the process of internationalization, of its consequences, and of the factors that may facilitate success (Oviatt & McDougall, 2005).

Despite all this interest, however, little is known about the actual criteria that the entrepreneurs, founders and lead executives of new ventures consider ex ante when making decisions about international entry (Buckley et al., 2007). While a number of studies have considered the
particular motivations of individual entrepreneurs to do business abroad (Hurmerinta-Peltomäki, 2004; Johanson & Vahlne, 2003), prior research implicitly assumes that when making decisions about their new ventures, entrepreneurs consider the already-studied factors that facilitate international entry together with the factors that may make such entry more difficult. But is this necessarily the case? Do entrepreneurs effectively use the criteria highlighted in the literature? If so, what relative weights do they give to different criteria? Do they consider tradeoffs and interactions among such criteria? And do all entrepreneurs think the same? Are there individual and firm-level factors that accounts for variations between different entrepreneurs?

Because little research has been conducted on entrepreneurs’ actual decisions to engage in international activities (Buckley et al., 2007), public policy efforts to foster international growth do not appear as solidly grounded as they could be. It may well be that post-hoc, after a new venture has made efforts to internationalize its activities, the critical factors explaining international success are the use of unique resources and capabilities, the presence of entry barriers, or the existence of mobility barriers. Even if true, however, this finding does not imply that the same factors are necessarily the most important considerations in entrepreneurs’ decisions to commit to an international opportunity ex-ante, before the facts are known. As a result of the disjunction between post-hoc findings and the ex-ante nature of internationalization decisions, it remains possible that some policy and education efforts to encourage internationalization are actually irrelevant or even inhibiting achievement of the objective.

To explore these questions and address the limitations of prior research, we develop a research model that integrates different research perspectives on the question of early internationalization, together with findings from the cognitive and managerial research on complex decision-making. In turn, we use survey and conjoint analysis techniques (Louviere, 1988, Priem & Harrison, 1994) to reveal entrepreneurs’ “theory in use” (Argyris & Shon, 1974) regarding early internationalization decisions. In addition, we explore whether human capital factors, such as new venture and international experience and other individual characteristics, influence entrepreneurs’ reliance on distinct sets of decision factors.

THEORETICAL FRAMEWORK AND HYPOTHESES

As we noted above, there is a wide body of research in entrepreneurship, strategic management, and international business that has investigated the factors and conditions that are conducive to early internationalization – as well as to the success of such efforts. This literature forms the very basis of our research, notably by highlighting the decision parameters that are most directly relevant to entrepreneurs’ consideration of international opportunities. By and large, the literature on new venture internalization encompasses five theoretical perspectives that tend to emphasize particular issues and variables (cf. Harv eston, 2000).

1) Rooted in March and Simon (1958), behavioral theories propose that internationalization follows an incremental or evolutionary process (e.g., Johanson & Vahlne, 1977). Organizations follow stages in their development, and so does their internationalization. Key research issues relate to the effects of uncertainty avoidance, psychic distance, organizational learning, and organization commitment. These issues are believed to influence the extent, timing, and mode of internationalization. The behavioral school includes important cognitive variables at the individual level, such as the decision maker’s international experience and perception of psychic distance (Johanson & Vahlne, 2003), and the organization’s commitment to learning (Zahra, Ireland, & Hitt, 2000).
2) Classical Industrial Organization (I/O) approaches build on assumptions of rationality, profit maximization and efficient allocation of resources to emphasize the effects of market profitability, competitive saturation and level of product sophistication on resource allocation and internationalization efforts. Examples of I/O decision making factors are industry pressures to internationalize such as domestic market saturation, first-mover advantages, and building economies of scale.

3) Neo-classical I/O approaches build on transaction cost economics to suggest that market imperfections drive the extension of governance mechanisms (ownership) across national boundaries. Key questions concern the exploitation of firm-specific advantages, market imperfections and market characteristics. Factors that a decision-maker would consider based on this stream of literature include transfer of competitive advantage to new markets and protection of assets through entry mode choice (Caves, 1996; Dunning, 1981).

4) By contrast to the I/O approaches, entrepreneurship perspectives focus on how the characteristics of entrepreneurs account for the extent and mode of their firms’ internationalization as well as characteristics of the entrepreneurial opportunity. This section matches the behavioral approach that includes the entrepreneur with a market view of opportunity recognition and exploitation. Some key decision-making factors are the size of the opportunity, level of perceived risk, and the use of resources such as networks to access international markets (Oviatt & McDougall, 2005).

5) Lastly, international marketing theories place more emphasis on exporting and exporting issues, rather than on issues associated with firms actually expanding parts of their value chain abroad. This stream of research focuses mostly on market factors such as level of competition and intellectual property protection in addition to firm factors like product modifications required (Rossman, 1984).

Given our interest for studying entrepreneurs’ decision to internationalize their new ventures’ activities early (or not), the five perspectives above readily point to a number of relevant parameters. Accordingly, the five perspectives above provide the starting point of our exploration of entrepreneurs’ decision policies regarding early internationalization. Assuming a strong correlation between firm-level behavior and the decision of its lead executives, entrepreneurs’ decisions policies about early internationalization (their “theory-in-use”) should mirror the findings of prior research in firm-level behavior regarding early internationalization. More specifically, we postulate the following eight hypotheses:

**H1a:** Entrepreneurs’ stated decisions about early internationalization will be influenced by characteristics of the international market (e.g., geographic proximity, cultural similarity, etc.).

**H1b:** Entrepreneurs’ stated decisions about early internationalization will be influenced by characteristics of the domestic industry (e.g., saturation, limited growth prospects, pressures to internationalization)

**H1c:** Entrepreneurs’ stated decisions about early internationalization will be influenced by their ventures’ ability to leverage competitive advantages and other firm-specific resources

**H1d:** Entrepreneurs’ stated decisions about early internationalization will be influenced by the new venture’s firm-level strategy
H1e: Entrepreneurs’ stated decisions about early internationalization will be influenced by characteristics of the new international transaction (e.g., mode of entry, ability to use existing relationships)

H1f: Entrepreneurs’ stated decisions about early internationalization will be influenced by characteristics of the internationalization opportunity itself

H1g: Entrepreneurs’ stated decisions about early internationalization will be influenced by the motivations of the entrepreneurs

A Second Look at Early Internationalization Decisions

But is this necessarily the case? Prior research in decision-making suggests a number of reasons why this might not be the case. For example, one could observe that in the particular context of new ventures, where founder-executives often have extensive authority over all aspects of their firm, hubris and other firm-level dynamics like groupthink and escalation of commitment might play an important role in motivating a decision ex-ante (Hayward et al., 2006). Yet existing research focusing on the individual, firm-level and environment factors conducive to early internationalization has been ill-equipped to capture such dynamics – leaving their effect as unexplained variance.

More directly, critiques of rational choice theory argue that the bounded rationality of human decision-makers makes it unrealistic to expect human decision-makers to understand and account for the myriad of factors that can affect a decision’s outcome (March, 1994). As a result, decision-makers in uncertain, complex and dynamic environments use simple heuristics (Kahneman, 2003), as evidenced at both the levels of individuals and organizations (cf. Bingham et al., 2007; Eisenhardt, 1989; Gigerenzer & Selten, 2002). Seen in light of bounded rationality and simple heuristics, then, the ex-ante decision to engage in early internationalization might be better explained by a much narrower set of primary factors than by the list of conditions highlighted by the five perspectives above. This leads us to formulate the following hypothesis:

H2: Entrepreneurs’ decision heuristics about internationalization will be dominated by a narrow set of criteria that dominate all other considerations, and those heuristics will not match prior theory.

Research on the decision models of venture capitalists and other new venture investors also provides support for belief in H2. There is considerable knowledge about the individual, firm-level and contextual factors that are conducive to new venture performance and growth (e.g., Covin & Slevin, 1989; McDougall et al., 1994; Sandberg & Hofer, 1987). Much research has tested whether that knowledge matches the criteria venture capitalists use to decide on investment opportunities (Shepherd, 1999; Shepherd & Zacharakis, 1999; Zacharakis & Shepherd, 2005). However, the results show that, like most decision-makers, VCs do not have a very good grasp of what truly influences their decisions (Zacharakis & Meyer, 1998). We believe similar results will be found for internationalization decisions by entrepreneurs.

Internationalization Experience and Timing

Individual and organizational learning could also bias the results of past research. For
example, it could well be that over and above the effects of retrospective bias, individuals from firms that have already internationalized have come to see the factors that motivated their decision in a new light because of what they learned through the experience. By the same logic, we raise the possibility that entrepreneurs from new ventures that choose to internationalize early may come to see the factors motivating their decisions differently than entrepreneurs who decided to internationalize later. Perhaps these individuals faced radically different challenges. In sum, we postulate that there will be important differences between the decision models of entrepreneurs whose firms are currently international and those whose firms are not, and between firms that internationalize early and those that internationalize later.

\textit{H3a: Entrepreneurs' decision heuristics will differ depending on whether they have internationalization experience or not.}

\textit{H3b: Entrepreneurs' decision heuristics will differ depending on whether their current firm already has international activities or not.}

\textit{H3c: Entrepreneurs' decision heuristics will differ depending on whether their firm internationalized early or late.}

Taken together, the above considerations highlight our belief that ex ante decision criteria used by entrepreneurs to take their firms international do not necessarily match prior theories that are based on ex post firm internationalization outcomes.

**RESEARCH METHOD**

To study the factors that entrepreneurs consider when making early internationalization decisions and reveal their “theory in use” in this regard, we conducted two online surveys with lead executives of fast-growing new ventures operating in five US states. The online surveys were administered a month apart. The first survey used open-ended questions and Likert-scales to inquire about what factors entrepreneurs considered most important in making internationalization decisions. The survey also captured firm- and individual-level data on relevant control variables. The second survey used two different conjoint formats to reveal entrepreneurs’ decision models (Louviere et al., 2000). Respondents were presented with a series of decision scenarios that represented internationalization opportunities. We articulated the scenarios in light of variables highlighted in the literature, as well as in light of the responses obtained with the first survey.

**Sample and data collection**

In order to ensure external validity for our research, it was important that we conduct our studies with new venture entrepreneurs and lead executives for whom the decision to internationalize was both relevant and important. Thus, we conducted our studies with senior executives of private firms that subscribe to a professional organization program that identifies and honors exceptional new ventures in a variety of industries in five states in the Southern US.

The advantages of this sample frame for our purpose is twofold. First, the program offers a readily identifiable sample frame of high-potential new ventures for which internationalization decisions are highly relevant. In this regard, the program is very specific in its inclusion criteria. To be considered for membership, a firm must:
have generated more than $3 million in revenue during the last twelve months, and

a) have exhibited annual revenue growth in excess of 20% compounded over the past three years, and/or experienced headcount growth in excess of 25% compounded over the past three years.

Second, the program’s inclusion of entrepreneurs and firms with different characteristics implies that the sample will exhibit sufficient level of variance on relevant variables – notably on firm age, size, extent of internationalization, and individual background and experience.

Working with the organization, we proceeded to obtain the contact information of the lead executives (founder, president, CEO and/or chairman) of all companies in the sample. This generated a sample frame of 217 new ventures.

We collected data for this research via two online surveys conducted a month apart. Prior to inviting entrepreneurs to access the survey online, we sent all potential respondents a formal letter announcing the study and inviting them to look out for our email notices. We followed with personalized emails that included a hyperlink to the survey. We did five rounds of email announcements over a five-week period, supplemented by one electronic newsletter announcement. To acknowledge their contribution, we give respondents who complete the first survey a $20 gift certificate at amazon.com. Respondents who complete the second survey are offered an additional $30 gift certificate.

As of April 9th, we have obtained 45 valid responses to the first survey, for an effective response rate of 20.7%. Data collection for the second survey is ongoing.

**Survey 1: what factors are most important?**

The purpose of the first survey is to identify what factors new venture executives consider most important in making internationalization decisions. To this aim, the first question of the survey asks respondents to type in their answer to the following:

“Imagine that you are considering a proposal to expand your firm's business to a new foreign country. This could be a proposal to export to a new country, to buy services or products from abroad, and/or to open/acquire a place to do more business in a foreign country (plant, distribution center, research facility, etc.). What are the three (3) most important issues that you will consider in deciding whether your firm should go ahead with the proposal? In other words, what will make you decide to pursue a proposal to expand business abroad?”

The survey follows with three sets of tables listing 35 factors that prior literature highlighted as being conducive to new venture internationalization. We first identified these factors through an extensive review of the literature that generated more than 60 potential factors grouped around eight categories (e.g., characteristics of the decision-maker, of the new venture, its products, its strategy, of the market, the industry, the international opportunity, and the international transaction). To minimize the burden on respondents and maximize the survey’s efficiency, we reduced the original list by eliminating criteria that were redundant with one another. In practice, we ask respondents to answer the following question.
“Here again, imagine that you are considering a proposal to expand your firm's business to a new foreign country. This could be a proposal to export, to buy services or products from abroad, and/or to open/acquire a place to do more business in a foreign country (plant, distribution center, research facility, etc.). Please indicate how relevant each of the following factors is to your decision whether you should go ahead with the proposal.”

Participants answered on 7-point Likert-scales anchored 1= “Not at all relevant”; 4= “Somewhat relevant” and 7= “Extremely relevant”. We present the list of criteria alongside our results below.

The survey also captures firm- and individual-level data on the relevant control variables for the study (e.g., respondent’s education background and international experience, social and relational capital, motivation towards international activities, firm age, extent of internationalization, past performance, etc.). In summary, the first survey provides both qualitative and quantitative evidence about what entrepreneurs consider relevant in making internationalization decisions. In addition, the first survey provides a basis to conduct the conjoint analysis embedded in the second survey.

Survey 2: conjoint study

The purpose of the second survey is to capture the unstated decision models actually in use by entrepreneurs to make their internationalization choices – including not only the relative importance of different criteria but also the tradeoffs and interactions among these criteria. To this aim, we conduct a conjoint analysis study. More specifically, we use two different conjoint formats to identify entrepreneurs’ decision heuristics regarding internationalization: choice-based and ratings-based (Louviere et al., 2000).

Dependent variable. For both formats, the dependent variable for the conjoint task is captured through the following question: “Which of the international opportunities below would you encourage your firm to pursue?” Framing the question in terms of ‘your firm’ is a means for controlling for broad-level differences among firms. At the same time, the data collection strategy described above allows us to explore whether such policies vary with relevant covariates – i.e. the control variables we captured with the first online survey.

Independent variables. Building on the results from the first survey – and combined with our review of the literature, we articulate the conjoint scenarios in light of the following five characteristics: 1) fungibility of firm resources / capabilities (Sapienza et al., 2006); 2) competitive superiority of products/services (Cavusgil & Jacob, 1987); 3) foreign market potential (Crick & Vahlne, 1977); 4) psychic distance / cost of adapting current offerings to foreign markets (Johanson & Vahlne, 1977); and 5) mode of entry (Bell, et al., 2003; Lu & Beamish, 2001; Shrader, Oviatt, & McDougall, 2000). In line with prior research on venture capitalist decision-making (Shepherd, 1999; Zacharakis & Meyer, 1998), we vary each of these cues at two levels, high and low.

RESULTS

Table 1 presents the qualitative results from the first survey. Before rating the relevance of each of the thirty-five characteristics, respondents were asked an open ended question about what are the three most important factors in their decision on a proposal to expand business abroad. The responses to this question were coded according to the eight categories of internationalization characteristics corresponding to H1a through g. Frequencies for each category of internationalization characteristics are provided in Table 1.
There are two interesting results from the qualitative analysis of this question. First, we observe that characteristics of the market and of the opportunity dominate the thinking of decision-makers when considering a proposal to expand abroad. Furthermore, there is an important difference between the characteristics of those decision makers whose firms are already international and those whose firms have not yet expanded internationally. While decision makers of international firms weigh both characteristics of the opportunity and the market, decision makers of non-international firms weigh the market characteristics very heavily. These market characteristics are consistent with a view of significant barriers to internationalization and a concern about intellectual property rights, language, culture, trade barriers, and regulatory environments. Decision makers in firms that are not international also use a narrower range of categories in analyzing international expansions than decision makers of international firms.

Surprisingly, not a single respondent mentioned characteristics related to themselves or their social network. This is perhaps the result of a social desirability effect whereby a decision maker claims that he or she always looks at the best opportunity but does not explicitly acknowledge that some opportunities are not included in their decision set. This result is one that warrants further study, and it may be one where additional insight can be revealed through the conjoint analysis in the second phase of this research.

Table 2 presents the quantitative results from the first survey. A first observation is that when asked what is most relevant when considering opportunities to expand their new venture’s activities abroad, respondents systematically value risk-effort/reward characteristics of the international opportunity has most relevant. Other considerations clearly take second place. This provides preliminary evidence in support of H1g), but the results are more equivocal for other hypotheses (H1). At the same time, this dominance of risk-effort/reward considerations over other considerations suggest provides preliminary evidence in support of H2. This suggests that in line with bounded rationality and simple heuristics argument, the ex-ante decision to engage in early internationalization might be better explained by a much narrower set of primary factors than by the list of conditions highlighted by the bulk of prior research.

Interestingly, there appears to be significant differences between the relevance ratings of entrepreneurs whose firm already has international activities, and those whose firm does not. More specifically, our results indicate that respondents whose current firm has international activities tend to rate all the items where such differences are observed lower on average, than respondents whose firm does not yet have international activities. This provides preliminary evidence in support of H3b. By contrast, we only observe few significant differences between respondents whose firms internationalized early, as opposed to late.

Building on the above finding, we have refined our conjoint study design to ensure that we could assess whether entrepreneurs’ “theory-in-use” are effectively dominated by one set of considerations. We are currently in the process of collecting this data (as of April 14, 2008). We look forward to present our results at the Conference in June. In addition, we will be in position to further assess the interactions and tradeoffs that entrepreneurs use between different decision considerations. We will also be able to report on whether the decision policies of entrepreneurs differ on the basis of their background and past experience, as well as on the basis of their venture’s strategy and past performance.
DISCUSSION

Although our results are limited at this stage, we believe our preliminary findings signal a number of important research and practical implications. We began by observing that while much research has investigated the factors that favor new ventures’ successful entry into international markets, little is known about how entrepreneurs make their decisions in this regard. Because of this, there is a danger that policy efforts meant to encourage early internationalization focus on levers that do not actually influence entrepreneurs’ decisions.

From a research standpoint, our efforts extend scholarly understanding about an important element of new venture growth: the decision of whether, when and how to enter international market. More specifically, we document that while there is a wealth of parallel theories that have informed the factors and conditions that are conducive to early internationalization, entrepreneurs’ “theory-in-use” in this regard might be dominated by a much narrower set of decision considerations. This suggests that all in all, entrepreneurs might not follow entirely the principles of academic research when they make decisions about early internationalization.

From a practical perspective, research has documented that the early internationalization of new ventures has important consequences not only for the growth of these ventures, but also for wealth creation in the entire economy (OECD, 1997). For these reasons, it is critically important that policy efforts meant to support early internationalization efforts act on levers that are fundamental for entrepreneurs’ decisions to internationalize or not. By documenting what these influential levers are, our research provides a solid footing to refine future efforts to support the international growth of new ventures.

By extension, our research has implications for educators, investors, students, consultants and entrepreneurs alike. Among other things, we question whether the over-reliance on risk-effort/reward consideration is optimal for entrepreneurs. While there has long been argument in favor of the benefits of simple heuristics (e.g., Bingham et al., 2007, Gigerenzer & Selten, 2002), there may be times and situations where entrepreneurs could benefit from considering other elements as well. As the research program evolves, we expect that our research will provide guidance for investors and consultants to assist entrepreneurs in their internationalization efforts. More fundamentally, we believe that our research will help entrepreneurs and students become more self-aware of the criteria that affect their decision-making.

Ultimately, we hope that a better understanding of internationalization issues will allow all parties involved to make more optimal decisions – and ones that lead to positive outcomes.

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REFERENCES


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<tr>
<th>Decision cues for internationalization / Sample</th>
<th>Whole (%)</th>
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<th>Do not yet have int’nal activities (%)</th>
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<td>Access to new resources</td>
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<td>3.93</td>
<td>5.00</td>
</tr>
<tr>
<td>Financial return of the proposed expansion</td>
<td>6.77</td>
<td>6.78</td>
<td>6.76</td>
</tr>
<tr>
<td>Cost (financial + time + effort) of the expansion</td>
<td>6.25</td>
<td>6.19</td>
<td>6.35</td>
</tr>
<tr>
<td>Growth rate achieved by your firm because of expansion</td>
<td>5.70</td>
<td>5.59</td>
<td>5.88</td>
</tr>
<tr>
<td>Entry mode for proposed expansion</td>
<td>5.09</td>
<td>4.93</td>
<td>5.35</td>
</tr>
<tr>
<td>Level of risk of proposed expansion</td>
<td>6.20</td>
<td>6.11</td>
<td>6.35</td>
</tr>
<tr>
<td>Superiority of firm's products compared to competitors'</td>
<td>5.23</td>
<td>5.15</td>
<td>5.35</td>
</tr>
<tr>
<td>Need to create a new product / service for foreign mkt</td>
<td>4.23</td>
<td>4.22</td>
<td>4.24</td>
</tr>
<tr>
<td>Opportunities to use existing relationships</td>
<td>4.53</td>
<td>5.41</td>
<td>5.75</td>
</tr>
<tr>
<td>Ability to sell over the internet</td>
<td>3.41</td>
<td>3.30</td>
<td>3.59</td>
</tr>
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