DOES DOMESTIC SUCCESS OR ENTRY BARRIERS BETTER EXPLAIN ENTREPRENEURIAL FIRM NON-INTERNATIONALIZATION? (SUMMARY)

Ben Arbaugh
University of Wisconsin Oshkosh, arbaugh@uwosh.edu

Michael Camp
Ohio State University

Larry W. Cox
Ball State University

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SUMMARY

DOES DOMESTIC SUCCESS OR ENTRY BARRIERS BETTER EXPLAIN ENTREPRENEURIAL FIRM NON-INTERNATIONALIZATION?

Ben Arbaugh, University of Wisconsin Oshkosh
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Principal Topic

The area of “international entrepreneurship” has received significant scholarly attention. However, the question of “why don’t firms go international?” has received much less attention. Two possible explanations for a lack of internationalization are domestic success and entry barriers. The domestic success argument, inherently assumed in the Uppsala model of firm internationalization (Johanson & Vahlne, 1997) suggests that firms will pursue international activities only when their domestic markets have matured. Conversely, the barriers argument suggests firms do not internationalize because of significant differences between the headquarters country and other countries.

Method

The study used a multi-country sample of 1045 firms. The dependent variable, firm internationalization, was be measured using the foreign sales/total sales ratio, the firm’s percentage of total capital placed outside their headquarters country, and the firm’s percentage of employees permanently located outside their headquarters country (alpha = .79). Domestic success was measured by the firm’s sales growth, profitability, and wealth creation. Entry barriers were measured using twelve items that were reduced to two factors (cultural characteristics and risk-related characteristics) with reliability coefficients of .8 or higher. Some of the controls used include industry effects, firm headquarters location, firm age, and size (number of employees). We used an OLS model to estimate the relationship of these variables to firm internationalization.

Results and Implications

We found that cultural characteristics and a North American firm headquarters were significantly negatively associated with firm internationalization. Of the performance variables, only change in net worth was a significant and positive predictor. This suggests that at least among entrepreneurial firms, globalization is not necessarily being driven by North America. In fact, these findings may be of particularly disconcerting to North American policy makers seeking increased economic development for their locales. A possible implication of these findings is that policy makers need to determine whether they want to encourage internationalization, target countries that may be particularly interested in purchasing the goods and services their employers produce, and then encourage their firms to collaborate with these countries to reduce cultural barriers and promote understanding of these international markets.

CONTACT: J. B. Arbaugh; College of Business Administration, University of Wisconsin Oshkosh, 800 Algoma Blvd., Oshkosh, WI 54901; (T): 920-424-7189; (F): 920-424-7413; arbaugh@uwosh.edu.