

**Foreign market entry of e-business companies and
implications for theories of internationalization**

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Abstract

The rapid development of Internet technologies has led to the emergence of e-business companies (EBCs). This paper investigates the foreign market entry mode choice of EBCs and seeks to address whether and how internationalization rules have changed for them. The evidence of four selected cases of EBCs suggests that setting up country-specific websites is not sufficient for entering foreign markets. In addition, our cases use partnerships and foreign direct investment as entry mode. We further compare our observations with propositions of four prominent theories of internationalization: internalization theory, eclectic framework, resource-based view, and internationalization process model. To explain the market entry mode selection of EBCs, these theories do not have to be completely abandoned but need to be modified and adapted to the distinctive features of EBCs.

□ Foreign entry mode, Internationalization theories, e-business, Internet

1. Introduction

In recent decades, rapid globalization has forced firms to expand their business beyond their domestic markets. Internationalization of a firm not only concerns what foreign markets to serve, but how to enter them. The vast number of theoretical and empirical contributions to international market entry mode research (Brouthers and Hennart, 2007; Morgan and Katsikeas, 1997; Weisfelder, 2001; Werner, 2002) shows the enormous significance of choosing the correct market entry mode because it determines the success of a company's international operation (Andersen, 1997). This implies that once a wrong decision had been made it cannot be revised without serious consequences for the firm's future performance (Pedersen et al., 2002).

One of the primary drivers of internationalization is the rapid development of information and communications technologies, in particular of Internet technologies. The Internet has not only facilitated traditional business transactions, but offers completely new ways of doing business leading to the birth of e-business companies (EBCs). EBCs

are based on business models¹ that are redefinitions of existing models or those that have been newly created in the light of the continuing growth and importance of the Internet. More specifically, EBCs are companies that solely rely on the availability and use of the Internet to fulfill the unique value proposition of their business model.

The emergence of EBCs provokes the question whether and how existing internationalization rules, in particular the choice of entry mode, have changed (Petersen et al., 2002; Petersen and Welch, 2003). Whereas some experts claim that technological change does not necessarily induce an alteration of economic laws, others argue that the Internet facilitates internationalization and can even lead to the ‘death of distance’ (Cairncross, 2001). They suggest that the Internet has the potential, among other effects, to lower international entry barriers, and to reduce costs, especially transaction costs, and can thus lead to reduced market uncertainties (Hamill, 1997; Torre and Moxon, 2001; Zekos, 2005).

Whereas some research involves theoretical works which critically review traditional internationalization theories in the light of Internet usage (Dunning and Wymbs, 2001; Singh and Kundu, 2002), others have focused more on empirical analysis of various aspects of internationalization in the electronic marketplace (Kim, 2003; Kotha et al., 2001; Luo et al., 2005; Rothaermel et al., 2006; Tiessen et al., 2001; Yamin and Sinkovics, 2006). Despite the crucial role of foreign entry modes, only a few studies have examined what modes EBCs use internationally. With the exception of the theoretical explanatory framework of Ekeledo and Sivakumar (2004) and the empirical study of Rask (2005), all other existing studies have dealt only briefly with the choice of market entry mode including it in their studies as one aspect among many to be analyzed (Borsheim and Solberg, 2004; Loane et al., 2004; Mahnke and Venzin, 2003).

The purpose of this article is twofold. First, because of the current lack of comparable studies, we investigate which entry modes EBCs tend to choose and whether a certain pattern of entry mode use can be observed. This suggests a descriptive and an exploratory approach. To that end, four major e-business players were selected and their entry into foreign markets was analyzed based on information from secondary sources. Second, based on these results we critically examine the applicability of the most prominent theories on foreign entry mode to our observations. The term entry mode in this article refers to both the initial market entry and the change in mode over time. Because of internationalization’s dynamic nature we believe that international engagement can only be adequately depicted and understood if we refer to both concepts.

This article is structured as follows. First, we review existing studies that examine the market entry modes used by EBCs. We then describe the most important characteristics of the electronic marketplace that serve as a basis for better understanding the internationalization behavior of EBCs. Then, we explain the qualitative methodology adopted for exploring the four companies in our research study. Next, we describe and compare the cases and present the results on the entry mode choice. Following this, we briefly review the most relevant internationalization theories and investigate whether they have the potential to explain the foreign market entry choice of EBCs based on the previous observations. The paper concludes with a summary and discussion on implications for

¹ Business models describe the key components explaining the ‘logic of doing business for a firm’ (Pateli and Giaglis, 2004, p. 308)

future research.

2. Previous studies of international entry mode choice of e-business companies

Only a few empirical studies have attempted to investigate what entry modes EBCs choose. The exploratory case study by Rask and Petersen (2004) examines the small Danish e-marketplace Scanmarket. They report that the company did not establish subsidiaries but rather relied on sales agents as a direct export channel and partnerships with other organizations, primarily consulting companies, to enter and serve foreign markets. They were responsible for the acquisition of new customers, sales, and after-sales support. These entry modes were chosen for two reasons. First, Scanmarket intended to expand internationally rapidly and with as little resource commitment as possible. Second, personal interaction with customers was deemed important. This, however, could be handled by third parties while retaining full control over its products and its marketing at the same time.

Loane and Bell (2002) examined various internationalization aspects of Irish, Australian, New Zealand and Canadian Internet startups. The majority of the companies investigated used their websites and partnerships with large global companies to distribute and promote their products. Loane and Bell report that the companies considered their own location and that of their customers to be fairly insignificant and thus treated location as a minor factor in their internationalization decisions. They picked out one company as an example that regarded personal face-to-face contact with its customers as irrelevant and relied only on its partners for foreign business operations. However, further information on that particular company and on the rest of the sample is not disclosed.

Similar results are reported in the study of European and North-American Internet-enabled entrepreneurial firms published by Loane et al. (2004). Almost all companies built partnerships with large global firms to sell their products. These partnerships not only supplied the companies investigated with complementary tangible resources but also with 'more abstract resources (e.g., legitimacy and market power)' (Loane et al., 2004, p. 88).

Borsheim and Solberg (2004) report that in their sample of four born global Internet firms there was no homogeneity in entry mode use. Some companies used partnerships for their products' distribution, others relied on sales agents. However, according to the illustration used by Borsheim and Solberg, two entry modes were used by all four firms: localized versions of their websites for sale and distribution as well as sales subsidiaries and, in one case, an R&D subsidiary. Subsidiaries were set up by greenfield investments or by acquisitions and it was considered important that they were close to the market and the customers.

Mahnke and Venzin (2003) identified several characteristics unique to digital information products. They then examined the internationalization process of eBay to illustrate the importance of integrating these characteristics into theories of internationalization so as to explain adequately the international expansion of digital information goods providers. The study reveals that eBay initially entered foreign countries via foreign direct investment (FDI) for preference, taking on different types like greenfield investments

in the UK and in Canada or acquisitions (100% or lower stakes) in Germany, France, and East Asia. Through its acquisition in France, eBay gained simultaneous access to various European markets. According to Mahnke and Venzin a partnership was formed in Australia and New Zealand only to customize its homepage to these markets.

Even though the article by Kim (2003) primarily aims to investigate whether the concept of psychic distance still plays a role in the internationalization of Internet portals, it reveals some information on the market entry modes of the selected cases (AOL, Yahoo, Lycos, and AltaVista). According to Kim all Internet portals, with the exception of AltaVista, used joint ventures (JV) along with localized versions of their websites to enter foreign markets. JVs were often chosen for Asian markets, like Japan or Korea.

The sample of firms in the studies is heterogeneous with respect to company size and company type. Rask and Petersen (2004), Borsheim and Solberg (2004), Mahnke and Venzin (2003) as well as Kim (2003) investigated companies that are today large global players and that fit our definition of EBCs. In contrast, Loane and Bell (2002) and Loane et al. (2004) chose mainly small firms, mostly with less than 50 employees, and did not specify in their studies what they mean by Internet start-ups and Internet-enabled entrepreneurial firms. This renders it difficult to determine whether the sample corresponds with our definition of EBCs and hence, whether the results are fully relevant to our analysis. The findings on the chosen entry modes also diverge. Whereas the small companies claim physical presence to be unimportant, subsidiaries are set up by companies which are today large global players. In addition, partnerships are reported to be crucial for foreign market entry for the small companies. However, partnering with other companies does not appear to be relevant for large firms.

These contributions represent first steps in exploring the market entry mode choice of EBCs. However, they are too all embracing, trying to cover as many internationalization aspects as possible and therefore lack depth.

3. Characteristics of the electronic marketplace

As Mahnke and Venzin (2003) have pointed out, it is important to understand how the Internet has changed conditions for companies operating in the electronic marketplace to understand their internationalization behavior. As we shall show later, these peculiarities influence the decision of our example EBCs about how to enter foreign markets. The electronic marketplace can be described by several characteristics.

First, with the development of the Internet, goods can be partially or fully digitized and distributed via electronic networks. The term digital goods encompasses all real assets and services, which are sold or offered through the Internet (Choi et al., 1997). They are intangible in nature and are a subset of the category of information goods. They are often described as experience goods making it difficult for consumers to learn about their attributes by touch or sight. A potential buyer needs to experience fully, that is consume, digital goods to evaluate them properly (Shapiro and Varian, 1999). This experience of the character of the goods leads to information asymmetries between seller and buyer. Mainly the buyer is less well-informed than the seller about the real features of the digital goods prior to consumption. Due to this market uncertainty they will be reluctant to engage in business with unknown firms (Nelson, 1970). To overcome this agency problem (Jensen and Meckling, 1976) firms need to undertake actions necessary

to build trust among consumers, that is to show that the digital goods being offered have the characteristics expected by the consumers (Grabner-Kraeuter, 2002; Shankar et al., 2002). This can be done either by providing as much information as possible about the digital goods offered or by establishing a positive firm reputation. Reputation is based on the consumer's own experience with the firm or on the experience of third parties.

Second, it is generally acknowledged that the Internet reduces transaction costs (Bunduchi, 2005). It reduces information search costs as well as facilitating communication by better linking different parties and by enabling a fast and cost-efficient exchange of information. In general, the Internet can simplify transactions resulting in process improvements for all the parties involved. In particular the possibility of coupling the information processes of different parties more tightly allows business partners to incorporate complementary products or services into their portfolio (Amit and Zott, 2001).

Third, full-digital or partial-digital goods exhibit a unique cost structure (Shapiro and Varian, 1999). They mostly exhibit high fix costs whereas marginal costs are comparatively low. Producing the first unit is often costly since this involves high initial investments in hardware, software and development of the goods. However, the costs of serving an additional customer are low compared with the required initial investments. This cost structure results from the fundamental characteristics of digital goods: indestructability (goods retain their quality no matter how often they are used), transmutability (goods can be easily modified), and reproducibility (goods can be copied without difficulties) (Choi et al., 1997). This cost structure offers great potential for exploiting supply side economies of scale. At the same time, there are demand side economies of scale or network effects. Network effects describe the situation where the utility that an individual derives from a product is positively affected by the number of consumers (Katz and Shapiro, 1985). Hence, the more customers a company can attract the more valuable its products become to the customers. Since their products become more attractive with an increasing number of consumers, firms with a larger customer base tend to gain new customers at a faster rate. Because of this positive feedback effect companies will be able to achieve a lock-in situation where they can prevent migration of customers to competitors and prompt them to engage in repeated transactions (Shapiro and Varian, 1999). This is even more important for EBCs since they operate in a business environment where firms need to exploit network effects to create competitive advantages (Amit and Zott, 2001; Park et al., 2004). There may also be indirect network effects that arise from interdependencies in consumption of complementary goods (Katz and Shapiro, 1985). This means that one group of economic agents benefits from positive feedback effects with another group of agents. The existence of supply side and demand side economies of scale suggests that EBCs will be more inclined to enter and penetrate foreign markets rapidly, the better to exploit these two effects (Mahnke and Venzin, 2003).

4. Foreign entry mode choice of four e-business companies

4.1. Methodology

We decided to employ case study research to examine the market entries of EBCs. This approach is deemed especially useful when a certain phenomenon is not yet supported by a strong theoretical foundation and thus needs to be further explored and described

(Benbasat et al., 1987; Eisenhardt, 1989). This situation holds for the international expansion of EBCs. The unit of analysis is the firm, and we chose a multiple case approach rather than a single case approach. In line with the arguments of Eisenhardt (1991) and Yin (2003), we believe that multiple cases allow us to identify entry mode patterns that are common to the cases as well as to identify variations in entry mode use among them.

Our definition of EBCs is quite abstract and offers no quantifiable criterion such as the proportion of revenue derived from Internet-based transactions (Amit and Zott, 2001). We believe that determining a certain figure is often hard to justify and thus mostly appears to be a random choice, especially for yet unknown phenomena. We rather argue that the core component of a business model, the unique value proposition to customers and partners needs to depend on the Internet. This condition implies that without the Internet the business model and hence the company will cease to exist since the unique value derived from the use of the Internet would vanish. Our definition, thus, excludes companies that use the Internet only as a sales channel among many (e.g. retailers like GAP). Moreover, it excludes e-business enablers that provide Internet-related hardware and software but hardly engage in e-business themselves (e.g. Cisco Systems). We considered two additional criteria in selecting our sample firms. First, they need to have several years of international experience in various countries. Second, our sample is limited to firms listed on the stock exchange to guarantee sufficient information supply. For reasons of diversity we did not discriminate between digital and physical goods providers. We compiled a list of EBCs based on different stock indices, like the German TecDax, NASDAQ 100, and the Interactive Internet Index developed by the American Stock Exchange and Ziff-Davis Publishing. From this list we excluded all companies that have already been investigated, that did not meet our criteria, or on which we could not find enough information. This left us with a sample of four companies: Google, Amazon, Monster and Expedia.

Data were obtained from secondary sources. We collected information from the firm's websites, the SEC's EDGAR data base, annual reports, press reports, and all relevant articles published in academic journals and the media. We gathered general company information to understand the nature of their business and information on their international expansion, with a special focus on when and how they entered foreign countries. Whenever possible, we also tried to extract information that explains the choice of certain entry modes and the sequence of their use in a country.

We first conducted a within-case analysis involving condensing the collected data and eliminating redundant information. This resulted in a descriptive write-up of each case that gives a coherent picture of their market entries. We then employed a cross-case analysis which followed the strategy of determining parameters that make possible identification of intergroup similarities and differences (Eisenhardt, 1989).

4.2. Overview of the cases

The first case is the online retailer Amazon which generates revenues by selling various products on its domestic and international websites. In addition, Amazon also offers online storefronts for other small merchants to rent. Amazon's source of revenue also includes web services which are a collection of remote computing services offered over the Internet to developers. By renting its technological infrastructure to developers Amazon

has the chance to earn back a portion of its investment in IT.

The second case is Google, that is primarily known for its online search engine and advertisements. In addition, it offers online applications such as webmail services or word processing and calculation tools as well as enterprise solutions and mobile business solutions. In spite of Google's various products, about 99% of its revenue comes from advertisement fees.

The third case is the career management firm Monster that offers online recruiting solutions and services to job seekers and employers. Monster generates revenues by charging fees for selected premium services offered to job seekers. In addition, all services for employers are fee-based. Monster belongs to the corporate group Monster Worldwide Inc. (formerly TMP Worldwide Inc.), a company originally engaged in US yellow pages advertising as well as offline and online recruiting. During the past years Monster Worldwide Inc. has sold more and more of its offline business and has focused on its online business with Internet advertising and fees as well as with Monster that has become its flagship. Monster now generates about 90% of the corporate group's total revenues.

The last case is the online travel services company Expedia, which was founded within Microsoft in 1995. Expedia follows two business models: the merchant model and the agency model. Under the merchant model, Expedia buys inventory from its travel suppliers at discounted wholesale prices and then resells it to its customers at prices which are set by Expedia itself. Under the agency model, Expedia earns a flat fee or a commission on each completed transaction. In 1999, Expedia was spun-off from Microsoft and was later incorporated into the conglomerate InterActive Corp. Later it decided to separate its travel business and to found a new travel-focused company including different brands. Expedia became the new company's flagship brand, thus, giving the corporate group Expedia Inc. its name. Table 1 summarizes the main characteristics of the firms in our study.

Table 1
Case characteristics

Case	Business	Markets ^a	Founded	No. of Employees	No. of foreign markets served	Int. sales as % of total sales
Amazon	retail	B-C	1994	13,900	7	45.2
Google	web search and advertising	B-C, B-B	1998	16,805	> 20	48.0
Monster	recruitment	B-C, B-B	1994	5,000 ^b	> 20	27.4
Expedia	travel agent and merchant	B-C	1995	6,600 ^c	15	32.0 ^d

^a B-B is business-to-business, B-C is business-to-consumer.

^b Employees for Monster Worldwide Inc.

^c Employees for Expedia Inc.

^d Sales for only Expedia.com and its international equivalents not available.

4.3. Results by cases

The results are presented case by case and structured according to the identified entry modes. They are described in details including some examples that best illustrate and

characterize the chosen entry modes. We thus do not give a complete description of all market entries for each case, but rather concentrate on representative examples.

4.3.1. *Amazon*

Almost all operations in foreign markets are managed by subsidiaries staffed with local employees. Amazon decided to run its international business in a decentralized manner since it is a retailer that sells and distributes physical goods. Serving foreign customers via export from the USA would have resulted in high shipping costs and long delivery times acting as substantial entry barriers to international markets (Chakrabarti and Scholnick, 2002). To become competitive compared with its rivals in foreign markets, Amazon decided to open and manage local distribution centers. Subsidiaries were set up via acquisition of major competitors or by greenfield investments.

In 1998, Amazon first entered the German and UK markets simultaneously via acquisition of *telebuch.de* and *bookpages.co.uk*, which were leading online bookshops in these countries. The websites were relaunched under the *Amazon.de* and *Amazon.co.uk* brands. The acquisitions enabled a quick move into the markets as Amazon could take over the local offices and distribution centers with local staff as well as benefit from the established supplier and customer base. The German subsidiary is further responsible for serving the Austrian market for which Amazon created a localized website with offers specific to the market. Amazon regarded the Austrian market as too small to be served by an independent subsidiary.

In 2004, Amazon expanded into China with the acquisition of the leading online retailer for books, CDs and DVDs *joyo.com*. Amazon decided against a greenfield investment because the risk of failure due to substantial differences in culture and market was too high. In particular, third-party couriers for nationwide deliveries were hard to find and *joyo.com* already had an efficient distribution system. To guarantee a smooth transition from the Chinese online retailer to the Western brand Amazon, the company chose to keep the Chinese brand name for another three years before it changed it to *Amazon.cn*.

In contrast to Germany, the UK and China, Amazon built its French version from the ground up in 2000, since it had had no success with acquisitions. Amazon struggled to compete against dominant French retailers, such as *Fnac.com*, and was thus forced to reduce its French staff and to outsource some of its administrative functions to the UK and USA in 2004.

In Japan Amazon launched its business via greenfield investment into a wholly owned subsidiary and with the help of a number of partners. Since Amazon considered the distribution system in Japan to be too complex, it allied with *Nippon Express Co.*, a major domestic parcel delivery service. Both jointly manage a distribution center in Japan. On the editorial side, Amazon partnered with Japanese publishing companies, such as *Media Factory*, that supplied book reviews for *Amazon.co.jp*.

Amazon faced a major market entry barrier when trying to expand into Canada. Businesses with goods from cultural industries (such as books) fall under strict regulations in Canada. To publish, distribute, or sell such goods firms need to be owned and controlled by Canadians (Weiler, 2003). To get around these foreign ownership restrictions Amazon decided against FDI. It set up the Canadian website *Amazon.ca* which is fully managed from the USA and on which Canadian customers can place their orders. To avoid expensive exporting from the USA, Amazon has entered partnerships with publishers and

wholesalers from which customers are directly supplied. Furthermore, Amazon partnered with the Canada Post subsidiary company Assured Logistics to handle distribution. Lacking physical presence in a foreign market was a rather unusual approach and was more or less forced upon Amazon by strict political regulations. In all other cases, Amazon clearly preferred FDI as a market entry mode. In addition, this approach in Canada was only possible because of its cultural similarities to the USA.

The initial and ongoing expansion into foreign markets was supported by marketing partnerships with well-known online content providers. Under the marketing agreements the partnered portals either placed promotional links to the Amazon online stores on their websites or adopted Amazon as their key merchant for their shopping channels. Amazon formed partnerships, among others, with Virgin.de in Germany, with biglobe.ne.jp in Japan, with Canada.com, or with MSN.co.uk in the UK. In addition, Amazon signed an agreement with Yahoo! International in 1998 that made Amazon the premier bookseller throughout many of Yahoo's world sites, and a promotional agreement with AOL Europe for its European portal sites in 2001.

4.3.2. *Google*

Google first targeted foreign markets by providing translated versions and later localized versions of its search engine, i.e. search results are adapted to the markets. The digital nature of Google's product and services allowed use of Internet as a virtual export channel.

However, simply setting up a website was not enough for entering foreign markets. Similarly to Amazon, Google entered multiple partnerships with widely known local online content providers. Google partnered, among others, with Universo Online in Latin America, Web.de in Germany, Daum.net in Korea, or NetEase and Yam.com in China. On a global level, Google struck deals with Yahoo International, which did not possess its own search engine until 2004, and with AOL International, and a marketing agreement with Lycos Europe. These partnerships were built around licensing and marketing agreements as well as including a reseller program. Under the licensing contract, Google sells its search engine services to prominent portals that integrate Google's search technology into their websites. The marketing agreements allow Google to provide portals with its targeted paid search listings products from its huge base of advertisers. Although selling its search engine services and ads is the major source of revenue, these deals with big online content providers in effect represent strategic approaches to break into international markets. In addition to its own sales force, Google introduced resellers in some countries to develop the online advertising market for Google. Resellers are companies active in the online advertising business. They handle selling of ads as well as customer support and customer service on Google's behalf. Google signed contracts with resellers primarily in the Asian region, in particular in China where Google has more than twenty resellers. By contracting with local firms Google benefits from their proximity to local customers and from their market knowledge. The partnerships were not only formed for initial market entry but also for deeper market penetration.

Google soon established subsidiaries in a number of countries solely by greenfield investments. These investments started in 2001 but were primarily made between the years 2003 and 2007. Google founded sales offices in over twenty countries to develop and enhance its advertising business. In addition, Google opened R&D offices staffed with local

engineers in several countries because Google realized that its search services are culturally sensitive, and thus need to be adapted to local market conditions. For example in Korea, Google struggles to create market dominance which is attributed by Google to the lack of locally adapted search services and results. Similarly to Korea, Google has lower market shares in China compared with its major Chinese rival Baidu.com: this was also attributed to inadequate initial localization. In addition, Google had to cope with governmental censorship on Internet contents, resulting in the blocking of Google's website and slowing down traffic. To solve these problems Google was forced to open up offices with servers located in China.

Acquisitions have not played a major role in Google's internationalization. Only in China, where Google had problems gaining higher market share, it made partial acquisitions. Google purchased a 2,6% stake in the Chinese search engine in 2004, but sold it again two years later. In 2007, Google obtained a minority stake in the popular Maxthon browser, widely used among Chinese. Google considered this investment as a good chance to promote its products and services in China as Google could integrate its search services into the browser.

4.3.3. *Monster*

Monster operates country-specific websites with extensive content in key markets (Canada, Germany, France, Brazil, etc.) as well as less extensive career sites in other markets (Middle East, most of Asia, and others). The latter are not translated into the local language but are presented in English and the sites' content is reduced to simply a database of CVs and job offers. Other services, like online career advice, are not available for these sites.

Monster operates independent subsidiaries in key markets managed by local staff to respond to local requirements. Moreover, they are fully in charge of the websites' content which is primarily hosted on local servers. International expansion via FDI was mostly done by acquisitions of either globally or locally operating careers sites. Monster struck two big deals that introduced its recruiting solutions and business into various countries simultaneously as well as strengthening its positions in countries it had already entered. In 2001, Monster acquired Jobline International AB, a Swedish online recruitment company with more than twenty offices in eleven European countries. In 2004, Monster acquired Jobpilot, a German online career portal with business operations in eleven countries. These acquisitions allowed Monster to expand into Scandinavia, Switzerland, Hungary, Poland, and the Czech Republic as well as strengthening its market position in countries like the UK, Germany, and France.

In Asia, Monster expanded into India with the acquisition in 2000 of People.com that specialized in the recruitment of IT professionals. However, it was not until 2001, when Monster set up its own website as part of a JV with Ecorp Ltd., which was a holding company with a portfolio of Internet based businesses. This JV also helped Monster to establish a presence in Hong Kong. Monster later bought out its partner in this JV. In 2005, the firm purchased a 44,4% stake in ChinaHR.com and fully acquired Jobkorea.co.kr.

In some countries, Monster acquired companies with which it had initially formed a partnership. The expansion into the German market in 1999 was done via a partnership with one of the leading career portals stellenboerse.de. The parent company Fossler &

Partner assisted Monster in launching its German website and was later fully acquired by Monster. In Luxembourg, Monster partnered with luxjob.lu that offered local companies the opportunity to post their jobs on the international Monster websites as well. This agreement helped Monster make its brand known in Luxembourg. In 2001, Monster fully acquired luxjob.lu. Similar partnerships exist with Eastern European career portals such as jobtiger.bg in Bulgaria. Moreover, like Amazon and Google, Monster formed marketing partnerships with well-known content providers to build brand awareness among potential customers in the beginning of its international expansion. Under the marketing agreements the partnered portals placed promotional links to Monster on their websites and Monster filled the portals' job channels with its recruiting solutions and services. Monster partnered, for example, with excite.de in Germany, worldonline.fr in France, and ZDNet (IT portal) in the UK. On a global level, Monster was able to sign marketing agreements with AOL Europe in 2001 and MSN Europe in 2006, making Monster the sole provider of recruiting solutions and services for their European sites.

4.3.4. *Expedia*

Like Monster, Expedia operates several country-specific websites with extensive content and services in key markets, such as Germany, France and Canada, and websites with limited options in other markets, such as Scandinavia.

In most foreign markets Expedia set up subsidiaries in addition to localized websites. This was mostly achieved via greenfield investment. Acquisitions were only chosen for entry into the French and Chinese markets. In 2001, Expedia bought a 47% stake in voyages-sncf.com which was founded by the French railway company SNCF. With Expedia's investment the site expanded from train bookings only to offering flight, lodging and car rental services. In 2003, Expedia purchased Anyway.com, a seller of discount air travel in France, which was originally created as an offline travel agency. A year later, Expedia launched its own French website which exists alongside anyway.com and voyages-sncf.com. In China, Expedia bought a 30% stake in the Chinese online travel provider eLong.com which was later extended into a majority ownership stake of 51%. In contrast, operations in Japan were launched via greenfield investment because Expedia could not find the right acquisition target. Moreover, Expedia considered the risk of failure to be low since it felt that the Japanese market was more developed than the Chinese.

To launch its operations in Denmark, Sweden, and Norway, Expedia partnered with the Swedish online travel service provider TravelPartner.se which manages all flight and accommodation bookings as well as car rentals made on the country-specific websites of Expedia. In the UK and in Germany, Expedia partnered with the offline travel agencies Thomas Cook and DER to provide customer services to their English and German customers. Like the three companies discussed above, Expedia also entered marketing partnerships with large online content providers, such as AOL in the UK, Tiscali in Italy, or Excite in Germany to support its initial market entry. On a global level, Expedia partnered with MSN International in 1999, which was an obvious decision since Expedia used to belong to the Microsoft Corporation. Under the marketing agreements, Expedia offered its travel products and services via the travel channels of its partners' websites. In addition, the partnered portals provided promotional links to Expedia's websites.

4.4. *Cross-case analysis*

From our case studies two major issues emerged: (1) the importance of partnerships; and (2) the importance of physical presence.

4.4.1. *The importance of partnerships*

Whereas our review in section 2 showed that international partnerships were primarily relevant for small companies, our study revealed that all four companies considered this strategy to be important for foreign market entry. International partnerships are ‘relatively enduring interfirm cooperative arrangements, involving cross-border flows and linkages that utilize resources and/or governance structures from autonomous organizations headquartered in two or more countries, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm’ (Parkhe, 1991, p. 581). The basic idea of partnerships is to leverage complementary and crucial external resources (Eisenhardt and Schoonhoven, 1996). Therefore, international partnerships can be considered as an important option for facilitating initial market entry. In particular, young companies rely on partnerships to expand internationally since they lack experience and financial resources to establish a global organization by themselves (Contractor and Lorange, 1988; Glaister and Buckley, 1996). Baum and Silverman (2000) found that partnerships positively affected the performance of startups in biotechnology as they provided these companies with necessary resources. Leidner (1999) showed that a young software company partnered with other firms to support its growing international clientele and to reduce this major cost drain.

In our study, international partnerships for initial market entry were crucial in the Amazon case (Canada and Japan), the Expedia case (Scandinavia) and in the case of Google that physically entered foreign markets only years after its first international expansion. However, partnerships were also often formed simultaneously with FDI to assist the first market entry or they were formed to improve and strengthen the existing market presence. Reducing initial investments in tangible assets was one reason for partnering with other firms: Expedia sourced customer services from EBCs as well as from bricks-and-mortar companies of the same industry. Amazon entered logistics arrangements and partnerships with wholesalers and publishers. Google established a reseller program with local companies to enter and penetrate the Asian market. Accessing intangible resources such as market knowledge was another reason for the formation of partnerships.

When we came here we decided to focus on areas that we had superior expertise in and let everything else be done by local expertise. [...] We understand the distribution system in Japan is complex. We thought it would be risky and costly to do it ourselves, so we found a partner in Nippon Express. (Jasper Cheung, President of Amazon Japan)²

The reseller program is a key part of Google’s efforts to penetrate the Chinese online advertising market, especially the SMB segment. The market has proven to be a challenge, given China’s size and the fact that SMBs are spread all over the country. (Sukhinder Singh Cassidy, President of Asia Pacific and Latin America Operations, Google)³

² Rahman, Bayan. ‘Amazon Japan unit to reach profitability.’ FT.com 24 Jul. 2002. 30 Nov. 2007 <http://www.ft.com/cms/s/2/92d94ba6-24e4-11d8-81c6-08209b00dd01>.

³ Juan Carlos Perez. ‘Google launches AdWords reseller program in China’ Infoworld.com 09 Aug. 2005. 30 Nov. 2007. http://www.infoworld.com/article/05/08/09/HNgoogleadwords_1.html.

Entering new markets requires the acquisition of as many customers as possible due to supply side and demand side effects, primarily indirect network effects. Monster can only deliver high value to its customers (job seekers and job posters) if it succeeds in becoming known quickly among job seekers in new markets. The more job seekers Monster can attract the more companies will post a job on the Monster website. This virtuous circle also applies to the other three case firms. Establishing a huge customer base required our case firms to become known quickly among potential customers and to overcome the market uncertainty in electronic markets, that is to gain their trust. Promotional cooperations with well established partners can help companies meet these prerequisites. In our study, all four firms entered multiple promotional partnerships and licensing agreements. These partnerships gave our case firms the opportunity to benefit from their partners' popularity. Partnerships can help establish legitimacy and trust, and thus improve reputation due to spillover effects (Rao et al., 1999; Kirma and Rao, 2000; Park and Mezas, 2005). Stuart et al. (1999) and Chang (2004) found that partnering with prominent companies helped young firms to send powerful signals to the market and hence to increase their firm value.

In addition, our case firms partnered only with well-known online content providers for two reasons: First, partnering with other well-known EBCs offers better potential to exploit network effects. Second, our case companies provide goods that are complementary to the products and services of online content providers and therefore enhance value for their partners' customers. Since both partners rely on Internet technologies they can easily link their complementary products without incurring high integration costs and without losing control over their proprietary products.

Partner with the best-of-breed local content providers. (Steve Pogorzelski, Executive VP for Global Sales and Customer Development, Monster)⁴

This rationale becomes even more evident in the formation of global alliances allowing the companies to exploit network effects on a wider scale. Moreover, lock-in effects also imply that the importance of such partnerships is highest at the beginning of market entry. Filson (2004) found that firms engaging in e-commerce tend to form promotional partnerships soon after their market entry since marginal benefits from such partnerships are fewer the later they are formed. The longer firms wait, the more likely that customers will have formed preferences for a competitor.

4.4.2. *The importance of physical presence*

Under certain circumstance some of our case firms chose to rely solely on locally adapted websites to distribute their products and services. This strategy was chosen only to serve small and less important markets (Google and Monster). Due to reduced transaction costs the Internet can indeed serve as a virtual export channel for digital goods. Thus, the Internet allows for expansion into foreign markets with little resource commitment and can help firms easily exploit economies of scale.

⁴ Interview taken from Junker, J., *Beyond Borders - Web Globalization Strategies*, New Riders Publishing, p. 60

However, our cases also show that simply setting up a website for each country was not sufficient to establish a strong market presence, especially in key markets. Hence, all four companies used FDI for international expansion, which demonstrates that physical presence was regarded to be essential for effective market entry and market penetration. FDI becomes even more important for companies offering physical products, illustrated by the case of Amazon. In the case of physical goods the Internet is not able to bridge geographical distances. Moreover, the results of our study suggest that face-to-face contact with customers and mutual trust remain important and cannot be entirely replaced by the Internet (Porter, 2001; Tiessen et al., 2001; Prashantham and Young, 2004).

Another driver of physical presence was to comply with market specificities since this is regarded to be crucial for international success. Amazon, for example, was forced to enter foreign markets via FDI not only because of the physical nature of the products it offered. It was also important for Amazon to tailor its services to the needs of its local customers with regard to website content (language, editorial content, and listed items), customer service, payment options, etc. In addition, Amazon faced selling regulations for books as well as a fragmented supplier market in some countries, like Germany and France. Instead of relying on a small number of wholesalers (as was the case for the US market), Amazon had to establish relationships with multiple publishers and distributors. To cope better with these specific market features Amazon chose to run independent foreign subsidiaries.

The importance of adaptation to local market conditions is coupled with the importance of gaining knowledge about foreign markets. Market knowledge and experience have long been acknowledged to play an important role in the internationalization process. However, they are mostly regarded as relevant because they determine the extent to which firms engage in foreign operations. The more knowledge firms have the more they are willing to engage in more capital intensive and thus riskier entry modes (Johanson and Vahlne, 1977; Erramilli and Rao, 1990). Although the Internet helps firms obtain a vast amount of information about foreign markets, experiential knowledge cannot be acquired via the Internet (Petersen et al., 2002). The Google case suggests that having little or no foreign market knowledge is no obstacle to FDI but rather motivates its implementation, since it was considered to be important for acquiring the required knowledge.

The company realized that we need to solve that problem because when you have an office locally, you are closer to the market, so you understand what is going on. So having products that are suited for that market, and translations at a very good quality, we started recruiting. (Dennis Woodside, Director of Emerging Markets, EMEA, Google)⁵

My job would be much easier if all engineers would be at our headquarters in Mountain View. But this concept no longer works in the Internet age. We can develop products in the US that work perfectly well there, but that does not mean they work well everywhere in the world. (Alan Eustace, Senior Vice President, Engineering & Research, Google)⁶

⁵ Interview available on <http://gugli.wordpress.com/category/poland/> 15 Sept. 2006. 02 Oct. 2007.

⁶ Translated from Schmidt, Holger. 'Google baut Standorte in Europa kraeftig aus.' FAZ.net 27 Sept. 2007. 30 Nov. 2007. <http://www.faz.net/s/RubE2C6E0BCC2F04DD787CDC274993E94C1/Doc~ED6CCD824CB7948EAA6C67F4A5F2C0DEC~ATp1~Ecommon~Scontent.html>.

We believe that proximity to the market was deemed important for all four cases, so as to get to know the customers and thus to develop products and services tailored to their specific needs. Even though partnerships helped them compensate for their lack of market knowledge, access to their partners' intangible resources alone did not seem to be enough. Partnerships allow firms to learn from their partners and are a good stepping stone for internal development of knowledge. Hence, partnerships can be considered to be a transitional stage, 'a half-way house on the road from market to hierarchy' (Hamel, 1991, p. 99). This rationale becomes evident especially in the market entry behavior of Monster that acquired some of its previous partners.

Variations within the use of this entry mode relate to the time of FDI and the establishment mode. Whereas Amazon, Monster and Expedia immediately deployed FDI when first entering their most important markets, Google opted for FDI several years after its initial market entry. Since Monster and Expedia are both part of huge corporate groups, both EBCs had access to large resources rendering such investments possible. They could benefit not only from existing financial resources but also from foreign market knowledge already accumulated and physical presence of other business units within the corporate group.

Our globalization strategy was to play off the strength of the local recruitment advertising agency offices. We began with the Netherlands and the UK. Because we have a very strong Dutch agency and have the largest recruitment advertising agency market share in the UK. (Steve Pogorzelski, Executive VP for Global Sales and Customer Development, Expedia)⁷

Google made the majority of its FDI in the years after its initial public offering in 2004, suggesting that the increasing flow of capital rendered it easier to make these huge investments. In contrast, Amazon chose FDI from the beginning to enter foreign markets. This suggests that the importance of a physical presence in international markets must have rendered Amazon's lack of proprietary resources less dominant.

While Google and Expedia chose greenfield investments, Monster and Amazon preferred acquisitions. This strategy allowed them to eliminate a strong competitor and to enter new markets quickly. They could draw on all the tangible assets (e.g. facilities) and intangible assets (e.g. market knowledge, established customer base) of the purchased companies, allowing them quickly to exploit supply side and demand side effects. Most of these investments have been full ownership. Partial ownership through JV or partial acquisition was only considered in few situations and occurred primarily in Asian countries, in particular China, implying difficulties in entering such culturally distant markets alone.

5. Implications of our observations for theories of internationalization

The aim of the following section is to determine the plausibility of the traditional theories in terms of explaining the choice of foreign market entry mode of EBCs. To provide

⁷ Interview taken from Junker, J., *Beyond Borders - Web Globalization Strategies*, New Riders Publishing, p. 60

a sufficient foundation for this evaluation, we first need briefly to review the key propositions of each of the chosen theories. We then discuss if and how each of these theories explains the pattern of entry mode choice observed in our study. We have selected the most prominent theoretical contributions for discussion, namely the internalization theory, the eclectic paradigm, the resource-based view, and the internationalization process model (Andersen, 1997).

5.1. *The internalization theory*

Internalization theory (INT) applies the transaction cost theory (Coase, 1937) to explain the existence of multinational firms. It acknowledges the natural imperfection of markets resulting from the bounded rationality and opportunistic behavior of market agents (Williamson, 1975). Market agents do not always have all the information relevant to market transactions (e.g. knowledge about prices or the quality of a product or service) and they cannot always trust others to be honest. As a consequence, market transactions are not costless but incur information, negotiation, enforcement, and monitoring costs (Coase, 1937; Williamson, 1975, 1985). For a certain level of transaction costs there is an incentive for a firm to create an internal market, i.e. to integrate operations within its own hierarchical structures (Buckley and Casson, 1991; Hennart, 1982; Rugman, 1981). However, internal governance structures are only preferred as long as transaction costs exceed the costs of internalization, such as communication and coordination costs. Otherwise market governance is favored.

According to INT there are certain markets that are particularly subject to internalization since they exhibit market imperfections. These are, among others, markets for some types of know-how (Buckley and Casson, 1991; Teece, 1981). In our case studies there are two situations of imperfect markets for know-how.

The first refers to the situation where our case firms planned to exploit some of their competencies in foreign markets. The unique value of EBCs refers to either their technological know-how or their reputation or goodwill in general (Kotha et al., 2001). What makes Google so successful is its powerful search technology. The other case firms benefit less from their technological platforms, which can easily be copied, but rather from their reputation of being one of the leading websites in their industry. Monster or its brand, for example, is known to be the number one career platform where job postings reach the widest audience. Transfer of these assets to third parties when internationalizing, i.e. using the market mechanism, results in transactional difficulties due to the risk of misappropriation and lack of control over the proper use of the brand (Anderson and Gatignon, 1986). The second situation refers to the fact that EBCs need to combine their assets with local resources, such as market knowledge. However, the transfer of this type of know-how is subject to high transaction costs since tacit knowledge can hardly be codified and detached from individuals (Teece, 1981).

In addition, the inefficiency of market knowledge transfer is not the sole source of high transaction costs. The lack of local market knowledge per se (liability of foreignness) creates market uncertainty and renders business activities difficult for foreign firms (Hymer, 1976; Zaheer, 1995). As we see in our case study, EBCs face liability of foreignness as

much as ‘traditional’ companies.

Although the Internet exhibits the potential for transaction cost reductions we do not believe that it can totally offset these costs. Hence, transaction costs are still sufficiently high to make internalization an attractive option. However, Expedia and Monster must have perceived the liability of foreignness to be less severe since they both belong to huge multinational corporate groups that allowed them to draw on existing resources. Despite the lower level of liability of foreignness, which decreases transaction costs, the two firms used FDI. This indicates that minimizing transaction costs was not the only reason for internalization. Pursuing strategic motives to secure long-term profitability, such as learning about local markets and adaptation to specific market conditions, was equally important.

INT also lacks explanatory power when entry modes are used simultaneously. A core assumption of INT is that various governance forms are mutually exclusive. Yet, all of our case firms entered foreign markets via FDI and partnerships at the same time. According to INT, cooperative arrangements are chosen when there are intermediate levels of transaction costs (Williamson, 1985). However, this is not the case in our study. Nevertheless, we observed partnerships as a foreign entry mode. The examined EBCs partnered with other firms to overcome exactly these market uncertainties which should have resulted only in internalization according to INT. In addition, transaction cost aspects were not the only reason for partnerships. Access to complementary resources, reduction of investment costs, and using the partners’ customers base to exploit economies of scale were also taken into consideration.

Moreover, the INT does not include export as an entry mode since it is considered to be inappropriate for comparing export with FDI. The argument is that the choice between these two entry modes is based on production costs rather than on transaction costs (Hennart, 1989). Nevertheless, with the exception of Amazon, all other case firms chose export for small markets. As mentioned earlier, production or replication costs hardly played a role for digital goods provider. Transaction costs, however, did play a role. The Internet as a virtual export channel significantly reduced transaction costs and allowed for expansion into less important foreign markets with little resource commitment. The fact that those firms used export for one set of countries and FDI as well as partnerships for the other suggests that a country’s environment additionally affects the entry mode choice.

Contradictory results and the exclusion of export as an entry mode in the INT require alternative or complementary theories to explain sufficiently the entry mode choice of EBCs.

5.2. *The eclectic paradigm*

The eclectic paradigm provides an overall analytical framework suggesting that firms will choose entry modes by considering three sets of influencing factors: ownership advantages, location advantages and internalization advantages (OLI) (Dunning, 1980, 1988, 2001). Ownership advantages arise from property rights and/or unique intangible assets (*Oa*) as well as from advantages of common governance (*Ot*). Location advantages refer

to the foreign market's attractiveness such as the availability of valuable resources. Internalization advantages are concerned with the reduction of transaction costs.

Dunning (1979, 1993) distinguishes between contractual resource transfers (e.g. licensing), exports, and FDI. According to the OLI-framework, firms will engage in FDI if all three advantages exist. If it is not profitable for the firm to use its ownership and internalization advantages in conjunction with some local factor inputs it will choose to serve foreign markets by exports. The firm will decide to sell or lease its ownership advantages to foreign firms if internalizing its advantages turns out to be less beneficial.

First, we turn our attention to whether the OLI-advantages still play a role in the entry mode selection of EBCs. We then conclude how these advantages can predict the observed entry mode choice of our case firms.

Oa advantages are still relevant for EBCs, even though the sources of competitive advantage may have altered. Important advantages for EBCs arise from website-based, marketing or technological know-how or other valuable intangible assets such as brand names (Singh and Kundu, 2002). *Ot advantages*, because of the company size and market position as well as already established multinationality, only partially apply to our case firms. Google and Amazon were typical startups with limited resources and knowledge about foreign markets. In contrast, only Expedia and Monster could profit from such assets due to being part of huge corporate groups. Moreover, ownership advantages do not refer only to unique resources the firm already possesses. They can also arise from being able to access crucial advantages and from the capabilities of managing them. They were not considered in the original eclectic paradigm, but have been incorporated lately into the framework (Dunning, 1995, 2000, 2001; Dunning and Wymbs, 2001). They played a crucial role in the international expansion of our case firms.

Locational variables are significant for the entry mode decision of EBCs. In our case study the attractiveness of the market is determined by its size and maturity. Maturity describes the e-business penetration rate and is expressed in two ways. First, maturity is an indicator for the level of demand and thus for business growth opportunities. Due to network effects in e-business, growth is crucial for market success. Second, as also suggested by Dunning (2001), Dunning and Wymbs (2001) as well as Singh and Kundu (2002), maturity is also reflected in the existence and density of other firms operating in e-business. They can either be potential acquisition targets or can offer opportunities for partnering and for access to complementary resources. Our case study showed that operations in key markets such as Germany, France and China were managed by FDI whereas less attractive markets like Scandinavian or Middle Eastern countries were served only via web presence or partnerships.

The findings of our case study suggest that internalization advantages continue to be important. First, market imperfections still matter and second, internalization helps EBCs access specific and complementary resources (Singh and Kundu, 2002). Dunning and Wymbs (2001) identify two types of electronic market failure: (1) market failures incurred by consumers doing business online; and (2) market failures incurred by firms resulting primarily from the intangibility of their competitive advantage. The first market imperfection results from the uncertainty in electronic markets due to information asymmetries. This type of market failure could be further extended to the concept of liability of foreignness which causes consumers to hesitate to do business with foreign firms. However, this concept also explains the formation of partnerships in our case study. The second market imperfection applies to our case firms that were concerned with the

transfer of technological and marketing know-how as well as their brand to foreign markets.

Singh and Kundu (2002) suggest adding a fourth type of advantages to account better for specific characteristics of EBCs. They incorporate network-based advantages that are derived from network embeddedness (structural and relational embeddedness), the electronic brokerage effect, and network economics. The first advantage overlaps with *O advantages* since structural embeddedness leads to the acquisition of resources and is, thus, nothing but a specification of how to obtain *O advantages*. The electronic brokerage effect only generates advantages for EBCs compared with companies not engaged in e-Business since use of publicly available Internet technologies does not offer competitive advantages per se. It is rather the knowledge about how to use these technologies effectively that helps develop competitive advantages. This again is already addressed by the *O advantages*. Network economies are not included in the OLI-framework and are relevant for the entry mode selection of EBCs.

We now turn to the applicability of the entry mode predictions of the OLI-framework. The eclectic paradigm cannot fully explain the observed entry mode pattern since it fails to predict the simultaneous deployment of different entry modes. In our case study there are two situations of internationalization. The first refers to the situation where our case firms are present only with (country-specific) websites and/or partnerships. The second is the situation where they additionally deployed FDI to enter foreign markets. In the first case, the prediction applies since exports (here in the form of websites) will occur whenever there are *O advantages* which are better exploited internally because of market failures. Due to the lack of locational advantages (in our case the lack of sufficient market attractiveness) FDI is not considered. At the same time, Dunning (1995) argues that inter-firm cooperations represent another possibility of circumventing market failures. However, he gives no explanation as to when exports and when cooperative entry modes are chosen. The same dilemma occurs in the second situation. The *OLI advantages*, which are apparently perceived to be large by our case firms, have the potential to explain the use of FDI. Nevertheless, simultaneous partnering with indigenous firms is not sufficiently explained by these advantages. Even though Dunning (1995) states that inter-firm partnerships should be regarded as complementary to, rather than a substitute for, hierarchical modes of entry, he provides no explanation as to how this can be incorporated into the eclectic paradigm. Additional variables need to be considered to solve this problem. From our point of view, incorporation of network-based advantages suggested by Singh and Kundu (2002) represents a promising way.

5.3. *The resource-based view*

The resource-based view (RBV) suggests that the portfolio of distinctive resources (such as capital, brand name, and know-how) a firm controls forms the basis for achieving competitive advantage (Penrose, 1959; Wernerfelt, 1984; Mahoney and Pandian, 1992). More specifically, competitive advantages arise since firms within an industry differ in the unique resources they own. This heterogeneity remains since those resources are imperfectly mobile across firms (Barney, 1991). In addition, it is not the mere possession of

valuable resources that affects a firm's success but rather its ability to make proper use of them (Penrose, 1959; Madhok, 1997; Luo, 2002). Firms seeking international expansion need to evaluate how they can transfer their competitive advantages to foreign markets. According to the RBV the choice of foreign market entry mode depends on two effects: first, exploitation of competitive advantages depends on the existing pool and type of resources available to the firm; second, success in local markets is further determined by the possibilities for the firm to acquire those resources it lacks.

The RBV per se does not explicitly predict under which circumstances, that is the type of resource, a certain entry mode is chosen. Madhok (1997) has presented a comprehensive use of the RBV by formulating several interesting propositions on how a firm's intangible resources (know-how) influence selection of a specific entry mode. He suggests that internalization is assumed to be more appropriate for the transfer of tacit firm-specific know-how due to ownership effects. Similarly, Kogut and Zander (2003) argue, based on empirical results, that the less codifiable and the harder to teach is the technological know-how, the more likely the transfer to foreign markets will be via FDI. The competitive advantage of our case companies is based on intangible resources such as brand name, marketing and technological know-how. In line with RBV we could argue that those resources are firm-embedded and therefore hard to detach so as to be able to transfer to third-parties resulting in FDI as entry mode. In contrast to the INT, the reason is not rooted in the imperfection of markets but rather in the lack of capability of third-parties adequately to deploy competitive advantage when it is being transferred to them. According to Madhok (1997), internalization rather aims at preserving the value of competitive advantage rather than reducing the costs of transfer.

Moreover, growth-minded firms wishing to internationalize need to identify solutions to overcome resource scarcities quickly. A common way is to engage in collaborative modes of entry to access complementary resources (Madhok, 1997; Combs and D. J. Ketchen, 1999; Das and Teng, 2000). Partnerships played a major role in the internationalization of our case companies to access various resources such as knowledge about local markets and reputation, helping the firms overcome market uncertainties. Access to an established customer base was especially crucial due to network effects.

On the other hand, we also see that access to the partners' resources did not seem to be sufficient. The choice of FDI as entry mode not only resulted from difficulties in transferring a competitive advantage to the foreign market. We believe that it was also influenced by the difficulties in transferring intangible resources, such as local market knowledge, from the foreign market to the internationalizing firm. Such knowledge is a result of long-term experience and is thus inextricably embedded in the organizational structure. Therefore it cannot be explicitly observed and imitated as well as be taught (Madhok, 1997). To obtain such knowledge fully our case firms chose to acquire indigenous companies or opted for proprietary learning. This suggests that FDI should not be seen only as a means to exploit a competitive advantage abroad but also as a means to explore new resources (Makino and Inkpen, 2003).

We believe that the RBV shows a strong potential for explanation of the market entry mode choice of EBCs for several reasons. First, the internationalization of our case firms shows that resources play an important role. Second, the RBV is a framework that does not explicitly provide predictions about entry mode choices. It is thus possible to apply the RBV to several situations. Third, it does not suggest that the various entry modes are mutually exclusive. The types of resource a firm controls and those it needs

to obtain can explain the application of various entry modes at the same time. It is still unclear how and which resources influence the choice of foreign entry modes of EBCs. To tailor the RBV to such firms it is necessary to specify what types and characteristics of resources exactly determine this strategic choice. We have seen that resources such as local market knowledge and rapid market recognition due to network effects were crucial. This understanding needs to be further advanced.

5.4. *The internationalization process model*

The basic assumption of the internationalization process model (IPM) is that the lack of knowledge impedes internationalization (Johanson and Wiedersheim-Paul, 1975). Following Penrose (1959) knowledge can be classified into two types: (1) objective knowledge that can be taught and easily accessed; and (2) experiential knowledge that is tacit and that cannot be detached from individuals. Experiential knowledge again refers to both knowledge of the market and of the firm. Only this type of knowledge represents a crucial factor in internationalization. The IPM describes a gradual internationalization where experiential knowledge governs the pace and the pattern of international expansion: Firms follow a certain sequence of stages of internationalization - the so-called establishment chain (Johanson and Vahlne, 1977, 1990). The more experiential knowledge a firm has, the more resource-intensive the chosen entry mode will be. The development of experiential knowledge is triggered by commitment of resources to international operations. The latter is positively influenced by current foreign activities and commitment decisions. The pace and pattern of incremental internationalization are thus determined by the interplay between the aforementioned factors.

Despite the theory's logical explanatory power and empirical foundation several authors have found contradictions to gradual internationalization (Welch and Loustarinen, 1988; Turnbull, 1987). So do the present findings, showing that three of the case firms immediately employed FDI. Only Google followed more or less the stages theory. Nevertheless, we do not completely dismiss the internationalization process model. As a response to these concerns, Johanson and Vahlne (1990) argue that incremental expansion bears exceptions if firms have large resources and if they possess sufficient experience from internationalization in markets similar to the target market. The exceptions might apply to Monster and Expedia, which belong to huge multinational corporate groups allowing them to exploit the existing pool of resources. However, they fail to include Amazon.

Based on the theory of organizational learning (Cyert and March, 1963), the IPM emphasizes that experiential knowledge is crucial for internationalization as it helps overcome the liability of foreignness. This aspect is partially reflected in the decision of our case firms to invest directly into the key markets they entered. However, IPM's notion of experiential knowledge is too restricted in two ways: First, the IPM suggests a reactive rather than a proactive perspective, that is learning is understood as an outcome of internationalization rather than a driver (Forsgren, 2002). Our case study showed that EBCs actively invested in the markets they entered to gain market knowledge. Recent studies have shown that FDI can serve as a means for developing and renewing competencies

(Chung and Alccer, 2002; Berry, 2006). Second, the IPM is built around internal development of knowledge only. It excludes the possibility of both acquisition of and access to external resources via partnerships. Thus, the IPM does not deal with hybrid modes of entry explicitly.

6. Conclusions

In this paper, we have attempted to contribute to the theory of international business by investigating whether and how internationalization rules have changed for the new phenomenon of EBCs. More specifically, we focused on the foreign entry mode choice of EBCs. To this end, we selected four EBCs to examine how they entered foreign countries. We then compared the identified entry mode behavior with that predicted by the most prominent internationalization theories.

We found that all of our case firms which offered full-digital goods and services exploited the advantages offered by the Internet to expand quickly into a vast number of countries. They used the Internet as a virtual export channel. However, we also found that simply setting up a website for each country was not enough for successful internationalization. Like ‘traditional firms’, being physically present in key markets was considered to be crucial for the firms investigated. The major motives for establishment of independent foreign subsidiaries were compliance with market specificities and proximity to local customers. In addition, we found that EBCs heavily used the power of external networks to leverage complementary resources need for foreign market entry. Partners helped our case firms to penetrate quickly foreign markets which was especially critical for exploiting network effects. In particular, marketing partnerships were extensively used, which involved the interconnecting of products and services. They helped our case firms quickly to overcome market uncertainties and rapidly to gain scale. Moreover, the Internet facilitated these partnerships since it allows for more cost-efficient communication and easy integration of online offerings. In addition, our observations suggest that intangible competitive advantages and assets rather than tangible assets were vital to their internationalization.

We have shown that the internationalization behavior of EBCs has not radically changed compared with ‘traditional companies’. However, we have also shown that they exhibit some peculiarities that influence their behavior and that need to be considered in a theoretical framework explaining the entry mode choice of EBCs. Consequently, existing theories do not have to be completely abandoned but need to be modified and adapted to EBCs. Some of the theories we reviewed have stronger explanatory power than others. We could see in our case study that the concept of experiential knowledge in the IPM is relevant for our case firms. Nonetheless, the theory’s predictions no longer hold for EBCs. Although the basic assumption of market imperfections of INT is important for EBCs it exhibits two major drawbacks: first, the entry mode choice of our case firms was not fully based on transaction costs considerations; second, it gives no satisfactory explanation of cooperative entry modes, as well as excluding export, that played a role for the EBCs in our case study. Since resources played a significant role the RBV can be a powerful explanation for the foreign entry mode choice of EBCs. In addition,

because it is a general framework without specific predictions it can be easily adapted to the internationalization behavior of EBCs. The OLI-framework combines several factors that can be relevant to EBCs. However, it fails to explain partnerships sufficiently. The latter two theories are good starting points for a theoretical foundation of entry mode selection of EBCs but need to be modified and adapted to their distinctive features. In our paper, we have started to point out some characteristics that need to be incorporated into a theoretical framework. However, we suggest that further examination of the characteristics of EBCs is required.

This leads us to the limitations of this paper and to suggestions for future research. First, we did not use primary sources for data collection. This obviously restricted the richness of information which allowed for only limited conclusions. In particular, we lacked information about the exact motives for entry mode choice which could have been gathered only via interviews with managers. However, our primary purpose was to observe and describe rather than explain the entry mode choice of EBCs. Moreover, we believe that our approach gave valuable first insights into how EBCs enter foreign markets. Second, the restrictive nature of our sample, focusing only on leading US EBCs, can introduce selection biases that leave several important aspects unexplored. One bias refers to the size of EBCs. Small and medium-sized EBCs can display an internationalization behavior different from large EBCs. Focusing only on US EBCs ignores possible cultural factors that could influence the entry mode choice. US EBCs might behave differently from their German or Chinese counterparts.

For future research we suggest two directions: First, we have seen that partnerships play a vital role in foreign market entry mode. Our paper offered only a first view of this issue. We need to investigate further why and how EBCs use partnerships as a foreign entry mode. Second, we need to identify explicitly the motives for the choice of certain market entry modes. To achieve this, we need to explore further the distinctive features of EBCs. We need to broaden our understanding about what makes EBCs different from 'traditional' companies which again influences their internationalization behavior. Therefore, first-hand data from both large and small or medium-sized firms needs to be gathered and compared. These data would also make it possible to (1) test whether the RBV and the OLI-framework are indeed powerful theories to apply to EBCs, (2) enhance these theories, and (3) identify additional theories that could enhance the explanation of entry mode choice of EBCs.

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