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Internationalization and Performance in European Market: An Asian Perspective

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Abstract

The purpose of this study is to identify various challenges influencing internationalization and performance of Asian companies in Europe. Initially, ten interviews were conducted for the purpose of an initial exploration of the study's context and the identification of challenges influencing market entry in Europe. These challenges were found under three categories; *Top management support*, *strategic* and *operational consideration*. These challenges were then converted into a survey, tested in a sample of 40 managers from 8 different Asian countries and analyzed using the Grounded Theory technique. The study suggests that the most important challenges identified for eventual internationalization performance were: Expectation Setting, Market Entry Strategy, Human Resources, Cost Factors, Marketing Strategy and Local Management. Furthermore, it appeared that these variables are all directly influencable by managers. Overall, the identified challenges proved critical to be taken into account when internationalizing to Europe, since failing to do so might result in deteriorating performance.

Keywords: internationalization of Asian firms, market entry Europe, internationalization and performance, internationalization models, SMEs internationalization

1. Introduction

Emerging economies have steadily gained economic importance. In Asia, where many countries are categorized as emerging countries, FDI flows are spurring development by enhancing productive capacities and export competitiveness, forming a basis for further development in the region. For example, Asian countries are not only seen fostering ties with neighbouring countries (e.g., ASEAN (Note 1) Free Trade Area), but also with distant regions like the European Union (EU) acknowledging the importance of world-wide internationalization efforts. ASEAN represents the EU's 3rd largest trading partner outside Europe with more than €206 billion of trade in 2011 (European Commission, 2013). Common internationalization theories in the field of international management have been prominently represented among others by internationalization theory, the eclectic paradigm, the transaction cost approach and the monopolistic advantage theory describing why companies internationalize (Ruzzier, Hisrich, & Antoncic, 2006). According to Dunning (2009) however, these theories are unable to explain most of modern day FDI flows. Taking a look at the evolutionary road of modern day companies, internationalization theories such as the Uppsala Internationalization Process Model (Johanson & Vahlne, 1977) are also only partially able to describe the path of emerging markets Multinational Enterprises (MNE) (Wright, Filatotchev, Hoskisson, & Peng, 2005). Interestingly, these companies seem to evolve in a different manner than what Western multinationals have done in the past. Initially, companies benefit from inward investments through the cooperation with global players, thereby absorbing technological and organizational skills (Luo & Tung, 2007; Autio, Sapienza, & Almeida, 2000; Davidson, 1980). In effect, these companies show asset seeking behavior through acquiring companies or parts of companies early in their internationalization efforts to negate their global late-comer disadvantage and compensate for some of their competitive disadvantages (Child & Rodrigues, 2005).

Smaller firms from emerging markets are also exhibiting a markedly different internationalization route, denoted as international new ventures (INV) (Etemad, 2004; Leonidou, 2004; Luo & Peng, 1999; Matenge, 2011; Okpara, 2009). Oviatt and McDougall (2005) describe the existence of this phenomenon in their work on INVs. Advances in communication and transportation technology is one factor for this phenomenon because resource constrained small firms are now able to pursue more global opportunities relatively cheaply. Furthermore, the homogenization of markets in distinct countries allows for a better and faster understanding of the respective consumer (B2C) and customer (B2B) markets. The result is that smaller firms from emerging markets are increasingly internationalizing very early in their life cycles.

An important antecedent of internationalization success is the availability of a unique set of resources and capabilities that the firms are able to leverage. One important source of competitive advantages of small firms is described by Zahra (2005) who proposes that the learning process of companies is in itself an advantage over established firms, denoting this learning advantage of newness. International New Ventures (INV) has organic structures that are able to transmit and assimilate information quickly and utilize this in their operations. This flexibility gives them the edge over large and established firms. Overall, Oviatt and McDougall (2005) show in their work that the stage models of internationalization (Johanson & Vahlne, 1977) are unable to account for INVs. INVs choose volatile markets to internationalize, are resource constrained due to their small size and have little experience of any foreign market, all being factors that are not accounted for in the stage-models.

The main premises of this study is to provide an integrated framework of challenges influencing internationalization of Asian companies in Europe and contribute to the research of whether or not the current internationalization and performance relationship holds for Asian companies operating in Europe. It poses a contrast to the current literature by utilizing an interpretive methodology to identify the underlying challenges constituting the internationalization of Asian companies and thereby affecting performance in foreign market. Europe is selected as 'host' region of internationalization due to its importance to the ASEAN region. Furthermore, Europe is a distant and (mostly) developed market; therefore, it is expected to hold large theoretical variation to current literature due to different speed, form and motivation of market entry strategies of Asian companies (Luo & Tung, 2007; Chang & Rosenzweig, 2001; Morschett, Schramm, Klein, & Swoboda, 2010).

2. Literature Review

The internationalization behavior of SMEs from emerging economies has been studied by many authors. It has been shown that firms from developing countries differ from the firms from developed countries in terms of ownership advantage (look for advanced technology, product differentiation and service) as well as in motivation (gain knowledge to access local market and resources) (Amal, Awuah, Raboch, & Andersson. 2013). Firms from emerging economies utilize their late entry in foreign market using linkages and global competition with market leaders and convert it into competitive advantage (Bonaglia, Goldstein, & Mathews, 2007). They also have advantage over developed country firms such as higher flexibility and efficiency as well as knowledge seeking behavior which enables them to develop capabilities (Chang, 2011). Networking has significant role in internationalization process of SMEs from emerging economies and it was found that three main sources of networking for SMEs are government institutions, business associates and personal relations (Senik, Ladd, Entrekin, & Adham, 2011; Zain & Ng, 2006).

There are studies showing relationship between internationalization and performance for the firms from emerging economies. A positive relationship between internationalization and performance for Malaysian manufacturing firms has been found (Chelliah, Sulaiman, & Yusoff, 2010). This relationship can be affected by the location of internationalization. For example, stronger relationship has been observed if the location of foreign sale is within Asia or greater China (for Chinese firms) and weak if location of foreign sales is outside Asia due to the extent of cultural differences (Chen & Tan, 2012). Similar positive relationship has been observed for Indian firms (Gaur & Kumar, 2009). A U shaped curve between internationalization and performance has been observed for Indian firms which seem to confirm the three stage internationalization model. However it shows different stages of three stage model (U shaped curve if only stage 1 and 2 are significant in the process and inverted U shaped if stage 2 and 3 are significant) (Contractor, Kumar, & Kundu, 2007). Firms from emerging economies show smooth transition from export method to FDI if they have institutional and firm specific resources as well as prior experience in internationalization (Jung & Bansal, 2009) along with business group affiliation. These firms also show better profit and performance in international market (Chittoor, 2009). This finding was also supported by other studies showing that Thai (Pananond, 2013) and Chinese firms (Zhong, Peng, & Liu, 2013) showed superior performance aboard only if they were part of the globally integrated industries. This supports business group affiliation theory.

Literature on internationalization of individual emerging economies is skewed towards China with several studies exploring various aspect of its internationalization either alone (Jormanainen & Koveshnikov, 2012; Alon et al. 2013; Jansson & Soderman, 2012; Lattemann, 2012) or in conjugation with other emerging economies (Athreye & Kapur, 2009; Tsai, 2013). Although cross border merger and acquisitions create value for Chinese firms but this value is not greater than domestic merger and acquisitions. Moreover government involvement decreases with international mergers (Kling & Weitzel, 2011). It was also found that individual entrepreneur characteristics such as fear of failure, competition, education, skills and innovativeness also serves as motivation factors for the firms to internationalize (Alon, Yeheskel, Lerner, & Zhang, 2013). Chinese firms mostly seek for technological innovation, resource and strategic assets to build base and understand their foreign market. This could be the reason that China and India mostly prefer to enter foreign market through acquisition rather than Greenfield venture showing that they have only limited ownership advantage (Athreye & Kapur, 2009). The three most favored regions for Chinese firms to internationalize were Europe, South East Asia and North America (Zeng, Shen, Tam, & Wan, 2010). However different emerging market firms take different channel to internationalize which cannot be explained by one single theory (Chittoor, 2009; Drauz, 2013; Meyer & Thaijongrak, 2013). In recent times, Chinese firms are also investing in R & D in Europe due to technology exploration. This further proves their desire to gain knowledge and to learn/observe international market (Minin, Zhang, & Gammeltoft, 2012). Europe is an attractive market for Chinese firms and they are exploring this by doing several strategic alliances (Soderman, Jakobsson, & Soler, 2008) with western companies to make learning process faster (Zhang, Duysters, & Filippov, 2012).

The Asian setting of this study is structured in a way to get an integrated framework of challenges faced by Asian firms in European market by combining firms from 8 different Asian economies. The aim is to explore the current theoretical explanations of costs and benefits in the current internationalization and performance relationship research. Wright, Filatotchev, Hoskisson, and Peng (2005) mention the recent development of companies internationalizing from emerging to developed countries challenging the conventional theories of internationalization. This in turn challenges the application of the general internationalization and performance relationship in these countries and moreover the theoretical grounding of costs and benefits of internationalization for the companies. Therefore, the main research question guiding this study is as follows:

Which challenges are most critical to the performance of companies internationalizing from Asia to Europe, and how are they related to performance? This study uses interviews and an online-survey with managers in Asian companies that have internationalized to Europe. Since managers decide the actions of companies, they are well suited to explain the benefits and shortcomings of actions by their companies. In this study, the challenges faced are described as certain incidents halting these companies from achieving internationalization benefits and will therefore have an effect on performance. The study analyses firstly what challenges are faced, secondly how severe (or critical) the challenges are and finally how managers have tried to prevent and solve them.

3. Methodology

This study conducts an explorative, empirical investigation of challenges faced by managers in internationalizing their companies from Asia towards Europe in order to analyze how these challenges are related to performance. A qualitative research design was adopted. More specifically, a grounded theory approach is used for the analysis of a large number of cases where data was gathered through both interviews and an online survey. In this study, ten interviews were first conducted with managers to identify challenges faced during the internationalization efforts of Asian companies to Europe. The identified challenges were translated into a survey. The results of the survey were then analyzed to form the conceptual model by assessing the importance of challenges and inductively devising relationships. The qualitative data was coded in accordance with the open, axial and selective coding methodology (Corbin & Strauss, 1990). Firstly, open coding was used to reduce data of responses into dimensions that relate to the constructs. However, the term constructs is used in the following to comply with the method of Corbin and Strauss (1990). The frequency of dimensions mentioned was used to make assumptions and conclusions about which dimensions most strongly influence the constructs. Furthermore, the inclusion of further constructs was also considered when multiple textual responses could not be related to a construct per se but could be clustered into another. Relationships between categories were analyzed using the axial and selective coding technique. These relationships were assessed through identifying similarities in the dimensions of constructs, a construct that is specifically mentioned as a dimension of another construct, as well as logical deduction (Eisenhardt, 1991; King, 2004; Patton, 1990).

The interview sample was identified through personal contacts, an alumni network in Asia and a focused internet search. The interviews were conducted within a four month time-frame in 2012. The interviewers took care that the interviewees all possessed comprehensive knowledge about the challenges faced by internationalizing companies from Asia to Europe. On average, managers had 11 years of experience in Europe. Further sample statistics are summarized in Appendix 1. Two Companies where excluded from the sample, due to insufficient data (no text responses). All data was collected in English, with the exception of one in German. After analyzing the sample, it was found that further sampling would not result in unexpected findings; therefore it is argued that theoretical saturation was reached with the presented interview sample (Glaser & Strauss, 2006).

4. Results

This section reports the overall findings of the analysis. The constructs identified in the interviews and assessed in the survey are discussed. Then, all constructs are discussed per category in order to identify the dimensions of each construct. The interview results are shown in Table 1.

Table 1. Interview results

Challenge (short description)	Frequency [#]	Frequency [%]	Respondent [#]
1. Expectation Setting	7	54	7
(expectations are set very high; expect fast success)			
2. Market Knowledge	6	46	6
(lacking knowledge about different markets in EU)			
3. Marketing Strategy	5	38	5
(having a good marketing strategy is crucial)			
4. Market Entry Strategy	4	31	4
(strategy to enter EU market needs to be considered)			
5. Location Operations	4	31	4
(location needs to have the right input factors)			
6. Customer Selection	2	15	2
(first customer has to be attractive, profitable)			
7. Human Resources	1	8	1
(difficulties in attracting and maintaining employees)			
8. Business Culture	1	8	1
(objective culture; Europe vs relationship culture ;Asia)			
9. Cost Factors	5	38	5
(high costs in Europe, also differing per country)			
10. Local Management	5	38	5
(leader in Europe needs to be carefully considered)			
11. External Resources	3	23	3
(using external parties providing support)			
12. Currency Effects	3	23	3
(changing currency value, leading to income difficulties)			

Twelve constructs were identified during the interviews that were tested in the subsequent online survey. After analyzing all responses, two more constructs emerged as important: Internal Resource Availability and Legal Factors.

4.1 Top Management Characteristics

During the personal interviews, it became apparent that the expectations of top management (TM) were an important factor in the internationalization process. Both constructs of the TM factor are theorized not to directly relate to internationalization performance; however, they do relate to other constructs. Furthermore, both constructs seem to imbibe characteristics that pertain to the personalities and characteristics of the top management team, thus they are grouped as shown in Table 2.

(1) Expectation Setting. The first construct identified in the interviews with respect to TM is the importance of the expectation setting process among the top management team. As some interviewees explained, there is a risk that managers set expectations too high and expect too much from the first years of internationalization. As noted by interviewee #3: "*Firms tend to have too high expectations. They want overnight success. [..] Overall though, it is an investment and this requires time*." Further identifying that Europe is a distant market, where learning is important during the internationalization process for eventual success, this takes time. The worst case in setting expectations too high is that the internationalization effort is halted before the advantages and benefits start flowing back to the company due to perceived lacking performance.

(2) Market Knowledge. An important factor in the context of TM is to have knowledge about customer preferences, and moreover that these preferences differ considerably in different markets across Europe. As argued again by interviewee #3: "*First of all, you need to get to know the market*". Another interviewee identified that in some cases, the business model might change completely across countries, which makes it critical to know what the customer preferences are and which business model to use, before the effort to internationalize is actually started.

Table 2. Dimensions of top management characteristics (expectation setting and market knowledge)

Construct (sample size)	Dimensions	Frequency [#]	Frequency [%]
Expectation Setting (13)	Substantial market analysis	7	54
	External support	6	46
	Adequate budget	5	38
	Adequate time	4	31
	Pre-identify customers	4	31
	Legal verification	2	15
	Business model adaptation	1	8
	Executive involvement	1	8
	Avoiding external risks	5	38
	Expansion resource availability	5	38
Market Knowledge (13)	Country sensitivity	3	23
	Analysis of Costs & Benefits per market	3	23
	Customized offerings	3	23
	Hire a specialized firm	2	15
	Using test market	9	60

4.2 Strategic Considerations

The constructs clustered into this category were identified to have direct relationships to performance through logical reasoning. Furthermore, the constructs were all related to a decision that is actually made and has long-term effects on the operations of a company; i.e. strategic considerations. These factors were also identified to relate to the Operational Consideration construct category, justifying the clustering of these constructs in this category as shown in Table 3.

(3) Marketing Strategy. The interviews identified that the marketing strategy is important because it is extremely hard for Asian companies to find customers in Europe. Respondent #36 stated in his open text section: "*Finding customers takes time, it is the biggest problem*." The marketing strategy is of crucial importance to ascertain the customers. Furthermore, it is highlighted that the availability of resources is very important given that the search for customers is a lengthy process requiring presence in the local market consuming resources over-time as specified by respondent #23: "*Costs in the European Union are much higher [than in Asia]. Firms need to plan for [..] maintaining a sales-force on the ground*." Another interviewee further clarified, that the view of (some) Asian managers upon marketing is not beneficial. He emphasized that some Asian managers still do not see marketing as important or valuable; it is a cost without any benefits. They rely rather on word-of mouth and personal contacts to win customers.

(4) Market Entry Strategy. The second challenge identified in the Strategic Considerations category is the market entry strategy; alternatively denoted by interviewee #6 as the go-to-market strategy. The costs of doing business in Europe are higher than in Asia. What is necessary is a "*well defined plan and resource backing to effectively overcome the costs*." Another respondent identified the need for smaller companies to be nimble and risk-averse in order to learn from the market. Performing pilot studies with partners is one example. Another is the creation of representative offices which is often supported by governments. Overall, internationalization to Europe seems to be governed by a risk-averse approach, starting with exporting and generally increasing the involvement to more intensive forms such as joint ventures. This approach is in line with the Uppsala stage model (Johanson & Vahlne, 1977). Taken further, one respondent identified that for smaller Asian companies it is often impossible to create their own sales network from the outset.

Table 3. Dimensions of strategic considerations (marketing strategy, marketing entry strategy, location of operations and customer selection)

Construct (sample size)	**Dimensions**	**Frequency [#]**	**Frequency [%]**
Marketing Strategy (13)	Full-range of marketing tools	7	54
	Customer understanding	6	46
	Right marketing people	5	38
	Sufficient budget	4	31
	Niche strategy	4	31
	Monitoring	2	15
	Flexible marketing strategy	1	8
	Different marketing per product/service	1	8
Market Entry Strategy(13)	Risk-aversion	5	38
	Distribution critical	5	38
	Product dependent	3	23
	Test the market	3	23
	Local representative	3	23
	Extensive entry planning	2	15
Location of Operations(15)	Business clusters	9	60
	Proximity to portfolio of clients	4	27
	Avoid competition	3	20
	Availability of input factors	2	13
	Government incentives	1	7
Consumer Selection(13)	Contract revision possibilities	6	46
	Broaden client base	3	23
	Long-term customers	3	23
	Careful evaluation	3	23
	Guarantees in contracts	1	8

Given the apparent issues with having partnerships for tasks such as distribution management, a separate analysis with respect to partnering and wholly owned subsidiaries was conducted. Companies with partnership approaches do seem to find market entry strategies slightly more challenging than companies with wholly owned subsidiaries.

(5) Location of Operations. A third factor which proved important during the interviews was the selection of the location for the company's operations. The location has to fit the needs of the company especially with regard to the available resources. "*If firms move manufacturing to e.g. the Czech Republic or Bulgaria, it has to be highly specialized. In smaller countries, it is hard to attract large amounts of the right people*", as stated by respondent #5.

(6) Customer Selection. The last identified challenge in the strategic considerations category is the customer selection construct. Interviewees highlighted that European customers often trigger the internationalization projects of Asian companies to Europe by asking for specific services in Europe. However, Asian companies need to be strategic in servicing these clients. As interviewee #6 identified: "*Young firms are often rash. They go after the first customer they get, which might be a wrong customer. To succeed, you need to plan long-term and satisfy the customer. Maintaining the customer is expensive in Europe*." Looking at the survey responses, it becomes evident that an important factor is to ensure revision possibilities in contracts to avoid lengthy unfavorable situations with customers. This dimension of the customer selection construct was brought up in 46% of the cases.

4.3 Operational Considerations

The Operational Considerations category is made up of constructs that were identified to have direct impact on internationalization performance. In the conceptual model, these constructs all occur in the final stages of internationalizing, when decisions are made about hiring employees, appointing local management and dealing with a high cost environment as well as different business cultures (Table 4).

(7) Human Resources. In the interviews, the acquisition and maintaining of adequate human resources is identified as an important challenge for the eventual performance and success of internationalization to Europe. If a small country is chosen and the business requires a large amount of employees with a specific skill-set this could prove difficult. An additional challenge is identified in the aspect of cultural difference.

Table 4. Dimensions of operational considerations (human resources, business culture, cost factors and local management)

Construct (sample size)	**Dimensions**	**Frequency [#]**	**Frequency [%]**
Human Resources	Understand local resources	5	36
(14)	Local Top Management	5	36
	Professional HR policies	4	29
	Adequate trainings into company	3	21
	Performance linked rewards	3	21
	Clear career path guidelines	2	14
	External support	1	7
Business Culture	Incorporate clauses in contracts	10	77
(13)	Balanced agreements	4	31
	Discuss all important aspects	3	23
	Sensitivity to different expectations	2	15
	Legal advise	1	8
Cost Factors	Country costs sensitivity	9	60
(15)	Partner knowledge/cost sharing	5	33
	Account for legal costs	3	20
	Cluster operations	3	20
	Asses premium possibility	2	13
	Excess resources	1	7
Local Management	Monitoring from HQ	4	33
(12)	Local manager	4	33
	Qualifications	2	17
	Mixed team	2	17
	Training/Coaching	2	17
	Extensive analysis into needed skills	1	8

An important dimension of the human resources construct which was mentioned by 36% of the interviewees was the challenge to understand the local 'human resources'. As interviewee #2 identifies: "*I have to understand the local people in terms of their culture, habits, strengths and weaknesses. I have to determine what the key success factors are in hiring people and maintain them*." Respondent #17 acknowledges in his open text section the importance of understanding the local environment and adds that if companies do not have this understanding external help is to be sought. When looking at the managers of Asian companies in Europe, two separate paths were identified. When the manager in Europe is Asian, it is stressed that there have to be clear and transparent HR policies, clear career path guidelines and performance linked rewards to maintain employee loyalty. As manager #23 notes in the open text section: "*Monetary compensation is not the magical solution to avoid turnover [..], I would bet on solid career development plans, with appropriate training and financial compensation.*" Nonetheless, Manager #42 notes that it is important for the manager to understand the local environment: "*The [leading manager] should have worked in [Europe] before. If not, hire a local expert as managing director.*"

(8) Business Culture. A second construct found in the operational considerations category was business culture focusing on the differences between the Asian and European way of doing business. Respondent #11 states: "*In Asia, network is crucial. In Europe however, it is much more about actual performance and facts*". This statement signifies the importance of networks and relationships in Asia and objectivity in Europe. Interviewee #4 acknowledges the differences in cultures: "*Asian firms work on relationship basis, [specifically] trust [..]. European firms operate in a more structured sense*". Apparently, it is important to take the construct into account given the ease of preventing negative effects from occurring at all but the challenge to solve the problem once it occurred.

(9) Cost Factors. Costs are on average much higher in Europe (regarding taxes, legal costs and certifications) than in Asia. Furthermore, costs of human resources too are higher not only with respect to wage levels but also regarding social security and secondary employee benefits. Interviewee #5 identified that special rules in Europe are costly for exporters. In Germany for example, companies require a recycling logo on the product and a deposit for the environmental department. This prepayment raises the cash-flow constraints for the firm. An important finding in the survey is that costs differ considerably per country (in 60% of responses).

(10) Local Management. The set-up of the local management proved to be another challenge in the operational considerations category. Interviewee #6 identified that it is crucial in high-tech industries to send a country head to Europe who has a thorough understanding of the business. Finding an Asian manager with global experience willing to relocate to Europe was identified as another challenge. Closely linked with acquiring and retaining adequate human resources, having an Asian manager leading a company might deter talented European employees from working in that company. Monitoring and reporting from and to the Asian headquarters was identified as an important dimension when a European manager is leading the business (33% of the survey responses).

4.4 Institutional Environment and Resource Availability

Other than the previous influencable constructs in the discussed categories, two constructs were identified during the interviews as important for internationalization success but not as directly influencable by the companies. These were labelled as external resource availability (grouped in the resource availability category) and currency effects (grouped in the institutional environment category).

(11) Resource Availability. External support was identified as important during the interviews. All interviewees confirmed that governments are able to provide market knowledge, contacts and sometimes even funding. This proves to be very helpful, and often very cheap in comparison to market-based support. Nonetheless, the interviewees identified some problems with external support into Europe. Interviewee #6 identified: "*Government support is abundant in the early start-up phase. However, when sufficient scale is reached the companies start venturing to Europe. At this stage, government support is often not available any longer*." Apparently, certain governments only support their companies up until a certain size. Furthermore, managers can be hesitant to apply for external support: "*Companies are reluctant to look for help. They would opt to learn from peers. Seeking funding [from external entities] would entail too much risk*."".

Table 5. Dimensions of resource availability (external support) and institutional environment (currency effects)

Construct	Dimensions	Frequency [#]	Frequency [%]
External Support (11)	Local knowledge	4	36
	Legal factors	3	27
	Financial support	2	18
	Secrecy	2	18
	Speed of entry	2	18
Currency Effects (13)	Currency hedge	9	69
	Flexible price arrangements	6	46
	Short-term contract	2	15

Table 5 lists the dimensions of the external resource availability construct. What is deemed as important is the need to find external support for both local knowledge and legal factors (identified by four and three respondents respectively). Manager #8 notes: "*You always need in-country expertise in relation to the legal system, HR practices, marketing system and so forth*." Manager #16 mentions that governments in Europe offer support and should be sought for: "*I would refer to the support offered by European governments*." The country of origin seems to have an influence on the importance of the external support construct.

(12) Institutional Environment. Effects of foreign currency variations were identified as a major concern during the interviews, especially to smaller companies. In answering what is done about currency risks, interviewee #5 stated: "*Nothing we can do about currency effects, as we do not have the scale to hedge funds at this point.*" Another interviewee identified the currency effects as a major risk and stated that companies should always plan for an exit if they are unable to hedge against currencies, and pursue more profitable strategies. Other options to deal with currency risks were to: "*Shy away from long-term contracts and try to build-in variable currency terms*", as identified by interviewee #3. Similar to the business culture construct, the construct needs to be taken into account before the actual event, given the apparent ease of preventing negative effects of occurring at all.

4.5 Additional Constructs

Other than the 12 constructs that were identified in the interviews, two additional constructs came to light during the survey as being important for eventual internationalization success.

(13) Legal Factors. In many constructs (1, 6, 8, 9, 11), legal factors were identified as an important dimension. The major difficulty with legislation is that between the many countries in Europe legislation is markedly different. Furthermore, the process to get approvals and certifications is a time consuming process. As respondent #12 notes: "*Make sure that products are EU certified. Sometimes getting certificates from the specific committees take time, yet are mandatory in order to be able to import and sell these products in Europe. Normally, a well conducted initiative takes between 3 and 6 months*." Asian companies usually do not have the specific knowledge required in international legislations in the context of Europe. Therefore, external support is critical. The construct is placed in the Institutional Environment category because the companies are unable (or hardly able) to influence the legal environment.

(14) Resource Availability. The availability of internal resources was identified as an important dimension in constructs 1, 3 and 9. Having ample resources helps to overcome the initial barriers to entry through the ability to hire consultants and overcoming the initial time where companies make losses and certifications are requested. Furthermore, it allows for a better analysis and more strategic options (Curtis 1983). Smaller firms might not be able to form wholly owned subsidiaries given their managerial or financial resource constraints, even though their analysis would identify it as the best option. As respondent #11 notes: "*Always keep a handful of pocket change, they can come handy!*" Moreover, the size contingency variable is closely related to the availability of resources as larger firms are seen to be facing fewer difficulties. Therefore, the internal resource availability is proposed to further affect the constructs 4, 10 and 12. The internal resource availability construct is placed in the Resource Availability category. It is a characteristic of the company affecting the internationalization process.

P1a. Higher levels of expectation setting rationality positively influence the setting of an adequate marketing strategy.

When analyzing the Marketing Strategy construct, important dimensions that are similar to the Expectation

Setting are the availability of a sufficient budget and moreover finding the right marketing people to devise the strategy through employing or hiring (which is similar to using external support). Both these dimensions influence their construct positively, through increasing levels of budget and availability of external support. Furthermore, logically deducing, when the top management team shows rational expectation setting, this will positively affect the setting of a good marketing strategy. Overall, a causal relationship is therefore proposed between the construct Expectation Setting and the construct Marketing Strategy, where increasing levels of rational expectation setting will positively relate to increasingly more adequate marketing strategy.

P1b. Higher levels of expectation setting rationality positively influence the level of market entry strategy risk-averseness, when the product or service has no clear European demand.

The Market Entry Strategy construct shows a relation with the construct Expectation Setting on the dimensions risk-aversion, testing the market and extensive entry planning. These relate to the conducting substantial market analysis dimension of the Expectation Setting construct. In other words, doing extensive market analysis would involve probing the market and a way to do that is through the risk-averse market entry approach. Therefore, a causal relationship is proposed between the constructs Expectation Setting and Market Entry Strategy, where increasingly rational expectation setting will positively relate to a risk-averse market entry strategy into Europe, when the product or service has no clear demand from Europe.

P1c. Expectation setting and customer selection are positively related.

The construct Customer Selection shows similarities to the Expectation Setting construct in the dimension careful evaluation, which relates to the substantial market analysis. This relationship however is not as strong as in the previous propositions, since the dimension was mentioned in only 23% of the sample. Nonetheless, conducting an analysis seems to result in better customer selection and rational expectation setting. A positive relationship is therefore proposed between the constructs Customer Selection and the construct Expectation Setting through conducting substantial market analysis. There is however insufficient evidence for a causal relationship.

P2a. Higher levels of market knowledge positively influence adequate marketing strategy setting.

A relationship is suggested between the constructs Market Knowledge and Marketing Strategy. An important dimension in the Market Knowledge construct is the sensitivity toward different country contexts and therefore the understanding of the market within each country. In the Marketing Strategy construct, it was identified that the understanding of customers is a very important dimension, upon which the marketing strategies are to be defined. Therefore a positive causal relationship is suggested between the constructs.

P2b. Higher levels of market knowledge positively influence the selection of a suitable market entry strategy.

P2c. The selection of market entry strategy influences the level of market knowledge.

Having extensive market knowledge is proposed to be related to the Market Entry Strategy construct. Similar to proposition 1b, knowledge about the type of product/service and the expected demand influences the market entry strategy, which in turn might differ per country. Possessing extensive market knowledge that is sensitive to different country contexts would therefore increase the likelihood of the selection of a proper market entry strategy that fits the specific product or service. However, proposition 1b also identified that the reason for a risk-averse entry strategy is to gain knowledge within a market. The market entry strategy in turn would influence the level of market knowledge. The nature of this relationship however, is unable to be concluded through the current study. Concluding, when the level of Market Knowledge is high, it is proposed to positively influence the Market Entry Strategy construct. This is proposed to be a causal relationship. The market entry strategy in turn also influences the level of market knowledge. The choice of a risk-averse entry strategy relates to the level of market knowledge, although the nature of the relationship between the constructs is unclear, since no information is available on the effect of a risky market entry strategy on market knowledge.

P3. Higher levels of market entry strategy risk-averseness positively influence the ability to deal with cost factors.

The construct Market Entry Strategy is seen to relate to the Cost Factors construct. In both constructs, a partnering approach seems to positively influence eventual performance. Where the market entry strategy focuses on a risk-averse partnering approach in distribution channels, the Cost Factors construct identifies the partner approach to overcome high costs of gaining knowledge, but also to overcome the higher costs of distribution and servicing, thereby reaching higher performance. Therefore, the level of market entry strategy risk-averseness positively relates to a better ability of dealing with higher costs of doing business in Europe. In other words, when a more risk-averse market entry strategy is pursued through distribution partners, the higher costs of business in Europe are easier to overcome. Similarly, when a company chooses a risky entry strategy and invests in the distribution channel themselves, the ability to better deal with costs through partnerships would not be apparent.

P4a. Higher levels of input factor availability in the location of operations positively influence the ability to attain human resources.

As identified in the interviews and survey, the location of the company's operations needs to take into account the availability of input factors, in particular the availability of human resources. The most important dimension in the Human Resources construct is to know the local resources. As manager #2 argued: "I have to understand the local people in terms of their culture, habits, strengths and weaknesses", which will affect the ability to hire and maintain employees. Furthermore, by specifically noting the 'local' aspect, the dimension seems to be location dependent. Therefore, the selection of a location with ample human resources will positively influence the ability of companies to attain human resources. Additionally, the analysis of contingent variables identified that both constructs seem more important for the manufacturing industries given the importance to locate in certain locations (e.g. business clusters), making it harder to attract adequate levels of human resources since the local human resources are shared by a multitude of companies.

P4b. Locating operations in closer proximity levels to business clusters will positively influence the ability to deal with cost factors.

The Location of operations is proposed to also influence the ability of companies to deal with costs. The most important dimension in this construct described that companies need to locate in business clusters. In so doing, they gain benefits through exchange of talent and knowledge, shorter response times, resource proximity and lower transport costs. This business clustering relates to the dimension 'cluster operations' in the Cost Factors construct. Clustering operations keeps the geographical spread to a minimum, decreasing the costs of doing business. Therefore, it is argued that locating in proximity to relevant business clusters positively influences the ability to deal with Cost Factors.

P5. Customer Selection and Business Culture are positively related.

An important dimension in the Customer Selection construct is the possibility to revise contracts, when they prove to be unprofitable. In the Business Culture construct, where issues of differing business cultures often occur in contract setting, it is identified that clauses should be strived for; exit clauses and competition clauses. This also ensures that both sides do not experience negative effects from set contracts. Overall, it can be concluded that flexible arrangements should be made, that would prove beneficial for companies in both constructs. Nonetheless, evidence of a causal relationship is not identified.

P6a. Higher levels of market knowledge positively influence the attaining and maintaining of human resources.

Similar to the relationship between the constructs Market Knowledge and Marketing Strategy, is the relationship between Market Knowledge and Human Resources. Country sensitivity was noted as the most important dimension in the Market Knowledge construct, meaning that a thorough understanding of the market and the sensitivity to market differences in Europe is beneficial. As specified in proposition 4a, the understanding of local resources was identified as the most important dimension in the Human Resources construct, which is beneficial for the acquisition and maintaining of human resources. Having the required knowledge about the market with regard to human resources would therefore result in a better ability to attract and maintain human resources.

P6b. Higher levels of Market Knowledge positively influence the ability to deal with Cost Factors.

Another relationship is identified between market knowledge and cost factors. Again, in both constructs an understanding of differences between countries is crucial, especially with regard to taxes and legislations that are often overlooked. Having an understanding of these differences will therefore results in better decisions regarding the ability to deal with certain costs. Having knowledge about different countries would, e.g., make it possible to find the most cost-effective way of operating a business in Europe. It is therefore concluded that having market specific knowledge is positively related to dealing with cost factors.

P7. Higher levels of restricting legal factors negatively moderate both the relationships between strategic considerations on internationalization performance and operational considerations on internationalization performance.

The construct Legal Factors is seen to influence both the Strategic Considerations and Operational Considerations categories. As identified in the interviews and surveys, legal factors need to be taken into account since they have the possibility to distort business when they are not properly accounted for. Dealing with legal factors should already be taken into account in the Strategic Considerations category, since the construct location choice is for example already influenced to a large extent by the legal environment. When legal factors are increasingly restricting, additional costs are bound to be made to overcome them, thereby hindering performance. It is therefore proposed that legal factors negatively moderate the relationships between Strategic/Operational Considerations and internationalization performance.

P8. Higher levels of currency variations negatively moderate the relationship between operational considerations and internationalization performance.

The Currency Effects construct is proposed to have an effect on Operational Considerations. Currency effects are difficult to predict, and therefore have little influence on the Strategic Considerations. In particular, the currency effects were identified as important to be considered in the contractual matters to ensure profitability. These contractual matters are noted as a dimension of the Business Culture construct. Furthermore, the Cost Factors construct is also heavily influenced by currency effects, given the possible added costs of hedging currencies. This in turn negatively affects the construct's relation to internationalization performance. Therefore it is proposed that currency factors negatively moderate the relationship between Operational Considerations (most notably business culture and cost factors) and internationalization performance.

P9. Higher availability of internal resources positively influences top management characteristics, strategic considerations as well as operational considerations.

The Internal Resource Availability construct was identified to have the ability to significantly influence multiple constructs. Having ample resources available, specifically in form of human resources, time, and budget, was identified to be beneficial for the categories TM Characteristics, Strategic Considerations and Operational Considerations. It allows companies to make better decisions by conducting substantial market analysis, allows pursuing of all possible strategic options, creates effective marketing strategies, enables companies to deal with unexpected costs, and moreover allows companies to operate over longer time-frames in Europe to reach beneficial results for the company.

P10. Higher availability of external resources positively influences top management characteristics, strategic considerations as well as the operational considerations.

Also, similar to proposition 9, the construct External Resource Availability is identified as an important dimension in nearly all constructs. Overall, when knowledge or experience concerning a topic is not available, respondents advise to seek external support. Furthermore, when the external support is freely available, respondents indicate that in most cases companies should make use of it (if there are no secrecy and entry speed considerations). The forms of external support mentioned were government support, consultancy, or the forming of partnerships. It is proposed that the availability of external resources will positively relate to Top Management Characteristics, Strategic Considerations and Operational Considerations. The construct influences the categories directly by filling apparent gaps in resource availability (like financing, employees and knowledge).

5. Conclusions and Discussion

The study identified 14 challenges that are important to company performance when internationalizing from Asia to Europe. The most important challenges identified for eventual internationalization performance were Expectation Setting, Market Entry Strategy, Human Resources, Cost Factors, Marketing Strategy and Local Management. Furthermore, it appeared that these variables are all directly influencable by managers and that five of the six challenges immediately influence internationalization performance. The most critical challenges combining the challenge's impact on performance as well as the ability of the management to prevent or solve the challenge were identified to be: Human Resources, Marketing Strategy, Cost Factors, Expectation Setting, Market Entry Strategy and Local Management. Overall, all challenges proved critical when internationalizing to Europe because failing to do so might result in a deteriorated performance.

The study also put the identified challenges into categories, being Top Management Characteristics, Strategic Considerations, Operational Considerations, Institutional Environment and Resource Availability. Eventually, a conceptual model was developed as shown in Figure 1. The conceptual model shows the constructs in the white boxes that are clustered into the categories (in grey): Top Management Characteristics (TMC), Strategic Considerations, Operational Considerations, Resource Availability and Institutional Factors. The relationships between the categories are depicted by the connecting lines. Based on the study results, the category Top Management Characteristics was not found to have a direct relationship with internationalization performance. The Top Management Characteristics category was proposed to relate to both the categories Strategic

Considerations and Operational Considerations. Both the Strategic and Operational Considerations categories were found to relate directly to internationalization performance. Interestingly, the constructs in the category Top Management Characteristics seem to be strongly related to eventual performance, although they show no direct relationship. Furthermore, Operational Considerations are seen to be slightly more decisive on eventual performance than the Strategic Considerations. The remaining constructs were grouped into the categories Institutional Environment and Resource Availability. Within the Institutional Environment category, the constructs Currency Effects and Legal Factors are proposed to negatively moderate the relationships between Strategic and Operational Considerations on internationalization performance. The Resource Availability category is populated by the Internal Resource Availability and External Resource Availability constructs. In all categories, the availability of resources seemed to play an important part for internationalization performance. It was therefore proposed that the availability of adequate resources (both internal and external) will positively influence the categories Top Management Characteristics, Strategic Considerations as well as Operational Considerations.

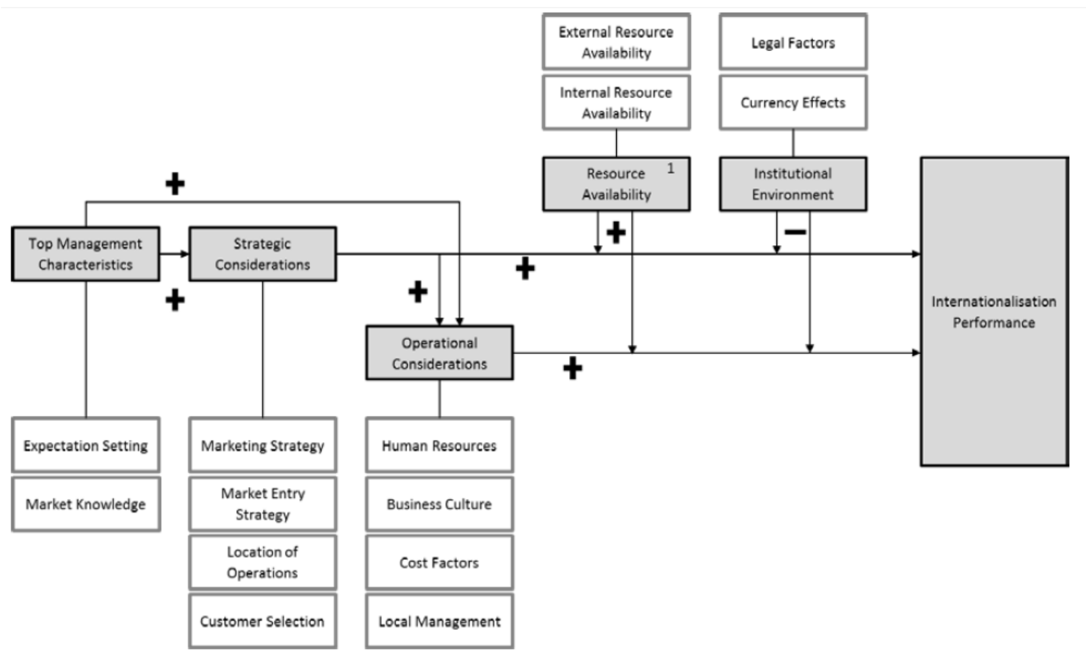

Figure 1. Conceptual model

The study provides a valuable contribution to internationalization literature and practice. Firstly, with respect to literature, it contributes to the area of internationalization performance by analyzing challenges (and therewith costs and benefits) of internationalization using an explorative, qualitative research design. The results provide a rich description about the challenges faced in the internationalization process of Asian companies towards Europe. The study finds similarities to extant literature, but also contradicting findings that provide ground for further research. Furthermore, the internationalization of Asian companies to Europe has been less researched so far, in particular with regard to DI/P research. This study provides an additional view on the possible direction of the relationships between internationalization activities and performance. The study has also particular relevance for practitioners by providing expert opinions of Asian managers who share their experiences of the challenges and possible solutions in internationalizing to Europe. The most important challenges for companies internationalizing to Europe were found to be directly influencable by their management. Therefore, this study is envisioned to provide value to Asian companies that are planning to, or already are, internationalizing to Europe. Applying the developed conceptual framework, managers can follow a rational process approach to internationalization where important variables that have to be considered are given. This conceptual support is combined with possible solutions by managers that have already gone through the process before. Ideally, companies from Asia will be better prepared and able to gain more benefits out of their internationalization efforts to Europe.

6. Limitations and Suggestions for Future Research

In the study's methods and analysis more limitations are apparent. Firstly, due to the study design, this study provides a static picture of the phenomenon. Nonetheless, Asian countries and companies are evolving at rapid pace, thereby failing to take into account the dynamism of the phenomenon. Furthermore, twelve challenges were identified and included in the survey. Such a limited number is hardly exhaustive in this multidimensional field. This shortcoming already came to light in the survey responses where two additional challenges were identified. Due to the survey method, further validating the proposed relationships between the constructs was not possible. This research was therefore only able to generate some broad insights of the precise working of the identified relationships. Specifically given that relationships were inductively derived and not specifically tested, they are subject to variations in further research. In the identification and analysis of contingent variables, three aspects were included in the current study. These were believed to provide strong contingent effects. Nonetheless, these are not exhaustive.

Furthermore, biases are prevalent in the used sample. Since the study was conducted in English, managers that are not able to speak English are in effect excluded from the study. Therefore, the study might be biased toward higher educated managers. Even so, when managers are able to speak English, questions reside whether their understanding of the questions posed is equal across the sample. Finally, the purposive sampling technique was used, which predominantly took place over professional and alumni networks.

However, future research can benefit from the identified constructs and relationships in the conceptual framework. Further testing of the proposed relationships to validate and aggregating more statistically relevant results will prove greatly beneficial to the field. Specific value would emerge through analyzing whether the dimensions of the challenges are formative or reflective, in specifying the causality of dimensions and the constructs. Moreover, an additional analysis of the identified constructs and relationships through in-depth case studies is believed to be able to make stronger inferences to internationalization performance. Also, a longitudinal approach would be valuable, to further strengthen the causal relationships in a dynamic environment such as South-/East Asia.

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Note

Note 1. Association of Southeast Asian Nations; Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Appendix 1

Total Survey Sample

Manager (#)	Country of Origin	Industry	Revenue Worldwide ($ million)	Revenue Europe ($ million)	Internationalisation Mode	Job Function	European Experience (Years)
1	Vietnam	Industrial Services	>150	>150	Exporting	Country Head	20
2	Vietnam	Retail & Consumer Goods	50 - 150	10 - 50	Exporting	Assistant Chairman	3
3	Vietnam	Software & Technology	0 - 10	0 - 10	Exporting	CEO	4
4	Vietnam	Management Consulting	0 - 10	0 - 10	Exporting	CEO	8
5	Malaysia	Audit & Consulting	>150	>150	Wholly Owned Subsidiary	N/A	1
6	N/A	IT Hardware	50 - 150	50 - 150	Partnership	Business Development Manager	4
7	Thailand	Recruitment	0 - 10	0 - 10	Partnership	Business Development Executive	2
8	Malaysia	Insurance & Financial Services	>150	>150	Wholly Owned Subsidiary	Executive	6
9	Thailand	Audit & Consulting	0 - 10	0 - 10	Partnership	Business Development Manager	5
10	Singapore	International Trade	>150	0 - 10	Exporting	Business Development Manager	2
11	Singapore	Market Branding	10 - 50	10 - 50	Partnership	Business Development Manager	12
12	Thailand	Software & Technology	0 - 10	0 - 10	Partnership	Business Development Manager	9
13	Singapore	Building Construction	>150	>150	Wholly Owned Subsidiary	Business Development Manager	0
14	India	Import-Export	0 - 10	0 - 10	Partnership	CEO	15
15	Singapore	Steel & Nonwovens	>150	>150	Partnership	CEO	20
16	Malaysia	Agriculture Machinery	10 - 50	0 - 10	Wholly Owned Subsidiary	Business Development Manager	2
17	Philippines	Telecommunication	0 - 10	0 - 10	Partnership	Business Development Manager	5
18	Singapore	Insurance & Financial Services	>150	0 - 10	Wholly Owned Subsidiary	CEO	20
19	Vietnam	ISO Consultancy	0 - 10	0 - 10	Partnership	Project Sales Consultant	5
20	Thailand	Chemical & Pharmaceutical	50 - 150	0 - 10	Exporting	Business Development Manager	10
21	Singapore	Retail & Consumer Goods	10 - 50	10 - 50	Partnership	Business Development Manager	1
22	China	Retail & Consumer Goods	0 - 10	0 - 10	Partnership	Business Development Manager	1
23	India	Audit & Consulting	>150	>150	Wholly Owned Subsidiary	Consulting Manager	12
24	India	Software & Technology	>150	>150	Partnership	Country Head	23
25	Singapore	Machine Construction	>150	>150	Exporting	Business Development Manager	10
26	China	Metal Production & Processing	10 - 50	0 - 10	Partnership	General Manager	15
27	India	Trade Promotion	0 - 10	0 - 10	Exporting	N/A	9
28	India	Software & Technology	0 - 10	0 - 10	Partnership	CEO	3
29	India	Manufacturing Group	>150	>150	Exporting	Country Head	25
30	India	Wind Energy	>150	50 - 150	Wholly Owned Subsidiary	General Manager	11
31	Singapore	Processing, Pharmaceutical, Automotiv	>150	>150	Wholly Owned Subsidiary	CEO	15
32	Taiwan	IT Hardware	>150	>150	Wholly Owned Subsidiary	Country Head	15
33	Thailand	Consulting & Investment	50 - 150	0 - 10	Partnership	CEO	25
34	China	Software & Technology	0 - 10	0 - 10	Partnership	CEO	15
35	Singapore	Audit & Consulting	0 - 10	0 - 10	Exporting	CEO	8
36	India	Telecommunication	>150	10 - 50	Wholly Owned Subsidiary	Country Head	15
37	India	Telecommunication	>150	>150	Exporting	CEO	10
38	Thailand	Machine Construction	>150	>150	Partnership	Business Development Manager	20
39	India	Management Consulting	10 - 50	0 - 10	Partnership	Owner	5
40	Singapore	Electronic Components	>150	50 - 150	Wholly Owned Subsidiary	CEO	50
41	India	Automotive	>150	>150	Exporting	Business Development Manager	18
42	Singapore	Audit & Consulting	10 - 50	0 - 10	Wholly Owned Subsidiary	Business Development Manager	5