7. Explaining the international entry and expansion of firms from developing countries from a capability point of view: test results from Ethiopia, Bolivia, Vietnam and Bangladesh

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INTRODUCTION

During 2002–07, world exports grew 4.7 percent, as opposed to a 5.2 percent growth in imports. In the same period, exports and imports from the developed countries grew 4.7 percent and 5.2 percent respectively. On the other hand, the developing countries’ exports and imports grew 10.5 percent and 11.6 percent respectively, during this period, strongly driven by the success of Chinese and Indian firms in the international market (UNCTAD 2008). In parallel with firms from Newly Industrialized Economies (NIE), companies from countries like Brazil, China, India, Mexico and South Africa are also growing and challenging the traditional leaders in some industries, in both their home and foreign markets. Home brands, for example TATA (India) and Haier (China), are quickly appearing as global trademarks. These achievements of the new generation of firms from developing countries have drawn significant interest from academia as well as the popular press, including Chindia (Sheth 2008), Dragon Multinationals (Mathews 2006), Global Latinas (Casanova 2009). These exemplary developments of multinational firms from the developing countries are particularly the outcome of the process of capability accumulation over a period of time (Yeung 1994; Barnett and Burgelman 1996). Li (1998), based on the internationalization process model (Johanson and Vahlne 1977, 1990) and the investment development framework (Dunning 1988), has suggested that the pre-multinationality of a firm includes different phases of development in the firm. For example,
in the pre-export, immature and mature export phases, the firms accumulate different capabilities through accessing and mobilizing different resources, learning from such activities and integrating this learning with the firm's subsequent actions.

The success of Indian, Chinese and other emerging market firms are increasingly becoming sources of inspiration for the least developing country firms, which are largely ignored in such discussions. Firms from different industries in the least developing countries are trying to get into international markets more vigorously than ever before, as they are being both pulled by and pushed towards (Etemad 2004; Jansson 2005) the international market by the opportunities and threats emerging from the increasing liberalization and integration of the markets and trade. Furthermore, this renewed quest for internationalization is not only limited to large firms but it is also being shared by small and medium-sized enterprises (SMEs) in these countries (Jansson and Sandberg 2008).

In this emerging context, the least developing countries' success depends on how efficiently their firms develop their competitiveness with respect to both incoming firms to their home markets, and competitors in the international market. The development of competitiveness is the function of the resources possessed by the firms and their abilities to create, extend and modify their resources to match their needs (Helfat 2007). As such, internationalization of the firm is the combined outcome of the firm's resources and capabilities, industry dynamics, firm strategy, and institutional endowments and efficiencies (Yang et al. 2009).

This chapter focuses on investigating the role of firms' capabilities in their entry to international markets and their subsequent expansion in such markets by presenting empirical results from different industry and country contexts, including the leather goods industry of Ethiopia, the wood processing industry of Bolivia, the wooden furniture industry of Vietnam and the pharmaceutical industry of Bangladesh.

This chapter proceeds with a review of the literature relating to the internationalization of firms with a particular emphasis on the internationalization of small firms. Conceptual discussion of different forms of firm-level capabilities, and their potential roles in the internationalization of the firms, are presented in the next section. The methodology section includes a description of the factors and indicators that have been used for empirical research as well as a description of the population, samples, data collection techniques and analytical procedures applied in this research. Finally, the results of the analyses are presented, and a discussion of how the results of this research portray the phenomenon of internationalization of small firms from different developing countries, including Bolivia, Ethiopia, Vietnam and Bangladesh, concludes the chapter.

LITERATURE REVIEW

Internationalization of the firm could be explained as "the crossing of national boundaries in the process of growth" (Buckley and Ghauri 1999: ix). Penrose (1959) has explained that firms grow internally through the process of learning-by-doing by the managers, as the managers learn how to reconfigure and utilize the firms' resources or higher value creation. Firms are the collections of various resources and capabilities (Amit and Schoemaker 1993), which are rare, valuable, inimitable and non-substitutable (Barney 1991), being both tangible and intangible assets. As managerial talents and experiences are not evenly distributed among the firms, firms differ in resources. This idiosyncratic distribution of valuable resources among the firms may serve as the source of differential competitive advantage. Firms utilize their assets with discretion, in order to capitalize on perceived opportunities to neutralize the threats emerging from the environment, and also to gain competitive advantage over the rival firms which fail to do so with similar discretion, in order to ensure growth (Lahiri and Kedia 2009). Helfat (2003) conceptualizes that capability represents the firm's ability to perform certain tasks in more coordinated ways and to utilize its resources for achieving a particular end result. Collis (1991) argues that international business decisions are path-dependent and influenced by the firms' unique competencies developed in past years. Internationalization of the firm is based on the search for the creation of value through development, transfer and the use of resources within and across countries (Cuervo-Cazurra and Ramos 2004).

In their analysis of the stage models of internationalization, Rao and Naidu (1992) and Naidu and Rao (1993) suggest that there are some exporters which engage continuously in the export market and look for expansion, while others are occasional exporters. Naidu and Prasad (1994) have presented a conceptual model of export strategy and performance, where they unveiled that "continuous" and "sporadic" exporters are the outcome of the different dimensions - that is, regular exporters are favored by their stocks of competencies, degree of management's preference to internationalize and strategic orientations. By using Miles and Snow (1978) and Snow and Herbenik's (1980) strategy-focused typologies of the firm, Naidu and Prasad (1994) suggest that "prospector" firms are more likely to be regular exporters than the "reactor" type of firms. In their discussion of international market exit processes, MatthysSENS
and Pauwels (2000) comment that “discontinuity drivers” are diverse, and Katsikeas and Morgan (1994) suggest “internal drivers”, while Kedia and Chhokar (1986) suggest “external drivers”. This literature confirms the hypothesis that the firms which successfully handle these diverse discontinuity drivers related to export marketing have been sufficiently successful and survive in the international market with certain continuity. This further suggests that firms need to have certain capabilities to continue in the international market, which may or may not be similar to the capabilities required in their international entry phase. Helfat and Lieberman (2002) argue that combining the resources and routinizing the organizational processes make up the capability for expansion, while different forms of expansion and markets ask for different sets of resources and capabilities. Tallman and Fladmoe-Lindquist (2002) propose that international expansion relies more on, “corporate-level architectural capabilities” than “business-level component capabilities”.

A firm’s initial entry into the international market could be proactive, reactive, merely accidental or adventurous (Li and Cavusgil 1995). Each of these forms of entry is associated with a greater amount of risk. In the entry phase, the firm tries to leverage its basic operational capabilities in the foreign market, so that it can test and learn the appropriateness of its existing resources and capabilities within the context of the new market and its institutions. Basic operational capabilities include functional capabilities (Amit and Schoemaker 1993), which are necessary for the firm’s existence in the industry and its compliance with the broad requirements of the particular industry, such as technology, human resources, and organization and marketing capabilities.

International expansion calls for balancing the dynamic tensions between the firm’s competencies and the institutions, culture, market and technology in the targeted destinations. International expansion is also associated with capability possession, deployment and upgrading (Amit and Schoemaker 1993). Zollo and Winter (2002) comment that an intra-firm variation–retention–replication cycle takes place in the organizational routine, generating modified routines, leading to the transformation of capabilities (Lavie 2006). Lavie (2006) also suggests that an intermediate response to the change is supposed to involve objective-driven capability transformation, where some routines get modified or discarded and some new routines are acquired, which finally results in a transformed set of the organizational capabilities.

THE ORGANIZATIONAL CAPABILITIES FRAMEWORK

The Basic Operational Capabilities

Operational capabilities are developed through productive and unique deployment of both tangible and intangible resources – that is, what a firm can do particularly well with their resources (Penrose 1959; Andrews 1971; Wernerfelt 1984; Rumelt 1984). Rugman and Verbeke (2003) define “firm-specific advantage” (FSA) as the unique capability of the organization which could be the product, process, technology, marketing and distribution skills. Treacy and Wiersma (1993) categorize three valuable functions as the firm’s operational capability: operational excellence, customer intimacy and product leadership. In this chapter, the basic operational capabilities (BOC) represent the basic set and the amount of particular task-specific competences that are necessary for the firm to run its day-to-day operations. Based on Treacy and Wiersma (1993), human resources and organizational routine, technology and marketing capabilities have been identified as the BOC. A firm needs to possess a certain amount of these capabilities irrespective of its growth phase.

Post-Entry Expansion Capabilities: The Higher-Order Capabilities

In the post-entry phase, the firm needs the capabilities that will facilitate the reconfiguration of its basic operational capabilities to make it compatible with the changes in its external environment. Winter (2003) identifies this capability as the strategic substance of patterning that the organization designs and delivers in response to the market and stakeholders. This pattern develops in the firm through the complex and long-run interaction between the entrepreneurs’ and managers’ philosophical position and behavioral procedures and the organizational learning cycles (ibid.). Athreye et al. (2008) suggest that this capability of the firm is a higher-order capability in comparison to its operational capabilities. Winter (2003) describes the higher-order capability as first-order change capabilities, consisting of the capacity for search and learning and to create new zero-order (static) capabilities.

Zahra et al. (2001) note that the firm’s international expansion is guided by the management of formal and informal entrepreneurship, learning and cultural adaptations as well as integration of the firm’s operations with its learning and cultural adaptation. Verona and Ravasi (2003) explored whether organizational culture is among the drivers (actors, physical resources, structure and system) that facilitate knowledge
creation and absorption, knowledge integration and knowledge reconfiguration in the organization, which help the firm to compete in the dynamic environment. Zollo and Winter (2002) explain that the firm’s possession of deliberate mechanisms that facilitate the accumulation of experience, scanning the external environment, codifying them and turning them into knowledge represents the firm’s special capability, which helps the firm to reconfigure its operating system in the wake of the changes in its operating environment. Grant (1996) notes that setting directions and routines facilitates the integration of the firm’s capabilities and their application to the competitive environment. Devinney et al. (2000) argue that in the globally competitive environment, a firm’s market outreach success and efficiency depends on its directions and routines for global integration, local responsiveness and determination to complete the transaction. All of these arguments lead us to the development of a set of higher-order capabilities including entrepreneurial orientation, global mindset (summarized as the organization’s cultural milieu), market-based learning and market positioning strategy. These concepts are further discussed below.

Organizational Cultural Milieu (OCM)

Moran and Volkwein (1992) suggest that the organizational climate consists of attitudes and values alone, whereas culture exists as a collection of basic assumptions in addition to the attitudes and values. In the conclusion of his review of the influential literature of the 1970s relating to organizational climate, Denison (1996) commented that organizational climate includes: (1) multiple perceptual measurement of organizational attributes; and (2) multiple measurements of organizational attributes combining perceptual as well as objective measurements. This chapter has adopted Moran and Volkwein’s (1992) and Denison’s (1996) versions of the concept of the organizational climate to define OCM. OCM has been perceived as the combination of the two concepts that lie between the personal and organizational dimensions and are quite difficult to separate: that is, entrepreneurial orientation (EO) and global mindset (GM).

Entrepreneurial Orientation (EO)

Miller (1983) has explained EO in terms of three dimensions: innovativeness (inclination for newness), proactiveness and risk-taking (moderate risk-taking). Lumpkin and Dess (1996, 2001) have added other dimensions including autonomy and competitive aggressiveness. Miller’s (1983) framework has been widely tested in a number of studies on entrepreneurial behavior, and also in other areas such as corporate strategy (Hitt et al. 2002) and marketing (Stokes 2000). Although there is a large volume of research on EO and it has been measured from the perspective of the individual’s intention, a number of researchers point to the difficulties with or the incompleteness of such measurements. Woo et al. (1991) have noted the difficulties of identifying EO from the firm’s perspective, as there is non-compatibility between personal and firm attributes. Ripollés-Melià et al. (2007) have applied Miller’s (1983) version of EO from the firm’s perspective in order to explain the relationship between EO and internationalization. This chapter relies on Foss and Klein’s (2005) argument to view EO from the firm’s perspective. It defines EO based on Miller and Friesen’s (1983) and Miller’s (1983) dimensions.

Global Mindset (GM)

GM has both individual and corporate perspectives. Jeannot (2000) defines global mindset as an enabled state of mind to understand a business, an industry, a sector or a particular market on a global basis. Maznevski and Lane (2003) describe GM as the ability to develop and interpret the criteria for personal and business performance independent of assumptions in a single country, culture and context, and to implement the criteria appropriately in different countries, cultures and contexts. Paul (2000) considers that the corporate mindset is the aggregate mindset of all of the members of the organization shaped by the organization’s heritage, structure and industry drivers, which are quite difficult to measure (Dekker et al. 2005). Begley and Boyd (2003) state that a corporate-level GM refers to how firms balance their organizational processes for global and local priorities, requirements and challenges, such as balancing among global formalization versus local flexibility, global standardization versus local customization, and dictating global authority versus delegating to local levels. With particular reference to internationalization, the corporate-level global mindset has been mostly characterized by measuring the managerial attitudes toward internationalization (Dekker et al. 2005). Nummela et al. (2004) have measured the firm-level global mindset with multidimensional perceptual constructs (e.g. proactiveness, commitment to internationalization and international vision) focused on the international market, which are also adopted in this chapter.

Market Positioning Strategy (MPS)

Atuahene-Gima (1993) conceptualizes marketing capability as the exploitation of several organizational processes by firms in order to reach their target customers with value-added products and services. This capability
is woven into the strategy (Scheurer 2005) and demonstrated through skilful execution of specific activities (Grant 1991). Marketing strategy is the pattern of deployment of resources (capabilities) at the business unit level with a view to achieving predefined marketing objectives in the target market (Varadarajan and Clerk 1994). Kotler (1991) identifies marketing strategy from the perspective of core decisions relating to marketing mix, marketing allocations and budgets. A marketing strategy is considered "standardized" when a common product, price, distribution and promotion program is offered on a worldwide base (Jain 1989). Özsomer and Simonin (2004) define standardized market positioning programs as the pursuit of similar marketing programs across different countries or regions with regard to product offering, promotional mix, price and distribution structures. This chapter adopts Özsomer and Simonin's (2004) view as its operational definition of standardized marketing strategy.

Market-Based Learning (MBL)

MBL refers to an organization's development of knowledge learned from competitors and markets, and its interactions with the markets, that may be created from, and stored in, the behavioral routines, generated through various information processes and enhanced by distinctive organizational values (Morgan and Turnell 2003). Morgan (2004) defines MBL as an organizational learning framework combining the learning of organizational values, capabilities, processes and behaviors for facilitating a dynamic fit between the organization and its marketplace environment. This chapter adopts Morgan (2004)'s view of MBL. At the operational level, this research defines marketplace environment with three components: knowledge relating to customer and competitor (Li et al. 1999) as well as institutions (Blomstermo et al. 2004).

METHODOLOGY

This chapter is the result of four separate research projects carried out in Ethiopia, Bolivia, Vietnam and Bangladesh between 2007 and 2008. In the first phase, the empirical research was carried out in the respective countries to test the roles of the BOC in the international market and the entry and post-entry success of firms in the respective countries. Table 7.1 presents the brief description of the features of the empirical research.

In the first phase, a structured questionnaire was designed and admin-

<table>
<thead>
<tr>
<th>Table 7.1 Firm samples in the first phase of the research</th>
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<tbody>
<tr>
<td><strong>Industry</strong></td>
</tr>
<tr>
<td>Leather processing</td>
</tr>
<tr>
<td>Jewelry</td>
</tr>
<tr>
<td>Wooden furniture</td>
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<tr>
<td>Bangladesh</td>
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</table>

istered through personal face-to-face interviews with the respondents.

For the interviews in Ethiopia, Bolivia and Vietnam, a group of advanced MBA students from the respective countries were trained through a special workshop on this research project, including the concepts associated to this research and the technique of data collection through face-to-face personal interview. Subsequently, they interviewed the respondents with the questionnaire, and the questionnaires were filled out by the interviewers. In the case of Bangladesh, the researchers personally interviewed the respondents and filled out the questionnaire. The respondents were selected based on the best judgment of the researcher—that is, judgmental sampling (Zikmund et al. 2010). Judgmental sampling was judged to be the optimum technique, as the focal countries are widely known to possess an extremely low density of appropriate and functioning institutions (Grim and Andrews 1985). Firms in the countries are widely dispersed in terms of their geographical location, size and the existence and quality of formal management structures and practices. The choice of judgmental sampling technique allowed the researcher to gain access to the optimum number of firms, which were assumed to possess the relevant capability structure and people to participate in this research. It also allowed the researcher to control for the potential size bias of the participating firms in a deterministic way. In this phase, the survey and the interviews concentrated on generating the information relating to the constructs and components, as highlighted in Table 7.2.

For this research, Welch and Luostarinens' (1988) concept of firm internationalization—that is, the process of internationalization is the outward movement in an individual firm's operation—was adopted. Jones (1999) elaborated on the forms of internationalization in small firms based on Welch and Luostarinens (1988). Jones (1999) defined internationalization of the firm based on the cross-border linkages including different forms of outbound and inbound linkages. Jones included direct exporting
Table 7.2 Description of the constructs and measurements in the first phase of the survey

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Components</th>
<th>No. of measures</th>
<th>Type of measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic operational capability (BOC)</td>
<td>• Human resources and organizational routines • Technology • Marketing</td>
<td>8</td>
<td>Ordinal</td>
</tr>
<tr>
<td>Internationalization (first-time entry in international market)</td>
<td>• Outward linkage (exporting directly to overseas) • Inward linkage (only manufacturing for certain overseas buyers)</td>
<td>1</td>
<td>Dichotomy</td>
</tr>
</tbody>
</table>

from the home base in the outbound linkage category, and manufacturing in the home country for overseas firms in the inbound linkage category. The current research has adopted Jones’s conceptualization of internationalization. The Bolivian and Bangladeshi firms export directly to the overseas buyers, and their internationalization was measured with “being or not being exporter”. The Vietnamese and the Ethiopian firms are mainly contractual producers for foreign buyers and their internationalization was measured with “growth of the manufacturing business with the overseas buyers”.

In the first phase of the research, it was not clear how many Bangladeshi and Bolivian firms would register post-entry international expansion in terms of the number of export destinations. For the Ethiopian and the Vietnamese firms, the number of export markets was an irrelevant idea. It was plausible that some of the firms from the four countries would feel the urge for proactive post-entry expansion into their international markets. In the open-ended, unstructured discussion about the required capabilities for post-entry expansion, the researcher checked the validity of the conceptualization of the higher-order capabilities and explored the possibility of doing further quantitative research on the issue.

After the completion of the first phase, it was found that only four Bolivian firms were proactively expanding to new, different export destinations. The Bangladesh pharmaceutical industry presented a very encouraging picture as it was exporting generic finished formulations to 69 country markets in Africa, Asia, South America and Europe. The Bangladesh Association of the Pharmaceutical Industries (BAPI) and the key managers in the industry estimated that 40 firms were in export operation in 2007, and among them at least 30 firms had been exporting to at least more than three export markets for the last three years (2005, 2006 and 2007). Based on this information, 30 firms from the pharmaceutical industry were surveyed in the second phase, with a structured questionnaire administered through personal face-to-face interviews with the mid-level functional managers. Forty exporting firms were identified through discussion with the key managers in the pharmaceutical industry of Bangladesh and the Export Promotion Bureau (EPB) Bangladesh. Each of the indentified firms was contacted by the researcher with an invitation to participate in the interview, and 30 firms responded positively to the invitation. This phase of the research was devoted to exploring the possible relationship between higher-order capabilities of the firms and post-entry international expansion. Table 7.3 presents the summary of the constructs and measurements used for the second phase of the research.

The results of the research carried out in the second phase also serve to validate the qualitative insights generated in the first phase over the issue of the firms’ post-entry international expansion.

Table 7.3 Description of the constructs and measurements in the second phase of the survey

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Components</th>
<th>No. of indicators</th>
<th>Type of measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization cultural milieu (OCM)</td>
<td>• Managerial global mindset • Entrepreneurial orientation</td>
<td>5</td>
<td>Ordinal</td>
</tr>
<tr>
<td>Market-based learning (MBL)</td>
<td>• Customer learning • Competitor learning • Institution learning</td>
<td>4</td>
<td>Ordinal</td>
</tr>
<tr>
<td>Marketing program (MP)</td>
<td>• Pricing • Promotion and customer service • Channel management</td>
<td>2</td>
<td>Ordinal</td>
</tr>
<tr>
<td>International expansion (post-entry expansion)</td>
<td>• Number of export destinations</td>
<td>1</td>
<td>Ratio</td>
</tr>
</tbody>
</table>
Table 7.4 Correlations summary

<table>
<thead>
<tr>
<th></th>
<th>Ethiopia</th>
<th>Bolivia</th>
<th>Vietnam</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOCs</td>
<td>Inward</td>
<td>Outward</td>
<td>Inward</td>
<td>Outward</td>
</tr>
<tr>
<td></td>
<td>linkage</td>
<td>linkage</td>
<td>linkage</td>
<td>linkage</td>
</tr>
<tr>
<td></td>
<td>0.533*</td>
<td>0.547*</td>
<td>0.708**</td>
<td>0.724**</td>
</tr>
<tr>
<td>Human resources and organizational routines (HROR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological capability (TC)</td>
<td>0.015</td>
<td>0.746*</td>
<td>0.673**</td>
<td>0.694**</td>
</tr>
<tr>
<td>Marketing capability (MC)</td>
<td>0.522**</td>
<td>0.702**</td>
<td>0.402*</td>
<td>0.629**</td>
</tr>
</tbody>
</table>

Notes: * <0.05 (two-way); ** <0.01 (two-way).

RESULTS AND DISCUSSIONS

The results of the bivariate correlation analysis, presented in Table 7.4, of the respective country cases show that most of the BOCs present a medium- to high-level relationship with internationalization of the firms.

As shown in Table 7.4, export growth has significant correlations with technological capability with the firms’ inward or outward internationalization for three countries, except for Ethiopia. The interviews with the Ethiopian managers revealed that the Ethiopian leather processors manufacture quite standardized products (wet blue leathers, pickled leathers and so on), which are the intermediate products for the leather-goods producing firms. Technological requirements of such leather processing are minimal and standardized.

The Bangladeshi and Bolivian firms are the original equipment manufacturer (OEM) suppliers. For the Bangladeshi and Bolivian firms, marketing capability plays a significant role in their competitiveness. Marketing capability has also demonstrated a significant relationship for the internationalization of the Ethiopian and Vietnamese firms. Although the Ethiopian and Vietnamese firms are OEM suppliers, they still face competition in securing buyers in the international markets, and their corporate marketing capability makes a difference in their international growth.

The summary of the discussion with the managers from the Ethiopian, Bolivian and Vietnamese firms about their experiences and plans for post-entry expansion in the international market has revealed different obstacles relating to post-entry international expansion. The Vietnamese wood industry firms’ post-entry expansion is quite different from that of the other two cases. The Vietnamese firms’ expansion is aimed mainly at increasing the number of larger bulk buyers, which are mainly the chain stores in the United States (US), European Union (EU) and Japanese markets. Vietnamese managers have reported that they were receiving more new inquiries from buyers without much of their own investment in searching for the buyers. The Chinese, Italian and Polish export- ers dominate the world wooden furniture market. International buyers are looking to have some buffer against their increasing dependence on Chinese suppliers. These buyers are also interested in retaining the comparative cost advantage in sourcing, which is difficult with Italian or Polish alternatives. These buyers find the Vietnamese suppliers to be the best possible alternative to the Chinese suppliers. For their international expansion, Vietnamese suppliers mainly concentrate on upgrading their capabilities by installing new and more efficient technologies, and making the organization and their management of their operations more efficient and responsive to international demand. The Vietnamese managers have revealed that they tracked the requirements of the different buyers and tried to upgrade their technological and management set-up to enable them to work for a larger group of buyers.

The analysis of the post-entry international expansion of the Bolivian jewelry firm Exportadores Boliviano (EB) revealed primarily that its managers’ positive frame of mind toward the growth in the international market helped the firm to expand its market quickly. EB has also put significant effort into designing its products and promotional mix to attract a larger variety of markets.

The insights from the case analysis of the post-entry international expansion of the three Ethiopian leather product firms – Komolcha, Tikur Abay and Taytu – revealed that their managers’ positive and proactive mindset toward the international expansion of their business has made a difference among the firms in their post-entry international expansion. They reported that they could not realize their optimal international expansion potential as they were very much engaged with a limited number of big buyers, and they had a limited idea of the diversity of the consumer markets and their requirements. The Ethiopian firms felt that they had to have some strategy and knowledge in order to rearrange or upgrade their current resources and technology (e.g., standardizing their operation) to enable them to respond to diverse international market requirements.

The insights of the individual cases strengthen the argument that general operational capabilities (e.g., human resources and organizational routines, technology and marketing) need to be supplemented by some other capabilities, which are more firm-specific and complex, in order to manage the firm’s post-entry international expansion. Table
Table 7.5  Bivariate and partial correlations results for the relationship between higher-order capabilities and post-entry international expansion

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Influences of control variables on correlation with dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of export markets reached</td>
<td>Age (years in business)</td>
</tr>
<tr>
<td>Independent variables</td>
<td></td>
</tr>
<tr>
<td>Organizational cultural milieu (OCM)</td>
<td>0.82**</td>
</tr>
<tr>
<td>Market positioning strategy (MPS)</td>
<td>0.48**</td>
</tr>
<tr>
<td>Market-based learning (MBL)</td>
<td>0.76**</td>
</tr>
</tbody>
</table>

Note: ** <0.01 (two-way).

7.5 presents the results of the survey carried out in the second phase for exploring the possible effects of higher-order capabilities on post-entry international expansion of the pharmaceutical products exporting firms in Bangladesh.

The positive and significant bivariate correlation results in Table 7.5, with respect to the relationship between the post-entry international expansion of the pharmaceutical firms from Bangladesh and market positioning strategy (MPS), market-based learning (MBL) and organizational cultural milieu (OCM), confirm that higher-order capabilities are strongly related to post-entry international expansion. This statistically significant result confirms the insights of the case studies from the Vietnamese, Ethiopian and the Bolivian firms, where the managers revealed the necessity for some type of wide, open and proactive mindset; experiential knowledge of the markets; and appropriate strategies and programs to serve different international markets with different characters.

The Bangladeshi pharmaceutical industry has primarily developed as a domestically focused industry since 1982. Firms have focused on developing their manufacturing capabilities by investing in the acquisition of processing and quality assurance technologies in order to compete with the multinationals in the domestic market of Bangladesh. Firms have also invested in developing their marketing capabilities to consolidate their positions in the domestic market. The new regulations in the Drug

Ordinance 1982 reduced the scope of operations for multinationals in Bangladesh and opened up more opportunities for local entrepreneurs, which caused a large number of new entries in the industry and intensified the competition. The focus of the firms was to develop superiority in their marketing capabilities, so as to achieve quick repayments for their large investments in technology and expanded facilities. The expansion of the domestic scope and competitive rivalry in the market pushed the Bangladeshi local firms to further improve their competitive advantage by investing in building better organization and developing managerial capability. The market for experienced and potential managers became highly competitive. The domestic market grew encouragingly over time along with the investment made by the firms.

In the late 1980s and the 1990s, domestic firms wanted to leverage their homegrown capabilities in other markets in order to ensure quicker repayment of their investments as well as to diversifying their revenue portfolios. The opening up of the former restricted markets in Central Asia and in Central and Eastern Europe, and the adoption of liberal policies in other markets in the 1990s, encouraged the domestically focused Bangladeshi firms to think outside of the metaphorical box. Although internationalization had started earlier with involvement in the neighboring countries of Nepal, Myanmar and Sri Lanka, the local Bangladeshi firm Beximco Pharmaceutical formally exported the first consignment of pharmaceutical products to Russia and Ukraine and to the European market in 1994. Currently, Bangladeshi firms are exporting their products to 72 countries including African, South American, Asian and European countries. On average, exporting firms serve eight export destinations, with a minimum of three and a maximum of 30 markets served.

These significant post-entry international expansions have been attributed to higher-order capabilities. The firms are operating in diversified export markets in terms of the institutional and regulatory environment, business practices, diverse cultural and economic conditions and preferences, and the intensity of competition. Bangladeshi firms' homegrown capability of efficient and cost-effective production is their core operational capability which they have exploited in their export markets, even if they have had to reconfigure their operational capability to match the context. The firms' capability to develop an adaptive and at the same time "ready to take risks and exploit" frame of mind has helped them to enter into new markets in a serial manner. It also helped the firms to achieve compatibility with the local institutional, cultural and business requirements, and to make the necessary adjustments to their operational capabilities. The Bangladeshi firms' priority in developing a proactive learning system and integrating the learning with the operation
helped them to focus and decide what to add to, or cut back from, their operational capabilities in order to be competitive in and compatible with the requirements of their markets. Bangladeshi exporters have combined their intangible and operational capabilities in the package of market positioning strategies to reach their clients (in pharmaceutical marketing, “clients” refers to the physicians and the pharmacists) and consumers in the marketplace. This strategic determination represents building combinatorial and complex capabilities in the firms.

The partial correlation results in Table 7.5 also confirm Barney’s (1991) notion that a firm’s resources that contribute to its sustained competitive advantage involve causal ambiguity, complex social interactions and historical path-dependency in its development. Particularly, the intangible assets of the organization are the product of repeated transactions and the development of routines in the form of patterns of action, which are often not codified and tacit (Karim and Mitchell 2000). The firm’s age is a proxy for path-dependency and accumulation of learning in the organization (Sapienza et al. 2005). Organizational learning facilitates the generation and exploitation of knowledge, creation of the organizational identity and achievement of competitive advantage (ibid.). The firm’s total stock of assets at a point in time, both tangible and intangible, contribute to the capability building in the firm and are moderated by the resource integration process (routines) employed by the firm (Tuan and Takahashi 2009). Del Canto and Gonzalez (1999) used employee size as a proxy for the firm’s assets. Table 7.5 shows that the firm’s age and size, individually and combined, influence the relationship between OCM, MPS and MBL. This explains why the post-entry international expansion of the Bangladeshi firms is driven by the capabilities which were developed by following a historical path and through accumulation of learning in the firms. The path-dependency and accumulation of learning are the results of the socially embedded complex interaction of the firm and its key managers with different internal and external agents. Such accumulated knowledge and learning, which are non-task-specific in nature, have contributed to the post-entry international expansion of Bangladeshi pharmaceutical firms.

When the insights of cases from Vietnam, Bolivia and Ethiopia, and the statistical results from Bangladesh, are interpreted from the common perspective of post-entry international expansion, it can be argued that conceptualization of a universal set of capabilities for firm internationalization is quite myopic. Capabilities relating to internationalization of firms are specific to the phases of internationalization, since different phases contain a different set of challenges when compared with one another.

CONCLUSION

This research has concentrated on the configuration of the capabilities that a firm should possess for its internationalization. The strength of this research is in conceptualizing different capability sets corresponding to different phases of firms’ internationalization. The results of the empirical research confirm that such conceptualization is an addition to the efforts toward the development of alternative capability-based interpretation of firm internationalization. Besides the integration of different theoretical perspectives, differential capability-focused interpretation of the internationalization of the firms can be helpful to managers for setting their resource development strategy and deployment priorities while internationalizing their firms. Our multi-country, multi-industry and multi-method results presented in this research set a path for further advancement of the existing knowledge about firm internationalization. This research is based on an arbitrarily drawn set of higher-order capabilities. This set could be reviewed further to refine a capability-based interpretation of firms’ internationalization.

This research’s proposition of basic operational capabilities and higher-order capabilities has the potential to be used as a managerial guideline for making investment decisions in regard to internationalization of the firms. It could help managers to set their priorities and identify which capabilities are to be developed in which phase for expanding their firms in the international market. Export promotion policies practiced by developing countries that are heavily focused on fiscal and financial packages should be complemented by firm-level capability-building programs. In regard to firm-level capability building, the conceptual arguments and findings of this research could help policy designers and policy support practitioners to assess which groups of firms need what type of capability-building program in order to increase competitiveness at the firm and industry levels.

NOTES

1. South Korea, Taiwan, Singapore, Hong Kong and Malaysia
2. Henderson and Cockburn (1994) describe these capabilities as “component competences” while Collis (1994) describes them as “functional capabilities”.
3. Schook et al. (2003) have presented a good review on this discussion.
4. Lumpkin and Dess (1996) incorporated “innovation” and “risk taking”; and Lee et al. (2001) incorporated “proactiveness” in their work on entrepreneurial orientation.
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