Overcoming Cultural Ignorance

Institutional Knowledge Development in the Internationalizing Firm

Jessica Lindbergh
ABSTRACT


This thesis studies how experiences influence the development of institutional knowledge within business relationships. It contributes to international business research by clarifying how experience affects development of knowledge and what outcome such knowledge development has on firms’ internationalizations. The thesis identifies a need to distinguish between different types of experiences when investigating institutional knowledge development. In addition, the thesis compares different types of knowledge with institutional knowledge as to understand how firms learn to overcome cultural ignorance.

The empirical setting consists of quantitative research of small- and medium sized firms. The findings show that market-specific experiences increase a firm’s institutional knowledge whereas experiences of multiple markets contribute to the firm’s perception of a greater need of institutional knowledge when conducting business with their specific partner. However, these experience effects are influenced by firms’ modes of handling the business relationship and moderated by cultural distance. Although, experiences of multiple markets lead to increased complexity and need for institutional knowledge the results show that such experiences contribute to the development of competence to manage business in foreign institutional environments. In addition, the findings show that firms with an ability to adapt their business also have knowledge about a country’s institutions and the customer.

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INTRODUCTION

International business inevitably means that firms engage in transactions in countries that more or less differ from their domestic markets. For example, countries may have different regulations regarding quality standards for products and firms’ liability toward customers. Countries may also differ in norms and values, such as what is a socially acceptable business practice. For instance, what may be considered a bribe in one country may be regular practice (and not associated with negative connotations) in another country. Regulations, norms, and values are parts of a country’s institutions (Kostova & Zaheer, 1999; North, 1990; Scott, 1995) and are shaped by the society’s culture (Meyer, Boli, & Thomas, 1987). Institutions have been portrayed as complex and fragmented (Thompson, 1967) and can seem difficult to understand from the perspective of the foreign firm (Kostova, 1999) because culture, by its very definition, is what distinguishes the members of one category of people from another (Hofstede, 1984, p. 389). That institutions differ from country to country are often obstacles for the internationalizing firm (c.f. Globerman & Shapiro, 1999; North, 1990), thus increasing the risk of foreign market investments. With the purpose of facilitating economic trade and cooperation among countries, different actors such as governments, the European Union, and the World Trade Organization are making an effort to establish transnational rules and regulations. For the individual firm, it becomes important to increase its knowledge about institutional differences that is, to develop institutional knowledge. In this study, institutional knowledge is defined as knowledge about cognitive, normative, and regulatory institutions in a foreign market.

Within the international business literature, numerous research studies acknowledge that institutional knowledge is an influential factor for the success of the internationalizing firm (c.f. Barkema, Shenkar, Vermeulen, & Bell, 1997; Davidson, 1980; Johanson & Vahlne, 1977; Kogut & Singh, 1988). For instance, a lack of institutional knowledge about a foreign country is costly for firms (e.g., Eriksson, Johanson, Majkgård & Sharma, 1997), can create managerial problems (Fenwick, Edwards, & Buckley, 2002), or even lead to major consequences, such as a market withdrawal (O’Grady & Lane, 1996). Despite its importance, few studies have investigated how firms develop institutional knowledge (see Barkema, Bell, & Pennings, 1996; Eriksson et al., 1997, 2000; Pedersen & Petersen, 2004, for notable exceptions).

Consequently, how do firms develop knowledge about these, at times elusive, institutions? A theoretical framework that emphasizes the role of knowledge development is the
internationalization process (I-P) model\(^1\) (Johanson & Vahlne, 1977). This process model, with its roots in the behavioral theory of the firm (Cyert & March, 1963) and the theory of the growth of the firm (Penrose, 1959), assumes that firms, which initially lack knowledge concerning differences in foreign markets, will adopt an incremental internationalization behavior in order to minimize risks and avoid uncertainty (Johanson & Wiedersheim-Paul, 1975). As a consequence, it is argued that firms tend to choose countries that are well known and with similar institutions as found in their home markets (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Firms gradually develop knowledge from each individual business activity in a foreign market, and this way of overcoming cultural ignorance is a result of knowledge developed from experiences (Johanson & Vahlne, 1977; Penrose, 1959).

Because firms wish to avoid uncertainty and initially lack foreign market knowledge, the I-P model claims that firms expand operations in small sequential steps, starting with no regular export activities and gradually increasing their commitment to the market and finally setting up a manufacturing subsidiary (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). This outcome of sequential steps, also known as the establishment chain (Johanson & Wiedersheim-Paul, 1975), has been heavily criticized because empirical research has shown that the establishment patterns of firms are less restricted than proposed by the model (Björkman, 1989; Hedlund & Kverneland, 1985; Turnbull, 1987; Welch & Loustarinen, 1988). Even though firms use a variety of establishment patterns when internationalizing, a growing body of research shows that firms gradually develop knowledge from experiences (Barkema et al., 1996; Barkema et al., 1997; Barkema & Vermeulen, 1998; Delios & Beamish, 1999, 2001; Eriksson et al., 1997; Hitt, Dacin, Tyler, & Park, 1997; Madhok, 1996; Zahra, Ireland, & Hitt, 2000). Thus, the model’s fundamental argument that knowledge is developed through experience is generally supported in internationalization research.

Despite the fact that numerous research studies concur with the model’s main argument, the experiential learning literature sometimes presents confusing and unclear results concerning knowledge development based on experience. For instance, it has been found that a firm’s innovative capacity decreases if it has experience in diverse markets (Hitt, Hoskisson, & Kim, 1997), suggesting that organizational constraints may inhibit knowledge development. Previous research has also shown that the perception of risk and uncertainty may increase as the firm’s

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\(^1\) The model is also referred to as the Uppsala School model or the Uppsala stage model in the literature.
knowledge grows (Welch & Wiedersheim-Paul, 1980). In addition, Pedersen and Petersen’s research (2002) gives a diversified picture of firms’ cultural learning and where market-specific experience may not necessarily decrease firms’ cultural ignorance. This finding implicitly questions the I-P model’s somewhat mechanical view on knowledge development, arguing that a firm’s experience continuously increases knowledge. Furthermore, research has found that experiential knowledge is not only one type of knowledge, as illustrated in the I-P model and generally assumed in subsequent behavioural-oriented research, but also consists of several different kinds of knowledge (Eriksson et al., 1997). In addition, Delios and Henisz’s (2003) study showed that it is important to distinguish between different types of experience when studying internationalization because they may have different implications for the development of knowledge. Hence, these varied findings need clarifying. The discussion also suggests that the I-P model may not provide sufficient answers in terms of how firms develop institutional knowledge and would thus benefit from further conceptual and empirical development.

Because a country’s institutions are devised and maintained by the country’s inhabitants (Berger & Luckman, 1971), it is reasonable to assume that a firm’s business relationships will be important for the development of knowledge about foreign institutions. In a similar vein, Shenkar (2001) states that differences between countries are really only of interest in terms of the interaction between firms. Such inter-firm interaction often takes place within the frame of relatively long-lasting business relationships, which also constitute the primary conduit for learning about foreign markets (Blankenburg-Holm, Eriksson, & Johanson, 1996; Chen & Chen, 1998; Eriksson, Hohenthal, & Johanson, 1998; Forsgren, 2002; Johanson & Mattsson, 1988; Johanson & Vahlne, 1990, 2003; Lindstrand, 2003; Toyne, 1989). The development of institutional knowledge should thus be studied within the context of specific business relationships.

PURPOSE

This thesis aims to contribute to international business research by clarifying how experience develops the institutional knowledge of firms and what outcome such knowledge development has on firms’ internationalizations. This thesis also takes into account that interactions in business relationships are the central unit of analysis for institutional knowledge development. More
specifically, the purpose of this thesis is to investigate how experiences influence institutional knowledge development within business relationships and, thus, provide an answer to how firms learn to overcome cultural ignorance.

The thesis has some limitations. First of all, there are, of course, other ways a firm can obtain foreign market knowledge, such as acquiring a local unit or adopting a mimetic behavior (Forsgren, 2002). The focus of this study is, however, firm experience. The thesis investigates small- to medium-sized firms. Large multinational corporations (MNCs) are often complex organizational structures (Gupta & Govindarajan, 2000), and because I wish to clarify the process of knowledge development and strive to minimize aspects that confound such a process, small- and medium-sized firms are appropriate targets.

The summary is organized as follows. Firstly, the main concepts and theoretical frameworks used in this study are presented. Based on the literature review, a model is formulated on knowledge development resulting from the firm’s past and current activities in different foreign markets. Then a presentation of the empirical work and the papers will follow. Finally, concluding remarks and suggestions for future research are presented.

THEORETICAL ASSUMPTIONS

THE LEARNING PROCESS OF INTERNATIONALIZING FIRMS

The internationalization process of firms

The reason why a firm’s experience has a decisive impact on knowledge development concerning foreign market institutions is found in the I-P model (Johanson & Vahlne, 1977). This model rests on the assumption that the decision process is distinguished by bounded rationality because management cannot obtain all the information about a market, and, thus, the firm’s actions are constrained because of a limited ability to process information (Cyert & March, 1963). Firms make incremental adjustments to changing conditions within the firm and the environment because of this information processing limitation (Ahoroni, 1966). There are other process-oriented internationalization models, such as the Innovation-Related Internationalization models, that also consider the relationship between a firm’s knowledge and cultural differences (e.g.,
Bilkey & Tesar, 1977; Reid, 1981). However, the I-P model is considered less time and space dependent and, thus, has a higher generality than the Innovation-Related Internationalization models (Andersen, 1993).

The I-P model proposes that the firm's learning process shapes its internationalization behavior, where increased commitment in a market will lead to increased knowledge that may subsequently lead to new commitments in that particular market. This learning process suggests that an internationally inexperienced firm tends to choose a low commitment mode, such as exporting, when entering a new country. Thus, it is the firm’s activities in a market that is of importance to the firm's learning process because it provides the firm with experiential knowledge (i.e., knowledge from experiences made in the market) (Penrose, 1959). The experiential knowledge cannot be taught or articulated, and is embedded in experiences of specific situations. This type of knowledge is argued to be much more valuable to a firm compared with knowledge generated from market research information, for example, because it provides the firm with a framework for perceiving and formulating opportunities; as a result, the firm learns how to “do business” in that specific market (Johanson & Vahlne, 1977). The inexperienced firm’s lack of foreign market knowledge also has consequences on its location choice. The model proposes that a firm’s lack of knowledge is greater in markets with institutions that significantly differ from the institutions in the firm’s home market. Consequently, firms tend to enter countries they perceive as similar to their home market. As they gain experience, they gradually enter markets with a greater degree of institutional differences.

To summarize, the I-P model suggests that knowledge development is characterized by a positive linear relationship between the accumulation of experience and the firm’s knowledge (i.e., the more experience, the more knowledge). A firm initially lacks knowledge of how to conduct business in a foreign market but gradually builds up its knowledge through foreign market experiences. This somewhat simplified description of knowledge development does not, however, hold up under all circumstances. It is suggested that a firm’s experience in a dynamic environment may very well lead the firm to perceive a new context with increased uncertainty and once again a lack of knowledge (Johanson & Vahlne, 1977 pp. 58–59).

Despite what can be considered a general approval of the I-P model in the international business literature, it has not been without criticism. Perhaps the most frequent objections to the model concern the empirical predictions of the model, the establishment chain, and the psychic
distance concept, whereas the conceptual part has been left rather untouched (Forsgren, 2002). This lack of investigation into the conceptual aspect of the I-P model is also recognized by the researchers themselves who state, “Although the internationalization process has captured the interest of many researchers, there have been only a few attempts at developing the concepts” (Johanson & Vahlne, 1990, p. 22).

One such attempt is the empirical work by Eriksson et al. (1997), where the concept of experiential knowledge from the original model was further developed into the following three different types of knowledge: *internationalization knowledge*, *business knowledge*, and *institutional knowledge*. Internationalization knowledge is gained from prior international activities, which is explained as knowing what kind of knowledge the firm needs when internationalizing. The business knowledge and the institutional knowledge are market specific, gained from experiences within that particular market. Business knowledge is experiential knowledge concerning competitors, clients, and the market, whereas institutional knowledge is experiential knowledge of the specific market’s laws, norms, standards, and language. The findings of Eriksson et al. (1997) showed that knowing what the firm is capable of is important for the articulation of necessary market knowledge. Put differently, the knowledge needed for operating in a specific country is difficult to estimate if the firm lacks of knowledge about its capability and resources to conduct international business. In addition to developing the concept of experiential knowledge, the authors found that experiential knowledge can be relevant to all markets and not constrained to one market, as argued in the original model (Johanson & Vahlne, 1977, p. 28). The following section will further elaborate on experience as a generator of knowledge.

**Experience as a source for knowledge**

Learning about other markets may occur in many ways. Indeed, someone may be very knowledgeable about a country through reading the literature or being formally taught, which is often referred to as explicit knowledge (Polanyi, 1969), objective knowledge (Penrose, 1959), or information (Kogut & Zander, 1992). The acquisition of objective knowledge depends on how well this knowledge can be communicated and received by the individual (Penrose, 1959). It does not, however, necessarily mean having knowledge of how to act and do business in a foreign country. Instead, Penrose (1959) suggests that knowledge deriving from experiences, which she
defines as experiential knowledge, creates the knowledge needed to do business. Learning by
doing (Levitt & March, 1988) and know-how (von Hippel, 1988) are other examples of terms
used to describe this type of learning. The development of knowledge from experiences is a
cumulative process, where prior experiences lead to a change in the knowledge structure (Fiske &
dyer, 1985) and generate knowledge that may be applied as firms make resource commitments in
their current, ongoing business (Cohen & Levinthal, 1990; Eriksson et al., 1997; Lane &
Lubatkin 1998).

Based on the internationalization literature, there are two types of experiences that are
considered of importance for the development of knowledge: experiences that are specific to a
market and experiences from several markets. As for market-specific experiences, Penrose (1959)
suggests that much of the acquired experiences from activities are so closely related to the
particular context in which they are generated that they provide value only in that context (p. 53).
A similar reasoning is found in Hayek’s (1945) work, which suggested that the value of the
experiences derived from the activities in a specific market are contingent on the time and place
where it is carried out. Empirically, a number of studies have shown the importance of market-
specific experiences for a firm’s continued activities in a particular market. For instance, a study
by Barkema et al. (1996) showed that when starting a new joint venture, firms benefit more from
previous experience with customers in the same country because the longevity of the joint
venture increases. Delios and Beamish (2001) also confirmed the importance of host country
experience in the subsidiary survival of Japanese firms. When studying international joint
ventures, Barkema & Vermeulen (1997) found that firms with experience from partners in a
particular market increased the propensity to set up a new joint venture, suggesting that the firm
has learned how to cooperate with other firms in that specific market. Others have shown that
performance is increased by culture specific experience (e.g., Davidson, 1980; Luo & Peng,
1999).

On the other hand, engaging in business activities in multiple markets will expose the firm
to a number of different customers and competitors (Johanson & Mattsson, 1988) and a number
of different institutional rules, norms, and regulations (Argyris & Schöen, 1978). Thus, the firm
will be more exposed to a number of events and ideas when engaging in activities in diverse
environments (Huber, 1991), and experience from more situations is expected to increase
knowledge (Bandura, 1986) and lead to better performance of the tasks at hand (Levinthal &
Acquiring international experience in several countries will allow firms to develop rich stocks of knowledge (Barkema & Vermeulen, 1998; Ghoshal, 1987). Subsequently, firms will learn how to handle a variety of issues when conducting business in foreign markets (Eriksson, Johanson, Majkgård, & Sharma, 2000; Mezias & Glynn, 1993), and, as such, international diversification increases the firm’s organizational knowledge (Madhok, 1996), which can be generalized and suited to several markets (Yu, 1990). Research has shown that experience gained from diverse markets develops a general procedural knowledge of how to internationalize (Eriksson et al., 1997). Arguing from a learning perspective, Barkema and Vermeulen (1998) found that international diversity influences a firm’s choice of entry mode. In Lu and Beamish’s (2001) study on previous experience with foreign direct investments and performance, the results showed that firms possessing little experience with foreign direct investment perform poorly at the international level, but the disadvantages of foreignness (Hymer, 1976) decrease when the firms’ experience with operating in diverse countries increases. Erramilli (1991) found that an increase in international experience also leads to entries into markets that are culturally more remote. When studying how diversity influences the accumulation of knowledge Eriksson et al. (2000) found that increasing experience of different markets led to an increase of institutional knowledge, business knowledge, and internationalization knowledge. The results showed, however, that the increase in institutional knowledge and business knowledge only was significant if the firm also had internationalization knowledge.

In this study, I define market-specific experience as experience gained from prior business transactions carried out in a specific country or region. Multiple-market experience, consequently, refers to experience gained from prior business transactions carried out in several countries or regions. Market-specific and multiple-market experiences influence the firm’s knowledge development differently; despite their differences, these two types of experiences may possibly interact and coexist. Instead, they differ in that market-specific experiences illustrate a depth of knowledge about one market, whereas experiences from multiple markets concern more versatile routines of how to engage in international business. The next section will examine more closely how firms develop knowledge from previous experiences.
Routines as a repository for experiential knowledge

To learn and make use of prior experiences implies that the knowledge acquired can be retained. Therefore, the lessons once learned do not have to be repeated each time a similar activity is carried out by the firm (Kogut & Zander, 1992). Even though individuals are the ones who learn, they are not the only repositories of knowledge. The organization itself can store knowledge in what can be called an organizational memory (Levitt & March, 1988) that exists in the form of routines, structure, and culture (Hedberg, 1981), which may be used when internationalizing. Even if individuals leave the organization, the routines will continue (Weick & Gilfillan, 1971). When doing something new, the members of an organization tend to use existing knowledge as much as possible because this is economical (Huber, 1991; Stinchcombe, 1965) and a way to gain credibility within the firm (March, 1994). According to Cohen and Levinthal’s (1990) discussion on absorptive capacity, learning promotes learning; that is, learning facilitates later learning and also facilitates the application of new related knowledge.

Organizational routines, which contribute to organizational stability (Cyert & March, 1963; Feldman & Rafaeli, 2002; Nelson & Winter, 1982) and organizational flexibility (Pentland & Reuter, 1994), are a collective capacity to perform recognizable patterns of action (Nelson & Winter, 1982) that help people form a shared understanding about what actions are appropriate in a given situation (Feldman & Rafaeli, 2002). Organizational routines are generated by a group of people who, over time, create a shared understanding expressed in the form of objects, languages, and acts (Cook & Yanow, 1993), thus producing a collective knowledge structure (Levine et al., 1993). Hence, a collective knowledge structure is the firm’s existing knowledge generated by prior experiences, which is defined in this work as the firm’s experiential knowledge structure.

So far, much of the discussion has been concerned with how experiences generate knowledge that a firm can make use of in its business activities. Expressed differently, the development of knowledge has been related to a visible outcome in a firm’s behavior. A number of scholars have found that the perception of international business opportunities becomes more realistic if based on experiential learning (Barkema & Vermeulen, 1998; Delios & Beamish, 1999; O’Grady & Lane, 1996). Therefore, learning from experiences does not always produce a visible change in a firm’s activities (March, Sproull, & Tamuz, 1991). March et al. argues that learning may occur prior to a finished outcome:
But long before an organization experiences many of the outcomes of a typical decision, it experiences a variety of collateral consequences associated with the making of the decision and its implementation. Learning and evaluation occur through these experiences prior to outcome-based learning. For example, participants appreciate collateral experiences such as a “bold move” or a “good meeting.” (p. 2)

Thus, the firm’s current activities are not only an outcome but also the origin for changes in the firm’s cognition (Fiske & Dyer, 1985; Gavetti & Levinthal, 2000; Louis & Sutton, 1991; Weick, 1995). To summarize, learning does not necessarily need to result in a visible outcome for knowledge to be developed. Instead, learning is a continuous process that goes on before, during, and after a particular event, such as a decision to commit resources to a market. However, this finding does not rule out the fact that knowledge development influences a firm’s internationalization behavior because experiences lead to knowledge that may be used in business activities. The following section will discuss the context in which the firm’s activities are conducted.

THE CONTEXT OF THE INTERNATIONALIZING FIRM: BUSINESS RELATIONSHIPS AND FOREIGN ENVIRONMENTS

The interacting firm
Within the I-P model, the firm’s foreign business partner is only implicitly stated as an important actor for the internationalizing firm (Johanson & Vahlne, 1990). In the network approach, business exchange is no longer the activity of a firm geared toward a faceless market (Håkansson & Johanson, 1993) but is instead tied to the firm’s business partners. There is now a substantial body of literature supporting the view of international business conducted in networks of business relationships (Blankenburg-Holm et al., 1996; Chen & Chen, 1998; Coviello & Munro, 1995, 1997; Lindstrand, 2003). Basically, a firm is not an isolated entity; it cannot exist without interacting with other actors in the market (cf. Håkansson & Snehota, 1990). Thus, the market is a system of relationships where activities need to be coordinated for the firm to enable resource exchanges. Such relationships may involve, customers, distributors, and suppliers that creating a
network of relationships that the firm is a part of (Johanson & Mattsson, 1988). The interaction in a relationship not only involves buying and selling by two firms (Axelsson & Easton, 1992) but also includes communication between firms in order to develop an understanding of each other’s needs, capabilities, and strategies.

A firm bases its action on a limited set of important relationships that it considers relevant, which can be called the network context (Snehota, 1990). The network context may have important implications for a firm’s internationalization because the context may be more or less internationalized. If a firm’s network is international, it may be possible for the firm to acquire knowledge about a foreign market’s institutions within the network. For instance, a firm may be locally situated but has relationships with actors that are geographically widespread, and these relationships can enable the firm to build bridges into new countries (Johanson & Mattsson, 1988). The situation described above assumes that a firm initiates the selection of a foreign market. However, the selection process may also be initiated by a buyer from another country (Bradley, 1995). As discovered by Hohenthal (2001), firms with successful expansions abroad had some kind of linkage to the new business relationship. For instance, the new relationship could be a customer’s customer or a supplier’s customer. If the relationship evolves, the firm’s opportunity for learning about the market increases (Blankenburg-Holm & Eriksson, 2000). In addition, a market entry may open up new business opportunities, such as new potential customers (Johanson & Vahlne, 1990). Thus, we could assume that an evolving or a new business relationship gives rise to a change of situation for the firm and, subsequently, a change in the required knowledge.

As illustrated here, a firm’s business relationship is the key provider of the firm’s knowledge. The activities carried out by a firm do not occur in isolation but within a business relationship, and, as such, a firm’s experiences are generated through business transactions with a business partner. Therefore, knowledge is developed in business relationships.

The foreign environment: institutions and cultural differences

What differentiates international business from domestic business is, of course, based on the notion that countries differ from each other. Differences in gross domestic product (GDP), education, and political systems, or geographical proximity all signify this. Despite its ambiguity, culture also has a prominent role in research on firms’ international behavior. In the I-P model, it
is assumed that countries intrinsically differ but, even more importantly, that firms’ knowledge about different countries varies. Even though the frequent usage of cultural mapping using country borders as a proxy for cultural differences may apply to certain questions, we also need to consider a firm’s level of knowledge about a certain country’s characteristics.

Preceding, we defined a country’s institutions as consisting of rules, regulations, norms, and values. The notion of institutions being of importance for international business is not new. Coase (1937, 1960) pointed out that institutions determine transaction costs because they make it easier or more difficult for firms to produce and trade. North (1990) defined institutions as the rules of the game in a society or, more formally, as the constraints devised by people that shape human interaction (c.f. Berger & Luckman, 1971). Thus, institutions are a result of the norms found in a society, which, in turn, reinforce these norms (Hofstede, 1980, 1991), and knowledge about these institutions is part of an individual’s inherited culture (North, 1990). Thus, it is assumed that institutions structure incentives in human exchange, whether political, social, or economic, and define and limit the set of individual choices.

Institutions can be more or less accessible to a foreign firm, depending on their level of explicitness. Some institutional factors are formalized in laws, regulations, and guidelines, whereas others, such as norms and values (Hofstede, 1983), have a tacit nature and can be learned only through experience. Institutions that are formalized are relatively easy for a foreign firm to understand and access (Kostova, 1999), whereas institutions with a normative character, such as business norms of closing a business deal, may be more difficult to understand. When studying how institutions constrain business activities, research has indicated that making a distinction among the regulatory, normative, and cognitive aspects is thus useful (Busenitz, Gómez, & Spencer, 2000; Kostova, 1999; Zaheer & Zaheer, 1997).

Following the assumption that institutions have great influence on business behavior, a lack of knowledge about a country’s institutions would, therefore, increase the difficulties of engaging in business transactions with a foreign partner because institutions differ in their accessibility to foreign firms (Kostova, 1999). Studying a firm’s knowledge about a country’s institutions focuses on the firm’s prior experiences in a particular country and, as such, investigates the firm’s knowledge concerning country-specific institutional matters. Institutional knowledge is an indicator of a firm’s perceived level of foreign market knowledge, which is an important determinant of a firm’s behavior in the I-P model. However, institutional knowledge does not
illustrate differences between countries, only the state of the firm’s institutional knowledge about a particular country. To capture cultural differences, most research studies use a more aggregated level, such as nations or cultural clusters, as a proxy for cultural differences.

Hofstede’s (1980) study, which focused on the attitudes and values of employees at IBM in 40 countries, is an important contribution to the research on culture and its possible influence on a firm’s behavior. In his study, Hofstede defines culture as a “collective mental programming” (1980, p.13), suggesting we are conditioned by our surroundings. Culture is what we share with other members of our nation and what separates us from others. Nationality is important to us as individuals because it gives us a feeling of togetherness, and culture is constantly reinforced in our way of acting, both on a social level and a private level (Hofstede, 1983). This collective mental programming is difficult to change because people are programmed together with their fellow countrymen. However, culture is not constant. It can change, but this type of change occurs slowly because it is a collective phenomenon, which is institutionalized and reinforced over and over again in our society.

Hofstede (1980) uses four dimensions to describe national cultures. Using these dimensions, it is considered possible to compare countries with each other because they reveal problems that are common to different countries but solved with different solutions (Hofstede, 1991). The names of these four dimensions are as follows: “Individualism versus Collectivism,” “Power Distance,” “Uncertainty Avoidance,” and “Masculinity versus Femininity.” Using Hofstede’s dimensions, Kogut and Singh (1988) created a cultural distance measurement by forming an index based on each country’s score from the four dimensions. Other distance measurements are psychic distance (Hörnell, Vahlne, & Wiedersheim-Paul, 1973) and institutional distance (Kostova, 1996). Psychic distance is defined as “factors preventing or disturbing the flows of information between the firm and the market” (Hörnell, et al. 1973). The concept is operationalized as differences in economics and education, business and local languages, and the existence of previous trading channels. Institutional distance is defined as the “difference between the institutional profiles of two countries” (Kostova, 1999). The institutional distance concept is based on institutional theory (Scott, 1995), suggesting that countries contain a variety of institutions which constitute a country’s institutional environment and that country’s institutional profile is characterized by three pillars: regulatory, cognitive, and normative (Kostova, 1999). The regulatory pillar includes laws and rules in a national environment, which
can promote and restrict certain behaviors (Scott, 1995). The cognitive pillar frames people’s shared meaning in society that is, it constitutes elements that impact people’s interpretation of reality (Markus & Zajonc, 1985; Scott, 1995). The normative pillar captures the norms and values held by individuals in a country, thus shaping the perception of what is, for example, good or evil (Scott, 1995). The institutional distance is an effect caused by the differences in countries’ institutional profiles and can, therefore, vary depending on the similarity between the countries’ institutional environments.

Both cultural distance and psychic distance have been heavily criticized in the literature (see e.g., Clark & Pugh, 2001; Shenkar, 2001). Cultural distance suffers from the creation of a single index based on scores from four dimensions that assumes correlation and not as independent dimensions as presented by Hofstede (Clark & Pugh, 2001). Psychic distance, on the other hand, suffers from the problems of being defined as a perceptual concept but operationalized with objective measures (see e.g., Langhoff, 1997, for a discussion). Institutional distance is a fairly new concept and has not been under the same scrutiny as the other two distance measurements. However, it is an indexation based on scores provided by each country, which creates particular problems that will be discussed below.

Instead of creating an index for each country, it has been suggested that a cluster approach to cultural differences may be more appropriate because it does not exaggerate the importance of each particular score attained in an indexation based on, for example, Hofstede’s dimensions (Clark & Pugh, 2001). From their review of eight empirical works on attitude studies, Ronen and Shenkar (1985) suggested that countries displaying similarities in attitudes can be grouped together into clusters of countries. As a result, differences between clusters are of interest rather than differences between specific countries (Barkema et al., 1996; Erramilli, 1991). Instead of using the nation-state as the unit of analysis, the concept behind the clustering of countries is based on the following three dimensions: geography, language, and culture. It is recognized that the nation-state with its particular legal, political, and social environment is where the organizations act. However, it is argued that using the national border as a unit of analysis assumes a national uniformity, which may ignore cultural similarities in countries with contiguous borders (Mariotti & Piscitello, 1995; Shenkar, 2001). In addition, as Putnam (1995) has shown, considerable differences within nations do indeed exist. Putnam followed the regionalization in Italy from 1970 onward and saw how differently the institutions worked in the
north and the south. Even though a cluster approach may oversee cultural differences within countries, it leaves us with a good general estimate without the probability of exaggerating the importance of specific scores in a particular study (Clark & Pugh, 2001). A cluster approach, such as the one proposed by Ronen and Shenkar (1985), thus seems appropriate when accounting for cultural differences and distances between the focal firm’s home market and the location of its business transactions. Using a cultural cluster approach has also been advocated to better capture firms’ international experience because it accounts for diversity in the experience (Erramilli, 1991; Shenkar, 2001). The number of countries in which a firm is active may very well be high but belong to the very same cultural region. Such firms would have less international experience compared with a firm active in different cultural regions (Erramilli, 1991).

In this section, a separate discussion about institutions and cultural clusters has been made so as to capture the complexity that foreign environments introduce to the internationalizing firm. It has been argued that it is important to study not only cultural differences but also a firm’s knowledge concerning a country’s characteristics so as to understand the firm’s learning about foreign environments as well as its impact on the firm’s internationalization. Thus, in this study, a firm’s institutional knowledge concerns knowledge about institutional issues in a particular country whereas cultural clusters are used to illustrate different degrees of cultural differences between foreign environments. Notably, in the following sections, I will adopt the concepts used by previously mentioned researchers so as to avoid confusion. As a result, I will refer to culture when arguing in terms of distance, and institutions when discussing a firm’s knowledge about country-specific characteristics. However, based on previous discussions, institutions and culture are closely intertwined, and, thus, one cannot exist without the other.

A MODEL OF FOREIGN INSTITUTIONAL KNOWLEDGE DEVELOPMENT
In accordance with the prior theoretical discussions, a model (see Figure 1 below) can be constructed so as to describe firms’ development of knowledge about foreign institutional environments and the influence of such knowledge on the internationalization process. Based on the reasoning above, we have learned that differences in nations institutional environments may have several consequences for the internationalizing firm. It is assumed that institutions are more or less difficult to understand for a foreign firm because of differences in levels of explicitness. It
has been suggested that a firm lacking in international experience also lacks of knowledge concerning the foreign country’s institutions. Thus, experience has been proposed as a key determinant for overcoming this cultural ignorance and for shaping internationalization behavior. It has also been suggested that experiences need to be differentiated into market-specific and multiple-market experiences. These different types of experiences may influence knowledge development and, subsequently, the firm’s knowledge structure differently, where existing knowledge generated from prior experiences constitutes a firm’s knowledge structure. In this study, this type of knowledge structure has been defined as the firm’s experiential knowledge structure, which underlies the firm’s decisional outcome, illustrated here as the firm’s current activities. Examples of a decisional outcome are the choice of operational mode when engaging in business transactions with a specific business partner and the location of these business transactions.

So far, we have created a model containing a simple action-outcome relationship; activities lead to knowledge that, in turn, shape and govern the activities in the business relationship.

Figure 1. A model of knowledge development in foreign institutional environments.

It is also suggested that knowledge development is an ongoing process and is not contingent on visible changes in the firm’s activities, albeit in this work the opposite is not true. Therefore, the firm’s current activities are not only an outcome but also the source for changes in the firm’s
cognition (Fiske & Dyer, 1985; Gavetti & Levinthal, 2000; Louis & Sutton, 1991; Weick, 1995). If there are changes in the firm’s cognition, we can assume that knowledge development has occurred. Thus, the internationalization process, with a particular focus on institutional knowledge development, can be illustrated simply by dividing the process into four parts: (1) the firm’s prior experiences from different institutional environments influence on, (2) the experiential knowledge structure which underlies, (3) the firm’s activities in the business relationship that subsequently influence, (4) changes in the firm’s cognition.

It is important to clarify that the process continues after changes in the firm’s cognition have occurred. The final step can thus be linked back to the beginning of the process because the firm’s cognition, in turn, shapes the firm’s perception of problems and opportunities that the firm may act upon (Johanson & Vahlne, 1977) and, consequently, generates new experiences.

FRAMING THE RESEARCH PROBLEMS

In the search for answers of how firms learn to overcome cultural ignorance, and more specifically how experiences influence institutional knowledge development within business relationships the literature provides a general framework of a firm’s knowledge development in foreign institutional environments as illustrated by the model. In addition, this framework prompts a number of more specific research issues to be investigated.

Firstly, the issue of changes in firms’ knowledge structure with increased experiences needs further investigation. Generally, it is assumed that experience continuously generate more knowledge. However, research also suggests that development of knowledge is not a smooth process of continues learning. Instead, experience may generate a more complex situation that the firm needs to account for and because of such complexity the uncertainty of the situation increases and the need for knowledge increases. Thus, the following question raised in this thesis is how does experience affect the firm’s perceived need for institutional knowledge? Secondly, business relationships are considered crucial for knowledge development within the firm. It is through the interaction with a specific business partner the firm learns how to manage and conduct international business. Thus, the firm may develop knowledge in one business relationship that may prove useful in other business relationships. However, the firm’s existing knowledge is also assumed to be of relevance for the development of new knowledge. Therefore, the second question of interest is how does the existing level of knowledge that is, the firm’s
experiential knowledge, influence the firm’s future development of knowledge within the business relationship? Thirdly, the issue of differences between national institutional environments and a firm’s development of knowledge to handle such differences needs further investigation. Within the literature we find a number of contradicting results concerning differences at a national levels influence on firm behavior. As discussed earlier some argue that differences as a phenomenon of disturbance for firms have diminished and other argues that firms do engage in cultural learning. Hence, the relationship between firm experience and differences in national institutional environments and its influence for firms international business needs to be clarified. Thus, the third question of interest is how is experience role for knowledge development affected by differences in national institutional environments?

DESCRIPTION OF THE EMPIRICAL WORK

All empirical work in this thesis is based on quantitative data from a survey of small- and medium-sized (SME) firms active in international business. Using this type of research approach is common when the aim is to test a number of hypotheses derived from existing literature (Saunders, Lewis, & Thornhill, 1997). As with any chosen method, it is, of course, accompanied by a number of advantages and disadvantages. This method has the advantage of being more easily replicated by other researchers (Saunders, et al. 1997). To some extent, it also allows us to generalize our findings more than if we had investigated a small number of cases (Saunders et al. 1997). However, this can be and is disputed because the generality of the findings is, of course, very much dependent on how rigorous the investigation was conducted, irrespective if we had chosen to use surveys or case studies (Bryman, 1988).

DATA COLLECTION

The collection of data was done in a joint collaboration with researchers from Denmark, New Zealand, and Sweden. In 1998, the survey (in its local language) was sent out to SMEs in each country. Prior to this, the survey had been tested on-site on three Swedish managers and later on a pilot mail survey that was distributed to New Zealand and Swedish firms, adding up to a total of 50 firms. The questionnaires were addressed to the person responsible for the firm’s
international activities, who was usually, because of the size of the firms, the chief executive officer.

DESIGN OF THE QUESTIONNAIRE

The purpose of the questionnaire was to investigate the relationship between different experience variables and knowledge development in international business operations. The theoretical underpinnings were derived from a process view on internationalization (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) and that international business transactions occur in business networks (Blankenburg-Holm, et al., 1996; Johanson & Mattsson, 1988). The I-P model argues that prior experiences determine the firm’s current business activities. As a consequence, we asked the respondent to identify an ongoing business transaction. The following introduction was presented to the respondents:

We would like you to select a business assignment where your company (if you work in a firm that is divisionalized or in other ways divided into units, answer for your business unit) is expanding. Preferably, this assignment should be well underway so that you would have already started doing business with the counterparts. If this is not suitable for you, then we would appreciate if you could choose a recently finished assignment.

Examples of this assignment could be:

- A contract with a new distributor or agent in a new country.
- A considerable expansion of business with an existing customer.
- Doing business with one or more new customers within an existing market.
- Entering new country markets with your existing customers.
- Doing business with new customers within a new market.

The respondents were instructed to do the following:
Choose a business assignment that is important to your firm. Business assignments can be long term and hard to separate from ongoing business activities, but this investigation wants to capture a larger change in ongoing business with a customer or distributor (if you have selected a distributor, answer as if the word customer means distributor).

The questionnaire was divided into three sections. The first section of the questionnaire focused on the current international business transaction with the specific business partner. This section
was constructed so as to capture the type of knowledge and how much knowledge the firm had at the present time when doing business with a specific partner. To determine the firm’s present stock of knowledge, negated questions about knowledge were posed (i.e., the firm’s perceived lack of knowledge on a particular issue). Negated questions on knowledge are preferred because respondents may erroneously think that they have knowledge, as a result of not having experienced indications that they lack it (Eriksson et al., 1997; O’Grady & Lane, 1996). The use of negated questions is based on Bourdieu’s (1990) argument that it is difficult to establish how much knowledge one possesses, whereas it is possible to discover deficiencies in knowledge because one becomes aware of a lack of knowledge when trying to do something. In this study, questions concerning the firm’s lack of knowledge about institutions and the customer’s business were used. The second section was designed so as to capture the firm’s general assessment of costs and benefits of making additional business deals abroad. The third section is concerned with the firm’s past and is concerned with the firm’s and the respondent’s international background, such as the number of years the firm has been conducting business internationally and the location and the number of markets to which the firm sells. The survey was structured so as to determine both subjective and objective measures of international experience.

It could, of course, be argued that the respondent’s perception of the firm’s knowledge or its need for knowledge is not representative of the whole firm. However, research has shown that the cognition of key decision-makers, and, in this case, the respondents, influences the action of firms (Walsh, 1995, p. 290). This cognition also rests on the assumption that a collective knowledge structure exists (Levine et al., 1993). Because the objects of study are SMEs, we can assume that the internationalization activities are not structurally spread out in the organization but rather involve a limited number of people. In a situation where it is a subsidiary that handles the engagement, we can still assume that the respondent, in this case responsible for international business engagements, has some knowledge of the activities in the foreign market, thus suggesting that the perception of the respondent can impact internationalization behavior.

SAMPLE

The total sample consisted of 494 SMEs from Denmark, New Zealand, and Sweden, where the size of an SME has been defined as a firm having 50 to 200 employees. The firms were all
selected based on information from each country’s trade register. The sampling in the different countries did, however, vary a little bit. The Swedish and the Danish samples were restricted to firms with at least 10% international sales because one of the aims of the survey was to capture an important international business transaction to the firm, which would, thus, merit the time and interest of the CEO. As for the New Zealand firms, no such restrictions were made, and a random sample of exporting firms was drawn from the New Zealand trade register “Compass.” For all the sampled firms, the majority of employees were stationed in the domestic market, and these sampled firms had only a small number of employees located outside the home market, with a maximum median of 5.

Even though updated trade registers were used for sampling the firms, some firms had ceased exporting. Other reasons for not filling out the survey included the following: “do not participate in surveys,” “no time,” “export could not be considered an important business transaction,” and “handled by a third party.” The total response rate of the survey was 27%, with a national distribution of 27% in Denmark (201 firms), 20% in New Zealand (117 firms), and 35% in Sweden (176 firms). There were no significant differences between the non-responding and the responding firms in terms of size, turnover, or number of foreign subsidiaries.

DESCRIPTIVE DATA

In the following sections, some basic data are presented where each illustration contains data from each country and also results from the total sample. This division of data was made so as to give the reader the opportunity to compare each variable between the different country samples. It is important, however, to clarify that no distinction was made upon country of origin in the following papers. The main reason for that was, as will be evident in the following sections, the majority of variables displayed similar patterns. In addition, the country of origin was not the prime concern of this thesis. In the following sections, similarities and differences between samples will, however, be briefly discussed.
Table 1. General Background Data on Sample Firms

<table>
<thead>
<tr>
<th>Country</th>
<th>Firm age</th>
<th>Domestic turnover (SEK)a</th>
<th>International turnover (SEK)b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>29</td>
<td>52</td>
<td>39</td>
</tr>
<tr>
<td>New Zealand</td>
<td>23</td>
<td>28</td>
<td>9</td>
</tr>
<tr>
<td>Sweden</td>
<td>50</td>
<td>76</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>43</td>
<td>28</td>
</tr>
</tbody>
</table>

Note. Median values were chosen because some outliers made mean values inappropriate.

*In SEK, translated by the exchange rate by 1998.12.31: 4.7 SEK/1 NZL Dollar, 1.3 SEK/1 DK.

Table 1 presents some general background data on the firms, such as age and amount of domestic and international turnover. The data in Table 1 show that the Swedish firms are in general older and have a larger turnover than the other firms whereas the New Zealand firms are the youngest and have the smallest turnover, both domestically and internationally.

Table 2. Duration of Business Relationship

<table>
<thead>
<tr>
<th>Country</th>
<th>Duration of transaction in years M (Mdn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>2 (1)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3 (2)</td>
</tr>
<tr>
<td>Sweden</td>
<td>4 (2)</td>
</tr>
<tr>
<td>Total</td>
<td>3 (2)</td>
</tr>
</tbody>
</table>

When the survey data were collected, the business relationship had on average been going on for 3 years with a median of 2 years. Overall, little difference is displayed between the different country samples (see Table 2 above).

In Table 3 shown below, the firms’ perceived familiarity with the chosen business partner is presented. The question was posed using a 7-point Likert scale, where 1 represented that the partner was new to the firm and 7 that the partner was well known to the firm. The firms perceived that they were slightly unfamiliar with the customer with a median of 3 across the sample.
Table 3. Perceived Familiarity with Customer

<table>
<thead>
<tr>
<th>Country</th>
<th>Perceived familiarity with customer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mdn</td>
</tr>
<tr>
<td>Denmark</td>
<td>3</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3</td>
</tr>
<tr>
<td>Sweden</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
</tr>
</tbody>
</table>

Note. Judgments were made using a 7-point Likert scale (1 = partner was new to the firm, 7 = partner was well known to the firm).

As for previous business transactions in the target country (i.e., the same country where the ongoing transaction was located), the different countries display great variation as depicted in Table 4. In addition, great variety exists within the samples, as shown by the median of 2 prior business transactions throughout the whole sample. In total, the firms had an average of 22 previous business transactions. However, a median of 2 suggests that some firms had extensive experience with prior business transactions in the country, but there are also quite a large number of firms that had fewer than two prior business transactions.

Table 4. Number of Previous Business Transactions in Target Country

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of previous transactions in target country</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M (Mdn)</td>
</tr>
<tr>
<td>Denmark</td>
<td>38 (2)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>13 (2)</td>
</tr>
<tr>
<td>Sweden</td>
<td>9 (2)</td>
</tr>
<tr>
<td>Total</td>
<td>22 (2)</td>
</tr>
</tbody>
</table>

In Table 5 below, the firms’ perceived familiarity with the country is presented. The question was posed using a 7-point Likert scale, where 1 represented that the country was new to the firm and 7 that it was well known to the firm. The firms estimated that they were somewhat familiar with the country as illustrated by a median of 5. We found an equal estimation across the country samples.
Table 5. Perceived Familiarity with Target Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Perceived familiarity with country Mdn</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>5</td>
<td>2.21</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5</td>
<td>2.32</td>
</tr>
<tr>
<td>Sweden</td>
<td>5</td>
<td>2.23</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>2.24</td>
</tr>
</tbody>
</table>

*Note. Judgments were made using a 7-point Likert scale (1 = country was new to the firm, 7 = country was well known to the firm).*

Prior international experience

In this section, basic data concerning international experience are presented.

Table 6. Firms’ International Experience and Managers International Experience

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of years in international business M (Mdn)</th>
<th>No. of countries with sale M (Mdn)</th>
<th>Managers’ no. of years in international business M (Mdn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>21 (18)</td>
<td>18 (12)</td>
<td>15 (15)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>16 (12)</td>
<td>11 (6)</td>
<td>14 (15)</td>
</tr>
<tr>
<td>Sweden</td>
<td>35 (28)</td>
<td>21 (15)</td>
<td>15 (15)</td>
</tr>
<tr>
<td>Total</td>
<td>25 (18)</td>
<td>17 (10)</td>
<td>15 (15)</td>
</tr>
</tbody>
</table>

On average, the Swedish firms have been involved longer in international business than the Danish and the New Zealand firms (see Table 6 above). The New Zealand firms are on average selling to fewer markets than the Swedish and Danish firms. As for managers’ international experience, all the respondents reported having 15 years of international business experience.

In the following tables and diagrams, an index similar to Ronen and Shenkar’s (1985) socio-cultural clustering of countries (countries displaying similarities in religion, language, and geography) is used. In total, the index contains 12 cultural clusters: Nordic, Germanic (including Holland), Anglo-Saxon (including South Africa), Latin European (including Belgium), Eastern European, Independent (Brazil, Japan, India, Israel), Latin American, Far Eastern, Arab, Middle...
Eastern (Turkey, Iran, Greece), African, and, finally, Others (followed by a request to specify). Denmark, New Zealand, and Sweden were excluded from the cultural cluster index, depending on the origin of respondent. Counting regions or clusters has been argued to illustrate international experience more fairly compared with counting countries. A firm is assumed to be in contact with a larger cultural diversity if active in several regions rather than having activities in several countries that display cultural similarities and thus can be clustered into one cultural cluster (Barkema et al., 1997; Erramilli, 1991).

Figure 2, presented below, illustrates the percentage of firms from Denmark, New Zealand, and Sweden that has some form of engagement (subsidiaries, customer, and/or alliances) in each cultural cluster.

Figure 2. Percentage of firms in each cultural cluster.

In general, the distribution of Swedish and Danish firms follows a decreasing rate in the number of firms involved in what could be defined as culturally more remote markets. For the Swedish firms there was, however, notable exceptions to that pattern because a little of over 90% of the Swedish firms had some sort engagement in the Eastern European cluster. This pattern, of course,
does not directly apply to the New Zealand firms in this diagram because they are forced to follow what can be interpreted as a Nordic indexation of cultural clusters. On the other hand, if we specifically look at the New Zealand firms, we can see that over 60% of the total sample of New Zealand firms has some sort of engagement in the Anglo-Saxon cluster. Nearly 45% of the New Zealand firms are doing business in the Germanic, Independent (Brazil, Japan, India, and Israel), and Far Eastern clusters. In addition, over 55% of the New Zealand firms reported of engagement in the cultural cluster labeled “Others.” Unfortunately no New Zealand firm had specified to which country they referred and thus, that column should be interpreted with caution.

An average of how many cultural clusters in which the firms have some sort of engagement (subsidiaries, customers, and/or alliances) is presented in Figure 3 shown below.

Figure 3. Average of firms’ cultural cluster diversity.

![Figure 3](image)

Table 7 (below) displays to what extent the firms’ first foreign entry occurred in its own cultural cluster, using a timeline from 1941 to 1998.
Table 7. Percentage of First Entries in the Same Cultural Cluster

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>67</td>
<td>100</td>
<td>79</td>
<td>76</td>
<td>64</td>
<td>59</td>
<td>71</td>
</tr>
<tr>
<td>New Zealand</td>
<td>100</td>
<td>100</td>
<td>67</td>
<td>78</td>
<td>82</td>
<td>68</td>
<td>77</td>
</tr>
<tr>
<td>Sweden</td>
<td>77</td>
<td>76</td>
<td>79</td>
<td>88</td>
<td>76</td>
<td>78</td>
<td>77</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>92</td>
<td>75</td>
<td>81</td>
<td>74</td>
<td>69</td>
<td>75</td>
</tr>
</tbody>
</table>

The Nordic cluster applies to the Swedish and Danish firms, and the Anglo-Saxon cluster applies to the firms from New Zealand. As we can see, there is a slow development over the years toward entering markets outside the firms’ own cultural cluster. However, almost 70% of the firms still started their internationalization in the same cultural cluster as their home market in the last period of 1991–1998.

The Swedish and Danish firms display similar cultural “diversity” patterns. On average, the Swedish firms have some sort of engagement in six cultural clusters (a mean of 6,3 and a median of 6,5) whereas the Danish firms have engagements in five cultural clusters on average, which is also shown in Table 8 below. The New Zealand firms have engagements in fewer cultural clusters on average. For example, 27% of the New Zealand firms have international engagements in only one cultural cluster. In addition, a little over 2% of the New Zealand and the Swedish firms have engagements in 12 cultural clusters whereas none of the Danish firms do.

Table 8. Cultural Cluster Diversity

<table>
<thead>
<tr>
<th>Country</th>
<th>M</th>
<th>Mdn</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>5,4</td>
<td>5,0</td>
<td>2,9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3,2</td>
<td>2,0</td>
<td>3,0</td>
</tr>
<tr>
<td>Sweden</td>
<td>6,3</td>
<td>6,5</td>
<td>3,0</td>
</tr>
</tbody>
</table>
DATA ANALYSIS

For the analysis of data a statistical covariance structure model program called LISREL is used. When using this method it is possible to investigate and estimate casual effects in a data sample. When measuring abstractions (e.g. behavior and attitudes), most of the measurements used for such purposes have sizable measurement errors. The LISREL program takes these errors into account (Jöreskog & Sörbom, 1993, p.15). When creating structural models in LISREL, the program uses both correlations and error covariance of these correlations.

PRESENTATION OF THE PAPERS

This thesis includes five papers. Four of these are based on the survey study and one is a theoretical paper. This section begins with a summary of each paper and ends with a short presentation of how the different papers relate to the underlying theoretical framework and the research questions presented earlier.

The first paper, “Cultural diversity and culture specific experiences effect on development of institutional experiential knowledge in SME’s,” was coauthored with Kent Eriksson and Jukka Hohenthal. In this paper, we examined how different types of experiences affect the development of knowledge about the institutions the business partners’ country. We examined both the firm’s prior experience in the cultural cluster where the business relationship is situated and the firm’s prior experiences in several cultural clusters. To capture the market-specific experiences, the number of subsidiaries and the presence of other customers and/or alliances in the specific cluster were used. To evaluate the experiences from multiple markets, the number of clusters in which the firm has subsidiaries, customers, and/or alliances was used. Furthermore, the notion of cultural distances having a possible influence on institutional knowledge development led us to examine if the cultural distance between the focal firm and the partner impacts this knowledge development. A sample of 307 Danish and Swedish firms was used for this study. The results showed that market-specific experiences increase a firm’s institutional knowledge whereas the opposite was true for experiences in multiple markets. Thus, firms with multiple-market experience perceive a greater need for institutional knowledge. This finding

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2 Published in *Int. J. Entrepreneurship and Small Business*, 1(1-2), p. 100-120.
3 In the paper this is referred to as cultural cluster specific experiences.
suggests that experience from multiple markets results in organizational governance problems that negatively affect the development of institutional knowledge. Furthermore, the results showed that the two types of experiences have no effect on knowledge development if the cultural distance was not considered. Thus, cultural distance is an important mediator for the development of institutional knowledge.

The second paper, “The Effect of Specificity Experience on the Firm’s Perceived Need for Institutional Knowledge in a Current Assignment,” coauthored with Sylvie Chetty and Kent Eriksson, investigated how experiences with different degrees of specificity affects the need for institutional knowledge in the firm’s current activities with a specific business partner. This paper is somewhat similar to the first because it also investigated the relationship between experiences and the firm’s institutional knowledge. However, there are also considerable differences. In this paper, we examined three different kinds of experiences: ongoing business experience, market-specific experience, and multiple-market experience. Ongoing business experience was measured by the duration of the relationship, market-specific experience was measured by the number of prior transactions in the country, and multiple-market experience was measured by the number of cultural clusters to which the firm exports. The sample consisted of 101 Swedish and Danish exporting firms. The findings showed that experiences in the current business relationship and experiences in multiple markets generated a greater need for institutional knowledge in the business relationship. Thus, we assumed that these different types of experience added to the environmental and organizational complexity and, hence, increased the firm’s need for institutional knowledge. However, in terms of market-specific experience, firms gained all the institutional knowledge they needed from the first business transaction in that specific country.

In the third paper, “The internationalizing firm’s lack of knowledge and its impact on the firm’s future development of knowledge,” coauthored with Sylvie Chetty, we developed and tested a model of a firm’s existing ability to adapt and market-specific knowledge impacts future development of knowledge in a business relationship. We studied 144 SMEs from Denmark, New Zealand, and Sweden. The results supported the findings of Eriksson et al. (1997), which indicated that different types of knowledge impact a firm’s internationalization. We investigated

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In the paper this is referred to as cultural diversity/international experience.

Revised and resubmitted to Journal of International Business Studies.

This is referred to as country experience in the paper.

This is referred to as international experience in the paper.
three different types of knowledge (ability to adapt, business knowledge, and institutional knowledge) impact on a firm’s future development of knowledge. The results showed that firms lacking of institutional knowledge anticipate future development of knowledge within the business relationship. Contrary to our expectations, lack of business knowledge and ability to adapt had no direct effect on future knowledge development in this particular context. There is, however, an indirect effect to future development of knowledge moderated by institutional knowledge. The results show that when the firm perceives that it lacks the ability to adapt for the current assignment it also recognizes that it lacks business and institutional knowledge. The firm’s lack of ability to adapt suggests that it does not have the knowledge to understand and recognize the requirements in the local market and therefore lacks business and institutional knowledge for use in the current assignment. The results also indicated that the development of the different types of knowledge does not necessarily occur simultaneously, as implicitly assumed by the I-P model (Johanson & Vahlne, 1977). Instead, the findings suggested that knowledge development of the local market may occur sequentially and that business knowledge is a prerequisite when acquiring institutional knowledge.

The fourth paper, “International Experience and the Recognition of Business Opportunities in Foreign Markets—A Study of SME’s International Experiences and Location Choice,” coauthored with Jukka Hohenthal, tested the often claimed but rarely tested assumption that international experience leads to international competence in handling international business. In this paper, we defined this competence as managerial experiential knowledge. We also tested the argument that firms with more managerial experiential knowledge also engage in business activities in culturally more remote environments. The sample consisted of 494 managers working at small- and medium-sized firms in Denmark, New Zealand, and Sweden, and the results supported the above hypotheses. We also found that 69% or more of the different firms over a time span of nearly 60 years had made their first entry into the same cultural cluster to which their home market belongs.

The fifth paper, “Do firms change the distances between countries, or are the firms’ distances changed? A discussion of the conceptual differences between distance concepts and the...

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8 Submitted to Journal of World Business.
10 In the paper international experience is referred to as international presence.
role of experience in influencing psychic distance,”

is a theoretical paper, where I discussed when it is appropriate (or not) to use the concept of psychic distance. The paper compared psychic distance with two other well-known concepts of distance, cultural distance and institutional distance. One argument of the paper was that these different concepts of distance should not be used as proxies for one another. This argument was based on the concept that cultural and institutional distance refers to differences at a national level whereas psychic distance is a concept related to firm level. The paper built its argument on the original theoretical reasoning that psychic distance is a perceptual concept, dependent on the decision-makers’ prior knowledge about a market (Hörnell, et al., 1973). It is the limitation of the decision-makers’ knowledge concerning different markets rather than the actual cultural differences that are of a major concern for location choice. Thus, psychic distance is a perception that alters with knowledge. The paper presented a number of propositions that influence a firm’s psychic distance. Based on the propositions, a model illustrating the antecedents and outcome of psychic distance was created.

Figure 4 shown below illustrates how the papers are related to the model presented earlier.

Figure 4. A model of knowledge development in foreign institutional environments.

The first and second papers dealt with the first part of the model, which claims that experiences from foreign institutional environments shape the firm’s experiential knowledge structure. The fourth paper not only dealt with the relationship between experience and the experiential


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11 Submitted to International Business Review.
knowledge structure but also studied how this relationship had an impact on the firm’s current activities, such as location for the current international business relationship. Finally, the third paper connected the last three parts of the model. In this paper, we studied how the firm’s existing knowledge structure and current activities influence the learning of new knowledge, in other words, if it leads to a cognitive change within the firm. The fifth paper, which is a theoretical paper, primarily discussed a firm’s experience and knowledge structure influence a firm’s international activities.

Each of the paper adds to our understanding of how experiences influence institutional knowledge development within business relationships and thus, how firms learn to overcome cultural ignorance. As for the additional research questions following from the theoretical framework proposed earlier different papers provides answers to different questions. Paper 1 and 2 relate mainly to the first specific research question of how experience affects the perceived need for institutional knowledge. Paper 1 is also related to the third question by studying how cultural distance affects experience influence on institutional knowledge development. Paper 3 is related to research question two by studying a firm’s existing experiential knowledge influence future development of knowledge within the business relationship. Paper 4 mainly relates to the third research question by investigating how a firm’s international experience influence the development of a competence to handle business relationships in different foreign institutional environments. Paper 5 is related to the second and the third question by discussing how the firm’s by acting and interacting in foreign institutional environments decreases a firm’s psychic distance. The final question of how experience affect different types of knowledge

CONCLUDING REMARKS

The aim of this thesis was to contribute to our understanding of how firms may learn to overcome cultural ignorance by providing new insights into the development of knowledge in the internationalizing firm. More specifically, the main purpose of this thesis was to investigate how experiences influence institutional knowledge development within business relationships.

This investigation involved studying how different types of experiences impact the development of institutional knowledge. We first distinguished between two types of experiences, market-specific experiences (experiences generated in one specific market) and
multiple-market experiences (experiences in several markets). These two types of experiences were also the starting point of the model created to explain institutional knowledge development in the internationalizing firm. The model was thus used as a general framework for this thesis. It was stated that the development of knowledge in the internationalizing firm could be divided into four parts: (1) the firm’s prior experiences from different institutional environments influence on, (2) the experiential knowledge structure that underlies, (3), the firm’s activities in the business relationship which subsequently, (4) influence a change in firm's cognition. Based on the study’s findings, a more specific discussion of these parts is presented in the following sections. Additionally, a discussion of how these findings relate to the I-P model’s assumption on knowledge development will also be included.

A general conclusion is that multiple-market experiences contribute to the firm’s perception of a greater need for institutional knowledge when conducting business with their specific partner. In two studies, we found evidence of this relationship using two different samples, one with only exporting firms and the other one including subsidiaries. There may be many reasons why firms with multiple-market experience recognize a greater need for institutional knowledge. Because of the different samples, the two studies used somewhat different assumptions. However, a common assumption for both studies was that firms with multiple-market experience are accompanied by a more complex situation, which changes the requirement of knowledge needed to do business as compared to an internationally inexperienced firm.

We also found that more experience within a specific business relationship increased a firm’s need for institutional knowledge. Hence, we argued that firms become more embedded in their business relationships with time and, thus, the requirement for institutional knowledge changes with increased relationship experience.

When we distinguished between different types of experiences and their respective impact on the development of institutional knowledge, our results did not comply with the I-P model’s argument that more experience generates more knowledge. Contrary to the I-P model’s predictions, our findings showed that experience from multiple-markets and more experience from the business relationship increase the firm’s need for institutional knowledge. What appears to be merely an exception to the I-P model’s somewhat mechanical process of knowledge development is, in fact, how some experiences impact the development of institutional knowledge. The exception states that a firm’s experience may very well influence the firm to
perceive the new context with increased uncertainty, which results in a lack of knowledge once again. This thesis also found that as firms gain experience from multiple-markets and from the business relationship, they perceive their institutional knowledge as being increasingly insufficient. Thus, in this particular context the “exception to the rule” is no longer an exception.

However, when studying the development of managerial experiential knowledge, it was found that a firm’s international experience increased the firm’s competence in managing international business. This finding suggested that despite the increased complexity a firm encounters when doing business in a foreign institutional environment, a greater degree of international experience leads to increased organizational competence when conducting business with partners in different institutional environments. All of the above findings on experience and its relationship to knowledge development support the argument of Delios and Henisz (2003) that it is important to differentiate and specify experiences when studying knowledge development. It also suggests that it is important to differentiate between the types of knowledge when studying the influence of experience on knowledge development. The results of this thesis thus provided partial support for the I-P model because experiential knowledge was found to be important. However, the findings suggested that it is necessary to extend the arguments of the I-P model by differentiating between the different types of experiences and the different types of knowledge.

This thesis also investigated how the firm’s experiential knowledge structure, shaped by prior experiences in foreign institutional environments, underlies the activities in the business relationship and cognitive change. The outcomes of interest varied from where the specific business partner is located to the anticipated learning opportunity within the business relationship. The results showed that if the firm at the present time lacks knowledge about the institutions found in the business partner’s country, it expects future development of knowledge from the business relationship. In addition, the findings showed that a firm lacking in the ability to adapt its business also perceived a greater need for knowledge about a country’s institutions and the customer. The results also indicated that the development of the different types of knowledge does not necessarily occur simultaneously, as implicitly assumed by the I-P model. Instead, the findings suggested that knowledge development of the local market may occur sequentially, whereby the development of knowledge in the business relationship for these firms required a development of business knowledge before an understanding of the country’s
institutions was possible. The results of this thesis thus provided support for the concept that the development of institutional experiential knowledge takes place in the business relationship.

Furthermore, it was found that a firm’s prior international experience of differences in institutional environments play a role in where firms pursue their international business. The majority of our firms’ first foreign market entry occurred in institutional environments similar to the firms’ home market. In addition, the findings showed that firms with prior knowledge of managing international business established business relationships in more distant markets. Thus, the results showed that knowledge development from experiences may counterbalance the influence that differences in institutional environments may initially have on the internationalizing firm. All of the above results indicated that there is a need to distinguish between institutional differences at a national level and how these differences are handled at the level of the firm. This distinguishing of differences at a firm level and a national level was finally discussed in the thesis last and only theoretical paper.

To sum up, the results in this thesis show that the study of experience and knowledge can make great contributions to internationalization research. It does so by stating that researchers need to define experience and knowledge more precisely than what has been done in prior research. The confusing findings on experience effects in previous research are due to a lack of detail in their study. For instance this thesis finds an effect of experience on knowledge for firms with no subsidiaries. This finding reduces the confounding factor that learning may take place in autonomous subsidiaries, and not at head quarters. Furthermore, we find that the effect of experience is moderated by such factors as cultural distance and managerial experience. This finding reduces the confounding factors by stating that research need to control for intermediary variables in experience effects research. In conclusion, this thesis identifies that the experience effects research can fruitfully benefit from more detailed definitions of the experiences and kinds of knowledge that are studied, and also what factors moderate the experience effects.

The goal of this thesis was to clarify the role that experience from activities in foreign business relationships plays on how firms overcome cultural ignorance. Taken together, the results of this thesis provided evidence that institutional knowledge is created from experience. The results also suggested that institutional knowledge is one specific kind of knowledge that can be gained through diverse kinds of experiences. It was also found that different types of experiential knowledge, such as managerial knowledge, business knowledge, and institutional
knowledge, are developed in business relationships. In all, this thesis identified a number of aspects that have been either oversimplified or ignored in the I-P model but need to be considered when studying how firms develop knowledge about foreign institutions.

Even though the development of institutional knowledge in terms of managerial implications is a complex task, where different types of experiences influence the development differently, it should be emphasized that this complexity should not discourage attempts to internationalize. Internationalization is also a matter of competence in handling foreign business relationships, and this competence is proved to develop from international experiences.

FUTURE RESEARCH

As with any study, this one not only answered a number of questions but also generated new ones. Foremost, the discussion on experience and knowledge development needs to be elaborated upon. At this point, it seems to take us in a direction where there is no end in sight to how much knowledge is needed for the internationalizing firm. This type of reasoning may be acceptable to a certain point but not in the long run because we believe that we learn by doing. One way to approach such a problem would perhaps be to study the differences between a firm’s competence in dealing with institutional aspects and its perceived knowledge concerning the same matters. The results indicated that firms with managerial experiential knowledge feel confident about conducting business in increasingly dissimilar institutional environments whereas they perceive that the existing institutional knowledge is insufficient. The possible difference between the firm’s competence in dealing with institutional aspects and the firm’s institutional knowledge need to be further investigated and it would be of interest to study how these two types of knowledge influence a firm’s performance. This topic also leads to a second research topic, where a study of business failure and its influence on knowledge development concerning institutional environments (e.g., March, et al., 1991) would provide us with interesting answers.

In addition, future research should explicitly study what confounding factors are of importance for knowledge development about institutional environments. In this study, we could implicitly assume that the organizational structure influenced a firm’s knowledge development. Moreover, future research should establish why diverse international experiences increase a firm’s need for institutional knowledge. Finally, more research on the influence of the business
networks on a firm’s institutional knowledge development would be beneficial because our results showed that the specific business partner is of importance in this type of knowledge development.
REFERENCES


Kostova, Tatiana, (1996), *Success of the transnational transfer of organizational practices within multinational companies*, Minneapolis: University of Minnesota.


Snehota, Ivan, (19909, Notes on a Theory of Business Enterprise, no. 42, Uppsala: Department of Business Studies.


APPENDIX. QUESTIONNAIRE

Section A. A specific international business assignment

We would like you to select a business assignment were your company (If you work in a firm that is divisionalized or in other ways divided into units, answer for your business unit) is expanding internationally. Preferably, this assignment should be well underway so that you would have already started doing business with the counterparts. If this is not suitable for you, then we would appreciate it if you could choose a recently finished assignment.

Examples of this assignment could be:
- A contract with a new distributor or agent in a new country.
- A considerable expansion of business with an existing customer.
- Doing business with one or more new customers within an existing market.
- Entering new country markets with your existing customers.
- Doing business with new customers within a new market.

Choose a business assignment that is important to your firm. Business assignments can be long term and hard to separate from ongoing business activities, but this investigation wants to capture a larger change in ongoing business with a customer or distributor.

Please answer the following questions with respect to the assignment that you have selected. (If you have selected a distributor, answer as if the word customer means distributor.)

1a. If the assignment is ongoing, for how long has it been going on? ________________
1b. If the assignment is finished, how long ago was it finished? ________________
2. Approximately how many earlier assignments has your firm made in the customer country? ________________

<table>
<thead>
<tr>
<th>Circle applicable number</th>
<th>standardized</th>
<th>unique to customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. What is the degree of standardisation of the most important product/service of the chosen assignment:</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

4. Who handles this assignment today?
- Subsidiary in customer country: Ja □ Nej □
- Agent/distributor in customer country: □ □
- The domestic organization: □ □
- Other partner than agent: □ □

Circle applicable number for each row.

5. How does the assignment depart from earlier ones?
- Customer country is: New to our firm Well known to our firm
  - 1 2 3 4 5 6 7
- Customer is: 1 2 3 4 5 6 7

6. Which country is it________________
7 A lack of knowledge in the following host country conditions is an obstacle when taking and executing the chosen assignment abroad: Circle applicable number for each row.

<table>
<thead>
<tr>
<th>Host country conditions</th>
<th>Fully agree</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>-practice on technology, product, and quality standards</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-laws on technology, product, and quality standards</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-business laws</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-financial practices, and currency laws</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-business culture</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-Language</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-infrastructure</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-industry structure (competition, subcontractors)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

8 A lack of knowledge in the following factors is an obstacle when executing the chosen assignment abroad: Circle a number for each row.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Fully agree</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your customer’s product</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-production process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-cooperativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-way of doing business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Your customer’s most important customers’ product</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-production process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-cooperativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-way of doing business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Your customer’s other suppliers’ products and services</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-production process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-cooperativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-way of doing business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Your firm’s own suppliers’ production process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-cooperativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-way of doing business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Your competitors’ product</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-production process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-cooperativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-way of doing business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

9. The firm’s lack of ability to adapt in the following dimensions is an obstacle when we execute the chosen assignment: Circle applicable number for each row.

<table>
<thead>
<tr>
<th>The firm’s lack of ability to adapt</th>
<th>Fully agree</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>-product</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-production process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-cooperativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>-way of doing business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
10. In developing this assignment, it is useful to have had previous business experience with:

Circle applicable number for each row.  

<table>
<thead>
<tr>
<th>Experience</th>
<th>Fully agree</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>customers in Sweden</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>customers abroad</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>suppliers in Sweden</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>suppliers abroad</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>customer’s customers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>customer’s suppliers of products and services that supplement yours</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>competing suppliers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>foreign and international authorities and organizations</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

11. In executing this assignment, it is useful to have had previous experience with:

Circle applicable number for each row.

<table>
<thead>
<tr>
<th>Experience</th>
<th>Fully agree</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>practice on technology, product, and quality standards</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>laws on technology, product, and quality standards</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>business laws</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>financial practices, and currency laws</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>business culture</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>language</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>infrastructure</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>industry structure (competition, subcontractors)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

12. In executing this assignment, it is useful to have developed routines on:

Circle applicable number for each row.

<table>
<thead>
<tr>
<th>Routine</th>
<th>Fully agree</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>management and support of personnel abroad</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>practice for financing abroad</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>product development and adaptation</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>production process development and adaptation</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>doing business in new markets</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>management practice for cooperating</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

13. What outcome do you expect from the chosen business assignment?

Circle applicable number for each row.

<table>
<thead>
<tr>
<th>Outcome</th>
<th>No</th>
<th>Very Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial profit</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Increased knowledge</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Increased future business with this customer</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Increased future business with other customers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

14. What is your overall satisfaction with the chosen international assignment?

Very satisfied
Section B. The following questions relate to your general assessment of costs and benefits of taking an additional assignment abroad.

15. Based on your previous international business experience, how would you assess the following costs of executing an additional assignment abroad?

<table>
<thead>
<tr>
<th>Cost</th>
<th>No cost</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>Very high cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring new customers</td>
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<tr>
<td>To develop existing customer relationships concerning:</td>
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<tr>
<td>Their product</td>
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<td>Their production process</td>
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<tr>
<td>Cooperation in general with them</td>
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<tr>
<td>Administering this new assignment from head office</td>
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<tr>
<td>Administering this new assignment in host country</td>
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<tr>
<td>Transfer of knowledge and skills to the host country</td>
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<tr>
<td>Establishing and maintaining customer relationships in host country</td>
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<tr>
<td>Establishing and maintaining relationships with intermediaries (e.g. distributor and agent) in host country</td>
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<tr>
<td>Handling of laws, regulations, and negotiating with government in host country</td>
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</tbody>
</table>

16. Based on your previous international business experience, how would you assess the following benefits of executing an additional assignment abroad?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>No benefit</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>Very high benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to new knowledge (technical, commercial etc.)</td>
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<tr>
<td>Improved financial profit</td>
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<tr>
<td>New business with new customers</td>
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<tr>
<td>New business with existing customers</td>
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<tr>
<td>Improving your firm’s international competitiveness</td>
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<tr>
<td>Improving your firm’s overall management skills</td>
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</tbody>
</table>

17. What international improvement do you expect from your firm in the dimensions below?

<table>
<thead>
<tr>
<th>Improvement</th>
<th>No</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>-sales increase</td>
<td>1</td>
<td>2 3 4 5 6 7</td>
</tr>
<tr>
<td>-increase in marketshare</td>
<td>1</td>
<td>2 3 4 5 6 7</td>
</tr>
<tr>
<td>-improvement in the firm’s image/brandname</td>
<td>1</td>
<td>2 3 4 5 6 7</td>
</tr>
<tr>
<td>-profit increase</td>
<td>1</td>
<td>2 3 4 5 6 7</td>
</tr>
<tr>
<td>-increased productivity</td>
<td>1</td>
<td>2 3 4 5 6 7</td>
</tr>
</tbody>
</table>
Section C. Background information about your firm:

If you are in a multinational firm, please reply for your business unit

18. In which year was the firm/business unit established? 19___________

19. Number of employees? Sweden, Abroad

20. Sales turnover? Sweden, Abroad

21. Approximately which year did the firm start doing international business? 19___________

22. In which country was the first assignment made? ____________________________

23. For how many years have you been working in the firm/business unit? ____________________________

24. For how long have you been working in international business? ____________________________

25. What is your firm's international experience in the following areas? 

<table>
<thead>
<tr>
<th>Area</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>-management and support of personnel abroad</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>-to do of financing abroad</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>-development and adaptation of products</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>-development and adaptation of production</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>-to do business with new customers</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>-to do business in new markets</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>-cooperation with other firms</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

26. To approximately how many countries do you sell? ____________________________

27. How many minority, majority owned subsidiaries, alliances, and customers do you have in the following regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Majority owned</th>
<th>Minority owned</th>
<th>Customers</th>
<th>Alliances, cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic excluding Sweden</td>
<td></td>
<td></td>
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<tr>
<td>Germanic incl. Holland</td>
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<tr>
<td>Anglo Saxon incl. South Africa</td>
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<tr>
<td>Latin European incl. Belgium</td>
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<tr>
<td>Eastern European</td>
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<tr>
<td>Independent (Brazil, Japan, India, Israel)</td>
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<tr>
<td>Latin American</td>
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<tr>
<td>Far Eastern</td>
<td></td>
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<tr>
<td>Arab</td>
<td></td>
<td></td>
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<tr>
<td>Middle Eastern (Turkey, Iran, Greece)</td>
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<tr>
<td>Africa</td>
<td></td>
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<tr>
<td>Others (specify)</td>
<td></td>
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</tr>
</tbody>
</table>

28. Which of these regions is your most important growth market? ____________________________

29. Which of these regions is your major foreign market? ____________________________

30. What proportion of your sales turnover abroad is in your major market? ____________________________