

Internet-enabled internationalization:

Net, Firm, and Market drivers Framework

SHNEOR, ROTEM

UiA University of Agder

Faculty of Economics and Social Sciences

Gimlemoen 25 H, Kristiansand, N-4630 Norway

Tel: (47) 38142311, Fax: (47) 38141061

E-mail: rotem.shneor@uia.no

Abstract

The international dimension of e-business is often taken for granted or simply overlooked, as it is automatically assumed to be of a global nature. This paper suggests an alternative approach by addressing two main objectives – first, identifying the unique characteristics of Internet-enabled internationalization versus classical industrial approaches to international market development; and second, developing a conceptual framework of change drivers firms must account for when planning to employ Internet-based solutions in their international operations. The first challenge is addressed through a literature review, highlighting three main critical differences, concerning – internationalization process dimensions, general commercial conditions, and internal organizational changes. In turn, these serve as guidelines for addressing the second challenge, revolving around the conceptualization of a model focusing on net-, firm- and market-based change drivers, and their interrelationships, captured by notions of adaptability, flexibility, and readiness. The effort then culminates in a list of propositions and invitation to further research.

Keywords – internet, internationalization, e-business, e-commerce, change drivers, value drivers, adaptability, flexibility, readiness, internet marketing

1. Introduction

Internet usage worldwide is growing rapidly, surpassing the one billion users mark in 2005 (CIA, 2007), and with it the extent and magnitude of its commercial potential and business uses. According to the IMRG report, worldwide online sales are expected to reach half a trillion USD in 2007, with cross-border sales growing sharply (Davey, 2007). Therefore, the Internet, more than ever, attracts the attention of the business world.

In recent years, the adoption of the Internet as a new channel for firms' international development has captured the imagination of various scholars. Relevant literature is growing but still eclectic in nature, covering different aspects of Internet adoption for international operations and marketing. This relatively new phenomenon and the mixed evidence available from the limited experiences observed thus far leave much room for further study on the promises and limitations of Internet-enabled internationalization.

This paper wishes to integrate various developments emerging from existing research on e-business and its international marketing applications into a coherent framework of analysis. In this sense, it answers earlier invitations to research on the integration of e-business and export marketing strategy (Donovan & Rosson, 2001, Karavdic & Gregory, 2005, Petersen, et al., 2002, Samiee, 1998) while extending the understanding of Internet-enabled internationalization.

This is done by addressing two main objectives – first, identifying the unique characteristics of Internet-enabled internationalization versus classical industrial approaches to international market development; and second, developing a conceptual framework of change drivers firms must account for when planning to employ Internet-based solutions in their international operations. The first challenge is addressed through a literature review, and the second concerns the conceptualization of a model focusing on net-, firm- and market-based change drivers, and their interrelationships.

First, a brief introduction to basic concepts associated with commercial use of the Internet will be outlined. This will be followed by a presentation of Internet-enabled internationalization, where its characteristics and main differences from traditional approaches to internationalization will be discussed. In the third section, an Internet-enabled internationalization model will be conceptually

developed and presented, followed by a list of propositions concerning predictions on the likelihood of successful international business conduct via the Internet. Finally, a summary and suggestions for further research will be provided.

2. Internet, e-business and internationalization

According to Hamill (1997), 'Internet' means a 'network of networks', and may be defined as a network of interlinked computers throughout the world operating on a standard protocol which allows data to be transferred between otherwise incompatible machines. Such networks link a wide range of participants (individuals, companies, organizations, governments, education and research institutions, etc.), and supports the transfer of a wide range of data (text, graphics, audio, video, software, etc.).

Commercial use of the Internet is associated with terms such as 'e-commerce' and 'e-business', however, differences between the two should be clarified. Percival-Staunik's (2001) suggests that while 'e-commerce' may be regarded as the buying and selling of goods and services on the Internet, 'e-business' is a term used for the same process but in a broader meaning, also relating to how the Internet is changing the way firms do business, relate to their customers and suppliers, and address marketing and logistical issues.

In order to properly analyze e-business in an international context, one should first refine what are the core sources of value creation uniquely enhanced by using the Internet for commercial purposes, regardless of market specific contexts.

2.1 Value Creation in E-Business

Quelch & Klein (1996) suggest that the extent to which Internet may change the rules of international marketing depends on how much added value there is in Internet communications and transactions compared to existing alternatives. Therefore, understanding the unique value contribution potential underlying e-business models also sheds light into how international operations may be impacted. A number of authors (Amit & Zott, 2001, Barua, et al., 2001, Christensen, et al., 2002, Doern & Fey,

2006, Shneor, 2004) have taken on the challenge of identifying e-business value drivers and studying them in various market settings.

Amit & Zott's (2001) value drivers' model highlights four interdependent sources of value creation, namely – efficiency, complementarities, lock-in, and novelty. *Efficiency* indicates that value may be created through reduction of information asymmetries between buyers and sellers, greater speed at which information is transferred, reductions of customer search and bargaining costs, availability of wider selection range at lower costs, reduction of various firm operational costs (e.g. distribution, inventory management, marketing, sales, communications, etc.), scale economies, simpler transactions, faster delivery, etc. *Complementarities* indicates that value may be created through the bundling of complimentary products and services (vertically or horizontally), the combination of online and offline assets, the offering of complimentary goods not directly connected to the core transactions, capitalizing on complementarities among activities (e.g. supply chain integration) and technologies, etc. *Lock-in* indicates that value may be created through increasing switching costs for customers and their encouragement to engage in repeated purchases (by means of loyalty programs, virtual communities, familiarity with interface, etc.), positive network externalities with growing customer value the larger the customer base gets, etc. And, finally, *Novelty* indicates that value may be created through innovation in new transaction structures, content, participants, etc.

In a study of thirteen Israeli-based firms conducting e-business Shneor (2004) identified a fifth value driver which may be located between efficiency and lock-in titled – '*Availability*', indicating that value may be created through greater firm exposure, higher accessibility across boundaries of time and geography, strengthening of brand awareness, expanding market share, etc. And as with previous drivers, this driver is interdependent with the rest. A related proposition has also been made by Doern & Fey (2006), who based on a study of e-business in Russia have identified a driver titled '*Accessibility*', referring to the extent to which customers have access to goods and services and firms have access to buyers and sellers. However, since value, in this case, is created by reducing search and information costs, one may argue that their interpretation overlaps with Amit & Zott's efficiency driver.

As the concepts of the Internet and the value creation drivers associated with its commercial use have been outlined, one can proceed to zoom out and investigate the use of Internet and e-business models in the context of international business. In order to do so one should first account for environmental conditions that may influence the employment of Internet-based solutions for international market development. The following section provides a brief introduction to such concerns.

2.2 Environment and market conditions

As with traditional foreign market entries, conditions in new environments are of great importance for the firm entering that market; however, new considerations unique to the employment of e-business models may emerge. In this context, Javalgi & Ramsey (2001) have suggested four types of 'infrastructures' that influence e-commerce growth in foreign markets:

Information technology and telecommunication infrastructure includes conditions as reflected by the penetration of computer infrastructure, Internet infrastructure, and communications and information exchange infrastructure.

Socio-cultural infrastructure includes organizations, institutions, social systems and associated relationships, and the process by which resources are distributed between them. Cultural elements such as language, education level, belief and value systems, traditions and habits, all of which influence technological innovations and entrepreneurial spirit.

Commercial infrastructure includes the availability, convenience, and quality of services provided by financial institutions and hardware manufacturers, as well as access to - sophisticated programmers, network access providers, providers of web and design services, and market research organizations. Moreover, the growth of e-commerce is dependent on the emergence of a new Internet-related industry, not only enabling the technology but also ensuring security, reliability and affordability of Internet-based services.

Government and legal infrastructure, which is related to industry promotion schemes, and balancing consumer protection and national interest protection. These may include issues such as taxation and electronic payment regulations, as well as concerns of security, privacy, liability, preventing cross-

border fraudulent activity, copyrights and intellectual property protection, database protection, adherence to local advertising regulations, etc.

The importance of these elements have been widely acknowledged and led to growing literature on the ‘e-readiness’ of markets, especially in the context of market entry selection strategies (Karavdic & Gregory, 2005, Rothaermel, et al., 2006) and the potential contributions an Internet economy might have for developing countries and markets (Duncombe & Molla, 2006, Hinson & Abor, 2005, Lund & McGuire, 2005, Pucihar & Podlogar, 2005). The most famous country e-readiness indicator is the Economist Intelligence Unit’s (EIU) e-readiness index, annually rating countries based on six indicators – connectivity, business environment, e-commerce consumer and business adaptation, legal and regulatory environment, and social and cultural infrastructure (Economist Intelligence Unit, 2006).

Once sufficient background information had been provided about the Internet and its commercial potential, as well as on the related environmental concerns for its international applications, we may now explore the emergence of Internet-enabled internationalization, and its influences.

2.3 Internet-enabled internationalization

Internationalization is defined as the process of increasing involvement in international operations (Welch & Luostarinen, 1988). The definition of Internet-enablement, as is suggested in this paper, is the incorporation of Internet technology and applications into the firm’s operations, enhancing efficiency and transforming strategies to create new business models, adding customer value and increasing company profitability through improved information exchanges and communications. Combining these two, *Internet-enabled internationalization* is defined here as the incorporation of e-business models into the firm’s increasing involvement in international value creation activities.

Attempting to capture the ‘increasing involvement in international value creation activities’, this paper follows the course set by earlier research which focused on the international marketing dimension of these efforts, involving market entry and service choices. A number of authors (Hamill, 1997, Prasad,

et al., 2001, Samiee, 1998) have suggested different characterizations of Internet's influence on international marketing practices (for a summary of these approaches see table 1).

Table 1:
Internet and International Marketing

Article	Areas of Internet influence
Hamill (1997)	<p><i>Communications</i> – use of new tools (e-mail, online telephony, etc) with different actors in the firm's international network, including internal geographically dispersed units, or external actors such as clients, suppliers, agents, distributors, etc.</p> <p><i>Market Intelligence</i> – easy one point access to enormous information at minimal costs (including – market and industry reports, professional and commercial directories, media and journals, competitor information, regulative and legal information, customer preferences and opinions, etc.)</p> <p><i>Sales promotion</i> – launch of informative, interactive and transaction facilitating websites as tools for disseminating company and product information, customer interaction, and transaction processing.</p>
Samiee (1998)	<p><i>Business process</i> – development of web-based proprietary tools for tracking orders and transactions, negotiating contracts, assessing and entering new markets, etc.</p> <p><i>Revenue generation</i> – development of websites and collaboration schemes for direct sales, promotions and communications by both retailers and wholesalers.</p>
Prasad et al. (2001)	<p><i>Communication channels</i> – enabling two way interactive information exchanges between prospective buyers and sellers, allowing new ways to match demand and supply, as well as adjust supply to demand.</p> <p><i>Transaction channels</i> – enables new mechanisms for economic exchanges between prospective buyers and sellers.</p> <p><i>Distribution channels</i> – enables the use of new physical exchanges options (especially relevant to digital products), but also adaptation of channels to Internet unique conditions as a service platform.</p>

A refinement of the views presented by these authors may include predictions of Internet's influence on the firm's use of communication channels (how to communicate with internal and external members of the firm's network), transaction channels (how to process billing procedures and payments), distribution channels (how to deliver and promote products and services through new actors and communication platforms), intelligence gathering channels (how to collect data about

competitors and market conditions), and business process engineering channels (how to improve processes by technological adaptations to web-based platforms).

However, these characterizations are generic in nature and provide very limited insights into the dynamic aspects enshrined in internationalization process approaches. For the time being, it seems that no decisive conclusions are available concerning the influence of Internet on international business development. Karavdic & Gregory (2005) identify two schools of thought: one predicting little or no impact, putting premium on the role of experience and commitment in internationalization efforts, while the other predicting speeding up export processes through an expansion of communication and distribution channels. These conflicting approaches reflect the growing debate on the extent to which Internet-enabled internationalization is revolutionizing the way firms conduct international business, and may, therefore, be different from traditional approaches to international expansion.

Notions of fast internationalization are also closely related to what has been developed by a number of scholars into the 'born global' phenomenon (Andersson & Wictor, 2003, Borsheim & Solberg, 2004, Gabrielsson & Kirpalani, 2004, Hashai & Almor, 2004, Knight & Cavusgil, 1996, Madsen, et al., 2000, Madsen & Servais, 1997, Moen, 2002, Moen & Servais, 2002, Rasmussen & Madsen, 2002, Sharma & Blomstermo, 2003), defined as 'small, technology-oriented companies that operate in international markets from the earliest days of their establishment' (Knight & Cavusgil, 1996). However, very few of these authors equate Internet-related or Internet-based firms with being 'born global'. Hence, the family of firms that may be defined as 'born global' is a wider group incorporating knowledge-intensive and technology-intensive firms, which from inception view the world as their target market. And this leads these firms to develop international markets based on cross-border entrepreneurial networks of professionals, which may leverage advantages enshrined in Internet technology but are not completely dependent on it.

At this point, it is important to stress that the current paper does not limit its analysis to born-global type firms, but may include traditional firms that are in a sense 'born-again global', as defined by Bell et al. (2003). Hence, the focus is on the use of Internet technology to develop international markets, and not necessarily including knowledge-intensive, or technology-intensive fast internationalizing firms from inception.

2.4 The Influence of the Internet on Internationalization Efforts

The following section will provide an overview of the main predictions and findings emerging from existing investigations into the influence of Internet on the firm's internationalization efforts. This discussion will revolve around three main points of reference – potential changes to the firm's internationalization process, changes to general commercial conditions, and changes to the firms' internal value-creation activities and organization.

2.4.1 Changes to Dimensions of the Internationalization Process

Faster internationalization

Petersen et al. have suggested three different predictions about the effects of the Internet on the speed at which foreign market expansion will take place, being either a moderate effect, inducing faster expansion, or as causing rash unsuccessful foreign market expansion. Bearing these alternative paths in mind, the most common prediction suggests that by proper adoption of Internet-enabled solutions firms can internationalize faster, meaning that new markets may be entered more quickly than predicted by traditional approaches, such as the Uppsala Model and the Innovation Adoption Models (Arenius, et al., 2005, Bennett, 1997, Borsheim & Solberg, 2004, Chrysostome & Rosson, 2004, Donovan & Rosson, 2001, Forsgren & Hagström, 2001, Hamill, 1997, Hamill & Gregory, 1997, Loane & Bell, 2002, Quelch & Klein, 1996).

This is explained by a number of reasons, as suggested by Petersen et al. (2002) and Prashantham & Young (2004): first, search costs for international customers and partners, as well as costs of initial evaluation of their potential, are reduced; Second, sunk costs associated with international expansion are reduced by conducting business online with foreign clients, and especially those interested in competitively-priced standardized products; Third, communications costs with customers and partners are reduced; And fourth, experiential knowledge will develop faster as employees interact with foreign clients through more intensive cross-cultural exchanges.

However, other authors challenge such assumptions. Chrysostome & Rosson (2004) claim that cost savings are hard to achieve, may be less significant than expected, and in some cases may even rise as a result of Internet use. A rise in costs is associated with website creation, maintenance and updating, website translation and cultural adjustments, as well as recruitment of specialized staff. Second, some authors (Grant & Bakhru, 2004, Petersen, et al., 2002, Tiessen, et al., 2001) challenge the prediction of a decreased effect of liability of foreignness, claiming that national and linguistic adaptations as well as the availability of local resources and capabilities, are all still necessary to communicate effectively with foreign customers and partners, and support the development of trust.

Wider internationalization

The Internet makes it possible for firms to instantaneously position themselves on many foreign markets (Petersen, et al., 2002), and exporters may not even need to decide which foreign markets to serve, as customers everywhere are liable to place orders (Bennett, 1997). In this sense, the location of the firm or the customer becomes irrelevant, especially in the developed world (Loane & Bell, 2002). This is explained by the fact that when launching a website a firm may become global simply by virtue of becoming available to anyone using the internet (Chrysostome & Rosson, 2004), a claim also strengthened by economic reasoning where once sunk costs have been invested the costs of serving an additional geographic market are very modest (Forsgren & Hagström, 2001). Other explanations involve the relative ease at which information concerning foreign market conditions, competitors, potential partners, distributors and clients, may be found online; and, therefore, help strategic decisions towards certain foreign markets (Hamill, 1997).

Opposition to this view has been raised in Donovan & Rosson's (2001) findings in the fact that location and country-of-origin effects persist in Internet-based commerce, concluding that while Internet may offer global reach, commerce is still conducted locally. This is also supported by Grant & Bakhru (2004) claiming that local and national influences greatly complicate the simple picture of globally standardized Internet transactions, requiring investment in multi-lingual presentation of content as well as accommodating technical and customer services.

From psychic distance to market potential based internationalization

A number of empirical studies indicate that firms intending to embark on international expansion while using the Internet seem to be guided more by market prospects rather than by psychic distance (as suggested by the Uppsala model). The logic for this may be found in Karavdic & Gregory's (2005) suggestion that if exporters want to exploit the full potential of e-commerce, it is vitally important that an export market has developed e-commerce infrastructure with easy and affordable access to e-commerce networks. These notions are also supported empirically. Forsgren & Hagström's (2001) study of Internet-related firms from Sweden, has shown that rather than cultural affinity or reduced uncertainty, the main reason given for market entry choice was the maturity of markets in terms of Internet usage levels. This was further supported by Borsheim & Solberg (2004), who found that all four Norwegian Internet born global companies in their sample have referred to technological level and market volume as important criteria for their international market selection decisions.

Emergence of new ways for developing experiential knowledge

The literature identifies two main ways for acquiring market-specific information and experiential knowledge – (1) an increased accessibility to market intelligence and the facilitation of intensive cross-border interactions via the Internet platform, which might be most suitable for resource limited firms (Hamill, 1997, Loane, 2005, Petersen, et al., 2002); and (2) the incorporation of experiential knowledge through foreign acquisitions, which might be more suitable for resource-rich firms (Forsgren & Hagström, 2001).

However, while authors agree that much helpful explicit knowledge may be found online, some are concerned that it will not replace relevant tacit knowledge, which may only be acquired through lengthy time-consuming experiences. And this may be critical enough to limit the actual helpfulness of the Internet to SME's in their efforts to penetrate foreign markets (Chrysostome & Rosson, 2004).

So far, concerns relating to the Internet's influence on dimensions of the internationalization process have been surfaced. In the following sections, attention will shift to the changes Internet brings about to general commercial conditions and to the firm's internal organization and practices.

2.4.2 Changes to General Commercial Conditions

Emerging new forms of market service

Vila & Küster (2004) acknowledge the emergence of the ‘virtual branch’ as a new non-physical market entry option; serving as a distribution channel to customers abroad, not requiring the creation of physical sales outlets in foreign markets. However, empirical evidence shows a mixed reality where such market-specific websites exist either independently or in addition to a supporting physical presence in the target market, either via a local partner or through a firm’s own subsidiaries (Arenius, et al., 2005, Borsheim & Solberg, 2004, Donovan & Rosson, 2001, Forsgren & Hagström, 2001, Loane & Bell, 2002). In any case, one may argue that entry mode choices are closely related to the context within which the firm operates – hence, providing a major decisive role for local conditions and preferences in choice of market service formats.

Changing role of intermediaries

Internet adoption is associated with elimination of process redundancies through direct interface with customers, suppliers and strategic partners (Karavdic & Gregory, 2005, Prasad, et al., 2001). However, as suggested by Quelch & Klein (1996), a changing role of intermediaries is more likely than their disappearance. On the one hand, the Internet can connect end-users with producers directly, allowing for speedy and responsive transactions, and therefore reduces the importance of intermediaries; but on the other hand, this may lead to inefficiencies created by information overload. In this situation, intermediaries may emerge as information collection, filtering, analysis, interpretation, and dissemination mechanisms. And therefore, the critical resource of agents and distributors becomes information rather than inventory. This was shown in Prashantham & Young’s (2004) study of Indian software firms, highlighting the role of Internet-based intermediaries as trust facilitators with potential clients abroad, as a source for commercial opportunities (projects, tenders, etc.), and as an arena for fair competitive bidding.

Making markets

Klein & Quelch (1997) describe the emergence of new market makers (MM's), bringing together buyers and sellers through the creation of an online marketplace, where interactive and often real-time negotiations take place. They identify three forms of MM's including: auctions, single buyer markets, and pure exchanges. *Auctions* are online marketplaces where negotiations of price between independent buyers and sellers are implemented via a system-wide standard auction open to all participants. *Single buyer markets* are markets established by a large buyer for its suppliers, where they respond to requests for quotes from different firm divisions. And *pure exchanges* are marketplaces where individual buyers and sellers are matched according to product offering and needs, and price negotiations are held on a one-on-one basis.

Adding to these, Villa & Küster (2004) introduced the virtual trade shows, either conducted online parallel to an offline exhibition or conducted only online. This new platform may be viewed as a combination of market maker and promotional tool, fulfilling the same function of bringing buyers and sellers together to common arenas of exchange.

MM's are manifestations of re-intermediation trends, countering disintermediation trends in traditional channels. The new market making intermediary can serve both suppliers and buyers more efficiently through personalized refinement of large amounts of information, transaction facilitation, order processing, arranging credit and finance, contacting potential partners to address commercial opportunities, serving as an insurance seal for trust-worthiness of unfamiliar firms, etc.

Leveling the playing field

Various authors (Chrysostome & Rosson, 2004, Poon & Jevons, 1997, Prashantham & Young, 2004, Quelch & Klein, 1996) discuss different elements through which the competitive playing field is leveled. These elements include: reduced costs, standard technology, equal availability of cheap and valuable market information, more efficient capital flows, availability and use of trusted market makers, and the leveraging of relationships via international business networks; all thanks to which, smaller firms are better able to compete with large firms on a more leveled basis.

However, small businesses will also face increased competition once using the Internet for international business development. And in such cases, limited resources will make it difficult to compete with larger firm's budgets and prices (Chrysostome & Rosson, 2004). Still, competitive solutions may be found in collaborative arrangements in business networks and strategic alliances, which are also important for generating traffic to websites and business opportunities to firms (Poon & Jevons, 1997). These are supported by the connectivity of the Internet facilitating intra- and inter-organizational coordination (Prasad, et al., 2001).

Increasingly competitive pricing

Pricing policies are influenced by a number of developments arising from Internet use, pressuring firms towards more internationally competitive pricing. Quelch & Klein (1996) suggest that through the Internet customers may quickly become aware of price discrimination and may not tolerate it, pointing to the role of 'smart agents' searching the net for products according to pre-specified criteria, revealing different prices and suppliers, and by that adding pressure towards standard pricing across borders. Moreover, Karavdic & Gregory (2005) suggest that by simplifying transactions and reducing distribution costs, products may be offered at more competitive prices online, also suggesting that online transactions allow individual customers to benefit from scale economies through demand aggregation and bulk purchasing options.

However, when SMEs are concerned, it is important to note Chrysostome and Rosson's (2004) concern that price transparency makes SME's life more difficult rather than easy, as they may find it harder to match larger competitors' budgets and price offerings.

Mass customization

Prasad et al. (2001) claim that the Internet enables marketers to target specific groups or individuals and answering their particular needs through analyzing massive databases of customer preferences and characteristics. In this context, Karavdic & Gregory (2005) identify three benefits emerging from utilizing e-commerce in product adaptation, including: improved competitiveness and quality of service, building and usage of marketing databases for profiling customers and creating personalized

offers for them, and mass customization of products and services, allowing customers to receive customized solutions at mass market prices.

Customer is king

According to Methlie (2000) since customer values are actually the supplier's value proposition, and this value proposition changes once a business moves into the net, a customer-centric perspective should be adopted. Further strengthening this notion, Percival – Straunik's (2001) claims that in the Internet era the customer is king. Thanks to declining asymmetries in information, customers are no longer loyal out of necessity, but rather out of choice. The Internet arms customers with similar information companies have, thanks to the ability to compare products instantly online, making them 'price-makers' and not just 'price takers'. Understanding customer needs and matching their expectations will persuade customers to make purchases, and return for repeated purchases.

In this context, Rayport & Sviokla (1994) suggested that by moving online three basic value proposition components fundamentally change – content (what the company is offering), context (how the company offers it), and infrastructure (what enables the transaction to occur). Different content as information about products replace the products themselves. Different context as electronic on-screen transaction replaces a face-to-face transaction. And different infrastructure as computers and communication lines replace physical shops and commercial areas. These challenges are further complicated by adding an international dimension to transactions, requiring adaptations of content, context, and infrastructural dimensions of the value propositions to differing customer preferences and tastes in different national markets.

Emergence of niche markets

Klein & Quelch's (1996) claim that small firms offering specialized niche products may find critical mass of potential customers to succeed through the vast international reach of the Internet. Vila & Küster (2004) suggested more cautiously that some tension exists between market concentration strategy, preferring to address niche markets, and the undifferentiating strategy preferring to develop

global segments based on the high reach the Internet enables. Still, they recognize that the former has received most of the support in the existing literature thus far.

2.4.3 Changes to the Firm's Internal Organization and Practices

Emergence of Intranets

According to Quelch & Klein (1996) creating internal networks facilitating communications and transactions among employees, suppliers, independent contractors, and distributors may be the Internet's principal value for MNCs. The types of internal communications an intranet can support includes: one-to-many broadcasts of corporate policies, product and market news to different divisions around the world, as well as providing access to company databases, phone directory and reports; it also can facilitate many-to-one communication for information collection from specific divisions and individuals worldwide; moreover, it supports many-to-many communication in the form of real-time, synchronous audio and video discussions between operating units, as well as the ability to hold real-time cross-location training sessions; and finally, firms may also use intranets for conducting internal transactions between autonomous units within the organization, or as limited access areas for suppliers to compete in internal bidding for supply contracts of subcomponents to different units world-wide.

Automation of processes

Samiee (1998) proposed that the use of the Internet may enable the automation of business processes that were traditionally performed manually, including - bidding, purchasing, inventory management, order and shipment tracking. In addition, Prasad et al. (2001) suggest that the Internet can enhance productivity and effectiveness of sales force through the automation of process supporting field sales forces and integrating dispersed sales activity into a central information structure; these may include the provision of up-to-date information on customers, prospects, products, promotions, prices, and competitor offerings; automation of repetitive tasks such as proposal development, pricing, provision of product literature, compiling sales reports, and scheduling sales calls; as well as improving customer contact efficiency through information on prioritized leads.

Establishing new units and procedures in support of Internet operations

Samiee (1998) claims that Internet presence is neither free nor a one-time expense; involving costs associated with hardware, software and trained personnel that can continually manage and update the firm's websites. However, beyond ongoing website management, Quelch & Klein (1996) highlight the need of multinationals to invest in setting up global task forces of executives to coordinate the presentation of corporate identity on multiple websites, potentially appointing a particular unit as a center for homepage development and updating; which, in addition, may require the recruitment of specialized customer service staff for serving the highly demanding crowd of Internet users. Moreover, they also stress the need for a worldwide approach to crisis management, as the Internet allows for rapid dissemination of information about product quality problems and cross-border differences in quality, price, and availability.

In summary, both changes to the general commercial conditions prevailing in international markets and changes influencing company organization and value creation activities have direct and important effects on international strategy and planning. The changing role of intermediaries and the emergence of market makers require reconsideration of distribution channels' utilization. Competitive pressures on pricing require the employment of more flexible and frequently updated pricing mechanisms to be supported by cost reduction through the automation of processes. A growing demand for highly specialized and customized products and services require flexibility in both the way products are presented and delivered, also enhanced through rising importance of niche market strategies. And finally, the emergence of global accessibility requires new strategies for brand development and management, as well as the redesign of advertising and promotional campaigns based on both cross-market common themes and market-specific differentiated content.

2.5. Cautious Assumptions – Putting Things into Perspective

Although this paper joins optimistic predictions about the Internet's potential to significantly change the way firms do business internationally, it also acknowledges cautious preliminary assumptions

dispelling some of the myths associated with faster and wider Internet-enabled internationalization. These are reflected in the following list of concerns raised in earlier works:

First, *going online is not a one time investment* (Donovan & Rosson, 2001, Samiee, 1998) – it involves catalogue and price updates, constant interaction with clients for service and feedback, monitoring competition, identifying new and changing advertising platforms, order processing mechanisms, delivery services, etc. All of which are in addition to investments in traditional export infrastructure.

Second, as a direct result, *products will not be diffused over night* – advertising or putting products online for sale is not sufficient for their diffusion into markets. Sales efforts should be directed at personalization and customization of solutions, building up brands and reputation, enhancing customer relations and trust, directing traffic to websites through multiple links to partners, leveraging new advertising platforms for reaching maximum exposure, and adapting product presentations and advertising to different market conditions and segments internationally.

Third, *price differences will not disappear* – although customers are exposed to price differentials and conduct price comparisons online, the reputation of firms and brands, positive client feedbacks, easier and simpler order processing mechanisms, attractive presentations, multiple delivery options, real-time delivery tracking, and differing taxation levels in various countries will continue to create price differentials that may be narrowed but not eliminated. In this sense, these elements stress price differences over price conversions, which are recognized but undermined by authors stressing price conversion trends (Borsheim & Solberg, 2004, Klein & Quelch, 1997, Quelch & Klein, 1996).

Fourth, *local adaptation rather than global standardization emerges as a competitive challenge* (Chrysostome & Rosson, 2004, Donovan & Rosson, 2001, Karavdic & Gregory, 2005) - critical for this purpose would be the ability to personalize and adapt solutions for specific needs and preferences of different customers in different markets. Although some products may be inherently standard, their packaging, bundling, and accompanying support services and upgrades would become more critical.

Fifth, *local legal and regulative environments will continue to challenge operations* (Grant & Bakhru, 2004, Samiee, 1998) - national taxation issues, governmental export and e-commerce support schemes, laws dealing with national advertising, commercial relationship, client protection, and copyright will all continue to influence the ways firms are encouraged to do business online.

Finally, *foreign languages are important* (Grant & Bakhru, 2004, Karavdic & Gregory, 2005, Samiee, 1998, Tiessen, et al., 2001). Although English is expected to continue being the main language used on the commerce-oriented Internet platforms, the firm's ability to translate websites, catalogues and selling procedures to foreign languages as well as provide customer and technical services in these languages will be a source of competitive advantage when serving foreign markets.

With these underlying predictions and cautious assumptions clarified, in the next section an Internet-enabled internationalization integrated model will emerge.

3. Internet-enabled Internationalization Model

Building on the ideas presented thus far, an Internet-enabled internationalization framework of analysis is suggested. Based on the above literature review, three main types of drivers are identified as putting unique pressures on firms that are developing international exchanges online, and whose balanced mixture results in strategic changes and marketing mix adaptations. These three main types of drivers are: firm-based drivers, market-based drivers, and net-based drivers.

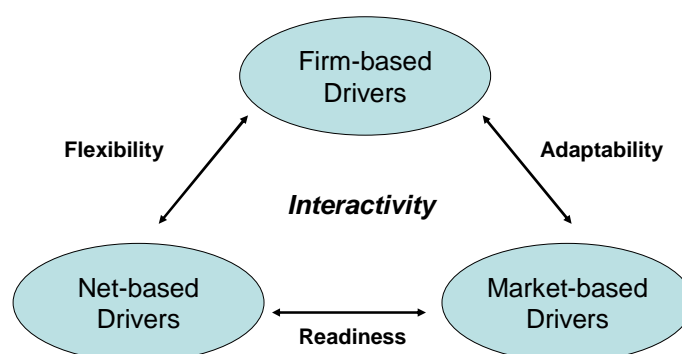
Firm-based drivers are the value creation drivers that were presented earlier – efficiency (costs reductions, greater reach, better information, etc.), novelty (new ways of service, payment, product development, etc.), lock-in (customer attention and retention efforts), complementarities (in what is being offered and how it is being offered by the firm), and availability (extending time and scope of service, customer reach, etc.).

Market-based drivers are infrastructure conditions and market demand indicators, also presented earlier under environmental issues, and including: demand levels for e-commerce, the telecommunication and information technology infrastructure, the governmental and legal infrastructure (supporting commerce, copyrights, customer rights, etc.), the socio-cultural infrastructure, and the commercial infrastructure.

And, finally, *net-based drivers* are the changing commercial conditions prevailing as a result of the expanding commercial use of Internet-based technologies, described in great detail in the previous

section, and include – the emergence of new foreign market service formats, the emergence of new roles for intermediaries, the leveling the competitive playing field, an increasingly competitive pricing, highly empowered customers, and mass customization pressures, to name a few.

Figure 1: Internet-Enabled Internationalization Drivers



Each of these driver groups is interdependent with the others. And this interdependence is further illustrated and explained in the following descriptions:

Adaptability – between firm and market drivers:

The ability to derive value from the employment of firm-based drivers is based on its capacity to adapt to the prevailing conditions in the target market, which are defined by the demand and infrastructural environments in these markets. Quality of Internet connectivity and service will determine how rich presentations can be transferred and how frequently communications may be held. Frequency and quality of communications will further influence the ability to innovate, capitalize on efficiencies, as well as to customize and personalize solutions to local needs and specific clients.

Flexibility – between firm and net drivers:

The ability to derive value from the employment of firm-based drivers is also based on the flexibility in adapting the unique commercial conditions prevailing in the ‘marketspace’. These conditions are

defined by a new market platform with unique players and information exchange mechanisms. The ability to leverage these new mechanisms and to adapt new strategic approaches, while reconfiguring value chain activities, in support of courting and serving online users (business or customers), will contribute to the efficient and effective employment of firm-based drivers. Accessibility to firm offerings will be enhanced by collaborative measures with online partners, and operational efficiency may be enhanced by delegating certain tasks to these new players.

Readiness – between market and net drivers:

In order for a market to derive value from employing Internet-technology in a commercial context, it will need to develop new mechanisms that will make it profitable and interesting for firms and individual customers to use this platform. The powers of network, scale, and scope economies that are embedded in the Internet connection and infrastructure automatically attracts firms to attempt at extracting profits from new and extended markets, especially if that involves greater reach for lower costs. In turn, the overflow of information via the network requires tools for screening and selective exposure, which may emerge in unique Internet businesses (search engines, smart comparison agents, etc.), and their use by traditional companies, previously only active offline.

All in all, one can argue that all these interrelationships are three dimensions of interactivity facilitated by the Internet-technology. This implies bi-directional influences of marketplace, market space and intra-firm conditions, when exploring options of conducting international business online. Once understanding these dynamics, it is equally important to conceptualize how these drivers may be employed, and how the interdependencies between them can translate into unique influences and developmental paths; converging at the point where strategic and marketing mix choices are made.

Employment of firm-based drivers is done through reconfiguration of cross-border value chain activities, making organizational and technological adaptations, such as the establishment of specialized units for facilitating Internet commerce, as well as the deployment of intranets and extranets between internal and external organizations. These activities may be viewed jointly as

‘Readiness’, incorporating all efforts towards preparing the firm’s systems, organization and network for value creation through the Internet.

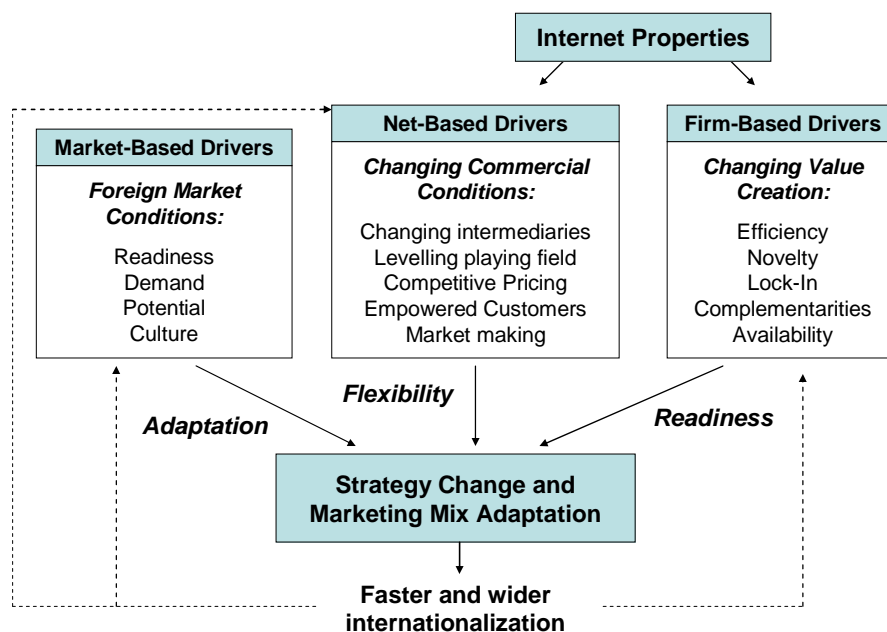
Employment of market-based drivers is done through market potential analysis, evaluating the suitability of certain foreign markets for online service, and in addition, what such service would require in terms of customizing presentation, content and delivery to these specific markets. All these market entry-evaluations and servicing efforts may be viewed jointly as ‘Adaptability’. This means that the firm does not only need to accommodate the new technology into its systems and routines, but also to adjust its offerings, services, and the way they are presented and distributed to foreign customers having different tastes, preferences, institutional environments, and economic capabilities.

Finally, net-based drivers’ employment is done through adjusting internal mechanisms to cater foreign customers via new means operating under the new rules, opportunities, and risks of the Internet-based commercial arena. Firms can redefine their distribution channels using market makers and trusted intermediaries to enter new markets in addition or instead of traditional physical agencies. Firms can also redefine their promotional and advertising campaigns to online formats of virtual trade shows, major public or theme-specific portal websites, social networking websites, etc. Price differentials must be monitored and justified in added value for customers (quality, added services, personalization, etc.). And products and services may be adjusted according to comments gathered in virtual communities, feedback forms, and intimate contacts with customers. All of which may be viewed jointly as ‘flexibility’, implying that marketing mix configurations are interactively set and dynamically changed based on database building, analysis and monitoring, while maintaining intimate relationships with customers, answering competitive pricing pressures, and immediately evaluating online promotional efforts.

While both firm- and net-based drivers are heavily influenced by Internet properties, market-based drivers are influenced by governments, social conventions, and legal institutions. However, they may also be influenced indirectly by Internet properties, mainly through the diffusion of political and economic ideas, knowledge about foreign laws and regulations, socio-cultural learning through frequent interaction with foreigners, and the exposure to information about their culture, traditions,

habits, and languages. Still, this somewhat of a constructivist argument will be more difficult to follow and measure at this early stage of Internet diffusion, as social institutions are assumed to change less rapidly than economic institutions.

Figure 2: Internet-Enabled Internationalization



4. Discussion

Based on the above presentation of drivers, interdependencies, and their influences, some propositions may be formulated with respect to predictions concerning the internationalization efforts' successful outcomes under varying conditions. 'Successful outcomes' may be viewed as either – establishment of a revenue and profit generating foreign market entry using Internet service formats, or an establishment of revenue and profit enhancing online market servicing format, added to existing offline market service formats. In this sense, unlike earlier literatures which mostly focused on small and medium-sized enterprises, the suggested framework and model are applicable to all companies, regardless of size.

In this section propositions are formulated based on different rough estimations of conditions and capabilities concerning each interrelationship between different driver groups. For simplification purposes, the three interrelationships (see figure 1) will be defined as follows: Flexibility (F) is the extent to which firm's operations are adapted to the marketspace mechanisms; Adaptability (A) is the extent to which firm's operations are adapted to target market conditions, environment and preferences; and Readiness (R) is the extent to which a certain market is technically, psychologically, and financially willing and able to explore and conduct online transactions.

Flexibility (F) may be measured through – frequency of using online actors for promotional efforts, number of online distribution alliance arrangements, frequency of competitor price and offerings online monitoring, frequency of website updates, etc.

Adaptability (A) may be measured through - relative number of multi-lingual employees devoted to online market servicing, number of market-specific dedicated websites, hours devoted to online customer database analysis, hours devoted to online customer correspondence analysis, etc.

Readiness (R) may be measured through – various Internet market penetration indicators, number of regular Internet users in the market, frequency of online transactions in the market, average volume of online transactions, percentage of firms having an interactive website, etc.

For further simplification purposes, the following propositions are based on rough estimations of each type of interrelationship, being either – 'High' or 'Low'. More specific evaluations may be formulated based on absolute and relative ranking of firms on the measurements suggested above.

Propositions

One scenario is a situation in which infrastructure conditions are well developed, firms are well informed and able to adapt to both local marketplace and to the Internet's marketspace requirements. Under such conditions, the firm is flexible enough to answer frequent competitive challenges triggered by widely available information. It is operating in a highly developed Internet-supportive market. And it is able to adjust its offerings to local conditions and preferences, possibly winning a premium while

doing so. All of which lead to a prediction of successful outcomes to such Internet-based international operation.

Prop. 1: *When F , A , and R are high – full success of online international operations is expected*

For the same reasons indicated above, when addressing a market which is lacking proper communications and commercial infrastructure, firms have no incentive to invest and launch a flexible and adaptable international business and marketing models. Lack of infrastructure leads to limited developmental level of the marketspace conditions, a situation not requiring flexibility or responsiveness to local needs through adaptability, as market potential is very limited to begin with, if not non-existent.

Prop. 2: *When F , A , and R are low – full failure in non-existing market is expected*

Beyond these two extreme cases a list of middle cases suggest alternative predictions some of them are of detrimental nature, while others may be viewed as unstable temporary situations, likely to be quickly influenced by the relevant bi-directional pressures, manifested in full-fledged interactivity.

One such scenario may be where firms are able to adapt to local preferences and environments as well as to handle flexible operations, but may not fulfill these capabilities due to low readiness in the market, where demand is limited and infrastructural conditions are unwelcoming. This may be a case of a firm from a developed market attempting to enter a less developed market, where there is likely to be little interest and market potential to initiate market entry.

Prop. 3: *When F and A are high and R is low - unfulfilled potential with limited performance, no market entry or quick withdrawal*

Another scenario may be one in which – firms are able to adjust their operations flexibly to online market conditions, they operate in a market with developed infrastructure and high demand, but are unable to adapt to local environments. Such a situation will limit the extent of success a firm may enjoy by entering the market. However, here industrial biases may prevail, where industries

characterized by standardized services and products may perform well when entering a market, while industries characterized with cultural and environmental sensitivities may fail bitterly due to a non-existing match between demand and offering. If such products are sold by a small number of suppliers only part of the demand will be answered and only for a limited time. Such a situation will encourage new actors to enter the market and answer the untapped demands, based on better ability to adapt to local preferences and tastes.

Prop. 4: *When F and R are high and A is low – limited international success is expected based on industry biases, where potential success is reserved to standardized competitive products and services*

Similar to proposition 4, an alternative scenario may be drawn, where a market with high demand and developed infrastructure exists, firms are able to adapt to local tastes, but are unable to leverage the full potential of online international business. In this situation firms may capture some markets where highly personalized solutions are necessary, but they will find it hard to face competition and offer attractive pricing. Again, here one can expect industry biases, where premium priced highly specialized services and products may find a large market based on niche specializations; however, competition is quickly expected to rise, requiring the firm to stress intimate and repetitive relationships with a small group of loyal customers; possibly circumventing competition through customer loyalty programs and high quality offerings.

Prop. 5: *When F is low, and R and A are high – limited international success is expected based on industry bias, where potential success is reserved for niche specialized products and services*

When a market is ripe with opportunity characterized by high demand and developed infrastructure, but is served by incompetent firms unable to adapt to local tastes or leverage net-based advantages, it will be quickly entered by competent competitors that will crash the existing firms. If online competition won't do the job, lacking ability to adapt solutions and create value through unique propositions in agreement with local environmental needs and preferences is likely to cause a fast failure. Again, when a firm might have a standardized product with unique attributes it may generate

some business in the beginning, but will quickly be overrun by more attractively priced and better managed competitors that will gradually emerge.

Prop. 6: *When F and A are low and R is high – unfulfilled potential or lost market opportunity, unchanged firms may have short life span*

Other scenarios may involve market conditions that are inhospitable with low demand and underdeveloped infrastructure, where firms have only partially advanced capabilities either answering needs for local adaptations or needs for flexible operations. However, this could be an indication of market at early stages which may be triggered to develop through firms offering unique specialized or highly standardized but competitively priced solutions with limited availability in traditional channels. In such case a demand may rise, pushing for improved infrastructure, and firms in this situation will find themselves in similar scenarios described in propositions 4 and 5, once market conditions improve and mature.

Prop. 7: *When F and R are low and A is high – non-performing in short term, long term performance depends on market development*

Prop. 8: *When A and R are low and F is high – non-performing in short term, long term performance depends on market development*

In summary, eight propositions were made about the likelihood of success and the pressures firms will be operating under in different scenarios, as defined by rough estimations of flexibility, adaptability and readiness levels. These may serve as an attractive invitation to research examining combinations of firms and target markets in the international context, significantly enriching current understanding of Internet-enabled internationalization. It is the author's opinion that the linkage between properties of Internet, their influence on firms, client and market characteristics has been in dire need, and serves as a unique contribution to the existing body of knowledge. Such an integrative approach and perspective comes a long way from the eclectic nature of existing literature, focusing on certain issues while ignoring others although, as presented here, may actually be closely interrelated.

Table 2:
Summary of Propositions

Prop.	Conditions			Expected Outcomes
	Adaptability	Flexibility	Readiness	
1	High	High	High	Full success of online international operations
2	Low	Low	Low	Full failure in a non-existing market
3	High	High	Low	Unfulfilled potential with limited performance – no market entry or quick withdrawal
4	Low	High	High	Limited international success based on industry biases, where potential success is reserved to firms offering standardized products/ services
5	High	Low	High	Limited international success based on industry biases, where potential success is reserved to firms offering niche specialized products/ services
6	Low	Low	High	Unfulfilled potential or lost market opportunity, unchanged firms may have short life span
7	High	Low	Low	Non-performing in short-term, long-term performance depends on market development
8	Low	High	Low	Non-performing in short-term, long-term performance depends on market development

Conclusion

Many optimistic predictions have been made about the promises of the Internet as a new platform for market expansion, development, and profit making. As presented in the literature review, these predictions, while being interesting and attractive, are not without limitations.

This paper contributes in suggesting an integrative framework and propositions concerning online international operations, while bridging e-business and internationalization literatures, and encouraging closer dialogue between scholars in these respective areas.

The suggested model incorporates three groups of change drivers serving as building blocks for online international strategies – market, firm and net-based. Each complimenting the other by accounting for environmental conditions, internal conditions, and technological conditions accordingly; and a combination of which may eventually serve as engines of successful international expansion and development via the Internet. A balance of interrelationships underlies the proper employment of these drivers through - the flexibility to adjust operations to the electronic market conditions; adaptability to

adjust offerings and business processes to local environmental, cultural and infrastructural conditions; and finally, and probably most crucially, the market readiness reflected in existing observable and unobservable demand, as well as the prevailing infrastructural conditions conducive to wide-spread Internet deployment and usage.

Such approach takes us a long way from the traditional views of internationalization, suggesting new paths and players in the internationalization game, as well as new resource and social constraints. Experiential knowledge may be gained quickly through mass-exposure or imitation of best practices. Lower levels of resource commitments are required for each additional market entered. And finally, psychic distance remains of importance in the sense of firm adaptability, but loses importance in making strategic market entry choices.

Future research should strive to empirically validate the suggested propositions, and further analyze the role of each component in the drivers groups, possibly in different industries and cross-national settings. Of particular importance will be the measurement of the identified interdependencies and their influence through time.

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