International Market Entry by U.S. Internet Firms: An Empirical Analysis of Country Risk, National Culture, and Market Size†

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Internet firms face somewhat unique challenges when expanding abroad. On what basis do U.S. Internet firms choose the international markets they enter? The authors posit that international market entry decisions are based on balancing perceived risks and returns inherent in a foreign target market. Drawing on a sample of almost 7,000 country entry decisions by 179 U.S. Internet firms, they find that country risk, cultural distance, and uncertainty avoidance reduce the likelihood of international market entry, whereas individualism and masculinity increase it. International market size, however, moderates these relationships by weakening the negative effects, while strengthening the positive effects.

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Despite the recent setback for Internet start-up activity in the United States, forecasts indicate that global e-commerce sales will continue to grow over the next few years. Forrester Research predicts that the size of the worldwide Internet market will be $6.8 trillion in 2004 and reach up to $12.8 trillion in 2006. Currently, three quarters of all online transactions worldwide take place in the United States. Industry observers predict, however, that unlike the past decade, an online population outside of North America will dominate the global Internet market in the near future. To exploit these trends, many well-known U.S. firms such as Amazon.com, AOL, eBay, Google, and Yahoo!, among others, have already established country-specific Web sites for European, Asian, and Latin American countries (Kotha, Rindova, & Rothaermel, 2001).

International market entry is an important topic in the management literature (Dess, Gupta, Hennart, & Hill, 1995; Peng, 2001; Tallman, 1992). However, there is a lack of empirical research focusing on the internationalization of entrepreneurial firms (Zahra, Ireland, & Hitt, 2000). In an attempt to close this gap, scholars have recently begun to focus their attention on the internationalization of the Internet, with levels of analysis ranging across the individual, firm, and country (Kotha et al., 2001; Lynch & Beck, 2001; Oxley & Yeung, 2001). Although Kotha and his colleagues (2001) explored firm characteristics that promote internationalization, and Oxley and Yeung (2001) identified country factors that support e-commerce within a country, the choice of market entry by these internationally expanding U.S. Internet firms remains unexplored. Therefore, the central research question of this study is, On what basis do U.S. Internet firms choose the international markets they enter?

**Theory and Hypotheses Development**

U.S. Internet firms venture abroad primarily to access new markets (Zaheer & Manrakhan, 2001). Given the current dearth of dominant non-U.S. online players, the forecasted growth of the global marketplace offers tremendous business opportunities for U.S. Internet firms (Lynch & Beck, 2001). Currently, Internet firms targeting the U.S. market are reaching less than 5% of the world’s population and less than 25% of the world’s purchasing power. In other words, seeking natural resources or efficiency considerations play a subordinate role in the internationalization of Internet firms. Because of the current technological superiority and dominance of U.S. Internet firms globally (Lynch & Beck, 2001), sourcing strategic assets as a rationale for establishing a foreign presence is also subordinate to pure market expansion.

Sheer market size, however, provides an incomplete story of market selection. Thus, the question of how Internet firms choose the international markets they enter remains an open one. Recognizing market size to be an important, yet insufficient factor in explaining international expansion, we focus on how market size interacts with sources of uncertainty inherent in the international target market. Figure 1 depicts the theoretical model advanced to predict international market entry by U.S. Internet firms.
Our overarching theoretical premise is that international market entry decisions by U.S. Internet firms are based on balancing perceived risks and returns inherent in the foreign target market. We posit that perceived sources of uncertainty such as country risk or cultural distance exert a negative direct effect on the likelihood of international market entry. Country risk and cultural distance are more generic sources of uncertainty and have been highlighted in prior research (Cosset & Roy, 1991; Davidson, 1980). Along with these generic sources of uncertainty, we posit that Internet firms face additional uncertainty stemming primarily from national cultural dimensions identified by Hofstede (1984). Here, we predict that a high level of uncertainty avoidance and a large power distance in the target country each have a negative effect on the probability of market entry into this country. In contrast, we hypothesize that high levels of masculinity and individualism enhance the likelihood of market entry into foreign countries exhibiting these cultural traits.

We define an Internet firm broadly to denote firms that are pure Internet concerns and either compete in the business-to-consumer and/or the business-to-business market to conduct e-commerce. We follow Standifird and define e-commerce as
any economic transaction where the buyer and seller come together through the electronic media of the Internet, form a contractual agreement concerning the pricing and delivery of particular goods or services, and complete the transaction through the delivery of payments and goods or services as contracted. (2001: 280)

Country Risk and International Market Entry

The overall country risk in an international market is considered to be a composite of political and economic risks. These risk factors are the most salient in a firm’s decision to enter a specific international market (Cosset & Roy, 1991). A country’s political risk indicates the likelihood that political forces, often a reflection of underlying societal tension and unrest, may cause drastic changes in a country’s business environment that may prove detrimental to foreign business interests. At the extreme, such changes in the business climate can lead to the expropriation of foreign assets, as experienced by U.S. firms after the Iranian revolution in 1979. Similarly, an economic collapse in the host country, much like what occurred during the civil war following the breakup of the former Yugoslavia, can render a foreign firm’s assets worthless. In less extreme cases, changes in a country’s political regime may result in taxes increasing, limiting or prohibiting the repatriation of firm profits to the home country, or imposing exchange rate controls and restrictive technology licensing practices; all of these factors make a country less attractive for international market entry. In a similar fashion, a country’s economic risk points to economic forces that may result in drastic changes in the business environment that are detrimental to business interests. Here, economic mismanagement and corruption are chief among the causes of increased economic risk, often resulting in high inflation, capital flight, and debt defaulting.

The literature in the new institutional economics has emphasized that a country’s institutional environment determines its political as well as economic risk (North, 1986). Although a country’s risk is easily understood when considering the internationalization of large multinational enterprises (MNEs), a country’s institutional environment is as critical to the business activity of Internet firms as it is to MNEs. On the basis of their empirical analysis of e-commerce activities within 30 different countries, Oxley and Yeung (2001) found that a country’s technological infrastructure—such as the number of personal computers, land-based telephone lines, mobile users, etc.—is a necessary but not sufficient condition for e-commerce. These researchers emphasized institutional factors, in particular the rule of law and credible payment channels, as being critical in predicting the Internet activity within a specific country.

If the institutional environment of a country is not sufficiently developed to curb political and economic risks, a flourishing e-commerce market may not emerge because trading partners have no efficient recourse to legal or financial institutions should cyberspace transactions break down (Oxley & Yeung, 2001). In particular, identity theft and credit card fraud are rampant in cyberspace, particularly in less developed countries (Dalton, 1999). Accordingly, several U.S. Internet firms evaluate a country’s risk explicitly when considering international expansion. For example, Digital River, an online wholesaler of software and music, uses sophisticated software tools to assess the potential for fraud in specific countries around the
world. Therefore, we suggest that country risk in international markets deters entry by U.S. Internet firms.

**Hypothesis 1:** The higher the country risk in the international target country, the lower the probability of market entry by Internet firms.

### Cultural Distance and International Market Entry

The difference in cultural values between the home and target country provides an additional level of uncertainty along with uncertainty stemming from political and economic risks. Hofstede defined culture as “the collective programming of the mind which distinguishes the members of one human group from another. . . . Culture, in this sense, includes systems of values, and values are among the building blocks of culture” (1984: 21). Cultural distance, therefore, refers to the cultural disparity between the internationally expanding firm’s home country and its targeted host country. A firm’s decision to enter certain international markets is influenced by cultural differences that lead to a variance in uncertainty and cost of conducting business in international markets. Scholars have provided evidence that cultural differences affect international business decisions such as market entry (Davidson, 1980), entry mode choice (Kogut & Singh, 1988), effectiveness of global strategies (Palich & Gomez-Mejia, 1999), and local responsiveness (Luo, 2001).

For example, Davidson (1980) found that firms prefer to make foreign direct investments in countries with cultures similar to their own because it is easier and less risky to market products and services in such countries. In turn, executives avoid markets with more distant cultures where they lack understanding of the business environment and values because of challenges such as valuing investments, transferring management practices, or gathering information (Shane, 1994). Moreover, cultural differences are important predictors of entry mode choice when U.S. firms internationalize. Kogut and Singh (1988), for example, suggest that the greater the cultural differences between the home country and the target country, the greater the perceived uncertainty of doing business in that country, and therefore, the more likely is market entry through a joint venture. In sum, past studies provide evidence that cultural distance between a home and a host country can significantly influence the internationalization process.

Despite competing in the borderless realm of cyberspace, U.S. Internet firms may not be immune to the influence of cultural differences. A key advantage Internet firms have over traditional brick-and-mortar businesses is reduced transaction costs (Park, Mezias, & Song, 2004). This advantage is likely to be diminished, however, if cultural differences raise transaction costs for internationally expanding Internet firms. That is, Internet firms may be particularly vulnerable to associated transaction costs because of cultural differences, particularly if they also face viable host country competitors. Recently, Lynch and Beck (2001) analyzed Internet users in 20 different countries and found significant variation in beliefs, attitudes, perceptions, and Internet buying behavior across geographic regions. Although they do not attribute such differences directly to culture, past studies have shown that geographic distance is correlated with psychic distance, defined as the differences stemming primarily from culture and language between the home and target country (Kogut & Singh, 1988). Because cultural
values do affect consumers’ motives, attitudes toward choices, intentions, and behavior (Jarvenpaa & Tractinsky, 1999), Internet firms operating in international markets that are culturally different from their home market environments are likely to face higher levels of uncertainty and risk.

**Hypothesis 2:** The greater the cultural distance between the United States and the international target country, the lower the probability of market entry by U.S. Internet firms.

**National Cultural Values and International Market Entry**

In general, differences in culture may reduce the likelihood of international market entry. However, specific aspects of national culture can also impede international expansion by Internet firms. For instance, although the business models designed and developed to facilitate Internet transactions in the U.S. market seem to work well domestically, those same models may not be fully transferable to foreign countries. When predicting international market entry, we consider the four national cultural dimensions identified by Hofstede (1984): uncertainty avoidance, individualism, masculinity, and power distance.

**Uncertainty avoidance.** The uncertainty avoidance dimension of culture deals with societal differences in their tolerance toward ambiguity and uncertainty. In particular, it highlights the extent to which members of a certain culture feel anxious when faced with uncertain or unknown situations. On one hand, members of cultures with high uncertainty avoidance, like Russia (95/100, with 100 = high), value clear rules and regulations, as well as clearly structured career patterns, lifetime employment, and retirement benefits, for example. On the other hand, members of low-uncertainty cultures, like Singapore (8/100), are characterized by greater tolerance toward ambiguity and thus exhibit less emotional resistance to change and greater willingness to take risks.

The general avoidance of uncertainty has significant implications for the success of Internet-mediated business models because this new technology represents a radical process innovation (Rothaermel & Sugiyama, 2001). Without sufficient knowledge about processes and procedures on how to conduct electronic transactions, people tend to hesitate to engage in electronic commerce. It is for this reason that firms like Amazon.com introduced the universally ubiquitous “shopping cart” metaphor to help people transition from the physical world to the online world. In other words, technology change of this magnitude creates uncertainty and a potential reluctance on the part of the general public to adapt to the new technology. The reluctance to adopt the new Internet technology is likely to be greater, the higher the level of uncertainty avoidance in a specific country.

Second, to fully exploit the potential of Internet technology, consumers often need to divulge personal information. For example, getting consumers to provide private information is critical for the effective use of strategies pursued by many online retailers such as Amazon.com and portals such as Yahoo! Moreover, these sites also use personalization strategies to provide meaningful recommendations for services and products that are tailored to a customer’s unique needs and purchasing trends. Jarvenpaa and Tractinsky (1999) used Hofstede’s cultural dimensions to examine international consumer differences in trust toward
Internet stores. They hypothesized that different cultures might have dissimilar expectations of what makes a Web merchant trustworthy (Kasper-Fuehrer & Ashkanasy, 2001), a factor that is directly linked to a firm’s performance because it plays a significant role in converting Web surfers to paying customers (Kotha, Rajgopal, & Venkatachalam, 2004). Bellman, Johnson, Kobrin, and Lohse (2000) showed that the level of comfort consumers feel in sharing personal information online varies widely across Canadian, Australian, and European consumers. The level of comfort is likely to be linked to a society’s differential preference for uncertainty when engaging in e-commerce.

Taken together, we posit that a higher level of uncertainty avoidance in an international target market increases the level of uncertainty faced by U.S. Internet firms concerning the viability of the online business model in general and customized marketing strategies in particular, and thus commensurately reduces the likelihood of market entry.

**Hypothesis 3a:** The greater the uncertainty avoidance in the international target country, the lower the probability of market entry by Internet firms.

**Individualism.** The individualism dimension of culture focuses on the relationship between individuals in a society, particularly in regard to the relationship between individual and collective pursuits. In highly individualistic cultures, like the United States (91/100), individual freedom and achievements are highly valued, and individuals are only tied loosely to one another in society. In less individualistic cultures, like Venezuela (12/100), the collective good is emphasized over the individual, and societal members are strongly tied to one another throughout their lifetime by virtue of birth into collectives like extended families.

In a collective culture, interpersonal relationships play an important role in business transactions. Trust more often needs to develop on an individual-to-individual basis prior to engaging in business. There is greater emotional interdependence at a personal level. In contrast, cultures that maintain individualistic values focus more heavily on the transaction itself and less on the personal relationship. The task at hand tends to prevail over personal relationships.

Moreover, high-context communication is an important aspect of collective cultures (Gudykunst & Ting-Toomey, 1988). In collective societies, communication is highly nuanced and involves much more than merely the spoken or written word (Hall, 1976). Nonverbal signals, cues, and mannerisms including voice tone, body language, and facial expressions, conveyed only through face-to-face contact, play an integral part in the communication process. In individualistic and low-context societies, in contrast, messages are carried more by words than nonverbal signals. Meaning tends to be expressed explicitly.

Technologies developed in Western individualistic settings, like the Internet, often assume a modern and individualistic society (Triandis, 1973). Such assumptions can cause difficulty when the technology is transferred to a society with different values. Internet-mediated transactions depersonalize business transactions (Rothaermel & Sugiyama, 2001). The communication between transacting parties is not as rich as that occurring face-to-face and may not be as conducive for relationship building or nuanced communication. Thus, the Internet may not be as good of a fit for collective societies as individualistic societies, which may make more collective societies less attractive markets to enter.
In contrast, members of individualistic societies strongly value individual freedom and are generally only loosely tied to one another. The Internet clearly facilitates the striving for individual freedom and independence from group pressures and other societal norms. Internet activities, including e-commerce, can be conducted alone in a private setting, 24 hours a day, 7 days a week, 365 days a year. A strong individualistic national culture facilitates Internet-mediated business and thus should enhance the likelihood of market entry by Internet firms.

Hypothesis 3b: The greater the individualism in the international target country, the greater the probability of market entry by Internet firms.

Masculinity. The masculinity-femininity dimension of culture focuses on the relationship between gender and its relation to an individual’s role at work and in society. In more masculine cultures, like Japan (95/100), gender roles tend to be clearly defined and sharply differentiated. Traditional masculine values like competitiveness, assertiveness, and exercise of power are considered cultural ideals. In more feminine cultures, like Sweden (5/100), gender roles are much less delineated, and traditional feminine values like cooperation, humility, and harmony are guiding cultural principles.

Countries that are more masculine in their cultural orientation are arguably akin to what Moore (1991) called innovators because they are ones that pursue new technology more aggressively. As Moore describes them,

They sometimes seek them [new technologies] even before a formal marketing program has been launched. This is because technology is central in their life, regardless of what function it is performing. At the root they are intrigued with any fundamental advance and often make a technology purchase simply for the pleasure of exploring the new device’s properties. (1991: 13)

Although Moore’s assertions are directed at the individual level and at selling new technology products to this group, we submit that it is not a stretch to argue that nations around the world differ significantly in how they pursue and adopt new radical technologies.

Moreover, Kluckhohn and Strodtbeck (1961) argued that one important dimension along which cultures vary relates to how a given culture views its relationship to nature. Cultures that see themselves as having mastery over nature believe that they can effectively control the world around them. Technological advances provide the means by which nature can be controlled. These cultures tend to rapidly adopt new technologies that enable them to fulfill their need for being competitive and assertive, and thus to have a sense of control. Therefore, rapid adoption and accommodation of Internet technology is arguably more consistent with masculine values.

The integration of Internet technology into business models has been purported to enhance organizational efficiency and thus improve competitiveness (Dewett & Jones, 2001). Prior to the Internet, many tasks, from the mundane to the complex, had to be conducted through intermediaries, but the arrival of Internet technology changed such dependence. For masculine societies that value control, competitiveness, and assertiveness, Internet technology opens a new world in which they can exercise their needs. The technology also provides a means of setting themselves apart from others. In contrast, more feminine societies are likely to be less
driven to accept efficiency-providing technology and tend to appreciate the status quo. They are likely to be slower in their adoption of Internet technologies in general and Internet business models in particular.

**Hypothesis 3c:** The greater the masculinity in the international target country, the greater the probability of market entry by Internet firms.

**Power distance.** The power distance dimension of culture focuses on how a society deals with inequality among people in terms of physical and intellectual capabilities and how those methods translate into power distributions within organizations. Cultures with high power distance, like the Philippines (94/100), tend to allow inequalities among people to translate into inequalities in opportunity, power, status, and wealth; cultures with low power distance like Austria (11/100), on the other hand, tend to intervene to create a more equal distribution among people within organizations and society at large. Hofstede (1984) applied factor analysis and found that the cultural dimensions representing power distance and individualism loaded on the same factor. Essentially, this result implied that those societies that depend on in-groups (collectivists; low score on individualism dimension) are also more dependent on authority figures and willing to accept inequality (high score on power distance). Although the power distance and individualism dimensions are highly correlated ($r = –.69, p < .001$), Hofstede suggested that these two constructs are somewhat conceptually distinct and thus inappropriate to combine. Power distance has been used as a proxy for trust whereby higher levels of power distance connote lower levels of trust (Shane, 1994). Arguably, trust plays an important role in the success of Internet-mediated business (Kasper-Fuehrer & Ashkanasy, 2001).

**Hypothesis 3d:** The greater the power distance in the international target country, the lower the probability of market entry by Internet firms.

**Moderating Effect of Market Size**

We suggest that the size of the international target market mitigates the negative effects of country risk and cultural distance on the likelihood of market entry by U.S. Internet firms. Managers are posited to be more willing to accept uncertainty stemming from country risk and cultural distance in larger markets. Larger markets offer more opportunities and therefore more incentives for firms to invest. Moreover, larger markets generally provide a more open environment that allows more companies to coexist (Dollinger & Golden, 1992).

The fact that many Western multinational corporations pursued market entry into China despite a considerable country risk and significant cultural distance illustrates this point. For example, the U.S. computer and telecommunications company, Motorola, entered China as early as 1991, first through imports and 1 year later established a wholly-owned subsidiary. Clearly, the opportunities available in China, including low labor costs for a skilled workforce and the size of the potential market (i.e., a large emerging middle class with sufficient purchasing power), outweighed the costs inherent in the uncertainty stemming from country risk and cultural distance when Motorola’s managers made this strategic entry decision.
Although U.S. Internet firms are likely to focus on consumer spending power rather than low labor costs, we nevertheless suggest that the size of the international market moderates the relationship between country risk, cultural distance, and likelihood of market entry. We suggest that U.S. Internet firms are more likely to enter countries that exhibit an elevated risk profile and are culturally distant to the United States when these markets are larger. Although the risk and uncertainty in these larger markets are the same as in smaller markets with the same risk and uncertainty profile, managers of U.S. Internet firms are hypothesized to accept this level of risk and uncertainty in large-size markets, whereas they are not willing to do so in small-size markets.

Hypothesis 4: The size of the international market moderates the negative relationship between country risk and probability of market entry by Internet firms in such a fashion that this relationship is stronger for smaller markets than for larger markets.

Hypothesis 5: The size of the international market moderates the negative relationship between cultural distance and probability of market entry by U.S. Internet firms in such a fashion that this relationship is stronger for smaller markets than for larger markets.

Similarly, the size of the international market is posited to dampen the negative cultural aspects of a potential market and to enhance the positive cultural aspects. Internet firms seeking to expand internationally are more likely to downplay negative factors, such as uncertainty avoidance or power distance, when the market size is large. We suggest that Internet firms are likely to invest in large markets despite the fact that these societal values raise the firms’ perceived risk and uncertainty. Such firms may be more willing to overcome these cultural impediments because of the market potential. Moreover, internationally expanding Internet firms are likely to be particularly attracted to markets that are large and maintain cultural values that are conducive to Internet-mediated transactions such as individualism and masculinity.

Hypothesis 6a: The size of the international market moderates the negative relationship between uncertainty avoidance in the international target country and probability of market entry by Internet firms in such a fashion that this relationship is stronger for smaller markets than for larger markets.

Hypothesis 6b: The size of the international market moderates the positive relationship between individualism in the international target country and probability of market entry by Internet firms in such a fashion that this relationship is stronger for larger markets than for smaller markets.

Hypothesis 6c: The size of the international market moderates the positive relationship between masculinity in the international target country and probability of market entry by Internet firms in such a fashion that this relationship is stronger for larger markets than for smaller markets.

Hypothesis 6d: The size of the international market moderates the negative relationship between power distance in the international target country and probability of market entry by Internet firms in such a fashion that this relationship is stronger for smaller markets than for larger markets.
Method

Sample

Defining a sample of Internet firms is a nontrivial exercise partly because the Internet phenomenon spans several industries and Standard Industrial Classification (SIC) codes. First, given the novelty of the Internet and the lack of performance histories of many Internet firms, we desired a sample of publicly traded firms to enable us to collect reliable foreign entry data and other variables of interest. We thus began with a list of all publicly traded Internet firms maintained by Internet.com, a frequently cited data source in prior academic research in both management and accounting (Demers & Lev, 2001; Rajgopal, Venkatachalam, & Kotha, 2002). The Internet.com list identified 363 publicly traded Internet firms as of June 2001. From these firms, 343 were U.S. based. Second, we identified all 188 U.S. firms that reported some kind of foreign sales in their Securities and Exchange Commission (SEC) filings (i.e., quarterly and annual reports). Bankruptcies, mergers and acquisitions, and missing observations reduced this sample to 179 U.S. Internet firms for which complete data were available. Thus, the sample represents 95% of the population of U.S. publicly traded Internet firms that had some international sales.

To identify the set of possible foreign target markets for U.S. Internet companies, we relied on a recent database detailing 41 international countries compiled by Morgan Stanley Dean Witter analysts (MSDW, 2001). The MSDW report is based on data obtained from various sources including the U.S. Census Bureau and the World Bank, among others. These 41 countries are considered viable targets for internationally expanding U.S. Internet firms because the current Internet penetration levels in these countries are significantly below the penetration levels for other media and telecommunications services such as telephones, personal computers, mobile phones, and cable TV. Two of the 41 target countries lacked complete information on culture and technology infrastructure. The final sample, therefore, contained 6,981 firm-country entry decisions (179 firms × 39 countries). It is important to recognize that the countries in this study account for more than 95% of global GDP and 90% of global Internet usage.

The data collected at the firm and industry levels of analysis allow us to draw a more complete picture of the nature of the Internet firms and the respective industries involved in international expansion. The average U.S. Internet firm in the sample has a clear entrepreneurial profile: It is 6 years old and has $226,491 in annual revenues. The 179 firms split into 12 different industries with 36 firms (20%) in software, 30 firms (17%) are e-commerce enablers, 29 firms (16%) are in nonfinancial services, 19 firms (11%) are speed and bandwidth providers, 10 firms (6%) are in Internet consulting and design, 10 firms (6%) are in e-tailing, 10 firms (6%) are in wireless products and services, 9 firms (5%) are in content and communities, 7 firms (4%) are in advertising, 7 firms (4%) are search engines or portals, 7 firms (4%) are in Internet security, and 5 firms are (3%) in financial services. These numbers reflect the diversity of industries in this study, and thus the results obtained should be generalizable across different Internet industries.
Dependent Variable

*International market entry.* Even though many Internet firms participate to some extent in the global economy through engaging in cross-border transactions conducted on their domestic Web sites (e.g., www.amazon.com in the U.S. ships worldwide), we desired a dependent variable that reflected some kind of country-specific investment, not unlike traditional foreign direct investment. Prior research highlighted wholly-owned subsidiaries, joint ventures, and the like as country-specific investments (Kogut & Singh, 1988). In the context of Internet firms, the equivalent would be the establishment of a subsidiary or office overseas, frequently set up to support a foreign domain Web site by a U.S. Internet firm. We submit that a foreign domain Web site hosted on a foreign server by a U.S. Internet firm also represents a country-specific investment (e.g., Amazon.com’s Web site www.amazon.de in Germany).

An analysis of the sample companies’ various SEC filings revealed that these two internationalization activities, subsidiary/office and foreign domain Web site, were indeed significantly positively correlated \((p < .001)\). To verify the international market entry data, we visited each firm’s Web site located in the United States to determine whether the firm provided information about foreign subsidiaries. In addition, we visited each U.S. firm’s foreign Web sites, if any, to ensure that the Internet firm in question had indeed developed and operated a foreign domain Web site(s) and whether it was using it (them) to conduct Internet commerce. The research to obtain the data for the dependent variable was conducted during 2001.

We employed a dichotomous indicator variable to proxy international market entry. In particular, if an Internet firm in the sample had (a) a subsidiary/office in the respective country or (b) a foreign domain Web site hosted on a server in the international market, we coded the firm as having entered that specific country. In this case, the indicator variable representing this specific firm-country entry combination was assigned a value of 1. If the firm did not enter into this country, the dependent variable was assigned a value of 0.

Of the 39 target countries in the sample, all of them (except Turkey and Venezuela) had at least one entry by a U.S. Internet firm (95% of all countries). From the 6,981 possible firm-country combinations, there were 846 entries (12%). The average number of countries entered by an Internet firm was 4.59, and the average number of firms entering each country was 21.69. Table 1 reveals that the international target countries in this study exhibit a high variance among the variables of interest.

Independent Variables

We hypothesized that the level of uncertainty faced by internationally expanding U.S. Internet companies is determined primarily from three sources: the country risk inherent in a foreign target market, the cultural distance between the United States and the international target country, and specific national cultural traits of the international target country.

*Country risk.* To proxy each country’s risk, we included a measure obtained from Euromoney (2000), considered to be one of the premier sources for country-level risk data (Cosset & Roy, 1991). Euromoney scores each country of the world economy along several risk
dimensions to obtain a composite country risk score. In particular, Euromoney ascertains a country’s risk along nine dimensions, with 100 being a perfect score: political risk (25), economic performance (25), debt indicators (10), debt in default or rescheduled (10), credit ratings (10), access to bank finance (5), access to short-term finance (5), access to capital market (5), and discount on forfeiting (5). In Euromoney’s calculation, the higher a country’s score, the lower its risk. To enhance the interpretability of the results, we inverted the Euromoney score to obtain a positive correlation between a country’s score and its risk, that is,
the higher the score, the greater the country’s risk, and vice versa. This procedure does not affect the distribution of the variable, merely its sign. The sample includes high-risk countries (e.g., Russia with a risk score of 77) as well as very stable countries (e.g., Switzerland with a risk score of 2).

National cultural values. We obtained the national cultural values for uncertainty avoidance, individualism, masculinity, and power distance for each of the 39 countries in this study from Hofstede (1984). Over a 7-year period, Hofstede collected data through questionnaires administered to more than 100,000 employees in more than 40 IBM subsidiaries worldwide. Applying standardized factor analyses and controlling for time effects as well as occupational differences, Hofstede identified the four cultural dimensions and created ordinal scales for each of the 40 countries included in his original study. We use a composite cultural distance score based on all four dimensions to test Hypotheses 2 and 5. When testing Hypotheses 3a-3d, we use the absolute cultural scores for uncertainty avoidance, individualism, masculinity, and power distance.

Cultural distance. To proxy for the cultural distance between the United States and international target markets, we followed the procedure outlined by Kogut and Singh (1988: 422). First, we created a distance score for each of Hofstede’s (1984) four cultural dimensions from the United States’ ranking for all 39 international target countries in the sample. Second, we calculated a composite score for each country’s overall cultural distance from the United States through taking an arithmetic average of the four cultural deviation scores obtained as follows:

\[
CD_j = \frac{1}{4} \sum_{i=1}^{4} \left\{ (I_{ij} - I_u)^2 / V_i \right\} / 4,
\]

where \( I_{ij} \) stands for the index for the \( i \)th cultural dimension and \( j \)th country, \( V_i \) is the variance of the index of \( i \)th dimension, \( u \) indicates the United States, and \( CD_j \) is cultural distance difference of the \( j \)th country from the United States. Some countries are culturally very close to the United States (e.g., Australia with an overall cultural distance score of 0.02), whereas others are culturally quite distant (e.g., Russia with an overall cultural distance score of 4.42).

Control Variables

Market size. Because all Internet firms in this sample are for-profit entities engaged in business-to-consumer and business-to-business transactions, a relevant proxy for market size is therefore some kind of measure for consumer spending power. Following Oxley and Yeung (2001), we used GNP per capita converted to constant U.S. dollars to control for market size. We not only control explicitly for market size but also argue that this variable moderates the relationships between country risk (H4), cultural distance (H5), national cultural values (H6a-d), and international market entry. Table 1 reveals that the sample includes highly developed countries (e.g., Switzerland with a GNP per capita of $39,980) as well as underdeveloped countries (e.g., India with a GNP per capita of $440).
**Technology infrastructure.** The technological infrastructure of a country is a necessary condition for e-commerce and therefore a critical control variable when studying international market entry of U.S. Internet firms. To create this construct, we used six variables that demonstrate a country’s potential for Internet-related products and services (Oxley & Yeung, 2001). The variables are penetration rates per population of (a) telephones, (b) personal computers, (c) mobile phones, (d) cable television, (e) Internet users, and (f) credit/debit cards.

Because many of the six variables were, as expected, highly correlated, we conducted a factor analysis using principal components to identify fewer parsimonious constructs in the data set. The factor analysis of these data resulted in a single factor with an eigenvalue greater than 1.0. All six items used in the factor analysis exhibited strong loadings (greater than .50) on this single factor, and the factor accounted for 69.86% of the variance in the sample. We standardized each dimension and then took the arithmetic average of the six items loading on the single factor. Cronbach’s alpha for this measure is .90.

The countries in this sample vary significantly with respect to their technological infrastructure. Norway has, with 57%, the highest overall technological penetration, whereas Indonesia has, with 1%, the lowest overall technological penetration.

**Firm-level factors.** To explicitly control for firm-level differences in predicting international market entry, we used firm age and firm size. We calculated firm age by subtracting a firm’s founding year from the current year. We proxied firm size by average annual sales between 1997 and 2000. Arithmetic averages of financial data attenuate annual fluctuations and have been used in prior research (Rothaermel, 2001). We then performed a natural log transformation on the firm size variable to enhance the normality of the distribution.

**Firm- and industry-level fixed effects.** To control for unobserved firm- and industry-level heterogeneity, we included fixed effects in the regression analysis. To estimate firm-level fixed effects, we added an indicator variable for each firm and thus controlled for unmeasured differences across firms, which may explain differences in the dependent variable. To assess industry-level fixed effects, we inserted an indicator variable for each industry and thus controlled for unobserved differences across industries that may affect the likelihood of international market entry. Including firm- and industry-level fixed effects eliminates a potential bias in the regression coefficients in the event that any of the unspecified firm or industry effects are correlated with other regressors (Greene, 1997).

**Estimation Procedure**

To examine the statistical relationship between the individual predictor variables and international market entry, we employed a logistic regression analysis. In this case, the dependent variable is binary (0, 1) and represents the differential odds of choosing one alternative (entry) relative to another (no entry). The model specification is as follows:

$$\ln \left( \frac{P_{entry(i,j)}}{P_{no\-entry(i,j)}} \right) = X_i \cdot B,$$
where $P_{\text{entry}}(i,j)$ is the probability that firm $i$ will enter country $j$, and $P_{\text{no entry}}(i,j)$ is the probability that firm $i$ will not enter country $j$. $X_{ij}$ is a vector of independent variables for each observation, and $B$ is a vector of coefficients of the independent variables.

Hypotheses 4, 5, and 6a-6d suggest that market size moderates the relationship between country risk, cultural distance, national cultural values, and international market entry. Moderated regression is considered to be a relatively conservative method for examining interaction effects because the interaction terms are tested for significance after all lower-order effects have been entered into the regression equation. Moderation effects are supported if the model containing the interaction terms represent a statistically significant improvement over the model containing the direct effects only (Baron & Kenny, 1986). Furthermore, to interpret the results in a meaningful manner, we standardized all independent variables before entering them into the various logistical regression models. We standardized the independent variables prior to creating their cross products to test the moderating hypotheses (Cohen, Cohen, West, & Aiken, 2003).

**Results**

**Data Analytic Strategy**

Table 2 presents descriptive statistics and bivariate correlations, and Table 3 depicts the regression results. We applied a hierarchical logistic regression analysis. We first estimated a baseline model including the control variables for firm- and industry-level fixed effects, firm age, firm size, market size, and technological infrastructure (Model 1). This model is significant ($\chi^2 = 1,146.88, p < .001$), and the pseudo $R^2$ statistic is .29. The ability of Model 1 to predict country entry correctly is 17%. In Model 2, we added the main-effects country risk, cultural distance, and the absolute cultural values for uncertainty avoidance, individualism, masculinity, and power distance. Model 2 is the fully specified direct-effects model. Adding the direct effects improves the model’s fit compared to Model 1 ($\Delta \chi^2 = 339.30, 6 \text{ df}, p < .001$), and the pseudo $R^2$ statistic is .37. Model 2’s ability to predict country entry correctly is 28.1%.

In Model 3, the fully specified interaction effects model, we included the control variables; the direct effects for country risk, cultural distance, and the four cultural dimensions; and the six interaction effects between market size and country risk, cultural distance, and each of the four national cultural traits. Adding the interaction effects improves the model’s fit significantly over and above the main-effects model displayed in Model 2 ($\Delta \chi^2 = 282.97, 6 \text{ df}, p < .001$). Model 3’s pseudo $R^2$ statistic is .43, and its ability to predict country entry correctly is 36.2%.

**Direct Effects**

In Hypothesis 1, we posit that the higher the country risk in the international target country, the lower the probability of market entry by Internet firms. The results displayed in
Table 2
Descriptive Statistics and Bivariate Correlation Matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
<th>Minimum</th>
<th>Maximum</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. International market entry</td>
<td>0.12</td>
<td>0.33</td>
<td>0</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Firm age</td>
<td>6.43</td>
<td>3.88</td>
<td>1</td>
<td>27</td>
<td>−0.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Firm size</td>
<td>226,491</td>
<td>1,202,559</td>
<td>195</td>
<td>15,541,000</td>
<td>.09</td>
<td>−.20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Market size</td>
<td>14,474</td>
<td>11,619</td>
<td>440</td>
<td>39,980</td>
<td>.21</td>
<td>.00</td>
<td>.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Technological infrastructure</td>
<td>29.33</td>
<td>18.63</td>
<td>1.33</td>
<td>56.67</td>
<td>.20</td>
<td>.00</td>
<td>.00</td>
<td>.92</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Country risk</td>
<td>27.95</td>
<td>20.31</td>
<td>2.21</td>
<td>76.98</td>
<td>−.23</td>
<td>.00</td>
<td>.00</td>
<td>−.89</td>
<td>−.87</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Cultural distance</td>
<td>2.11</td>
<td>1.29</td>
<td>0.02</td>
<td>4.42</td>
<td>−.19</td>
<td>.00</td>
<td>.00</td>
<td>−.48</td>
<td>−.49</td>
<td>.62</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Uncertainty avoidance</td>
<td>66.74</td>
<td>22.58</td>
<td>8</td>
<td>104</td>
<td>−.10</td>
<td>.00</td>
<td>.00</td>
<td>−.64</td>
<td>−.68</td>
<td>.70</td>
<td>.67</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Individualism</td>
<td>50.67</td>
<td>24.17</td>
<td>12</td>
<td>90</td>
<td>−.12</td>
<td>.00</td>
<td>.00</td>
<td>−.38</td>
<td>−.43</td>
<td>.35</td>
<td>.32</td>
<td>.32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Masculinity</td>
<td>50.62</td>
<td>20.40</td>
<td>5</td>
<td>95</td>
<td>.08</td>
<td>.00</td>
<td>.00</td>
<td>−.10</td>
<td>−.19</td>
<td>.06</td>
<td>−.26</td>
<td>.09</td>
<td>.20</td>
<td></td>
</tr>
<tr>
<td>11. Power distance</td>
<td>53.08</td>
<td>21.24</td>
<td>11</td>
<td>94</td>
<td>.19</td>
<td>.00</td>
<td>.00</td>
<td>.61</td>
<td>.62</td>
<td>−.69</td>
<td>−.87</td>
<td>−.65</td>
<td>−.28</td>
<td>.04</td>
</tr>
</tbody>
</table>

Note: N = 6,981.
p < .05 for r > .023, p < .01 for r > .031, p < .001 for r > .038.
Table 3  
Results of Hierarchical Logistic Regression Predicting International Market Entry by U.S. Internet Firms

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model 1 Baseline</th>
<th>Model 2 Main Effects</th>
<th>Model 3 Interaction Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Exp(B)</td>
<td>B</td>
</tr>
<tr>
<td>Constant</td>
<td>-21.39***</td>
<td></td>
<td>-21.69***</td>
</tr>
<tr>
<td>Firm-level fixed effects</td>
<td>Included</td>
<td></td>
<td>Included</td>
</tr>
<tr>
<td>Industry-level fixed effects</td>
<td>Included</td>
<td></td>
<td>Included</td>
</tr>
<tr>
<td>Controls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.013 (1.125)</td>
<td>0.99</td>
<td>-0.012 (1.138)</td>
</tr>
<tr>
<td>Firm size</td>
<td>-1.910 (1.927)</td>
<td>0.15</td>
<td>-1.956 (1.950)</td>
</tr>
<tr>
<td>Market size</td>
<td>0.530*** (0.093)</td>
<td>1.70</td>
<td>-0.172† (0.124)</td>
</tr>
<tr>
<td>Technology infrastructure</td>
<td>0.260** (0.097)</td>
<td>1.30</td>
<td>0.234* (0.121)</td>
</tr>
<tr>
<td>Main effects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country risk, Hypothesis 1 (–)</td>
<td>-1.191*** (0.152)</td>
<td>0.30</td>
<td>0.082 (0.330)</td>
</tr>
<tr>
<td>Cultural distance, Hypothesis 2 (–)</td>
<td>-0.292** (0.123)</td>
<td>0.75</td>
<td>-0.828*** (0.231)</td>
</tr>
<tr>
<td>Uncertainty avoidance, Hypothesis 3a (–)</td>
<td>-0.249*** (0.048)</td>
<td>0.78</td>
<td>-0.624*** (0.093)</td>
</tr>
<tr>
<td>Individualism, Hypothesis 3b (+)</td>
<td>0.182† (0.118)</td>
<td>1.20</td>
<td>-0.208† (0.229)</td>
</tr>
<tr>
<td>Masculinity, Hypothesis 3c (+)</td>
<td>0.301*** (0.053)</td>
<td>1.35</td>
<td>0.040 (0.110)</td>
</tr>
<tr>
<td>Power distance, Hypothesis 3d (–)</td>
<td>0.707*** (0.074)</td>
<td>2.03</td>
<td>0.923*** (0.138)</td>
</tr>
</tbody>
</table>

(continued)
### Table 3 (continued)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model 1 Baseline</th>
<th>Model 2 Main Effects</th>
<th>Model 3 Interaction Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$B$</td>
<td>Exp($B$)</td>
<td>$B$</td>
</tr>
<tr>
<td>Interaction effects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Size × Country Risk, Hypothesis 4 (+)</td>
<td>1.466***</td>
<td>4.33</td>
<td>1.466***</td>
</tr>
<tr>
<td>Market Size × Cultural Distance, Hypothesis 5 (+)</td>
<td>1.118***</td>
<td>3.06</td>
<td>1.118***</td>
</tr>
<tr>
<td>Market Size × Uncertainty Avoidance, Hypothesis 6a (+)</td>
<td>-0.163*</td>
<td>0.85</td>
<td>-0.163*</td>
</tr>
<tr>
<td>Market Size × Individualism, Hypothesis 6b (+)</td>
<td>2.054***</td>
<td>7.80</td>
<td>2.054***</td>
</tr>
<tr>
<td>Market Size × Masculinity, Hypothesis 6c (+)</td>
<td>0.755***</td>
<td>2.13</td>
<td>0.755***</td>
</tr>
<tr>
<td>Market Size × Power Distance, Hypothesis 6d (+)</td>
<td>0.245*</td>
<td>1.28</td>
<td>0.245*</td>
</tr>
</tbody>
</table>

$\chi^2 = 1,146.88^{***}$ $\Delta \chi^2 = 1,486.18^{***}$ $\Delta \chi^2 = 1,769.15^{***}$ $-2 \log$ likelihood $= 4,009.03$ $-2 \log$ likelihood $= 3,669.72$ $-2 \log$ likelihood $= 3,386.76$ Pseudo $R^2 = .29$ Pseudo $R^2 = .37$ Pseudo $R^2 = .43$ % of international market entry predicted correctly $= 17.0$ % of international market entry predicted correctly $= 28.1$ % of international market entry predicted correctly $= 36.2$

**Note:** $N = 6,981$, standard errors in parentheses.

† $p < .10$

* $p < .05$

** $p < .01$

*** $p < .001$
Model 2 indicate that the main effect for country risk is negative and statistically significant \((p < .001, \beta = 0.30)\). We therefore accept Hypothesis 1.

In Hypothesis 2, we advance the notion that the greater the cultural distance between the United States and the international target country, the lower the probability of market entry by U.S. Internet firms. The coefficient for cultural distance is negative and significant \((p < .001, \beta = 0.75, \text{Model 2})\), which provides support for Hypothesis 2.

In Hypothesis 3a-3d, we investigate the effect of the absolute cultural values uncertainty avoidance, individualism, masculinity, and power distance on international market entry. These predictions are assessed in Model 2, which allows us to test these hypotheses while explicitly controlling for overall cultural distance, among other factors. In Hypothesis 3a, we posit that the greater the uncertainty avoidance in the international target country, the lower the probability of market entry by Internet firms. The results indicate that uncertainty avoidance is negative and significant \((p < .001, \beta = 0.78)\). In Hypothesis 3b, we suggest that the greater the individualism in the international target country, the greater the probability of market entry by Internet firms. We find that individualism is positive and marginally significant \((p < .10, \beta = 1.20)\). In Hypothesis 3c, we argued that the greater the masculinity in the international target country, the greater the probability of market entry by Internet firms. The results reveal that masculinity is positive and significant \((p < .001, \beta = 1.35)\). In Hypothesis 3d, we suggest that the greater the power distance in the international target country, the lower the probability of market entry by Internet firms. Contrary to our prediction, the coefficient for power distance is positive and significant \((p < .001, \beta = 2.03)\), suggesting that countries characterized by higher power distance appear to be more attractive for entry by Internet firms. Taken together, we find support for Hypotheses 3a-3c, whereas we fail to find support for Hypothesis 3d.

**Interaction Effects**

In Hypothesis 4, we suggest that the size of the international market moderates the negative relationship between country risk and the probability of market entry by Internet firms in such a fashion that this relationship is stronger for smaller markets than for larger markets. As depicted in Model 3, the interaction term between market size and country risk is positive and significant \((p < .001, \beta = 4.33)\) and thus provides support for Hypothesis 4.

In Hypothesis 5, we predict that the size of the international market moderates the negative relationship between cultural distance and the probability of market entry by U.S. Internet firms in such a fashion that this relationship is stronger for smaller markets than for larger markets. In Model 3, the interaction between market size and cultural distance is positive and significant \((p < .001, \beta = 3.06)\) and thus provides support for Hypothesis 5.

To gain further insights into the nature of how market size moderates the relationships between country risk, cultural distance, and likelihood of market entry, we plotted the significant interaction effects obtained in Model 3, using the convention of one standard deviation above and below the mean for the interacting variables (Cohen et al. 2003). We restrict ourselves to these two interaction plots because of space constraints. Figure 2a, which depicts the interaction between market size and country risk, reveals that the relationship between country risk and international market entry is negative for small-size markets, whereas it is positive.
Figure 2

(a) Moderating Effect of Market Size on the Relationship Between Country Risk and International Market Entry

(b) Moderating Effect of Market Size on the Relationship Between Cultural Distance and International Market Entry
for large-size markets. Figure 2b, which depicts the moderating effect of market size on the relationship between cultural distance and international market entry, shows that the relationship between cultural distance is negative when the international target market is small but positive when the international market is large. Both figures highlight the fact that market size appears to fully moderate the negative relationships between country risk, cultural distance, and international market entry.

In Hypothesis 6a, we posit that market size moderates the negative relationship between uncertainty avoidance in the international target country and the probability of market entry in such a fashion that this relationship is stronger for smaller markets than for larger markets. The results in Model 3 indicate that the interaction between market size and uncertainty avoidance is negative and significant ($p < .05, \beta = 0.85$). Contrary to our expectations, it appears that the negative relationship between uncertainty avoidance and likelihood of market entry is stronger for large-size markets than for small-size markets. We thus fail to find support for Hypothesis 6a.

In Hypothesis 6b, we state that market size moderates the positive relationship between individualism in the international target country and the probability of market entry in such a fashion that this relationship is stronger for larger markets than for smaller markets. The results in Model 3 indicate that the interaction between market size and individualism is positive and significant ($p < .001, \beta = 7.80$). Thus, we find support for Hypothesis 6b.

In Hypothesis 6c, we posit that market size moderates the positive relationship between masculinity in the international target country and the probability of market entry in such a fashion that this relationship is stronger for larger markets than for smaller markets. The results in Model 3 show that the interaction between market size and masculinity is positive and significant ($p < .001, \beta = 2.13$) and thus provide support for Hypothesis 6c.

In Hypothesis 6d, we suggest that market size moderates the negative relationship between power distance in the international target country and the probability of market entry in such a fashion that this relationship is stronger for smaller markets than for larger markets. Contrary to our prediction, we found that power distance has a significant positive effect on the likelihood of market entry (Model 2). When interacting power distance with market size, the results in Model 3 reveal that this positive effect appears to be stronger for large-size markets than for small-size markets ($p < .05, \beta = 1.28$). Because the underlying direct-effect hypothesis between power distance and probability of market entry has the opposite sign than predicted, we fail to find support for Hypothesis H6d.

**Discussion**

The question of how internationally expanding firms choose the markets they enter has attracted sustained attention from the scholarly community (Werner, 2002). Prior research, however, has focused primarily on large multinational enterprises seeking foreign markets. Research on the choice of international markets by entrepreneurial start-ups has been relatively sparse (Zahra et al., 2000). To address this gap, we used the entrepreneurial context of U.S. Internet firms. We suggested a theoretical model predicting market entry by U.S. Internet firms in which country risk, cultural distance, the level of uncertainty avoidance, and power
distance in the international target market are proposed to each have a negative direct effect on the likelihood of international market entry. In contrast, we hypothesized that a society's level of individualism and masculinity each have a positive direct effect on the probability of international market entry.

In a next step, we added a contingency element to this theoretical model. We proposed that the size of the international target market reduces the negative direct effects of country risk, cultural distance, uncertainty avoidance, and power distance on market entry, while it enhances the positive direct effects of individualism and masculinity on market entry (Figure 1). We tested this contingency model of international market entry on a sample of close to 7,000 country entry decisions undertaken by 179 U.S. Internet companies. We found support for most of our predictions.

Clearly, the result that country risk has a negative effect on the likelihood of international market entry resonates with prior research. Other results, however, are more novel, particularly given the Internet context of this study. Prior research has mainly focused on overall cultural distance when analyzing entry mode (Kogut & Singh, 1988), foreign direct investment (Loree & Guisinger, 1995), foreign subsidiary compensation strategy (Roth & O’Donnell, 1996), joint venture dissolution (Park & Ungson, 1997), cross-border acquisition performance (Morosini, Shane, & Singh, 1998), and performance in international strategic alliances (Luo, 2002). In contrast, we hypothesized and found support for an effect of national culture on the likelihood of international market entry above and beyond cultural distance and a host of other control variables spanning the firm, industry, and country level.

Different cultural dimensions appear to have an independent effect on international market entry by Internet firms. In line with our theoretical predictions, we found that the level of uncertainty avoidance inherent in an international target market had a negative effect on the probability of market entry by Internet firms, whereas both a society’s level of individualism and masculinity each had a positive effect on the probability of market entry. It seems that the behavior of Internet firms is indeed somewhat unique as the international market entry decisions by these firms appear to be not only influenced by overall cultural distance to the United States, as highlighted in prior studies on foreign direct investment, but also by more fine-grained, national cultural dimensions themselves. It appears that certain cultural attributes are more conducive to Internet-mediated business above and beyond cultural distance, whereas others are not. Individualism and masculinity appear to be cultural values that Internet firms can leverage with their technology, business models, and processes, whereas uncertainty avoidance is a cultural value that appears to impede Internet-mediated transactions. We submit that the finding that certain absolute cultural values, independent of cultural distance, influence entry decisions by Internet firms constitutes a theoretical contribution.

When testing the moderating effect of market size on the relationships between country risk, cultural distance, and national cultural values on international market entry, we found that market size exhibits a positive moderating effect on all of these relationships, except on the relationship between uncertainty avoidance and market entry. The potential upside of large-size international markets entices managers to accept the uncertainty inherent in high-risk or culturally distant countries. Indeed, the relationship between country risk and likelihood of entry and that between cultural distance and market entry is positive for large-size international target markets (Figure 2). Therefore, market size appears to fully negate any
effects that country risk or cultural distance may have on the likelihood of market entry by U.S. Internet firms. In addition, market size also appears to amplify the positive effects of national cultural traits like individualism and masculinity on the likelihood of market entry. Large-size markets appear to be especially attractive for market entry when they exhibit cultural traits like individualism and masculinity that seem to be conducive to Internet business.

Taken together, these findings seem to suggest that market size moderates the relationships between country risk, cultural distance, national cultural values, and market entry. Market size, then, appears to be one of the closing distance mechanisms that need to be considered when attempting to predict international market entry (Shenkar, 2001: 529). International market entry, therefore, appears to be a complex, multidimensional phenomenon that should not be approached through simple direct-effect models as done frequently in prior research.

Limitations and Future Research

This study contains several limitations, which in turn provide opportunities for future research. Although Hofstede’s (1984) seminal work on culture has been used in numerous prior studies, it has been criticized (Shenkar, 2001). Even though some of the criticism appears valid, we suggest that the use of Hofstede’s cultural indices is actually a conservative one in this study. This in particular holds true for assessing the impact of the absolute cultural values developed by Hofstede, while explicitly controlling for cultural distance through inclusion of the Kogut-Singh (1988) index. If the Hofstede indices were poor constructs, we would have not found statistically significant results with the predicted signs for three of the four cultural dimensions. Indeed, we are in agreement with Shenkar (2001) and encourage future researchers to focus on the individual dimensions of national culture to produce richer theoretical models that aid in our understanding of various aspects in international management.

Although we assessed international market entry by U.S. Internet firms at one point in time, studying the timing and sequencing of international expansion by entrepreneurial ventures appears to be an especially fruitful avenue for future research. Besides deductive quantitative studies, we are also in need of inductive qualitative work that aids our theoretical understanding of the process of internationalization, especially in the entrepreneurial context.

We study the decision to enter foreign markets. One critical question for strategic management research is how these entry decisions might influence firm performance. Are Internet firms that expand internationally more successful? If so, is there a preferred order or grouping of countries that should be entered, perhaps moderated by industry context? Are Internet firms more successful in some foreign markets than others depending on the cultural characteristics of these markets? Generating insights into the performance implications of these decisions would be particularly valuable.

Managerial Implications

Within the Internet context, it appears that national cultural values are important guideposts for internationalization decisions above and beyond cultural distance. This seems somewhat counterintuitive, yet it does make sense when understanding the Internet as a radical process
innovation that significantly reshapes the way we interact with one another and conduct business. Managers of Internet firms should strive to leverage supportive cultural values like individualism and masculinity, while attempting to mitigate detrimental cultural values like uncertainty avoidance. Large-size international markets appear to allow managers to benefit from supportive cultural values to their fullest extent, and they also seem to be attractive enough to accept the risks inherent in international expansion.

References


**Biographical Notes**

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