

I

What is a Foreign Market?

*It was six men of Indostan
To learning much inclined,
Who went to see the Elephant
(Though all of them were blind),
That each by observation
Might satisfy his mind
--John Godfrey Saxe*

ABSTRACT

Reviews the usage of the phrase *foreign market(s)* in the international business literature. Reveals a trend of increasing usage, but without explicit definitions, and with implicit definitions that deviate from those recognized in economics. Raises a set of questions to motivate scholars to develop a more precise, integrated, theoretically grounded conceptualization of *foreign markets* as subsystems situated within a broader civilization context.

INTRODUCTION

Firms that lack local knowledge when entering a *foreign market* often incur unforeseen costs: relationship damage, reputation damage, money costs, and time costs (see Chapters 3 & 4). But before we are ready to advance to the more difficult terrain of identifying and measuring unforeseen costs, we must first address a more basic (and problematic) question: what exactly is a *foreign market*?

The question is problematic, because there is no neat, tidy, one-size-fits-all solution. You only need to speak with a few international managers or executives to realize that they tend to define *foreign markets* relative to the elements, components, or subsystems that they encounter, recognize, and rely on to achieve their specific goals and objectives of going abroad. For example, an international banker might encounter a need to know foreign lending policies and banking regulations. Meanwhile, a general contractor might stress cross-national differences in contract enforcement, occupational health and safety, and legal responsibility for bearing the risk of uncertain sub-surface ground conditions. Alternatively, a marketing manager of consumer electronics might emphasize global variation in distribution channels, customs inspection protocols for product imports, and culturally defined expectations of value and quality. These examples illustrate the enormous variance in how managers conceptualize *foreign markets*.

The discussion that follows reveals a trend of increasing, yet ill-defined and inconsistent usage of the phrase *foreign market* in the international business (IB) literature. It touches on economic theory to reflect on how economists have defined *markets*. And, at the end, poses several challenging questions inherent in trying to re-define the phrase *foreign market* more explicitly.

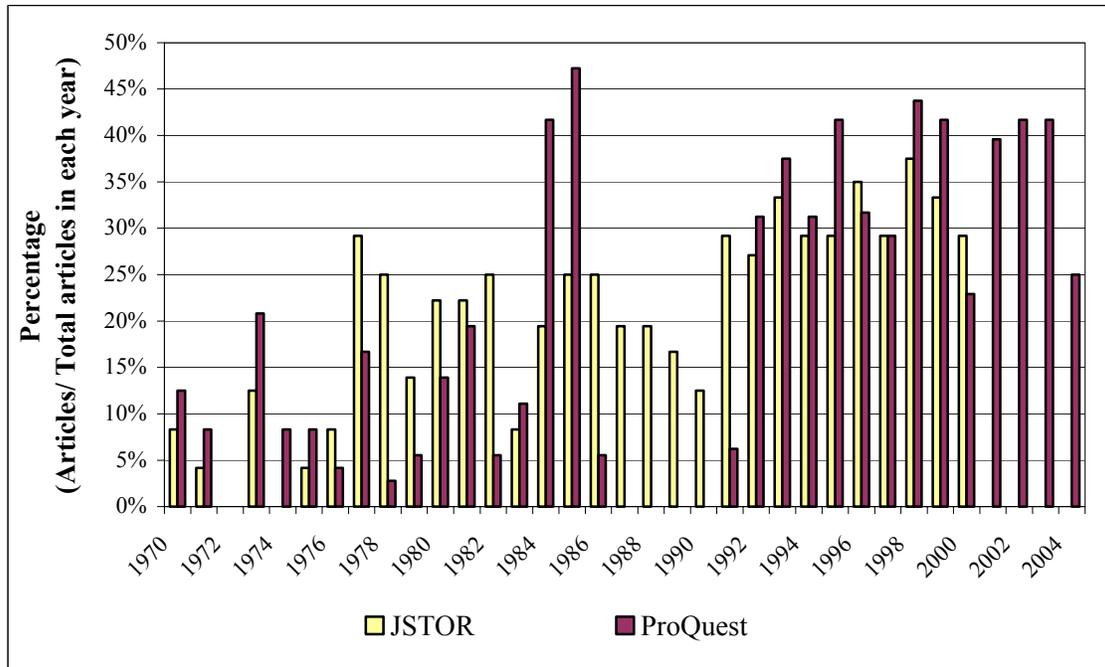
PRIOR RESEARCH & LIMITATIONS

International Business: Many Studies, Little Clarity

Table 1 shows that since the inception of the Journal of International Business Studies (JIBS) in 1970, the usage of the phrase foreign market has nearly quadrupled. According to data from JSTOR, 11% of articles contained this phrase in the 1970s, 20% in the 1980s, and 31% in the 1990s. JSTOR data for the 2000s was unavailable, but according to ProQuest data, 37% of articles include this phrase in the period from 2000 to 2004.

Despite its increasingly broad acceptance, precise definitions of the phrase *foreign market* are few and far between. In fact, when I spent an eight-hour day trying to pinpoint a precise definition, I was shocked to search through 48 journal articles containing this phrase, without coming across one single explicit definition. And yet, within this sample

TABLE 1¹
Percentage of JIBS articles that contain the phrase *foreign market*



of 48 articles the phrase *foreign market*—and its derivatives *foreign markets*, and *foreign marketing*—appeared an average of 9.8 times per article. To validate the extent of this search, Appendix 1 lists the 48 articles, and for each article, displays the number of instances that the phrase *foreign market* was counted in the text.

When we investigate these 48 articles in greater depth, to understand the context in which the phrase *foreign market* is most often found, we find great variation. For instance, many of the articles focus on the attributes and aspects of *foreign markets*

¹ These statistics were compiled by searching the JSTOR and ProQuest electronic databases for articles that contained the phrase *foreign market*, or its right-handed derivative forms *foreign markets*, *foreign marketing*, etc. The percentage was calculated as the number of articles in each year that contained the word *foreign market*, divided by the total number of articles published in that year. The total number of articles published in each year was approximated by assuming 12 articles per issue, multiplied by the actual number of issues, which changed from 2 in 1970, to 3 in 1978, to 4 in 1990, to 6 in 2003. Note that the ProCite database did not contain reliable data for the period from 1986 to 1991.

themselves, such as their distribution channels (Keysuk & Frazier, 1996), levels of corruption (Rodriguez, Uhlenbruck, & Eden 2005; Habib & Zurawicki, 2002), cultural values (Shenkar, 2001), and privatization processes (Molz, 1990). Others concentrate on the change of *foreign markets* over time (Peng, 2003), and the impact of foreign direct investment on the change of specific markets over time (Buckley, Clegg, & Chengqi, 2002). There are other articles about the obstacles of entering *foreign markets*: compensation problems (Harvey, 1993), the semiotics of foreignness (Brannen, 2004), and risks (Kwok & Reeb, 2000). A great many of the articles emphasize modes of *foreign market* entry (Zhao, Luo, & Suh, 2004; Brown, Dev, & Zhou, 2003; Guillen, 1995; Yigang & Tse, 2000; Barkema & Vermeulen, 1998; Kumar & Subramaniam, 1997; Davis, Desai, & Francis, 2000; Pan, Li, & Tse, 1999), provide analysis of entry strategies (Buckley & Casson, 1998), discuss factors related to market entry strategies (Herrmann & Datta, 2002; Ellis, 2000), or discuss specific entry modes such as foreign direct investment (Brewer, 1993; Chen & Chen, 1998; Ito & Rose, 2002), and exporting (Bonaccorsi, 1992). A few studies focus on networks and relations: parent-subsidiary links (Luo, 2003), and linkages with local entities (Chen, Chen, & Ku, 2004). Yet another collection of articles emphasize the development of strategies to succeed in *foreign markets*, such as the use of process and output controls (Gencturk & Aulakh, 1995), diversification across markets (Capar & Kotabe, 2003; Tihanyi et. al., 2003; Hitt, Hoskisson, & Kim, 1997), risk mitigation (Reuer, Shenkar, & Ragozzino, 2004), and the link between home country environment and diversification strategies (Wan & Hoskisson, 2003). Also related to strategy, there are articles which highlight evolutionary learning (Kogut & Zander, 2003), expansion stage-models (Contractor, Kundu, & Hsu, 2003), the internationalization process of the firm (Eriksson, Johanson, Majkgard, & Sharma, 1997; Andersen, 1993; Erramilli, Agarwal, & Dev, 2002; Kayna & Dalgic, 1992), and the accumulation of strategies, intangible assets, experiential knowledge, learning, and capabilities across *foreign markets* (London & Hart, 2004; Rugman & Verbeke, 2004; Hoskisson et. al., 2000; Chang, 1995; Delios & Beamish, 2001; Craig & Douglas, 1995). Finally, a more recent sphere of work concentrates on “international new ventures”, ventures that start out from conception in multiple *foreign markets*, and do not

necessarily originate from any one specific home market (Knight & Cavusgil, 2004; Oviatt & McDougall, 2005; Zahra, Ireland, & Hitt, 2000).

Unbelievably, in this wide assortment of 48 studies that have included the phrase *foreign market*, not one supplies an explicit definition. And this leads to the question: if I can't find a definition even after an engaged, focused, eight hour period of electronic search, what are the chances that other scholars have a clear definition in mind? I even checked several professors websites, professors who claim to be experts in *foreign markets*, and yet, not one—at least that I have found—bothers to define what precisely they mean by this term. Thus, because scholars seldom make an effort to explicitly define what is to be communicated, this multi-faceted term has the potential to cause much misinterpretation and malady.

By piecing together assorted phrases, statements, and quotes from this sample of 48 studies, we can start to develop some sense of how the phrase *foreign market* is commonly used. For example, in one study, Hitt, Hoskisson, and Kim (1997) break “*foreign markets* into four relatively homogeneous global regions: Africa, Asia and Pacific, Europe, and the Americas .” In another study, we learn that “*foreign markets* go through institutional transitions” (Peng, 2003). In yet another, we find that “*foreign markets* can be corrupt” (Rodriguez & Uhlenbruck, 2005). Eriksson et. al. (1997) note that “it is difficult for the company to acquire an adequate understanding of the technical and commercial laws and norms that apply in a *foreign market*.” Similarly, Herrmann and Datta (2002), citing prior studies, point out that: “with any *foreign market* entry there are significant learning challenges in developing strategies that create and sustain competitive advantages.” Meanwhile, scholars such as Chen and Chen (1998) recognize benefits to overcoming so-called “entry barriers to *foreign markets*”, and describe that firms can “tap into strategic resources in a *foreign market*, such as market intelligence, technological know-how, management expertise, or simply reputation for being established in a prestigious market”. In this same vein, Luo (2003) acknowledges that “according to the resource dependence theory, a *foreign market* environment is a source of scarce resources.” These examples exemplify the extremely broad range of connotations regularly associated with this phrase in the literature.

Economics Definitions: Three Precise & One Broad

Economists define the term *market* in at least four ways, which I label the “classic”, “anti-trust”, “market as an economic system”, and “setting for exchange” definitions.

In the “classic” definition, according to Stigler & Sherwin (1985), a *market* is defined on the basis of supply, demand, and price:

The role of the market is to facilitate the making of exchanges between buyers and sellers.

The market is the area within which price is determined: the market is that set of suppliers and demanders whose trading establishes the price of a good... Consider the basic definition of the area of a market: A market for a good is the area within which the price of the good tends to uniformity, allowance being made for transportation costs.

In contrast, in the “anti-trust” definition, adopted in the 1984 *Guidelines* by the U.S. Department of Justice (1984), and reviewed by Schefmann and Spiller (1987), a market is specified along the lines of a particular product and particular geographic area:

Formally, a market is defined as a product or group of products and a geographic area in which it is sold such that a hypothetical, profit-maximizing firm, not subject to price regulation, that was the only present and future seller of those products in that area would impose a ‘small but significant and nontransitory’ increase in price above prevailing and likely future levels.

In the third definition, economists who speak of a “market as an economic system”, generally imply a free and competitive market system, in which the decisions about resource allocation are made without any central direction, but instead are guided by Adam Smith’s “invisible hand”. This is opposed to a command system, in which economic behavior is determined by some central authority, usually the government; or a traditional system, in which behavior is based primarily on tradition, custom, and habit. Along the continuum from market system to command system, economists have distinguished a number of archetypical economic forms: perfect market competition, monopolistic competition, oligopoly, monopoly, natural monopoly, and monopsony (Parkin and Bade, 2000). These archetypical forms are identified on the basis of three main criteria: the number and size of producers and consumers in the market, the type of goods and services being traded, and the degree to which information can flow freely (Lipsey, Ragan, & Courant, 1997; Wikipedia, 2005). Thus, in this definition, a *market* is just one of several prototypical forms of economic systems.

Finally, the fourth view of *markets* is as a “setting for exchange”. Loasby (1999) begins his discussion of markets by arguing that most economists write about exchange when they purportedly discuss markets. But, as Loasby (1999:107) argues:

To confuse markets with exchange is a category mistake; it is a confusion of institutions and activities. An exchange is an event...it is something that happens. A market is a setting within which exchange may take place—a setting which refers to ‘a group or groups of people, some of whom desire to obtain certain things and some of whom are in a position to supply what the others want’ Marshall (1919:182).

Based on these four definitions commonly used by economists, and the review of the 48 articles cited previously, it seems fair to draw the conclusion that the IB scholar’s use of the term *foreign market* more closely resembles the economist’s “setting for exchange” definition, than it does the others (i.e. “classic market”, “anti-trust market”, or “market as an economic system”). But even the “setting for exchange” definition is not as broad as IB scholars generally imply. (It limits the *market* to the group of people who are involved in the exchange.) On the contrary, as shown above, IB scholars, in their implied definition of a *foreign market*, tend to reference any attribute or aspect of a culture, society, or civilization that enables, impedes or otherwise affects exchange.

DISCUSSION

Given the lack of explicit definitions, presumably, authors make the implicit and faulty assumption that their readers share a common conception of *foreign market* structures and boundaries. But such a strong assumption seems inappropriate within a scientific community that prides itself in publishing factual, precise, and lucid explanations of phenomenon.

It may be the case that in prior decades, before the advent of large global markets, and before the growth of a prospering international research community, there was less ambiguity associated with the phrase *foreign market*. But, times have changed, political boundaries have blurred, and as verified above, the phrase is being used with increasing frequency in scholarly publications but without clear definition.

Danger of Fragmented Perspectives

Not having a widely-shared conceptualization of a *foreign market* can potentially lead to communication problems—misunderstanding, discord, and confusion—between managers and scholars who assume different meanings of this complex, intricate, and elusive concept. John Godfrey Saxe (1963) characterized this problem in his famous poem, the Blind Men and the Elephant. The poem tells a story of the “six men of Indostan/ to learning much inclined/ who went to see the Elephant/ (Though all of them were blind)/ That each by observation/ Might satisfy his mind.” As the tale unfolds, each man interprets the form of the elephant after stroking a different body part (i.e. the side was like a wall; the tusk like a spear; the trunk like a snake; the knee like a tree; the ear like a fan; and the tail like a rope.) The last verse and moral of the poem go as follows,

And so these men of Indostan
Disputed loud and long,
Each in his own opinion
Exceeding stiff and strong,
Though each was partly in the right,
And all were in the wrong!

Moral:

So oft in theologic wars,
The disputants, I ween,
Rail on in utter ignorance
Of what each other mean,
And prate about an Elephant
Not one of them has seen!

Just as each blind man “was partly in the right and all were in the wrong” concerning the form of the elephant, in the same way, many firms, scholars, and managers tend to have a fragmented conceptualization of *foreign markets*. And as with the blind men, confusion will inevitably arise in discussions pertaining to the *foreign market* “elephant”, unless we reject our fragmented conceptualizations and develop a shared, integrated view.

Research Question & Sub-Questions

Even more astonishing than the absence of a definition of *foreign markets*—and perhaps a reason for its absence—is that not one study inquires into the basic research question:

what is a *foreign market*? This is a crucial question, on par with the other big questions on the IB research agenda (Buckley, 2002; Peng, 2004). Without a clear answer, IB scholars are about as equipped to carry on a dialogue about *foreign markets* as were the blind men of Indostan to discuss the comparative anatomy of various elephant species.

As shown above, for the most part IB scholars imply a broader scope of coverage when they use the term *foreign market* that do their economist colleagues. But given that IB scholars do not provide a clear definition, we are compelled to ask this question: Just what is a *foreign market*, in the IB sense of the word? Pondering this question with an open mind, three sub-questions become apparent: How should foreignness be measured? What are the boundaries of a *market*? And what elements are contained within a *market*? Each of these questions comes with unique challenges, which are not easy to solve, but nevertheless are helpful towards understanding the depth and extent of the principal question: what is a *foreign market*?

Challenges with the Sub-Questions

What elements are contained within a market? The challenge posed by the so-called “elements question” stems from the fact that markets are complex systems, with many nested sub-systems, all of which are embedded in a vast social context (Granovetter, 1984), and that within an even vaster macro-civilizational supersystem (Sorokin, 1966). Scholars who wish to circumscribe a boundary around a “market” face the challenge of understanding and untangling the innumerable and immensely diverse elements and interactions within and between supersystem and subsystems, and deciding what to include, and what to leave out. Does a market system encompass other subsystems—science, fine arts, and the system of law? Or are these others merely nested in parallel, within the broader supersystem?

How should foreignness be measured? The challenge posed by the so-called “question of foreignness” is one of defining metrics for accurate measurement. The general use in the literature implies that a *foreign market* is one that is unfamiliar, or new, to a firm (e.g. Johansson & Vahlne, 1977). But is foreignness a notion that is best captured by a binary variable, such that a market is either foreign, or it is not foreign? Or

should it be measured as a continuous variable, such that a market ranges in degree or extent of foreignness, based on some measure of fit between the entrant and the host?

If we choose a binary metric, how many of its elements must be “foreign” for it to be called a *foreign market*? What about an unfamiliar geographic region within a firm’s home country—is that considered to be a *foreign market*? And at what point in time does a foreign market cease to be “foreign”? Is this a shift that happens gradually? Or is there a specified period of time—say two years—that must elapse, and then suddenly a market loses its foreignness? Or does this time period depend on the rate at which a firm learns, and how much learning is necessary?

And if we select continuous measurement, how do we develop reliable measures (Sullivan, 1994; Shenkar, 2001)? Are measures of cultural distance, (for a review, see Redding, 1994; House et. al. 2004), or psychic distance (Johanson & Vahlne, 1977), useful for estimating the “extent of foreignness”? Or should the measure of foreignness be relative to the degree of local experience of key managers? (In which case, a new market would not be labeled a *foreign market*, so long as locals were hired to staff and manage the venture.)

What are the boundaries of a market? Finally, the challenge posed by the so-called “boundary question” is that even if we know what elements to include in our *market* definition, it is not clear where the edge should be drawn? Even economists, outside of their precise “anti-trust” definitions, have seldom tried to address this question. Scheffman and Schiller (1987) admit that, “The infrequency with which one encounters actual market size determinations outside the anti-trust area is surprising and perhaps disquieting.”

Should *foreign markets* be delineated as relatively-homogenous world regions, as Hitt, Hoskisson, and Kim suggest (1997)? Or at the level of the nation state, as Hofstede implied (1984), and many have critiqued (e.g. Shenkar, 2001)? Or should they be bounded relative to a particular firm, with a particular product, process, or activity, at a particular time and place?

The “boundary question” might also be considered as an issue of choosing an appropriate unit of analysis. Indeed, the scientist who seeks to postulate a general model with the power to assess and compare many different *foreign market* situations must

classify abstract elements, attributes, properties, or traits that are common across many market settings. Abstraction is necessary to cope with the enormous complexity, variation, and distinctiveness of real markets. But as with any abstract model, generality always comes at the sacrifice of ignoring peculiarities and unique instances. Thus, the challenge is to select an appropriate boundary, one that permits a level of granularity and field of view that are insightful to the problem under investigation. While this may be different in each study, it is important that it always be defined.

CONCLUSION

The contribution of this article has been to reveal the increasing, yet ill-defined usage of the phrase *foreign market* in the IB literature. To expose how the meanings that have become implicitly associated with this phrase have expanded far beyond those typically defined by economists. To articulate how the lack of clear definition has potential to cause misunderstanding. And to frame a set of questions that inevitably arise when we attempt to redefine this elusive, relativistic, and nuanced concept.

It is apparent is that more research is needed into the fundamental question: What is a *foreign market*? We need to come to consensus on how we will address this question and the other sub-questions that have been posed above. We need to objectively rethink and reconceptualize our understanding of the phrase *foreign market* to fit modern times and modern usages and to avoid confusion with other economic definitions. Such a framework needs to be unified, comprehensive, and integrative in order to reflect the wide-range of meanings already implicitly attributed to the phrase in the IB literature. One way that this might be accomplished would be to conduct a more extensive literature review, to identify and harvest the many implied definitions of the term *foreign market* and its derivatives, and then to use cluster analysis or a similar technique to combine and reduce these definitions down to a set of core constructs.

In the next chapter, we take a step in this direction. But instead of harvesting implied definitions of the phrase *foreign market* from the IB literature and stitching them together, we take an altogether different approach. We jump up a level of analysis to the civilization supersystem, motivated by Sorokin (1966: 379) who explains that,

Without an adequate knowledge of the supersystem we can hardly understand the structural and dynamic properties of all its important parts—its subsystems, sub-subsystems, and congeries—just as without sufficient knowledge of a whole organism, of its gross anatomy and gross physiology, we cannot understand the anatomy and physiology of its organs, tissues, and cells.

Indeed, the market is just one subsystem intertangled within a much vaster civilizational order, and as many IB scholars have implied, in a roundabout way, with their broad definitions of the phrase *foreign market*, it is necessary to go up to the higher level of analysis to understand the intricate interrelations within and between the subsystems and the supersystem itself.

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APPENDIX 1
Review of the Usage of the Phrase *Foreign Market*^a in the Literature

Instances of Phrase "Foreign Market"	Number of Studies	Specific Citations
1	5	Peng, 2003; Rodriguez, Uhlenbruck, & Eden 2005; Brannen, 2004; Chen, Chen, & Ku, 2004; Hoskisson, Eden, Lau, & Wright, 2000
2	6	Habib & Zurawicki, 2002; Shenkar, 2001; Molz, 1990; Wan & Hoskisson, 2003; London & Hart, 2004; Craig & Douglas, 1995
3	9	Harvey, 1993; Buckley, Clegg, & Chengqi, 2002; Kwok & Reeb, 2000; Hitt, Hoskisson, & Kim, 1997; Yigang & Tse, 2000; Ito & Rose, 2002; Kayna & Dalgic, 1992; Erramilli, Agarwal, & Dev, 2002; Luo, 2003
4	5	Capar & Kotabe, 2003; Guillen, 1995; Barkema & Vermeulen, 1998; Delios & Beamish, 2001; Oviatt & McDougall, 2005
5	3	Andersen, 1993; Pan, Li, & Tse, 1999; Rugman & Verbeke, 2004
6 - 10	9	Keysuk & Frazier, 1996; Reuer, Shenkar, & Ragozzino, 2004; Kogut & Zander, 2003; Brewer, 1993; Chen & Chen, 1998; Contractor, Kundu, & Hsu, 2003; Tihanyi, Johnson, Hoskisson, & Hitt, 2003; Zhao, Luo, & Suh, 2004; Davis, Desai, & Francis, 2000
11 - 20	4	Bonaccorsi, 1992; Buckley & Casson, 1998; Chang, 1995; Kumar & Subramaniam, 1997
21+	7	Zahra, Ireland, & Hitt, 2000; Herrmann & Datta, 2002; Eriksson, Johanson, Majkgard, & Sharma, 1997; Knight & Cavusgil, 2004; Ellis, 2000; Gencturk & Aulakh, 1995; Brown, Dev, & Zhou, 2003

^a The sample of 48 articles was selected from well-known journals of international business by using electronic search methods to identify the phrase *foreign market*. The search targeted the Journal of World Business, The Journal of International Business Studies, the Academy of Management Journal, Academy of Management Review, and Marketing International Review. The count of instances of the phrase *foreign market* includes right-handed derivatives, such as *foreign market s*, and *foreign market ing*. The maximum frequency of appearances was 79, in Brown, Dev, and Zhou (2003), the minimum frequency of appearances was one, the average number of appearances was 9.8, and the standard deviation of appearances was 14.3. These results do not include a count of the synonymous phrases *global market*, and *international market*, or their derivatives, and had these phrases also been counted, presumably the average number of appearances counted in each article would have been far higher.