Chapter 8
From Systematic to Mimetic Behavior in the International Market Selection

Maria do Rosário Correia
https://orcid.org/0000-0001-5381-0611
German University in Cairo, Egypt

Raquel Meneses
University of Porto, Portugal

ABSTRACT

Traditionally, the international market selection is a systematic process, based on predefined criteria. This process is, however, very time- and cost-consuming, and only a small number of firms have sufficient resources to do it. So, according to the Uppsala Model, firms tend to internationalize to the closest markets (psychic distance), managing uncertainty in a very gradual process based on experiential knowledge. The second-hand knowledge that flows in the firm's network could help firms select the market, helping them to expand gradually. Independently from the source (experiential or second hand), knowledge seems to be a mandatory resource to internationalize. However, a lot of firms imitate other firms' behavior, selecting the international market according to others' selections, believing that they must have superior information. In this situation, firms could imitate the leader (a successful firm) or the herd (a big number of firms). This international market selection is not based on knowledge; it is a mimetic process.

INTRODUCTION

In an increasingly globalized marketplace, expansion to international markets is no longer a luxury or even an option but a need for most business firms (Ohmae, 1989). In other words, international expansion became an imperative to grow and to sustain profits (Ozturk, Joiner and Cavusgil, 2015). Nevertheless, entering in new foreign markets comes with inherent risks and uncertainties due to new and relatively unknown surroundings (Astley & Brahm, 1989). Notwithstanding the difficulties, it is crucial that firms

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select the adequate market as this decision has a profound impact on performance and firm growth. "The selection of an international market affects the entire operational setup of a firm, as it influences the production dispositions as well as financial, organizational and managerial issues adapted to existing business activities" (Andersen & Strandskov, 1997, 66). As a firm's knowledge of a new market is limited, the degree of perceived risk is greater and managers might be cautious about committing scarce resources to the foreign market (Erramilli & Rao, 1990; Johanson & Vahlne, 1977). A means to overcome this lack of knowledge and perceived risk is to adopt an international market selection approach that best fits firm's characteristics namely the previous experience, the resources owned and the existing network (Silva, Meneses & Radomska, 2018). Traditionally, international market selection (IMS) literature argues that systematic and direct knowledge of cross-border markets is mandatory to internationalize. Thus, Andersen and Buvik (2002) and Ozturk, Joiner and Cavusgil (2015) propose structured processes that manager should follow to obtain crucial information regarding foreign markets potential and opportunities for international expansion.

However, in practice several authors defend that companies can obtain valuable information by relying on existing network system (e.g. Agndal & Axelsson, 2002; Moen et al., 2014; Andersen & Buvik, 2002) or by observing other's behavior and the outcomes that follow from this behavior (e.g. Bikhchandani, Hirshleifer & Welch, 1998; Michailova & Wilson, 2008). The former is conventionally known by the relational approach while the latter is traditionally referred to as the mimetic approach. Both these approaches have been proposed by the literature as means by which firms select and develop their business strategy. Generally, the mimetic approach has been defended by two different strands of literature. On one hand, there are theories that relate the mimetic approach to information-based learning processes. On the other hand, a broad category of research relates the mimetic approach to the need to maintain competitive parity or to limit rivalry. These are conventionally known by rivalry-based theories. The information-based theories can be further divided into three categories: informational cascade, social learning process and social legitimacy requirements.

SYSTEMATIC AND OPPORTUNISTIC APPROACHES (DIRECT DATA COLLECTION AND EXPERIMENTAL APPROACHES)

According to Papadopoulos & Dennis (1988) and Musso & Francioni (2014) firms can gain knowledge and evaluate the attractiveness of potential markets by following a formalized process of data collection and standardized statistical methods that underpin the data analysis.

This formalized and structured process is known as the systematic approach. According to Andersen and Buvik (2002) it includes six stages:

1. Problem definition, which implies that international market selection must be analized as an independent issue not dependent on any other decision (as, for example, entry mode selection);
2. Identify the choice criteria i.e. "the decision-maker should identify all relevant criteria or objectives against which the alternatives will be evaluated" (Andersen & Buvik, 2002, 348).
3. Weight the criteria, providing different relevance to diverse criteria.
4. Generate the alternatives and in this case "at least two strategies could be used: 1) an extensive search, generating a complete list of all alternatives (countries, portfolios); 2) an optimal search,