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The international business incubator as a foreign market entry mode

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Abstract:

Foreign market entry for the firm is often a more complex process than suggested by theoretical models, which can often benefit from re-contextualising and extension in order to retain their explanatory power. In this article, case study research shows how an international business incubator in China, operated by a British export promotion organisation is able to facilitate the foreign market entry of firms. The findings provide an opportunity to highlight a hitherto under-researched method of foreign market entry, explore the synergies between the foreign market entry and business incubation literatures and also to extend theory by integrating the role of the business incubator as a method of foreign market entry into existing models and frameworks.

INTRODUCTION

As the western world continues to recover from recession, national governments are encouraging firms to export their products and services in order to create jobs and boost the economy. However, the challenges associated with entering new foreign markets, known in the academic literature as 'liabilities of foreignness', (Denk et al., 2012; Hymer, 1976; Zaheer, 1995), remain significant for new-comers. Indeed, such impediments can stand in the way of a firm's successful foreign market entry.

An innovatory phenomenon which aims to ease a firm's entry into a foreign market is an 'international business incubator'- a shared office-space facility located in a foreign country that provides temporary accommodation and assistance to newly arriving firms until such time as they feel able to 'graduate' or leave to set up a permanent presence of their own. Examples include, the Danish Business Centre in India (Ministry of Foreign Affairs of Denmark, 2016), China-Britain Business Council's Launchpad scheme in China (CBBC, 2016) , the UK India Business Council's Launchpad scheme in India (UKIBC, 2016) and also the Business Support Centres in Thailand established by The Japanese External Trade Organization (JETRO, 2016). While the phenomenon of the international business incubator has become more widespread, the benefits of business incubation as a method of foreign market entry has remained barely understood from an academic perspective.

In this paper we first discuss the concept of business incubation and introduce the key theories that explain the foreign market entry behaviour of firms. We then explain the research context and single case study approach adopted in this paper, before presenting our empirical findings. Finally, we offer a theoretical discussion on the functioning of business incubators as a method of foreign market entry.

Business incubators – the concept

First of all, what is a business incubator? Taking into account a variety of perspectives and standpoints in a review of the early literature, Hackett and Dilts (2004) defined the business incubator thus:

> "A business incubator is a shared office-space facility that seeks to provide its incubatees (i.e. "portfolio-" or "client-" or "tenant-companies") with a strategic, value-adding intervention system (i.e. business incubation) of monitoring and business assistance. This system controls and links resources with the objective of facilitating the successful venture development, while simultaneously containing the cost of their potential failure." (Hackett and Dilts, 2004: 57)

This paper broadly follows this definition of business incubation as a risk reducing intervention, within a foreign market entry scenario. However, in the academic literature, business incubators have mainly been considered within the context of promoting company growth in domestic market settings (Allen and Rahman, 1985; Campbell and Allen, 1987; Fry, 1987), for example in nurturing new businesses in local economies (Sherman, 1999), commercialising university outputs (Vedovello and Godinho, 2003), stimulating and commercialising technological inventions (Mian, 1994; Scheirer et al., 1985) or creating business networks at a local level (Hansen et al., 2000). A number of typologies for business incubators have been described (e.g. Allen and McCluskey, 1990; Becker and Gassmann, 2006; Grimaldi and Grandi, 2005; Von Zedtwitz, 2003), but business incubation as a means for facilitating foreign market entry has not featured amongst them.

The use of business incubation to support international entrepreneurship is a recent phenomenon (Li, 2009). Li (2009) distinguishes between two kinds of incubator that support international entrepreneurship at the national level, namely Inward International Business Development (IIBD) incubators, where the objective of stakeholders such as local government is to create jobs, facilitate technology transfer and attract inward foreign direct investment, and Outward International Business Development (OIBD) incubators, where the home country establishes an incubator abroad in order to encourage outward direct investment into a foreign country. In particular, little has be written about the OIBD incubator as a method of foreign market entry, and the few papers available (e.g. Rask and Bøllingtoft, 2008; Ulrich and Hollensen, 2014) offer only explorative and tentative explanations about its role in the internationalisation process of the firm or as an alternative means of foreign market entry for the firm.

The theory of foreign market entry

There are two broad streams of theory which are used to explain a company's choice of foreign operation methods (Welch et al., 2007). On the one hand, there is an 'economics-strategy' stream which encompasses market imperfections theory, organisational economics theories (such as internalisation and transaction cost theories) strategic behaviour theory, resource based theory and Dunning's Eclectic framework (Dunning, 1993). On the other, there is a 'process oriented' stream, loosely termed 'the internationalization process', which encompasses organisational learning and network approaches. The former stream assumes rational and timely decision-making by the firm, with an emphasis on costs and benefits. In the latter stream, decision-making is regarded as a more gradual process, informed by the accumulation of knowledge and experience, characterised by a 'bounded rationality', and influenced by individuals, organisations and networks of actors.

According to internalisation theory, a firm may initially establish overseas operations in response to market imperfections in cross border transactions. In other words, instead of continuing to bear the costs of such transactions (e.g. agency costs, licensing, commissions, and so forth), the firm will make a rational decision to 'internalise' its foreign sales activities, for example by setting up its own sales subsidiaries or production operations (Buckley and Casson, 1976). In a model created by Buckley and Casson (1981) the timing (and outcome) of mode switching from export to licensing or FDI is seen as being dependent upon the demand conditions in the market (q) and the total cost of foreign market servicing c(q), which varies with demand. The model proposes that a firm will subsequently make a rational decision to switch modes based on the costs of exporting versus the costs of licensing or FDI. Figure 1 shows how sales in the foreign market will reach a scale where production in the foreign market becomes worthwhile. The choice of foreign operation mode then becomes an economic decision. The analysis of rational decision making in this model, and its relationship with mode switching, has the potential to provide an explanation for the economic rationale behind a firm using business incubation as a method for entering a foreign market, but in its present form the model is limited by its use of only three generic market entry methods.

(Figure 1 goes about here)

Anderson and Gatignon (1986) also used transaction cost analysis to help managers compare the costs and benefits of strategic alternatives and to select an entry mode that maximises long-run efficiency (measured in terms of the risk adjusted rate of return on investment). According to Anderson and Gatignon, control is the single most important determinant of risk and return. They argued that high control modes can increase return, but also risk, whilst low control modes can reduce resource commitment, but at the expense of return. Root (1998) asserts that as firms become more experienced, they will choose entry modes which provide greater control over foreign market operations. Greater control implies a greater commitment of resources and therefore more risk, but over time this trade off can be accommodated by firms as their confidence grows. As shown in Figure 2, early on in its internationalization, a firm may wish to adopt low risk/low control export modes. Later, it may be confident enough to enter a market as an equity investor or through a wholly owned subsidiary, as expressed as trade-offs between control and risk.

(Figure 2 goes about here)

Business incubators in domestic scenarios have already been acknowledged as enabling entrepreneurship where previously it was too costly or risky (Bøllingtoft and Ulhøi, 2005; Hackett and Dilts, 2004). According to Bugliarello (1998) staying in a business incubator or being related to/located at a business incubator can also reduce an entrepreneur's perceived risk of a project because the business incubator represents a form of social capital. Root's (1998) model of how a firm's commitment to a foreign market may deepen within the context of risk and control has the potential to demonstrate the risk/control characteristics of business incubation.

According to Kogut and Kulatilaka (1994), firms should view investments and (the building of) organisational capabilities, as creating 'real' options or platforms to expand into new products or markets. Technology drivers, joint ventures, flexible manufacturing skills and 'country platforms' are all given as examples of options, which enable firms to position themselves favourably in the face of future uncertainty, adversity or opportunity. The authors explain that firms may initially establish distribution channels or learn how to do business in a country ahead of building the capability to launch further products or services. The overall message is that investment in physical or human assets or in organisational capabilities should be built in foreign markets in anticipation of the future. An understanding of options or platforms offers a possible theoretical explanation of the role that business incubation can play in a firm's foreign market entry from a strategic perspective.

The 'internationalization process' stream has tended to view the decision surrounding the selection of market entry mode from the perspective of a more bounded rationality (where outcomes are influenced not just by economics, but are also partial to human limitations and interventions) and through the lens of organisational learning processes. Johanson and Vahlne (1977) acknowledged the accumulation of knowledge and experience as a means to overcome the uncertainty faced by a firm which is entering a new market. The challenges associated with entering new foreign markets, known in the academic literature as 'liabilities of foreignness' (Denk et al., 2012; Hymer, 1976; Zaheer, 1995) remain significant for new-comers. These liabilities can include inadequate knowledge about a host country's culture, norms, values and business practices (i.e.'unfamiliarity hazards') and a lack of embeddedness in local networks (i.e. 'relational hazards') (Eden and Miller, 2004). Such impediments stand in the way of firms' successful foreign market entry.

Johanson and Vahlne developed a model of the internationalization process that focused on the individual firm - in particular its gradual acquisition of knowledge and its increasing commitment to foreign markets, which sought to demonstrate that rather than making large investments in a foreign country at a single point in time, firms develop their international operations in an incremental, step by step manner, learning as they go (Johanson and Wiedersheim-Paul, 1975). The model suggests, for example, that firms would first export via an agent or distributor in the foreign market, then set up a sales subsidiary and then perhaps at a later stage set up a production facility. In the Uppsala model, the current activities of a firm at any one stage helps to build experience, which in turn strengthens knowledge and helps reduce uncertainty about making further commitments. In a later development of the model (Johanson and Vahlne, 2009), 'insidership' in relevant networks is also seen as necessary for successful internationalization. This model also presents a lens through which to consider the knowledge and networking potential of business incubation as method of foreign market entry.

The key theories relating to foreign market entry have been outlined above, but presently do not accommodate business incubation as a foreign market entry mode. This is an important under-researched phenomenon which justifies a ‘phenomenon-driven research question’ (Eisenhardt and Graebner, 2007), broadly scoped in order leave flexibility, namely, how do business incubators serve as a foreign market entry method for the firm?

RESEARCH APPROACH

In this section, the research setting (China) is discussed and the operation of China-Britain Business Council’s Launchpad scheme is explained in detail. This is followed by the rationale supporting a single case study approach, along with other considerations. The selection of Launchpad as the case study for this investigation, rather than one of the other business incubation arrangements mentioned above, was because one of the authors was an employee of China-Britain Business Council.

China

Despite being one of the largest and fastest growing markets in the world (Johnson and Tellis, 2008) and an important destination for foreign direct investment (Lau and Bruton, 2008; Morrison, 2013), with a variety of regulatory, competitive and cultural challenges, China is regarded as being a difficult market for foreign firms to enter (Niu et al., 2012; Walters and Samiee, 2003; Yaprak, 2012). This presents challenges for foreign firms, whose foremost concern when entering a new market will be to gain market legitimacy and establish the right to do business in the new market (Yiu and Makino, 2002). In terms of the challenges posed to foreign market entrants, China is categorised alongside other ‘emerging markets’, such as India, (Johnson and Tellis, 2008).

Firms entering the Chinese market face particular kinds of liabilities of foreignness, such as spatial distance (Boeh and Beamish, 2012; Hymer, 1976); the need to establish relationships in advance of doing business (Ambler et al., 2008; Bridgewater and Egan, 2001; Vanhonacker, 2004; Yeung and Tung, 1996); bureaucracy (Ambler et al., 2008; Stewart, 1990) regulation in some sectors e.g. automotive (Nam, 2011), telecoms (Han and Wang, 2014), as well as the influence of regulation on some structures (Wu and Strange, 2000). China has also been recognised as lacking sufficient legislation to protect intellectual property rights and their enforcement (Ambler et al., 2008; Chen and Hu, 2002; Keupp et al., 2009). Yet despite all these factors, firms are still attracted to China because of the potential offered by its sheer market size. Our case study of a business incubator used by UK firms for market entry into China captures the extreme form of the barriers faced in the internationalisation process.

The Launchpad business incubation scheme

China-Britain Business Council (CBBC) is an export promotion organisation and membership organisation that works closely with the British government to assist British companies to do business with China. With its head office in London, UK, it has 13 offices in China (Beijing, Shanghai, Shenzhen, Shenyang, Qingdao, Nanjing, Hangzhou, Wuhan, Xi'an, Chengdu, Chongqing, Changsha and Guangzhou). CBBC receives a grant from the UK government to deliver a range of subsidised trade services to UK firms on its behalf - such as company introductions and basic market research, but it also offers a range of non-subsidised services that serve as alternative revenue streams, along with income from membership fees. CBBC's Launchpad scheme is one such non-subsidised 'commercial' service, which offers firms a form of business incubation. Under a consultancy contract with a UK firm or organisation (the 'client'), CBBC's China offices act as initial 'employer' for a dedicated staff member or 'project manager', identified, selected and then assigned to the client through an open recruitment process. CBBC provides a work station for the project manager, along with business development support within its network. In each location, a CBBC employee, usually the chief representative, assumes the role of Launchpad scheme manager from an administrative and supervisory perspective.

The human resource dimension offered by CBBC is an important benefit provided by the scheme, since foreign firms are not permitted to employ Chinese nationals without first having registered an office in China. These staff members are able to carry out business development, liaison or research work (within the scope of CBBC's business license), in preparation for the client establishing its own permanent presence in China. Their daily tasks are directed by the client in the UK. The employment of the project manager is transferred from CBBC to the firm or organisation as soon as it sets up its own entity. Alternatively the firm or organisation may decide to leave Launchpad and exit the market completely. In this event, there is no further payment due to CBBC, but a severance fee is payable to the employee, as required by Chinese employee contract law (typically equivalent to one month's salary for every 12 months employed). The same applies if an employee is made redundant (owing to poor performance or non-suitability) during the business incubation period. Such obligations are passed onto the incubatee firm under pre-agreed terms and conditions under the Launchpad contract.

Having access to a dedicated staff member, who from the outset is earmarked to leave CBBC and work for the client's new entity, is an arrangement distinct from straight forward services (research, introductions etc.) offered by other third party organisations such as Chambers of Commerce or consultants. The work carried out by a project manager, akin to having one's own 'person on the ground', is more readily controlled and internalised directly by the firm, with the project manager incentivised to succeed in his or her work by the prospect of becoming a significant employee in a new business venture. British firms are directed towards Launchpad through the UK's China trade promotion agencies and also by word of mouth.

Incubatees pay a fixed annual management fee to CBBC in order to use the Launchpad scheme, which along with salary (which varies according to the skills and experience required) and related out-goings (pensions, social funds etc.) makes up a total usage cost. In view of the specific skills required, the usage cost under the scheme (including management fee) is not insignificant and may exceed US$80,000 per annum. The minimum contract period is 12 months, and so the minimum cost to the firm is a year's management fee, plus salary and related contributions. An incubatee firm may take on additional project managers and desks, but must bear the full cost of the additional salaries and only receives a 10% discount on the management fee for each additional person. The management fees are a source of revenue for CBBC, making this arrangement a sustainable commercial offering. Incubatee firms do not receive subsidies of any kind.

Business development support from CBBC extends to identifying potential partners or customers for incubatees and, in difficult or sensitive sectors, using its reputation and relationship network to introduce companies to the relevant government authorities involved in permitting foreign companies to enter and operate in China. According to a former CBBC Shanghai employee, this is particularly useful for smaller firms; larger firms do not require such support, tending to rely on their international reputation and often having a stronger marketing or government relations capacity than CBBC. For SMEs operating in an uncertain environment, Launchpad also offered a safe way to withdraw if necessary. The Shanghai informant summarised the benefits to Launchpad users as follows:

> "The main thing is that they do not need to worry so much. There are so many things that companies need to worry about if they don't use Launchpad. For example, how can I find the right person, how can I register myself, how can I deal with my customers, how can I handle my money, how can I locate myself, how can I find my market intelligence? And even though I have the market research report, this is just paper. How can I roll it out in a plan, how can I protect my IPR [Intellectual Property Rights]. So Launchpad actually gives them a place to really wait and see, for them to really touch the water, and then if they feel the risk is too high, they can leave, without any particular strong risks." Former Employee, CBBC Shanghai

Analysis of Launchpad users

An examination of CBBC's records carried out by the authors yielded data on former and current users of Launchpad useful for understanding the scheme in more depth (see Appendix A). From this, we are able to show the balance of incubatees engaged in manufacturing versus services, the average time spent in the incubator and the percentage of companies that maintained a presence in China after graduating from the scheme.

The data shows that there were 162 former Launchpad incubatees or 'graduates' measured by the number of dedicated desks occupied across CBBC's China offices. However, in reality there were 148 users at the firm level, owing to eight firms using desks in more than one location. The figure of 162 was, however, used as the base number for some analysis of Launchpad usage and outcomes. At the end the research period (2014) there were also 24 Launchpad desks actively occupied by 21 firms, making a total of 169 incubatee firms. Launchpad has become more popular since its establishment. In the five years from 1994 to 1998, there were 14 new desks taken; and from 1999 to 2003 another 51. From 2004 to 2008, there were 70 new desks and from 2009 to 2013 there were 51. During this last period, there were only 3 new desks taken in 2009 (perhaps influenced by the global financial crisis in 2008), but there were 22 new desks taken in 2013. This shows increasing adoption of this market entry method after 2000 and a steady increase in usage since then.

During the period under analysis, Shanghai was the most popular location for Launchpad (77 graduated and current users), followed by Beijing (72 graduated and current users). Shenzhen had 17 users. There were single digit figures for Chengdu (6), Wuhan (6), Qingdao (3), Shenyang (3) and Nanjing (1). In Beijing, the balance of graduated users was in favour of service providers 68.85% (42 out of 61), whilst in Shanghai the balance was more in favour of manufacturers 55.71% (39 out of 70). With current users, the balance lies heavily in favour of services, with the education sector dominating – 65.21% (15 out of 23). In terms of accommodation, there is some flexibility in the number of incubatees that the CBBC offices can house, since the office lay-outs can be reconfigured to accept more incubatees within open plan environments. Incubatees share space with a CBBC core team engaged in carrying out tasks for members, along with other support activities for UK firms, such as research or introductions.

Overall, for graduated companies, the top four sectors were engineering 14.20% (23 out of 162), building 12.35% (20 out of 162), education 12.35% (20 out of 162) and financial and legal services 6.79% (11 out of 162). By sector, Beijing Launchpad was dominated by sectors known to be highly regulated, such as telecommunications (5 out of 6 incubatees in this sector), power and energy (6 out of 7), agriculture (4 out of 4), healthcare (3 out of 3), airports (2 out of 2), oil & gas (2 out of 2). In Shanghai, Launchpad was well represented by industrial sectors, such as engineering and automotive – 65.5% (19 out of the 29 across China).

The average (arithmetic mean) stay in Launchpad across all locations was 2.19 years (median 1.66 years). Average stays in Beijing (2.93 years; median 2 years) were longer than those in Shanghai (1.39 years; median 1.65 years). Firms from some sectors spent longer in Launchpad than others. For example, the average stay for education was 2.35 years, while for engineering it was 1.89 years. 68.75% of graduated firms and organisations (113 out of 162) proceeded to set up a presence in China. The number of firms and organisations graduating and setting up in Beijing (48) and Shanghai (47) were broadly equal. However the progression rate in Beijing was 78.69% (48 out of 61), while in Shanghai it was 67.14% (47 out of 70).

Over the research period, a Representative Office was the most popular mode of post-Launchpad foreign servicing method – 76.11% (86 out of 113), followed by wholly foreign owned enterprise (WFOE) 18.58% (21 out of 113). The JV did not figure highly as a post-Launchpad entry mode (only 5 cases). In Shanghai there were more examples of WFOE being chosen as the next stage of market servicing - 29.79% (14 out of

47), when compared to Beijing - 6.25% (3 out of 48). In recent years, however, Representative Offices have become a less popular form of market servicing in China, with WFOE becoming the favoured method. Of the graduated firms and organisations, 30.25% (or 49 out of 162) did not proceed to set up a presence in China. Of these 18.37% (9 out of 49) are no longer active in China (7 of these 9 were non-commercial organisations such as trade associations and government departments); 38.78% (19 out of 49) withdrew their physical presence but are still active; 36.73% (18 out of 49) of the firms and organisations had been either dissolved (12) or acquired (6) by other firms.

Once those companies that were subsequent dissolved or acquired (18) are taken into account, the progression rate to a subsequent market servicing mode in China can be said to have improved to 78.5% (113/144). If the number of discrete incubatee firms (148) is taken as the base, and those companies acquired or dissolved (18) also taken into account, the progression rate rises further to 87% (113/130). Moreover, if the number of non-commercial users which withdrew and are no longer active in China (7) are also taken into account, the progression rate would improve further to 91.86% (113/123).

This above analysis of the CBBC international business incubator adds further rigour and context this research and supports the quality of the findings presented later in this paper.

Launchpad as a business incubator

For the purpose of this paper, it is also important to justify that CBBC's Launchpad facility can be categorised as a business incubation scheme, since it provides the focal setting for this research. This will be achieved by discussing its characteristics using terms from the business incubation literature.

Launchpad fits the formal definition of a 'business incubator', in so far as a business incubator is any organisation which provides affordable office space and shared administrative services (Allen and McCluskey, 1990; Fry, 1987). The Launchpad scheme has characteristics of both 'For Profit

Development Incubators', which have a 'Primary Objective' of 'selling proprietary services to tenants' and 'Non-Profit Development Corp*oration Incubators'*, which enhance the business development environment and promote the development of the incubatee. These are two types of business incubator suggested by Allen and McCluskey (1990) as being distributed along a value added continuum.

It can also be said that Launchpad provides 'business incubation' through 'monitoring or business assistance' (Hackett and Dilts, 2004). Launchpad identifies well with Smilor's conceptualisation (1987a) of the incubator as a system which confers 'structure and credibility' on incubatees whilst controlling a set of assistive resources, such as 'secretarial support, administrative support, facilities support, and business assistance'. Von Zedtwitz (2003) defined an ideal type of business incubator, when he asserted that it must demonstrate at least four out of five specific services, namely access to physical resources, office support, financial support, entrepreneurial start-up support and access to networks. With the exception of financial support, Launchpad provides four of these specific services to incubatees.

Case study rationale

The case study has been defined by Piekkari et al. (2009) as "a research strategy that examines, through the use of a variety of data sources, a phenomenon in its naturalistic context, with the purpose of 'confronting' theory with the empirical world" (p.589) and has been observed as being the most common qualitative methodology in international business research (Piekkari et al., 2009). The advantage of the case study as a research method is that it permits the researcher to generate and utilise many different kinds of rich evidence, allowing him or her to enter the world of his or her subjects and offering the opportunity to study them within the context of their own environment.

According to Yin (2009) the case study can be used for explanatory purposes and may use deductive logic to not only test propositions, but also revise existing theories. Arguing from a positivist perspective, Yin (2009) advocates that in order to overcome criticism related to external and internal validity, case studies should have clear designs, with research questions, units of analysis and procedures for interpreting data stated. In this paper, we subscribe to positivist assumptions that the social world exists externally and requires objective methods to identify causal explanations. We have provided a ‘how’ research question, namely how do business incubators serve as a foreign market entry method for the firm? The units of analysis and procedures for interpreting data are also clearly specified and elaborated on below.

For our research into the business incubator as a method of foreign market entry, the case study method is a good choice for assessing its function, especially from the perspective of firms that are using, or have used one, since firms are positioned at the heart of, and are the main beneficiaries of, the business incubation process. Here, we adopt a single embedded case study design (Yin, 2009) where within the single case (Launchpad), attention is also given to sub-units (incubatees). These embedded units are selected following the Eisenhardt approach (1989) of ‘theoretical sampling’ where incubatee firms were chosen for theoretical rather than statistical reasons with a view to extending existing theory. The business incubator is therefore the unit of analysis and the incubatees its sub-units that can enhance our understanding of the single case.

Amongst the rationale for a single case being justified is when it is ‘representative’ (Yin, 2009). The international business incubator under investigation, Launchpad, can be regarded as a ‘typical’ business Overseas International Business Development incubator. A number of other examples of international business incubation arrangements are mentioned in the introduction and Launchpad may be regarded as ‘representative’ of a phenomenon which is not well understood. According to Dyer and Wilkins (1991), a single case study can also be justified where it is able lead researchers to develop new theoretical relationships and question old ones.

As mentioned above, one of the authors of this paper was an employee of CBBC. This created a level of level of access to a research opportunity otherwise extremely difficult to find. ‘Positionality’ (Banks, 1998), a term used in sociology and anthropology, acknowledges the place of the researcher in the research environment. This concept can also be viewed in terms of whether the researcher is an ‘insider’ or an ‘outsider’ (Merriam et al., 2001). Being an employee of CBBC brought the advantage of getting close to the phenomena under investigation (Dyer and Wilkins, 1991). However, it also brought the risk of possible bias, making assumptions and not being able to see things that may be evident to ‘outsiders.’ A positivist approach requires independence. As a result, we needed to pay close consideration to how our roles affected the research process. We made efforts to detach research and work agendas, represented ourselves as university researchers rather than employees, with a view to ensuring that our identities did not unduly influence the interpretation and representation of the data.

Within the single case study, we investigated the experiences of ten current and 14 former incubatees of Launchpad via 47 semi-structured interviews with UK and Chinese managers who were closely involved in the scheme. We also carried out interviewees with three former CBBC employees. This approach allowed us to go deep into the dynamics of the single case (Dyer and Wilkins, 1991). To ensure a variety of perspectives, and to ensure the emergent findings were applicable across a broad range of organisations (so-called ‘diverse sampling’), incubatees from both the manufacturing and service sectors (including several internationalizing universities) are represented in the sample, as well as those from both the ‘small’ and ‘large’ category. A variety of motivations were held by incubatees, including beginning or increasing (existing) exports of products or services, sourcing or profile building (See Appendix B).

Out of the 24 firms in the study, 15 firms offered a dyad of interviewees (one in UK, one in China), four firms offered three interviewees (two in UK, one in China). Five firms that had withdrawn from the scheme without progressing to an independent market servicing mode in China offered only one interviewee, but this interview data provided further valuable insights. The experiences of these incubatees are able to convey the role and function of the business incubator in foreign market entry. The interview protocol, informed by themes from the internationalisation literature (see Appendix C), posed a series of open questions in order to enquire about why incubatee firms chose to use Launchpad, what were the perceived benefits and how these influenced their internationalisation experience. Together, these help us to understand to understand the function of the unit of analysis in this study, the business incubator.

NVivo, a form of Computer Aided Qualitative Data Analysis Software (CAQDAS) was used to code and analyse interview data. This enabled us to collect evidence around the theoretical themes of risk, control, knowledge, networks and the foreign market entry experience and to identify where data can support emergent theory. In order to further facilitate analysis of the data, a 'case study database' (Yin, 2009: 118) was developed, which provided provide quick and easy access to each and every supporting quotation, samples of which are presented in the research findings below.

RESEARCH FINDINGS

The findings of this research revealed business incubators offer benefits to firms, which in turn influence their decision to enter and deepen their commitment to a foreign market. Data collection and analysis focus on a number theoretical areas, including foreign market entry, the risk and the risk/control trade off, knowledge management and international network relationships. This section displays key quotations and supporting evidence from the study. Together the findings point towards lower market entry costs, improved risk/control trade off, enhanced knowledge and network relationships and momentum for increased market commitment.

Selection of business incubation as a foreign market entry method

In opting for business incubation as a market entry method, cost was a factor for 14 informants within 12 incubatees (29.8% of those interviewed). The absolute cost of market entry, in comparison to other options, was taken into account by three incubatees, whilst for another the issue was more about 'affordability' in comparison to other options. One interviewee explained:

> 'So that you can say well let's not worry yet about whether we want to spend a million pounds on putting a factory in China - let's just worry about whether we want to spend £50,000, getting to a point where we really understand it better, or a hundred thousand pounds. That's a much easier decision for a board to take and say well let's at least do that. That can be taken for perfectly good reasons, or for pure indecision reasons.' C1P2, Managing Director, Food Processing Equipment Manufacturer

This quotation also indicates, from the experience of this firm, the availability of the business incubator led to it pressing ahead with market entry despite internal (board level) reservations about the commitment required.

Fourteen incubatees within ten incubatees (29.8% of those interviewed) also commented on the immediacy offered by Launchpad as a means to enter the market. Three informants found the Launchpad scheme to be a quick, low cost market entry option and another three commented on the speed in comparison to alternative modes.

> 'If you want to open a rep office you still need to spend a lot of money for registration and you have to rent the office, you have to hire the correct person, all these things, and it takes an even longer time to start the business.' C23P2, Chinese Manager, Pharmaceutical Logistics Company

Risk/Control Trade-off

Low risk.

Perceived market challenges or liabilities of foreignness highlighted by interviewees included limited internal resources (owing to company size), language and culture, bureaucracy, lack of brand awareness, lack of knowledge, protection of intellectual property rights (IPR) and local and foreign competition. Twenty six informants within 20 incubatees (55% of the total interviewed) referred to the Launchpad business incubation scheme as minimising risk in some way. Analysis of the interview data revealed that business incubation provided incubatees with a low risk environment for market familiarisation at a reasonable cost, and without making a large up-front investment. The scheme facilitated a low risk means of having a presence in the market, without a great deal of commitment on the part of the internationalising firm. Launchpad was also viewed by interviewees as providing a low risk and relatively low cost exit should research or results not support the case for making a next step, deeper commitment in China. An SME (manufacturer) interviewee explained:

> "The main benefits for our company have been the lack of risk and the fact that we could withdraw at any time, and certainly after a year we could withdraw without any recriminations or loss of face, quite frankly, and it gave us the opportunity to confirm that there is a real market for our products and our company in China." C8P1, Director, Manufacturer of X-Ray Generators

High control.

The notion of control figured highly in responses from 12 informants within nine incubatees (25.5% of those interviewed). The degree of control offered by this business incubation scheme compared favourably to alternative market servicing methods such as joint venture, or working via agents, whilst at the same time facilitating the representation necessary for in-market coordination and liaison. Having control of one's 'own man' (in the market), versus reliance on an agent or distributor, was seen as important by eight informants in eight incubatee organisations. This also ensured that the firm's own objectives or interests could be pursued and that reliable information, for example about market conditions or quality, could be obtained and judged reliable enough for the purpose of decision-making.

A university user of Launchpad explained:

> "We had some other offers, from some of the other agents that we work with, 'I'll be your office, pay me this or that or the other, and I'll take it over'. But it was at that point that I became the regional manager for the East Asia region, so I wanted something that I would be able to feel that

> [Incubatee 14] had control over as well. And I think that what Launchpad offered was that and [its head office] was a UK based operation as well, but also having legal status in China.", C14P1, Manager, East Asia, University

Control over costs and the cost certainty that business incubation provided was regarded as important in the initial stages of market entry, especially for smaller firms.

> 'Some of the investors liked the idea of that certainty on cost. In fact for most of them it was the certainty on costs, and the fact that it wasn't going to be a massive, open-ended cheque being written. I think they all liked that and that was attractive.' C16P1, Managing Director, Telecommunications Equipment Manufacturer

Knowledge and Network Relationships

Knowledge.

Twenty four informants from 15 incubatees (51% of those interviewed) indicated that having a member of staff in-market tasked with gathering market intelligence was a key benefit. Sources for such intelligence may include customers, agents or distributors. According to three informants, the incubatee benefited from having a Chinese employee who was able to find out 'the real situation' about distributor behaviour, identifying distributor strengths and weaknesses, validating distributor information about the market and conveying information about the regulatory and business environment. Eighteen informants from sixteen incubatee firms (38.3% of those interviewed) and organisations recognised that a vital part of knowledge accumulation also arose from interactions between incubatees within the incubator. For five informants, such knowledge and experience sharing extended to how to set up an enterprise, how to run a business, recruitment issues, marketing and branding and finding suppliers. Regarding the overall knowledge experience, another SME (manufacturer) incubatee explained:

> "[The increase in knowledge] is just immense. The difference is just incredible. I suppose there are so many different levels to it. There is the business culture - the courtesies, the protocols, the negotiating tactics. Then of course you've got the completely different legal system that you're dealing with. You've got the risks you run with intellectual property that you've got to be very aware of." C9P1, Managing Director, Manufacturer of Sports Centre and Work Place Lockers

Networks.

During the business incubation period, networks were built or maintained by the firms' own efforts or through leveraging the connectivity of the incubator. Evidence from 20 informants from 16 incubatees (42.6% of those interviewed) showed how business incubation was able to provide a platform for incubatees to maintain existing business networks or build new ones. Firstly, relationship networks could be maintained whilst the staff that had created them were back in the UK. This ensured smooth, on-going communication and ultimately contributed to more knowledge about the operating practices of key contacts. Secondly, the business incubation arrangement was also acknowledged as helping build new business networks, sometimes in new locations in China where previously there were none. The Chinese employee was recognised as playing an important role in creating the business networks necessary for future success, either by proactively seeking new contacts or through leveraging existing personal and professional networks. Nine informants from seven incubatees (19% of those interviewed) also found it helpful, from a credibility perspective, to be associated with an official organisation in China such as CBBC. They considered that it indicated some kind of support or endorsement. Regarding network growth, another SME manufacturer explained:

> "I've met the top 30 companies, state owned enterprises, private organisations, private companies….which comes down to the qualities of our employee, who's done the leg work to set those meetings up, to make them happen and coordinate to make them." C2P1, Regional Director, Manufacturer, Installer & Operator of Water Systems

The market entry experience

In examining the pathway to foreign market entry, five incubatees acknowledged that their entry into China, or the move towards a full market commitment, would have been slower without the availability of Launchpad. Of these, informants from three current incubatees explained that they would definitely have been moving slower in terms of penetrating the market, perhaps becoming distracted by other priorities nearer to home, being bogged down by discussions with advisers about alternative legal structures or by the formalities and practicalities of setting up in China. For informants from two former incubatees, the progress towards the final outcome would also have been slower without the availability of the scheme, since market entry would have simply been more risky, costly and difficult to justify. One incubatee explained:

> "It would have been extremely difficult for us to persuade the shareholder to make the investment, if it had just been a case of OK, we're going to have to set up a company, we're going to have to put in RMB 5 million, and there is no business coming in today, we haven't got a prospect list….We would probably have ended up trying to find a partner and, you know, it's impossible to tell how that would have gone. So, yes, I mean there is a significant probability that we wouldn't have entered the market if it hadn't been for the Launchpad scheme. Without the Launchpad scheme it would either have been more difficult in a sense to actually persuade the shareholder to enter the scheme or alternatively we just wouldn't have done it. We would have entered maybe, you know, in a different market, or not gone in at all." C23P1, Managing Director, Pharmaceutical Logistics Company

Interviewees were also asked whether the availability of the Launchpad scheme had influenced the speed of market entry. The immediacy and the availability of the scheme allowed firms and organisations to take a decision to enter China more quickly. In particular, the scheme was acknowledged as facilitating the employment of a person more quickly, or according to required timelines, without the bureaucracy of the direct employment required under alternative modes. The person could quickly become involved with market development activities required to justify a more substantial commitment, without the UK side becoming overly burdened with administrative employer related tasks. A sourcing company explained:

> 'Launchpad allowed us to very quickly employ someone and get them working and actually, you know, start to reap some of the benefits of China sourcing and therefore allow us, I suppose, to just sanity check the conclusions we'd drawn and just make sure absolutely that it was right for us before we committed the time and money and effort into establishing our own operation.' C18P1, Director, Office Furniture Supply Company

A quotation from one SME incubatee company, summed up the market entry experience:

> "So it definitely accelerates you in that sense, otherwise we might well have had that same discussion two years later. Or we still think we probably should have done something. Or [asked ourselves] have we left it too long and all those sorts of things. So it gives you a button to press, I suppose. So I can press this button, I know what it's going to cost me, I know pretty much what I'm going to get or at least I've got an expectation of what I'm going to get." C1P2, Sales Director, Manufacturer, Food Processing Equipment

Graduating from Launchpad

Research findings showed that the trigger for incubatees to switch from business incubator to next step market servicing mode was mainly related to the need to grow an in-market team, in order to fully take advantage of business opportunities after the market has been tested and actual revenue generating activity had got underway. For three incubatees in this study (C7, C12 and C14), we learned that the decision to switch from business incubation to a fully invested or alternative presence in the market was directly stimulated by an increase in the cost of market servicing (the cost of expanding a presence within the incubator by taking more desks began to exceed the cost of setting up an alternative market servicing mode). One interviewee explained:

> "We were looking to expand and take on more people…having 3 desks in the Launchpad would have been quite expensive, and I suspect wasn't really the purpose of the exercise." C7P1, Managing Director, Manufacturer of Anti-static Equipment

Withdrawals

For five incubatees, exit from the incubator was not into a permanent investment mode, but rather was a withdrawal from having a presence on the ground in China. C6, a UK local government office, withdrew from the market because, during a reduction in public sector budgets, its international activities came under scrutiny and a presence in China could no longer be justified. C10, a firm of consulting engineers, was also affected by the global slow down. The resultant change in strategy was to withdraw from the Chinese market completely and focus on other markets. In a similar vein, C24 found itself commercially over-stretched and had to pull back from China to concentrate on existing and newly acquired operations elsewhere. C13 was a consortium of four firms focusing on the airports sector, which received UK government funding as part of an export promotion programme. When this funding came to an end, two of its number left the China market and two remained active via existing operations. Finally, C17, a university, wished to terminate the relationship with an employee who was not performing, and decided to leave the scheme whilst continuing to coordinate its partnerships with Chinese universities from the UK.

In the above examples, the circumstances surrounding exit did not necessarily point to failure of the scheme per se. Rather withdrawal has been in response to resource constraints (C6, C10, C24, C13), or a break down in the relationship with a human resource (C17). However, four out of five of those incubatees which withdrew from the scheme continued to be involved with the China market (C6, C13, C17 and C24), showing that the knowledge and networks established during business incubation could still be put to use. Only one is no longer active in China (C10).

Disadvantages

Interviewees were also asked whether they experienced any disadvantages with the scheme. Whilst for some firms an explicit link to China-Britain Business Council via the business incubation arrangement was helpful in bringing credibility in an unfamiliar market, especially where government contacts were required, for others it was less so. Eight Chinese project managers explained that the link with CBBC initially caused some confusion with commercial customers and contacts (owing to local regulations stipulating that business cards are required to show details of the actual employer, CBBC), but that this issue was overcome with some explanation. Five Chinese project managers also explained that they were not able to receive sales revenue directly in China on behalf of the incubatee firm, owing to the status of CBBC's own business license (limited to consultancy rather than direct trading). In instances where the project managers helped to facilitate the export sales of the incubatee firm, Chinese customers still needed to pay the UK firm directly, as an overseas transaction. Disadvantages were therefore mainly linked with regulatory constraints imposed by the Chinese business environment. International business incubators are thus unable to help firms overcome all the barriers to entry and liabilities of foreignness as portrayed in the extant literature.

DISCUSSION

In this section, the empirical findings are discussed with a view to explaining how business incubators for foreign market entry can be explained by and contribute to the development of existing theories.

The risk-control trade off

Risk influences a firm's appetite for entering foreign markets (Agarwal and Ramaswami, 1992) and entry mode choice ultimately determines a firm's exposure to risk (Hill et al., 1990). As explained above, Anderson and Gatignon (1986) have observed that in entering foreign markets, firms will seek ways to lower costs and risk, normally at the expense of control, but ideally not at the expense of returns. In this research it is shown how business incubation can be attractive to foreign market entrants owing to its low risk characteristics. However, here, low risk does not have to come at the expense of control, since business incubation is shown to provide an element of control over costs and also over the deployment of a person on the ground. This in turn helps to reduce risk further.

Furthermore, following the rationale of Kogut and Kulatilaka (1994), it can be argued that the choice of business incubation as a method of foreign market entry provides a rational 'option' on a future, deeper involvement in a volatile or uncertain market. As an option, the cost of business incubation as a method of foreign market entry (in terms of rent, service fees and salary, for example) is easily estimated and can therefore be viewed as an 'investment' with a possible long-term 'pay off'. Kogut and Kulatilaka also suggest that 'an investment with many potential applications is more valuable than one with a narrow set of opportunities' (1994: 60).

So business incubation as a method of foreign market entry may be interpreted as providing a means to bring risk and uncertainty within acceptable boundaries (by limiting the cost of potential failure), whilst at the same time providing a low risk platform for further investigation, network building and information gathering. Indeed, the very availability of business incubation as a foreign market entry method was, for some incubatees, a tipping factor in deciding to proceed, serving as a catalyst to enter a foreign market that may otherwise be seen as being too costly or too risky.

Building on our findings surrounding control and risk, Figure 3 further adapts Root's model to position business incubation as a method of foreign market entry offering a high control, low risk option on future development. Strategically, business incubation can be considered as a (non-permanent) platform or option (Kogut and Kulatilaka, 1994), allowing a company to 'put a toe in the water' or an 'ear to the ground' (Young et al., 1989: 24). Once the firm or organisation becomes more experienced, it may choose operation modes which provide greater control (and bring greater risk) over foreign market operations, such as joint venture or wholly owned subsidiary. From the international business incubator, the firm or organisation also has the flexibility to switch back to a low risk agent or distributor export mode, or even withdraw from the market.

(Figure 3 goes about here)

However, more than this, owing to its role in reducing risk and increasing control, business incubation may also be shown (in Figure 4) to give rise to an overall decrease in the costs of commitment for the firm, shown by the risk/control line being tilted upwards. It may be suggested that, using business incubation, for a given amount of control (c1), a firm enjoys less risk (r1). Alternatively, for a given amount of risk (r2), a firm using business incubation enjoys increased control (c2). Overall, these findings show how the availability and attributes of an international business incubator can make firms more likely to enter or engage with a foreign market, and therefore show how the adoption of business incubation as a mode of foreign market entry can be a 'game changer' in internationalization for some firms.

(Figure 4 goes about here)

Knowledge and network relationships

In start-up scenarios, entrepreneurial actors are recognised as possessing specialized knowledge but lacking general business skills (Lyons, 2000). Within the business incubation literature the benefits to learning that incubators extend to incubatees in domestic markets is recognised by Smilor (1987b) and the advantages also closely linked to the accumulation of knowledge. Lewis, Harper-Anderson and Molnar (2011) acknowledge the role of peer-to-peer learning and mutual support as critical to incubator success, while Voisey, Gornall, Jones and Thomas (2006) maintain that knowledge and enabling skills are amongst the 'soft' outcomes of business incubation.

In foreign market settings, the accumulation of knowledge (Johanson and Vahlne, 2009; Johanson and Vahlne, 1977) along with local knowledge or ‘market knowledge’ (Eriksson et al., 1997; Fletcher and Harris, 2012) has been viewed as being particularly critical to success in foreign markets. For the Chinese market this particularly includes knowledge about the regulatory framework, the general economic conditions, the political situation and the business culture (Beamish and Inkpen, 1995; Beamish and Jiang, 2002; Inkpen and Beamish, 1997). This case study has shown that business incubation can assist knowledge accumulation during foreign market entry. It can also be argued that having a local manager on the ground via a business incubator arrangement is very important for the firm to internalise market knowledge. Indeed, the business incubator is able to play a role in enabling a firm’s employee to work ‘on the boundary between the firm and its market’ (Johanson and Vahlne, 1977: 27) and allowing him or her to accumulate the knowledge and experience necessary for reducing uncertainty as a barrier for a firm’s deeper market commitment. The recruitment of a local manager and the subsequent knowledge benefits may be considered a form of ‘grafted’ experiential knowledge (Fletcher and Harris, 2012).

In the research reported here, business incubation has also been shown to offer network benefits to firms entering the Chinese market. Business incubators for domestic settings have already been observed as being able to offer a valuable network infrastructure to its incubatees, creating links with external expertise and services (Hansen et al., 2000; Smilor, 1987a). Tötterman and Sten (2005) also found that support in the form of business networks is highly valued by incubatees. Furthermore, a study by McAdam and Marlow (2008) found that young firms benefited from being in close proximity to other firms, where relationships were viewed as providing support during the vulnerable start-up and early growth phases of a firm. Essentially this means that “the primary driver” of incubators is to “leverage entrepreneurial talent” (Bøllingtoft and Ulhøi, 2005: 269).

Networks, both formal and informal, and the local knowledge they can bring are acknowledged as being especially important in the early stages of internationalization (Coviello and Munro, 1997; Harris and

Wheeler, 2005). Johanson and Vahlne (2009) link the benefits of network development to ‘insidership’, while Ellis (2010) proposed that that the exploitation of opportunities for international exchange can arise from ‘boundary spanning social ties’, and participation in trust-based social and business networks. Such ties lower costs, risks and uncertainty and help to overcome geographic and cultural barriers, as well as lack of access to information. In this sense, the network advantages of business incubation are therefore shown to have been beneficial to a firm’s foreign market entry. The advantages of business incubation in domestic scenarios to knowledge and learning (Lewis et al., 2011; McAdam and Marlow, 2008; Smilor, 1987b; Voisey et al., 2006), and also to network building (Hansen et al., 2000; Tötterman and Sten, 2005) are therefore also shown to be highly applicable to business incubation for foreign market entry.

From the beginning of international business theory (Hymer, 1976; Kindleberger, 1969), it has been argued that firms entering a foreign market face ‘barriers’ that are not present in domestic expansion. Internationalisation theory (‘the Uppsala approach’) also suggested that cultural distance was a key barrier and that firms internationalised in discrete steps, moving from the culturally ‘close’ countries to more distant ones, gathering information and learning as the process developed (Johanson and Vahlne, 1977). This research strand was further developed by the introduction of the concept of liabilities of foreignness (Zaheer, 1995) and the notion of outsidership (Johanson and Vahlne, 2009).

In the business incubation literature, Bøllingtoft and Ulhøi (2005) and Phan, Siegel and Wright (2005) have highlighted that business incubation can address ‘liabilities of newness’ (the need for administrative support; lack of visibility owing to the age of a company; and being on one’s own versus being in a community of peers). In this paper, incubatee firms have been shown to benefit from knowledge accumulation and network building offered by the business incubation process. According to Zaheer and Mosakowski (1997), as foreign firms become increasingly embedded in local information networks, the consequences of liabilities of foreignness decline over time. This research therefore indicates that business incubation as a method of market entry can reduce a firm or organisation’s exposure to liabilities of foreignness in a similar way to how it can in reduce liabilities of newness for start-up firms in domestic scenarios.

Johanson and Vahlne's (2009) model of the internationalisation process depicts, via flows between state and change variables, the dynamic, cumulative processes of learning, and trust and commitment building. For example, 'knowledge' - both internal (of needs, capabilities, strategies) and external (of business opportunities and networks), can give rise to greater commitment to relationships or networks within the foreign market. This in turn may give rise to further learning and trust building and, by capitalising on knowledge, to a more efficient creative process. The outcome will be to enjoy an improved partnership and network position, which in turn can lead to further knowledge and opportunities. Thus the internationalization process is gradual and dependent on the accumulation of knowledge and network relationships.

(Figure 5 goes about here)

This model can be used to convey the business incubation process as experienced by the internationalising firm in a market specific context (Figure 5). The process begins with the firm finding that its fear of risks, costs, lack of control and liabilities of foreignness are creating a barrier to entry into a difficult market and ultimately creating a discontinuity to its internationalisation. Its entry is spurred on by the availability of a low risk, high control business incubation arrangement. Accommodation within a hot house of knowledge accumulation and networking building then helps the incubatee to reduce its exposure to liabilities of foreignness and to build its confidence to the point where managers can make a rational decision on a next step appropriate commitment to service the market or withdraw with minimum cost if the market is deemed not suitable.

The business incubation process experienced by the firm reflects the dynamic, cumulative processes of learning and trust and commitment building as articulated in Johanson and Vahlne's 2009 model, although with business incubation this process is also able to take place within a low risk, high control environment. These collective benefits in turn are able to accelerate the firm or organisation's foreign market entry.

Market commitment

Mode switching occurs following changes in constraints (resources or regulations) or perceptions of the market, or as a result of changes in mode costs and benefits (Calof and Beamish, 1995). The nature of the switch which follows will depend on factors that include the nature of the stimuli, the firm's level of resources and the firm's experience and international skills.

Weiss and Anderson (1992) have categorised two kinds of switching costs, namely 'take-down costs' and 'set-up costs'. 'Take-down' costs for leaving Launchpad are low (the employee(s) are simply transferred to the new entity at no cost), whilst the set up costs for the subsequent market servicing method are also reduced owing to the level of knowledge and networks accumulated during the incubation phase. According to Pedersen, Petersen and Benito (2002), both take-down and set-up switching costs may lead to a postponement of a firm's switching to, for example, an FDI mode, and that furthermore, more exporters may complete mode shifts in the absence of potential switching costs. The relative low switching costs associated with entering or leaving an international business incubator such as Launchpad, are therefore able to positively influence the speed and progress of a firm or organisation's foreign market entry. For Buckley and Casson (1981), a switch from one mode to another is a rational decision, triggered by both the cost of foreign market servicing and the demand conditions in the market.

In the internationalisation literature, Johanson and Vahlne (2009) have acknowledged that learning and network building are able to hasten international expansion. Coviello and Munro (1997) have also acknowledged the advantage of network relationships and their impact on the internationalization process of the firm, in terms of the speed of internationalization and their contribution to learning and the preparedness for market expansion and development. Furthermore, Puck, Holtbrügge and Mohr (2009) have suggested that the appropriation of local knowledge during an initial market servicing mode will increase the chances that foreign firms will change their ownership mode after their initial entry into a foreign market. It is argued here then, that the infusion of knowledge and strengthening of networks and credibility during the business incubation process can help to reduce the overall cost of FDI and result in an acceleration in the foreign market commitment of firms.

For three incubatees in this study using business incubation to support exports, we learned that the decision to switch from business incubation to a fully invested or alternative presence in the market was directly stimulated by an increase in the cost of market servicing, along with an increase in actual sales whilst in the incubator. The all-inclusive cost for one desk (including salary) is the region of $80,000 and further desks are multiples of this, with only a 10% discount offered on the management fee. This is a significant cost increase in market servicing for the firm.

Viewed through the lens of internalisation theory, these findings can be integrated into Buckley and Casson's (1981) model of the timing of foreign investment. Figure 6.1 illustrates how there is initially an increase in the costs of market servicing when exports are supported by business incubation (E+BI) (equivalent to the shaded area in figure 6.1 and labelled C), and that subsequent to yet further increases in costs, as well as an increase in the quantity exported, there will be a switch from the business incubation to a foreign direct investment mode. However, this switch comes at an earlier point than if the market was being served by exports alone, indicating that the switch to FDI occurs sooner when supported by business incubation.

(Figure 6.1 goes about here)

However, it is also shown in Figure 6.2 that those extra costs experienced by the firms and mentioned above are more than off-set by the FDI cost efficiencies/benefits (shown by the shaded area in figure 6.2

and labelled B) that the firm enjoys when business incubation lowers its exposure to liabilities of foreignness. Business incubation not only reduces the cost of commitment owing to its influence on risk and control, but also reduces costs further by facilitating a firm's development of networks, accumulation of knowledge and increase in credibility. The net gain to the firm of using business incubation as a method of foreign market entry is therefore equal to B - C. Such cost efficiency is noteworthy in itself, but when this occurs the switch to FDI may be seen to have been brought forward, or accelerated, to a still earlier point.

(Figure 6.2 goes about here)

This notion of 'acceleration' is certainly not new to the business incubation literature as it pertains to start-up firms in domestic settings. For example, an early study by Allen and Rahman found from a survey of 56 incubatee respondents that 'slightly over half the firms (53.6%) changed their business strategy, and of the 26 firms that mentioned that their strategy had changed, 42% said that the incubator allowed the firm to accelerate plans and expand at a faster pace' (1985: 19). The theme of acceleration has also been taken up by Smilor (1987b) in terms of how business incubation can 'hasten' a new company's development in domestic market. Grimaldi and Grandi (2005) have also noted the role of private incubators in 'accelerating' the start-up process for highly promising entrepreneurial initiatives, while practitioner oriented literature (e.g. Lewis, et al.) has also defined a business incubator as 'an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services' (2011: 5).

CONCLUSION

The purpose of this research has been to confront existing theory with empirical insight from a single embedded case study. This paper has built upon existing theoretical insights (e.g. Anderson and Gatignon, 1986; Kogut and Kulatilaka, 1994; Root, 1998) to show how a business incubator occupies a unique, intermediate position on the risk/control continuum of a firm's gradual commitment to a foreign market -

between having no activity in a market and exporting, or between exporting and investing. Our research into the international business incubator has (i) extended the model of mode switching developed by Buckley and Casson (1981) by accounting for an under-researched foreign market entry mode, (ii) further enhanced our understanding of the risk/control trade-off (Root, 1998), and (iii) adapted Johanson and Vahlne's 2009 concepts of knowledge opportunities and enhanced network positioning in order to embed business incubation into the analysis of the internationalisation process.

Denk et al. (2012) have stated that the application of theories beyond the domain of international business might offer new theoretical insights into liabilities of foreignness research. This study has also extended liabilities of foreignness research into the domain of business incubation. In particular, it demonstrates how business incubation as a method of foreign market entry can help firms and organisations reduce the hazards and outcomes associated with liabilities of foreignness, helping to facilitate a controlled, low risk market entry. Business incubation is able to achieve this through the knowledge accumulation, networking and 'insidership' functions it provides to foreign market entrants. As a contribution to the international business literature, this paper has also highlighted a fascinating case of institutional support for internationalisation into a market perceived as challenging.

Within the business incubation literature, Bøllingtoft and Ulhøi say, "Incubators typically seek to provide a nurturing business environment by actively ensuring that start-up firms get the resources, services, and assistance they need" (2005: 269). They see incubators as addressing market failures: "incubators try to address many of the failures of the market: information costs, lack of services and business assistance, and financing" (Bøllingtoft and Ulhøi, 2005: 269). The findings of this research show that in a foreign market entry scenario, an international business incubator can (a) reduce the risks facing foreign entrants (b) provide the information and contacts that 'outsiders' lack and (c) boost confidence and improve the market commitment of the new investor. These factors allow us to see incubators as both emollients to the lack of information that makes markets imperfect and as a means of overcoming the liabilities that face a foreign entrant into an unfamiliar market. This paper's analysis of business incubation within a previously unaccounted for foreign market entry scenario is also a contribution to the business incubation literature.

In combining the international business and business incubation literatures, we may also conclude that business incubators as institutions may be seen to be able to fill institutional voids (Khanna and Palepu, 2000; Khanna and Palepu, 1997; North, 1990) surrounding risk, knowledge and commitment by provision of information, learning and the gradual surmounting of the barriers of foreignness, newness and outsidership. A business incubator as a method of foreign market entry is found to be necessary for some firms because a national border represents a discontinuity in geographic, cultural and institutional space (Beugelsdijk et al., 2010), and this creates imperfections which an incubator is established to overcome.

However, in order to assess the generalisability of these findings, future research may also consider business incubation arrangements in other foreign markets other than China; examine Inward International Business Development (IIBD) incubators, where the objective is attract to inward foreign direct investment; and review and compare different and emerging ownership forms of international business incubators, such as privately run, or equity based incubators.

In view of more SMEs being interested in emerging markets, yet remaining fearful of the risks involved, the use of business incubators as a method of market entry has the potential to grow. It is hoped that the findings from this research can stimulate and direct further interest and academic research into the role of the international business incubator, which has been shown here to be a new but important phenomenon able to help firms and organisations overcome the fears and challenges associated with entering new and unfamiliar markets.

Appendix A: Launchpad Analysis Table

Summary	City	Graduated (project managers)	Current (project managers)	Total	Manufacturers Graduated	Manufacturers Current	Services Graduated	Services Current	Average stay (yrs.)	Median
	Beijing	61	11	72	19	1	42	10	2.93	2
	Shanghai	70	8	77	39	2	31	5	1.39	1.65
	Shenzhen	17	0	17	9	0	8	0	1.97	1.7
	Chengdu	6	0	6	2	0	4	0	2.25	2.08
	Wuhan	5	1	6	4	0	1	1	3.56	2.75
	Qingdao	3	0	3	2	0	1	0	1.9	2
	Shenyang	0	3	3	0	0	0	3		
	Nanjing	0	1	1	0	0	0	1		
	Total	162	24	**186**	**75**	**3**	**87**	**20**	2.186	1.66
			Beijing	Shanghai	Shenzhen	Chengdu	Wuhan	Qingdao		
Status	**Set Up**	**113**	**48**	**47**	**11**	**3**	**3**	**1**		
	RO	86	44	29	10	2	1	0		
	WFOE	21	3	14	1	0	2	1		
	JV	5	1	3	0	1	0	0		
	Licensing	1	0	1	0	0	0	0		
	No Set Up	**49**	**13**	**23**	**6**	**3**	**2**	**2**		
	W	9	3	5	0	0	1	0		
	NPA	22	5	5	6	3	1	2		
	D	12	2	12	0	0	0	0		
	A	6	3	3	0	0	0	0		

Key: RO Representative Office; WFOE Wholly Foreign Owned Enterprise; JV Joint Venture; NPA No Presence but still Active in China; D Dissolved; A Acquired

Appendix B: Summary of Launchpad incubatee firm sampling

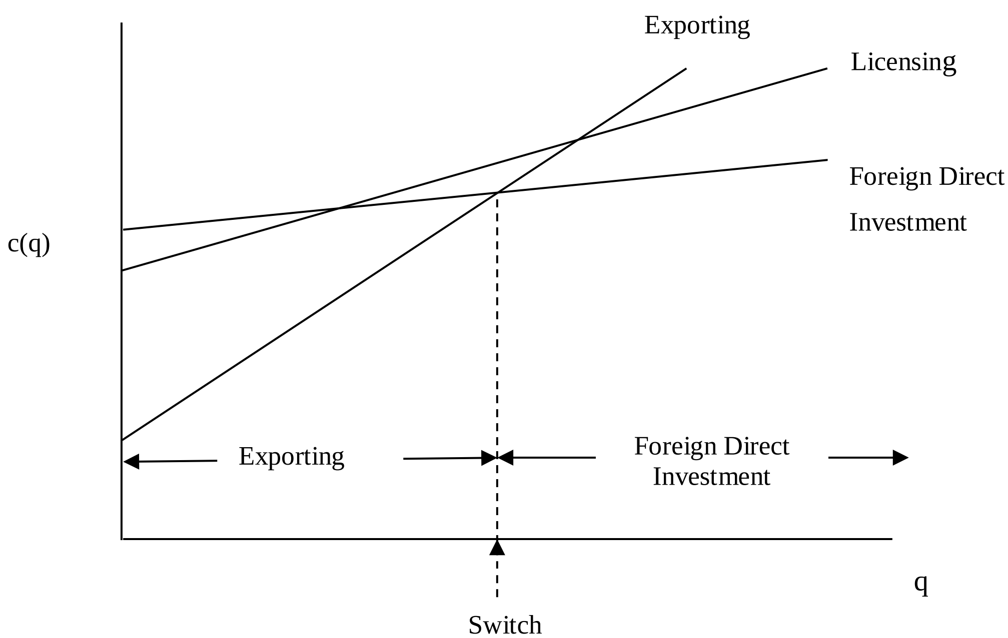
Incubatee firm Code.	Activity/Market Orientation	Size	Sector **M**anufacturing **S**ervices **E**ducation	Number of interviewees	Status (**C**urrent; **W**ithdrawn; **G**raduated)
C1	Equipment & systems manufacturer (food industry)/Selling to market	SME	M	3	C
C2	Systems manufacturer/installer/operator (water)/Selling to market	SME	M	2	C
C3	University/Selling to market	Large	E	2	C
C4	Manufacturer brushes, industrial and domestic/Sourcing from market	SME	M	3	C
C5	Firm of patent attorneys/Selling to market	SME	S	3	C
C6	Local government/Investment promotion	Large	S	1	W
C7	Equipment manufacturer (anti-static)/ Selling to market	SME	M	2	G
C8	Equipment manufacturer (x-ray generators)/Selling to market	SME	M	2	C
C9	Manufacturer of lockers/Sourcing from market	SME	M	2	C
C10	Consulting engineers/Selling to market	Large	S	1	W
C11	Manufacturer of luxury mattresses/ Selling to market	SME	M	2	C
C12	Membership organisation for ethical trading/Selling to market	SME	S	2	G
C13	Consortium of 4 firms (airports sector)/Export promotion	Large	S	1	W
C14	University/Selling to market	Large	E	2	G
C15	Firm of patent attorneys/Selling to market	SME	S	3	G
C16	Equipment manufacturer (telecommunications)/Selling to market	SME	M	2	G
C17	University/Selling to market	Large	E	1	W
C18	Manufacturer of office furniture/Sourcing from market	Large	M	2	G
C19	Equipment manufacturer (power sector)/Selling to market	SME	M	2	G
C20	Instrument manufacturer (testing)/Selling to market	SME	M	2	C
C21	Manufacturer (edible casings)/Selling to market	Large	M	2	G
C22	University/Selling to market	Large	E	2	C
C23	Specialist logistics (pharmaceuticals)/ Selling to market	SME	S	2	G
C24	Equipment manufacturer (health and safety)/Selling to market	SME	M	1	W

Appendix C: Interview Protocol

(i) Why do firms and organisations choose to use international business incubators to help their foreign market entry?
Q.1. Can you confirm that the products/services your organisation is promoting in China are in the following areas….?
Q.2. How did your plans for the Chinese market initially develop?
Q.3. At that time, what did you (and your firm or organisation) perceive to be the main challenges to entering the market?
Q.4. What market entry options were you considering?
Q.5. And did these options present any particular issues or risks?
Q.6. Did any of these issues influence your decision to choose the Launchpad scheme?
Q.7. Why did you select the particular Launchpad location?
Q.8. Can you summarise why you chose the Launchpad scheme?
(ii) What benefits do firms and organisations gain from being in international business incubators?
Q.9. How is your knowledge about China now compared to when you entered Launchpad? What do you attribute to this?
Q.10. How are your business networks now compared to when you entered Launchpad? What do you attribute to this?
Q.11. How has your Launchpad project manager influenced the building of market knowledge and business networks
Q.12. Was your presence in Launchpad supporting export sales? Did your firm or organisation experience an increase in sales whilst in the incubator?
Q.13. How have the costs of entering, occupying and leaving Launchpad influenced your overall entry and development in the Chinese market? Please explain the cost benefits.
Q.14. Were there any drawbacks to being in the incubator?
Q.15. How you think your firm's development in China would have been without Launchpad?
Q.16. Is the exit route from Launchpad becoming clearer? If so, do you think that this decision has been accelerated by your firm's presence in Launchpad?
Q.17 What are the policy implications of schemes like Launchpad? Do you think it could work in other markets?
Q.18. Are there any other issues you would like to mention that have not been covered in the interview?
(iii) How have international business incubators changed the internationalisation experience (former users only)
Q.19. What outcomes to do you attribute to having been in Launchpad?
Q.20. Upon leaving Launchpad, what foreign market servicing mode did you adopt? Why was that?
Q.21. Would such an outcome or timeline have been achieved without Launchpad?
Q.22. How is your business development in China progressing under the new market servicing mode?
Q.23. Looking back, how do you think the experience of Launchpad has influenced your development in China?

Figure 1:

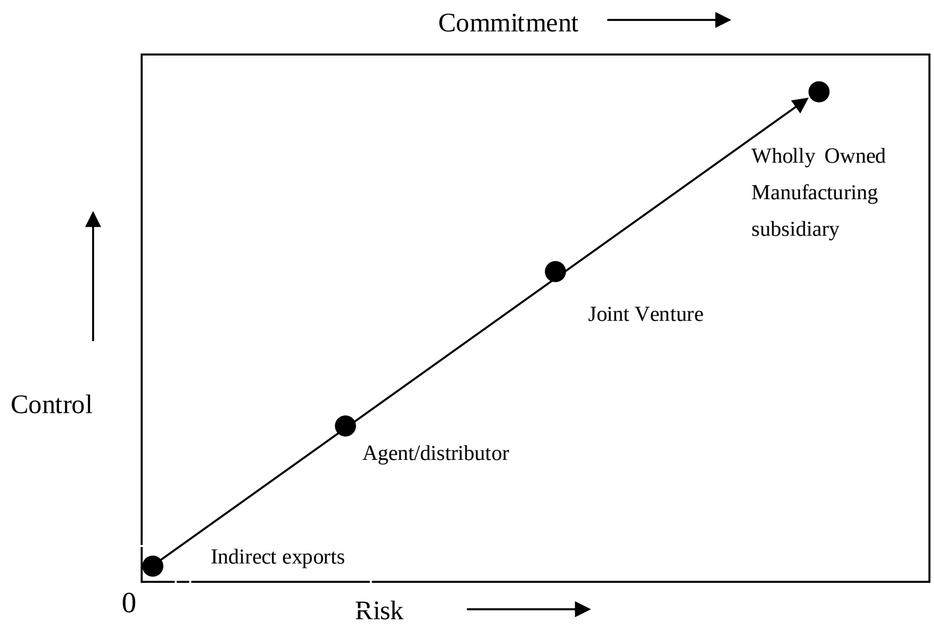
The optimal timing of foreign investment



Source: Buckley and Casson (1981).

Figure 2:

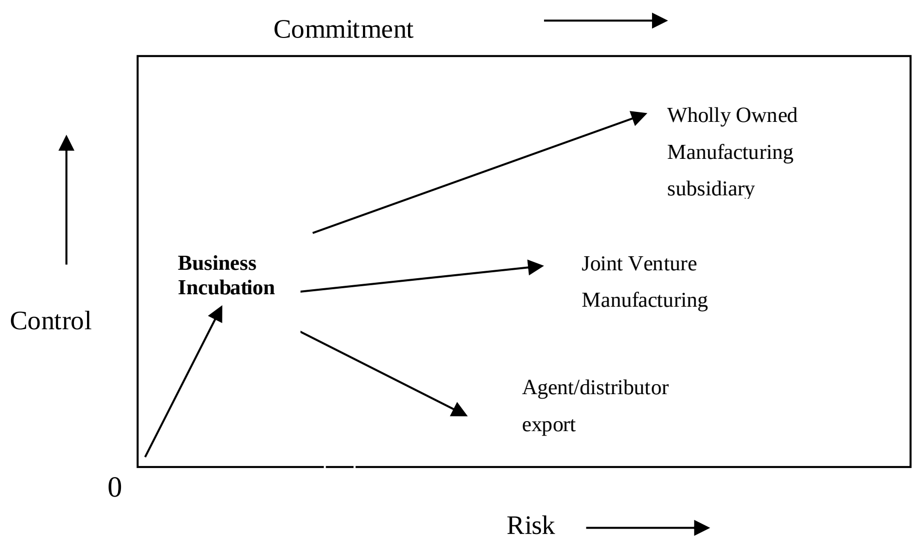
Evolution of a manufacturer's decision on entry mode



Source: Adapted from Root (1998).

Figure 3:

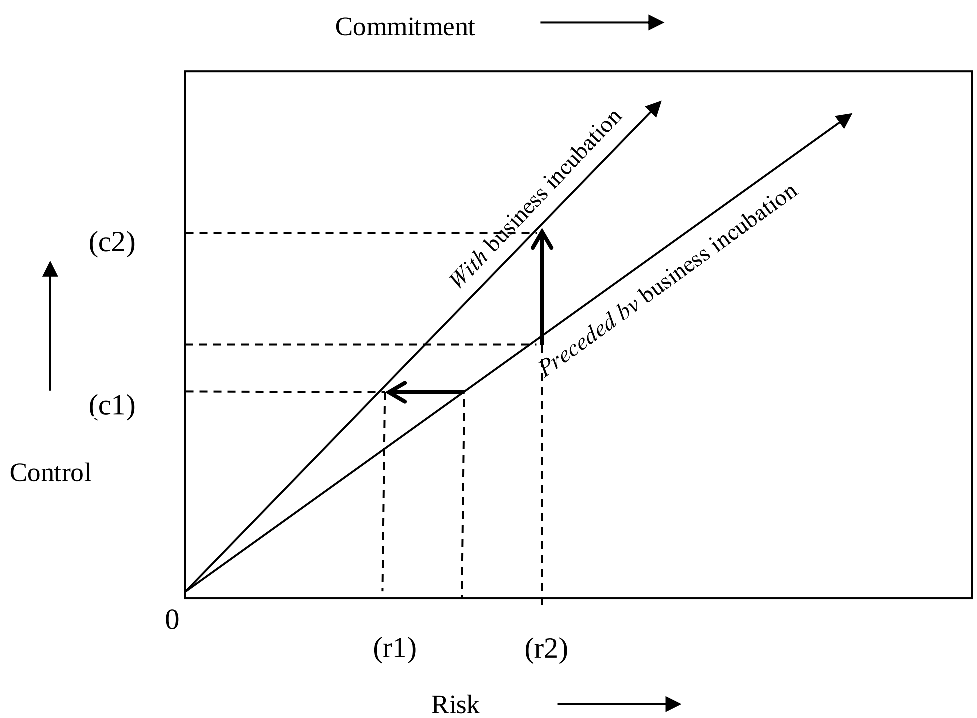
Foreign market entry options via business incubation



Source: Adapted from Root, 1998

Figure 4:

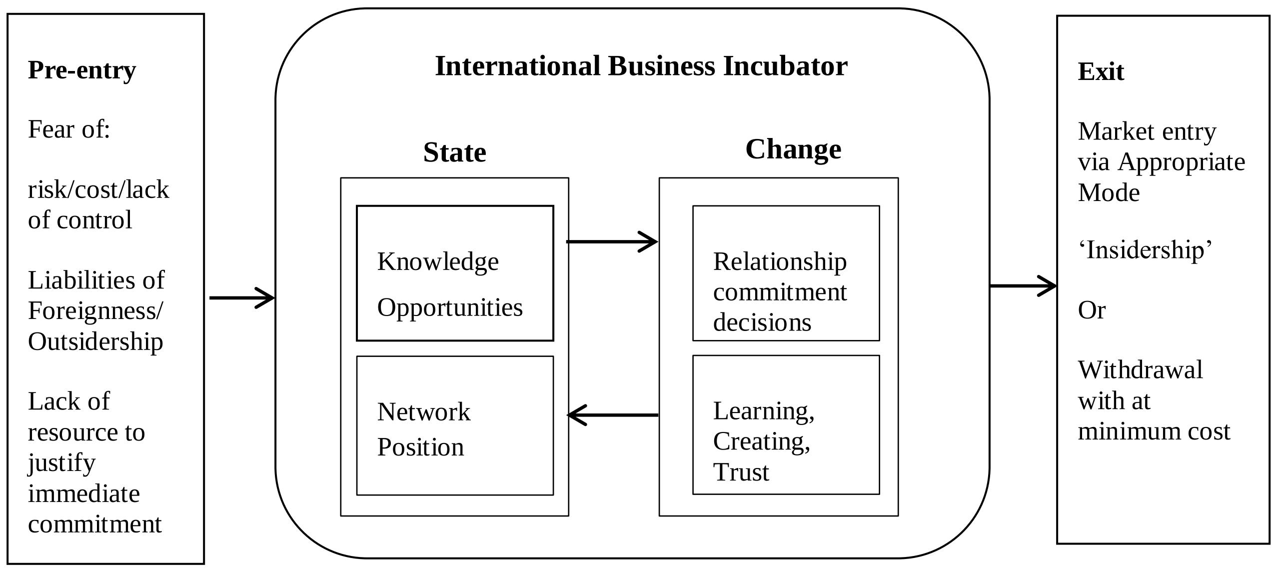
Business incubation and the risk/control trade off



Source: Adapted from Root, 1998

Figure 5:

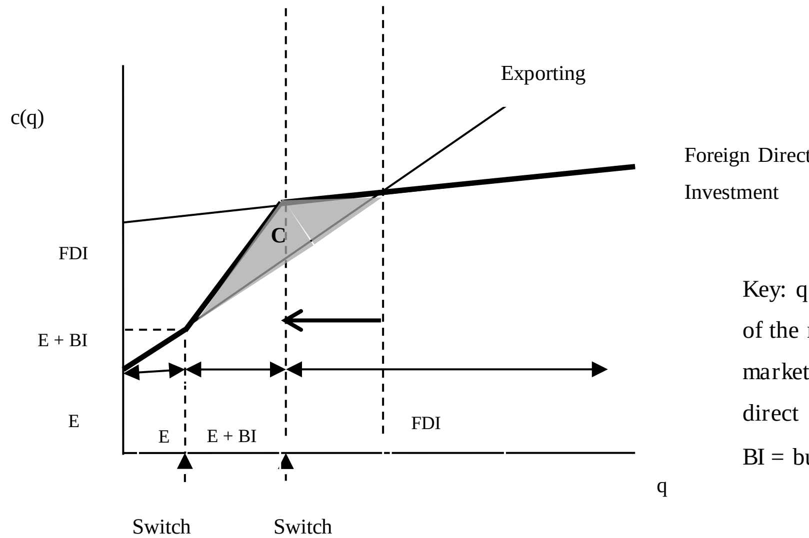
The International Business Incubation Process



After: Johanson and Vahlne (2009).

Figure 6.1:

The switch from exports supported by business incubation to FDI (1)

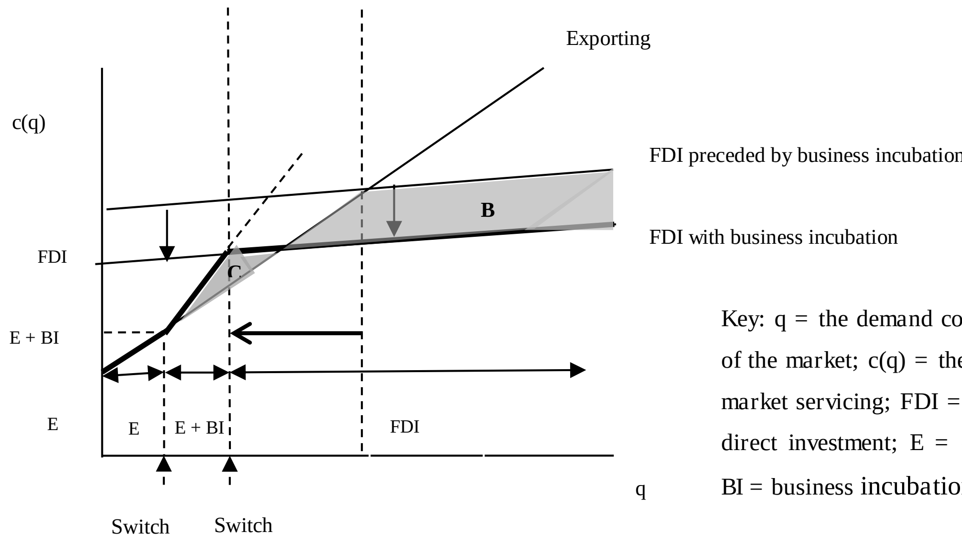


Key: q = the demand conditions of the market; c(q) = the cost of market servicing; FDI = foreign direct investment; E = exports; BI = business incubation

Source: Adapted from Buckley and Casson (1981),

Figure 6.2:

The switch from exports supported by business incubation to FDI (2)



Key: q = the demand conditions of the market; c(q) = the cost of market servicing; FDI = foreign direct investment; E = exports; BI = business incubation

Source: Adapted from Buckley and Casson (1981),

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