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Dynamics of Global Distribution after Initial Entry*

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Abstract

Purpose - This study involves the following questions: “Does internalization theory fully explain reality?” and “Which additional factors may add extra value to the theory?” To answer these, this study divides market entry mode into two steps, initial and subsequent and then, focuses on the subsequent distribution step; that is, the post-entry strategy after initial entry. In addition, this study relies on finding strategic orientations that affect the decision of post-entry into foreign markets.

Research design, data, and methodology – To investigate this, this study examines 252 cases of Korean online games for each foreign market and the distribution mode at the product-team level.

Results – The result shows that companies use different distribution strategies as a post-entry mode, like licensing, or joint distribution rather than exclusive distribution, through subsidiaries even if they already have wholly owned local subsidiaries which have enough experience and resources to select the entry modes among various types and then provide full commitment and control. Additionally, it finds that strategic orientation affects post-entry strategies differently.

Conclusions - Therefore, this study is noteworthy and significant, as it practically extends the existing theories such as an internalization and distribution for decision making regarding the overseas expansion of entertainment businesses.

Keywords: Distribution (Post-Entry) Strategy, Strategic Orientation, Online Games.

JEL Classifications: C81, L81, L82, M21.

1. Introduction

Most studies on foreign market entry have focused on the initial entry mode based on traditional theories, such as internalization of the OLI paradigm or transaction cost theory. Scholars have paid less attention to the dynamics of global distribution, that is, post-entry strategies after the initial market entry (Agarwal & Rmaswami, 1992; Brouthers & Werner, 1996; Contractor & Kundu, 1998; Erramilli & Rao, 1993; Li & Guisinger, 1992; Park, Rhee, & Yoo, 2010; Yoo & Kim, 2000). However, recently, we found that there is a phenomenon in the Korean gaming industry that cannot be explained by traditional theories. Some Korean online game publishers that already have wholly owned subsidiaries in foreign markets are making different decisions for the game distribution regarding foreign market entry. For example, they are choosing licensing as a low controllability distribution method, depending upon the attributes of the products even

when they have subsidiaries in the local markets and enough resources and experience for exclusive distribution by themselves. From this phenomenon, this study sets the following research question: “Does internalization theory fully explain reality?” and “Which additional factors may add extra value to the theory?” To answer these questions and extend conventional international business theories related to distribution, this study divides market entry mode into two steps, initial and subsequent. Moreover, this focuses on the subsequent distribution mode; that is, the post-entry strategy of overseas markets after initial entry.

In addition, existing studies have not paid attention to strategic orientation as a main factor affecting the decision of entry into foreign markets. Strategic orientation in business represents the core standard that decides the nature and direction of the activities, plans of the company, and guidelines that are implemented in order to obtain a sustainable competitive advantage (Barney, 1991; Wernerfelt, 1984). Based on this background, changes in the world market environment—including drastic technological changes, intensifying global competition, and increased diversity of consumer needs—pose new challenges for businesses attempting to enter overseas markets, requiring completely

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different ways of thinking and strategies.

In the context of the above discussion, this study has three objectives. First, this study focuses on the distribution (post-entry) decision of foreign market assuming that the companies that already have foreign subsidiaries and branches make different decisions regarding foreign market entry. This will confirm that internalization theory fully explains the phenomenon in the field empirically. Second, this study attempts to examine the perspectives of approaching foreign markets from the view of strategic orientation (Gatignon & Xuereb, 1997). Such a strategic direction is appropriate for application to the cultural content industry, which involves decision-making for 'units of products (or projects)' in the product (or product team)-level, and it makes up for the limits of the existing, traditional theories based on the overseas expansion of the manufacturing industry. Therefore, this study examines the data of the online gaming industry. Lastly, the existing literature on strategic orientation has only focused on the various relationships between the variables, but it has not examined how they have different effects on the decision-making process of a firm by connecting them with outcome variables. It is very important for companies to distribute their limited resources wisely (Hortinha, Lages, & Lages, 2011), so companies have to choose between possible strategic directions. Under these research objectives, this study contributes to finding significant theoretical and practical implications of the decision of overseas expansion for cultural content businesses.

2. Literature Review

2.1. Overview of Online Gaming Industry

Technology has changed many business models and had a widespread impact on the gaming industry. It's no secret the Internet has changed the way we do many things and those shifts have rippled through business models forcing game companies to adapt or be left behind (Christopher, 2014).

There have been fits and starts with online gaming in the past. However, the global online gaming market is growing tremendously with impressive CAGR of more than 11% over the forecast period (Technavio, 2016). According to the Global Games Market Report by Newzoo, gamers worldwide will generate a total of \$99.6 billion in revenues in 2016, up 8.5% compared to 2015 (Newzoo, 2016). For the first time, mobile gaming will take a larger market share than PC with \$36.9 billion, that is, up 21.3% globally. However, still online gaming which consists of PC/MMO (Massively Multiplayer Online), Casual and Digital Console accounts for 55% of total gaming market. An increase in online content and digital distribution enables vendors to reach out to their customers globally, as it removes the need for physical products such as discs. The digital distribution of games and online gaming services has become a prominent part of the

global online gaming market, boosting the market growth. And then, traditional/physical retailers are losing market share to online retailers and distributors. Accordingly, this has led game developers to come up with different business revenue models (RnR Market Research, 2015). Recently, the growth of the market is supported by the increased use of smart phones and tablets to play games. With advances such as an increase in display size and other hardware specifications, several online gaming market vendors are entering the mobile platform. Mobile games have exploded by an annual rate of 37% (WCP, 2015).

In terms of geography, the Asia-Pacific (APAC) region dominated the market and is expected to reach close to 57% of the total market share in terms of revenue including China which remains the largest games market (Technavio, 2016; Newzoo, 2016). During 2015, China, Japan, and South Korea were among the largest markets for online gamers in APAC. Moreover, factors such as the distribution of games through mobile apps and the increasing popularity of online gaming in Southeast Asia help in the growth of this market in the APAC region (Technavio, 2016).

With the competition growing intense, the global online gaming market is set to experience steady growth due to the increasing number of mobile game providers and growing demand worldwide including emerging countries. The vendors compete with each other on the basis of game play, price, and differentiation, genre, graphic and audio quality, and platform type. The competition is expected to intensify as the vendors are using new business models and upgrading the sophistication of their games to boost market shares (Technavio, 2016). Further, this 2015 online gaming market report states that piracy issues are the major challenges being faced by this industry. Gamers use P2P clients such as BitTorrent to download pirated copy of games. Piracy exists on a large scale with pirate servers offering licensed games and fee-based games for free because of the availability of high-speed internet and channels enabling piracy to take place.

2.2. Foreign Market Entry Modes

The studies on foreign market entry mode are derived from traditional international business theories (Barkema & Vermeulen, 1998; Kogut & Singh, 1988). Especially, two different views about the choice of foreign market entry mode evolved from these theories (Pan & Tse, 2000).

The first perspective is derived from the view of transaction cost (Anderson & Gatignon, 1986; Beamish & Banks, 1987; Caves, 1982). This theory suggests that firms will internalize those activities that they can perform at a lower cost but subcontract those activities if other providers have a cost leadership position (Pan & Tse, 2000). In addition to functional cost, opportunity cost and risk have also been considered in discussing cost advantage (Dunning, 1988). This framework assumes that decision makers

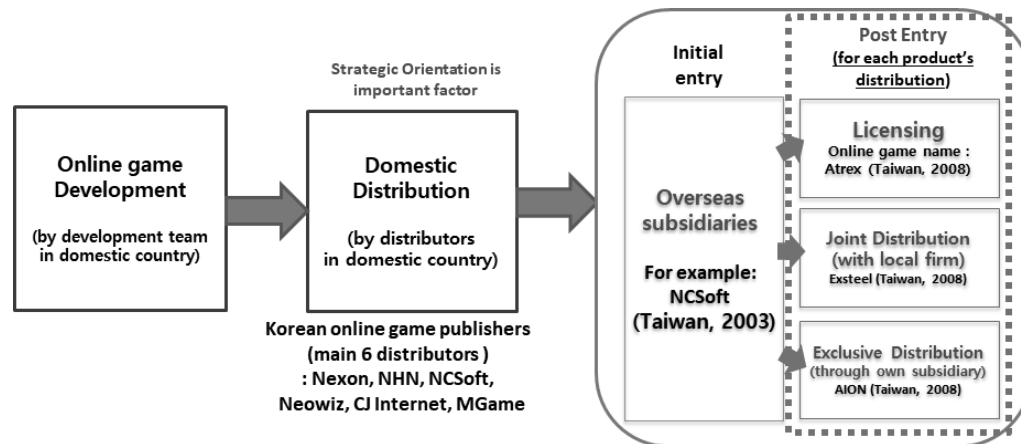
consider all of those aspects of entry mode and do decision-making choices simultaneously. Therefore, there is no rank of entry mode in this view (Kumar & Subramaniam, 1997).

The other view is derived from the perspective of international business theories (Barkema & Vermeulen, 1998; Kogut & Singh, 1988). Its main assumption is that foreign market entry is intrinsically risky because of the huge differences in the political, economical, social, cultural, and financial environments. In the early stages of foreign market entry, companies prefer entry modes with lower control. As experience is gathered, the preferred entry mode gradually shifts to business models with more control (Root, 1987). Various choices of entry mode can be made according to the level of control preference. Listed from the lowest controllability, externalization (e.g., exports, contracts (licensing), and joint ventures) and internalization of foreign direct investments (M&A and Greenfield) are the entry modes used by multinational enterprises (Root, 1994). Unlike the previous view, definite rank exists among entry modes in this theory (Chu & Anderson, 1992). Existing theories such as the life cycle theory, the eclectic paradigm, and the stage model share common points in explaining the dynamics of foreign market entry. They suggest that entering a foreign market typically takes considerable time and efforts, thus, entry strategies should be executed gradually as firms accumulate knowledge and experience in the foreign markets (Buckley & Casson, 1998; Jo et al., 2004; Johanson & Vahlne, 1977, 1990; Vernon, 1966; Williamson, 1985). However, the accelerated speed of foreign market entry by hightech venture business like online game publishers provides new opportunities for broadening the existing theories. The traditional stage model cannot be applied when foreign market entry is conducted extraordinarily quickly in the early stages (Johanson & Vahlne, 1990). Bell (1995) also observed that the traditional stage model and the activity patterns in the choice of market and entry mode are not applicable to hightech ventures. Therefore, these companies that actively enter foreign markets in the early

stages of business are referred to as “born global” (Oviatt & McDougall, 1994). “Born global” companies do not follow the traditional stage model (Choi & Hong, 2006).

Otherwise, most studies on foreign market entry have focused on the initial entry mode based on traditional theories, such as internalization of the OLI paradigm or transaction cost theory. Researchers have placed less attention on the dynamics of post-entry strategies (global distribution) after the initial market entry (Agarwal & Rmaswami, 1992; Brouthers & Werner, 1996; Contractor & Kundu, 1998; Erramilli & Rao, 1993; Li & Guisinger, 1992; Park et al., 2010; Yoo & Kim, 2000). However, recently, a new phenomenon has appeared in the Korean gaming industry that cannot be explained by traditional theories. Some domestic online game publishers that already have foreign wholly owned subsidiaries are making different decisions on foreign market entry (Park et al., 2010). For example, they are choosing licensing as a low controllability distribution method, depending upon the attributes of the products even when they have foreign subsidiaries in the local markets and enough resources and experience for exclusive or direct distribution.

Typically, online game companies which have operated in the global market have two-track choices for global entry mode. For example, each online game product was developed in domestic country (Korea) and then main distributors (in this field, it is called as ‘publishers’) distributed in domestic market, first. Finally, after they checked the home market customers’ reaction, they decided which distribution (entry mode) is appropriate for the global, local markets considering the each product’s characteristics, home market customers’ reaction and expected popularity in other countries. All those processes are as follows (see <Figure 1>). Based on this process, this study concentrates on the ‘post entry’ to see each product’s distribution choice in overseas markets. Therefore, a discussion of post-entry strategy will broaden the existing internalization theory and the research area.



Source: own (2017).

<Figure 1> Whole steps for global distribution of online game products

Research on the online gaming market is still in its early stages, and most of the existing studies on the entry modes of online game publishers have been case studies. For instance, Choi (2005) studied the Korean online gaming industry's entry strategies to enter China. It said that licensing is the dominant strategy for China's market entry, considering market uncertainties such as regulations and the political, legal system. In addition, Choi and Hong (2006) studied entry modes into the Japanese market. They hypothesized that domestic performance and the diversity of portfolios led online game companies to select a more controllable entry mode with 10 cases. Hong et al. (2007) tracked the entry modes of seven major online game publishers into the Japanese market through the process of the time frame from market entry to business operation. They analyzed the entry strategies and the success factors as well in each process and found that online game publishers have some unique attributes as 'born global' companies. They also found that the decision making in favor of foreign direct investment by online game publishers is based on strong market positions in the domestic market and the development of core competencies by vertical integration. Therefore, they suggested that traditional theories, such as the eclectic paradigm or the stage model, can explain online game publishers' business practices. Lee and Lee (2008) analyzed the factors affecting the entry modes of Korean online game companies using survey data. They found the experience of top management team on the protection of intellectual property in target markets to be the most important factors influencing the decision-making to engage in direct investment.

However, all of these studies on the entry modes of online game companies focused only on initial market entry. They did not pay significant attention to the dynamics of the changes of distribution methods after initial entry. Recently, Park et al. (2010) insisted that the entry mode should be split into initial entry mode and post-entry mode. For the first time, they investigated the key factors behind changes in decisions regarding global distribution in the Korean online gaming industry after initial entry.

2.3. Strategic Orientation (Market Orientation & Innovation Orientation)

The concept of strategic orientation, which was first proposed by Gatignon and Xuereb (1997), is very close to the concept of market orientation, as mentioned in their paper. They attempted to combine the three components of market orientation proposed by Narver and Slater (1990) and the three types of information (customer, competitor, and skill) presented by Jaworski and Kohli (1993), that is, customer orientation, competitor orientation, and inter-department cooperation. Attempts at this kind of combination were made in the past, and a typical example was the study by Deshpande and Farley (1996). However, they

described the concept of market orientation as the concept of "customer orientation," focused on the behavior of customers by conducting a meta-analysis on the extant studies on market orientation. Later, Gatignon, and Xuereb (1997) suggested strategic orientation as a more comprehensive concept in order to overcome such limitations, arguing that not only customer aspects, but also technical aspects, should be considered simultaneously. That is, if strategic orientation refers to an expression of the strategic mindset of a business, accumulated as business culture, strategic orientation should comprehensively include market orientation and technology (innovation) orientation (Deshpande, Farley, & Webster, 1993; Gatignon & Xuereb, 1997; Jeong, Pae, & Zhou, 2007).

Based on this rationale, this study divides up strategic orientation into market orientation and innovation orientation as follows.

Market orientation. Businesses should meet the needs of the market in order to sustain a competitive advantage and profitability. In addition, they must predict the changes in the needs of the market correctly to improve their business performance, and such an effort serves as the foundation of market orientation. "Market orientation," which first appeared at the beginning of the 1990s, overcomes the theoretical limitation of the marketing concept (Borch, 1957; McKitterick, 1957; McNamara, 1972). Moreover, it presents management thought at a new level, which gives more specific and practical guidelines for business activities (Kohli & Jaworski, 1990; Narver & Slater, 1990; Ye & Yoon, 1996). In short, market orientation means collecting information on the needs and preferences of customers and implementing changes based on the information (Narver & Slater, 1990).

Innovation orientation. The term "innovation orientation," distinguished from "innovation," was first used more recently. Miles and Snow (1978), Snow and Hrebiniak (1980), and McDaniel and Kolari (1987) assumed innovation orientation as the main dimension of speed that changes their products and markets, corresponding to changes in the environment. Manu (1992) explained that innovation orientation is the overall innovation program of firms, adding that it provides strategic directions in dealing with the market. In addition, Manu and Sriram (1996) conceptualized innovation orientation as a complex structure that consists of the orders of introduction of new products, R&D expenditure, and market entry. They asserted that the single variable classification on innovation cannot fully explain the complexity of innovation. Berthon, Hulbert, and Pitt (1999) conceptualized innovation orientation as the term of technical advantage. That is, they assumed it as an energy investment of firms for making and improving advantageous products. Hurley and Hult (1998) considered innovation orientation openness to new ideas according to aspects of business culture, and Hurley, Hult, and Knight (2004) thought it as the ability to introduce new processes, products, or ideas. In addition, Homburg, Hoyer, and Fassnacht (2002) assumed innovation orientation as a

function of the numbers businesses suggest for “how many innovations they offer to consumers,” and “how strongly innovation is emphasized.” Moore and Cardona (2002) considered that innovation orientation is composed of entrepreneurial intent and innovation climate. Here, entrepreneurial intent means the connection point of strategic intentions of businesses to modify existing products or make new products, as well as make existing products suitable for new markets, while an innovation climate is one in which common missions are shared and new ideas are encouraged. More recently, Siguaw, Simpson, and Enz (2006) suggested a multidimensional model of innovation orientation with an integrated view based on the existing research on innovation orientation. They proposed a model consisting of learning philosophy (that is, wide understanding of organization on learning, thinking, obtaining, and changing within a firm for innovation), strategic direction (that is, future-oriented concept for strategic belief and understanding encouraging the activities of organization to make well-timed innovations), and trans-functional acclimation (kind of functional sphere of innovation-oriented companies should be led by unique and embedded knowledge structure). Such strategic direction is appropriate for application of entertainment industry which has decision making for units of products (or projects), and complements the limit of the existing traditional theories based on the overseas expansion of manufacturing industry. Accordingly, in the context of the above discussion, this study investigates the determinants affecting the dynamics of distribution strategies after initial market entry based on strategic orientation (specifically, market orientation and innovation orientation).

3. Hypotheses Development

As strategic orientation (market orientation and innovation orientation) stand out as critical factors influencing foreign market entry, the discussions of those concepts have been treated as the main issue in the academic and practical fields for long time. Latent conflicts have existed between those who consider customers the source of all wisdom and those who view technological innovation as the major driver of business growth (Berthon et al., 2002). The idea of market orientation was first proposed by Drucker (1954), who claimed that a company's main goal is to create and maintain its customers. In the similar way, people who emphasize a philosophy about customers or the market argue that the company's goal is to discover the needs and desires of the market and provide satisfying products and services (Deshpande & Farley, 1998; Harris & Ogbonna, 1999; Kohli, Jaworski, & Kohli, 1993; Kohli et al., 1993; Narver & Slater, 1990; Selnes et al., 1997; Slater & Narver, 1994). On the other hand, people who stress a philosophy of innovation support that customers will have a higher loyalty and preference for the products and services that

provide better quality, performance, and characteristics. Moreover, they believe that existing customers are not completely aware of the radical, advanced technology that they need and desire. As a result, they are exerting more efforts on developing and advancing outstanding and distinguished products and services (Berthon et al., 2002). However, resources are limited, and companies have to decide how to best allocate their resources. Therefore, they cannot help but pursue and emphasize one type of orientation (Hortinha et al., 2011).

When market orientation is pursued, interest in users' experiences and needs increases, and companies strive to develop their ability to understand and reflect on consumers' product experiences. Accordingly, the companies put effort into collecting and constructing market information and reflecting it in their products, and they select the entry mode that can increase the control and commitment of the resources. Meanwhile, when innovation orientation is pursued, companies are more likely to seek things that are innovative and new from the perspective of technology or product usage rather than users' experiences or real needs. However, since this carries huge risks, companies should be open to the possibility of immediate withdrawal in case of not being accepted in the market. For this reason, the entry mode that enables low level of commitment and control in the international market will be selected. The following hypotheses are established based on this research.

<Hypothesis 1> When market orientation is higher, a more controllable distribution mode (i.e., direct or exclusive distribution) will be selected.

<Hypothesis 2> When innovation orientation is higher, a less controllable distribution mode (i.e., licensing) will be selected.

On the other hand, strategic assets with strategic orientation are important factors that influence companies' decisions. Dierickx and Cool (1989) define strategic assets as the resources and capabilities required to sustain core competencies (Amit & Schoemaker, 1993; Dierickx & Cool, 1989) that are unique, rare, and hard to substitute or copy based on the resource-based view (Barney, 1991; Collis & Montgomery, 1995; Dierickx & Cool, 1989; Grant, 1991; Lado & Wilson, 1994; Lippman & Rumelt, 1982; Rumelt, 1987). Those strategic assets are the result of stock and flow of resources, and therefore, they focus on the difference between stock and flow as necessary. The stock of resources is a static component, but the flow is a dynamic component (Dierickx & Cool, 1989). Core competencies and strategic assets have unique attributes that cannot be obtained in a short period. Therefore, companies with subsidiaries which have enough experience and resources for direct investment or exclusive distribution by themselves tend to prefer a more controllable distribution

(Dierickx & Cool, 1989; Teece, Pisano, & Shuen, 1997).

<Hypothesis 3> Firms with more strategic assets (quality of product and service) will prefer a more controllable distribution mode.

<H 3-1> Firms with more stock of resources (quality of product) will prefer a more controllable distribution mode.

<H 3-2> Firms with more flow of resources (quality of service) will prefer a more controllable distribution mode.

Product quality of online business can be measured as user activities and interactions commonly (Olver, 1997; Hughes, 2000; Delone & Mclean, 2003; Han, 2006). Palmer (2002) suggested that user satisfaction is the most important element in success of an online business and measured the user satisfaction by visit frequencies and the state of visit. Finally, he stated how this can affect on the company's strategic plan and orientation (Palmer, 2002). Meanwhile, previous studies on online products measured the service quality using the stability of service, accessibility and response speed (Lindroom, 1997; Liu & Arnett, 2000; Negash et al., 2002; Delone & Mclean, 2003). These properties are very important in online games because online games are continuous products and then, in the end, this also affect on the firm's view of strategic orientation (Gatignon & Xuereb, 1997). Moreover, Park et al. (2010) divided the strategic assets of online game companies into the stock and flow of resources. In other words, the stock of resources was identified to determine product quality, and the flow of resources was investigated to determine service quality considering the characteristics of online games. The results partially supported the hypotheses. Based on those

studies, the following hypotheses are put forth.

<Hypothesis 4> The degree of strategic assets (quality of product and service) will positively moderate the effects of <H1> and <H2>.

<H 4-1> The degree of quality of product will positively moderate the effect of H1.

<H 4-2> The degree of quality of service will positively moderate the effect of H1.

<H 4-3> The degree of quality of product will positively moderate the effect of H2.

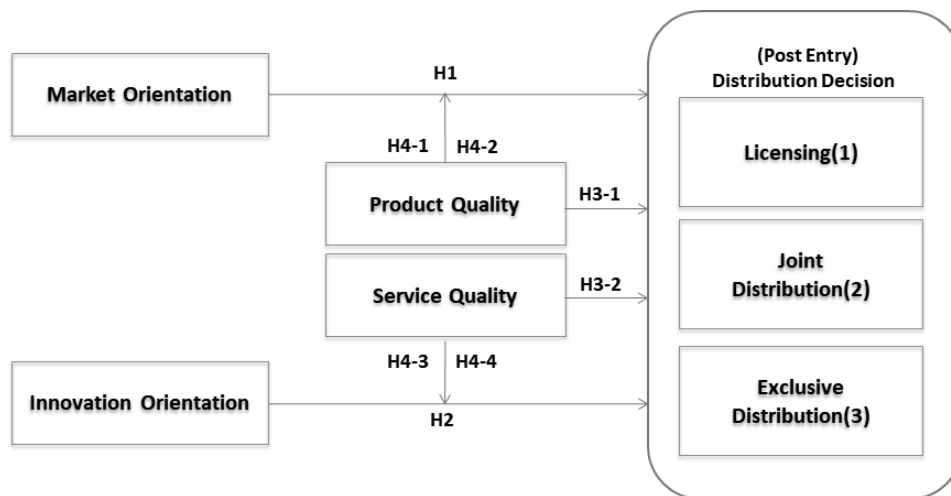
<H 4-4> The degree of quality of service will positively moderate the effect of H2.

The research hypotheses and model are summarized in <Figure 2>.

4. Methodology

4.1. Data collection method

The data was collected through Korean online game publishers with the entry cases distributed from 1997 to May 2009 in the foreign markets. To focus on the dynamics of global distribution after initial entry, target companies were filtered to Korean online game publishers that already had their own overseas affiliated subsidiaries. Those companies had enough experience and resources to select the entry modes among licensing, joint venture (i.e., joint distribution), and direct investment (i.e., exclusive distribution) options. Six companies that met these criteria were selected: CJ Internet, NCSoft, Neowiz Games, Nexon, NHN and MGame. The



<Figure 2> Research model

entry cases in the foreign markets and the data on market orientation and innovation orientation were gathered from each company's internal data and annual reports and through interviews as well with experts, especially development team managers by email and phone. Lastly, I excluded some countries such as Brunei, India, Turkey, and Russia due to fewer samples that were poor performance as an outlier. Thus, the final sample data covered 252 cases, with 85 products from 13 countries. We used ordered logistic regression to effectively reflect the categorical characteristics in the entry mode (Park et al., 2010).

4.2. Measures

4.2.1. Dependent variable

Most Korean game companies preferred licensing as a foreign market entry strategy, but major companies used various distribution methods for each market (Choi & Hong, 2006; Lee & Lee, 2008). Based on the existing research, I used ordered categories for the dependent variable. In the order of controllability, exclusive (or direct) distribution was numbered as 3, joint distribution as 2, and licensing as 1 (Park et al., 2010).

4.2.2. Independent variables

In order to measure market orientation, this applied the items that were used in the study conducted by Cadogan, Paul, Salminen, Puumalainen, and Sundqvist (2001) and Xinming and Yingqi (2011) investigated in the context of the foreign market rather than the domestic market (see Appendix). Among the 11 questions that were based on a 7-point criterion, this study re-selected the highest three items (responses about market information, generation of market information and expansion of market information) that were displayed as highest scores in the factor analysis result, revised them into a 5-point criterion, and applied them in the final analysis of this study. For the measurement of innovation orientation, the five types of items applied by Hurley and Hult (1998) were applied, and these were classified into the three types of items of innovation orientation measured by Siguaw et al. (2006).

As a measurement of the product quality in online businesses, user activities or interactions are commonly used (Han, 2006; Hughes, 2000; Olver, 1997). Palmer (2002) strongly insisted that user satisfaction is the most important element in the success of an online business and measured user satisfaction with visit frequency and visit recurrence. However, in this study, the number of portfolios of a similar genre of the product development team was used as a proxy to measure product quality based on the

characteristics of online game products. Existing studies of online products measured service quality using accessibility, stability of service, and response speed (Lindroom, 1997; Liu & Arnett, 2000; Negash et al., 2002). Those properties are very important in online games, because online games are continuous products. To measure service quality, we used the retention rate of users as a proxy of service quality, measured by industry experts using a 5-point scale (Park et al., 2010).

4.2.3. Control variables

The variables used for control variables are examined as follows. Game genre is a very important element for users who enjoy games (Game Review, 2006), and it can be largely classified based on the acts of gamers or text (Lee & Kwon, 2008). Among them, text, which distinguishes the genre according to the level of difficulty, is very important, because the reactions of consumers in the market and the strategies and evaluations of competitors on market entry will vary (Ryu & Park, 2011). Therefore, this study divided game genre into three types (casual, FPS, and MMORPG) and used them as control variables. In addition, market uncertainty of products is seen as the reaction and adoption of the market on the products based on Moriarty and Kosnik's study (1989), and the degree of familiarity with the products was used as a proxy. Technology uncertainty is the developmental state of the product at the time of contract (decision making on overseas distribution), and it was examined through the time lag with the domestic distribution (Park et al., 2010).

Firm size and experience, especially experience from overseas markets, are also crucial factors. We used firm size and year as control variables. The data were gathered from the homepages and the annual reports of each company. Environmental or national factors, especially the legal systems and government regulations of the target markets, are one of the crucial factors in deciding the distribution method in foreign markets (North, 1990; Oliver, 1997). In this study, IT business infrastructures and the level of protection of intellectual property were selected as national factors. For IT business infrastructures, the log value of the Internet user population (determined by saturation rate) published by the International Telecommunication Union (ITU) was calculated. For the level of protection of intellectual property, the Business Software Alliance (BSA) index for software piracy was used. Although the index is reported annually, we used the index from 2006 to evaluate the difference in protection levels between general software and online games. The summary of all the variables is as follows (Park et al., 2010).

<Table 1> Observed Variables and Measurement

Observed Variables		Name of Variables	Measurement	Data Sources	Scale	
Dependent Variable	Distribution	MODE	Licensing (1) Joint distribution (2) Exclusive distribution (3)	Company Internal data	Level of distribution methods	
Independent Variables	Market Orientation	MO	Market intelligence generation Market intelligence dissemination Market intelligence responsiveness	Interview	5-point scale	
	Innovation Orientation	IO	Learning philosophy Strategic direction Transfunctional acclimation	Interview	5-point scale	
	Product Quality	PQ	Number of portfolios of similar genre of product development team	Company Internal data	Units	
	Service Quality	SQ	Expert survey on customer breakaway after service(retention)	Company Internal data, Interview	5-point scale	
Control Variables	Product Variables	Game Genre	GG	Casual (1) FPS (2) MMORPG (3)	Company Internal data	Rank on level of difficulty
		Market Uncertainty	MU	Familiarity with the products	Company Internal data	Months
		Technology Uncertainty	TU	State of development of products at point of decision making on overseas distribution	Company Internal data	Months
	Firm Variables	Firm Year	FY (firm year)	Firm age (Current year - year of foundation of firm)	Company Annual report	Years
		Overseas Experience	FFY (foreign)	Experience years of overseas markets	Company Internal data	Years
		Firm Size	FS (firm size)	Number of employees of firm (log in regressions)	Company Annual report	Thousands of People
	National Variables	Intellectual Property Rights	BSA	Level of protection of intellectual property rights in entry country	BSA The Software Alliance (www.bsa.org)	BSA Index (Illegal Index of Software)
		IT Infrastructure	ITN (Internet)	Number of people using internet (log in regressions)	ITU International Telecommunication Union (www.itu.int)	Millions of people

5. Results

5.1. Descriptive Statistics and Correlations

In this study, I examined the factors affecting the changes of distribution strategies after initial entry based on the strategic orientation (that is, market orientation and innovation orientation). To effectively reflect the categorical characteristics of global distribution strategies, ordered logistic regression is used in this study. Before testing the hypotheses, as a first step, an R-type factor analysis, in which the correlations between variables are first calculated and identical concepts are measured to connect the

variables together, was conducted. In particular, a validity test was conducted to identify the same factors that were tied and remove the low importance variables that were not tied into the same factors after checking the correlation structure within the variables. For the factor extraction model, principal component analysis was applied, and for the factor rotation model, VARIMAX was applied. According to the factor analysis result, it was classified as equivalent factors, and confirmatory factor analysis (CFA) was conducted to examine unidimensionality regarding the measurement items of research units per research unit verified for its reliability. The investigation of unidimensionality was conducted on research units formed of

more than three multi items. Market orientation (three items) and innovation orientation (three items) were displayed as a saturated model, and it was determined that the constructed model reflected the experiential resource structure well.

In this model, The results of analyzing the measurement model of all concepts included to investigate the discriminant validity and convergent validity of the scales are displayed in <Table 2>. According to the analysis result, $\chi^2=499.24$, degree of freedom=161, GFI=0.95, AGFI=0.87, RMR=0.046, NFI=0.92, and CFI=0.95 were displayed, and the goodness of fit was shown to be outstanding. The standard factor loadings of the research concepts were all displayed as significant. Therefore, convergent validity was verified. As a result of calculating the correlation coefficients by extracting two research units at once, most correlation coefficients were displayed as less than 1 at the statistically significant level. Therefore, discriminant validity was verified as well (Challagalla & Shervani, 1996). Regarding the concept

reliability, it was displayed as high for everything at more than 0.7, which is the average recommended standard.

As a result of the CFA, a correlation analysis was implemented in order to identify the direction and the degree of relations between each of the concept scales verified for unidimensionality. Descriptive statistics and correlations are reported in <Table 3>. As displayed in <Table 3>, the items applied in this study from the nomological validity perspective can be considered valid and they are in accordance with all the hypothetical directions of this study. There was a strong and significant relationship between the length of experience and the size of a company. The value of the variance inflation factor in variables was investigated in concern of possible multicollinearity due to the relatively high correlation between some variables, but it is considered that multicollinearity problems will not be a problem, as it resulted in a value of less than 10, which is the cut-off point recommended by Neter et al. (1985).

<Table 2> Measurement Model

Construct	Measurement item		Factor loading	Cronbach's alpha	R ²
Market orientation (Cadogan et al., 2001; Racela et al., 2007; Xinming & Yingqi, 2011)	Market intelligence generation	Creating information on market trends Constant monitoring for satisfying needs of customers Detecting changes of market environment Reviewing changes of environment constantly Creating information affecting needs and preferences of customers	0.923***	0.952	0.915
	Market intelligence dissemination	Information on competitors reaching decision maker Reachability of information affecting methods of customer reception Degree of horizontal communication for spreading effective market information Degree of effort of official and unofficial spread on market trends	0.970***		
	Market intelligence responsiveness	Immediate response to strategies of competitors Degree of offering products and service satisfying present and future needs of customers Immediate response to reactions of customers State of manufacture of products, distributions, and promotions	0.976***		
Innovation orientation (Hurley & Hult, 1998; Siguaw et al., 2006; Zhand & Duan, 2010)	Learning philosophy	Accept technological innovation based on result of research easily	0.816***	0.714	0.636
	Strategic direction	Degree of innovative idea orientation of management Management actively seeks innovative ideas	0.749***		
	Transfunctional acclimation	Will to punish acceptance and failure of new ideas Treatment of person who suggests idea that does not bear good performance Generally, innovative matters are considered high risk	0.826***		

*p<0.1, **p<0.05, ***p<0.01

<Table 3> Descriptive Statistics and Correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Entry Mode	1.54	.820	1												
2. Market Orientation	2.62	1.319	.025	1											
3. Innovation Orientation	2.66	.832	-.099	.399**	1										
4. Product Quality	3.46	.940	.059	.609**	.503**	1									
5. Service Quality	433.94	552.990	-.064	.568**	.587**	.630**	1								
6. Game Genre	1.85	.948	.343**	.062	.041	.114	.015	1							
7. Market Uncertainty	1631.30	1126.9	-.188**	-.106	-.107	-.094	-.136*	.186**	1						
8. Technology Uncertainty	433.94	552.99	-.303**	.292**	.174**	.244**	.320**	-.285**	-.128**	1					
9. Firm Year	14.05	2.088	-.109	-.166**	-.599**	-.151*	-.168**	.036	.216**	-.164**	1				
10. Overseas Experience	8.40	3.362	-.221**	-.161*	-.673**	-.202**	-.171**	-.043	-.093	-.081	.737*	1			
11. Firm Size	7.51	7.094	.258**	.140*	.618**	.230**	.145*	.085	-.070	.080	-.752**	-.639**	1		
12. Intellectual Property Rights	50.90	24.502	-.501**	.052	.129*	.080	.058	-.161*	-.314**	.117	.033	.034	-.062	1	
13. IT Infrastructure	11.72	11.631	.238**	-.144*	.410**	-.090	-.177**	.237**	.083	-.217**	-.011	-.098	.063	.078	1

*p<0.05, **p<0.01

5.2. Analyses Results

<Table 4> is the analysis result of the ordered logistic regression for the verification of the hypotheses presented in this study. In Model 1, a regression analysis was conducted as the baseline model, which only included control variables. Then, in Models 2 and 3, market orientation and innovation orientation, the independent variables of <Hypotheses 1> and <Hypotheses 2>, were observed. Models 4 and 5 additionally included product quality and service quality as the strategic assets and conducted regression analyses on <Hypotheses 3> and <Hypotheses 4>. Therefore, the support of <Hypotheses 1> and <Hypotheses 2>, the focus points of this study, is determined through the empirical analysis results of Model 2. Lastly, Model 6 was examined for the verification of <Hypotheses 4-1>, <Hypotheses 4-2>, <Hypotheses 4-3>, and <Hypotheses 4-4> as the moderating effects of product and service quality. All the models of this study showed p-values <0.0000 and displayed significant results.

First, the result of Model 1 was similar to the results of existing studies, as game genre, technology uncertainty, firm size, degree of protection of intellectual property rights of the local country, and IT infrastructure were displayed as having a significant influence when deciding the local distribution of online games in the foreign market. Thus, the headquarter of a company is more likely to select a distribution mode with high control when the game level is higher, the technology uncertainty is lower, the firm size of the domestic distributor with local subsidiaries is greater, the

protection degree of intellectual property rights is strong, and an infrastructure that enables the online game is in place.

Next, in the results of Models 2 and 3 in which the support of <Hypotheses 1> and <Hypotheses 2> was identified, market orientation (<Hypotheses 1>) and innovation orientation (<Hypotheses 2>) were both supported significantly. In other words, when market orientation is high, the mode with high control, in which exclusive distribution is conducted through the local subsidiary company, is selected when foreign distribution is chosen, but when innovation orientation is high, it already carries high risks due to the innovation which is not familiar to customers. Therefore, a distribution mode with lower resource commitment or control, like licensing, is selected. Meanwhile, according to the result displayed in Model 4, <Hypotheses 3-1>, which claimed that a distribution mode with high control is selected when the product quality is high, was not supported significantly. Additionally, <Hypotheses 3-2>, which claimed that the decision of distribution mode followed service quality, was dismissed. In terms of the service quality, an observation was made on how many customers left during the initial service stage. Since various complex components, such as the launching time and marketing of each product, are considered, it is considered difficult to apply this variable equally in different foreign regions. Meanwhile, product quality and service quality were not displayed as significant in Models 5 and 6, which are considered the optimal models of this study, but they were displayed as significant as decision-making variables that control market orientation and innovation orientation.

<Table 4> Results of Ordered Logistic Regression Analysis

Variable	Dependent Variables : Licensing(1), Joint Distribution(2), Exclusive Distribution(3)					
	Model 1 (baseline)	Model 2	Model 3	Model 4	Model 5	Model 6 (full)
Intercept	690.467** (367.008)	-60.605 (294.035)	-80.411 (340.145)	-161.701 (481.627)	-355.427* (496.289)	-245.358** (509.197)
Game Genre	0.399** (0.188)	0.211** (0.203)	0.201** (0.204)	0.188 (0.205)	0.186* (0.208)	0.169** (0.210)
Market Uncertainty	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Technology Uncertainty	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)
Firm Year	0.164 (0.126)	-0.030 (0.147)	-0.050 (0.150)	-0.064 (0.154)	-0.154 (0.161)	-0.115 (0.166)
Overseas Experience	0.181 (0.145)	-0.001 (0.165)	-0.003 (0.166)	-0.016 (0.167)	-0.022 (0.170)	-0.006 (0.171)
Firm Size	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Intellectual Property Rights	-0.066*** (0.009)	-0.060*** (0.010)	-0.061*** (0.010)	-0.062*** (0.010)	-0.063*** (0.010)	-0.066*** (0.010)
IT Infrastructure	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)
Market Orientation		0.826*** (0.330)		0.556*** (0.695)	0.257*** (0.880)	0.262* (0.922)
Innovation Orientation			-2.095*** (0.825)	-1.010** (0.855)	-2.357** (0.882)	-2.107** (1.009)
Product Quality				0.000 (0.000)	0.000 (0.001)	0.000 (0.001)
Service Quality				-0.029 (0.537)	-0.771 (0.724)	-0.513 (0.885)
PQ * MO					0.000 (0.000)	0.000 (0.000)
SQ * MO					0.344*** (0.220)	0.395** (0.243)
PQ * IO						0.000 (0.000)
SQ * IO						-0.158 (0.272)
Observed value	252	252	252	252	252	252
Log-Likelihood value	283.214	276.542	279.992	274.296	269.408	267.946
LR chi2(df)	144.790	151.462	153.092	153.708	158.596	160.057
Prob>chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo R ²	0.437	0.452	0.442	0.457	0.467	0.470

Note: The values in brackets are standard errors

*p<0.1, **p<0.05, ***p<0.01

6. Discussion and Conclusions

The basic assumption of this study was that market entry mode can be split into two steps, initial and subsequent. Moreover, it was assumed that the domestic, Korean online game publishers that already have foreign subsidiaries and branches make different decisions on foreign market entry,

especially for their distribution strategies of post-entry (i.e., distribution mode selection after initial entry based on strategic orientation). In addition, the aim of this study was to focus on the post-entry decision of foreign market entry. Second, this study aimed to look at how strategic orientation (market orientation and innovation orientation) differently influence overseas market distribution. Given these

assumptions and purposes, the conclusions and implications of this study are as follows.

First, most existing studies on foreign market entry have focused on the initial entry mode based on traditional theories. Researchers have placed less attention on the dynamic changing of post-entry strategies after initial entry. However, this study shows that the domestic game distributors with foreign subsidiaries and branches choose different distribution strategies for each product after entering the overseas market, such as establishing local subsidiary companies. The results indicate that the distribution methods may vary according to the characteristics of each cultural content product even when they have 100% wholly owned subsidiaries, and having overseas subsidiaries can generate the need to employ other distribution methods, such as licensing. Therefore, this study makes a significant contribution by discussing and extending the existing internalization theory, especially the issue of how to use overseas subsidiaries after establishing them.

Second, most studies on the entry modes of the online gaming industry have been limited to case studies. It is not easy to find empirical research in this area. In this situation, this study investigates some elements affecting the changes of distribution strategies after initial market entry based on market orientation and innovation orientation.

Third, the existing literature on strategic orientation has only focused on the various relationships between the variables, but it has not examined how they have different effects on firms' decision-making processes by connecting them with outcome variables. However, in this study, those strategic orientations were found to have different influences on overseas expansion decisions depending on the goal of orientation. According to the results, there is no direct correlation between market and innovation orientation, so they are in a trade-off relation or have different influences on entry to overseas markets. Such research findings agree with the recent studies by Hortinha et al. (2011).

Finally, product quality and service quality were shown to be insignificant as the decision-making variables that control market orientation and innovation orientation. However, they play a role that moderates the degree of market and innovation orientation. This result means that the level of strategic assets, such as product and service conditions, has an indirect but important impact on businesses decision making.

Even though the findings were very noteworthy and significant, this study has some limitations. Such limitations and the future direction of the research are as in the following.

First, for samples, the current study was confined to the products of the six main distributors in the domestic game industry. Therefore, the findings of this study cannot be generalized to the methods of overseas distribution of all areas of cultural content. It is necessary to develop a generalizable decision-making model including other cultural

content areas in order to improve it. In addition, the sample businesses were all Korean companies, so the results of this study should not be considered as a global decision-making model. In future research, therefore, other countries should be compared and analyzed together. Lastly, Korea is currently positioned as the superior state of online games, and also the Korean domestic online games are already entering the maturing stage, but generally online games are still in the nascent stage in the global market. Considering the different market stage, this study can not conclude the general market situation, and those limitations should be considered in future studies.

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<Appendix>

Measure Items used for Model Testing

■ Market orientation :

- Market intelligence generation :

1. In this company, we generate a lot of information concerning trends (e.g., regulations, technological developments, political, economic) in our export markets.
2. We constantly monitor our level of commitment and orientation to serving export customer needs.
3. We are slow to detect fundamental shifts in our export environment (e.g., regulation, technology, economy).R
4. We periodically review the likely effect of changes in our export environment (e.g., regulation, technology).
5. We generate a lot of information in order to understand the forces which influence our overseas customers' needs and preferences.

- Market intelligence dissemination :

1. Too much information concerning our export competitors is discarded before it reaches decision makers. R
2. Information which can influence the way we serve our export customers takes forever to reach export personnel. R
3. Important information about our export customers is often "lost in the system". R
4. Information about our export competitors' activities often reaches relevant personnel too late to be of any use. R
5. Important information concerning export market trends(regulation, technology) is often discarded as it makes its way along the communication chain. R

- Market intelligence responsiveness :

1. If a major competitor were to launch an intensive campaign targeted at our foreign customers, we would implement a response immediately.
2. We are quick to respond to significant changes in our competitors' price structures in foreign markets.
3. We rapidly respond to competitive actions that threaten us in our export markets.

■ Innovation orientation :

1. Technical innovation, based on research results, is readily accepted
2. Management actively seeks innovative ideas
3. Innovation is perceived as too risky and is resisted. R
4. People are not penalized for new ideas that do not work
5. Innovation is readily accepted in program/project management

Notes: R - Reverse coded.

