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A Dynamic Approach to the Development of International New Ventures

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INTERNATIONAL NEW VENTURES

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Abstract

The competitive and organizational behavior of new firms has changed dramatically. Firms do not need to be big to internationalize, International New Ventures (INV) are a reality. But, they are characterized by the liability of newness and the liability of smallness. Since the nineties, scholars have devoted considerable attention to this phenomenon, but no one explains how these companies can overcome these constraints and internationalize. In this context, this paper uses a multilevel analysis, resulting in a more integrative framework. This approach extends the literature including, at the same time, the firm perspective (following the studies developed in Uppsala and the RBV), the organizational network approach and the international entrepreneur perspective. It has three units of observation and one of analysis. To understand INV dynamics it seems very important to observe, study and relate firm with network and entrepreneur. This research finds out that the entrepreneur plays a particularly important role in these new companies, ill-equipped (of relations, resources and knowledge), but the entrepreneur does not act in a vacuum; he is part of a firm integrated in a network. To internationalize early firms must use indirect knowledge, resources and history from organizational networks and from the entrepreneur.

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1. INTRODUCTION

During the past few years the competitive and organizational behavior of new firms has changed dramatically. Important changes in the internationalization arena have occurred such as the emergence of International New Ventures (INV). These are firms that are internationalized almost from their creation, i.e. “business organization that, from the inception, seeks to derive significant competitive advantage from the use and the sale of outputs in multiple countries” (Oviatt and McDougall, 1995, p. 42). The idea of a precocious internationalization represents a challenge to the traditional internationalization theories.

Since the 1990s scholars have devoted considerable attention to this phenomenon. While the theoretical development and empirical studies on INV definition have been impressive, there was not a holistic approach combining of all the phenomenon complexity involving the company, networks and entrepreneur.

The core argument presented here is based on INV dynamics and involves three perspectives. The first is that these companies are not necessarily similar to those internationalize later, but newer. Firms have some idiosyncrasies. Second, markets are constituted by networks of relations in which firms are linked to each others in various, complex and, to a considerable extend, invisible partners. Relations offer potential for learning, for establishing contacts and for building trust and commitment. Third, entrepreneur plays a key role in accordance with social networks, social capital and some personal characteristics. He/she will be the responsible for the discovery of some opportunities, and its recognition as such, and also he will be responsible by the decision to exploit (or not) them.

This paper extends the literature including, in the same explanatory model, the firm perspective (following the studies developed in Uppsala and the Resource Based View), the organizational network approach (according to the IMP Group) and the international entrepreneur perspective. In this context this paper uses a multilevel analysis, considering that it is important a more integrative analyses. Consequently the model has three units of observation and one of analysis. To understand the INV (unit of analysis) dynamics it seems very important to observe, study and relate firm with network and entrepreneur (units of observation).

The paper is organized as follows. In Section 2 the growing importance of INV is demonstrated, both in academic studies and in management. Propositions are developed in the next section. First, it will be take a firm-based approach, after an approach based on organizational networks and, finally, one based on the entrepreneur. Finally, Section 4 presents the conclusions as well as the major limitations of our research.

2. THE GROWING IMPORTANCE OF INV

The concept of early internationalization appeared exhaustively described for the first time in 1993, in Australia, in a study by McKinsey & Co (Rennie, 1993), with an explicit reference to a new kind of company – Born Global – that sees the world as one large market and challenge traditional ways of understanding the internationalization.

However, this idea was not entirely new. Garnier studied the same phenomenon in Canada in 1982. Three years later, Hedlund and Kverneland postulate that, as the export market is becoming homogeneous some companies skip some stages of development, so that from the start, internationalization is a central part of its strategy. In 1988, Johanson and Mattsson argue that in markets internationally integrated firms could leapfrog some of the traditionally defined steps. Ganistsky (1989) contrast the concept of Innate Exporters with Adoptive Exporters. The first ones must be limited by lack of resources and experience, but would have a higher degree of internationalization, given the vision of its managers. Jolly et al. (1992) define complex enterprises with founders from various nationalities who follow a targeted approach to internationalization through niche markets. These companies, which they called High Technology Start-Ups, had to be internationalized right from the start given its high technological level. Already, in 1994, Oviatt and McDougall in a seminal work, define International New Ventures and create a typology. Beyond the mentioned terms, there are still others that have been used in a similar context: Global Start-Ups (Mamis, 1989; Oviatt and McDougall, 1995), Instant Internationals (Preece et al., 1999), Instant Exporters (McAuley, 1999), Infant Multinationals (Rasmussen and Madsen, 2002) and Early Internationalizing Firms (Knight et al., 2004). International New Ventures (INV) and Born Global are the most popular terms to this phenomenon.

It is true that this multiplicity of terms is a result of a great interest that leads numerous studies to be conducted almost simultaneously; it is also true that it can introduce some confusion. About

the term Born Global, for example, it seems, in reality, that very few of the companies are global from inception, so it can lead misinterpretations. On the other hand, it seems that the term clearer and more descriptive is that of International New Ventures, i.e., new ventures that are already international.

There are also numerous empirical studies that prove the existence of INV all over the world. Cavusgil (1994) states that are 25% of emerging exporters in Australia, Moen (2002) states that more than 50% of companies that have established in France since 1990 can be included in this group and refers works from Lindmark (1994) and Wagoo et al. (1993) in the same direction. There are studies that establish its existence in economies as different as Australia (Rennie, 1993), as Spain (Rialp et al., 2005) or as Swiss and Germany (Gassman and Keup, 2007). This included small open economies like Canada (Reuber and Fisher, 1997), Denmark (Rasmussen et al., 2001), Finland (Bell, 1995; Autio et al., 2000), Ireland (Bell, 1995), New Zealand (Coviello and Munro, 1995) and Norway (Bell, 1995; Moen, 2002), as well as large economies like Great Britain (Burgel and Murray, 2000; McAuley, 1999) or the USA (Bloodgood et al., 1996; Roberts and Senturia, 1996; Zahra et al., 2000) and Japan (Shimbun, 1995 in Knight et al., 2004). All the cases mentioned so far are from developed countries, but it can also be cited in developing countries or emerging economies like: China (Zhou, 2007), Vietnam (Thai and Chong, 2008), Korea (Kang and Jin, 2006), Singapore (Tsang, 1999, 2001), Hong Kong (Ellis, 2000; Child et al., 2002), India (Tyagi, 2000) or Israel (Hashai and Almor, 2004). Another issue that underlines the importance of INV is that they are important innovators and employers (Oviatt and McDougall, 1995; Moen, 2002).

3. CONCEPTUAL FRAMEWORK AND PROPOSITIONS

The fact that there are an increasing number of companies that may be called INV and the raising numbers of studies about the same problematic are an evidence of the high relevance of the topic. However, there is a lack of a holistic, integrative, original theory of INV. This framework combines knowledge about networks (social and organizational) with firm characteristics and entrepreneur idiosyncrasies. INV are new firms, so they are characterized by the liability of newness (Stinchcombe, 1995) and the liability of smallness (Baum, 1996), so firms need an innovative approach and networks or a specific type of manager to internationalize early.

3.1 The Firm-based Approach

The study of the firm internationalization is closely related to the Uppsala model (Johansson and Vahlne, 1977). Based on two strong concepts (establishment chain and psychic distance) it describes internationalization as a gradual process. Firms need market knowledge to internationalize, and, according to the model market knowledge is a consequence of internationalization. So, because when firms begin the internationalization they only have domestic experience and they face uncertainty in foreign market, they prefer enter in the nearest psychologically markets. This experience builds experiential knowledge and it will influence future decision. This leads to the next step, deeper and far away, conducting to an establishment chain (from domestic market without exports to external markets with external production).

Learning and commitment building take time, this is a time consuming process not compatible with early internationalization. This model draws attention to something very important, firm must have knowledge to be able to internationalize. Yet, within the original Uppsala model internationalization is the unique source of the necessary knowledge and no attention has been devoted to networks or to the entrepreneur. Nowadays, it evolves to incorporate relationships (Johanson and Vahlne, 2009), because as it has been extensively noted (see Section 3.2) networks are a key factor in internationalization.

To internationalize, it seems, however, that knowledge is not enough. The company needs to gain and maintain a position in the international market and this depends on its ability to achieve and defend a strategic advantage. The options of the company are not only a function of the opportunities but they result also of company resources and the way it organizes them. When an enterprise decides internationalize, this extension shall be in accordance with the competitive advantages of company (Andersen and Kheam, 1998). According to Madhok (1997), one of the characteristics of these resources is the fact that they are imperfectly imitable, that is, they are difficult to replicate. They are also cumulative over time and suffer from diseconomies of time compression (Dierickx and Cool, 1989). So the INV must be able to find something that distinguishes them and it is not lengthy to operate, i.e., they must be innovative.

Proposition 1: INV must be innovative to gain and maintain a position in international market.

3.2 The Organizational Network Approach

Richardson, in 1972, introduces the network problematic in management, referring "the dense network of co-operation and affiliation by which firms are inter-related" (p. 883); this concept was subsequently worked very thorough by the IMP Group. In 1988, Johanson and Mattsson used it to explain the internationalization, claiming that this is a process that takes place through networks of relationships.

In this paper organizational networks are non-hierarchical systems which link firms one to which other and with organizations (such as government and universities). The network perspective is based on the idea that external actors (companies and organizations) influence the other enterprises behavior, and that they are a key factor on the internationalization practices. Networks enable firms to access vital resources without having ownership control over them. This is especially important when referring to companies that suffer from liability of smallness as INV. So, firms gain access to and mobilize resources through established long-term relationships.

Proposition 2: INV can overcome the liability of smallness accessing to the resources through organizational networks.

Positioning in the network provide access to resources – positioning the network is a primordial resource. So, the opportunities and limitations of each company are related either to its resources and capacities or with resources and capacities of the companies with it is linked. This strategy reduces the risk, creating an incentive for greater commitment to internationalization and more psychologically distant markets. Because INV suffer of liability of newness, they have neither international contacts nor international information. If the networks are internationally integrated, they can get indirectly information and contacts in distant markets, INV may use this information and contacts and they can chose a destination market not in the psychological neighborhood. Informal channels of communication can become important sources of knowledge (Saxeman, 1994). It can gain access to the other firms' experiential knowledge without necessarily going through the same experiences (Eriksson et al., 1998). A company can also acquire knowledge about potential partners' capabilities, needs and strategies (Johanson and Johanson, 1999).

Proposition 3: INV can overcome the liability of newness through organizational networks.

Proposition 3.1: INV can obtain international experiential knowledge through organizational networks.

Proposition 3.2: INV can obtain international contacts through organizational networks.

According to this notion the internationalization strategy of the INV is characterized by: minimize the knowledge for development, minimize the need for adjustment, and explore the relationship established.

3.3 The International Entrepreneur Perspective

Although, the network approach provides a good description of some business reality (Bjorkman and Forsgren, 2000) and it has received considerable empirical support (Andersson 2002b; Chetty and Blakenburg Holm, 2000; Coviello and Martin, 1999) it has some problems with very young firms' dynamics. Such relationships take time and effort to establish and develop (Johanson and Mattsson, 1987), they result as the outcome of an organizational process (Coviello and Cox, 2006), and so they are a lengthy process. At the beginning, INV may not yet have established organizational relationships and, therefore, they must to have found another way to overcome their handicaps.

The contributions mentioned so far in this article assumed (explicitly or implicitly) that the focal entrepreneur¹ is a given and he is homogeneous, overlooking the possibility of individuals make choices. However, social networks and entrepreneurial characteristics and intentions obviously matter in the firm internationalization. Economic transactions between people are embedded into social relations and strongly influenced by them. Here, the terms social or personal relations are used indiscriminately, meaning strong and active relationship with individual or organization that existed before the firm creation, "entrepreneurs can increase their span of action through their personal networks and gain access at a limited cost to resources otherwise unavailable" (Dubini and Aldrich, 1991, p. 308). "It is a general finding that the utilization of resources stemming from network contacts may offer advantages in comparison to the reliance on resource acquired via market mechanism" (Witt, 2004, p. 394). It has also been argued that the networks formed by the firms' management are not only a potential catalyst for international expansion, but also a source of extended knowledge (Merrilees et al., 1998; Coviello and McAuley, 1999), which may have a strong effect on the INV internationalization.

¹ The term entrepreneur, in this article, is used instead of key decision maker.

Initially, it seems that networking for INV is based on pre-existing entrepreneur relationships. Social relations are used to firm benefit; some can be used as reputational network, as marketing information network, and/or as an indirect access to some resources.

Proposition 4: INV can overcome the liability of newness through social networks.

Proposition 4.1: Social networks can be used as reputational network increasing INV credibility;

Proposition 4.2: Social networks can be used as marketing information network, transferring knowledge and contacts to the firm.

Proposition 5: INV can overcome the liability of smallness accessing to the resources through social networks.

According to Miniti (2004), the entrepreneur behavior is much more dependent from the social network than from personal characteristics. However, it is true that international opportunities are spread across the globe, and, therefore, available to all, the fact is that only a few find them. Even if the knowledge of the opportunities come to entrepreneurs through social contacts, only some will recognize the opportunity as such and, among these, only a few will be able to develop it. Once the opportunity recognized, it will be evaluated, which may lead to their use or to be aborted, i.e., to use the relationship to become profitable, allowing the development of the internationalization process, requires some skills, qualities and attitudes, but not all entrepreneurs have them.

Cohen and Levinthal (1990, p. 128) have introduced the notion of firm's absorptive capacity as "the ability of a firm to recognize the value of new external information, assimilate it and apply it to commercial ends". We can expand this notion to entrepreneurs considering that absorptive capacity is crucial to benefit from "cooperation with" or learn from relationships, so in this context it can be understood as: the characteristics of the entrepreneur that make firm capable to benefit from the information that flows in the network. "Therefore, entrepreneurial experience, social competences, the level of university education and other factors determine if and how much benefit an entrepreneur can derive from existing network ties" (Witt, 2004, pp. 401-402). Also at this level, it is important emphasize the importance of the individual's interpretation of the situation and his ability to influence the internationalization decision, further because entrepreneurs and the firm are inseparable at star-up (Dollinger, 1985; Begley and Boyd, 1986).

This is also based on the fact that decisions in small and medium sized firms are often concentrated in the hands of one or few persons, and the entrepreneur has a unique and crucial role in organization (Bloodgood et al., 1996; Westhead et al., 2001). INV are small and medium sized firms, so in INV entrepreneurs are central to define the internationalization process.

This absorptive capacity is related with prior knowledge and entrepreneurs' attributes and attitudes. It was found that two sets of managerial factors, namely objective (educational background, experience and foreign country exposure of decision maker) and subjective (perceptions, attitudes and behavior of decision-maker were the most cited characteristics in the literature. The know-how acquired by management from international experiences (born abroad, study, live or work abroad in past) allows the accumulation of greater experiential knowledge of market characteristics and competition across the globe. The impact of management's international experience has, in particular, a strong effect upon small and medium sized firms (Hutchinson et al., 2006) both at the initial decision to expand and the continuation of the strategy into international markets (Aaby and Slater, 1989; Madsen and Servais, 1997; Nakos et al., 1998). In the same way, the international experience of management has a strong effect upon INV international decisions. The international relations are closely related with international experiences.

Proposition 6: Entrepreneurs idiosyncrasies determine INV ability to benefit from information flows in the networks.

Based on the attitudes, Andersson (2000, 2002) distinguishes three types of entrepreneurs and "the different types of entrepreneurs will choose different strategies for their companies" (p. 80). Consequently, different strategies imply different internationalization decisions. The technical entrepreneur deals with technical innovations, such as new products, parts of products or new production technologies. Internationalization is not the main concern of the technical entrepreneur. Nevertheless, he can react to a request from abroad with exports or with a licensing agreement. New products can be divulged abroad through the international network. "The industry structure for markets with new products is mainly emergent or growing, and which markets are entered depends on which countries are making the inquiries" (idem, p. 80).

The marketing entrepreneur is concerned with new markets and new marketing methods (such as new distribution methods). He is proactive and innovative in the internationalization process. He

is willing to penetrate very quickly in the market. Personal preferences and networks may be very important when the firm actively chooses the market, “his decision, however, does not come from a rational analysis but is more a reflection of how he interprets the situation” (idem, p. 83). Thirdly, the structure entrepreneur acts in mature industries and his strategy is implemented at the corporate level. The structure entrepreneur’s strategy is implemented at the corporate level and does not intervene in operational matters. By combining organizations, new business ideas can be developed. “From this perspective, internationalization is not a separate strategic goal but a consequence of the overall strategy (Andersson, 2000, p. 81).

The internationalization as a process of creation and/or exploitation of opportunities is limited by the ability to recognize those opportunities, the ambition to take actions based upon them and the ability to respond to them. The internationalization is limited by the entrepreneurial services.

Proposition 7: Entrepreneurs attitudes determine INV internationalization process.

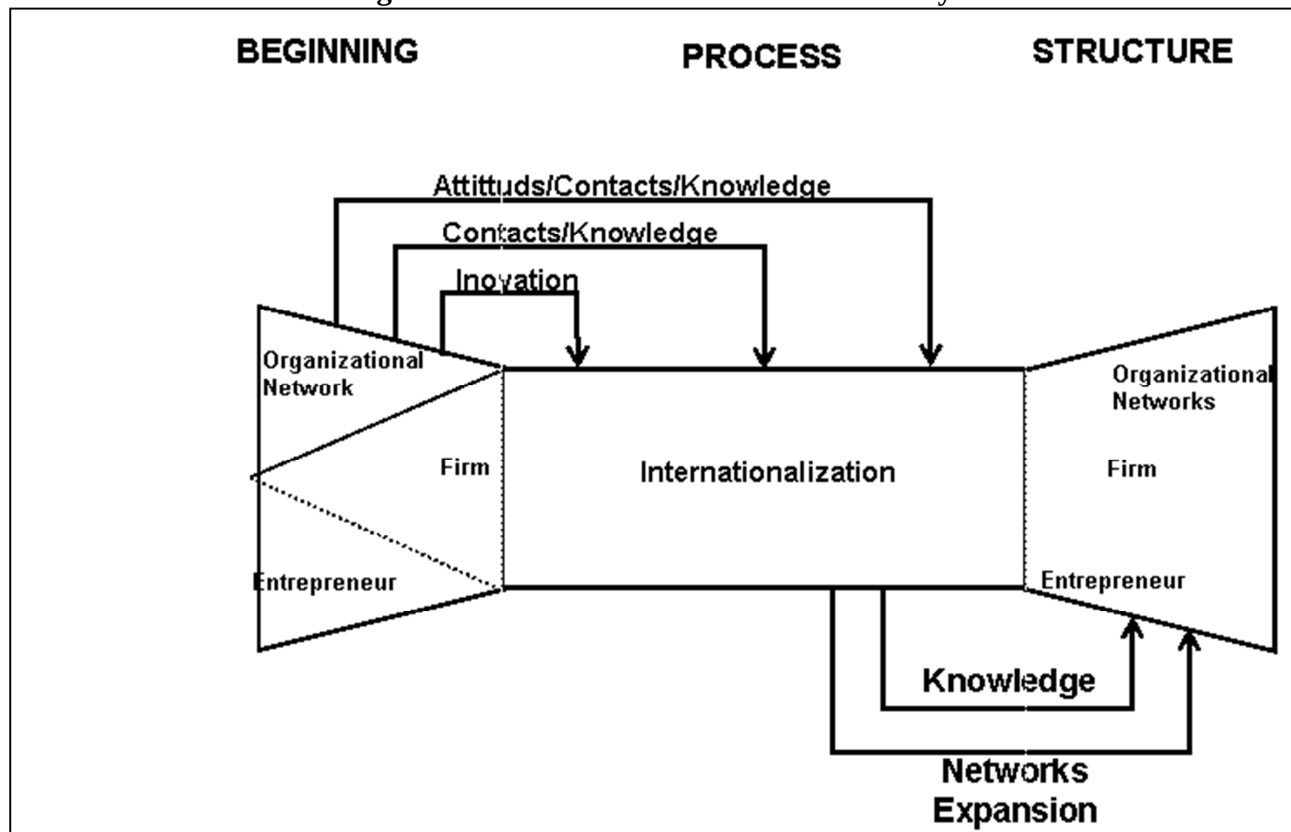
4. FRAMEWORK FOR ANALYSIS

This framework of analysis recognizes the importance of the Uppsala model as a starting point; it assumes international entrepreneurship as the principal basis and it integrate basic elements from network approach and resource based view. Entrepreneur profile influences the firm’s evolution which evolves as a part of a network and, all together (firm, network, and entrepreneur) influence the international market options.

“Knowledge is at the core of received wisdom on internationalization” (Prashantham, 2005, p. 37). In the Uppsala model the main source is the firm itself, through its experience of foreign operations. However, because INV are new, they don’t possess this experiential international knowledge. Nevertheless, it can be accessed through the organizational networks or it can be transferred from the entrepreneur (personal ties, experience and contacts). It is necessary that exist opportunities to internationalize, and firm must know them, this information flows on networks. Because of liabilities of smallness and of newness, INV must mobilize social and organizational relationships to overcome these constraints. It is important to note that international expansion depends from international opportunities, but it depends from firm competitive advantages too. An innovative approach (product, distribution, management) can be the critical resource which makes the early internationalization possible. In vein with that

framework (Figure 1) considers three levels of analysis: the initial stage, the process of development and the final structure.

Figure 1 - Framework to Understand INV Dynamics



It looks very important consider the role of knowledge and their sources. Firms can expand from domestic to international markets through existing personal or organizational relationships that offer contacts and help to develop new partners and positions in new markets. Interrelationships among a set of firms and individuals may strongly influence the options available, the options known and the options chosen. To enter in a market firms should have some competitive advantage, in INV an innovative approach seems very important. In this situation, links are very important to signal the firm's innovation abroad. If the product is innovative, the information flows in the networks (social or organizational) and some external proposes can appear.

Particular interest has to be paid to examining entrepreneurship as a process of knowledge and of behavior manifested in entrepreneurial orientations. Entrepreneur plays a key role as a vehicle of information and as a participant and manager of social systems and networks.

Once, the process has started it will be self-empowering. The internationalization leads to the accumulation of more knowledge by the company and the expansion of their networks. It is expected that social relations become organizational networks and, to a large extent, the organizational networks pass to social. Entrepreneurs' knowledge pass for the company and the knowledge that the INV gets with internationalization will also be getting by the entrepreneur.

5. CONCLUSION

In INV cases, firms have neither enough history nor experience to accumulate knowledge. They must use indirect knowledge from networks, or knowledge transferred from entrepreneur. So, to understand the early internationalization it is necessary to do a multilevel approach, crossing firm characteristics, organizational networks and entrepreneur idiosyncrasies. Only the combination of the different concepts results in a framework to explain INV dynamics. The entrepreneur plays a particularly important role in the new companies, ill-equipped in terms of resources, relations and knowledge, as INV are, but the entrepreneur does not act in a vacuum, he is a part of a firm integrated in a network. Three levels act in a cumulative way. So, in this paper, it is used concepts from different approaches, because, , there is no single explanation that fits all, no single one can explain INV dynamics completely but all have important contributions to do, and each of them is necessary to understand specific circumstances. As all the studies, this has some limitation, these are the two most important.

The first one is that it is only a conceptual works which needs an empirical validation. However, we believe that the holistic framework proposed is more flexible and in more accordance with the new context, with new technologies and with a more global time and space. The Uppsala model could be valid in some scenarios (technical entrepreneur, no international network neither international entrepreneur, for example), but, nowadays, with many markets internalizing, fewer new ventures can escape confrontation with foreign competition (Porter, 1986, 1990; Drucker, 1991). The psychic distance, as usually defined and operationalized, seems it is not an important factor in the INV international market selection. However, in our opinion, in next studies is very interesting including a reconstructed version of psychic distance between entrepreneur and markets.

The second is that it focuses essentially the beginning of the internationalization, but it doesn't ask how the process evolves and what the role of each factor is in more developed moments. This

study serves, essentially, as a starting point to construct a multi-theoretical model of international new ventures, introducing a multi-level analyze.

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