GROWTH PHASES AND SURVIVAL OF INTERNATIONAL NEW VENTURES: A SMALL AND OPEN ECONOMIES PERSPECTIVE

Peter Gabrielsson, D.Sc.

Professor of International Marketing

University of Vaasa

and

Mika Gabrielsson, D.Sc.

Professor of International Business

Helsinki School of Economics

Contact information:
Peter Gabrielsson, Department of Marketing, University of Vaasa, P.O. Box 700, 65101 Vaasa, Finland, e-mail: peter.gabrielsson@uwasa.fi, and
Mika Gabrielsson, International Business, Helsinki School of Economics, Lapuankatu 6, FI-00101 Helsinki, Finland, e-mail: mika.gabrielsson@hse.fi.

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Abstract:

The growth phases and survival of international new ventures have not been the subject of extensive study. This paper recognizes two growth dimensions: global expansion and growth in the size of the firm. It further describes four phases that international new ventures are expected to pass through in becoming large MNCs and recognizes the differences between the born global and born international growth paths. Moreover, it develops a framework and propositions regarding the impact of the industry, resources and capabilities, entrepreneurial orientation, and lateral rigidity on the growth phases and survival of born globals. It finds that networking capability is important for both growth and survival and also discusses the theoretical and managerial implications.

1. Introduction

International new ventures have received increased attention from a number of researchers. Much of this research has focused on the early years of international new ventures (see e.g. Rennie, 1993; Knight and Cavusgil, 1996; Madsen and Servais, 1997; Chetty and Campbell-Hunt, 2004). It has, however, been limited with regards to understanding of the global growth and survival of new international ventures (Mudambi and Zahra, 2007; Sapienza et al., 2006; Gabrielsson and Kirpalani, 2004; Gabrielsson & Gabrielsson, 2009). Earlier research on the internationalization process of firms has found patterns in how companies proceed in stages towards higher foreign market involvement (Johansson & Vahlne, 1977; Luostarinen, 1979). However, it has been argued that these models are not applicable in today’s global environment and that small companies in particular often jump over stages (Oviatt & McDougall, 1994). This behavior is particularly common for firms originating from small and open economies (SMOPECs), in which globalization pressure is high but domestic markets offer limited expansion possibilities (see e.g. Luostarinen & Gabrielsson, 2006).

In management literature a number of multistage models have been proposed in which predictable patterns in the growth of organizations - including a number of stages - are assumed to exist (Kazanjian & Drazin, 1989; Greiner, 1972). The earlier models have been criticized for not taking into account the role of the industry, technology and other situational variables (Kazanjian & Drazin, 1989). It is argued that by integrating the results of earlier studies of the life cycles of organizations with the internationalization process and with research on international new ventures a better understanding of the growth phases of international new ventures may be achieved.

Research on the growth phases and survival of international new ventures has identified several influencing factors: the globalization of the environment (Yip, 1989), the age at initiation of the international new venture (Autio, Sapienza & Almeida, 2000), managerial experience and resource fungibility (Sapienza et al. 2006; Reuber & Fischer, 1999) and the extent of substantive and dynamic capabilities (Zahra, Sapienza & Davidsson, 2006), the lateral rigidity faced in decision-making (Luostarinen, 1979), and entrepreneurial orientation (Lumpkin & Dess, 1996). Many of these factors may have different effects on firm growth and survival, and these should be understood (Sapienza et al., 2006).

Hence, the research problem may be formulated as follows: “how can international new ventures grow to become truly global firms while also surviving, taking into consideration their limited resources for exploiting global market opportunities and implementing the holistic management required by the process?” To address this problem the research objective is to understand (1) the growth phases and survival of international new ventures and (2) to what extent globalization of the industry and the resources, capabilities, and entrepreneurial orientation and lateral rigidity of the firm influence the growth phases and survival.

The article first discusses the extant literature on the growth stages of firms, international new ventures, and prior research on internationalization. It develops two dimensions; these are global growth and growth in the size of the firm and then describes a theoretical framework consisting of anteceding factors and outcomes. It then states propositions that explain the influence of the variables identified in the literature on the growth and survival of the firms. The article ends with a conclusion on the theoretical contribution, the managerial implications, and suggestions for future study.

2. Literature review

2.1 Growth of firms and lifecycles

In management literature a number of authors have proposed that organizations grow in stages. These models share some common features and underlying logic where stages emerge in a well defined sequence so that the solution to a set of problems or tasks leads to a new set or problems or task that the organization must address to be able to grow (Kazanjian & Drazin, 1989). Most of these depict a model consisting of five stages. Greiner (1972) argues that growing organizations move through evolution and revolution and that five distinguishable phases of development can be identified as they mature. Each phase includes a relatively calm period that ends with a management crisis that triggers the change to the next phase. These phases are the (1) growth through creativity phase ending in a crisis of leadership, (2) the growth through direction phase ending in a crisis of autonomy, (3) the growth through delegation phase ending in a crisis of control, (4) the growth through co-ordination phase ending in a crisis of red tape, and (5) the growth through collaboration phase that may then end in a new crisis.

Churchill and Lewis (1983) have criticized earlier models for not being applicable especially to small and medium-sized companies. These companies do not always pass through all the stages; earlier models failed to understand the important early stages in a company's origin and growth. Also, annual sales is often used to measure size in earlier models, while other important underlying factors such as value added, number of locations, complexity of product line, and rate of change in product and production technology are not understood. As a solution Churchill and Lewis (1983) develop a five-stage model depicting how the firm's organizational structure evolves during growth: existence, survival, success-disengagement and success-growth, take-off and resource maturity. The phases may include a number of outcome options such as prosper/continue, adapt, sell, merge, and fail including go bankrupt. Scott and Bruce (1987) found that small companies develop from inception to the survival, growth, expansion and maturity phase; each phase faces specific management problems. They also depict how the industry stage, key issues for top management, role, style and structure, and systems/control, finance, cash flow, investment requirements and product-market develop in these phases. They have also recognized that companies may take different paths as they may grow, fold, contain or decline in respect to size as the age of the business matures (Scott & Bruce, 1987). Although the earlier models have increased our knowledge about the growth of the firms; they have failed to understand that companies do not only grow in size, but also increasingly in global direction and that they have been highly descriptive and lacked an understanding of the factors driving growth. An important finding illustrated in some earlier models is that survival is at stake in all phases and the company can fail at any point during its growth if a crisis is not managed successfully.

2.2 Growth of international new ventures

Oviatt and McDougall (1994) suggested that there are four types of new ventures: export/import start-ups, multinational traders (with a multi-domestic approach), geographically focused start-ups (with foreign operations beyond exports), and global start-ups. Of these four types, the first two have not interested researchers of new international ventures as much as the latter two. Since in the case of the first two, logistics is the primary activity coordinated across countries (Oviatt and McDougal, 1994) their survival and growth can be understood through well-documented research on exports and early internationalization (Bilkey and Tesar, 1977; Cavusgil, 1984). Of the two remaining types, global start-ups have received the most conceptual and empirical attention in the international entrepreneurship literature and they will also be the focus of this research.

Knight and Cavusgil (1996, 2004) have called them Born Globals and many others have followed suit (Madsen and Servais, 1997; Gabrielsson and Kirpalani, 2004; Chetty and Campbell-Hunt, 2004; Rialph et al., 2005). Furthermore, research has discovered new international ventures whose spread fits the definition of geographically focused start-up firms. Researchers from Europe in particular have noted that there are born regional or born international firms that internationalize rapidly within Europe, but do not globalize to other continents to any great extent (Madsen and Servais, 1997; Luostarinen and Gabrielsson, 2006; Kuivalainen, Sundqvist, and Servais, 2007).

The definitions used by international new venture researchers are revealing. Oviatt and McDougall (1994, 49) originally defined an international new venture as a “business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.” McKinsey (1993) requires 75% export intensity within two years of inception. Knight and Cavusgil (1996) find that international new ventures export at least 25% of their production with a few years of inception. The calculation of time ‘from inception’ should perhaps be changed to time from existence of a ready product rather than from the foundation of the firm due to the large variations in R&D periods in different industries. The existence of differences in the export intensity or number of countries in these definitions is understandable since the home country conditions, particularly the size of the home market, influence these criteria. However, it is important to note that few of the researchers have measured or even been concerned about the extent to which the international new venture firm grows beyond the initial export phase to become a grown-up global firm. Luostarinen and Gabrielsson (2006) have called for stricter criteria with respect to globality and have insisted that to qualify; a mature born global must have over 50% of its sales external to the home region within 15 years of foundation. Similarly, other European researchers have called for longer follow-up periods with higher foreign growth targets. We suggest that we should indeed control for both the initial speed and timing of internationalization, which largely define that the firm is an international new venture, but more importantly revisit the firm after it has reached adulthood and existed for 15 years to verify whether it is a born international or a born global. A further possibility is that it has not survived the initial growth period, which is also an important consideration.

2.3 Survival of International new ventures

As noted by Zahra (2005), we know very little about either the survival of new international ventures or what becomes of those new international ventures that are established. This is important, as we do know that new international ventures are disadvantaged with regard to two liabilities that influence their survival. First, with regard to their foreign local competitors they suffer from the liability of foreignness (Zaheer and Mosakowski, 1997) and with regard to already established firms they experience the liability of newness (Stinchcombe, 1965). Hence, it is not surprising that earlier research has recognized that accelerated internationalization involves significant risks and thus requires risk management with respect to foreign revenue exposure, country risk and entry mode commitment within the portfolio of markets entered (Shrader et al., 2000). When we consider these risks against the growth options for stage-wise internationalizing versus simultaneous expansion to regions across the world, we can understand that the survival/failure rates may vary depending on which of those growth strategies are chosen.

The born global that survives is one that seeks to operate in regions across the world and does so successfully. The firm that settles for lesser growth is either born international or traditional, depending on whether the foreign business is initiated soon after foundation or later. The survival of a new venture does not mean that it can be regarded as an overall success. We cannot classify a firm as a successful born global if it sets out to conquer the world, and then after an initial period of growth has to withdraw from all markets other than nearby ones and its home market. It has failed when the original vision and mission are compared with the actual results. Obviously there are also companies that have initially succeeded in global growth but then failed at some stage of growth and gone into bankruptcy.

2.4 International new venture growth phases and main paths

The growth and survival of international new ventures needs to be understood through two dimensions. (1) The international new venture firm grows in size and these firms can for example be divided into micro, SME, and large size based on their cumulative sales or number of employees (Coad & Hölzl, 2009; Delmar & al., 2003.) (2) Also, foreign expansion is an important growth dimension of international new venture firms (Oviatt & McDougall, 1994). This can be measured by the extent of sales originating outside of the home country i.e. the internationalization degree, the extent of sales derived outside the home continent i.e. the globalization degree, and also in regards to the increasing commitment of firm operations on foreign markets and continents (Luostarinen & Gabrielsson, 2006). There are two main paths available to the international new venture. The company can choose a born global growth strategy; it enters from inception the global markets and also rapidly pursues the global market opportunities outside the home continent. Alternatively, it may rapidly enter nearby markets, but fail to expand to other continents and thus follow a born international strategy (Kuivalainen et al. 2007). Also, other type of paths have been presented, for example born again globals that internationalize rapidly after a long domestic phase (Bell et al., 2003). However as these firms have not started to internationalize from inception they are not seen to qualify as international new ventures. Recent research has argued that born globals also develop in distinctive three phases, including introductory, growth and resource accumulation, and break-out (Gabrielsson et al., 2008). This model is helpful, but seems to lack the final phase that of a born global becoming a mature MNC. In this research the international new ventures are expected to evolve through four phases during growth towards large firms: (1) introductory, (2) commercial breakthrough and foreign growth, (3) global breakthrough and expansion, and (4) global rationalization and maturity phase. The born globals are expected to go through these phases when growing to become large MNCs, while born internationals will only reach the two first phases before growth matures. It should be noted that earlier research has found that international new ventures can face de-internationalization and re-internationalization (Nummela et al., 2009). This may happen to a certain extent, but for analytical simplicity four phases may be identified. See Figure 1.

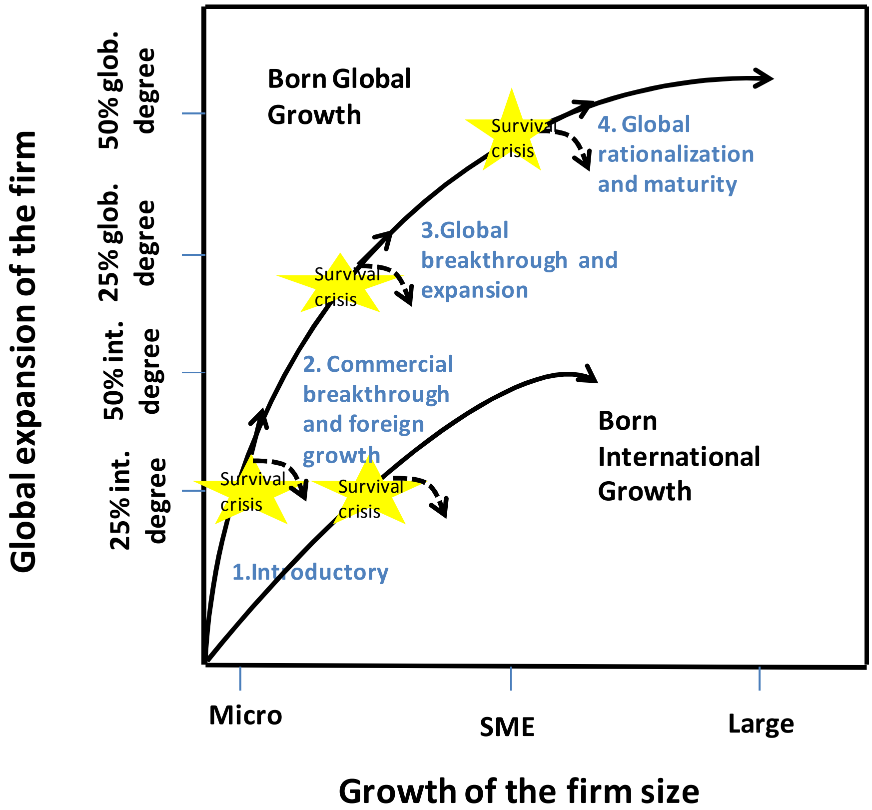

Figure 1. Phases and main paths of growth of international new ventures

(1) In the introductory phase of the international new venture the primary focus is on developing a commercially acceptable product, securing adequate financing and developing the market (Scott & Bruce, 1987). The firm may have minor sales from foreign markets, mainly by exporting. It is critical to be able to expand from pilot customers to a broader sales base and have enough money to cover the considerable cash demands of this start-up phase (Churchill & Lewis, 1983). Formality and procedures are almost non-existent and the entrepreneur is central to all functions and communications. (Kazanjian & Drazin, 1990). To be able to move to the following phase the firm needs to be able to convince the foreign markets and customers that the products and services are reliable. Finding the right

channels to enter the foreign markets is important. This often involves building networks with MNCs or finding other large channels (Gabrielsson et al., 2008). Entering the foreign markets often requires specific international business and management knowledge that the founder may lack. Founders often hate to step aside even if they are unsuited to be managers in new foreign business. A strong business manager who is acceptable to the founder and can pull the organization together is often needed. (Greiner, 1972) If the company fails in obtaining the necessary managerial expertise, resources and capabilities for a successful commercial breakthrough into the foreign market, the company's survival is seriously at risk.

(2) In the commercial breakthrough and foreign growth phase the international new venture is able to make a number of successful foreign entries to the foreign markets and sell the products in large volumes. The strategic thrust is in entering new foreign markets and leveraging economies of scale (Douglas & Craig, 1989). The firm has to be able to produce, sell and distribute the product in volume (Kazanjian & Drazin, 1990). In addition to exporting, sales subsidiaries are also established. If the firm seeks to collaborate with an MNC it may accelerate growth. However, it easily becomes dependent on the MNC (Gabrielsson et al., 2008). Although the entrepreneur often remains central to decision making, there is an increasing sense of hierarchy, functional specialization, and a move toward more professionally trained and experienced people (Kazanjian & Drazin, 1990). Often a more formal organizational structure based on functional lines is established in SMEs (Scott & Bruce, 1987). The born globals often operate in niche segments (Madsen & Servais, 1997). To be able to grow, it is also crucial to expand to other foreign continents, otherwise the firm's growth will slow and it will turn into a regionally focused international firm. In global high growth industries characterized by high competition, such firms may experience increasing problems in maintaining their competitive advantage and profitability. Securing continued financing may also become difficult. The key issues facing management are financing growth and maintaining control of operations. The organizational structure will need to change, and this will require a degree of decentralization. A more professional approach in contrast to the entrepreneurial will be

needed. (Scott & Bruce, 1987) Altogether, if the firm is not able to safeguard and manage continued growth it faces a serious crisis, in which survival is at stake.

(3) In the global breakthrough and expansion phase the born global needs to expand to countries in new continents and further penetrate those countries where a presence has already been established. Those born globals that have used an MNC as the main channel to the market need to break free of their dependency on the MNC (Gabrielsson et al., 2008) by widening their customer base. During this phase the company often also expands their product offering and marketing activities to be able to penetrate local markets further. It becomes important to achieve economies of scope and to leverage assets and core competences to foster growth (Douglas & Craig, 1989). If this effort is successful, a significant proportion of sales starts to come from outside the home continent and the firm uses a large variety of different operational modes including sales, production and R&D on several continents. In addition to professional management, a greater application of decentralized organization structure is common (Greiner, 1972; Scott & Bruce, 1987). However, this phase eventually leads to a crisis as the company increasingly faces cost inefficiencies and duplication of efforts between countries and difficulties in responding to larger global competitors (Scott & Bruce, 1987) and meeting global customer needs. These can eventually endanger the survival of the firm (Douglas & Craig, 1989).

(4) The global rationalization and maturity phase requires increasing alignment of operations and marketing to be able to reach global synergies (c.f. Douglas & Craig, 1987; Gabrielsson & Gabrielsson, 2004). Those companies that are not able to integrate their activities globally will face a disadvantage to globally operating companies and face the risk of non-survival (Yip, 1987). The proportion of total sales incurred from global sales ceases to increase, although the company may still grow in size. This phase is characterized by the use of more formal processes and systems for achieving greater co-ordination (Greiner, 1972). In this phase, the company has often become a large MNC, in which in addition to networks with other firms also has extensive internal networks. Seeking new growth opportunities through new product development or diversifications becomes interesting. See table 1.

Table 1. Description of the growth phases of an international new venture

Phase	1. Introductory	2. Commercial breakthrough and foreign growth	3. Global breakthrough and expansion	4. Global rationalization and maturity
Key strategy	Developing a commercially accepted product, securing adequate finance , developing market and receiving first sales revenues.	Making successfull foreign entries , selling the products in large volumes to reach economies of scale and managing the rapid growth.	Expansion to new continents and penetration to countries, inwhich presence have been established to leverage economies of scope.	Alignment of global operations and marketing across countries to benefit from global synergies.
Growth of the size of the firm (sales, employees)	First deals and few persons employed, still micro size.	High relative sales and employment growth. Becoming a SME size.	Positive relative sales and employment growth continues thus becoming a bigger SME firm.	The growth rate starts to slow down when reaching a large size.
Global expansion (markets, share)	Entry to first foreign markets, below 25% internationalization degree, sales in less than 6 countries	Expansion to foreign markets, 25-50% internationalization degree, sales in 6 or more countries	Expansion to new continents and penetration to existing countries, Globalization degree 25-50%. Sales in atleast three continents.	Global presence, globalization degree over 50% and sales in all major continents (triads).
Operation mode, networks and products.	Mainly exporting. Building networks and piloting with MNC or other channel members. Reaching concept proof of products.	In addition to exporting also sales subsidiaries established. Producing, selling and distributing in large volumes. Growth using MNC and foreign channels. Focussed product offering.	Large variety of foreign operation modes in use,,incl. R&D and production. Break out from MNC and establishment of own channels. Expansion of the product offering.	Alignment of operation modes, products, and channels. Search for new growth opportunities through new product development, diversification or acquisations.
Survival crisis in end of phase	Failure in obtaining needed managerial expertise, resources and capabilities needed for commercial breakthrough	Failure in safequarding the continued growth and change towards more professional management.	Failure to align activities to avoid cost inefficiences, duplication of effort, and be able to respond to competitors, and to global customer needs.	Challenges of large MNCs (not the focus of this article).

To understand what the international new ventures become when they grow-up, we need to examine the factors that influence both the survival and growth of these firms as suggested by earlier research (e.g. Sapienza et al., 2006).

3. Theoretical Framework

The theoretical framework consists of growth and survival outcomes as dependent factors and the anteceding factors for these. See Figure 2. The international new venture advances along specific growth phases, but each phase ends with a survival crisis, so the company can fail in any phase. Earlier research has recognized a number of factors important for the survival and growth of international new ventures (e.g. Mudambi and Zahra, 2007). These can be grouped into industry factors and firm factors. With regard to industry factors, industry growth (Hennart and Park, 1993; Vernon, 1966), penetration by foreign firms and seller concentration in an industry (Driffield and Munday, 1997) can be expected to significantly influence the survival of an international new venture (Mudambi and Zahra, 2007). Moreover, the extent the industry is globally integrated and global enablers are present is also expected to impact positively on global growth opportunities (Oviatt & McDougall, 1994; Shrader et al., 2000; Yip, 1989) and may also influence survival (Mudambi & Zahra, 2007).

Firm factors that are important when survival and growth are concerned include age at initiation of foreign business (Autio et al. 2000), resources consisting of managerial experience (Reuber and Fischer, 1999; Eriksson et al., 2000), resource fungibility (Sapienza et al., 2006), different types of capabilities (Teece et al., 1997), entrepreneurial orientation (Knight & Cavusgil, 2005) and the lateral rigidity of decision makers (Luostarinen, 1979). Firm size and government support are factors that have been proposed to affect survival, but only the former was supported in a recent study (see e.g. Mudambi and Zahra, 2007). The anteceding factors are not expected to influence survival and growth to the same extent. These two key outcomes have proved to be conceptually distinct, and their empirical relationship all but simple (see e.g., Sapienza et al., 2006; Delmar et al., 2003; Romanelli, 1989). Hence, there is a need for a better understanding of their relationship.

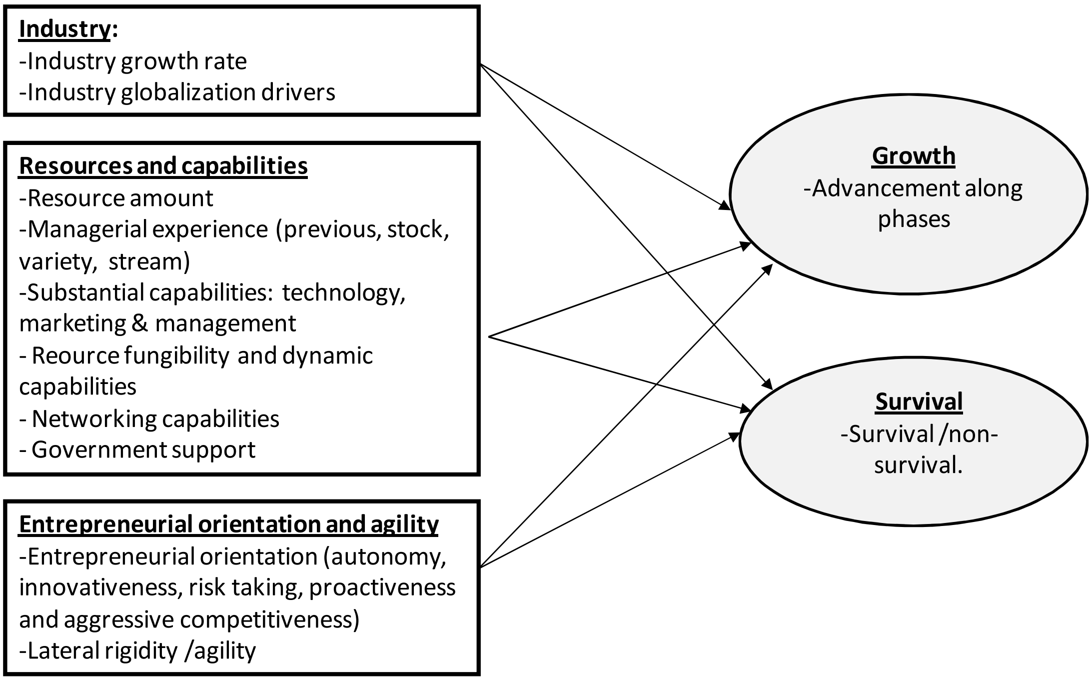

Figure 2. Framework for the growth and survival of international new ventures

3.1. Industry factors

The industry growth rate can be expected to influence international new venture growth phases and survival. The relationship with the industry growth rate and the firm growth rate has been depicted in management literature (Greiner, 1972). Also, earlier international business research has argued that the industry growth rate relate to internationalization (Vernon, 1966). Mudambi and Zahra (2007) found in question of international new ventures that industry sales growth increases the probability of survival, but higher foreign penetration by the industry reduces the probability of survival. Moreover, they argued that the higher the seller concentration the lower the odds of survival, although the results in their study were not statistically significant in this respect. Many of these survival factors can be extended to apply with equal outcomes to growth, i.e., industry sales growth increases firm growth, whereas foreign penetration and seller concentration in an industry reduce growth.

It can also be expected that the industry globalization drivers related to market, cost, government and competition affect the opportunities to grow (Yip, 1989). For example, the liberalization of all kinds of trade barriers, be they tariff or non-tariff barriers, compatible technical standards or common market regulations open up the global market for competition in many industries and thus enables existence of international new ventures. Smallness, openness and peripheral location are expected to push companies especially in small and open economies to globalize, while large size and openness of the target market is expected to pull companies to globalize (Luostarinen et al. 1994, 166-171).

3.1 Resources

The resource-based view originating from Penrose (1959) and Wernerfelt (1984) is useful when the survival and growth of international new ventures are concerned. According to the resource-based view, there is a connection between firm resources, capabilities, and competitive advantage (Grant, 1991), which inevitably enhances the opportunities for growth and success as well.

Resources can be defined as tangible and intangible assets that are tied to the firm. At the time of their founding, international new ventures usually do not have as many resources as established firms (c.f. Chatterjee and Wernerfelt 1991) such as (A) physical resources consisting of plants and equipment, (B) financial resources, or (C) intangible assets such as brands, although they may have some innovative human resources. A crucial resource for an international new venture is the managerial experience that the entrepreneur (Madsen and Servais, 1997) and the founding team have brought along with them (Laanti et al., 2007).

Research on resources has typically focused on the impact of resource abundance on survival and growth, the criterion of valuable resources, and the role of managerial experience. Research on the impact of resource abundance on growth and survival is, however, divided. Most researchers usually argue that an abundance of resources is necessary for survival and growth (Hannan, 1998; Laanti et al., 2007), although some assert that they can also cause problems (Sapienza et al, 2006). According to the resource-based approach the resources must meet four conditions. They must be useful in exploiting opportunities or neutralizing threats, they must be rare among the firm's current and potential competition, they must be imperfectly imitable, and they cannot be replaced by another resource (Barney 1991). However, in the often volatile environment of international new ventures, no resource can be valuable for a longer period unless it is constantly enhanced and deployed in the most efficient way (c.f. Hannan, 1998). Accordingly, Sapienza et al. (2006) assert that resource fungibility, the extent to which resources may be deployed for alternative uses at low cost, is more important. According to them, this is important because the ability to shift resources among alternate uses in foreign markets (1) increases the adaptability of international new venture strategies and reduces the cost of failed trial attempts and (2) provides the flexibility to create new capabilities with existing resources.

When turning attention to the role of managerial experience in international growth and success, it is important to distinguish between stock, variety and stream. Reuber and Fischer (1999) emphasize that when the impact on success of the founder's previous experience is studied it is important to distinguish between the stock and stream of the experience. According to them, the former refers to the experience that the founder or manager has when entering the firm and the latter to the subsequent routine or non-routine learning that takes place and which benefits the firm. In addition, it is important to consider the breath and depth of the experience, or in other words its variety. At this point it is important to recognize that knowledge can be extendable across markets (c.f. Luostarinen, 1979), that is, what Eriksson et al. (2000) call internationalization knowledge, or knowledge specific to the target market, which they call business or institutional knowledge.

3.2 Firm capabilities

In the international new venture firms, the capability to have a critical effect on performance has been noted (Knight and Cavusgil, 2004). The difference between resources and capabilities is that capabilities aim at deploying and co-ordinating different resources (Verona, 1999). Barney (1991) emphasizes that a firm must have capabilities to obtain a sustained competitive advantage by implementing strategies that utilize their internal strengths by responding to environmental opportunities, while at the same time neutralizing external threats and avoiding internal weaknesses. Capabilities can be of a substantive or dynamic nature. We follow Winter (2003) and Zahra et al. (2006) in distinguishing between substantive and dynamic capabilities. Substantive capability refers to sets of abilities that enable solving a problem or achieving an outcome, whereas dynamic capabilities refer to a higher-level ability to change or reconfigure existing substantive capabilities.

Based on the above, we regard as substantive capabilities: (A) technological capabilities, for example, R&D, manufacturing, design, technological knowledge, architecture knowledge, and aesthetics knowledge, (B) marketing capabilities, for example, market research, strategic marketing management, marketing mix policies, product launch knowledge, (C) management capabilities, for example managerial and leadership skills (Verona, 1999). In contrast, dynamic capabilities (See e.g. Teece et al. 1997; Teece 1998) can be seen as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. (Teece et al. 1997) Hence, this involves the ability to change or reconfigure existing substantive capabilities (Zahra et al., 2006).

On top of the substantive and dynamic capabilities a third capability type is essential for born globals, i.e. networking capability. Since the born global start-up suffers from resource limitations compared with the necessity of reach world markets (Oviatt and McDougall, 1994), it has been found that it must often network with larger established firms (Gabrielsson and Kirpalani, 2004). By interacting with international network actors and developing relationships, they can exploit and enhance their own resources and gain the benefits of those of others (Ford et al, 1998, p. 46; Cook & Emerson, 1978). Hence, born globals can globalize their activities by using their activity links, resource ties, and actor bonds (see also Håkanson & Snehota, 1995, p. 26). However, this is not possible without networking capability (Mort and Weerawardena, 2006).

3.3 Entrepreneurial orientation and lateral rigidity in decision-making

It can be expected that the survival and growth of an international new venture is closely related to the entrepreneurial orientation of the firm (Knight & Cavusgil, 2005) and outcomes of firm’s lateral rigid decision-making (Luostarinen, 1979). Entrepreneurial orientation refers to the processes, practices, and decision-making activities in new ventures and key factors that characterize an entrepreneurial orientation include autonomy, risk taking, innovativeness, aggressiveness towards competitors and proactiveness (Lumpkin & Dess, 1996). Thus this concept relates closely to the earlier lateral rigid decision making concept that has been proposed as an explanation for the internationalization behavior of firms (Luostarinen, 1979).

The stage-wise internationalization model (Johanson and Vahlne, 1977; Luostarinen, 1979) builds on the behavioral theory of the firm (Cyert and March 1963), which describes the firm’s decision-making as having a number of conflicting goals, being short-term oriented, seeking simple-minded decisions, and involving learning. A central characteristic of the company’s decision-making is lateral rigidity, meaning that companies try to stick to their plans; even when faced with an impulse or shock they make only small changes in their behavior (Vaivio 1963). Luostarinen (1979, 35) argues that the internationalization of firms is especially characterized by a laterally rigid decision process, in which companies are rigid in a lateral direction towards new alternatives, but are elastic forwards, towards known alternatives (see also, Tan et al., 2007). In other words, the lateral rigidity enhances the probability of the survival of the firm by suggesting a risk-cautious path but at the same time eventually decreases growth on the global market.

The results of studies investigating entrepreneurial orientation in international new venture context have been mixed. Kuivalainen et al. (2007) studied the propensity of entrepreneurial orientation and concluded that a higher level of entrepreneurial orientation in truly born global compared to born international companies received support only what comes to competitive aggressiveness. Knight & Cavusgil (2005), however, found in their study that superior international business performance in international new ventures was driven by entrepreneurial orientation.

How then do international new ventures grow rapidly and also survive? Autio et al. (2000) argue that firms that are relatively young when they internationalize benefit from the learning advantages of newness, which is due to the fact that they adopt more novel approaches to internationalization. These young firms have fewer routines and simpler decision-making, and their propensity to seek opportunities and new information is also higher. However, according to Autio et al. (2000), these qualities decrease with age and the incentive and ability to pursue growth outside home markets decreases the longer the firm waits to internationalize. This behavior is compatible with the laterally rigid decision-making described earlier for established firms if the age of the international new ventures is seen to moderate lateral rigidity. Innovative international new venture entrepreneurs may be less rigid and more entrepreneurially oriented and also posit previous experience that lowers the lateral rigidity that would otherwise prevail. Hence, the younger the firm is at first international entry, the more entrepreneurial its orientation and the lesser the lateral rigidity in its decision-making. Thus the probability of growth is higher, although the risk of non survival may also increase.

4. Propositions development

4.1 International new venture growth

The resource-based view (Penrose, 1959; Wernerfeldt, 1984; Barney 1991) guides us to suggest that resources play a critical role in the growth of international new ventures. Since these firms often suffer from resource limitations (Oviatt and McDougall, 1994), amount of resources (Hannan, 1998), resource fungibility (Sapienza et al., 2006) and managerial experience in terms of stock, stream (Reuber and Fischer, 1999) and variety (Eriksson et al., 2000) become central. Resources do not, however, provide growth for the international new venture firm if it does not possess capabilities for deploying and co-coordinating the different resources (Verona, 1999). Based on earlier research, it may be asserted that long-term growth can be achieved only if these capabilities are of a substantive (technology, marketing, management) and dynamic nature (c.f. Zahra et al., 2006). However, the entrepreneurial orientation should be high (Knight & Cavusgil, 2005) and founders and management should be experienced enough so that the firm does not suffer from lateral rigidity in decision-making (Luostarinen, 1979), which may limit the search for growth alternatives and steer the firm towards known alternatives. Also, if they internationalize early on they may benefit from the learning advantage of newness, through simpler decision-making, good information flow and novel approaches to internationalization. Finally, industries with a high growth rate and a higher level of globalization drivers are expected to offer greater growth opportunities for international new ventures (Oviatt & McDougall, 1994). These industry and firm factors are expected to be essential drivers in reaching the commercial breakthrough (phase 2) and global breakthrough (phase 3) depicted in the growth phases described earlier. Moreover, these are also expected to drive the start of global rationalization (phase 4), but in reverse manner. When industry growth slows down the need for firms to rationalize their activities globally is enhanced. Moreover, global rationalization is also driven by the increasing needs for resource alignment (Craig & Douglas, 1989) and greater global seller concentration (Driffield and Munday, 1997). Hence, the following may be postulated:

Proposition 1a: The commercial and global breakthrough of an international new venture is positively related to the industry growth rate, the globalizing enablers in the industry, the amount of resources and managerial experience, the existence of substantive and dynamic capabilities, and a high level of entrepreneurial orientation in decision-making.

Proposition 1b: The global rationalization of an international new venture is positively related to higher global seller concentration in industry, pressure for resource alignment, and a low level of both industry growth rate and entrepreneurial orientation in decision-making.

4.2 International new venture survival

When an international new venture enters foreign markets it needs to create routines and to adapt to them (Sapienza et al., 2006); this requires substantial investment (Zott, 2003). These investments can be expected to be particularly high for international new ventures due to the liability of foreignness (Zaheer and Mosakowski, 1997) and the liability of newness (Stinchcombe, 1965). Hence, Sapienza et al. (2006) propose with respect to international new ventures that internationalization decreases survival following international market entry. Resources and capabilities play a central role. For instance, in the short term, international new ventures can secure their survival if they have adequate capabilities to for instance obtain financing such as venture capital (Gabrielsson et al., 2004) or other endowments from for example founders (Hannan, 1989) or government (Mudambi & Zahra, 2007). In the longer term, however, the accelerated internationalization involves significant risks (Shrader et al., 2000). This is particularly what the stage-wise internationalization model (Johanson and Vahlne, 1977; Luostarinen, 1979) told us. It is less risky to advance following the stages model than to jump over stages. We also assert that in the case of international new ventures, the lower the entrepreneurial orientation (Lumpkin & Dess, 1996) and the more lateral rigidity (Luostarinen, 1979) there is in decision-making the higher the probability of survival. The changes in decision-making that come with aging noted by Autio (Autio et al., 2000) would here indicate that lateral rigidity may increase as a firm ages and thus international new ventures face the greatest risk of failure in their initial internationalization efforts (Scott & Bruce, 1987). Also, it has been found that the industry growth rate increases the survival of international new ventures (Mudambi & Zahra, 2007). Hence, we propose the following

Proposition 2: The survival of an international new venture's is positively related to the industry growth rate, the amount of resources and managerial experience, the existence of substantive and dynamic capabilities, and the lower level of entrepreneurial orientation.

4.3 International new venture survival and growth

Under what conditions do international new ventures have the highest probability of both rapid growth and survival. From proposition 1 and 2 it seems that this may be difficult since growth and survival call for a different type of decision-making. The existence of lateral rigidity (Luostarinen, 1979) improves the odds of survival but restricts growth, and vice versa. Based on earlier research, the capabilities of the firm play a central role, and particularly the networking capabilities (Mort and Weerawardena, 2006). Networks increase the growth rate of international new ventures by helping them to identify international opportunities and establish credibility that often lead to strategic alliances and other co-operative strategies (Oviatt and McDougall, 2005). Furthermore, international new ventures can globalize their activities without making large investments and facing unnecessary risk by using their activity links, resource ties, and actor bonds (see also Håkanson & Snehota, 1995, p. 26). Hence, the capability to network and exploit and enhance their own resources is crucial (Ford et al, 1998, p. 46; Cook & Emerson, 1978; Gabrielsson and Kirpalani, 2004) if born globals are to gain the benefits of established players and hence grow successfully. Networking has been found to be important for international new ventures in different development phases (Zhou et al., 2007; Laanti et. al. 2007; Gabrielsson & Gabrielsson, 2003), but also to larger MNCs where in addition to external also networks within the firm becomes important (Andersson et al., 2007). Hence, we postulate the following.

Proposition 3: The commercial breakthrough, global breakthrough, global rationalization, and survival of an international new venture are positively related to high networking capabilities.

7. Conclusion

The novelty of this study is its examination of the growth phases and survival of international new ventures, taking both the international business literature and management literature into account. Hence, the article contributes to the new research stream interested in the survival and growth of international new ventures (Sapienza et al. 2006; Mudambi & Zahra, 2007) and earlier management literature discussing the stages of growth of organizations (Kazanjian & Drazin, 1989; Greiner, 1972). The study depicts four critical phases in international new venture growth: (1) introductory, (2) commercial breakthrough and foreign growth, (3) global breakthrough and expansion, and (4) global rationalization and maturity.

In addition to depicting the growth phases of international new ventures, the study postulates propositions regarding the relationship between the antecedents and the growth phases and survival, which can be seen as an important contribution. The research suggests that the development cannot be explained by relying only on the age at internationalization (Autio et al., 2000), managerial experience and resource fungibility (Sapienza et al., 2006), the extent of substantive and dynamic capabilities and industry conditions (Zahra et al., 2006). A fourth construct becomes important, the entrepreneurial orientation (Knight & Cavusgil, 2005) and extent of lateral rigidity in the decision-making (Luostarinen, 1979) of these firms. The article suggests that in order to decrease globalization-related investment and the risk of failure it is necessary for born globals to leverage the resources of network actors (Ford et al, 1998, p. 46; Cook & Emerson, 1978; Gabrielsson and Kirpalani, 2004). Although network capabilities are found to be important, they do not eliminate the need to develop substantial capabilities with regards to customer understanding and marketing.

Managers can also learn from the results of this study. They need to assess their environment, resources, capabilities and nature of decision-making and select a growth strategy that will generate optimal growth, but also take the risk of non survival into account. Moreover, active development of networks may facilitate growth and increase the odds of survival. There are many interesting avenues for future study. It would be interesting to study the growth phases of international new ventures in various industries and examine how well the model describes the growth stages of these companies and the survival crisis they face. What are the critical points that governmental support should address to support these firms more effectively? A comparison of international new ventures from different countries could give further information on the evolution of international new ventures and factors impacting on successful development. Research could also embark on a more detailed examination on marketing strategies and networking opportunities that could accelerate international new venture growth and survival through the different growth phases.

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