GLOBAL GROWTH AND PERFORMANCE OF INTERNATIONAL NEW VENTURES: GLOBAL ENVIRONMENT, RESOURCES, CAPABILITIES, AND ENTREPERENEURIAL ORIENTATION

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Research on International New Ventures (INV) has dealt with their early internationalization and the factors explaining their birth. The concept of growth speed, however, has been examined in the extant literature from a limited perspective. Although the effect of age at entry has been identified as an important factor influencing international sales growth, there has been virtually no research on post-entry growth. Furthermore, research has been limited to international sales growth, whereas a more multidimensional perspective would call for inclusion of firm growth with regard to globality, product diversity, and extent of co-ordination of value chain activities. Moreover, the performance implication of global growth has received limited attention. The article develops a framework and hypotheses on global growth and its speed based on international entrepreneurship and management research.

Keywords: International new ventures, growth, globalization speed, global environment, resources, capabilities, entrepreneurial orientation

1. INTRODUCTION

For quite some time there has been research on firms that internationalize early on and globalize rapidly. Rennie (1993) noted that a sizable proportion of Australian firms internationalized within their first two to three years of existence. This was followed by similar research findings across the world in the US (Oviatt & McDougall, 1994; Knight & Cavusgil, 1996), in Europe (Madsen & Servais, 1997; Gabrielsson & Kirpalani, 2004), and in Asia, e.g. and New Zealand (Chetty & Campbell-Hunt, 2004). The research has, however, been limited with regard to examination of global growth and its speed.

Although the effect of age at entry on international sales growth has been investigated to some extent (Autio et al., 2000), research on post-entry international sales growth has been less frequent. The few exceptions include Jones & Coviello (2005) and Morgan-Thomas & Jones (2009). A more holistic approach with regard to modeling the speed of internationalization was recently introduced by Oviatt & McDougall (2005), who postulate that initial entry, country scope, and commitment should be considered. Surprisingly, they do not stress the importance of global diversity (Preece et al., 1998), despite that they originally postulated that international new ventures can be either geographically focused or global start-ups (Oviatt and McDougal, 1994). Moreover, research has not yet incorporated the extent of value chain co-ordination, which has been examined in global strategies (Porter, 1986) and also raised as an important aspect in the context of international new ventures (Oviatt and McDougal, 1994). Product diversification is also an important growth dimension based on earlier literature (Geringer et al., 2000). More importantly, the performance implications of the global growth of international new ventures and antecedents warrant further research (Zahra et al., 2000; Zhou et al, 2010). Hence, this article sets out to (1) elaborate on the concept of global growth and speed, (2) to examine the influencing factors, and (3) to postulate performance implications.

Following Oviatt and McDougall (1994, 49), international new ventures are defined in this research 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.” The article first discusses the extant literature on the growth of international new ventures and develops the concept of global growth. A theoretical framework and hypotheses consisting of anteceding factors and outcomes are then developed. The article ends with a conclusion on the theoretical contribution, the managerial implications, and suggestions for future study. The importance of understanding the influence of entrepreneurial orientation (Covin & Slevin, 1991; Lumbkin & Dess, 1996), resources and capabilities (Barney, 1991; Wernerfelt, 1984), and global environment (Yip, 1989) on global growth and its speed is emphasized and the implications for performance are considered.

2. LITERATURE REVIEW

2.1 Growth of International New Ventures

Compared with established firms (Oviatt & McDougall, 1994), the growth of international new ventures is inhibited by their young age, by the liability of foreignness compared with foreign local competitors (Zaheer & Mosakowski, 1997), and by the liability of newness with regards to incumbents (Stinchcome, 1965). 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 logistics coordinated across countries is the primary activity in the case of the first two, (Oviatt and McDougal, 1994) their growth has already been investigated in research on exports and early internationalization behavior (Bilkey and Tesar, 1977; Cavusgil, 1984). Of the two remaining types, global start-ups have received the most conceptual and empirical attention in international entrepreneurship literature. 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; Rialp 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 & Servais, 1997; Luostarinen & Gabrielsson, 2006; Kuivalainen, Sundqvist, & Servais, 2007). However, it is important to note that few of the researchers have measured or even been concerned about the extent to which an 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 a mature born global must have considerable 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. Nevertheless, categorizing of firms into different types of international new ventures is quite arbitrary and it may be more fruitful to investigate the global growth dimensions of international new ventures more closely.

When examining international new venture growth it is important to consider four aspects of its growth posture. First, one should understand the intensity and commitment to international markets (Preece et al., 1998; Oviatt & McDougall, 2005). This is normally measured as the contribution of foreign sales to total sales (Knight & Cavusgil, 1996), number of foreign countries (Brouthers et al., 2009) and increased commitment in terms of operation modes (Johanson & Vahlne, 1977; Luostarinen, 1979). Secondly it is important to consider the extent to which the venture has expanded to different continents, in other words the amount of global diversification of the firm (Gabrielsson & Gabrielsson, 2010; Preece et al., 1998) and global market participation (Zou & Cavusgil, 2002). Thirdly, one should understand the degree of product diversification (Geringer et al., 2000). International new ventures may select a narrow or broad product range (McDougall et al., 1994). Fourthly, one should understand the extent to which the firms coordinate their value chain activities globally (Porter, 1986; Oviatt & McDougal, 1994). It has been noticed that when firms reach a global phase they start to rationalize their activities on a global level (Douglas & Craig, 1989). Moreover, Oviatt & McDougall (2005) have recently called for understanding the speed of internationalization of international new ventures. They have conceptualized the internationalization speed to include age at initial entry, speed of achievement of country scope, and the rate of increase in the percentage of foreign revenue. This concept should be extended to cover the global growth speed of the venture. Hence, we define global growth speed to include the speed over time (e.g. average annual growth rate for last 3 years) at which international intensity (e.g. number of foreign countries), global diversity (e.g. number of regions), and product offering (e.g. number of products) have been growing annually. To understand how international new ventures grow, we need to examine the factors that influence global growth dimensions more closely.

3. THEORETICAL FRAMEWORK

The theoretical framework depicts the global growth dimensions of international new ventures and the explanatory factors for these dimensions. Also, the anticipated relationships with performance are depicted. The global growth dimensions consist of the international intensity (Knight & Cavusgil, 1996), global diversification (Preece et al., 1998), product diversification (McDougall et al., 1994), value chain co-ordination (Oviatt & McDougall, 1994), and global growth speed (Oviatt & McDougall, 2005). See Figure 1. Earlier research has recognized a number of factors important for international new venture growth (Oviatt & McDougall, 1994; Sapienza et al., 2006). These can be grouped into industry factors and firm factors. With regard to industry factors, industry growth (Fernhaber et al., 2007; McDougall et al., 1994; Vernon, 1966), penetration by foreign firms and seller concentration in an industry (Driffield and Munday, 1997; Fernhabel et al., 2007) can be expected to significantly influence the growth of an international new venture. Moreover, the extent to which the industry is globally integrated and of the presence of global enablers is also expected to impact positively on global growth opportunities (Oviatt & McDougall, 1994; Shrader et al., 2000; Yip, 1989). Firm factors that are important for growth include resources and substantial capabilities (Zahra et al., 2006; Eriksson et al., 2000), dynamic capabilities (Teece et al., 1997), and entrepreneurial orientation (Knight & Cavusgil, 2005). It has been proposed that firm size, age, and government support are also factors that affect growth (see e.g. Preeze et al., 1998). We expect that size, age of venture, and age at initiation of foreign business will moderate the influence of international orientation on venture growth (Preeze et al., 1998; Autio et al., 2000). Moreover, earlier research has asserted that growth influences international new venture performance (McDougall & Oviatt, 1996; Zahra et al., 2000). Also, dynamic capabilities and international entrepreneurial orientation are expected to have direct implications for performance (Zhou et al., 2010). It has been argued that both strategic and financial performance should be examined. Although financial performance is the ultimate objective, strategic performance is an important intermediary gauge that can lead to improved financial performance (Cavusgil & Zou, 1994).

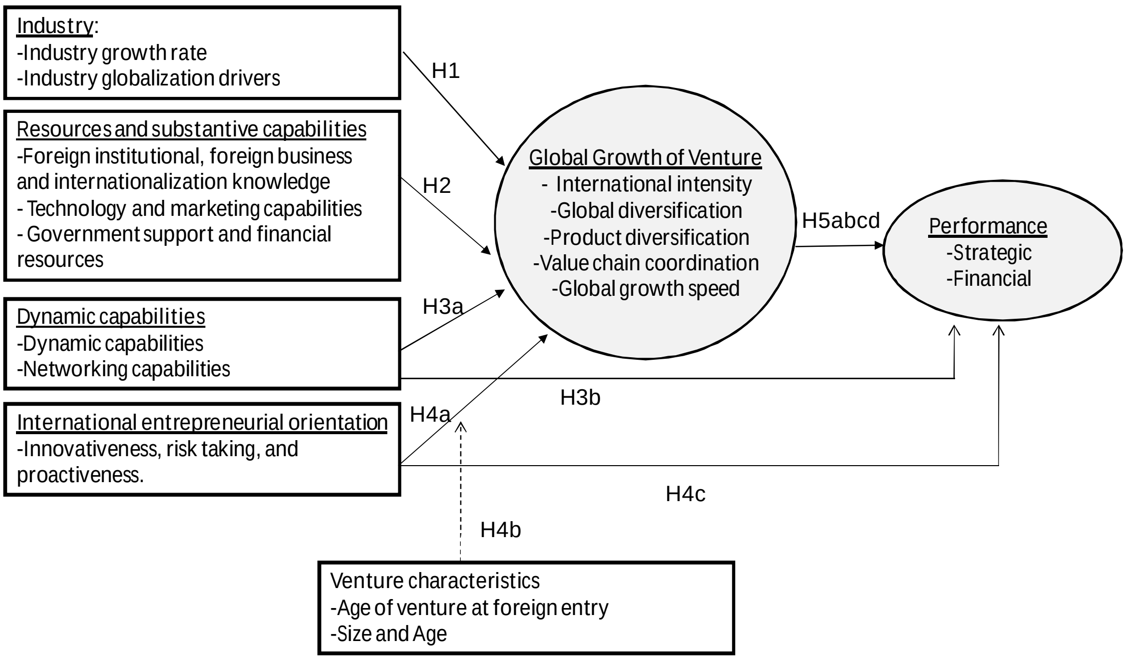

Figure 1. Framework for the global growth and performance of international new ventures

3.1. Industry factors

The industry growth rate can be expected to influence international new venture growth. The relationship between 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 relates to internationalization (Vernon, 1966). It has been found that new ventures in higher growth industries or in a growth stage of an industry will have higher firm growth rates than those in lower growth industries or mature or emerging industries (Fernhaber et al., 2007; McDougall, et al., 1994; Oviatt & McDougall, 2005).

It can also be expected that the industry globalization drivers related to market, cost, government, and competition affect opportunities to grow (Yip, 1989). For example, the liberalization of all kinds of trade barriers, whether tariff or non-tariff, compatible technical standards or common market regulations open up the global market for competition in many industries. Especially in small and open economies, smallness, openness and peripheral location are expected to push companies to globalize, while the largeness and openness of the target market are expected to pull companies to globalize (Luostarinen et al., 1994, p. 166-171). In the international new venture context it has also been asserted that the greater the global integration of an industry the more likely it is that new ventures will internationalize (Fernhaber et al., 2007). A recent study found that firms respond to increased competition from abroad in their core business by reducing the diversity of their business portfolio and focusing strategically (Bowen & Wiersema, 2005). Thus, we postulate as follows:

H1. The greater the industry growth rate and the globalization drivers, the higher are the international intensity, global diversification, product focus, value chain co-ordination and global growth speed of the international new venture.

3.2 Resources and capabilities

The resource-based view (Penrose, 1959; Wernerfeldt, 1984; Barney, 1991) suggests that resources play a critical role in the growth of international new ventures. Since these firms often suffer from resource limitations (Oviatt & McDougall, 1994) and resource fungibility (Sapienza et al., 2006). Managerial experience in terms of stock of previous experience, stream of new experience (Reuber & Fischer, 1999) and variety in experience (Eriksson et al., 2000) become central. Resources do not, however, provide growth for the international new ventures unless they posit capabilities for deploying and co-coordinating them (Verona 1999). Previous research suggests that long-term growth can be achieved only if these capabilities are of a substantive and dynamic nature (c.f. Zahra et al., 2006). 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 (Winter, 2003; Zahra et al., 2006). Based on the above, we regard the following as substantive capabilities: (A) technological capabilities, for example, R&D, manufacturing, design, technological knowledge, architectural knowledge, and aesthetic knowledge, and (B) marketing capabilities, for example, market research, strategic marketing management, marketing mix policies, product launch knowledge (Verona, 1999). In contrast, dynamic capabilities (See e.g. Teece et al., 1997; Teece, 1998) could include 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).

We begin our discussion of resources and substantive capabilities with the role of knowledge and learning. The internationalization process school has taught us that learning and knowledge are essential ingredients for increasing foreign market commitment (Johanson & Vahlne, 1977). It has been found that it is especially important to assess knowledge of foreign institutions and foreign business and internationalization (Ericsson et al., 1997) in the international new venture context (Zhou et al., 2010). Moreover, earlier studies (Tseng et al., 2007) have shown that technological and marketing capabilities influence the growth of multi-nationality. Also, financial resources, especially internally generated ones (Tseng et al., 2007), and government assistance (Preece et al., 1989) are expected to have a positive influence on the growth of the firm. Earlier literature points out that international firms often select between either market diversification or market concentration strategies. In the former the target is to achieve high sales in many markets with low commitment of resources and in the latter the firm aims at a relatively high level of resource input for each of the few markets it targets (Ayal & Zif, 1979). It seems that there is a tradeoff between whether to diversify in markets or products within the constraints of a firm's current pool of available resources (Penrose, 1959; Mishina et al., 2004). We postulate as follows:

H2. The greater the amount of resources and substantive capabilities, the higher are the international intensity, global diversity, product diversity, value chain co-ordination and global growth speed of an international new venture in the short term.

Barney (1991) emphasizes that a firm must have the ability to obtain a sustained competitive advantage by implementing strategies that utilize internal strengths by responding to environmental opportunities, while at the same time neutralizing external threats and avoiding internal weaknesses. On the other hand, 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 capabilities (Zahra et al., 2006). Apart from the dynamic capabilities, a particular capability type is essential for born globals, i.e. networking. Since the born global start-up suffers from resource limitations compared with the necessity of reaching 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 benefit from 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; Laanti et al., 2007). However, this is not possible without networking capability (Mårt and Weerawardena, 2006). We can therefore conclude that dynamic capabilities and networking capabilities will have a positive effect on the global growth of the venture. Moreover, we expect in line with earlier research that dynamic capabilities (Wu, 2007; Tang & Liou, 2010), networking capabilities (Zhou et al., 2010), and sustainability of resources (Barney, 1991) will also have a direct impact on performance. Especially those resources that are valuable, rare, imperfectly imitable and non-substitutable are proving bases for sustainable capabilities (Barney, 1991). Based on the discussion we propose the following:

H3a. The greater the dynamic, networking, and sustainable capabilities, the higher are the international intensity, global diversity, value chain co-ordination, and global growth speed of an international new venture in the long term.

H3b. The greater the dynamic, networking, and sustainable capabilities the better is the strategic and financial performance of an international new venture.

3.3 International entrepreneurial orientation

It can be expected that the growth of an international new venture is closely related to the entrepreneurial orientation of the firm (Knight & Cavusgil, 2005). Entrepreneurial orientation refers to the processes, practices, and decision-making activities in new ventures. Key factors that characterize an entrepreneurial orientation include autonomy, risk-taking, innovativeness, aggressiveness towards competitors, and proactiveness (Lumpkin & Dess, 1996). Most of the research investigating international new ventures has focused on international proactiveness, risk-taking, and innovativeness (Zhou et al., 2010). International entrepreneurial orientation also relates closely to the concept of laterally rigid decision-making that has been proposed as an explanation for the internationalization behavior of firms (Luostarinen, 1979). Companies are rigid in a lateral direction towards new alternatives, but are elastic forwards, towards known alternatives (see also, Tan et al., 2007). The results of studies investigating entrepreneurial orientation in the international new venture context have been mixed. Kuivalainen et al., (2007) studied the propensity for entrepreneurial orientation and concluded that a higher level of entrepreneurial orientation in truly born global than in born international companies received support only with respect 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. Moreover, Autio et al. (2000) argue that firms which are relatively young when they internationalize benefit from the learning advantages of newness because 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. Hence, entrepreneurial orientation may be lower for firms that have initiated their foreign market entry later than for firms that have internationalized at a young age. Although international new ventures are expected to be international from their inception it is arguably far more demanding to expand to a large number or regions than to a few foreign countries. It is therefore believed that high global diversity requires increased organizational size and age while international intensity may be achieved at an early stage of development (Preece et al., 1998). Furthermore, we expect that there exists a direct relationship between international entrepreneurial orientation and firm performance (Jantunen et al., 2008; Zhou et al., 2010).

H4a. The greater the international entrepreneurial orientation, the higher are the international intensity, global diversity, value chain co-ordination, and global growth speed of an international new venture.

H4b. The above relationship is moderated so that the younger the firm is at first international entry the higher the international intensity, whereas the older the firm the higher the global diversity.

H4c. The greater the international entrepreneurial orientation, the higher is the strategic and financial performance.

3.4 Strategic and financial performance

The global growth of a venture is expected to influence its performance (see Brouthers et al., 2009; Hitt et al., 1994). Earlier research suggests that as firms expand into new foreign markets they can leverage their skills and products over a broader array of markets and thus increase their growth and profitability (Geringer et al., 1989; Zahra et al., 2000). However, some earlier studies have postulated that the relationship between international diversification and firm performance is nonlinear; the slope is positive in the beginning, but there is a threshold where it may become negative with a high degree of internationalization (Aulakh, Kotabe & Teegen, 2000; Geringer et al., 1989; Hitt et al., 1994). A study of regional diversification by US firms had similar findings. Regional diversification enhances firm performance linearly up to a certain threshold, and then its impact becomes negative (Qian et al., 2008). A recent study focusing on the export performance of small firms from Greece and the Caribbean countries found that emphasizing international sales while restricting sales to a few countries results in superior perceived performance (Brouthers et al., 2009). Consequently, the following hypothesis can be postulated:

H5a. The higher the international intensity and the lower the global diversity, the higher is the strategic and financial performance.

A large body of research has investigated product diversification in the corporate context and the findings have been contradictory (Geringer at al., 2000; Tallman & Li, 1996). Findings from US firms reveal a quadric relationship between product diversity and firm performance (Tallman & Li, 1996). According to this research, the firms’ performance increases as the product diversity increases, but after a certain point it begins to decrease with further diversity. The results thus support the finding that related diversification is superior. However, international new ventures normally operate in only one business and hence the literature on business portfolio diversification is only partly applicable. However, the born globals literature in particular has emphasized the importance for achieving success of having a relatively narrow offering (see also Knight, 1997, p. 28-29;

Knight & Cavusgil, 2005; Madsen & Servais, 1997). Nevertheless, in high growth industries studies have found that international new ventures achieve higher sales growth when pursuing breadth compared with more focused strategies (McDougall et al., 1994). Despite somewhat mixed results in earlier research, it may be expected that product focus in international new ventures affects performance positively. This research postulates the following hypothesis:

H5b: The lower the product diversity, the higher is the strategic and financial performance.

Interaction between product and global diversification has received little attention in previous literature investigating firm performance (Tallman & Li, 1996). However, Penrose (1959) asserted that the firm needs to decide whether to diversify markets or products within the constraints of its current pool of available resources. Studies investigating global strategies have found a positive linkage between global strategy and performance (Delios & Beamish, 2005; Johansson & Yip, 1994). The successful implementation of global strategies depends on the ability to derive globalization-related benefits from the use of global strategy (Yip, 1989). In line with the resource-based view, we assert that the firm may achieve high performance by either diversifying globally to a number of continents with a low product diversification or alternatively by diversifying its product offering, but selecting a low level of global diversification. Thus, we assert the following:

H5c: Global diversity and product diversity interact so that the highest strategic and financial performance is achieved when only one of them is high.

Strategic performance assesses global market share, competitiveness, strategic position, and leadership position relative to major rivals while financial performance assesses global cost position, sales, profitability, and return on investment relative to major rivals (Zou & Cavusgil, 2002). The global growth speed (Oviatt & McDougall, 2005) is expected to relate positively with strategic performance while negatively with financial performance. Thus, we postulate as follows:

H5d: The higher the global growth speed, the higher is the strategic performance and the lower the financial performance.

5. CONCLUSIONS

Born global research has focused extensively on the early phases of international new ventures (Oviatt & McDougall 1994; Autio et al., 2000). This article deals with the post-entry sales growth of international new ventures and its speed of development and thereby addresses a research area that is both important and seldom investigated (Oviatt & McDougall, 2005; Morgan-Thomas & Jones, 2009). It contributes by developing a conceptual framework and hypotheses that explain the global growth dimensions and major explanatory factors influencing this development. Moreover, the implications for performance are examined. The relationships between the variables were found to be complex and hence empirical verification is called for. For managers it is crucial that international new ventures not only grow rapidly, but also achieve high strategic and financial performance.

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