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FACTORS DETERMINING EARLY INTERNATIONALIZATION OF ENTREPRENEURIAL SMES: THEORETICAL APPROACH

JEL classification: F23, M16, L26

Abstract

The management literature has recently given the increased attention to the topic of entrepreneurial activity and internationalization of small and medium sized enterprises. The rapid internationalization of SMEs activities since their establishment becomes one of the features of international new ventures. This paper presents different factors, which determine early internationalization of international new ventures. These factors are divided to entrepreneurial, organizational and contextual factors. We argue that early internationalization of international new ventures is defined by entrepreneurial characteristics and previous experience of the entrepreneur, opportunities recognition and exploitation, risk tolerance, specific of the organization, involvement into networks and contextual factors. This paper conceptualizes a framework which links different factors. Benefits of early internationalization are provided too. The conceptual framework is built on the analysis and synthesis of scientific literature. Based on theoretical results further research directions are presented.

Key words: early internationalization, international new ventures, entrepreneurial, organizational and contextual factors.

1. INTRODUCTION

More than 95% of businesses in OECD zone are small and medium-sized (SME) enterprises (OECD, 2005). Their role is constantly growing. The growth and survival often depends on international expansion. The rapid development of globalization, increased competition among enterprises and changes of business environment is encouraging these companies to internationalize their activities from the very beginning or after a short period of time since its establishment. They rapidly internationalize disregarding higher risk, lack of resources, increased responsibilities and commitments. Such companies are known as international new ventures. These companies are characterized as having innovative, proactive and risk-accepting behavior, and are known as international new ventures (Acedo and Jones, 2007, Mathews and Zander, 2007; Crick, 2009; Gabriellsson et al., 2014). However, there is no common opinion, which factors are the most important and determine the early internationalization of these companies. Taking into account these factors SMEs could strengthen its activities and transform them into unique resources.

The research question could be defined as: what factors determine the early internationalization of entrepreneurial small and medium-sized enterprises? The purpose of this study – to develop a theoretical framework to investigate factors determining early internationalization of international new ventures. This study extends the scientific discussion of early internationalization of SMEs. The novelty of this study is manifested in creation of different approach to factors determining early internationalization. It is proposed the approach of overlapping factors. It is seeking to highlight the statement that factor itself has limited effect to early internationalization. Only the interoperability of categories and factors gives a positive impact on early internationalization of entrepreneurial SMEs. Scientific literature analysis and statistical data analysis has been used for this study as main method.

2. INTERNATIONAL NEW VENTURES AND DETERMINANTS OF EARLY INTERNATIONALIZATION

2.1. The concept of international new ventures

The concept of international new ventures combines international business and entrepreneurship disciplines. In today's global world traditional models of internationalization, such as Uppsala internationalization model, are no longer able to explain the expansion of SMEs into foreign markets (Andersson and Evangelista, 2006; Chetty and Campbell-Hunt, 2004). The resulting criticism had encouraged to create the so-called paradigm of "global approach". The paradigm refutes concept of the internationalization process as a gradual commitment i. e. slow, step-by-step expansion into foreign markets (Johanson

and Vahlne, 2009). Nowadays, entrepreneurial SMEs seek to have access to a wider range, cheaper resources and not only to occupy a higher number of markets. The impact of increased globalization encouraged companies to start international activities from the very beginning or after a short period of time since its establishment in different countries at the same time.

Such companies are called Born Global (Knight and Cavusgil, 2004; Oviatt and McDougall, 1994), Born-again Global (Bell et al., 2001; Tuppura et al., 2008), Global startups (Oviatt and McDougall, 1994) and International New Ventures (McDougall et al., 1994; Mathews and Zander, 2007). These types of SMEs are shaping international market oriented strategy since from the very beginning of their establishment (Aspelund and Moen, 2005). Most of sales revenue are generated from abroad (McDougall et al., 1994). International New Ventures by using a strategy of Born Global companies are forming innovative, proactive and risk taking behavior which is creating a value beyond borders of home market (Mathews and Zander, 2007). The new approach highlights innovative and organizational capabilities of young companies in early internationalization. Due to innovative products such companies can achieve rapid growth (Nummela et al., 2004). The control of valuable and unique resources, effective international communication and homogenization of markets in many countries, enables young and small companies to carry out early internationalization (Oviatt and McDougall, 1994; Knight and Cavusgil 2004).

2.2. Determinants of early internationalization

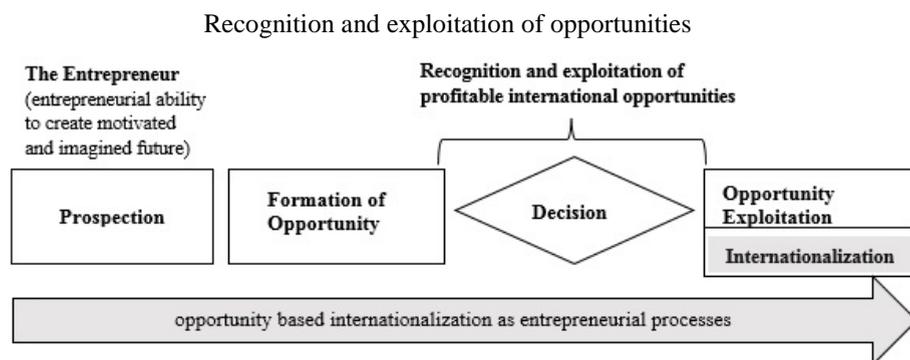
Determinants of early internationalization could be combined into three categories: entrepreneurship and business orientation of managers or founders, organizational factors also contextual factors, related to business environment (Escandón Barbosa et al., 2013; Felício et al., 2014). Determinants, grouped into these three categories and further detailed, are: 1) Characteristics, competencies, previous experience of entrepreneur 2) Recognition and exploitation of opportunities 3) Risk tolerance; 4) Organizational factor; 5) Networking; 6) Contextual determinants: sector (industry) and technological.

Determinant of entrepreneurship. It is essential for small and medium sized companies to have a set of entrepreneurial characteristics. Initiative reflects a desire of entrepreneur to move forward bravely (e.g., by introducing new products / services earlier than competitors) and to act as expecting to create needs, change them and shape the environment (Keh et al., 2007). These features represent a very aggressive mode of proactive individuals allowing them to "skim" the foreign markets and achieve a greater international scale (Pérez-Luna et al., 2011). When allocating human and financial resources for internationalization, initiative individuals seem to be more sensitive to the needs of foreign market and are ready to exploit foreign opportunities that match their abilities (Morris et al., 2011).

Previous experience of entrepreneurs (especially international) is also very important and affects the results of rapid internationalization, because it amends a lack of organizational experience in internationalization process. Experience provides a cumulative knowledge for entrepreneurs, business contacts and entrepreneurial skills (Federico et al., 2009). Previous entrepreneurial experience could be understood as related to human capital and entrepreneurial social capital (Unger et al., 2011; Kwon and Arenius, 2010). Previous business experience helps to create knowledge, based on practical skills, which may increase the ability of entrepreneur to recognize opportunities and exploit them.

Recognition and exploitation of opportunities. Opportunities based motivation of entrepreneur is related to personalities that seek to benefit from new business opportunities (Shane, 2000). This is a personal desire to become independent and/or increase revenue, compared with employment in another company. Recognition and exploitation of opportunities becomes very important at an early stage of internationalization. Internationalization is a learning process of a key employees based on the recognition, aspiration and realization of opportunities (Zucchella and Scabini, 2007).

Picture 1



Source: adapted from Wach and Wehrmann (2014)

Risk tolerance. Risk-taking is considered to be the desire to deviate from already tested ways also initiative, whereof the possible results are not clearly known (Wiklund and Shepherd, 2003). Risk-taking and initiative are regarded as one of the most important factors in finding international opportunities and increasing the volume of activities abroad. Although a certain tolerance of risk-taking is necessary in seeking international expansion (Pérez-Luño et al., 2011). However, additional costs associated with such a high risk orientation arise. For example, companies, which accepts a higher risk, are more prone to diversification of costly new products than risk averse colleagues (Sapienza et al., 2005). The high cost of investments, resulting from high risk-taking, may negatively affect the profitability which is needed for entering new markets. Acceptance of this method, may threaten the survival of the company abroad and

distract from its ability to operate in other markets due to decreased international scope.

Organizational factor. Besides individual-level characteristics there are distinguished characteristics of organizational level that affect early internationalization of new companies (Zucchella et al., 2007). Studies of internationalization have shown the importance of organization's characteristics (Ruzzier et al., 2006) especially a characteristic of strategic behavior (Efrat and Shoham, 2013) and technological capabilities of a firm (Brach and Naudé, 2012).

Young companies have structural advantages in evaluating opportunities in foreign markets. Team positions in International New Ventures are mostly undifferentiated. Management and responsibility are shared among themselves. Such undifferentiation allows managers to share their knowledge across organizational structure. With increasing years of company's operation, differentiation in team is becoming higher. It could reduce the amount of transferred knowledge and intensity of communication. Propensity of managers to constantly improve skills and seek to acquire new abilities decreases within time, so the knowledge is stored in "special boxes" (Autio et al., 2000). Therefore, the earlier internationalization is, the more likely that employees will feel the company's potential and advantages of growth. As well as they easily and quickly share those advantages among organization.

Networking. The concept of networking includes the interaction between different participants which are operating inside and outside networks. There are two types of networks: informal networks (e.g., business partners, friends) and formal (e.g., banks, law system, business management structure of government). It was identified that entrepreneur of SME is inseparable and dependent on informal networks. However, the same can not be said of formal networks. Networking stimulates the establishment of business entities.

Studies have proved the importance of international networks, both individual and organizational level, for international expansion. Studies of SMEs internationalization and especially International New Ventures (Sharma and Blomstermo, 2003; Coviello and Cox, 2006) have shown that international social capital, demonstrated by company's founder, facilitates the process of internationalization. Studies emphasize the importance of evolving relationships and the need to create new networks at the beginning of internationalization. Such importance particularly increases when operating in innovative niche segments due to much more difficult survival using only existing networks (Loane and Bell, 2006). International networks help companies to gain resources that would not be available due to financial constraints or because of small scope of ongoing operations (Gassmann and Keup, 2007). Networks for International New Ventures founders help to envisage new business opportunities and affect the entrance to foreign markets. Also, it is easier for companies to acquire knowledge about the market, identify the key customers, sources of funding and strengthen its R&D activities (Loane and Bell, 2006).

Contextual determinants. In addition to analyzed individual and internal factors, a significant impact for early internationalization of International New Ventures has external factors. It is a mixture of economic, legal, political, institutional, social and technological factors. Its changes may positively or negatively affect internationalization process of International New Ventures which are having a limited amount of resources. These companies have much more difficulties to predict and cope with effects of external factors. Hence, the internationalization process of International New Ventures are mostly affected by sector's, which the company operates in, and technological factors.

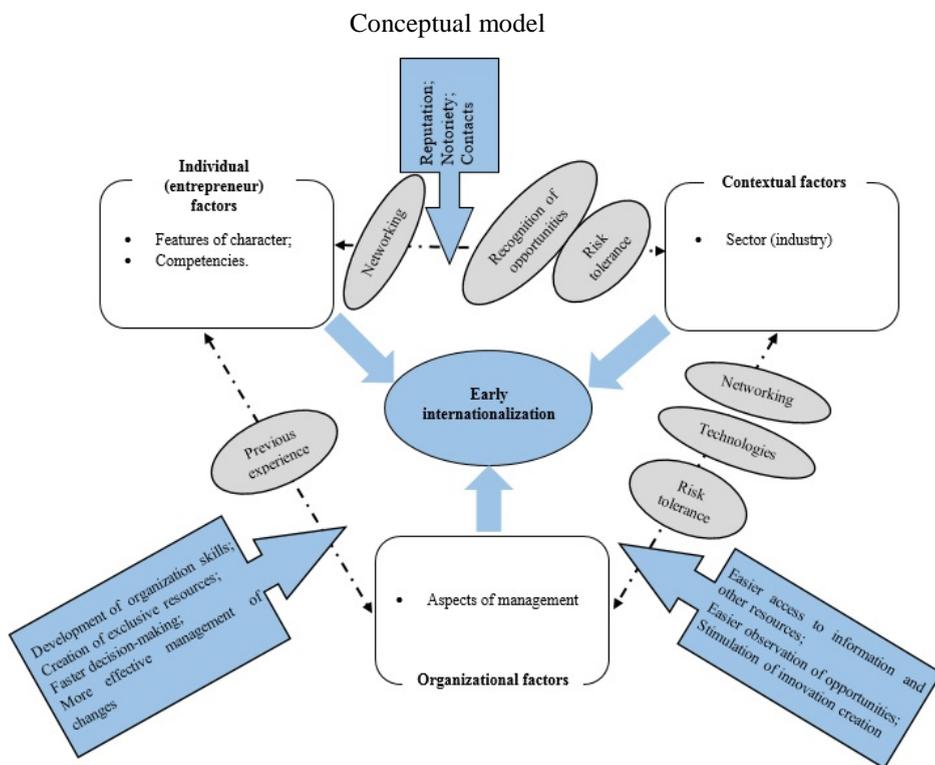
The sector may predetermine the internationalization speed of new companies. Peculiarities of sector, e.g., technology of production or market characteristics, may be more important for internationalization even than the internal aspects of companies (Fernhaber et al., 2008). Some of new companies gain advantages from their industry because they have access to information, knowledge and networks, which increases their chances of becoming exporters (Zucchella et al., 2007). It means that the impact of import-export environment encourages companies to internationalize activities. For example, international entrepreneurship is often associated with high-tech sector. However, early internationalization is related not only with high-tech sector (Gassmann and Keupp, 2007). The degree of internationalization in the industrial sector may also have an impact on the internationalization of new companies (Fernhaber et al., 2008).

Factor of technological intensity is related to the company's ongoing R&D part of the expenditure of gross income (in percent). The approach of International New Ventures indicates that early internationalization, besides the already mentioned factors, is promoted by capabilities of organizational learning and innovations (Filatotchev and Piesse, 2009; Knight and Cavusgil, 2004). The biggest effect of innovations manifests in tech industries, due to shorter life cycle of product. Hence, the company has a relatively short period of time to achieve economies of scale until the product is up to date.

2.3. Development of a conceptual model

Based on a specified factors is formed a conceptual model of factors determining early internationalization (Picture 2).

Picture 2



Source: created by the authors

Early internationalization is beneficial for International New Ventures, especially for financial performance (Sapienza et al. 2006). Flexibility, the ability to adapt and quickly respond to the situation enables International New Ventures to achieve growth by using early internationalization as a strategy. This kind of early internationalization provides opportunity to reach economies of scale and increase the volume of business. Early internationalization for International New Ventures provides an opportunity to get in touch with new customers also to attract resources needed. Different geographic markets may create new challenges, but studies is showing that International New Ventures has "the ability to learn from new experiences" (Autio et al., 2000).

Early internationalization to foreign market may be an expensive process, which partially affects the company's short-term perspective. The lack of previous experience, among International New Venture team members, increases costs of early internationalization. However, International New Ventures are incurring lower internationalization costs than previously established companies. This is due to the fact that INV tend to have a limited amount of operations that

do not require high transaction and coordination costs. Straightforward organizational structure also reduces these costs. Responsibility of newness and foreignness increases costs, because companies engaged in early internationalization cannot operate so effectively as a local companies. It is likely that new company will make mistakes in new and unfamiliar market. However, if INV firstly choses export as an entry mode into a new market, may not increase the mentioned costs (Knight and Cavusgil, 2004). Furthermore, International New Ventures generally occupy niche markets (Lee et al., 2001), which is relatively easy to entrench and begin to communicate directly with suppliers and customers.

Accumulated experience of the manager and its dissemination in the company has a positive impact. Internationalization experience of the manager may be incorporated into the company's problem solving process. First, it reduces the costs associated with experimentation of new solutions and attempting to find the suitable solution. Secondly, it could reduce the approval time of plans of early internationalization and the number of lost (or undetected) opportunities. Finally, previous experience provides access to business networks and benefits in the sector on the basis of the status, trust and reputation.

3. CONCLUSIONS AND FURTHER RESEARCH

Following performed systematic scientific analysis of factors of early internationalization was created a theoretical model. The essence of this model is interaction of individual (entrepreneur'), internal (organizational) and contextual factors also their influence for early internationalization. It revealed that the interaction of these factors have a positive impact on the expansion of International New Ventures into foreign countries. Small and having limited amount of resources companies due to entrepreneur can recognize opportunities in foreign markets faster. Existing contacts help to get acquainted with the target market, internationalize activities much earlier. Therefore, companies achieve better results of expansion to foreign markets. Distinguished factors were theoretically analyzed in details and the impact for early internationalization of INV was submitted.

The theoretical model practically could be used by newly established companies which aim to execute the early internationalization. It could become an instrument to helping realize the essence of internationalization also to form the strategy of expansion to foreign markets. By using this instrument companies could identify the strongest and weakest factors that may affect the internationalization process. Theoretical model clearly shows interoperability of factors and dependency of each other. The weaker areas could be immediately strengthened or starting to look for ways to bypass them. The strongest factors revealed could be used as a basis for the implementation of early internationalization. Such behavior should increase the probability to accomplish

a successful early internationalization faster than other companies. What is vitally important for new companies due to lack of resources.

Further studies should include validation of theoretical model in different industrial sectors where small and medium sized enterprises are developing activities outside the country since its establishment. Separation of factors determining early internationalization in different sectors would allow to verify the dependence on the factor of sector. Other studies could include analysis of internationalization speed of International New Ventures and commitment into foreign markets. Also, the presented theoretical model is quite new due to introduction of more flexible approach to factors determining early internationalization. Therefore, future studies could include a practical confirmation or denial of such allocation of factors.

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