

International New Venture Strategies in Times of Crisis

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Abstract

The emergence of knowledge and service industries has led to the phenomenon of rapid internationalization of small- and medium-sized firms (Young, Dimitratos, & Dana; 2003, Zahra, 2005, Autio, 2005). The changing pattern of internationalization, especially of young firms, has been discussed in the literature within the framework of ‘international new venture’ (INV) and ‘born global’ terminology (Chetty & Blankenburg Holm, 2000; Jones & Coviello, 2005; B.M. Oviatt & Mc Dougall, 2005).

These theories claim that internationalization is initiated by a new and unique business idea, which is difficult for others to imitate; and internationalization is often undertaken by the firm’s founding and/or operating entrepreneur. Entrepreneurs, because of their global vision, are described as proactive, innovative, and often risk-seeking people who drive their firm towards international business operations (Lopez, Kundu, & Ciravegna, 2011). Initiated by the firm’s entrepreneur, INVs maintain a range of network relationships, both personal and firm-related, which allow them to compensate for resource disadvantages. While the INV phenomenon is discussed in recent years in light of promising globalized trade patterns and developing technologies (Autio, 2005), little research has investigated how INV firms operate their businesses in times of worldwide economic difficulties. This paper overcomes the current research limitations and presents insights concerning the strategies of five firms operating in the service industry.

Introduction

INV models have stimulated the interest of various scholars from different scientific backgrounds around the world (Gabrielsson & Gabrielsson, 2011; Hashai & Almor, 2004). Research from such diversified fields as business, management, organization, and social studies attempted to complement the new concepts of internationalization. The complex and dynamic nature of the approach reflects the current environments of liberalized worldwide markets. In contrast to traditional internationalization theories (Jan Johanson & Vahlne, 1977), born global concepts claim that internationalization is initiated very soon after the firm’s founding . The firm is established with a new and unique business idea, difficult for others to imitate; and internationalization is often fostered by the firm’s founding and/or operating entrepreneur (McDougall & Oviatt, 2003; Zuchella & Scabini, 2007). The phenomenon of born global and new venture firms has been widely discussed in the literature against the background of improved globalized trade patterns (McGrath, 2002; Rialp-Criado,

Rialp-Criado, & Knight, 2002; Samiee, 2006), while INV business strategies during challenging economic times have not yet been studied to a sufficient extent. Furthermore, Rialp-Criado et al. (2002) claim that the research on born global issues usually focuses on the high technology sector, and research findings do not deal with other fields, such as traditional industries or the service sector. This paper attempts to fill these research gaps. Using a multiple case study approach, the major research aim is to analyze how INVs in the service sector run their international business in times of worldwide economic crisis.

Discussion and hypothesis

Despite numerous contributions to the literature in recent decades, the term INV is still lacking a precise definition; existing definitions are tautological (Lopez et al., 2011). Considering a few representative authors, Rialp-Criado et al. (2002) use a variety of names, such as INV, born global, and instant international. These terms deal with the same phenomenon and increase the confusion and complexity of the concept. Another drawback is variation in the definitions regarding the time span between the establishment of a born global and its first international sales. Also varying is how much the foreign sales should be contributing to the total sales. Knight and Cavusgil (1996) define born global firms as firms that reach an export sales level of at least 25 percent within three years. However, Oviatt and McDougall (1997) define a period of six years as a standard time span, whereas Rennie (1993) claims a period of only two years with 75 percent of revenues coming from exports. When it comes to smaller global firms, the OECD (1997) contends that a ‘fully globalized small- and medium-sized enterprise (SME)’ sources the majority of its inputs from abroad, trades a large majority of its outputs across borders, has multiple establishments in all major international regions, and markets its products in all major international regions (Dimitratos, Plakoyiannaki, Pitsoulaki, & Tüselmann, 2011).

In this paper, an INV is defined as a firm that starts its international business within three years of establishment, maintains contractual business relations (e.g., export, license, factoring) with foreign partners located in at least three countries, and achieves foreign sales of more than 25 percent of the total INV sales volume. Multiple establishments in all major regions (which is part of the OECD definition of an INV) is not appropriate because, from our perspective, this instead serves as one of the criteria that defines a multinational company (MNC) rather than an INV. An INV, particularly at the beginning stage of its business, is confronted with resource drawbacks; thus it typically does not have the necessary resources to make foreign direct investments around the world.

From here, the theoretical INV discussion is expanded to include the resource based view (RBV) and the international network approach (INA). The INV discussions in the 1990s had their theoretical origin both in the RBV and the INA (Axelsson & Easton, 1992). The RBV claims that competitive advantages are particularly derived from the firm’s ‘inner resources’, i.e., financial, managerial, organizational, technological, and so on (Penrose, 1995; Wernerfelt, 1984). According to Barney (1991), a firm’s resources should be valuable, rare, and difficult for competitors to imitate in order to gain a sustained competitive advantage. Here we find the connection between the RBV and the INV model. According to Oviatt and Mc Dougall (1994; 2005) an INV usually has fewer conventional resource assets. A unique

idea, on the other hand, compensates for this disadvantage. This goes hand in hand with proactive opportunity seeking for this idea (Mathews & Zander, 2007). The INV's founding entrepreneur actively develops the process from idea generation to the implementation of concrete business concepts in the global markets. Knowledge intensive, difficult to codify, and, therefore, valuable resources remain rare directly by means of protections, such as patents and license agreements, and indirectly through the development of personal relationships in industry networks. In comparison to mature organizations, INVs focus on less costly (hierarchical) governance mechanisms (Kogut & Zander, 1993). The non-hierarchical, rather personal atmosphere supports the development of relationships within networks of foreign firms, which provide foreign location advantages.

To further elaborate on the theoretical connections of the INV, the RBV is associated with the INA, which holds that a firm acquires competitive advantage not simply as a function of its industrial location, such as its position in the value chain within a certain industry, but also from its relationship to other firms since all of them are embedded in an industry cluster (J. Johanson & Mattsson, 1992; J. Johanson & Vahlne, 2010). Successful INVs have the capability to absorb and integrate valuable external resources, such as knowledge about foreign markets, through relationships (Fahy, 2002; Mathews, 2002). Because of a lack of previous or fixed routines in entering foreign markets, INVs combine their own resource disadvantages with the potential of other partners through network relationship activities (Sharma & Blomstermo, 2003).

In light of the discussion above, we hypothesize that knowledge-based resources fostered by an entrepreneur embedded in networks provide valuable assets for an INV not only in general but particularly in times of economic crisis.

Procedures for data collection

Birkenshaw (2011) recommended that qualitative research follow a four step approach that contains decisions regarding the (1) research topic, which should be new or under researched; (2) research methodology; (3) data and transparency of methods; and (4) a theory that properly serves the research aim.

(1) Research topic

We believe that the INV topic is discussed in the literature mainly in light of positive outcomes of worldwide liberalized trade and capital patterns (Dimitratos et al., 2011; Shaker A Zahra, 2005). The INV literature lacks a discussion against the background of difficult economic times; this paper aims to explore and describe insights regarding INV strategies in times of crisis.

(2) Methodology

Because little research has been done on this topic, survey variables that deliver statistically robust indices are not adequately available at present (Creswell, 2009; Mahoney & Goertz, 2006). The exploratory character of the research suggests a multiple in-depth case study method, which provides more representative evidence than a case study of a single firm (K.

Eisenhardt, 1989; K. M. Eisenhardt & Graebner, 2007). In the research, the ‘pattern matching’ and ‘replication logic’ methodology is utilized in order to systematize major research outcomes that help to explain how the INV firms selected for this research develop their business in the service industry in times of worldwide economic crisis (Piekkari et al., 2009; Yin, 2009).

(3) Data and transparency of methods

The data sourcing process for multiple firm case studies follows the principles of criterion sampling. Criterion sampling involves the selection of cases that meet a set of a priori criteria important to the research (Dimitratos et al., 2011). In this project, the investigated firms had to (1) operate in the service industry, (2) have started their international business within three years after inception, and (3) recorded a foreign business ratio of a minimum of 25 percent of the total business volume. Service includes those industries and companies typically classified within the service sector, whose core product is a service. Firms are considered to be pure service companies when doing business, for example, in industries such as trading, education, product design, and engineering (Wilson, Zeithaml, Bitner, & Gremler, 2008).

In 2010, contact details for service firms that indicated interest in participating in the study were provided by the local chambers of commerce in Berlin and Brandenburg, Germany. In the second step, 143 firms were contacted and 101 expressed interest in the project. Finally, only twenty firms met the INV criteria for this research. Among them, fifteen firms operate in manufacturing industries. Five firms doing international business in the service sector remained and were selected for the case study. The sample of five firms located in the Berlin-Brandenburg region in Germany seems relatively small but reasonable considering the selection standards (e.g., the firm is engaged in service business and internationalized within three years) and the fact that the research topic (INV strategies in times of crisis) is relatively new and under researched so far. Eisenhardt (1989) recommended at least four cases for multiple case study research. Thus the sample meets that recommendation.

First of all, secondary material such as each company’s history, business fields, and so on were collected and evaluated. In the second step, personal interviews with representatives of each firm were prepared and face-to-face meeting appointments scheduled. We designed semi-structured interviews that would allow time for storytelling by interviewees, as well as responses to specific questions, for example concerning the outcomes of the worldwide financial and economic crisis (Gerring, 2007). Interviewee answers on closed questions are recorded in a seven-point, Likert-type scale ranging from -3 (e.g., financial crisis has absolutely no impact on our business) to +3 (e.g., economic crisis has a very strong impact on our business) (Peterson, 2004). To obtain the most representative picture, we interviewed ‘rank-and-file’ employees, such as marketing and operating sales staff in the organization, and not just the founding entrepreneurs and executive managers (De Geer, Borglund, & Frostenson, 2004). All-in-all nine interviews in five firms operating in the service sector were conducted during the first half of 2011. Each face-to-face interview lasted between one and one and a half hour.

(4) Theory and research aim

Replication logic procedures assume a fundamental theoretical framework for research (Yin, 2009). The RBV and the INA are selected for this study since we believe they serve best as a theoretical framework for approaching the research target. The major research aim of this paper is to describe valuable resource assets, and in connection with these resources, the importance of the industry network relationships of INVs in the context of a worldwide economic crisis.

Results and conclusions

In order to utilize replication logic in multiple case studies, each case must be carefully selected so that it either (a) predicts similar results or (b) predicts contrasting results for reasons that can be anticipated (Yin, 2009). In this study, only firms are investigated that are engaged in the service industry, located in the Berlin-Brandenburg region in Germany, do international business in a minimum of three countries, and started their international engagements not later than three years after their firm's foundation. Moreover, in order to secure the most applicable replication logic standards, only firms that fall into the category of small- and medium-sized companies, according to the selection criteria 'number of employees' and 'turnover', are considered for this research (European Commission, 2006). Table 1 displays an overview of the firms selected for the study.

Table 1. Classification of firms selected for multiple case study

Firm case	Service industry	Turnover in €(2010)	Employees (2010)	International business start	Foreign markets
A	Trading	< 2	< 10	1 ≤ 3 years	3
B	Training	2 ≤ 10	10-50	< 1 year	100
C	Product Design	2 ≤ 10	10-50	< 1 year	26
D	Engineering	10 ≤ 50	51-250	<1 year	15
E	Engineering	< 2	< 10	< 1 year	12

The sample indicates that four out of five firms started their international business within one year, and one firm within three years after the firm's foundation. The entire sample has its origin in the service industry; two firms are engaged in engineering, one firm provides training and coaching service, one is a trading firm, and one provides product design service. According to the sample median, fifteen foreign markets are served.

Research outcomes indicate that, in general, the economic crisis has only a moderate impact on the international business of the five INV firms studied. Nevertheless, the standard deviation is relatively large, which provides evidence that firm interviewees evaluate the

impact of the financial crisis on their firm’s international business quite differently (median 5.00, SD 1.517). A more homogeneous view concerns the entrepreneur’s role in driving the international business. The sample outcomes indicate that the founding entrepreneur, her/his global vision, and her/his international experience play a very important role in times of crisis (median 6.00/ SD 0.548). Our research results verify previous studies that highlight the entrepreneurial, proactive behavior that promotes international business (Young et al., 2003; Shaker A. Zahra, Korri, & Yu, 2005). Table 2 provides the summary of research outcomes concerning the impact of the financial crisis on the firm’s business, the role of the entrepreneur, and the evaluation of strategy performance.

Table 2. Impact of economic crisis, the influence of founding entrepreneur, and strategy performance

Interview Question (n=5 cases)	Sample Median *	SD**	Min	Max
What is the impact of the economic crisis on the firm’s international business?	5.00	1.517	2	6
Does the founding entrepreneur drive the firm’s international business?	6.00	0.548	6	7
How do you evaluate the performance of the firm’s international strategies in times of crisis?	5.00	0.894	5	7

* Based on an ordinal, seven-point Likert-scale; ** SD=Standard deviation

The interviewees positively evaluate their firm’s international strategy performance in times of crisis. In contrast to the experience of several large multinationals, the economic crisis seems to provide more opportunities than risks for innovative and small-sized INVs according to the sample. The proactive entrepreneur drives the firm to seek upcoming opportunities instead of traditional business concepts, regardless of whether the firm operates in promising or difficult economic times.

In the next step, business insights that contribute to the competitive positioning of the INV are introduced. Interview questions designed in an ‘open style’ delivered, among others, the following comments.

Firm B

The impact of the economic crisis is rather positive for us, so far, because many firms need to save costs. So they try to increase their efficiency, for example in product development. Here we take advantage of our services through our specific software development expertise. I think the time factor (time to market response) becomes more and more important for each firm. In order to save time, our customers increasingly transfer product development activities to us because they know we are experts in that specific niche.

Firm D

Our company, since its founding, has had an international focus. Our specific test equipment is very expensive. Customers use our services because they rely on our highly specialized industry expertise. They also save the cost of test instruments, which is a strong argument for our customers because they need to procure such tests only every few years.

Firm A

Cost pressures lead to declining margins. As a specialized trading company, we have some valuable information in order to procure materials for our customers at reasonable costs, time, and quality. Our customers appreciate this knowledge, especially in turbulent times.

Key ideas from the interviewees above emphasize the importance of industry expertise and highly specialized know-how, which provides faster market response and efficient cost structures for the customers. Concerning the influence of the entrepreneur as a driving force in international business in challenging times, interviewees responded as follows.

Firm E

Our CEO has extensive international experience, and he is very active internationally. I think we benefit enormously from his accelerating internationalization activities. In particular, we see the ongoing exchange of research know-how with our partners as very beneficial to us.

Firm C

Our founder is actively engaged in foreign business. Trustworthy partners who are integrated into their own strong networks are very important for our business success, particularly in times of crisis.

Firm D

The key to being able to survive in difficult times is trustworthy and reliable partners.

Firm A

It is not desirable to serve too many markets at once. It is better to concentrate on a few, but promising, countries. It is more important to focus on a particular market niche in order not to lose track. Under these circumstances, we can maintain much better personal relationships, which are very important in times of crisis.

These comments reflect the crucial need for a proactive, opportunity-seeking entrepreneur to lead the young firm. The entrepreneur's international experience combined with highly specialized industry expertise and stable relationships with trustworthy partners provide favorable resource assets for the INV. Network relationships obviously can be better fostered in relatively small market niches than in complex mass markets with highly standardized products. Service driven, sophisticated industry expertise in niche markets with narrowly knit relationship patterns provides effective protection mechanisms against economic downturns.

Academic and managerial implications

The outcomes of multiple-case research provide implications for both academic literature on INVs and pragmatic business executives. First, our study of firms doing business in the

service industry indicates the crucial role of an opportunity-seeking entrepreneur with international experience who fosters and maintains international network relationships (Dimitratos et al., 2011). Second, the study contributes to the network concept, which emphasizes the value of relationships in order to gain competitive advantage (Sharma & Blomstermo, 2003). Interviewees emphasized that intense dyadic relationship engagements provide stable and reliable sales channels, which are of vital importance for competitive survival, particularly in difficult economic times. Highly specified services linked with outstanding industry expertise, ideally focused on niche markets, provide rare and valuable resource assets for an INV. Therefore, an economic crisis should be seen as a chance for young and innovative firms because entrenched market structures, often controlled by market incumbents, tend to change in turbulent times. In difficult economic times, firms seek to increase their efficiency, particularly through outsourcing product tests, procurement activities, product engineering, and product design developments, as well as by educating their employees. This provides various chances for new and promising business fields to be filled by young, flexible, and innovative firms, which serve as specialists in their niche markets.

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