INTERNATIONAL ENTREPRENEURSHIP

The Effect of Firm Age on Motives for Internationalization

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To David, Julie, Lucy and Emily who
inspired and supported me in this effort.

Preface

My interest in the topic of international entrepreneurship was motivated in part by an investigation of women's enterprise creation in 24 OECD countries, and in part by a chance meeting with an international entrepreneur. In 1991, I was renting an office from a man who had created a biotechnology company and taken it public. He was starting a second business that manufactured medical equipment for testing cholesterol. One day, I asked him about his new venture and I learned that the business was less than one year old, had facilities in Boston and London, and was receiving revenues from product sales throughout Europe. In other words, my landlord had created an entrepreneurial endeavor that was also international. Excited by his story, I decided to investigate the international business activities of entrepreneurial firms. However, when I began my literature review, I found little in the field of Entrepreneurship that specifically addressed their international activities. Likewise when I explored the literature of International Business, I discovered no research about international activities of entrepreneurial companies.

This lack of research is not surprising. Studies in International Business have focused on firm investment, growth, and expansion activities of large multinational enterprises (MNE's), the segment of businesses most frequently engaging in international activities. Historically, success internationally was predicated on sufficient size, market power, and experience because political instability, geographic distance, and foreign economic policies often created high risks for firms investing or selling abroad.

Recently major environmental changes have occurred. Global political transitions such as the opening of new markets in the Czech Republics, Russia and Vietnam, rapid developments in telecommunications, implementation of the North American Free Trade Agreement (NAFTA) and U.S. export trade assistance programs have made it easier for companies that are young and innovative (entrepreneurial) to internationalize.

Since 1991 when this research was conducted, academic interest in the topic of "international entrepreneurship" also has grown and several recent articles have been published. Case studies by Patricia McDougall and Benjamin Oviatt (1993, 1994) found that contrary to existing theories and previous studies, some new companies are in fact "global" from the start, receiving resources and selling products in multiple countries.

My study, along with work by McDougall and Oviatt, provide important benchmarks for the integration of entrepreneurship and international business. This new stream of research differs from work in international business because it extends beyond the firm as a single unit of analysis, instead including the role of the founder/entrepreneur. In addition, this pushes the boundary of entrepreneurship research by extending the level of involvement beyond only domestic activities. Exploration of this new domain will not only suggest possibilities for theory revision or development but also provide information about an under-researched segment of companies.

My investigation of the intersection of two disciplines made this research task both exciting and daunting. I hope other researchers will continue the exploration of companies that are both international and entrepreneurial, further mapping out this domain.

Introduction

BACKGROUND

Rapid technological and telecommunications innovations have made it easier for small companies to internationalize. In addition, global political changes such as the opening of markets in Vietnam and the Czech Republics, the implementation of the North American Free Trade Agreements (NAFTA), and the successful conclusion of the General Agreement of Tariffs and Trade (GATT), create a favorable climate and new opportunities for small companies to internationalize[1]. These developments parallel U.S. policy on participation in international trade by small businesses[2]; "One important mission of the U.S. Small Business Administration is to encourage small and medium-sized firms to export their products to other nations (*Small Business in the American Economy*, 1988, p. iii). The U.S. Government is encouraging greater participation in international trade by small companies for three reasons; their survival, to improve the balance of trade, and to take advantage of growth opportunities in the world economy (*Small Business in the American Economy*, 1988, p. iii). Initiatives to improve access to international trade include the opening of export assistance centers in major cities such as Baltimore, Miami and Chicago (Maynard, 1994).

The Small Business Administration (SBA) recently estimated about 90,000 small firms exported to foreign markets, those with fewer than 100 employees accounting for nearly twenty-five percent of the total, or 22,000 enterprises (*Small Business in the American Economy*, 1988, p.6). While the U.S. Government does not collect statistics on international trade by size or age of enterprise, one segment of small companies increasingly involved in international markets are new ventures[3]. Anecdotal evidence of new small ventures exporting, licensing or investing abroad at start-up has recently appeared in the popular press. The Brooklyn Brewery (*Wall Street Journal*, Oct. 13, 1990) and Quantum Epitaxial Designs (*Nation's Business*, September, 1991), and Barnyard

Babies (Maynard, 1994) are three companies that exported at an early age.

New ventures are an important source of job creation (*Small Business in the American Economy*, 1988; Kirchoff and Phillips, 1988) and innovation (Birch, 1987). Each year more than 600,000 new small businesses are created (*Small Business in the American Economy*, 1988, p. 65, *The State of Small Business*, 1990, pp. 9-11), providing proportionately more jobs (Kirchoff & Phillips, 1988; *The State of Small Business*, 1989, pp. 13-16) and innovations than established companies. Despite their importance, new small companies and their early business activities are under-researched (Donckle, 1989). Furthermore, while scores of studies exist about the exporting activities of established small companies (Miesenbock, 1988) there are only a few studies that have considered internationalization by young small companies. Because of the liability of newness faced by new ventures (Stinchcombe, 1965) it might be argued that small companies internationalizing at an early age face greater risks than small companies internationalizing later in their life. Hence, a greater understanding of reasons for early or late internationalization, and resultant extent of activities abroad would appear to be of great interest.

In spite of this recent international activity by new companies, studies on this topic from the field of Entrepreneurship are limited. An emerging body of research has explored globalization of new ventures (Oviatt & McDougall, 1994) and international strategies of small firms (Baird, Lyles & Orris, 1994; Birley & Westhead, 1994; Namiki, 1988) and effect of small firm size in exporting (D'Souza & Eramilli, 1993; Calof, 1993). However no studies comparing differences across small companies based on age have been conducted to date.

On the other hand, the International Marketing literature boasts hundreds of studies on small business exporting that investigate motives for exporting (Cavusgil & Nevin, 1984), differences between exporters and non-exporters (Cavusgil & Naor, 1987; Miesenbock, 1988), the stages of internationalization (Johanson & Vahlne, 1977; Czinkota & Johnson, 1981; Sullivan & Bauerschmidt, 1990), and the role of management in the export decision (Ursic & Czinkota, 1984). These studies show that motives vary depending on attitude or demographics of the manager, firm specific advantages, or environmental context. While age has been included as a descriptive variable for sample characterization of exporters and non-exporters, it has not been the focus of any research.

In sum, no studies have considered possible differences in motives for internationalization that may result from age of the business. This is an important gap. Greater operating experience is associated with access to information and resources (Johanson & Vahlne, 1977). This may not only facilitate internationalization, but also lead to different international objectives. New and established small businesses differ across several dimensions, including the role of the owner/manager, structure and systems, experience in the industry, and focus (Churchill & Lewis, 1983). Therefore it is reasonable to expect that there may be significant differences between companies that internationalize at different ages, having implicaitons for strategy, international objectives and ultimately for performance. In other words, timing of entry into international markets may affect the type of strategy and performance of the small business (Eisenhardt, 1990).

Collectively, theories from International Business suggest that companies will internationalize after achieving a firm advantage, establishing market position, or as a result of industry structure dynamics. Theories rooted in organizational behavior propose that firms will internationalize in incremental steps as they have gained market experience (Aharoni, 1966; Cavusgil & Nevin, 1981; Johanson & Vahlne, 1977). Theories emanating from industrial economics posit that investment abroad occurs only after a domestic market position has been established (Buckley, 1983). Designed to explain foreign direct investment of multinational enterprises (MNE's), it is assumed a company is large and experienced, not adequately explaining reasons why new small companies might internationalize.

Theories from Entrepreneurship explain why new ventures might be created, or how small companies may be entrepreneurial. This literature focuses on four main dimensions; risk-bearing, innovation, general management and creation (Sandberg, 1992). Entrepreneurial theories are intended to explain individual entrepreneurial behavior; the venture creation process; or environmental factors contributing to entrepreneurship (Gartner, 1985; Bygrave & Hofer, 1991). These theories do not specifically address international behaviors, this research emphasizing domestic behaviors and activities, although arguably internationalization is entrepreneurial behavior.

Hence, no single theory of entrepreneurship or international business fully explains internationalization of new small companies. However, recent work by McDougall (1989); Oviatt & McDougall (1994); and McDougall, Shane & Oviatt (1994) offers a starting point. Their case study research on "global start-ups" defines an "international new venture" as a "business organization that from inception seeks to derive significant competitive advantages from the use of resources and sale of outputs in multiple countries". This work represents a first step in recognizing the international geographic scope of new ventures, even though this definition captures only a narrow segment of internationalized entrepreneurial businesses; those seeking competitive advantages through exchanges in multiple countries.

Exhibit #I.1 reflects boundaries of current theory. This exhibit uses two dimensions to illustrate the focus of theories and research; geographic scope of operations and organizational behaviors. The continuum, administrative—entrepreneurial, is widely accepted in entrepreneurship (Stevenson & Gumpert, 1985). Arguably, firms behaving in an entrepreneurial manner are more often new and/or small, being characterized as opportunity seeking, loosely structured and guided by the owner/founder (Churchill & Lewis, 1983). In contrast, administrative behavior is more often characteristic of large and old companies, described as hierarchical, powerful and planning driven (Stevenson & Gumpert, 1985). Exhibit #I.1 shows that entrepreneurial research and theories focus on quadrant #1; general business strategy research and theories emphasize quadrant #3; and international business theories and research center on quadrant #4. The domain of "international entrepreneurship", quadrant #2 is largely unexplored. This study, which explores international activities of companies based on age at internationalization, will focus on quadrant #2.

Exhibit #I.1

DOMAIN OF INTERNATIONAL ENTREPRENEURSHIP

GEOGRAPHIC SCOPE OF OPERATIONS [1]

ORGANIZATIONAL BEHAVIOR [2]	DOMESTIC	INTERNATIONAL
ENTREPRENURIAL	1 ENTREPRENEURSHIP	2 INTERNATIONAL ENTREPRENEURSHIP
ADMINISTRATIVE	3 BUSINESS STRATEGY	4 INTERNATIONAL BUSINESS (MNE)

[1] Adapted from presentation by Brush, in McDougall, Oviatt and Brush, (1991)

[2] This continuum of behavior was proposed by Stevenson and Gumpert (1985)

DESCRIPTION OF RESEARCH

This research contributes to knowledge in the domain of international entrepreneurship. The effect of age on motives for internationalization in small businesses was investigated. Resulting international strategies and performance outcomes depending on age at internationalization also were studied. The context for this research was a national sample of 134 small (<500 employees) internationalized U.S. manufacturers. As noted earlier, new and established companies differ across certain dimensions. It was expected these differences would be evidenced in internationalized new and established small companies. This exploratory study identifies factors that caused these companies to go international; compares similarities and differences depending on early or late internationalization; and tests applicability of theoretical variables from international business and entrepreneurship explaining this phenomenon. Four questions guided this study:

1. What factors motivate young small businesses to engage in international business activities?

2. What factors motivate old small businesses to engage in international business activities?

3. Do reasons for internationalization vary significantly by age of small businesses?

4. Do international strategies vary by age of small business?

The answers to these questions have important implications. Because the role of the founder, resources, structures, systems and goals vary depending on the age of the business, internationalization at an early age may pose risks to these businesses by constraining resources. Conversely, late internationalization may result in missed opportunities. Similarly, variations in internationalization resulting from age may imply different assistance needs. For instance, companies selling abroad at a young age may need training and skill development, whereas companies internationalizing later in life may have a greater need for information.

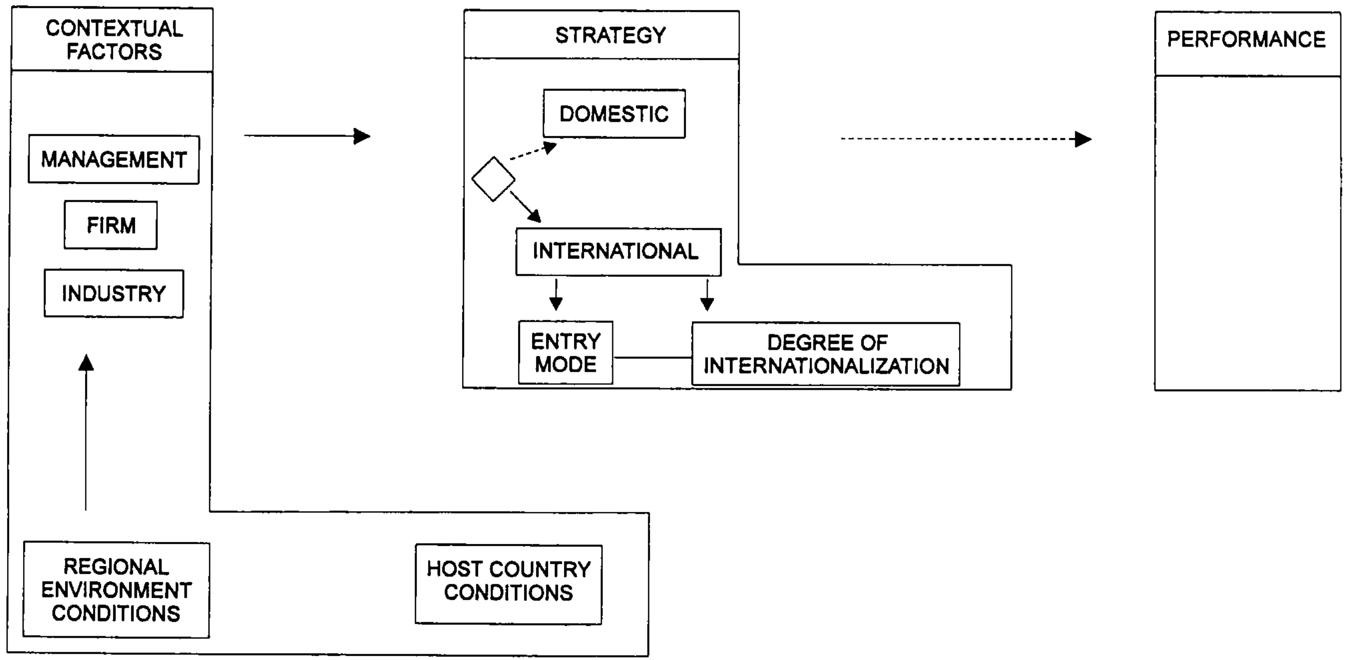
Because general theories of international business were not intended to specifically explain the motives of small businesses, nor were theories of entrepreneurship designed to explain why they internationalize, this research integrates theories from both fields. According to mid-range theory development (Merton, 1962), this approach is appropriate for guiding empirical inquiry intermediate to general theories, and specific classes of social behavior. Therefore, the intent of this project is to determine if the variables from general theories about international business and entrepreneurship can be integrated in a framework which will enlighten us as to the international activities of small businesses.

A conceptual framework was developed by examining the theories and empirical works of entrepreneurship and international business. There are five main constructs in this framework; Contextual Factors, International Strategy, Performance, Regional Environment Conditions, and Host Country Conditions (see Exhibit II.2). Variables operationalizing these constructs were identified from empirical research and pilot studies in this project. Contextual Factors are composed of management, firm and industry variables that are theorized or empirically shown to be important to the decision to internationalize (Buckley & Casson, 1978; Morrison & Roth, 1989; Akhter & Friedman, 1989). International Strategy variables include modes of foreign market entry, export, licensing or contracting, or foreign direct investment (Morrison & Roth, 1989; Contractor, 1990); and degree of internationalization, geographic scope (Cavusgil, 1984; McDougall, 1989); and commitment of resources (Cavusgil, 1982; Vernon, 1983). The outcome result of contextual factors and strategy is performance which is defined as progress towards a goal of overall or international growth in sales or employees (Geringer, Beamish & daCosta, 1989; D'Souza & Eramilli, 1991).

Two sets of conditions influence these constructs; Regional Environment Conditions, which include local economic, political-regulatory, competitive, and demographic variables (Johanson & Vahlne, 1977; Buckley & Casson, 1978), and as Host Country Conditions, which are composed of economic, political-regulatory, cultural, and competitive variables (Goodnow & Hansz, 1972; Mascarenhas, 1986).

Using the conceptual framework developed as a basis for this research, (see Exhibit #I.2), the objective of this exploratory study was to develop a descriptive scheme and explore possible relationships between variables (Denzin, 1978). This research identifies which factors were important in the decision to sell products abroad. It describes how small

Exhibit #I.2
CONCEPTUAL FRAMEWORK



businesses implement international strategies and compares companies by age at internationalization. Performance outcomes were measured descriptively, but were not the main focus of this study. Even though it is recognized that importing activities are very important to small businesses and the balance of U.S. international trade, in order to narrow the scope of this project internationalization, defined as "receiving revenues from abroad" (see endnote number one), excludes discussion of importing activities.

The research design selected was a cross sectional survey, which is suitable for exploratory investigations of a phenomenon and allows for comparisons across two groups. Similarities and differences in motives and international strategies between young and old aged businesses at time of internationalization were hypothesized and tested statistically using descriptive statistics, correlation analyses, and discriminant function analysis.

DEFINITIONS

To facilitate the discussion of this research, it is important to clarify key terms that are used hereinafter. A theoretical and operational definition of each of the major terms is included in the following discussion.

There is a lack of consistency in the terminology used to discuss international business activities. The most frequently employed terms are "international strategy" (Eglehoff, 1988; Daniels, Pitts & Tretter, 1984) and "international business strategy" (Daniels, 1983) both of which can encompass international expansion (Mascarenhas, 1986), international diversification (Geringer, et al, 1989), exporting strategy (Miesenbock, 1988) and other alternative modes of international business activities such as "licensing" or "joint venturing" (Contractor, 1990). In the Entrepreneurship area, studies of international activities of small businesses generally refer to exporting strategy (Namiki, 1988) or joint ventures (D'Souza & McDougall, 1989). The terms "exporting" and "investing abroad" are too limiting when considering small companies. Consequently, unless otherwise specified this research will use the word "internationalize" to mean "to receive revenues from abroad from international business activities" (*Massachusetts International Export Service Guide*, 1989; *Dun's World Marketing Directory*, 1991). Another expression that will be used is "to enter foreign markets" (D'Souza & Eramilli, 1991); this being consistent with the theoretical definition of international business activities, means "resource exchange across national boundaries" (Fayerweather, 1978).

"Internationalization process" is defined as the consequence of incremental adjustments to the changing conditions of the firm and its environment (Aharoni, 1966). The process is conceived of as stepwise where the firm incrementally increases its international involvement over time (Johanson & Vahlne, 1977). As integration and use of knowledge about foreign markets and operations grows, commitment to foreign markets increases (Welch & Wiedersheim-Paul, 1980). Referred to as a "stage model", the internationalization process expands outward from home markets to those contiguous markets most compatible cognitively and in terms of resources and as market knowledge increases, commitment increases (Johanson & Vahlne, 1977; Welch & Loustarinen, 1988). This process is most frequently operationalized to describe exporting behavior. Typically there are between three and seven stages. The first stage is pre-involvement, middle stages are active involvement, and later stages are referred to as committed involvement (Cavusgil, 1984).

"International strategy" is defined as a pattern of objectives, policies, and plans for achieving goals (Aharoni, 1966, p. 294). International strategy is distinct from domestic strategy in that it includes international product/market dimensions (Daniels, 1983; Morrison & Roth, 1989). Operationalization of this term includes all options for foreign market entry (exporting, licensing and direct investment) (Caves, 1982; Contractor, 1990) and degree of internationalization (Cavusgil, 1984; Rugman, 1986). "Degree of internationalization" includes geographic scope of operations and commitment of resources. "Scope" is operationalized as number and diversity of countries and markets (Cavusgil, 1984). "Commitment" is defined as those dedicated assets that cannot be redeployed to alternative uses without loss of value (Vernon, 1983). Commitment can refer to social, financial, physical or human resources (Aharoni, 1966), and varies from low to high. This is operationalized as number of employees working abroad and percentage of total manufactured products sold abroad.

This research focuses on small businesses, which are defined as profit-oriented organizations in which there can rationally be only one profit center (McGuire, 1976). This is operationalized in accordance with U.S. Federal Government size breaks, and refers to businesses of less than 500 employees (*The State of Small Business*, 1990, p. 12; see footnote number two for further discussion).

"New businesses" are defined as organizations that are created by an individual or group of individuals for entry into a product/market (Gartner, 1985). In keeping with other research in the entrepreneurial area and government interpretation of new businesses, this will be operationalized as businesses of six or less years old (Kirchoff & Phillips, 1988; Fredriksen, et al 1989; *The State of Small Business*, 1989).

OVERVIEW

This book describes in detail the investigation of age in the internationalization of small companies. In Chapter I, I present the context for this research, describing the importance of small companies, international activities of new small companies, and differences between new and established businesses. Chapter II covers the theories of international business, and entrepreneurship. The chapter concludes with a discussion of theory integration. Chapter IV reviews and summarizes empirical literature related to small business internationalization. Chapter V describes the methodology and research design used for this study, and presents preliminary findings from pilot interviews. Data analysis and results are discussed in Chapter VI, while discussion of findings and answers to research questions are presented in Chapter VII. The last chapter offers conclusions and implications from this research.

NOTES

1. The term "internationalize 'is defined as' to receive revenues from abroad from international business activities"; *Massachusetts International Export Service Guide*, 1989; *Dun's World Marketing Directory*, 1991. This definition is consistent with Fayerweather, 1978, "resource exchange across national boundaries".

2. "Small businesses" are defined as those small and medium-sized businesses with less than 500 employees. This is consistent with standard business employment asset and receipt size classes established by the Office of Management and Budget used by all federal