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## Post-entry survival of developing economy international new ventures: A dynamic capability perspective

Zaheer Khan<sup>a,\*</sup>, Yong Kyu Lew<sup>b</sup>

<sup>a</sup> Kent Business School, University of Kent, Parkwood Road, Canterbury CT2 7PE, UK

<sup>b</sup> College of Business, Hankuk University of Foreign Studies, Seoul, Republic of Korea

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### ABSTRACT

Recent research suggests that the capabilities needed for the survival of international new ventures (INVs) may be at odds with the original aims that had brought them into the international markets. INV mortality is exacerbated by uncertainty and lack of familiarity with the host market environment, which elevates the liabilities of newness, smallness, and foreignness in the initiating companies. We investigate the key factors that determine the post-entry survival of developing economy INVs by analyzing in-depth seven software INVs originating in the developing economy of Pakistan. These INVs survived the 2000 dotcom crisis and the 2008 global financial crisis, and continue to grow. Based on a dynamic capability view on the INVs' internationalization and survival from sensing-seizing-reconfiguration angles, we find the founders' entrepreneurial orientations and network development capabilities (sensing), specialized product focus and niche market development (seizing), and transformation and renewal capabilities (reconfiguration) are the key capabilities that enhance the post-entry survival of these INVs. Importantly, we find that a stable leadership and the post-entry international experience of the leadership team continuously feed into facilitating the creation and maintenance of dynamic capabilities. This paper identifies key strategic aspects that determine the post-entry survival of the developing economy INVs.

### 1. Introduction

In this paper, we investigate how developing economy international new ventures (INVs) survive after internationalization. The emergence of INVs that operate and serve internationally has been one of the key subjects of interest across the globe (e.g., Autio, George & Alexy, 2011; Coviello & Munro, 1997; Knight & Cavusgil, 2004; McDougall, Shane & Oviatt, 1994; McDougall et al., 1994; Mudambi & Zahra, 2007; Oviatt & McDougall, 2005).

Surprisingly, however, the impact of the early internationalization of developing economy INVs on their 'continued' growth and 'survival', and the strategic implications for start-ups are not well documented in the INVs literature (Cavusgil & Knight, 2015; Gerschewski et al., 2015; Mudambi & Zahra, 2007; Sapienza, Autio, George & Zahra, 2006; Zahra, 2005). Recent research on developing economy company internationalization has focused on large emerging multinational enterprises (EMNEs) (Aybar & Ficici, 2009; Contractor et al., 2007; Luo & Tung, 2007; Ramamurti & Singh, 2008).

Also, the majority of INV studies addressing the issues of internationalization deal with why and how INVs have internationalized

from their inception, mainly focusing upon the early internationalization period (Autio, Sapienza & Almeida, 2000; Coviello, 2006; Jones & Coviello, 2005; Weerawardena, Mort, Liesch & Knight, 2007; Zhou et al., 2007). Although successful start-up small and medium-sized enterprises (SMEs) play a crucial role in today's global economy, little research has endeavoured to track their evolution over time (Gerschewski et al., 2015; Jones et al., 2011; Knight, 2015; Zahra, 2004). Therefore, gaining a better understanding of the post-entry trajectory of internationalizing companies is important, as INVs from developing countries have not been sufficiently studied in the wider international business and organization literature (Gerschewski et al., 2015; Mudambi & Zahra, 2007). In the literature, it is widely suggested that, by entering into international markets, INVs increase their risk of failure. For instance, the existing literature suggests that the failure rate for such companies is of 40% in the first year and of 90% over 10 years (Timmons, 1990).

Few studies on INVs have investigated their growth and survival after their initial international success (Gabrielsson & Gabrielsson, 2013; Mudambi & Zahra, 2007; Prashantham & Young, 2011; Sapienza et al., 2006; Zahra, 2005). However, the key interests of these studies

\* Corresponding author.

E-mail addresses: [z.khan-53@kent.ac.uk](mailto:z.khan-53@kent.ac.uk) (Z. Khan), [yklew@hufs.ac.kr](mailto:yklew@hufs.ac.kr) (Y.K. Lew).

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are rather conceptual and much of this research has been carried out on developed economy INVs. Investigating the post-entry survival of developing economy INVs is critically important because the initiating companies are more subject to liabilities of foreignness, newness, smallness, and social connectedness (Brüderl & Schüssler, 1990; Stinchcombe, 1965; Zaheer & Mosakowski, 1997; Zahra, 2005). The developing economy context is especially important because of the accentuated need for capability development brought about by its adverse external conditions—Pakistan being a case in point. The country has been negatively affected by frequent changes in government, high political instability, lack of domestic finance for SMEs, underdeveloped entrepreneurial ecosystem and lack of policies focusing on SME development. Research on developing country INVs can benefit new international start-ups, as it is important to understand how these companies cope with pronounced domestic resource constraints; an understanding of their post entry trajectories is therefore crucial. Why do some INVs originating in developing economies succeed and survive while others fail? It would appear that not much is known about the factors determining the post-entry survival of these INVs, as they remain an under-explored topic (Gabrielsson & Gabrielsson, 2013; Cavusgil and Knight, 2015; Cavusgil & Knight, 2015; Keupp & Gassmann, 2009; Sapienza et al., 2006).

With regard to the above, Sapienza et al. (2006) argued that successfully growing INVs have experienced organizational shocks in their foreign market expansions. The survival of such INVs through those shocks might depend on whether the companies were capable of developing new streams of capabilities and improving their existing ones to overcome the peculiarities of foreign markets (Hashai, 2011; Knight & Cavusgil, 2004). Thus, INV survival may require higher order capabilities (e.g., dynamic ones) which could somewhat differ from those (e.g., ordinary or functional ones) needed for daily base business operations in local markets (Agarwal & Helfat, 2009; Audretsch, 1995; Teece, 2014). Although research on dynamic capabilities is growing, Teece (2007: 1341) comprehensively conceptualized dynamic capabilities as being related to the sensing, seizing, and reconfiguring dimensions: *'The enterprise will need sensing, seizing, and transformational/reconfiguring capabilities to be simultaneously developed and applied for it to build and maintain competitive advantage'*.

In this paper, drawing on Teece, 2007 dynamic capabilities approach from the sensing, seizing, and reconfiguring perspectives, we examine what key capabilities are pivotal for the post-entry survival of developing economy INVs. By doing so, we firmly bring the dynamic capabilities perspective into the understanding of the survival of developing economy companies, as this facet had hitherto been neglected. Our units of analysis are INV software companies from Pakistan. In this way, we respond to calls to investigate INVs from developing economies (Knight, 2015).

Given the lack of prior research on the factors determining the survival of SMEs from developing economy contexts, we use multi-case, inductive methods to investigate seven software INVs originating from Pakistan that have survived and one that did not. By including both surviving and non-surviving companies, we respond to scholarly suggestions to include both instances (e.g., Gerschewski et al., 2015). The approach adopted in this paper is also in line with suggestions for an integrated and more qualitative approach, as recommended by Coviello and McAuley (1999) and Gabrielsson and Gabrielsson (2013). We conducted in-depth interviews with multiple key informants from the software INVs, which were founded prior to 2000, went through the dotcom and financial crises, and, in seven out of eight cases, are continuously growing and operating in the international market.

Our findings suggest that those INVs that have survived the environmental crises have a common set of operational capabilities that feed back to dynamic ones. Firstly, the case companies were increasingly specializing as they internationalized; e.g., by developing focused and specialized products. What is more, the INVs' development of dynamic capabilities was driven and supported by the individual

entrepreneurs/founders' stable leadership. This indicates that the specific actions taken and decisions made by the entrepreneurs/founders laid the foundations for the INVs' post-entry survival (Gabrielsson & Gabrielsson, 2013; Knight, 2015; Teece, 2014).

Our study makes important contributions to the international business and entrepreneurship literature by linking a capability-based view of the SMEs to their survival in international markets. It demonstrates the importance and impact of dynamic capabilities in general—and of more specific-capabilities such as sensing, seizing, and transforming—on the post-entry survival of developing economy INVs. Furthermore, it extends the recent research on the role played by individual entrepreneurs in the dynamic capability framework of the developing economy INVs context. Lastly, we not only study survivors but also a non-survivor; by so doing, we provide a more fine-grained view of the role played by dynamic capabilities in the survival of INVs.

## 2. Conceptual background

### 2.1. INV internationalization

INVs internationalize rapidly into foreign markets by utilizing their key resources and learning capabilities (Autio et al., 2000; McDougall et al., 1994). The previous internationalization process theory explains the risk adverse incremental internationalization of a company as being due to the psychic distance that exists between the foreign markets and the home countries (Johanson & Wiedersheim-Paul, 1975). An internationalizing company experientially learns about overseas markets (Johanson and Vahlne, 1977). However, topical EMNE internationalization research explains how those companies aggressively invest in building capabilities in their internationalization processes based on their home-based learning and country-specific advantages (Luo & Tung, 2007; Ramamurti & Singh, 2008). Also, the recently revised internationalization process theory points at the liability of outsidership, thus highlighting the importance of developing business networks to learn about foreign markets (Forsgren, 2016; Johanson & Vahlne, 2009; Lew et al., 2016). INVs need to develop capabilities for their growth and survival in foreign markets in that they have to deal with their liabilities of smallness, newness, and foreignness (Sui & Baum, 2014; Zaheer & Mosakowski, 1997; Zahra, 2005).

### 2.2. Dynamic capability view and INVs survival

The resource-based view of the firm suggests that its resources and its organizational capability to exploit them play a vital role in its growth and survival (Mudambi & Zahra, 2007; Sapienza et al., 2006; Wernerfelt, 1984). The availability of valuable, inimitable, rare, and non-substitutable resources is crucial for INVs to sustain their competitive advantage in foreign markets (Barney, 2001). However, this view is rather static, and has limitations in explaining the dynamic development process of such resources through organizational capabilities. In the field of strategic entrepreneurship, the extant literature suggests that a company's heterogeneity is central to understanding the post-entry behavior of INVs as well as its effects on their survival (Hitt, Ireland, Camp & Sexton, 2001; Ireland, Hitt & Sirmon, 2003). This indicates the importance of identifying the value-creating process adopted by INVs to overcome their liabilities of foreignness and smallness in their internationalization progression and post-entry survival.

Based on the fact that INVs often suffer from resource constraints (McDougall et al., 1994), the key concerns of developing economy INVs' in relation to their growth and survival in the international market could involve securing the necessary amount of resources, and developing and diversifying their capabilities (Autio et al., 2011; Mudambi & Zahra, 2007; Sui & Baum, 2014). The resources and capabilities needed for long-term competitive advantage could differ from the ordinary or operational capabilities needed to manage and tune the

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