



# A latent class analysis of small firms' internationalization patterns



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## ABSTRACT

Research on International Entrepreneurship recently argues for a fine-grained perspective on different internationalization patterns. By combining prior literature on internationalization patterns with the regionalization hypothesis, we theoretically derive four distinct internationalization patterns of small firms (i.e. born-globals, born-again globals, traditional internationalizers and born-regionals). We then draw on the resource-based view to examine capabilities' and resources' impact on these patterns. Testing our theoretical predictions by means of latent class analysis, we find that gradually internationalizing small firms (traditional internationalizers) account for roughly 50% of small firms, while only 15% of the small firms pursue a "true" born-global pattern. International growth orientation and prior international experience promote a born-global and born-regional pattern; learning orientation fosters traditional internationalization; intense network contacts positively affect born-again global patterns and product differentiation leads to a "regionalized" internationalization. We discuss these findings and highlight implications for future studies based on our theoretical and methodological contributions.

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## 1. Introduction

International Entrepreneurship (IE) is "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations" (McDougall & Oviatt, 2000, p. 903). According to Jones, Coviello, and Tang (2011), IE research is broadly classified into three major areas: (1) entrepreneurial internationalization, (2) international comparisons of entrepreneurship, and (3) comparative entrepreneurial internationalization. The present paper focuses on the first area and contributes to explaining the internationalization patterns of small firms from four high technology sectors (i.e. nanotechnology, biotechnology, microsystems, and renewable energies). Consistent with recent contributions (Casillas, Moreno, & Acedo, 2012; Kuivalainen, Saarenketo, & Puumalainen, 2012), we define an internationalization pattern as a reflection of an observable behavior of firms crossing national boundaries.

Despite important contributions to explain small firms' internationalization patterns (e.g. Kuivalainen, Saarenketo, et al., 2012; Olejnik & Swoboda, 2012; Tuppura, Saarenketo, Puumalainen, Jantunen, & Kyläheiko, 2008), the following three research deficits have specifically motivated the present research: First, prior research differs largely in terms of the internationalization patterns' conceptualization. A large proportion of studies argue for three distinct patterns of internationalization, that is, traditional internationalizers, born-again globals and born-globals<sup>3</sup> (e.g. Kuivalainen, Sundqvist, & Servais, 2007a; Olejnik & Swoboda, 2012). However, recent studies revealed small firms that internationalized shortly after their inception focusing their internationalization activities on countries from the same geographic region (Baum, Schwens, & Kabst, 2011; Kuivalainen, Saarenketo, et al., 2012; Lopez, Kundu, & Ciravegna, 2009). Also Rugman and Verbeke (2004, 2007) argue that the regional focus of firm internationalization is a critical contingency of international

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<sup>3</sup> The field of IE shows a large variety of labels to describe internationalization patterns (e.g. sequential internationalizers (Mudambi & Zahra, 2007), or geographically focused start-ups (Baum et al., 2011; Oviatt & McDougall, 1994). For the sake of consistency, we chose labels, which have been frequently used in studies comparing different internationalization patterns (e.g. Olejnik & Swoboda, 2012).

expansion. To this end, conceptualizations of internationalization patterns should account for regionalized internationalization as omitting this rationale can be a source for varying results regarding antecedents and outcomes of internationalization patterns (Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012b).

Second and related with the first, the measurements of internationalization patterns vary significantly in terms of indicators used and thresholds applied to distinguish internationalization patterns. Less frequently used or even omitted indicators include small firms' entry mode and the cultural and institutional distance between such firms' domestic and international markets (Kuivalainen et al., 2007a; Kuivalainen, Saarenketo, et al., 2012). However, it is likely that internationalization patterns are contingent on the choice and comprehensiveness of the indicators applied to specify the patterns (Kuivalainen, Saarenketo, et al., 2012). Moreover, the field is inconclusive regarding thresholds applied to specify different patterns. For example, born-globals are often classified as firms internationalizing within 3 years after inception and obtaining at least 25% of revenues from outside their domestic market (Sui, Yu, & Baum, 2012). On the other hand, Lopez et al. (2009) classify born-globals as firms obtaining 90% of revenues outside their domestic market.

Third, knowledge regarding the antecedents to different internationalization patterns is limited. While a few studies investigated capabilities' impact on different internationalization patterns (e.g. Olejnik & Swoboda, 2012; Weerawardena, Mort, Liesch, & Knight, 2007) the role of resources is largely unknown. The lack of knowledge regarding capabilities and resources is particularly problematic given that literature has shown that small firms' internationalization requires specific capabilities and resources to succeed in international markets (Lu, Zhou, Bruton, & Li, 2010).

The present paper seeks to offer three main contributions to extant research. First, we conceptualize and confirm four different patterns of small firm internationalization. To this end, we build upon and expand previous studies largely arguing for three internationalization patterns (traditional internationalizers, born-again globals and born-globals; e.g. Kuivalainen et al., 2007a; Olejnik & Swoboda, 2012). By incorporating the regionalization rationale (Rugman & Verbeke, 2007) into the internationalization patterns literature, we show that born-regionals are a distinct pattern of small firm internationalization.

Second, we advance research by operationalizing internationalization patterns as a *latent construct* (by means of latent class analysis (LCA)), which is reflected by multiple indicators. In this regard, we draw on a comprehensive set of indicators reflecting the timing (i.e. precocity), international scale (i.e. degree of internationalization, entry mode) and scope (i.e. number of foreign countries, institutional distance and cultural distance) dimension of internationalization patterns. To the best of our knowledge, our paper offers the most comprehensive set of indicators to verify internationalization patterns. This is important, because misspecifications in the classification of the small firms under study are an important reason for diverging findings currently holding back the literature. Rather than using pre-defined thresholds to determine patterns, we follow recent recommendations and develop latent classes of internationalization patterns (Olejnik & Swoboda, 2012).

Third, we advance the literature by demonstrating how capabilities (i.e. international growth orientation, and learning orientation) and resources (i.e. product differentiation, prior international experience, and international network strength and size) impact internationalization patterns differently. Consistent with Tuppuru et al. (2008) our argumentation is that small firms' capabilities, resources, and internationalization patterns are strongly interlinked and, hence, should be investigated together in a single model to enhance existing knowledge. Knowing which

resources impact specific internationalization patterns allows fostering these resources and thus to more efficiently pursue an entrepreneurial internationalization pattern (Baum et al., 2011; Tuppuru et al., 2008). Disentangling the determinants of different internationalization patterns contributes resolving heterogeneous findings regarding antecedents to entrepreneurial internationalization and, hence, provides important theoretical implications for extant IE research. To test our theoretical predictions, we draw on a dataset of German small firms from four technology sectors (i.e. nanotechnology, biotechnology, microsystems, and renewable energies). Using this sample is appropriate for the current research project as firms from these areas have a strong internationalization propensity and prior literature – although taking a different conceptualization – has shown that internationalization patterns vary within these industries (Baum et al., 2011).

## 2. Background literature

### 2.1. Previous conceptualizations of internationalization patterns

In the previous IE literature particularly three types of patterns are frequently discussed: traditional (or gradual) internationalizers, born-globals and born-again globals (e.g. Olejnik & Swoboda, 2012; Tuppuru et al., 2008). *Traditional internationalizers* follow a pattern that is largely consistent with Process Models of Internationalization (PMI; e.g. Johanson & Vahlne, 1977, 2009) assuming that firms' foreign market expansion unfolds gradually out of an established domestic market. Firms' internationalization is driven by two main assumptions. First, the establishment chain logic implies that firms increase their foreign market commitment over time by moving from export via agents to wholly owned subsidiaries as foreign operation mode. The second major element is the concept of psychic distance defined as “the sum of factors preventing the flow of information from and to the market” (Johanson & Vahlne, 1977, p. 24). Through gradual internationalization from psychically closer to more psychically distant markets, the firm reduces the frictions resulting from psychic distance.

The literature on *born-globals* or international new ventures (McDougall, 1989; Knight & Cavusgil, 2004; Oviatt & McDougall, 1994) challenges the traditional internationalization pattern. According to extant research, some small firms venture abroad right from inception generating a significant amount of international revenues from a high number of foreign markets (e.g. Freeman, Edwards, & Schroder, 2006). According to this literature, internationalization does not unfold in a slow and incremental manner, but in a rather proactive way.

A third literature stream describes a *born-again global* internationalization pattern (Bell, McNaughton, & Young, 2001; Bell, McNaughton, Young, & Crick, 2003; Tuppuru et al., 2008). Born-again globals start internationalization in a slow and incremental manner, which is largely consistent with traditional internationalizers. However, at a certain turning point (e.g. when management/ownership changes) born-again globals unfold a proactive internationalization pattern, which is more in line with the born-global pattern (Bell et al., 2001, 2003). Recent research supported the existence of all three internationalization patterns. For example, Olejnik and Swoboda (2012) found the three internationalization patterns to exist among a sample of 674 – German SMEs. Tuppuru et al. (2008) revealed the three internationalization patterns among a sample of 299 Finnish firms.

However, the field is far from being conclusive. A recent framework introducing the “regionalization hypothesis” (Rugman & Verbeke, 2004) emphasizes the advantages of a geographically focused or “regionalized” approach to internationalization (Rugman & Verbeke, 2007). According to Rugman and Verbeke (2004) an intense approach to internationalization may be superior if the

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