Journal of World Business 49 (2014) 132–142

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Earliness of internationalization and performance outcomes: Exploring the moderating effects of venture age and international commitment

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ARTICLE INFO

Keywords:
International new venture
Earliness of internationalization
Venture age
International commitment
Performance outcomes
China

ABSTRACT

This study examines the impact of early foreign market entry on new ventures' performance outcomes. Venture age and international commitment are theorized as moderators to address the inconsistent findings of previous research surrounding the performance implications of early internationalization. Results from a sample of international new ventures in China found that the earliness of internationalization positively contributes to firm performance in terms of sales growth, but not innovation and profitability. The performance advantage of early internationalization becomes obsolete as young ventures become mature, especially among those with a low level of international commitment. This study highlights the importance of incorporating time-based dimensions of international venturing for a better understanding of the performance implications of early internationalization.

1. Introduction

The growing international entrepreneurship (IE) literature has revolutionized the way researchers thought about the internationalization process of the firms by investigating the phenomenon of early and rapid internationalization (McDougall & Oviatt, 2000; Oviatt & McDougall, 2005a). Since the mid-1990s when Oviatt and McDougall (1994) published their hallmark article, theorizing in the IE field has been undertaken to plumb the depths of new ideas and to develop theoretical extensions and empirical evidence to explain the case of born globals or international new ventures, firms that are international at their inception or shortly thereafter (e.g., Jones & Coviello, 2005; Keupp & Gassmann, 2009; Knight & Cavusgil, 1996; Rialp, Rialp, & Knight, 2005; Zahra, 2005). Among the most investigated concepts has been the role of learning advantages of newness (LAN) in early internationalization.

LAN is considered as a promising theoretical foundation for the international growth of new venture internationalization (Autio, Sapienza, & Almeida, 2000). The LAN perspective posits that younger firms tend to be in a better position to succeed from early foreign market entry than older firms. The central idea is that when a firm internationalizes earlier, it is less constrained by the past and therefore can learn more effectively from its foreign activities (Autio et al., 2000; Carr, Haggard, Hmieleski, & Zahra, 2010). From this standpoint, early internationalization itself might affect how ventures learn and how well they tend to perform in the early stages of their internationalization.

Although there is increasing evidence to support the performance implication of early international venturing, few studies have explicitly focused on the issue of time underlying a new venture's international growth. We observe that empirical studies generally pay less attention to the distinction between the earliness of internationalization and the speed of international growth. Earliness of internationalization refers to how early a new venture initiates its first foreign market activity, which is typically the short length of time between venture founding and its first sales across borders, or termed as venture age at first foreign market entry (Autio et al., 2000). In contrast, speed of international growth refers to how rapidly a new venture grows from its foreign operations, which is typically the pace and intensity of international expansion.

From a learning and knowledge perspective, Jones and Coviello (2005) point out the importance of incorporating time as a primary conceptual dimension to the understanding of entrepreneurial internationalization. Earliness of internationalization and venture age are two important time dimensions for international venturing. Through modeling these two time dimensions along with learning and international commitment related variables, this article aims to address the critical research question of what

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1090-9516/$ – see front matter
http://dx.doi.org/10.1016/j.jwb.2013.10.001

international new ventures do after they enter foreign markets (Morgan-Thomas & Jones, 2009). According to Zahra (2005), what they do after entry is likely to affect whether international venturing can retain the learning advantages of newness over time. In this regard, the evolution of LAN as new ventures get older and their mindset to keep learning from first-hand international experience are expected to influence the performance outcomes of early internationalization. In the next section, we present the theoretical background of the research, and review the extant literature and develop our hypotheses. Then, we describe methodology and present results. Finally, we provide conclusion and discussions as well as limitations of the study.

2. Theoretical background and hypotheses

2.1. Role of learning and knowledge in early internationalization

Following Oviatt and McDougall's (1994) identification of international entrepreneurship (IE) as a distinct field of research, much of the literature observed that many ventures were going international early and rapidly, and many did so successfully (McDougall & Oviatt, 1996; Rialp et al., 2005). A wide range of theoretical frameworks and concepts (e.g., knowledge, learning, capability, and network) are used to explain this phenomenon (e.g., Autio et al., 2000; Knight & Cavusgil, 2004; Madsen & Servais, 1997; Oviatt & McDougall, 1994; Yli-Renko, Autio, & Sapienza, 2001; Zahra, Ireland, & Hitt, 2000). An important theme that emerged from the literature is the role of learning advantages of newness (LAN) and particularly the paradoxical effect that LAN might have on the venture's ability to learn in the period following first foreign market entry.

On the one hand, the premises of LAN are at odds with the traditional theorizing of internationalization that draws from the behavioral theory of the firm (Cyert & March, 1963) to stress the inhibiting factors surrounding a firm's lack of resources and experiential learning, and considers the accumulation of foreign market knowledge as mitigating uncertainty when firms incrementally increase their international commitment (Eriksson, Johanson, Majkgård, & Sharma, 1997; Johanson & Vahlne, 1990). In contrast, the LAN perspective focuses more on the enabling factors surrounding the ability and willingness of young venture entrepreneurs to expand learning efforts specific to foreign markets. LAN considers a wide range of organizational flexibilities as learning advantages for entrepreneurs to acquire, assimilate and exploit new knowledge from various sources of information in the marketplace (Autio et al., 2000; Sapienza, Autio, George, & Zahra, 2006).

On the other hand, some researchers have raised concerns by arguing that young international firms typically are marked by a narrower set of organizational knowledge and skills. This reduces their ability to absorb new foreign knowledge (Zahra et al., 2000). This aspect manifests itself in the roles of the firm's absorptive capacity. Firms that have a greater stock of foreign knowledge or more refined organizational routines enjoy a greater capacity to integrate new knowledge within the firm's boundaries and convert it into value-creating activities (Cohen & Levinthal, 1990; March, 1991; Zahra et al., 2000). In light of the argument that the initiation of foreign market entry typically exposes the firm to extremely risky new market environments and the liabilities of foreignness (Hymer, 1976; Zaheer, 1995), international new ventures may face severe obstacles to the success of their early internationalization.

Sapienza et al. (2006) advanced the LAN argument and pointed out the possibility of survival bias. They argued that the combination of new foreign markets and inexperienced young ventures can pose additional cost and operating strains that would cause survival threat to venturing abroad. Their theoretical arguments suggest that young international venturing decreases survival probability while it increases growth prospects for those who survive the early threats. They expanded the LAN rationale offered by Autio et al. (2000) and credited the growth potential of international new ventures to the cognitive advantage of not having to unlearn existing routines that might be less appropriate in new markets, the structural advantage of not having organizational rigidity that might hinder learning in foreign markets, the relational advantage of not having established bonding ties with domestic partners, and the political advantage of not having top managers entrenched and protective of existing skills and markets.

The role of learning and knowledge associated with early internationalization is subject to further research. The theoretical development indicates that fewer organizational routines among early internationalizes prompt their relatively greater flexibility. These can increase their learning and performance potential in international markets. The potency of learning advantages may come to the fore in certain boundary conditions, especially in explaining young ventures' ability to be more aware of and receptive to international opportunities at first foreign market entry (Zahra, 2005). Perhaps there are limits to how well early internationalizers can materialize the learning advantages logic over time. In the next section, we will explore how well early internationalizers do at first foreign entry, and how venture age and international learning commitment factors may affect the learning processes of early internationalization.

2.2. Earliness of internationalization and performance outcomes

Following the conceptual development of the LAN perspective (Autio et al., 2000; Sapienza et al., 2006), several empirical studies have examined the expected performance outcomes associated with early internationalization. For the most part, the criteria for early internationalization have been loosely defined. A short length of time, ranging from inception up to 14 years, between venture founding and first sales across borders, has typically been used as a proxy for early internationalizer or international new ventures (Acedo & Jones, 2007; Autio et al., 2000; Coviello & Jones, 2004; Khavul, Perez-Nordtvedt, & Wood, 2010). There are at least two shortcomings with this practice. First, timing at first foreign market entry is not an explicit variable in empirical testing, which can result in multiple interpretations of the findings. Second, the intensity of building-up international sales at first entry has largely been ignored, which could inappropriately contextualize some domestically oriented ventures as international new ventures.

What becomes even more puzzling is that among those few studies which incorporated the timing at first foreign entry into their conceptual models, the empirical findings are somewhat inconsistent. The pioneering work of Autio et al. (2000) showed that the earlier a new venture enters into foreign markets, the faster it can grow internationally. Lu and Beamish (2006) provided further support by showing that FDI has a greater impact on firms' growth performance among those which started to make FDIs at their younger ages. In contrast, Brush (1992) found that venture age at first foreign entry was not significantly related to either sales growth or employee growth. Khavul et al. (2010) also did not find a significant linear association between the timing at first foreign entry and the new venture's performance outcomes including sales growth.

Although the premise of LAN suggests that age at foreign market entry is a critical variable; its effect on performance outcomes remains less conclusive. Theoretical development and empirical examination in the performance implications of early internationalization has become a central topic in IE research (Oviatt & McDougall, 2005b; Zahra, 2005).