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International entrepreneurial firms in Chile: An exploratory profile

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ABSTRACT

The internationalization of new small and medium-sized enterprises is a challenge for many developing countries, especially those with open economies and small internal markets like Chile. This study, in an exploratory way, analyzes some of the factors that determine how new ventures are oriented to international markets from their early stages. This paper develops a model that integrates variables related to firm characteristics like industrial sector, competitiveness, and size of the firm with a degree of internationalization. The empirical analysis uses data from the Global Entrepreneurship Monitor's (GEM) adult population survey carried out in Chile during the period 2007–2013 ($n = 4208$). An ordinal logit regression model was used to test the hypotheses. Descriptive results show that 12.8% of Chilean entrepreneurs in the sample have a relatively high tendency towards internationalization and that the factors related to competitiveness are significant with respect to this tendency. The size of the firm and the propensity to create employment are also significant. Practical implications are discussed.

1. Introduction

Internationalization and globalization have been two of the most important economic events of the last decades. According to a report from the United Nations Economic Commission for Latin America and the Caribbean, there has been an intense movement towards the internationalization of Latin American companies during the last few years (CEPAL, 2011). Free trade agreements have contributed to this growth, generating opportunities which some Latin American countries have fully exploited (Domínguez & Brenes, 1997; Carneiro & Brenes, 2014). Studies have demonstrated the ability of SMEs to create jobs, improve income distribution, introduce greater innovation into the markets and generate more competitiveness (Andersson & Wiktor, 2003). The internationalization activity of SMEs leads to increased competition, economic growth, job creation and improvement in the trade balance, in addition to other benefits through the multiplier effect (Shih & Wickramasekera, 2011). Although small businesses are an important source of growth and job creation, they appear to be underrepresented in the international economy in relation to their contribution to the national and local economies (OECD, 2005). Many SMEs have advanced in their internationalization process and many countries are adopting specific policies and programs to enhance the potential of these businesses, thereby promoting their inclusion in global markets. Both the public and private sectors are playing an important role in helping SMEs to become more active in international trade (Czinkota, 2002; OECD, 2005).

In Latin America, there is a growing trend to provide incentives for the internationalization of SMEs (Milesi & Aggio, 2008). Internationalization could be a key factor for competitiveness and development in many small and restricted markets in Latin America and also in the larger economies of the region (Acs & Amorós, 2008). However, competing abroad is not without its challenges for Latin American companies. The vast majority are small, which restricts their ability to exploit economies of scale and limits the amount of resources available for expansion, access to world-class talent and the ability to leverage their brands in global markets (Carneiro & Brenes, 2014). Furthermore, the region displays two very different pictures with regard to large internal market economies, such as Brazil and Mexico, which contrast with small export-oriented economies, such as Colombia and Chile (Amorós & Bosma, 2014). However, few studies have analyzed this process from the point of vision business trends and new internationalization (Moori-Koenig, Rodríguez, Yoguel, & Granados, 2005; Álvarez, 2002; Estrada, Heijs, & Buesa, 2006; Milesi & Aggio, 2008; Dimitratos, Amorós, Etchebarne, & Felzensztein, 2014). For this reason, the general

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objective in this study is to analyze the behavior of new small firms that internationalize early in emerging economies using Chile as the case study. Chile is an interesting case because it is a small open economy with 22 trade agreements with 60 countries that represent 85% of the world's GDP (ProChile, 2014) and it is one of the economies with the highest levels of development in Latin America.

Previous research on Chile shows that most new firms do not have an orientation towards selling their products or services to international markets (Amorós, Bustamante, Echecopar, & Ortega, 2010). Although the same report shows that about 39% of early stage startups have a certain degree of orientation to foreign markets, it is still necessary to consolidate the international approach of entrepreneurs. Dimitratos et al. (2014), based on a survey of the activities of 116 internationalized Chilean SMEs, suggests that the propensity towards networking with national and international partners and risk-taking increases the probability that the company will become international. Moreover, these research results show that most international business transactions of small Chilean companies occur in South America, coinciding with other findings that support this view (Felzensztein, Ciravegna, Robson, & Amorós, 2015). A study of Chilean export SMEs in psychic distance (Geldres, Etchebarne, & Bustos, 2011) concludes that small businesses mainly export to nearby countries psychologically, while large companies trade with distant markets (Lopez, Kundu, & Ciravegna, 2009). Small businesses prefer to export to countries whose attitudes, norms and cultural values relate to their own.

Additionally, the export basket of most Latin American countries is based on natural resources. The CEPAL study (2013) identifies that SMEs in Chile (and the rest of Latin America) are at a great disadvantage in relation to big business; the SME sector and specifically some new companies that are gaining in relevance in the internationalization process with respect to the idea of "bucking" the trend within a local market are highly dependent on the export of natural resources (Acs & Amorós, 2008; Dimitratos et al., 2014). In the case of Chile, two companies export more than 70% of total annual exports (Codelco and Escondida, both belong to the copper mining sector). This is normal in the region but, on average, the high concentration of exports of Latin American firms is 66% (CEPAL, 2013). The same report states that export enterprises in Chile are equivalent to 0.8% of the total number of companies in the country, which follows a similar trend in the region, where, on average, only 1% to 2% of companies are exporters, with the exception of Costa Rica with 4%. There was a steady growth in the number of exporting firms from 2002 to 2011. In the case of Chile, the rate was 26%. The study also shows a high level of rotation (permanent export, new markets, export activity) of over 35%, while 20% of companies are permanent exporters (5–7 years exporting continuously). The Latin American average is 30% and despite the small number of exporting firms in this sector, it is critical for domestic GDP and job creation.

On the other hand, the information provided by the Global Entrepreneurship Monitor (GEM) is of great interest when analyzing the results of the internationalization of SMEs in Latin American countries. The GEM methodology allows for the calculation of a variable that represents a good approximation of business export orientation (Reynolds et al., 2005). This indicator, which will be used in this study, is measured by the percentage of customers that an entrepreneur has abroad.

In this context, it is interesting to analyze in more detail the characteristics of firms that start the process of internationalization. Therefore, this research focuses on two main objectives: the first is to characterize the internationalized start-ups, and second, to test an explanatory model that incorporates variables related to the company and the entrepreneur with the trend towards an internationalization environment. After this introduction, the paper is organized as follows. The next section reviews some relevant literature related to international entrepreneurship. This is followed by a description of the relevant variables and their corresponding hypotheses. Next, the methodology and the main results are explained. Finally, the conclusion includes discussion and implications.

2. Literature review and hypotheses development

This research belongs to a growing field of study that brings together entrepreneurial and international businesses, which has been defined as *international entrepreneurship*. In the international business field, the concept of international entrepreneurship has been defined by McDougall and Oviatt (2000, pp. 903) as "a combination of innovating, proactive, and risk seeker conduct, that crosses the local borders and tries to create value in the organizations" and also as a wide organizational process, included in the organizational culture of the firm, that looks at generating value through the exploiting of opportunities in the internal market (Dimitratos & Plakoyiannaki, 2003). Therefore, this field of study helps to identify companies that are born for the international markets or *born global*. Under these concepts the *entrepreneurship* theory can also be used to analyze the international behavior of a firm (Andersson, 2000). The classic author Schumpeter (1934) remarks that the internationalization of companies is an example of a strategic change that may be defined as an entrepreneurial act.

The theory of resources and capabilities (Barney, 1991) has helped the study and definition of the resources that entrepreneurs can influence. The capabilities and resources theory that has been present in the strategic management area since the 1980s is a good theoretical framework to study the behavior of new internationalized companies (Wernerfelt, 1984; Barney, 1986, 1991). This theory argues that the resources, abilities, and competences of the firm facilitate the development of sustainable competitive advantages. The theory, based on resources, mainly indicates that differences in stockpiled organizational resources are an important determinant of the company strategy and its performance. These higher order resources have been defined as the assets, capabilities, information, knowledge and technology, controlled by the company. These resources allow firms to conceive and implement strategies that provide effectiveness and efficiency, and in the specific case of the SMEs, gain competitive advantage in different markets (Porter, 1991; Wernerfelt, 1984). In the international business field, the abilities and resources theory helps explain how the possession of higher management orientations, and other similar factors, when adopting certain strategies can work as important advantages for the SMEs that decide to enter into the international markets (Knight, 2001). These companies cannot afford to compete with bigger and tangible resources. They can only compete with intangible resources, namely, the ability to do more with less (Peng & Luo, 2000). Current studies (Autio, George, & Alexy, 2011) indicate that repeated and intense situational uncertainty, as caused by internationalization, accelerated this learning process in start-ups and expedited the adaptation to market environments. Organizational factors, resource viability and shared experiences are important determinants of the variability in capability development.

The size of a company has also been a predominant factor in the study of internationalization processes, which have been traditionally oriented to large multinationals that cross borders over extended periods of time. In general, these traditional theories have not considered the transformation process from a small or medium-sized local enterprise into a multinational enterprise (Oviatt & McDougall, 1994). However, during the last few years, much research has been developed around new internationalization tendencies, a phenomenon that has been observed in the global market. In the case of the *born global* companies (which are born for internationalization), what has generated debates are: the applicability of traditional internationalization theories, new model proposals and the joining of certain fields of study such as entrepreneurship and international businesses (Räisänen, 2003). With regard to entrepreneurship in emerging economies, empirical evidence shows that market transitions have been facilitating the creation of many start-ups (Peng, 2001) and consequently firms that have early international operations. From this literature review, it has been possible to detect a set of issues influencing early internationalization and set out the hypotheses introduced below.