



## Micro-multinational or not? International entrepreneurship, networking and learning effects



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### ABSTRACT

Micro-multinational enterprises (mMNEs) represent a new breed of smaller firms in the field of international entrepreneurship. This study investigates the effects of the three sets of variables, namely international entrepreneurship (which encompasses innovativeness, proactiveness and risk-taking propensity), networking and learning on the probability that a firm will become a MNE. Drawing upon a survey of the activities of 116 Chilean internationalized small- and medium-sized firms and utilizing a logistic regression analysis, this study suggests that risk-taking propensity and networking with domestic and international partners increase the likelihood that the firm will become a mMNE. Our findings confirm the predictive validity of the international entrepreneurship and networking perspectives. Because of the positive association between mMNEs and international performance, the suggestions for management of internationalized firms are to nurture a risk-taking propensity and cultivate a networking orientation.

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### 1. Introduction

A recent *Foreign Policy* special report posits that “if the late 20th century was the age of the multinational company, the early 21st will be the age of the micromultinational... You have never heard of most micro-multinationals and likely never will; like other small firms, most will go out of business or be acquired by larger organizations. But some, like Skype (from Estonia) or Rovio, the maker of the popular mobile-device game Angry Birds (from Finland), have become household names” (Varian, 2011).

Which firms are micro-multinational enterprises (mMNEs), and why do they matter for international entrepreneurship research and management practice? Dimitratos, Johnson, Slow, and Young (2003, p. 165) define the mMNE as a “small- and medium-sized firm that controls and manages value-added activities through constellation and investment modes in more than one country”. Thus, mMNEs are smaller firms that employ advanced (non-exporting) foreign market servicing modes to tap into opportunities abroad. mMNEs are entrepreneurial firms that understand that international expansion through advanced (non-exporting) modes may offer them advantages to exploit, such as

by providing superior international customer service and collecting exceptional feedback on market conditions (Lu & Beamish, 2001; Prashantham, 2011). These firms are different from the “born globals” or “international new ventures” that go abroad from their inception (whose internationalization refers to the “time to internationalization” criterion). The activities of mMNEs focus on the criterion of mode of servicing the foreign market, which has remained rather under-explored in the international entrepreneurship literature (Zahra, Ireland, & Hitt, 2000). Researchers are challenging the traditional notion that smaller firms are best suited to focus exclusively on exporting because of their resource constraints and are making pleas for study into alternative modes of expanding abroad (Crick & Jones, 2000; Prashantham, 2011). Addressing this point, Jones, Coviello, and Tang (2011) in a recent review of the international entrepreneurship area posit that the evidence regarding this emerging breed of internationalized smaller firms is very limited. This contention is surprising because mMNEs are able to achieve higher control levels on international activities and superior performance (Prashantham, 2011), which also has considerable implications for management.

The current study aims to fill this knowledge gap by offering evidence regarding the activities of mMNEs. The research question under investigation is to determine which organizational attributes influence internationalized smaller firms to become mMNEs instead of being exporters only. To answer this question, this research employs perspectives from international entrepreneurship, networking and learning. The resources and capabilities that internationalized smaller firms require to attain a competitive advantage abroad are closely linked to

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these perspectives (Keupp & Gassmann, 2009). The three perspectives receive a significant share of attention from studies on international entrepreneurship.

Consistent with these perspectives, the resources and capabilities examined in the current study involve international entrepreneurship, networking and learning. Dissimilar levels of innovativeness, proactiveness, risk-taking propensity, networking and learning in internationalized smaller firms may be conducive to different engagements in modes of servicing foreign markets; these are major strategic and long-term choices for the firms concerned and are conducive to dissimilar pathways of exploiting international opportunities. The present investigation uses evidence from the international activities of 116 small- and medium-sized firms located in Chile, an emerging economy.

Chile is an interesting study setting because it presents the highest rates of “opportunity-driven” new venture creation among Latin American economies (Amorós, Fernández, & Tapia, 2012; Amorós & Poblete, 2011). The Chilean economy exhibits a recognized track record of sustained growth, strong policy leadership, solid institutions and international orientation (International Monetary Fund [IMF], 2011). In addition, smaller firms in Chile represent 99% of all firms in the country and generate 75% of the employment. Their scarce resources and the limited access they have to financial services and sources of innovation render it difficult to meet the challenges of global competitiveness (Organisation for Economic Co-operation and Development [OECD], 2009). Nevertheless, small firms in Chile increasingly exhibit high levels of international activity (Felzensztein, Gimmon, & Aqueveque, 2013).

This study contributes to the international entrepreneurship and management literature by suggesting, first, that an international risk-taking propensity is the differentiating entrepreneurial attribute of mMNEs; and, secondly, that active networking distinguishes the activities of mMNEs from those of exporting firms. Thus, the importance of the international entrepreneurship and networking perspectives is strengthened, which also has considerable managerial implications. These contributions occur in a research setting of entrepreneurial firms in the Latin American context whose national and international activities are essentially under-investigated (Nicholls-Nixon, Davila-Castilla, Sanchez-Garcia, & Rivera-Pesquera, 2011).

This paper is structured as follows. The next section discusses the research background of mMNEs and international entrepreneurship, in addition to the hypotheses associated with the conduct of this study. Following this, the paper explores methodological aspects of sampling, data-collection and measurement of variables. The subsequent section discusses the findings of the statistical analysis of this investigation. The concluding section outlines implications for research and management, in addition to the limitations of the study and future research directions.

## 2. Literature review and hypotheses

### 2.1. mMNEs and international entrepreneurship

Studying mMNEs is important because the choice of mode made by internationalized smaller firms affects the extent to which a firm controls its foreign activities and, potentially, its performance (Dhanaraj & Beamish, 2003). An mMNE may not always own foreign assets but may instead control important foreign assets (Dimitratos et al., 2003). This reflects the liability of the small size encountered by mMNEs, which relates to the limited resources and capabilities that smaller firms are able to commit to internationalization (Lu & Beamish, 2001). Exporting is the simplest and first option for smaller firms to internationalize, but it provides little control over international activities, and such firms may thus achieve suboptimal international performance when they restrict themselves to exporting modes (Crick & Jones, 2000). Mathews and Zander (2007, p. 390) assert that mMNEs are “the new species of multinational enterprises in the global economy”;

therefore, finding evidence that distinguishes them from exporting firms is critical.

The investigation of the foreign market servicing mode is an important theme of study in the international business literature (Brouthers & Hennart, 2007), which includes research on smaller firms (Brouthers & Nakos, 2004). Surprisingly, the international entrepreneurship literature deals almost exclusively with the dimension of “time to internationalization”. This refers to the time lag between the founding of the firm and the initiation of international activities (Zucchella, Palamara, & Denicolai, 2007). The investigation of the activities of international new ventures and the manner in which they achieve enhanced performance in the international marketplace play a critical role in the study of international entrepreneurship (Keupp & Gassmann, 2009). This literature indicates that the founder of the firm and the organizational processes she undertakes will likely have a significant impact on whether the firm will become a new international venture (Madsen & Servais, 1997).

These firms operate in a unique innovative culture that allows them to succeed in diverse international markets (Knight & Cavusgil, 2004). They internationalize primarily because they rely on their social capital both at home and abroad (Coviello, 2006). Recent evidence suggests further that such social ties may help international new ventures recognize new opportunities abroad (Ellis, 2011), which is the starting point for effective idea generation (Ardichvili, Cardozo, & Ray, 2003). International new ventures may also enjoy learning advantages that result from their newness because they do encounter fewer learning impediments to their rapid international growth (Autio, Sapienza, & Almeida, 2000). It appears that the international entrepreneurship, networking and learning attitudinal aspects are critical to the internationalization of such new ventures, and a significant share of the international entrepreneurship literature addresses these topics.

Nevertheless, the theme of the foreign market mode remains surprisingly under-investigated (Jones et al., 2011). Because of the increasing significance of mMNEs in the global arena, evidence regarding their activities and the features that distinguish them from exporting firms is an issue that merits further investigation. In other words, international entrepreneurship research might benefit from study of the mode rather than simply the time to internationalization; this investigation is the aim of the present research. This study examines mMNE entrepreneurial, networking and learning propensities, which are significant research themes in the field of international entrepreneurship.

### 2.2. A multidisciplinary approach on mMNE activities

Existing evidence suggests that international entrepreneurial firms employ advanced modes internationally at their inception (Allison & Browning, 2006) and that this practice may also be an effective competitive strategy for these firms (Zahra et al., 2000). Investigation into the behavior of these firms has gained momentum in the literature lately (da Rocha, de Mello, Pacheco, & de Abreu, 2012; Ripolles & Blesa, 2012), but research evidence on mMNE activities remains scarce.

This research evidence suggests that mMNEs attempt to exploit opportunities abroad and follow a different internationalization pathway through advanced modes than exporting firms (Ibeh, Borchert, & Wheeler, 2009). mMNEs are found in both knowledge-intensive and traditional sectors. Interestingly, they are likely to favor subsidiaries over contractual modes of business structure, such as licensing and joint ventures (Ibeh, Johnson, Dimitratos, & Slow, 2004). These same authors provide evidence that Scottish mMNEs do not go abroad in neighboring countries or in those that are psychologically close; they further rely on market- or knowledge-seeking motives to expand.

Recently, Prashantham (2011) compares the activities of mMNEs to those of exporting firms. He finds that mMNEs employ higher stocks of cross-border co-ethnic social capital that enable them to identify opportunities abroad easier. Prashantham corroborates the importance of the networking theory to explain the activities of

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