Research Policy 44 (2015) 1207–1225

Contents lists available at ScienceDirect

Research Policy

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

The role of home country demand in the internationalization of new ventures

Johann Peter Murmann [a,*], Salih Zeki Ozdemir [b], Deepak Sardana [c]

[a] UNSW Australia Business School, Sydney, NSW 2052, Australia
[b] UNSW Australia Business School, Sydney, NSW 2052, Australia
[c] Adjunct Senior Research Fellow, UniSA Business School, University of South Australia, Adelaide, SA 5000, Australia

ARTICLE INFO

Article history:
Received 26 February 2013
Received in revised form 5 March 2015
Accepted 6 March 2015

Keywords:
International new ventures
Internationalization
Small vs. large demand countries
Young biotechnology firms
International partnerships
Business development partnerships

ABSTRACT

International new ventures (INVs) have been documented to exist all around the world, but the literature is silent on the frequency of such companies in different countries. We contend that the propensity of new ventures to internationalize by forming international partnerships is higher in small-domestic demand countries because they have a greater motivation given their limited local demand. After discussing the methodological challenges in testing this hypothesis, we do such a test by studying alliances in the health segment of the biotech industry in relatively small-domestic demand countries (Australia, Israel, and Taiwan) and by comparing the results with five large-domestic demand countries (UK, Germany, France, US, and Japan). We find that young firms in the countries with smaller domestic demand are at least 3 times more likely to enter into international partnerships than their counterparts in countries with larger domestic demand. We further demonstrate that this difference can primarily be explained by the difference in the size of domestic healthcare markets rather than other underlying opportunity structure related factors.

© 2015 Elsevier B.V. All rights reserved.

1. Introduction

The literature on international new ventures (INV) portrays INVs as a global phenomenon and assumes that new firms around the globe face similar motivations and have experienced a similar improvement in capability to internationalize (Oviatt and McDougall, 1994; Rialp et al., 2005). Hence one would expect a similar internationalization behavior among new ventures from various countries. In this study, we examine this important assumption and ask if the propensity of new ventures to internationalize by forming international partnerships is indeed similar across different countries. Our point of departure is a critical but neglected motivation to internationalize: the size of local demand the new venture experiences in its home country. We argue that in small countries (defined by the size of local demand), young firms have an additional motivation to develop relationships with firms in foreign countries quite early in their lifecycles. This is because accessing additional international demand is more crucial for new ventures in small countries. It helps them to recoup their investment costs and reduces unit costs of production compared to new ventures in large countries, which can achieve similar results through domestic demand alone. Accessing foreign markets also helps young firms overcome local resource constraints by tapping into the resources of other countries. We therefore propose that although international new ventures exist in both small and large countries, small countries will see their young firms internationalize more often than large countries.

We test this proposition by studying international and domestic partnerships between firms in the health segment of the biotech industry. Specifically, we study this knowledge-intensive and high technology industry in a number of small- (Australia, Israel, and Taiwan) and large-domestic demand countries (US, UK, Germany, France, and Japan).

Assessing differences in internationalization behavior across countries in terms of partnership formation patterns, however, is empirically challenging. It is not sufficient to show differences through simple descriptive statistics. This is because large-demand countries also tend to have more firms than small countries. For this reason alone, mere chance may create more international partnerships for small countries. Let us illustrate: For simplicity's sake, assume that the world consists of one small country with 10 firms and one large country with 90 firms. Let us further assume that

* Corresponding author. Tel.: +61 2 9385 9733.
E-mail addresses: rp@professor-murmann.net (J.P. Murmann), sz.ozdemir@unsw.edu.au (S.Z. Ozdemir), deepak.sardana@unisa.edu.au (D. Sardana).

http://dx.doi.org/10.1016/j.respol.2015.03.002
0048-7333/© 2015 Elsevier B.V. All rights reserved.

firms find partners through a purely random matching process. In this scenario, firms in the small country would form international partnerships with a probability of 90%, and consequently 9 out of 10 partnerships would be expected to be international. By contrast, firms in the large country would form international partnerships with a probability of 10%, and consequently only 1 out of 10 partnerships would be expected to be international. The key empirical challenge, therefore, is this: One needs to establish that the differences in partnership formation frequencies between large and small countries remain after their specific opportunity structure for internationalization behavior is accounted for.

We use hierarchical linear modeling techniques and employ multi-level logistic regression methodology developed for panel data to address this challenge. This enables us to test hypotheses at the country level while using data at the firm and partnership levels (Peterson et al., 2012; Hofmann, 1997). More specifically through using such a methodology, we are able to introduce various country-level variables that can account for the underlying opportunity structure into a regression that essentially also contains country and year dummies within it. Our empirical analyses yield two findings. First, patterns of partnership formation are different in small- and large-demand countries: Young firms from small countries internationalize more frequently. Second, this difference is due to the size of the local demand rather than what can be explained by taking into account (i) the distribution of potential partner companies domestically and internationally, (ii) the existing science base and capability of the home country within biotechnology, (iii) the global integration of the home country through low trade barriers with potential target countries, or (iv) the underlying propensity of two specific firms to engage in an alliance. By demonstrating the causal role of small home country demand, our findings extend existing arguments regarding why young firms internationalize from early on. This yields important insights regarding the behavior of INVs in different countries.

The paper proceeds as follows: In Section 2, we review the literature on INVs and formulate a proposition about the frequency of INVs in small vs. large countries. Then, with a focus on partnerships among firms, we develop specific hypotheses on how the size of home demand influences the frequency of different types of international and domestic alliances. Section 3 describes the data, the empirical challenges, and the methodology we use to address the challenges and test the hypotheses. Section 4 presents our results. We conclude by discussing the implications of our findings and by proposing avenues for future research.

2. Prior literature

In the early 1990s, entrepreneurship researchers started to notice that new firms at the time of their formation or soon thereafter would offer their products in multiple countries (Oviatt and McDougall, 1994). An example is ResMed a world leader in developing and manufacturing products for diagnosis and treatment of sleep-disordered breathing. It was founded in Australia in 1989 but quickly started selling internationally. This phenomenon of ventures going international almost from the beginning was inconsistent with the traditional stage theory of internationalization of companies (e.g., Johanson and Vahlne, 1977).

Intrigued by this inconsistency with traditional theory, scholars tried to understand more systematically the phenomenon of INVs, or "born globals" as they were often dubbed. Oviatt and McDougall (1994, p. 49) define an INV as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries." Oviatt and McDougall (1994) were careful not to claim that INVs were an entirely new kind of organization. They recognized that firms such as the East India Company, chartered in London in 1600, or the Ford Motor Company, founded in 1903, also operated internationally as start-ups. However, they argued that the frequency of this phenomenon had increased significantly. The literature on INVs has grown substantially in the past two decades and efforts have been made to identify the drivers that have led more entrepreneurs to take their ventures international from the beginning.

2.1. The high frequency of international new ventures

We distinguish between two broad sets of factors that contribute to the high frequency of INVs. One set concerns the ability of entrepreneurs to take their young ventures international. The second set explains their motivations to do so.

2.1.1. Ability factors

The primary cause of this enhanced ability to internationalize is technological change. Knight and Cavusgil (1996) highlight the role of advances in communications and digital technology, and Oviatt and McDougall (2005) stress that faster and more efficient transportation of both goods and people decreases the costs of foreign trade and investment. In other words, innovations have dramatically reduced the costs of international communication, plane travel, and the transport of goods and services (Rialp et al., 2005). With email, one can now send virtually unlimited business communications around the world at essentially zero marginal cost and in a matter of seconds. The real cost of air travel has been greatly reduced and video conferencing has become so cheap that any entrepreneur can talk to partners and clients in other countries. Similarly, the cost of accessing information that is created in different parts of the world has been dramatically reduced with the creation of the internet (Bell et al., 2001). In total, technological innovations have dramatically reduced the resource requirements for going international.

A second group of factors enhancing the ability to internationalize arises from the creation of increasingly global markets. The greater connectedness of both the global economy (Herstad et al., 2014) and innovations systems (Carlsson, 2006), and reductions in trade barriers in general, have improved the ability of firms to internationalize. Trade barriers have fallen on average, with many countries entering into global trade pacts (e.g., China joining GATT) or regional trade pacts (e.g., NAFTA combining US, Canada and Mexico, or the European Union removing barriers among member states) (McCann, 2008). Similarly, financial markets have become increasingly internationalized, allowing entrepreneurs to raise financial capital more easily in foreign countries (e.g., Chinese solar and internet companies procuring capital in New York). In addition, the increasing homogenization of tastes enables more companies to sell similar products across multiple countries (e.g., Apple selling the same iPhones around the world). Moreover, because more people have either studied, worked, or simply traveled abroad, more entrepreneurs have established international links that can help them venture into other countries (Rialp et al., 2005). Overall, countries have become increasingly linked, giving entrepreneurs a greater ability to enter international markets.

2.1.2. Motivation factors

Research has identified two causes of increased motivation for entrepreneurs to start a venture in more than one country. One is entrepreneurs' fear that their potential competitors in other countries may quickly imitate and then challenge them in their home country (McDougall et al., 1994). Many entrepreneurs are motivated to protect their home market profits. Such an entrepreneur is concerned that potential competitors in other countries could imitate and introduce the entrepreneur's products in their own

Download English Version:

https://daneshyari.com/en/article/10482972

Download Persian Version:

https://daneshyari.com/article/10482972

Daneshyari.com