Journal of Business Research 69 (2016) 1690–1695

Contents lists available at ScienceDirect

Journal of Business Research

Innovation, internationalization and business-growth expectations among entrepreneurs in the services sector☆

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ARTICLE INFO

Article history:
Received 1 February 2015
Received in revised form 1 July 2015
Accepted 1 September 2015
Available online 23 October 2015

Keywords:
Innovation
Internationalization
Entrepreneurship
Business growth
Services sector

ABSTRACT

World economies experience a huge process of globalization that, among other things, makes more markets available for businesses and entrepreneurs to place their products. Market availability, in turn, generates positive expectations of business growth, which results in greater competition and innovation, which help to achieve a higher level of product internationalization. This study aims to ascertain whether service sector entrepreneurs who decide to innovate and internationalize have expectations of achieving greater business growth. This study examines the direct relationship between innovation, internationalization, and the expectations of business growth of service sector entrepreneurs. To do so, this study conducts an empirical analysis with data from seventeen countries.

1. Introduction

Economic literature gives special attention to the role of entrepreneurs in the economy, and views of entrepreneurs as generators of a country's economic growth and, therefore, prosperity. Due to entrepreneurs' capacity to generate products, and more specifically, to use productive resources in order to introduce innovations, literature views entrepreneurs now also as generators of wealth and employment (Alpkan, Bulut, Gundy, Ulusoy, & Kilic, 2010; Andersen, 2011; Chilton & Bloodgood, 2010). Consequently, countries in which the effects of the recession are more severe, and countries that have higher unemployment rates introduce measures to boost entrepreneurial activity in their economic policies (Acs, Audretsch, Braunerhjelm, & Carlsson, 2004; Acs, Audretsch, Braunerhjelm, & Carlson, 2005; Acs, Audretsch, Braunerhjelm, & Carlsson, 2012; Acs & Szerb, 2007; Audretsch, Bonte, & Keilbach, 2008; Audretsch & Keilbach, 2004a, 2004b; Hamilton, 2007; Martínez, 2005; Noseleit, 2013).

However, in this context, researchers need to consider not only the behavior of these economic agents in their own country but also how to ascertain whether entrepreneurs take advantage of the opportunities that global economy offers and which allows them to expand their businesses. Global economy presents them with more market niches and higher demand, which at the same time compensates or exceeds the demand existing in their own countries, thus permitting the survival and at times, even the expansion, of their activity.

Even so, this possibility depends on various factors, the most important of which is product innovation. Product innovation allows them to compete in the markets they wish to enter.

The traditional literature tends not to overlook these aspects and simply analyzes how innovation affects business activity in general. Furthermore, the traditional theory explaining the internationalization strategies of companies (Johanson & Vahlne, 1977, 1990) considers that established companies are the ones that search for niches in foreign markets. Therefore, this study aims to analyze the effects of innovation on internationalization, and confirm that entrepreneurs who choose to innovate are more likely to internationalize their activity (Morrison & Roth, 1992; Grossman & Helpman, 1991; 2000; Kafouros, Buckley, Sharp, & Wang, 2008). This study also analyzes how innovation and internationalization affect their business expansion expectations (Gabrielsson, Manek Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Motohashi, 2005; Oviatt & McDougall, 1994; Wu & Huarng, 2015). This analysis focuses on the services sector, the most rapidly expanding sector in recent decades.

☆ The authors thank Professor Daniel Palacios, Universidad Politécnica de Valencia and Professor Miguel-Ángel Sastre, Universidad Complutense de Madrid for their careful reading and suggestions.
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http://dx.doi.org/10.1016/j.jbusres.2015.10.039
0148-2963/

Section 2 explains the relationships existing between innovation, internationalization, and business growth. Section 3 describes the empirical analysis, which consists in a partial least square estimation for 17 countries using data from 2010. Section 4 presents the main conclusions.

2. Innovation, internationalization and business growth

Innovation is one of the most important factors in business activity, which in turn has positive direct and indirect effects on a country's economic growth (Abramovitz, 1986; Audretsch, 2005). In this respect, Drucker (1998) points out that innovation is at the heart of entrepreneurial activity, and drives many entrepreneurs to carry out their activity. Innovation, therefore, creates a feedback effect in which entrepreneurs innovate, and their innovations stimulate other entrepreneurs to carry out their activity (De Cleyn & Braet, 2012; Zortea-Johnston, Darroch, & Matear, 2012).

In addition, the effect of innovation on the internationalization of entrepreneurs' activity needs consideration as well. Because of innovation, a product becomes more competitive, either from the point of view of technology, price, or both. This way, the product reaches more markets, and higher potential competition stimulates product innovation (Yang & Li, 2011; Zhang & Duan, 2010).

H1. Higher potential competition leads service sector entrepreneurs to be more innovative.

Higher potential competition generates positive business expectations and motivates entrepreneurs, among other things, to grow their business. Competition can favor the creation of a virtuous circle of innovation, expansion of business, and more innovation. Therefore, innovation is one of the essential factors in the process of internationalization.

The Uppsala model of internationalization considers internationalization to be a gradual and sequential process that depends on the experience and knowledge that business acquire through entry into successive new foreign markets (Johanson & Vahlne, 1977, 1990). The internationalization of an organization is, usually, a process that leads on from the consolidation of the business in the domestic market.

However, globalization, greater market liberalization and shorter product life cycles lead entrepreneurs whose goods and services are based on new or innovative technology to opt for the strategy of internationalization despite their companies being relatively new (Knight & Cavusgil, 1996; Madsen & Servais, 1997; Moen, 2002). Furthermore, according to Autio and Sapienza (2000) these new, innovative companies that use cutting-edge technology and opt for internationalization can achieve a higher level of growth than companies that decide to internationalize at a much later stage.

H2. Product innovation promotes the internationalization of service sector entrepreneurs and generates positive expectations of business growth.

H3. Service sector entrepreneurs who use cutting-edge technologies are more innovative. The internationalization of their activity leads to a greater business growth.

According to Van Ark, Broersma, and den Hertog (2003), innovation in services is a multidimensional concept referring to new, or substantially renewed, service concepts, client interaction channels, service delivery systems, or technological concepts that individually, or in combination, lead to one or more service functions that are new to a company. This innovation permits changes to the goods and services supply on the market; innovation also requires new technological, human, or organizational capabilities. Because this definition covers the notions of technological and non-technological innovation such as those in new concepts, new interfaces with clients, or new supply systems, this definition is multidimensional.

Therefore, determining which factors affect positively on innovation is important because those factors indirectly affect a company's internationalization, and expectations of growth.

H4. The factors determining the innovation of a product have an indirect positive effect on a company's internationalization and expectations of growth.

Of the factors that enhance the process of innovation, two are more significant. First, human capital: entrepreneurs with more skills and a higher training facilitate not only innovation but also the introduction of new technologies in the production process (Castaño, Méndez, & Galindo, 2015; Cooper, 2006; Hallin & Marnburg, 2007; Shaw & Williams, 2009; Xiao & Smith, 2007). Lawson and Samson (2001) argue that the effects of human capital and technological knowledge available as business resources are determining factors for innovation. These authors state that without competent personnel, and a positive attitude towards cooperation and innovative capabilities, innovation becomes impossible. Zahra and Nielsen (2002) add that innovation is also impossible without technology (i.e., modern facilities, up-to-date technology, internal development of process technologies, in-house product technology development), and the consequent technological knowledge.

Furthermore, human capital is one of the fundamental intangible resources for the international development of a company (Rialp, Rialp, & Knight, 2005; Ripollés, Menguzzato, & Iborra, 2002). What is more, the entrepreneur's human capital (i.e., training and professional or international experience) is one of the essential factors for the success of a business in its initial stages (Autio & Sapienza, 2000; Coviello & Jones, 2004; Rialp et al., 2005).

H5. The human capital of entrepreneurs and society has positive effects on the product innovation of service sector entrepreneurs.

Economic performance also has a positive effect because greater economic activity encourages entrepreneurs to look for new market niches, which competitive products help to achieve. The goal of achieving competitive products, in turn, encourages entrepreneurs to innovate to achieve this type of products (Drucker, 1998).

H6. Economic performance has positive effects on the product innovation of service sector entrepreneurs.

Finally, internationalization generates positive expectations in entrepreneurs. Internationalization offers entrepreneurs the possibility of accessing new markets, which present a positive relationship with growth expectations (Gabrielsson et al., 2008; Oviatt & McDougall, 1994).

H7. There is a positive correlation between internationalization and the entrepreneurs' expectations of business growth in the service sector.

3. Empirical estimation

3.1. Model and data

To test the seven hypotheses, this study uses a latent variables model with data from 17 countries (i.e., Argentina, Belgium, Brazil, Chile, Colombia, France, Germany, Hungary, Italy, Netherlands, Norway, Peru, South Africa, Spain, Switzerland, United Kingdom, and United States) in 2010. Fig. 1 shows a graphic representation of the model. See Fig. 2

Latent variables allow working with theoretical concepts, and sometimes, abstract concepts too. This study measures these constructs using