



# International commitment, post-entry growth and survival of international new ventures <sup>☆</sup>

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## ABSTRACT

This paper makes several contributions to the emerging literature on the post-entry behavior of international new ventures. Based on an extensive longitudinal data set, we investigate the dynamics of commitment, growth and survival of different types of newly internationalizing Belgian firms. Global start-ups have the highest initial and rapidly rising export commitment per market and are also more likely to continue exporting over time than geographically focused start-ups, and traditional staged exporters. However, global start-ups also display the highest failure rate. This high failure rate appears to result primarily from the 'liability of newness' and less from the added complexity associated with rapid and wide scope internationalization.

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## 1. Executive summary

Despite a growing body of international entrepreneurship literature, the evolutionary patterns of international new ventures (INVs) are not well understood. In this paper, we present a conceptual model of the development of newly internationalizing firms combining three theoretical perspectives: entrepreneurship, learning/knowledge, and strategy. While the entrepreneurship and learning/knowledge perspectives have received due attention in the literature, the strategic perspective has been less well developed.

Using a strategic lens not only helps us to understand why INVs are different from traditional exporters but it also allows us to appreciate why not all INVs follow the same development path. In essence, the strategic approach holds that the firm's competitive environment and resource base will lead internationalizing firms to adopt either a sprinkler or a waterfall strategy. The sprinkler strategy involves rapidly entering a wide range of markets in a committed and credible manner in order to secure a strong market position. The waterfall strategy, on the other hand, implies making small initial commitments and gradually penetrating additional markets over time, allowing the firm to benefit from lead and spillover effects from the sales in markets previously entered. The relevance of the strategic framework is analyzed against empirical evidence from the post-entry development of three types of newly internationalizing firm: a) global start-ups, i.e. INVs that from their inception export on a global scale, penetrating multiple markets simultaneously, b) geographically-focused start-ups, i.e. INVs that upon inception start exporting to a smaller set of countries, all within the same region, and c) traditional exporters, i.e. older firms that start exporting to a small set of countries after being established in domestic markets for some time. The evidence is derived from a unique and

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large longitudinal data set, including trade data and balance sheet data from 5800 newly internationalizing Belgian-based firms over an eight-year period (1998–2005).

We find that the development process of a typical global start-up is consistent with a sprinkler strategy. The development patterns of a typical geographically-focused start-up and of a traditional exporter demonstrate consistency with a waterfall strategy. This is based on the predictions derived from the strategic and learning perspectives concerning four major elements of newly internationalizing firms' post-entry development: commitment, growth, export persistence, and survival after initial entry into export markets.

Global start-ups, the most radical type of INV, have the largest initial commitment, the fastest growth in foreign markets, and the greater likelihood than any other type of firm of continuing to export over time. This strong commitment accords well with a sprinkler strategy and the aim of rapidly gaining a strong position in foreign markets. In contrast, geographically-focused start-ups and traditional exporters exhibit smaller initial commitments, lower growth, and less persistence in exporting to foreign markets. These patterns accord with a waterfall strategy. Traditional exporters show the smallest initial commitment but also the highest likelihood of withdrawal from export markets, consistent with a very cautious experiential learning approach. Despite the higher withdrawal rate, traditional exporters as a group show the best survival rate, or otherwise stated, the lowest failure rate among the newly internationalizing firms. The failure rate of global start-ups, as well as geographically-focused start-ups, is substantially higher. However, both global and geographically focused start-ups are young firms, and their failure rate is no higher than other young firms, such as (non-exporting) domestic new ventures. Hence, rapid internationalization does not appear to add significant risk. Equally unexpected, the large export scope (the number of countries entered) of global start-ups does not generate a significantly higher failure rate than that observed for geographically focused start-ups. Indirectly, this finding would appear to suggest that (failure) risk minimization is not the major reason for choosing a waterfall strategy over a sprinkler strategy. Industry conditions seem to be of greater importance in making this choice.

From a managerial perspective, our findings imply that, despite the constraints that young firms with limited resources face, various ways are available to them to successfully enter international markets and maintain growth. Success will depend on a careful choice of foreign market penetration strategies. In slowly growing industries – and in industries where competition is weak – a waterfall strategy allows firms to capitalize on lead and spillover benefits and, at the same time, minimize risk as they expand abroad. In highly competitive industries, characterized by short product life cycles and rapidly growing markets, a sprinkler strategy is more appropriate. A sprinkler approach can maximize revenues for small firms operating in a global niche market, without necessarily adding excessive risk. Here, ex-ante analysis and active learning over the development process should help to stimulate growth and reduce risk.

## 2. Introduction

Following the seminal contribution of Oviatt and McDougall in (1994), international business and entrepreneurship scholars have produced a vast body of research on international new ventures (INVs). This strong and growing interest has been reflected in reviews of the broad spectrum of academic research on INVs by Rialp et al. (2005) and international entrepreneurship (IE) by Keupp and Gassmann (2009) and Jones et al. (2011). The literature produced in various countries and contexts focuses mainly on subject matter such as the conceptualization of INVs (e.g. Knight and Cavusgil, 1996; Madsen and Servais, 1997; Oviatt and McDougall, 1994) and the factors influencing their inception and development (e.g. Weerawardena et al., 2007). However, the literature on the growth and performance of INVs is less developed as a recent study by Prashantham and Young (2011) has highlighted. Although INVs play an increasingly important role in today's economy (Shrader et al., 2000; Zahra, 2005), few studies have tracked their evolution over time (Jones et al., 2011; Zahra, 2005). As a result, the impact of early internationalization on the performance, growth and survival of INVs is not well understood (Zahra and George, 2002), and the possible long-term benefits for the firm are unclear (Sapienza et al., 2006; Zahra, 2005).

The purpose of this paper is to contribute to the emerging literature on the growth and post-entry performance of INVs by adding a strategic perspective to the entrepreneurship and learning perspectives and by showing its relevance in relation to the development of INVs. We also contrast the internationalization paths of INVs with other, more traditional patterns, and do so by applying a strategic perspective to foreign market entry that follows Kalish et al.'s (1995) discussion of product diffusion strategy. Thus, we focus on the timing and geographical scope of internationalization and not on the characteristics of these firms or the drivers of internationalization. Our paper makes several contributions to the literature, based on a unique and extensive data set of Belgian small and medium-sized enterprises (SMEs). First, we investigate the initial commitment of INVs and other types of newly internationalizing SME in foreign markets. Second, accounting for initial commitment and correcting for possible selection bias, we analyze differences in post-entry growth in foreign markets. Third, by analyzing which firms withdraw from and which remain active in international markets, we examine the continued commitment to exporting of the different types of newly internationalizing SME. Fourth, we analyze the failure rate of INVs and other newly internationalizing SMEs in comparison to domestic new ventures. Finally, by applying a strategic lens to our analysis, we offer a more complete understanding of post-entry internationalization paths, complementing other perspectives that focus on (e.g.) learning.

These contributions directly address some important gaps in the international entrepreneurship literature. Although several researchers (e.g. Jones and Coviello, 2005; Wright et al., 2007) suggest that the complexity of internationalization calls for a longitudinal research design, the evolutionary patterns of INVs are not well understood (Zetting and Benson-Rea, 2008) and studies on INV survival are rare (Jones et al., 2011). Similar points are raised regarding the lack of longitudinal investigations (Coviello and Jones, 2004; Zahra, 2005), and our study is one effort to address these concerns. Second, Zahra and George (2002)

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