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# Fast and Furious or Slow and Cautious? The Joint Impact of Age at Internationalization, Speed, and Risk Diversity on the Survival of Exporting Firms

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## ABSTRACT

This article examines the effect of age at internationalization and pace of internationalization on the survival of small and medium-sized enterprises. Two sets of hypotheses are developed on the basis of the sequential expansion and international new venture approaches. These hypotheses are tested using an event-history method and panel data on French SMEs that exported for the first time between 2003 and 2012 (547 firm-year observations). The results show that the failure rate for firms adopting the late, slow, and cautious sequential expansion approach is significantly lower than in small firms adopting other paths to internationalization.

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## 1. Introduction

The literature on the internationalization of firms has rarely adopted a process approach to understanding when and how firms expand into foreign markets (Eden, 2009; Reid, 1981; Welch and Paavilainen-Mäntymäki, 2014). However, the stream of research putting time at the core of the phenomenon of the internationalization of firms is gaining momentum (Gankema et al., 2000; Vissak and Francioni, 2013; Welch and Welch, 2009). Time plays a primary role in the internationalization process (Jones and Coviello, 2005); not only does it guide and structure changes that occur throughout the process, it also has a cyclical effect, initiating and channeling future changes.

When studied in relation to the internationalization process, time has two dimensions that can be linked to distinct phases in this process. The first is the point at which the initial change takes place, which is often expressed as the delay between the creation of the firm and its first expansion abroad, a period otherwise known as the “pre-internationalization” phase or “age at internationalization” (Casillas and Acedo, 2013; Casillas and Moreno-Menéndez, 2014). The firm’s age at the time of its first international expansion is viewed as a key dimension since it marks the start of the internationalization process. The second is the temporal succession of changes, which can be expressed as the number of countries or foreign markets into which the firm enters over a certain period of time, otherwise known as the pace of internationalization.

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The question of the timing of internationalization is crucial for small and medium-sized enterprises (SMEs) due to the small amount of resources available to them (Chetty et al., 2014). More precisely, managing this timing poorly can lead to inefficient resource allocation, which in turn can adversely affect SMEs' overall performance and survival (Chetty and Campbell-Hunt, 2003). The influencing or generative role of the pre-internationalization phase is described in two theoretical approaches to the internationalization of small firms: the sequential expansion (SE) approach (Johanson and Vahlne, 1977, 1990, 2009) and the international new venture (INV) approach (Oviatt and McDougall, 1994, 2005).

Time is addressed differently by these two approaches. First, the SE approach describes the internationalization process as a mechanism based on an interplay between experiential market knowledge and market commitment (Welch and Paavilainen-Mäntymäki, 2014). Internationalization is a succession of states and changes driven by experiential learning. Slowness is inherent to this approach, as building experiential learning takes time (Eriksson et al., 1998; Sharma and Blomstermo, 2003). SMEs following the SE approach adopt a slow and cautious pace of internationalization, which begins only after a long period of preparation.

Second, the INV approach explicitly sets itself apart from the SE approach (Oviatt and McDougall, 1994). Oviatt and McDougall (1994) observe that some SMEs do not follow a slow and gradual expansion process, but rather start their internationalization from the very first stages of their existence. More specifically, some SMEs enter a wide variety of foreign markets relatively quickly; their pace of internationalization is high, both in the preparation phase and in the subsequent expansion phase. Traditionally, this approach is more focused on describing the phenomenon than explaining it. Only very recently have scholars focused on explaining the existence and behavior of INVs (Jones et al., 2011). The literature on this topic remains scarce.

Either explicitly or implicitly, these two approaches depict the interplay between the initial phase of the process and the subsequent pace of internationalization. Following this line of reasoning, it appears that firms can follow two possible paths to internationalization: later, slower, and continuous (corresponding to the SE approach) or earlier, faster, and discontinuous (corresponding to the INV approach).

However, the possibility that an SME is able to follow two internationalization paths that are different but seem to be equally effective raises questions for managers and scholars. Can two completely different paths lead to the same performance and survival outcome? In other words, can these two theoretically defined internationalization paths be equifinal?

The question of the equifinality of internationalization paths has been only partially addressed in the literature on the internationalization of firms (Gresov and Drazin, 1997). As noted by Casillas and Acedo (2013), the initial phase of the internationalization process is often separate from subsequent phases. This explains some of the mixed empirical results concerning the relationship between age at internationalization and the firm's overall performance and survival after internationalization (Jones et al., 2011).<sup>1</sup>

As Keupp and Gassmann (2009) noted, most existing studies use cross-sectional research design, which prevents the study of the impact of condition prior to internationalization. The main objective of our paper is to help understand the link between pre-internationalization phase and a firm's survival or failure. More specifically, we propose to study age at internationalization and pace of internationalization jointly in relation to the survival of internationalizing SMEs. Doing so will deliver a better understanding of the beneficial or detrimental effects of different internationalization paths. We argue that the relationship between age at internationalization and survival is moderated by two dimensions of internationalization pace. The first is market expansion speed, corresponding to the number of foreign markets entered in a given period (Casillas and Acedo, 2013; Chang and Rhee, 2011), regardless of the nature and risk profiles of those countries. The second is risk diversity, corresponding to the extent to which countries entered are dissimilar with respect to their risk profiles (Casillas and Moreno-Menéndez, 2014; Wagner, 2004).

We believe that our paper contributes to the literature on the internationalization process in two main ways. First, we examine the equifinality argument empirically by comparing the survival or failure effects of the SE and INV approaches, using age at internationalization and pace of internationalization. In other words, we provide some insights into whether the SE and INV paths to internationalization are similar or not in terms of their overall effect on firm survival or failure. In addition, we identify other paths to internationalization that lie between the SE and INV approaches (Hennart, 2014). Furthermore, we compare survival effects of these hybrid paths with those of SE and INV. In doing so, we extend the equifinality argument, in an attempt to respond to the call for further research by Chetty et al. (2014) and Hennart (2014), who specifically question the existence of such hybrid paths to internationalization.

Second, we study SMEs and address them in both SE and INV settings. In this regard, we attempt to shed some light on the debate over whether the internationalization approach provides a sufficient explanation of SME internationalization patterns (Andersson et al., 2004; Calof, 1994; Frishammar and Andersson, 2009; Gankema et al., 2000; Wolff and Pett, 2000).

The remainder of this paper is structured as follows. In the first section, we review the existing literature on the relationships between age at internationalization, pace of internationalization, and survival of internationalizing firms. Building on these developments, we develop two sets of competing hypotheses: one based on the survival effects of the SE path and another based on the survival effects of the INV path. In a second section, we present the event-history method and panel data on 127 French SMEs that exported for the first time between 2003 and 2012 (547 firm-year observations). In a third section, we statistically test the hypotheses. In a last section, we discuss the findings and present the limitations of our study and some possible directions for future research.

<sup>1</sup> A more comprehensive list of empirical studies on the relationship between age at internationalization and performance can be provided upon request to authors.

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