



# The effects of entrepreneurial proclivity and foreign market knowledge on early internationalization

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## Abstract

Recent international entrepreneurship literature suggests an apparent tension in regard to the role of foreign market knowledge between the process models of internationalization and the early internationalization of born-global firms. From an entrepreneurial learning perspective, we argue that the tension can be resolved by understanding the source of the knowledge. For early internationalizing firms, foreign market knowledge tends to emanate from the innovative and proactive pursuit of entrepreneurial opportunities across national borders, rather than from incremental accumulation of experience in foreign markets. Using survey data from young international entrepreneurial firms in mainland China, we test and support a mediating mechanism of foreign market knowledge as it relates to the pace and performance of early internationalization. This study contributes to the theoretical development in the emergent field of international entrepreneurship.

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*Keywords:* International entrepreneurship; Early internationalization; Born global; Entrepreneurial proclivity; Foreign market knowledge

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## 1. Introduction

Scholars at the intersection of entrepreneurship and internationalization have recently engaged in theoretical and empirical inquiries into the emerging phenomenon of “born-global” internationalization, which characterizes entrepreneurial firms that internationalize shortly after their inception (McDougall & Oviatt, 2000). By definition, born globals tend to be young, small and medium-sized entrepreneurial firms that, from or near founding, obtain a substantial portion of total revenue from the sale of outputs in multiple countries (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994). From this perspective, the speed and growth of early internationalization are two key indicators of born-global opportunity exploitation (Autio, Sapienza, & Almeida, 2000; Oviatt & McDougall, 2005). The study of born-global or early

internationalization has now become an important part of the growing international entrepreneurship literature (McDougall & Oviatt, 2000).

Although much of the theorizing and empirical inquiries into the born-global or early internationalization have challenged the dominant logic of time-based experience (i.e., behavioral learning from operations abroad) in the traditional process theories of internationalization (Johanson & Vahlne, 1977, 1990), the driving mechanism of early internationalization remains an interesting puzzle. In particular, theories explaining born-global internationalization have, by their nature, stressed foreign market knowledge as a key factor to understand and explain the rapid internationalization of the firms (Autio et al., 2000; Knight & Cavusgil, 2004; Oviatt & McDougall, 1994). Interestingly enough, however, the knowledge factor has also been emphasized in the traditional models of internationalization (Eriksson, Johanson, Majkgard, & Sharma, 2000; Johanson & Vahlne, 2003). Thus, both traditional and born-global

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views assert that knowledge-based capabilities are important for successful international expansion. Although the two approaches differ in that the born-global view argues that foreign market knowledge can be acquired early on in the life of the firm (Autio et al., 2000), the tension between the incremental internationalization on the one hand, and the born-global internationalization on the other is yet to be resolved (Johanson & Vahlne, 2003; Oviatt & McDougall, 2005).

This paper proposes that the born-global view is driven by the premise that early internationalization is gained by exploring opportunities as opposed to by solving knowledge problems in the international marketplace. This means that the driving mechanism for the born-global model shifts from the focus on the time-based accumulation of market knowledge in the traditional models of internationalization to the emphasis on opportunity identification and exploration (Oviatt & McDougall, 2005; Zahra, 2005). We conceptualize the opportunity-driven mechanism by focusing on the role of international entrepreneurial proclivity (a strategic orientation towards entrepreneurial learning and opportunity exploration) in relation to the market knowledge factor.

Seen from the entrepreneurial market-learning framework (Matsuno, Mentzer, & Özsomer, 2002), entrepreneurial proclivity is viewed to promote a greater level of information-scanning activities and it fosters an increased knowledge base and responsiveness related to the external market environment. Matsuno et al. (2002) reasoned that the three dimensions of a firm's entrepreneurial proclivity (proactiveness, risk taking, and innovativeness) collectively facilitate the firm's willingness and ability to engage in market learning activities. In new and dynamic foreign markets, entrepreneurial proclivity was found to play an even more important role in determining an international firm's behavior and performance (e.g., Dimitratos, Lioukas, & Carter, 2004; Yeoh & Jeong, 1995). According to Toyne (1989), entrepreneurial behavior provides international firms with dynamic capabilities to engage in cross-border activities and trade.

From the work of Knight and Cavusgil (2004), entrepreneurial culture is manifested in the context of born-global internationalization. Particularly, they proposed that innovative organizational culture drives unique product and technology-based advantages which in turn contribute to the superior performance of born-global internationalization. In this paper, we focus on the entrepreneurial source of market knowledge as opposed to product or technology-based competitive advantages. We expect that firms with international

entrepreneurial proclivity have the dynamic capability to develop foreign market knowledge rapidly and internationalize early. In the traditional model, the capability to internationalize is often assumed to be built through time-based experience rather than through entrepreneurial behaviors. Thus, international entrepreneurial proclivity is what distinguishes the born-global approach from the traditional ones.

Using a large national sample of young international entrepreneurial firms from China, we find significant effects of international entrepreneurial proclivity on the speed of born-global development and performance of early internationalization through the pathway of foreign market knowledge. This study addresses the aforementioned tension by emphasizing an entrepreneurial outlook of foreign market knowledge as opposed to an experience-based accumulation of the knowledge. We conclude that young internationalizing firms must develop other mechanisms to acquire the requisite knowledge and resources. Our research contributes to the recent theoretical development in the field of international entrepreneurship. In the following sections, conceptual foundations and hypotheses are provided. Then, research methodology is described and followed by data analysis and results. Finally, managerial implications are discussed.

## 2. Conceptual foundations and hypotheses

### 2.1. Background

The literature of internationalization suggests that firms need to acquire the necessary knowledge about foreign markets mainly from experience in operating abroad. More importantly, for firms without international experience, incremental internationalization has been argued to be the most efficient approach for international expansion, since it allows firms to accumulate international knowledge and experience that can be used to respond to opportunities and deal with foreign market uncertainties (Andersen, 1993). According to Eriksson, Johanson, Majkgard, and Sharma (1997), a lack of foreign market knowledge is a significant obstacle to a firm's internationalization.

Eriksson et al. (1997) identified three types of foreign market knowledge: foreign institutional knowledge, foreign business knowledge, and internationalization knowledge. Institutional knowledge is concerned with knowledge of foreign culture, institutions, rules and regulations. Business knowledge is concerned with knowledge pertaining to customers, competitors and market conditions in particular foreign markets. Finally,

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