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# The inception of internationalization of small and medium enterprises: The role of activeness and networks

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## ABSTRACT

This study analyzes how exporters begin their internationalization leveraging information collected through interviews with 109 Chinese textile manufacturers. It examines whether firms that found their first international clients through a “proactive” search are likely to export faster, more intensively, and to a larger number of markets. The findings illustrate that the proactiveness of the search for the first client in a foreign market is an important predictor of the intensity and geographic scope of the firm’s internationalization path but not of its speed. They support the view of internationalization as an actively pursued entrepreneurial process, which may also be affected by serendipitous events. This study provides new evidence on the first international business discovery of Chinese exporters, contributing to the literature on international entrepreneurship, international new ventures and the network approach to internationalization.

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## 1. Introduction

One of the highly debated aspects of international entrepreneurship is the importance of having a proactive attitude towards the discovery of international business opportunities (Amal & Freitag Filho, 2010; Dimitratos & Jones, 2005; Jones, Coviello, & Tang, 2011; Kiss, Williams, & Houghton, 2013; Kontinen & Ojala, 2012; Naudé & Rossouw, 2010; Zhang, Tansuhaj, & McCullough, 2009). Some scholars argue that the search for international business opportunities is an active cognitive process (Kiss et al., 2013; McDougall & Oviatt, 2000). Other scholars point that entrepreneurs can also react to opportunities that they did not actively search (Zahra, Korri, & Yu, 2005; Liu, Xiao, & Huang, 2008; Amal & Freitag Filho, 2010). This study contributes to the literature on international business and international entrepreneurship by analyzing whether proactiveness in the search for the first international business opportunity affects three dimensions of internationalization performance: its speed, intensity and geographic scope (Oviatt & McDougall, 1994). A large body of empirical evidence illustrates the importance

of networks as entrepreneurial resources (Jacks, 2008), though their use in internationalization remains a somewhat controversial issue (Li, Poppo, & Zhou, 2008; Solberg & Durrieu, 2006). We contribute to the literature by examining the mechanisms through which Chinese entrepreneurs searched for and found their first international client (Ellis & Pectotch, 2001; Evers & Knight, 2008; McDougall & Oviatt, 2000; Shane & Venkataraman, 2000). We analyze whether the first international business opportunities generated through networks differ from those generated through other mechanisms in terms of their effect on the subsequent internationalization of the firm, in particular the percentage of total sales targeted to foreign markets, the time elapsed between foundation and the first international sale, and the number of markets it exports to.<sup>1</sup>

Responding to calls for more research on small and medium enterprises (SMEs) based in emerging markets, low technology exporters, and the inception of internationalization (Autio, George, & Alexy, 2011; Coviello, 2006; Coviello & Jones, 2004; Filatotchev, Liu, Lu, & Wright, 2011; Madsen & Servais, 1997), we examine the first export of Chinese textile SMEs. We test a set of hypotheses about international

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<sup>1</sup> We use the term “network” to refer broadly to all types of relationships that the senior manager in charge of the first international business opportunity used to achieve firm-related objectives. This includes her personal contacts, such as family ties, and also contacts with managers of networked companies, such as suppliers and clients.

business opportunity discovery and the importance of a proactive search on SMEs based in Guangdong, a region whose outstanding economic performance has been driven precisely by a wealth of globally competitive manufacturing exporters (Thoburn, 2010).

The next section discusses the literature on international business opportunity recognition and networks, explaining why it is important to gather more empirical evidence on the process through which firms begin to internationalize. The following section outlines the data collection strategy and describes the sample of firms used in the study. The final sections discuss the findings, highlighting their implications for international entrepreneurship and suggesting future research avenues.

## 2. Literature review

The opportunity recognition mechanism is a fundamental dimension of entrepreneurship (Ardichvili, Cardozo, & Ray, 2003; Brettel & Rottenberger, 2013; Kiss, Danis, & Cavusgil, 2012; Shane, 2000). Penetrating a new market is an entrepreneurial process because it entails searching for opportunities, recognizing them, and creating exchange relationships in locations where they did not previously exist, and often among partners that were not engaged in trade (Chandra, Styles, & Wilkinson, 2009; Schumpeter, 1934; Zahra et al., 2005). The first time a company enters a foreign market entails risk, resource commitment, and venturing into new, and not entirely predictable, exchanges (Dimitratos & Jones, 2005; McDougall & Oviatt, 2000; Shane & Venkataraman, 2000).

The first international venture launches the firm into a new strategic path, such as developing products and entry strategies for different sets of foreign clients. If entering a new foreign market is an act of entrepreneurship, entering a foreign market for the first time is the foundation of the series of events studied in international business, as it entails not only penetrating a yet unknown market, but also engaging in internationalization – a process yet unknown to the firm (Chandra et al., 2009; Schumpeter, 1934; Zahra et al., 2005).

The inception of internationalization may also affect the subsequent international expansion of the firm (Amal & Freitag Filho, 2010; Naudé & Rossouw, 2010). Export speed, the time elapsed between the firm foundation and the first export, has attracted particular attention in the international business literature (Andersson & Wictor, 2003; Bell, Crick, & Young, 2004; Lopez, Kundu, & Ciravegna, 2009; Zhou, Wu, & Luo, 2007). The literature on born globals, for example, emerged from the observation that some firms internationalized fast instead of gradually accumulating capabilities and resources as postulated by the gradual internationalization theories (Bell, 1995; Crick, 2009; Knight & Cavusgil, 2004; Madsen & Servais, 1997). However, evidence on the inception of internationalization remains scarce (Ellis, 2011; Zhang et al., 2009). For this reason we choose to study the process through which Chinese exporters began their internationalization – an aspect of internationalization, which, despite its importance, is still under-represented in the literature (Agndal, Chetty, & Wilson, 2008; Ghauri, Lutz, & Tesfom, 2003; Javalgi & Todd, 2011; Kiss et al., 2012; Ojala, 2009).

To create new exchanges, entrepreneurs, intended as the actors who perform the entrepreneurial act of internationalizing, scan for potential opportunities in the new foreign market, evaluate available information, and decide whether to exploit any of the opportunities they found (Shane & Venkataraman, 2000). Several scholars point that a proactive attitude in the search for opportunities is one of the distinguishing features of international entrepreneurship, which may have effects on firm performance (Andersson & Evangelista, 2006; Lumpkin & Dess, 1996; McDougall & Oviatt, 2000; Shepherd & De Tienne, 2005).

The idea that a proactive attitude has positive effects on the internationalization of a firm is corroborated by international business scholars, who, albeit from a different theoretical perspective, highlight the importance of having a clear plan for internationalization

and a strong organizational commitment to it (Herron & Sapienza, 1992; Johanson & Vahlne, 1990). Examining a sample of Australian exporters Beamish, Karavis, Goerzen, and Lane (1999) found that the firms with a stronger commitment to internationalize, such as those establishing separate organizational units to manage exports, achieved higher average export revenues. The literature on services and post sale client management also points out the importance of a proactive attitude, albeit discussing it within a different theoretical context (De Jong & De Ruyter, 2004; Guenzi, 2003).

Some scholars of entrepreneurship argue that the discovery of business opportunities, both in the domestic and international markets, does not necessarily stem from a proactive attitude or a clearly planned strategy (Ardichvili et al., 2003). Entrepreneurs may come across the first opportunity to internationalize serendipitously, and simply exploit it as part of a “reactive” rather than a “proactive” and planned process (Kontinen & Ojala, 2011, 2012). There is still scant evidence on the effects of the proactiveness of the first search for international business opportunities on the subsequent internationalization of the firm (Kiss et al., 2013; Zahra et al., 2005).

One of the key objectives of this study is to examine whether entrepreneurs' proactiveness in the first international business opportunity discovery is associated with internationalization speed, intensity and scope. We focus on these three particular aspects of internationalization performance because there is a heated debate about the factors determining how fast, how intensively and how “globally” a firm internationalizes (Crick, 2009; Mort & Weerawardena, 2006). Although internationalization speed, intensity and scope may be insufficient to understand the effects of international activities on firm performance, they are important dimensions of a firm's international expansion (Lu & Beamish, 2001; Madsen & Servais, 1997). The literature on born global and international new ventures, for example, discusses which firms should be defined “born global” or “born regional”, and also degrees of “born globalness” by looking at export speed, intensity and geographic scope (Crick, 2009; Knight & Cavusgil, 2004; Kuivalainen, Sundqvist, & Servais, 2007; Lopez et al., 2009).

Companies use different strategies to search for their first clients in new foreign markets. These include trade fairs, advertizing, and different types of networks (Kontinen & Ojala, 2011; Seringhaus & Botschen, 1991). In China the use of social ties as a resource is linked with the ancient tradition of relying on inter-personal, trust based networks or “guanxi” (Ma, Yao, & Xi, 2009; Park & Luo, 2001; Xin & Pearce, 1996). Zhou et al. (2007, p. 676) argue that firms use informal social networks “as a pre-emptive strategy to access information and deploy the relevant resources in a timely and flexible fashion”. Numerous studies illustrate that in China the use of guanxi by both Chinese and foreign firms is pervasive (Luk et al., 2008; Peng & Luo, 2000; Standifird & Marshall, 2000; Zhou et al., 2007).

There are still many areas where further empirical evidence is needed to advance the development of networks and their effects, for example, whether using networks has a positive effect on performance (Ellis, 2011; Harris & Wheeler, 2005; Kontinen & Ojala, 2011; Luo & Hassan, 2009). In a study of 161 Chinese firms, Zhang and Li (2008) illustrate that guanxi contributed positively to sales' growth, which is consistent with the findings of Peng and Luo (2000) and Standifird and Marshall (2000). Examining 280 cases in the Chinese market, Li et al. (2008) found that Chinese firms benefited more from using ties than foreign firms, and that gains from using ties decline as markets consolidate and become more competitive. Luk et al. (2008) found that social ties had a stronger effect on firm performance in the closer market of China than in the more open market of Hong Kong. There is also scarce evidence on whether the use of networks is mainly a domestic phenomenon, or whether it is often and successfully used to support internationalization (Zhou et al., 2007), which is one of the areas this study investigates.

The use of networks, particularly social networks, to support internationalization is not limited to Chinese firms (Chandra et al., 2009;

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