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The internationalisation of French new ventures: The case of the Rhone-Alps region

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Summary INVs have been widely studied in the US context, but their examination in other regions such as France has been very limited. Based on a survey of 68 early-internationalising firms, this paper investigates firms located in the French Rhone-Alps region. The main finding of the paper is that French early-internationalising firms – belonging to various industries, not only to IT sectors – do not constitute a homogeneous group. Depending on their degree of internationalisation, they behave differently in terms of foreign markets entry modes, number of geographical areas targeted, governance mechanisms and growth of turnover. The paper concludes by discussing managerial implications, the limitations and areas for further research.

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Introduction

During the 1990s, academic research (Oviatt and McDougall, 1994, 1995, 1997) shed light on the emerging phenomenon of firms engaging rapidly in international business activities earlier in their organisational life cycles than they had historically. Known as ‘born-global’ (Rennie, 1993), ‘global start-ups’ (Oviatt and McDougall, 1995) or ‘international new ventures’ (Oviatt and McDougall, 1994), these companies experiencing accelerated internationalisation managed to derive a competitive advantage from the use of specific resources and the sale of outputs in multiple countries (Oviatt and McDougall, 1994). For the sake of brevity, in this paper we will refer to them as international new ventures (INVs), regardless of their foreign sales level.

Most of the time, these companies have two main characteristics: (i) having been created by a dynamic entrepreneur with a strong international network and who values customer relationships highly and (ii) resulting from an innovation, whatever the kind (product, process, marketing, distribution, etc.). Despite their young age and their small size, these companies generally experience high sales growth (Oviatt and McDougall, 1995). Compared to traditional SMEs involved in international markets, INVs’ idiosyncratic development challenges the arguments developed by traditional approaches in internationalisation literature. In fact, approaches known as the Uppsala internationalisation model (U-model) and the Innovation-related model (I-model) in the literature (Andersen, 1993) describe the internationalisation of firms as a slow, gradual and incremental process. Only when a company is solidly established in its domestic market, can the internationalisation process take place in an incremental way and expand through decades (Andersen, 1993; Johanson and Vahlne, 1990).

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While INVs have been subject to extensive research in the Anglo-Saxon context, such studies devoted to the French context are rare² (e.g. Moen, 2002; Moen and Servais, 2002). This may be partly explained by the fact that data available on French exports make the identification of INVs hard (Mesure and Klappers, 2008).

The objective of this exploratory research is to study early internationalisation of a sample of 68 French companies extracted from a population of 2274 firms, all registered in the Rhone-Alps region, the second largest economic region in France after Paris.³ The analyses conducted focused on industrial firms created ex-nihilo and that developed international sales soon after they were founded, that is less than six years. In so doing, the challenge is to analyse the internationalisation of new ventures more deeply and thus to highlight the main characteristics and behaviour of such firms in France. When appropriate, we also compare their development process to that described in the literature, namely by the Uppsala School (Johanson and Vahlne, 1977, 1990) and various export models.

In summary, we will examine two research questions: (i) What are the main characteristics of French early-internationalising firms?⁴; (ii) Do they constitute a homogeneous group? To address these questions, the paper is structured as follows. The first section is a literature review focused on different approaches of the internationalisation process while in the second we introduce the methodology adopted. In the third section, we present the results of statistical analyses based on an exploratory survey conducted in 2003. In the last section, we discuss the results and managerial implications of our findings, as well as the limitations of the paper, before suggesting some avenues for future research.

² In their literature review ‘‘Empirical evidence of theory of international new ventures’’, Meckl and Schramm (2005) analysed 20 empirical papers – written in English – published between 1991 and 2005 in leading Journals in International Business, International Marketing and Entrepreneurship. The only papers eligible for review were theoretically and empirically sound studies focused on INVs. While France is a major trading country, only two studies investigated French companies: Moen (2002) and Moen and Servais (2002). However, neither study was exclusively devoted to France as the former studied Norway and France and the latter Norway, Denmark and France.

³ Due to the diversity of its economic activities, without any particular focus on one industry and not capitalising on a sole attractive city, Rhone-Alps is considered to be the most representative of the France economic landscape. With 6 million inhabitants and an area of 43,698 sq km, the Rhone-Alps region is the second largest and wealthiest region of France. According to Eurostat data (NUTS2), Rhone-Alps is one of the ten wealthiest regions within the European Union. Its GDP (more than €174 billion in 2006) is higher than that of many countries: Finland, Ireland, the Czech Republic, Hungary, Greece, Luxembourg and Portugal. In terms of area, its territory is comparable to that of states such as Denmark, Switzerland and Slovakia. Rhone-Alps is more populated than Denmark, Ireland, Scotland and Slovakia.

⁴ For the sake of simplicity and convenience, in the remainder of the paper we will call them INVs.

Literature review

Early internationalisation of new ventures questions the traditional theoretical approaches of internationalisation. Of various theories in this field, two approaches, described below, seem particularly relevant in explaining the internationalisation of new ventures. Firstly, the approach which considers internationalisation as a process (Johanson and Vahlne, 1977, 1990), or a development in stages. Those two models are also called, respectively, U- (Uppsala Model) and I-models (Andersen, 1993). The second approach is the theoretical framework of the international new ventures (INVs) developed by McDougall et al. (1994) and Oviatt and McDougall (1994).

The process theory of internationalisation (PTI) perspective

Johanson and Vahlne (1977, 1990) proposed a dynamic model of the internationalisation process known as PTI – the process theory of internationalisation (Autio, 2005). Rooted in four basic interrelated concepts, namely (i) the ‘commitment decisions’; (ii) the ‘current activities’ relating to the change in the internationalisation of the company; (iii) the ‘market commitment’ and (iv) the ‘market knowledge’, this model considers that steps followed by a company in its international development are influenced by its level of internationalisation in terms of knowledge and commitment and that progress made in the international arena (relating to the commitment decisions and the current activities) influences the degree of internationalisation of the company (market commitment and market knowledge). Knowledge accumulation in firms is path-dependent, depending on the intensity of exposure to foreign markets and the diversity of the exposure (Eriksson et al., 2000). Through exposure to international markets, firms accumulate different types of knowledge: institutional knowledge, and business knowledge that increases their awareness to opportunities and issues in the foreign markets. The internationalisation knowledge so acquired enables firms to take appropriate actions in order to open up new markets (Eriksson et al., 1997).

Thus, the modes of entry into foreign markets are a succession of stages (Johanson and Wiedersheim-Paul, 1975) beginning by an irregular export activity, followed by export via independent representatives (agents or distributors), completed by the establishment of a subsidiary company for sales abroad, and sometimes by setting up manufacturing units abroad. According to the PTI, in order to cope with the uncertainty and to minimize risks, companies will adopt the chain of entry modes described above, country by country.

Due to the necessary progressive accumulation of knowledge related to the entry and commitment of resources in foreign markets, their development is slow and gradual (Eriksson et al., 2000; Johanson and Vahlne, 2003). In other words, the more a company acquires experience in foreign markets, the more its management will be able to commit resources. This international experience is vital and depending on this, the management team will decide whether to continue international development or not.

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