



A dynamic model of growth phases and survival in international business-to-business new ventures: The moderating effect of decision-making logic



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ABSTRACT

The growth and survival of international new ventures (INVs) has not been the subject of extensive in-depth qualitative study and our understanding of their decision-making is deficient. On the basis of empirical analyses in a small and open economy, a dynamic model was developed that explains the growth phases through which INVs pass as they mature in the high-technology business-to-business field. The model also recognizes rapid advancement, survival crises, and retrenchment. Propositions were devised regarding the impact of opportunities, resources and capabilities, entrepreneurial orientation, and learning on growth phases and survival. A novel finding is that the decision-making logic moderates the impact of these factors. These findings have important implications for industrial marketing scholars and practitioners.

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1. Introduction

International new ventures (INVs) have received increasing attention from a number of researchers. Much of this research has focused on the early years of INVs (see e.g. Chetty & Campbell-Hunt, 2004; Knight & Cavusgil, 1996; Madsen & Servais, 1997). Nevertheless, its contribution to our understanding of the global growth and survival of INVs (Mudambi & Zahra, 2007; Sapienza, Autio, George, & Zahra, 2006) and their decision-making has been limited (Saravathy, 2001). INVs are an especially interesting group of firms as they have been able to internationalize rapidly and market their offering globally. This is challenging and thus this knowledge is expected to be valuable for industrial marketing researchers and firm managers.

In the management literature a number of multistage models have been proposed in which predictable patterns in the growth of organizations are assumed to exist (Greiner, 1972; Kazanjian & Drazin, 1989; Massey et al., 2006; McMahon, 2001). These earlier models have been criticized for being too sequential and linear (Levie & Lichtenstein, 2010; Phelps, Adams, & Bessant, 2007) and it has been proposed that development should be seen as changes in dynamic states, i.e. as a series of

configurations. Earlier research on the internationalization of firms found patterns in the stage-wise progression of companies towards greater foreign market involvement (Johanson & Vahlne, 1977; Luostarinen, 1979). However, it has been argued that these models are not applicable in today's global environment, that small companies proceed more rapidly to international markets (Oviatt & McDougall, 1994), and that this is particularly true of business-to-business firms (Laanti, Gabrielsson, & Gabrielsson, 2007). Recent research has suggested that international growth is pursued within business networks and that the process is driven by knowledge of opportunities abroad instead of by efforts to overcome uncertainties concerning institutional conditions in foreign markets (Johanson & Vahlne, 2009).

International new venture theory emphasizes the importance of unique entrepreneurial characteristics such as innovativeness, proactiveness, and risk-taking, all of which allow firms to identify and address foreign growth opportunities and leverage the network resources necessary for rapid growth (McDougall, Shane, & Oviatt, 1994). They do not, however, adequately explain the decision-making of INVs. Some researchers have argued that we need to go beyond theories of the firm and include the entrepreneurs in the investigation (Saravathy, 2004). We expect that inclusion of considerations related to entrepreneurial decision-making may be especially fruitful as it has been argued that INVs often operate in a three dimensional problem space (Andersson, 2011; Saravathy, 2004) consisting of Knightian uncertainty (Knight, 1921), Marchian goal ambiguity (March, 1976), and Weickian enactment (Weick, 1979). This means that the future is unpredictable, goals are unspecified or unknown, and decisions made by INVs may affect the environment. All three of these considerations

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can be expected to influence how entrepreneurs decide about issues related to growth and survival (Saravathy, 2004). The ability of INVs to make decisions is limited by their imperfect knowledge and their goal-setting, which is at best satisfactory (Simon, 1947). Hence, new theory development would benefit from capturing the decision-making logic used in INVs that operate in an uncertain environment (Saravathy, 2001). Effectuation theory, an approach to entrepreneurial expertise based on cognitive science that can be placed under the larger umbrella of decision-making under uncertainty, has the potential to address this gap (Jones, Coviello, & Tang, 2011; Read, Dew, Saravathy, Song, & Wiltbank, 2009). We expect that understanding of the decision-making logic may reveal how INVs are able to meet the huge challenge of global growth problems and survival crises despite their liabilities regarding newness, size, and foreignness (Zahra, 2005). Effectuation logic, which emphasizes improvisation, exploitation of contingencies and market creation through alliances and partnerships, offers great hopes in this respect (Saravathy, 2001) due to its potential to mitigate resource requirements. Recent research has also emphasized the importance of understanding decision-making in business-to-business contexts (Forkmann, Wang, Henneberg, Naudé, & Sutcliffe, 2012). Due to small home markets and limited trade barriers that force rapid internationalization, INVs are more likely to originate in small and open economies (SMOPEC) than in larger countries (Fan & Phan, 2007). Moreover, as INVs have been found more often in the high-tech (Autio, George, & Alexy, 2011) and business-to-business field (Laanti et al., 2007), we decided to develop initial insights in this context. Hence, the research objective is to develop a dynamic model explaining the growth and survival of high-tech business-to-business INVs originating in small and open economies from the perspective of decision-making logic.

This research defines INVs in keeping with Oviatt and McDougall (1994, p.49), who originally defined them as a “business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.” Other researchers have operationalized this by setting criteria for the rapidity of foreign market entrance and the degree of exports. A cut-off of 25% (Knight & Cavusgil, 1996, 2004) and three years (Zhou, Barnes, & Lu, 2010) has commonly been used. Hence, to qualify as an INV in this research, foreign sales had to account for 25% of total sales within three years of foundation. Moreover, it is important to note that few researchers have measured the extent to which international new venture firms grow beyond the initial export phase to become global firms (Chetty & Campbell-Hunt, 2004; Lopez, Kundu, & Ciravegna, 2009).

The article addresses the debate around whether a model can be developed for international new venture growth (Oviatt & McDougall, 1994) and survival (Mudambi & Zahra, 2007). The contribution of our study to business-to-business marketing and entrepreneurship research is two-fold; we provide an explanation of the phases through which business-to-business INVs evolve as they mature and then develop a dynamic model explaining this process, including the effects of decision-making logic. The model advances our understanding of the impact of resources and capabilities on growth and survival (Sapienza et al., 2006). It highlights the crucial role of opportunities in driving growth (Alvarez & Barney, 2007) and the importance of learning for survival (March, 1991). It also contradicts much of the existing wisdom according to which an entrepreneurial orientation is mainly beneficial (Lisboa, Skarmeas, & Lages, 2011). Earlier research results have shown that a stronger international entrepreneurial orientation drives INVs to develop the high-quality goods that are associated with international success (Knight & Cavusgil, 2004). In contrast, our research suggests that it is not always beneficial to have a strong international entrepreneurial orientation. A novel finding is the importance of effectuation logic as a moderator that either accelerates or mitigates the influence of antecedent factors on the growth and survival of INVs in the high-technology business-to-business field.

2. Conceptual foundation

2.1. Growth phases and survival of INVs

INVs grow and internationalize rapidly by focusing on a few unique resources leveraged on foreign markets with alternative governance methods (Oviatt & McDougall, 1994) such as strategic alliances and networks (Coviello, 2006; Coviello & Munro, 1995). Enabled by faster learning capabilities (Autio, Sapienza, & Almeida, 2000), INVs have been found to grow rapidly into foreign markets. In this context an innovative culture and also knowledge and capabilities have proved important for growing into diversified foreign markets (Knight & Cavusgil, 2004). Knowledge drives firms to enter foreign networks and identify and exploit opportunities abroad (Johanson & Vahlne, 2009), whereas capabilities are required to solve growth-related problems and overcome survival crises. Hence, the growth of INVs is best understood as a process of the entrepreneurial internationalization behavior of decisions, processes, and activities (Jones & Coviello, 2005).

Recent international new venture literature has called for examination of the fingerprints and patterns over time (Jones & Coviello, 2005). The growth of organizations over time has been examined in the management literature by a number of authors who have proposed that organizations grow in stages. These models share some common features and an underlying logic in which stages emerge in a well defined sequence so that the organization evolves on the basis of solutions to sets of problems or tasks (Kazanjian & Drazin, 1989; Scott & Bruce, 1987) or through periods of steady growth and evolution to the next stage (Greiner, 1972). There is increasing criticism regarding the number of stages, linearity, and characteristics of these earlier models (Levie & Lichtenstein, 2010). These models have also been highly descriptive rather than analytical with respect to the factors driving growth. An important finding illustrated in some earlier models is that survival is at stake in all phases and that companies can fail at any point during their growth if they do not manage crises successfully (Churchill & Lewis, 1983). Although earlier models have increased our knowledge about this growth, they have failed to consider that companies not only grow in size, but increasingly in the global direction as well.

Recent international new venture research has also argued that these firms evolve in phases (Coviello, 2006; Park & Bae, 2004; Rialp-Criado, Galván-sanchez, & Suárez-Ortega, 2010). For instance Coviello (2006) applied the life-cycle model developed by Kazanjian and Drazin (1989) in investigating network development and dynamism in INVs originating from New Zealand. The development can also be seen as an entrepreneurial process that extends across national boundaries including (1) the discovery of new opportunities, (2) the deployment of resources in the exploitation of these opportunities, and (3) engagement with competitors (Mathews & Zander, 2007). Also, an interesting recent study has suggested that born globals develop in three distinct phases: opportunity recognition and INV creation, growth and resource accumulation, and break-out (Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008). Furthermore, a configuration-holistic approach to born global development has been proposed in which firms evolve through distinctive phases (Rialp-Criado et al., 2010): pre-start-up/venture creation, pre-internationalization, and post-internationalization. Earlier research has found that INVs may face de-internationalization and re-internationalization (Benito & Welch, 1997). In light of earlier criticism of lifecycle models, more dynamic models should be developed to depict the behavior of INVs over time; these models should take into account problems associated with growth and survival and also allow for retrenchment.

As earlier research has noted, it is not only important to study the growth of INVs, but also their survival (Mudambi & Zahra, 2007; Sapienza et al., 2006). According to Zahra (2005), there is little research in particular regarding how INVs grow to become established

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