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Risk bias and the link between motivation and new venture post-entry international growth

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ABSTRACT

We link research in international entrepreneurship and on behavioral decision making with the international business literature on firm degree of internationalization to advance an integrative model of new venture post-entry international growth. We test this model on a sample of 286 new ventures. Results demonstrate that the extent to which entrepreneurs perceive internationalization choices more or less risky than an objective standard (i.e. *internationalization risk bias*) leads to variations in international growth rates, in particular international scope. Further, we show that the decision-maker's motivation leads to differences in both internationalization risk bias and international scope.

1. Introduction

Why do some new ventures internationalize more aggressively (i.e. in multiple markets and/or derive significant revenue from international markets) than others? Internationalization is one of the most important events in a firm's existence that poses risks and threats that are different from those that the firm faces domestically (Lu & Beamish, 2001; Oviatt & McDougall, 2005) and may lead to significant firm inefficiencies and even failure (Sapienza, Autio, George, & Zahra, 2006). Conversely, internationalization may also lead to growth, organizational learning, and innovation (Barkema & Vermeulen, 1997; Sapienza et al., 2006). Despite a growing body of research on the determinants and the process that lead to *early entry* into international markets, there is limited empirical research on what determines new ventures' *post-entry growth* (Autio, Sapienza, & Almeida, 2000; Prashantham & Young, 2011). Early internationalization is a first step toward greater international growth (Sapienza et al., 2006). However, the transition from early internationalization to international market diversity and sales intensity requires significantly more time, resources, and commitment than the initial entry (Prashantham & Young, 2011; Preece, Miles, & Baetz, 1999). Yet, our understanding about the various anteceding mechanisms of post-entry internationalization action has remained purely at the conceptual level (Oviatt & McDougall, 2005; Prashantham & Young, 2011).

The distribution of potentially negative or positive consequences of internationalization suggests that internationalization is not only an important action for new ventures, but that it takes place "under conditions of high situational uncertainty (Autio, George, & Alexy, 2011: 13)." Scholars in both international business and entrepreneurship have called for more

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research that explains variation in the levels of aggressiveness with which firms internationalize (Hennart, 2007; Kirca, Hult, Deligonul, Perryy, & Cavusgil, 2012; Oviatt & McDougall, 2005). However, research rooted in the two disciplines has evolved independently. International business scholars have linked firm and industry related variables directly to internationalization outcomes and have focused more on the 'objective' internationalization risks as reflected in the use of country risk indicators that capture political, institutional or economic risks and are generated through surveys of experts and governmental bodies (Oetzel, Bettis, & Zenner, 2001). In contrast, research rooted in international entrepreneurship often emphasizes factors related to the entrepreneur (i.e. a founder and key decision maker) and uses 'subjective' internationalization risks by focusing on the entrepreneur's risk perception as a filter to explain internationalization actions (Acedo & Jones, 2007; Oviatt & McDougall, 2005; Preece et al., 1999). Furthermore, works grounded in internationalization process theories, often contain a built-in assumption of managers as risk avoiders who take sequential steps toward reducing international risk, while in the international entrepreneurship literature, the entrepreneur is often portrayed as a risk taker that pursues bold internationalization trajectories (c.f. Liesch, Welch, & Buckley, 2011). Because research rooted in each of these literatures focuses on different conceptualizations of risk, we lack an integrated explanation for variations in the aggressiveness with which new ventures internationalize and the antecedents that drive the differences between objective and subjective internationalization risks.

In this paper, we address weaknesses in prior research on new venture internationalization by advancing an integrative model of post-entry international growth. First, we argue that the difference between objective risk and subjective risk represents an entrepreneur's *internationalization risk bias* that influences the aggressiveness of post-entry international growth, conceptualized as both growth in the number of countries pursued and the amount of sales generated from these countries. Second, we advance that, consistent with the international business literature on firm degree of internationalization, an entrepreneur's internationalization motivation directly influences post-entry international growth. We then build on behavioral decision-making theory and suggest that the entrepreneur's internationalization motivation is an important mechanism that influences the magnitude of the internationalization risk bias. Finally, we argue that internationalization risk bias is a mediator of the relationship between internationalization motivation and post-entry internationalization.

To build our model, we integrate theory from entrepreneurship and international business and answer recent calls in international business (Hennart, 2007; Kirca et al., 2012; Li, 2007) and international entrepreneurship (Jones, Coviello, & Tang, 2011; Oviatt & McDougall, 2005; Zahra, Korri, & Yu, 2005) for a better understanding of the drivers of a firm's level of internationalization and a better integration of international business- and entrepreneurship-based explanations. Although firm- and industry-level factors that affect internationalization decisions and their consequences have drawn a considerable amount of attention, the role that cognitive factors play in internationalization has received relatively less attention (Acedo & Jones, 2007; Coviello & Jones, 2004). Recent work in international entrepreneurship (e.g. Autio, 2005; Jones et al., 2011; Kiss, Danis, & Cavusgil, 2012; Oviatt & McDougall, 2005) points to a need to emphasize the entrepreneur and his perceptions when studying internationalization decisions.

We test our ideas on a sample of 286 new ventures, operating in various industries, which have internationalized early in their existence. Our approach and results contribute to prior research in international entrepreneurship and the broader literature on firm degree of internationalization in several important ways. First, our study offers an integrative, cognitively anchored explanation for firm post-entry internationalization behaviors that goes beyond firm and industry related explanations. Second, by conceptualizing internationalization risk bias as the difference between subjective risk and objective risk, we move away from prior conceptualizations in international business and entrepreneurship research of managers and/or entrepreneurs as purely risk avoiders or risk seekers that may have led to inconsistent explanations related to new venture internationalization actions and their outcomes (c.f. Liesch et al., 2011). Third, we answer calls in the literature (e.g. Zahra et al., 2005) and provide empirical evidence to suggest that entrepreneurial motivation is an essential mechanism, with both direct and indirect effects, that explains post-entry international expansion. Finally, our differential results for the two components used to capture post-entry international growth highlight the importance of using multiple measures to assess the complex nature of internationalization outcomes and signal the need for theoretically driven approaches to matching cognitive variables with internationalization actions and outcomes.

2. Theory and hypotheses

2.1. Post-entry international growth

International intensity and *international scope* have been used to describe a firm's degree of internationalization, a firm's post-entry international growth, or a firm's level of multinationality (Hennart, 2007; Oviatt & McDougall, 2005; Prashantham & Young, 2011). International intensity is a reflection of the depth of internationalization opportunity exploitation and occurs when the firm deploys significant resources to achieve this goal and derives substantial revenues from international activities (Mathews & Zander, 2007). International scope reflects the breadth of internationalization actions taken by a firm and the extent to which it explores a significant number of internationalization opportunities (i.e. countries) while anticipating competition from a variety of angles and accommodating a variety of ideas, resources, institutional and cultural profiles (Oviatt & McDougall, 1995; Preece et al., 1999).

International intensity and scope gain specific importance in the case of new ventures as they reflect the significant efforts that new ventures need to make to increase their international presence by intensifying market penetration and