A Holistic Approach for the Understanding of International New Ventures Dynamics

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Keywords: internationalisation, international new ventures, market entry
Introduction

The aim of this study is to examine and understand the process of market selection of international new ventures (INVs). Oviatt & McDougall (1995, p. 42) define INV as “a business organization that, from the inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”. Implicit is that size is not relevant, only the age of the firm. Nevertheless, there are no consistent definitions as to the number of years used. Mckinsey & Company (1993) argue that the INV’s maximum time from inception to an internationalization debut is two years; Knight and Cavusgil (2004) claim three years, and McDougall et al. (1994) use eight years. Brush (1995) and Zahra et al. (2000) define new ventures as companies six years old or younger. We adopt their definition, so INVs are companies which internationalize in their first six years. From the early 1950s until now, the competitive and organizational behaviour of small and medium-sized companies has changed tremendously. During the last few years, we have witnessed important modifications, a lot of new firms have internationalized almost from their inception. Nor has economic research remained indifferent to this phenomenon. Even so, there is no conceptual framework which explains how those firms select their destiny markets.

Globally, there are two major questions for a firm when it decides to internationalize, where and how. It must select the market to which it goes and it must select the way it goes in (Andersen, 1997; Bradley, 1995). In the systematic selection, the firm proceeds to a formalized decision process, using statistical methods and objective data, to evaluate the potential of the possible market. Many firms use an external party, sometimes a specialized private company and others institutional organisms, which provide the necessary information on the markets. Others try to analyze some macroeconomic items, such as population, weather, commercial statistics, structure and political stability, economic conjuncture, technology production and consumption and political system (which gives a notion about public involvement in market decisions), which seem important in assessing opportunities. However, this kind of analysis is very dangerous in almost every country the regions are not homogeneous in economical, political, and social terms.

On the other hand, several studies (Cavusgil, 1985; Cavusgil and Gadhwal, 1982; Kobrin, 1979; Kobrin et al., 1980) argue that firms select the markets in a non-systematic way, because the entrepreneurs have a limited capacity to process all the information, or because they opt for an opportunistic way of internationalizing (Bradley, 1995). When it is said, for example, that firms internationalize in an incremental way, gradually increasing the psychological distance, the entrepreneur only wants to make the smallest possible change, without even asking himself about where the best solution is.

Until now, “a certain consensus has traditionally existed in describing internationalization as a gradual-evolutionary process, in which companies progressively increase their implication in international markets” (Belso-Martínez, 2006). In this sense, the firm first develops a domestic base in its national market; secondly it begins to carry out irregular exports to the nearest markets (in psychological terms); finally, it starts to export using independent agents. Once the company learns more about how to go abroad, it increases its international commitment. Therefore, it later establishes commercial branches and then (the last phase) produces in different countries. This internationalization is gradual and market selection is not systematic, the firm bases its decision on increasing the psychic distance. The selection of a new market is made in its neighbourhood. This results in a very deterministic theory, which is one of the constant criticisms made about this
theory (Reid, 1981; Turnbull, 1987; Melin, 1992 and Bell, 1995). However, this is not the only weakness of the Uppsala Model: gradual approaches cannot understand this new phenomenon, firms which internationalize from inception, sometimes in very psychically distant markets and in very committed ways.

These two ways of market selection are the traditional ones, referred to in the literature (Papadopoulos and Denis, 1988) and they consider the client faceless and not active. However, Andersen and Buick (2002) give some examples where the initiative to internationalize began with the international buyer, so they consider three possible ways of selecting the markets: systematic, non-systematic and relational. In contrast with the traditional ways of selecting a market, where the firms choose the destiny country for the internationalization, Andersen and Buick (2002, 352), consider, in the relational one, that analysis is made at the business relational level.

This work splits the relational way into a systematic and non-systematic way. In the latter, firms can, for example, respond to opportunities given by a third party or respond to an order from an international buyer; the firm is not proactive it is only reactive. In the systematic way, the firm begins by selecting a group of possible partners and only afterwards does it try to find out a lot about them. This knowledge can be obtained in many ways, through the personal relationships of the entrepreneur and in the organizational network, for example. Several studies prove that didactic relations are not isolated (Håkansson and Snehota, 1995 Håkansson and Snehota, 1995), all the partners have a multiple number of relations with other agents, buyers of buyers, suppliers of suppliers, other suppliers’ buyers and other suppliers of buyers, for example. So, in a selective search it will probably start with its direct relations and only then appeal to the partners’ partners. The proximity between the partners increases the visibility of the opportunities (Dwyer et al., 1987). The firm will then evaluate the potential of each possible partner and, if both think that it is good for them, they will do business. These kind of preliminary experiences are knowledge that will be used in future activities. When the firms must choose between two possible partners, compatibility of goals, trust, and partner performance are very important. (Harvey and Lusch, 1995). Unhappily, trust and goal compatibility are very difficult to evaluate, there is no objective measure to do so. Therefore, what really decides who the partner will be is the entrepreneur’s perception of the others. The network approach and concepts about entrepreneurship are very important and will be analyzed in the next section.

Andersen and Buvik (2002) argue that the relational way of selecting a market is more important then the traditional ways in some specific circumstances: when the product is an intermediate product, when the firm has some very specific resources and when the firm’s context is very instable (in some countries for example). They also say that there is a direct relation between commitment and the way of selecting the destiny markets. When the level of commitment is high, the probability of using a relational way is high, too. In this way, firms have some prior knowledge about the possible partners, which decreases the business risk, encouraging them to a higher commitment.

In this context, this paper aims at contributing to a better understanding of the process of market selection and entry by international new ventures. It is structured as follows. In the next section, we present the more accepted internalization theories and our proposed framework. Then, we explain our research methodology and describe the three cases we selected. Finally, in the last section we will discuss the limitations of our theorizing and the boundary conditions of the proposed model, before we conclude by describing the theoretical and practical implications of the proposed model.
Theoretical Background

Several theories about international expansion provide the theoretical background that contributes to an understanding of the internationalization of firms. Here we will analyze in more detail the Uppsala model and the network approach. The former is commonly accepted and the latter is more modern and closer to the INV phenomenon.

The Stages Model

For many years, the stages model dominated all other approaches toward explaining internationalization. This model is based on organizing learning processes. It is the need to acquire experiential knowledge that leads the firm to take small, incremental steps towards opening new markets (Johanson and Vahlne, 1977). As market knowledge increases, the internationalizing firm ventures from geographically and/or psychically close countries to successively more distant ones.

Psychic distance is a dominant concept in this model; it is defined as “factors, such as differences in language, cultures and business practices that prevent and disturb the flow of information between the firm and the market” (Arenius, 2005, p. 115). So, as distance increases, information flows become more problematic. Only through experiential learning can firms overcome the psychic distance, but learning takes time, so they need time to go from nearby markets to gradually more psychic distant markets and to increase commitment. So, according to this model, the key factor in international market selection is the psychic distance. In conclusion, we can say that in the Stages Model international market selection is traditionally unsystematic. Here, firms choose the market, not the partner, and they do not study the circumstances of each of the possible markets, firms select the market because it is psychically near.

Unfortunately, this model cannot explain the internationalization of INVs, which go abroad very quickly and very far away. Johanson and Vahlne (2003) accept this challenge and follow the proposition of other authors to integrate the network and stages models.

The Network Approach

According to the network approach, not all the exchange relations can be explained by the market; these relations evolve in a more complex, dynamic and less structured manner. The focus of firm behaviour is neither the firm nor the didactic relations; the focus of firm behaviour is the context of a network of inter-organizational interaction. Network is utilized here as a business network defined as a set of connected relationships between actors controlling business activities (Forsgren and Johanson, 1992, p. 5). The tie between the actors can be direct or indirect. These network relationships influence initial market entry and mode of entry (Coviello and Martin, 1999). In this context, the firm doesn’t choose a partner; it selects a partner from the inter-organizational network. “Firms’ ties provide channels for sharing knowledge as well as the motivation to do so.” (Sharma and Blomstermo, 2003, p. 744).
Thus, the internationalization characteristics of both the firm and its context influence the process. Johanson and Mattsson (1988) divided companies into four groups depending on their environment’s internationalization, as set out in Table 1.

<table>
<thead>
<tr>
<th>Degree of internationalization of the market (the production net)</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of internationalization of the firm</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>The Early Starter</td>
<td>The Late Starter</td>
<td></td>
</tr>
<tr>
<td>The Lonely International</td>
<td>The international among others</td>
<td></td>
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</table>

In the context of INVs, only two are important: the early starter and the late starter. In the former, the firm has little knowledge of foreign markets and it cannot use relationships in the home country to gain it (Hintu et al., 2002; Hadley and Wilson, 2003; Johanson and Mattson, 1988). If a firm is a late starter, its suppliers, customers and competitors are internationalized, so it has a number of indirect relations with foreign networks even if it is purely domestic. Its relationships in the home market may drive it to enter foreign markets. The closest markets, however, might be difficult to enter (as the competitors have more knowledge and because it is hard to break into an existing network), so the company might start its internationalization by entering more distant countries (Chetty and Blankenburg Holm, 2000). The other two, lonely international and international among others are not important for our study because they are already international.

**The early starter**

“Firms have few and rather unimportant relationships with firms abroad. The same holds for other firms in the production net” (Johanson and Mattsson, 1988, p. 298). Firms, in this situation, have little information about internationalization and they can’t use their relationships to gain this knowledge because they don’t have it either. Starting with big investment is a strategy reserved for firms which are well established on the domestic market, which is not normally the case of INVs. So, they will begin their internationalization in nearby markets using agents rather than subsidiaries, here the needs for knowledge are fewer, the needs for demand adjustments are fewer and they can utilize the position already established by the agents in the foreign market (reducing the need for their own investment and risk taking).

The internationalization process of an Early Starter in the network approach is not very different from the internationalization view of the Stages Model. However the international market selection in the latter is absolutely unsystematic and in the former is only unsystematic because the firm has no relationship which can help it. However, the network approach allows that “initiatives in the early internationalisation of the firm are often taken by counterparts – that is, distributors or users in the foreign market.” (Johanson and Mattsson, 1988, p. 299), so, here it has a relational unsystematic process.
The late starter

“If suppliers, customers and competitors of the firm are international, even the purely domestic firm has a number of indirect relations with foreign networks. Relationships in the domestic market may be driving forces to enter foreign markets” (Johanson and Mattsson, 1988, p. 302)

The internationalization process of INVs is driven by the knowledge supplied by their network ties, which are specific and non-imitable and have three important consequences in the international market selection: (1) the information that is available to the firm, (2) its timing and (3) referrals (Burt, 1997). So, the same information is not available at the same time to all the firms. This fact will influence the firm’s internationalization process: it will select a partner from the known opportunities and which has good referrals. INVs “seem not to collect information on institutional factors and government rules and regulations”, “to select and enter foreign markets, they evaluate each proposition individually and enter into alliances and cooperative ventures to serve foreign markets” (Sharma and Blomstermo, 2003, p. 747).

Case study research has shown that the development and termination of network relationships can explain the internationalization patterns of many firms, especially with regard to market selection and entry mode (Axelsson & Johanson, 1992; Coviello & Munro, 1997; Johanson & Vahlne, 1992). In Bell (1995), the market selection of software firms was more influenced by domestic client followership, sectoral targeting, and industry trends than by the psychic distance of the market. In the Stages Model, experiential learning is essentially to overcome the psychic distance, so firms must go from nearby markets to gradually more psychic distant markets to get the need knowledge. In the Network Approach, international opportunities are presented by network members (Chetty and Blakenburg Holm, 2000; Coviello and Munro, 1995, 1997) and networks convey information and experiential learning can be replaced by network learning (Chetty and Blakenburg Holm, 2000).

So, according to the network approach, the international market selection is relational and can be systematic (if the firm strategically conducts the process) or unsystematic when the firm is discovered by the partner or by a third party.

International Entrepreneurship

Recognition of the role of management as responsible for the mode, direction and speed with which the company advances along the international path has been identified in several studies (see, for example, Leonodou et al, 1998). In some models the decision-maker is the key factor behind the firm progression (Reid, 1981; Cavusgil, 1982; Barrett and Wilkinson, 1986; Holmund and Kock, 1998; Andersson, 2000). In others the social networks of management influence the pattern and direction of internationalization (Coviello and Munro, 1997). The know-how acquired by management from international experiences (born abroad, study, live or work abroad in past) allows the accumulation of greater experiential knowledge of market characteristics and competition across the globe.

It was found that two sets of managerial factors, namely objective (educational background, experience and foreign country exposure of decision maker) and subjective (perceptions attitudes and behaviour of decision-maker) were the most cited characteristics in the literature.

Here, in this paper, we are more interested in objective characteristics. The impact of management’s international experience has, in particular, a strong effect upon SMEs (Hutchinson
and Quinn, 2006) both at the initial decision to expand and the continuation of the strategy into international markets (Aaby and Slater, 1989; Madsen and Servais, 1997; Nakos et al., 1998). In the same way, the international experience of management has a strong effect upon INVs’ international decisions, particularly in international market selection. It has also been argued that the networks formed by the management in the firm are not only a potential catalyst for international expansion, but also a source of extended knowledge (Merrilees et al., 1998; Coviello and McAuley, 1999), which may have a strong effect on the direction of internationalization.

**Conceptual Framework for Analysis**

Our framework recognizes the limitations of the stages theory, it assumes the network approach as the principal basis approach and it introduces some elements from the entrepreneurship theory. This results in a framework that integrates multiple theories of internationalization and international market selection modes in a complementary manner.

**Figure 1 – Framework for analysis**

For a long time the stage theory was well accepted in the internationalization process, but this model is inadequate in explaining the rapid and almost from inception internationalization process of INVs; it cannot explain, for example, how and why a firm selects a very psychically distant market. Despite that, the stages model of internationalization is very interesting; it
provides the concepts of international experience which we transfer to the entrepreneurs. However, they don’t act in an isolated way: the firm and the networks play a very important role. In a modern network economy, it may be inadequate to assume that the firm is acting autonomously in the market; it can’t choose what to do without interaction with the other agents. Linking the firm’s degree of internationalization with the network’s degree of internationalization and the entrepreneur profile we have, in our study, a more eclectic approach.

The conceptual framework is based on the idea that the entrepreneur is a part of the firm, which is part of a network and which all together influence the international market selection. Considering Figure 1, it is only important for us when the degree of internationalization of the firm is low (Table 2).

**Table 2 - Internationalization of firms with low degree of internationalization**

<table>
<thead>
<tr>
<th>Degree of internationalization of the market (the production net)</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of internationalization of the firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td></td>
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<tr>
<td>The Early Starter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Late Starter</td>
<td></td>
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</tr>
</tbody>
</table>

For a better understanding of the internationalization process, we must cross these categories with the different types of entrepreneur as shown in Table 3. In this table we have four sub-categories of firms:

- I - Early Starter with Internationally Influenced Entrepreneur,
- II - Early Starter with Domestic Entrepreneur,
- III - Late Starter with Internationally Influenced Entrepreneur, and
- IV - Late Starter with Domestic Entrepreneur.

**Table 3 – Crossed-categories of internationalization**

<table>
<thead>
<tr>
<th>Type of Entrepreneur</th>
<th>Internationally influenced</th>
<th>Domestic</th>
<th>Type of firm in the Network Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Early Starter</td>
</tr>
<tr>
<td>I</td>
<td>I</td>
<td>II</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>III</td>
<td>IV</td>
<td></td>
</tr>
</tbody>
</table>
Internationally Influenced Entrepreneur is an entrepreneur with international experience and/or international social networks. On the other hand, Domestic Entrepreneur has neither international experience nor international social contacts.

**Early Starter …**

According to Johanson and Mattsson (1988, p. 298), the early starter “has few and rather unimportant relationships with firms abroad. The same holds for other firms in the production net”. Therefore, firms have little knowledge about the foreign markets and they can use their relationships to improve it. The authors argue that the firm’s internationalization can occur in two ways:

1. The strategy found in empirical studies - internationalization begins in nearby markets using agents.  
2. Initiatives in the early internationalization of the firm are taken by counterpart.  

The former is proactive and the latter is reactive, the former are traditional non-systematic and the later are relational non-systematic.

**… with an internationally influenced entrepreneur**

“Psychic distance conceptualises the idea that firms tend to internationalise through country markets from which information flows are relatively unimpeded because those countries can more easily be understood by managers.” (Brewer, 2001). However, if the entrepreneur has international experience, he already has the needed information about some countries. So, the psychic distance between two countries is not important, but rather the psychic distance between the management and some markets. So, firms will establish a possible market set based on the management knowledge, and then they evaluate these countries. The set of possible markets is not a completely rational option. They do not analyze other alternatives, preferring to focus on the known countries.

This firm has neither international contacts nor international knowledge (low degree of internationalization), its networks have neither international contacts nor international knowledge, but the firm does not need to make an incremental process to increase them and to establish contacts: the entrepreneur has them. The firm will follow the entrepreneur’s perceptions and knowledge; it will begin internationalization in the psychologically nearby market. However, this psychic distance is different, it is not between countries, and it is between the market and the entrepreneur. If the entrepreneur has studied in country A, he/she feels near country A, he/she knows how they live, what they prefer, who is who there. Axinn (1988, p. 64) has observed the decision-maker who is a migrant or who has experienced prior foreign work experience: he is able to draw upon “his or her personal contacts in foreign markets to facilitate the firm’s entry into exporting”. Thus, internationalization may not begin in the first stage, or rather, firms may skip stages of international development that have been observed in the past. Somehow, the entrepreneurs’ previous international experience compensates for the international new venture’s lack of experience (Cooper and Dunkerberg, 1986; Kuemmerle, 2002, Evangelista, 2005). The international market selection is traditional non-systematic.

The entrepreneur’s social relationships abroad can bring about a very rapid process. Connections and contacts are viewed as potential future contractors, agents, intermediates and clients. The spread of information about new ideas typically comes through bridge ties that link separate people (Granovetter 1973; Ellis, 2000), so potential partners can get to know about the firm’s
products in this way. The international market selection is relational non-systematic. So, if the entrepreneur is international, he/she has international knowledge, he/she has a psychological proximity with some markets and he/she has international contacts. All these points completely change the scenario of early starter internationalization.

... with a domestic entrepreneur

Otherwise, if the entrepreneur does not have international relationships, it will be a much-delayed process and this firm is probably not an International New Venture. Firms will begin in nearby markets with low commitment. As the volume sold abroad increases, knowledge about foreign markets also increases. Furthermore, companies increase their commitment abroad, and they will go further away and to a more diverse number of countries. This is the process described by the Uppsala model. This staged development of a firm’s internationalization can be rapid, because time and space have shrunk. Transactions costs of multinational interchange have been reduced by the increase in speed, quality, and efficiency of international communication and transportation (Porter, 1990).

Late Starter ...

Here we have a firm whose network has a high degree of internationalization, the information flows in the network in such a way that buyers easily get to know about a new product. When a firm introduces valuable innovative goods or services, it signals the existence of its special knowledge to outsiders. Even if the firm is completely domestic, it has international indirect ties. The information about new ideas and products typically flows through these ties linking separated people.

... with an internationally influenced entrepreneur

If the entrepreneur is also international, he/she has some social ties. If those ties are not redundant with the organizational ties, the paths will be complementary, and the firm will probably have more requests.

Moreover, “the knowledge gained through personal ties has a privileged character since this information is commonly not available to others.” (Scholl, 2006, p.22). Based on five international new ventures, Evangelista (2005, p. 186) argues that “the international experience of the founders as well as their contacts overseas is instrumental in identifying opportunities”. Moreover, social ties can eventually determine the market selected because these ties introduce the firm to a particular foreign market (Ellis, 2000). Additionally, it has been observed that external social ties can provide information on market trends and customers needs and helps to develop and maintain this relation (Chetty and Campbell-Hunt, 2000). In this scenario, a firm may use the links to choose or to be chosen so it has a relational non-systematic process of international market selection.

... with a domestic entrepreneur

These enterprises have a low degree of internationalization but their network has a high degree. Foreign market opportunities are seen to be communicated to the firm via its relationships with network partners (Johanson and Mattsson, 1988; Blakenburg, 1995). Therefore, in this case,
networks are a central source of competitiveness. Relationships in the domestic market may be driving forces to enter foreign markets. Thus it is not necessary to go step-by-step from the nearby to more distant markets, “the extension pattern will be partly explained by the international character of indirect relations and the existence of entry opportunities” (Johanson and Mattsson, 1988, p. 302).

In Late Starter nobody looks central; everyone is complementary and imperfect substitutes. In the absence of some links (for example social network) the others (for example industrial networks) turn themselves into a central factor and make the connection possible.

So we can conclude that in all cases International Market Selection is relational, except in Early Starter with domestic entrepreneur. This case is not relevant for our study because it is not an INV. Our framework (Figure 1) is based on the idea that networks are the basis of international market selection: sometimes industrial networks play the central role (Late Starter with domestic entrepreneurs); sometimes social networks plays the central role (Early Starter with Internationally Influenced Entrepreneur); other times nobody plays the central role - they are complementary or imperfect substitutes (Late Starter with Internationally Influenced Entrepreneur).

**Research Question and Methodology**

The only partial International Market Selection currently available, the inconsistencies in widely cited theories and the inconsistencies between theories and empirical analysis define the research question. The question addressed is “How do international new ventures select their foreign markets?”

The study followed a case-oriented approach, which involves an in-depth analysis of a small number of situations to develop a holistic description as the end result. Eisenhardt’s (1995) design calls for a sample between four and ten cases, a range supported by Remeny et al. (1998). For this work, some ten firms were sequentially approached and the entrepreneur interviewed, until six were selected. A purposive sampling technique was employed to select the firms originally approached and finally selected. The cases were chosen to span different sizes, different industries and different ways of internationalization. The only conditions applied were that firms be registered in Portugal and be independent from any multinational and they must be involved in international business since their sixth year or less. Brush (1995) and Zahra, Ireland and Hitt (2000) define new ventures as companies six years old or younger.

We adopt the latter definition for “new”, so INVs are companies that internationalize in their first six years. They must be Portuguese because in this study we must visit the firm more than one time, so it is important that they are not very far away. Some small firms enter foreign markets as sub-contractors. Many sub-contracting exporting firms do not actively initially select their foreign markets because the decision is made by the partner firm obtaining the contract (Westhead et al., 2002). This case is not of interest to our analysis. All our selected cases are non sub-contractor exporters. We then interview each firm and analyze its history trying to find some theoretical difference between them. Finally, we keep only three firms because we had some theoretical
saturation: no new or relevant data seemed to emerge regarding the other cases, so they were excluded. The firms have the characteristics shown in Table 4.

**Table 4 – Firms’ characteristics**

<table>
<thead>
<tr>
<th>Firm A</th>
<th>Sector</th>
<th>Network category</th>
<th>Approach</th>
<th>Entrepreneur Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cork</td>
<td>Late Starter</td>
<td></td>
<td>Domestic Entrepreneur</td>
</tr>
<tr>
<td>Firm B</td>
<td>Software</td>
<td>Late Starter</td>
<td></td>
<td>Intern. Influenced Entrepreneur</td>
</tr>
<tr>
<td>Firm C</td>
<td>Pharmaceutical</td>
<td>Late Starter</td>
<td></td>
<td>±Intern. Influenced Entrepreneur</td>
</tr>
</tbody>
</table>

According to the framework, each firm represents one of the three different defined types of entrepreneurs; however all the three cases can be considered late starters. As Johanson and Mattsson (1988) said, nowadays it is very difficult for some sectors not to be internationally integrated. Interviews were conducted by one of the authors with the entrepreneurs in each firm, with collaborators and with partners. Interviews were unstructured, although a protocol was employed to ensure the same themes were covered with each firm. Interviews were recorded and later transcribed onto hard copy for analysis. In addition, relevant documentation, such as newspaper reports, internet sites and brochures were studied in the expectation of eliciting further evidence of the IMS processes employed by the firm.

The choice of a typical case-oriented approach was subordinate to two reasons. To the best of our knowledge, however, there are no published studies answering how INVs select their international markets, so little was known about the kind of phenomena studied. We do not use pure grounded theory because we use some basic concepts from the Uppsala model, the network approach and the international entrepreneurship theory. The second reason for the choice of such methodology stemmed from its explanatory character, so in accordance with Yin (1989), case studies are the most appropriate for a research question formulated in terms of “How”.

**Research Findings**

Content analysis was the central analysis procedure. Data was sifted and categorized, utilizing a coding system and pattern seeking techniques as widely employed in the qualitative research. To help us to do this in a faster way we use the NVivo7 programme. We constructed three types of case based on framework, and we have classified the firms in these cases.
Firm A is a late starter with domestic entrepreneur. All the founders in the management team have very long experience in the biggest cork firm in the world, all together they know a lot about the sector, about the world market and about production, but they have never lived or studied outside Portugal.

Firm B is a late starter with internationally influenced entrepreneurs. All the team members have already participated in international projects and they have many international informal links.

Firm C is an intermediate case: it is a late starter with more or less internationally influenced entrepreneurs. One of the team did their PhD in the United States, but only now is the firm beginning to internationalize to there. Another member of the team has worked, in Portugal, in a multinational and has lived for one-and-a-half years in Germany. The third member of the team, the CEO, didn’t mention any kind of international experience.

Based on the interviews and within the framework, several categories were created. First, we distinguished the traditional international market selection (selecting by countries) from the relational one (selecting by partners). The former was divided into systematic and non-systematic. And the latter was subdivided into: firm initiative, partner initiative, a third party initiative and another category named meeting at fairs, congresses and the like. To understand the origin of the knowledge grounded based we create eight nodes: learning with internationalisation, selecting information, organizational networks, previous job, lived abroad, studied abroad, worked with foreigners and informal links. From our analysis we construct two matrixes (see Tables 5 and 6) with the results.

Table 5 – International Market selection and Entrepreneur Profile

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Intern. Influenced entrepreneur</th>
<th>+ - Intern. Influenced entrepreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country selection</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Non systematic</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Relational</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Third party initiative</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Partner initiative</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Firm initiative</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Fairs, Congresses and the like</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Note: Matrix cells contended - Sources coded.

The first aspect we see when analyzing table one is that all the firms use traditional and relational international market selection, but:
- Firm with domestic entrepreneurs prefers traditional international market selection;
- Firm with internationally influenced entrepreneur prefers relational international market selection;
- Firm with more or less internationally influenced entrepreneur doesn’t have any preference;

### Table 6 – Origins of Knowledge and entrepreneur profile

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Intern. Influenced entrepreneur</th>
<th>+ - Intern. Influenced entrepreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learn with internationalization</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Select information</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Organizational networks</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Previous job</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Lived abroad</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Studied abroad</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Worked with foreigners</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Informal links</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Matrix cells contended - Sources coded.

If we concentrate our analysis on the entrepreneur, it is not surprising that firm A prefers the traditional international market selection, since, apparently, it does not have international links. But, according to Johanson and Mattson (1988) they should use the sector links to internationalize, instead they used their own knowledge. As they told us, they made a firm “au four et à mesure” to make the difference. They knew what almost all the world market needs and all the gaps. From the beginning they selected the markets in a very logical way. The sector is very internationally integrated so that the firm goes first not to the nearest market; it goes to the furthest market, because there it has less competition. That firm selects the international market traditionally in a systematic way; it uses the entrepreneurs’ knowledge to help in the options. The owners have accumulated a lot of informal education, experience and international knowledge (see table 3) that compensate for the firm’s newness; they have already made the firm’s way. Very interesting in this case is that, being in an integrated sector does not help the firm; it forces the firm to go further away because in the near markets it has much more competition.

Case B is a late starter firm with internationally influenced entrepreneurs. The entrepreneurs were doing their PhD when they decided to make a firm. Almost at the beginning, the very first buyer had the initiative, and invited them to work with him. The buyer knew them from an academic article. Because they were contacted by a very important buyer they believe they can do something different. They had all participated in international projects, so they select the goal partners and they all use their social links to have assessment of the firms.

As predicted, they prefer relational international market selection. Since they had international links, they use them. They were aware that networking is very important. The owners of this firm had accumulated a lot of informal international contacts (see table 3) that compensate for the firm’s newness; they had already done the firm’s networking. Quoting them, “it is all about building relations!” Because the firm is a late starter, there is a lot of organizational connection where the information flows, but to use it, they must be in the network, they must be known. So at the beginning they use their informal links, but to continue their internationalization process
they use a lot of organizational networks, too. So, in this case, the key is the relations, not the kind of relations - they are complementary.

Case C is a late starter firm with more or less internationally influenced entrepreneur. The entrepreneur team was constructed in a very rational way; they are a sum of knowledge. They had international experience (one of them did a PhD abroad and another worked in a multinational and had lived abroad for a year and half), but in this case they don’t have many helpful links. This firm must be very proactive, it has gone almost since the beginning to specialized fairs, it publishes articles in professional journals and it tries to know more about possible partners. The international market selection was mixed, it has some goal countries but at the same time its international market selection has been relational: they go to fairs to meet people, they try contacts first and they contact international agents. Because they are not very strong in their country knowledge or in their international links, their rationality used both. It is very interesting to note that no firm selects international markets in a traditional non-systematic way. All the entrepreneurs said that when the firm was created it was to be international, they had very defined criteria and they knew very well where they wanted to go.

To answer the question “How do INVs select their international market?” we must say it depends. No single factor seems fundamental, they seem complementary. Firms need knowledge and contacts and they depend on the entrepreneur’s profile and on the firm profile.

**Conclusions and Implications**

Using a conceptual framework strongly influenced by network approach and international entrepreneurship literature increases our understanding of the international market selection of INVs. Although it focuses only on the early stage of the international new venture, i.e., its entry into the first international markets, it is not restricted to specific aspects as defined by the previously mentioned models.

The network model does not include individual characteristics of the entrepreneurs and their profile, so it cannot be used for a complete discussion of the issues. On the other hand, the entrepreneur does not act in an isolated manner; the firm and the networks play a very important role. Linking the firm’s degree of internationalization to the network’s degree of internationalization and the entrepreneur profile we have, in our opinion, a more realistic approach. Our focus is not to create an approach that we can generalize to all. Because different types of entrepreneurs influence international behaviour in different directions (Andersson, 2000) and because firms can be in different situations in terms of internationalization networks, we crossed the network approach with concepts from international entrepreneurship and we create four possible middle-categories. No category is equal to another in the international market selection. We must analyze the specific characteristics of each one to understand its process. “Knowledge is at the core of received wisdom on internationalization” (Prashantham, 2005).

The idea of a completely systematic process with very formalized analyzes is more normative than descriptive (or explicative). Theoretically firms must use a much formalized process to evaluate the potential of possible markets and/or opportunities. In practice, sometimes, firms have limit capacity and time to evaluate all the information; other times, entrepreneurs decide to trust in perceptions or they can, for example, simply answer to not requested external proposals.
In our view, it is very important to note that the international market selection is a process of creation, recognition and exploitation of opportunities. This process is limited by the ability to recognize the opportunities, the ambition to take actions based upon them and the ability to respond to them, so, the international market selection is limited by the entrepreneurial capacity. We believe that the entrepreneurial capacity depends on objective and subjective factors. In this study we analyze the importance of the international exposure, and how it changes all the process. We are sure that the entrepreneurial type plays a central role too. Andersson (2000) defines three entrepreneurial types (technique, marketing and structure) with different strategies facing the internationalization. In our opinion it will very interesting to include the three types of entrepreneur in next papers and analyzes how they influence the international market selection.

In incremental internationalization firms go step by step, increasing the knowledge and using the stock of knowledge to a better understanding of the less distant markets. This process takes time and INVs don’t have this time. They look like they are international by nature, they internationalize in a very short period of time and in very distant places. They use all the possible channels to get knowledge and the notion of psychic distance is no longer useful here. They use previous knowledge to be in the others’ shoes, they use previous relations to establish contacts. They don’t evaluate the cultural differences between countries, they evaluate how much they can feel like the foreigners, how much they can know about other people, about potential partners.

International market selection constitutes a strategic option and knowledge is a vital source of very important criteria. International expansion is subject to uncertainty and risks because of the difficulty of enforcing contracts across borders, information asymmetry, geographical distance and cultural diversity. In all means of international market selection, international knowledge is very important, but the sources of knowledge are different. In the traditional non-systematic (like in the Uppsala model), the main source is the firm itself, through its experience of foreign operations. However, because the international new ventures are new, they do not possess this essential international knowledge. It can, however, be accessed indirectly: it can be accessed through the organizational network (network approach) or it can be accessed through personal ties, experience and contacts (international entrepreneurship). Firms can expand from domestic to international markets through existing personal or organizational relationships that offer contacts and help to develop new partners and positions in new markets.

Entrepreneurs of International New Ventures can benefit from a better understanding of the impact of their profile, of organizational networks and personal ties on international market development. Given that their future opportunities emanate largely from networks (organizational and personal), more attention should be paid to how and with whom these relationships are established. Their existing networks, as well as their ability to establish new relationships, should be managed as a strategic source of competitiveness. The interrelationships among a set of firms and individuals may strongly influence the options available, the options known and the options chosen.

This study is also relevant for governments that want to stimulate internationalization: when they look at potential international firms, they may analyze the firm and its networks and they cannot forget to analyze the entrepreneur and her/his profile. This study has only late starter firms, which reflects the present reality of INVs. Nowadays, with many markets internationalizing, fewer new ventures can escape confrontations with foreign competition (Drucker, 1991; Ohmae, 1990; Porter, 1986, 1990), so nowadays, fewer new ventures can be early starter. Further research is needed to integrate more entrepreneur characteristics and the next international market selection. We argue that there is no single explanation that fits all, no single one can explain all the internationalization processes but all are necessary to understand the internationalization process in some circumstances. Our framework focuses on the network approach crossed with international entrepreneurship. However, we believe the Uppsala Models are valid in some
scenarios (Early Starter with technical entrepreneur). The psychic distance as usually defined and operationalized is not an important factor in the INV international market selection process, at least in initial market entry. In fact, it seems that the best markets lie in the opposite direction. So, we believe the holistic framework proposed is more flexible and more in accordance with the new context, with new technologies and with a more global time and space.

References


