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‘International entrepreneurship for SME business growth: A resource and dynamic capability view of the firm. An Internet context.’

ABSTRACT

This research explores the relationship between international business Internet capabilities and international entrepreneurial characteristics. It has been suggested, that the accumulation of a firms Internet capability can assist international operations, especially when operating in fast changing dynamic environments. However, the international entrepreneurial characteristics which are seen as a precursor to leveraging such capabilities are still vague. Given this finding a conceptual framework is constructed and research issues are then developed in order to focus attention on the relationship between the Internet and a firm’s resource base, dynamic capabilities and international market performance.

Keywords:

International entrepreneurship, SMEs, Internet, resource-based view, dynamic capability view.

List of Acronyms:

- IE** International entrepreneurship
- EO** Entrepreneurial orientation
- RBV** Resource-based view
- DCV** Dynamic-capability view
- SME** Small and medium sized enterprise

INTRODUCTION

The Internet has provided international entrepreneurial small and medium sized enterprises (SMEs) the ability to overcome limitations of size and resource constraints. It has been suggested, that the accumulation of valuable resources and capabilities, such as Internet application, is not enough to support a firm's sustainable competitive advantage, especially for high technology-mediated Internet firms which often operate in fast changing dynamic environments. While the idea of 'Internet-enabled resources and capabilities' have been recognised by resource-based view (RBV) theorists, the notion has largely been ignored in conceptual and empirical studies. Drawing on the RBV of the firm this conceptual paper will aim to make an important contribution by extending the RBV and the dynamic capability-view (DCV) of the firm to international entrepreneurship (IE) literature, by empirically examining the relationship between technology and a firm's resource capabilities, international entrepreneurial orientation (EO), and international market performance. In addition, there has been very little empirical research aimed at uncovering 'bundles' of capabilities that characterise firms, and the explicit link between the possession of firm resources, a firms dynamic capabilities and, international market performance (Knight and Cavusgil, 2004; Lewin and Massini, 2003). Given this finding a conceptual framework and is constructed and research issues are then developed in order to focus attention on the relationship between the Internet and a firm's resource base, dynamic capabilities and international market performance. The proposed methodological approach is highlighted together with the implications for theory and international entrepreneurial managers in the SME sector.

LITERATURE REVIEW

The current state of IE theory

The emergence of IE as distinct and separate field of research from international business and entrepreneurship has led researchers to take a closer at the contributing disciplines specifically between internationalisation and entrepreneurship. IE is defined as the "discovery, enactment, evaluation and exploitation of opportunities across national borders..." (McDougall and Oviatt, 2003, p.7). IE is primarily about opportunity identification and exploitation of business operations in foreign markets (Zahra, 2004). Consequently, understanding how international entrepreneurs make decisions to identify and exploit opportunities in foreign markets is necessary to the development of the relatively infant field of IE (Zahra, 2004). Because the intersection between international business and entrepreneurship is becoming increasing apparent, IE has gained interest over the last decade, during which academic interest in the topic has grown (McDougall and Oviatt, 2000). More specifically, Gamboa and Brouthers (2008) highlighted IE as one of three emerging

research thrusts in the field of international business. Researchers in the area of IE have also drawn from a broad field of entrepreneurship, management, marketing and international business disciplines to explore IE.

There has also been a development in internationalisation studies with a focus on the increasingly active role played by international entrepreneurs within SMEs (Bell, McNaughton, Young and Crick, 2003; Johanson and Vahlne, 2003; Johnson, 2004; Welch, 2004; Oviatt and McDougall, 2005; Loane, 2006). This is because decision making power within SMEs and the impetus of firm internationalisation often lies with the international entrepreneur, opposed to the management team, which are responsible for decision making in larger firms (Bhuiyan, Menguc and Bell, 2003). International entrepreneurs have also been shown to assist the firm's international market performance through opportunity identification and the international vision of the manager. As such, market performance is optimised when the firm is internationally market oriented and entrepreneurial (Bhuiyan, et al., 2003).

Over recent years scholars have attempted to reduce the ambiguity that exists in defining the term IE. Researchers have reviewed various definitions and theories in an attempt to create an all encompassing definition. Zahra (2004, p. 9) loosely defined IE as "the study of the nature and consequences of a firm's risk-taking behaviours as it ventures into international markets". The definition features risk-taking behaviour a single element of the EO dimension. Briefly, the concept of EO encapsulates the firm level processes, practices, decision making style, and strategic orientation of an entrepreneurially oriented firm (Jantunen, Puumalainen, Saarenketo and Kylaheiko, 2005). Lumpkin and Dess (1996) argued that EO represents the key entrepreneurial processes and is primarily concerned with how established firms are developed.

Shane and Venkataraman (2000, p. 218) defined entrepreneurship as "the examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited". Shane and Venkataraman (2000) emphasise opportunities in their definition as well as the individuals who endeavor to take advantage of them. Building on the aspects of risk-taking and opportunity identification, McDougall and Oviatt (2003) revised the definition of IE as "the discovery, enactment, evaluation, and exploitation of opportunities across national borders to create future goods and services" (P. 7). Such a definition indicates the link between internationalisation, a concept of cross-border international trade. Consistent with these observations and purpose of the research, this study incorporates the definition of IE as provided by McDougall and Oviatt (2003).

The focus of analysis in IE literature has recently shifted away from the individual entrepreneur to a firm level focus. For example, recent research indicates that there is a need to focus on the area of identifying the success factors of international entrepreneurial firms (Stuart and Abetti, 1990; Lumpkin and Dess, 1996; Knight, 2001; Knight and Cavusgil, 2004; Zahra, 2004; Bhuian et al., 2005; Jantunen et al., 2005; Lu and Beamish, 2001; Mostafa et al., 2006; Frishammar and Andersson, 2010). Davidsson (2003) suggested that there are various factors influencing firm performance and as such, it may be difficult to ascertain the contribution of the entrepreneur. However, current research indicates that there are consistent behavioural patterns or internal capabilities of international entrepreneurs influencing the firm's international performance (Aspelund and Moen, 2004; Jantunen et al., 2005; Mostafa et al., 2006). For example, Jantunen et al., (2005) identified that factors of EO such as risk-taking propensity, combined with firm capabilities constitutes a potential source of competitive advantage and international performance of the firm.

Internal firm capabilities are linked to international entrepreneurial capabilities and are embedded in business strategy (Knight and Cavusgil, 2004). This view implies that the ability of certain firms to maintain and, create new knowledge can lead to the development of entrepreneurial capabilities (Autio, Sapienza and Almeida, 2000; Knight and Cavusgil, 2004). As such, international entrepreneurial capabilities can be viewed as either a motivator or inhibitor in the firm's progression to international markets. In a study of management capabilities in the internationalisation of SMEs, Hutchinson Quinn and Alexander (2006) argued the importance of decision maker capabilities as factors impacting not only the initial decision to expand and support overseas operations, but also the trajectories and pace of internationalisation. Covin and Slevin (1991) argued that behaviour is an essential element in the entrepreneurial process and that firm decisions or *behaviours* are what may make it entrepreneurial. Thus, examining the internationalisation behaviour of the firm and identifying entrepreneurial capabilities will provide future direction of IE research (Zahra, 2004; Jones and Coviello, 2005, Mostafa et al., 2006). The supporting theory of the study, the RBV of the firm will now be assessed.

Resource-based view of the firm

The RBV is an influential theoretical framework developed to comprehend how competitive advantage within firms is attained and how this advantage can be sustained (Penrose, 1959; Nelson

and Winter, 1982; Barney, 1986; Wernerfelt, 1984; Teece, 1986, Barney, 1991). Wernerfelt (1984) explored the usefulness of analysing firms from a resource rather than a product perspective. The article published by Wernerfelt begins with the statement '*for the firm, resources and products are two sides of the same coin*' (1984, p. 171). And as such, Wernerfelt (1984) argued that by specifying a resource profile a firm can identify the minimum resource requirements necessary for international growth. An important contribution of the Wernerfelt (1984) paper was the identification of resources as important antecedents to products and ultimately firm performance (Priem and Butler, 2001).

According to Barney (1986, 1991) sustained competitive advantage and superior international market performance is derived from the resources and capabilities a firm possesses, which are valuable, rare, difficult to imitate and non-substitutable (Barney 1991; Barney, Wright and Ketchen Jr, 2001; Barney, 2001). These resource capabilities have also been highlighted as so-called VRIN attributes. Referred to in the literature as being 'sticky', resources are unique because they cannot be readily assembled through markets (Teece, 1982), nor can they be brought or sold. These resources and capabilities have been considered as 'bundles' of tangible and intangible assets, including a firm's management skills, its organisational processes and routines, and the information and knowledge the firm possesses (Barney et al., 2001). It has been argued however, that the accumulation of valuable resources is not enough to support a firm's sustainable competitive advantage (Teece et al., 1997), especially for Internet-enabled firms which operate in fast changing, and often complex, dynamic environments. Instead, a firm must also possess dynamic capabilities, so as to continually adapt, integrate, reconfigure and redeploy its resources and dynamic capabilities to exploit the opportunities of changing market environments (Teece et al., 1997). In this regard, Teece and Pisano (1994) proposed the DCV.

The DCV is an extension or subset of the RBV of the firm. The literature characterises dynamic capabilities as complicated routines and processes embedded in firms (Eisenhardt and Martin, 2000). More precisely, Makadok (2001, pg. 388) defined capabilities as 'the firm's capacity to deploy resources, usually in combination, using organisational processes, to effect a desired end.' Makadok (2001) then points out that capabilities are information-based processes that are firm-specific and are established over time through complex interactions among the firm's resources. Dynamic capabilities are also highlighted as the responses to the need for change required to identify new international opportunities (Easterby-Smith, Lyles and Peterafet, 2009). These changes can involve the transformation of organisational processes, the development of a customer relationship management system, as well as the allocation of resources and operations. The

changing nature and allocation of resources is a crucial component of the DCV (Easterby-Smith et al., 2009). That is, a firm's foreign market performance is contingent firstly on a portfolio of capabilities, and secondly, the firm's potential to reconfigure, diversify and deploy the capabilities for foreign market entry (Prange and Verdier, 2011). In a study of 120 entrepreneurs of Internet-mediated organisations, Liao, Kickul and Ma (2009) examined the innovative, dynamic capabilities of firms drawing from the RBV and the DCV of the firm.

Superior international market performance is argued to be an outcome of the firm's entrepreneurial and managerial knowledge (Penrose, 1959). Although dynamic capabilities may not be sufficient to guarantee international market performance enhancement, Internet-international marketing capabilities are a necessary factor for enhanced international market performance (Sher and Lee, 2004). This statement is of particular importance for international SMEs, which often operate in fast changing dynamic environments. As such, the Internet-international marketing capabilities allow SMEs to respond and adapt, flexibly in a timely manner to change and environmental uncertainties (Sher and Lee, 2004). This flexibility of SMEs enhances the ability to transform processes into business activities that support the international market performance of the firm (Lewin and Massini, 2003). It has also been argued that the internationalisation of entrepreneurship is becoming increasingly facilitated through the use of the Internet (Etemad, Wilkinson and Dana, 2010).

Simply redeploying the firm's current resources in changing environments however will not be substantial. That is, accumulating valuable resources is not enough to support international market performance (Teece et al., 1997). This is because Internet environments render seemingly sustainable competitive advantages and international performance obsolete (Liao et al., 2009). Instead, it is argued that competitive advantage and superior international market performance arise from a firm's capability to constantly rejuvenate and redeploy the firm's resource capabilities (Liao et al., 2009). Given this finding we propose that research investigating *how international entrepreneurial resources and capabilities influence the international market performance of Internet-enabled firms* is warranted. Briefly, the concept of international entrepreneurial orientation encapsulates the firm level processes, practices, decision making style, and strategic orientation of an internationally entrepreneurially-oriented firm (Jantunen, Puumalainen, Saarenketo and Kylaheiko, 2005). International entrepreneurial orientation is a multi-dimensional construct, which in its commonly used form consists of dimensions of international innovativeness, international proactiveness and international risk-taking propensity (Jantunen et al., 2005). It has also been suggested that a firm's ability to recognise opportunities and exploit them is dependent on the internal capabilities and the international entrepreneurial orientation of managers, as well as how

firms acquire, create and utilise information and knowledge (Frishammar and Andersson, 2010). As such, the international vision of the international entrepreneur will be discussed next.

International vision

There is evidence to suggest that an entrepreneur's international vision is essential for the firms' progression into international markets (Johnson, 2004). In many instances, it is the entrepreneur's drive and international vision that allows firms to expand into foreign markets and seek out new business opportunities (Andersson and Evangelista, 2006). For example, Aspelund and Moen (2004) found that the international vision of management, combined with Internet application facilitated the niche strategy and competitive advantage of small Norwegian exporting firms. International vision of the international entrepreneur is argued to be imperative, allowing firms to seek new international opportunities aggressively (Autio, Sapienza and Almeida, 2000). Although, the seminal study by Aspelund and Moen (2004) only validates a single international entrepreneurial cognitive attribute, the findings of the study highlight the importance of IE within Internet marketing research. Despite these findings, there is a limited amount of evidence to support the relationship between international vision, Internet-enabled IE and international market performance. As such, proposition one (P1) can be postulated. Following (P1), international business experience will be discussed.

P1. The international entrepreneurial orientation of the international entrepreneur will influence the international vision and the international market performance of the firm.

International business experience

The impact of prior international business experience of the entrepreneur has an important effect upon internationally entrepreneurially-oriented firms, particularly at the initial decision to expand and the continuation of the firm's strategy into international markets (Dyer and Handler, 1994; Loane and Bell, 2002; Fischer and Reuber, 2003; Hutchinson, Quinn and Alexander, 2006; Wang, 2008). According to Westhead, Wright and Ucbasaran (2001) entrepreneurial firms with diverse management knowhow and international business experience may be able to undertake more promising competitive strategies and opportunities in foreign markets than their larger counterparts. The prior international business experience of the entrepreneur has also gained increased significance and is widely recognised as a vital asset for an international entrepreneur (Westhead et al., 2001; Loane and Bell, 2002; Loane, 2006; Wang, 2008). Therefore, proposition two (P2) can be postulated. Following (P2), the Internet as an international marketing capability will be discussed.

P2. The international entrepreneurial orientation of the international entrepreneur will influence the international business experience and the international market performance of the firm.

Internet-international marketing capability

It has been suggested that the overall success of small and medium international entrepreneurial-oriented firms in international markets relies heavily on the capacity of the firm to change and adapt to new developments, such as Internet-enabled applications and Internet-mediated customer relationship management systems, which are embedded in both social and technical infrastructures of the firm (Buttriss and Wilkinson, 2003). Therefore, the exploitation of the Internet's capabilities is essential for any business activity, or firm that intends to expand into foreign markets. Accordingly, it has been argued that a mere Internet presence whilst it implies instant internationalisation from a technological perspective is limited, because the successful deployment of a virtual presence is restrained by, the organisational capabilities of the firm (Kotha, Rindova and Rothaermel, 2001). As such, proposition three (P3) can be postulated. Following (P3), the international networking capabilities will be discussed.

P3. The international entrepreneurial orientation of the international entrepreneur will influence the Internet international marketing capabilities and the international market performance of the firm.

International networking capability

International entrepreneurial firms seeking to internationalise in foreign markets can leverage and take advantage of international networks. Case study research suggests that firms with extensive international networks internationalise quicker and more successfully than established firms (Oviatt and McDougall, 1995). The value of international networks as an integral part of the explanation of international entrepreneurial success is also widely acknowledged (Coviello and Munro, 1995; Dimitratos and Plakoyiannaki, 2003; Loane and Bell, 2006). Further, the Internet has also enhanced the firm's ability to interact with customers, suppliers and business partners through multiple,

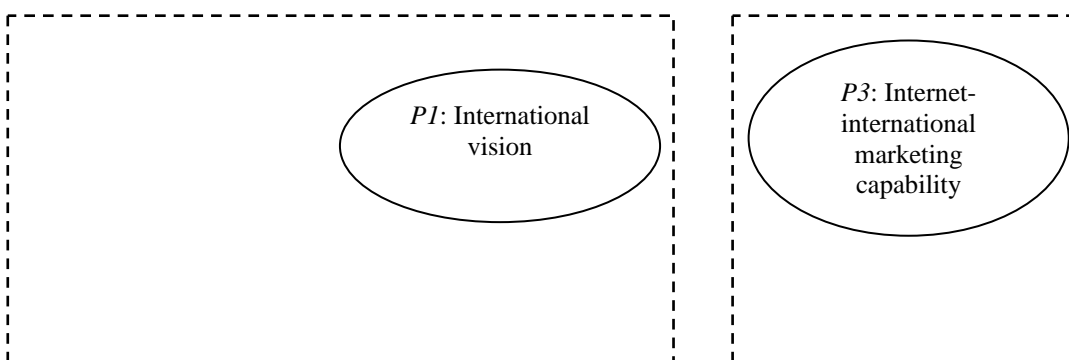
inexpensive integrated and interactive technologies (Mathews and Healy, 2007). As such, proposition four (P4) can be postulated. Following (P4), the conceptual model is shown in Figure 1.

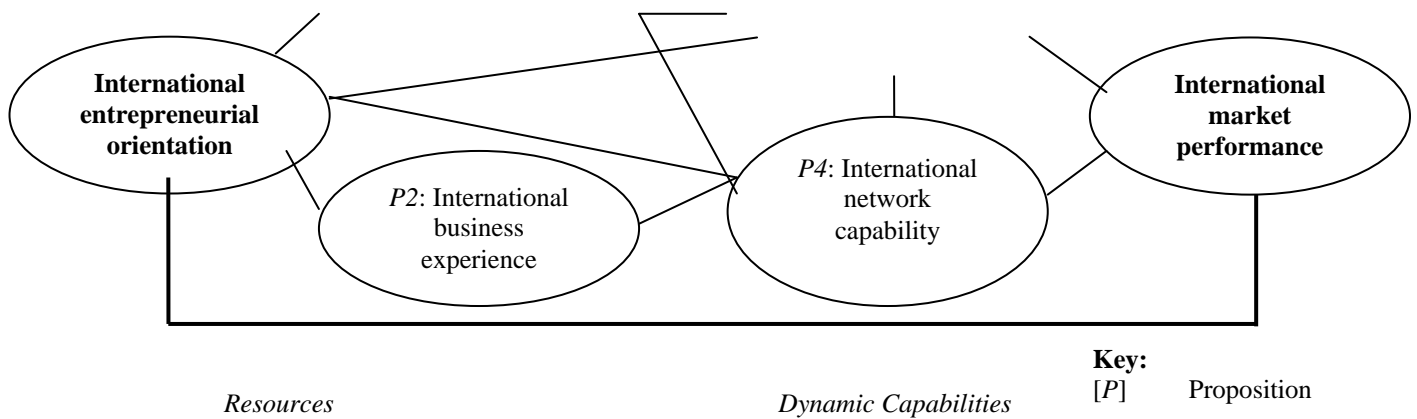
P4. *The international entrepreneurial orientation of the international entrepreneur will influence the international networking capabilities and the international market performance of the firm.*

DEVELOPMENT OF A CONCEPTUAL MODEL

Drawing on the RBV and the DCV of the firm we propose that this research will make an important contribution by extending the RBV and the DCV to IE literature, by exploring the Internet and a firm's resource capabilities. Following the conceptual model in Figure 1, the conclusions, managerial implications and recommendations for future theory development will be discussed.

Figure 1. Proposed conceptual model





CONCLUSIONS

Managerial Implications and Recommendations for Future Theory Development

This paper has promoted the need for further investigation into understanding how international entrepreneurial orientation of the firm, influences the international vision, international business experience, Internet-international marketing capabilities, international networking capabilities and the international market performance of the firm. This paper has established a holistic perspective, identifying key Internet-enabled resource capabilities, as well as the individual factors contributing to the development of a conceptual model and research propositions. Given that the Internet is one of the most significant innovations for internationally-oriented business in recent years (Mathews and Healy, 2007; Mostafa, Wheeler and Jones, 2006), it is expected that this research will assist SMEs in leveraging the use of the Internet through international entrepreneurial capabilities to exploit new international market opportunities (Loane, 2006; Mathews and Healy, 2008). Future research should seek to validate the key findings of this paper through qualitative research techniques such a series of semi- structured in-depth interviews and multiple case study inquiry. Quantitative research methods to verify constructs and move the field of Internet-enabled IE away from conceptualisation to statistically testing of constructs is also imperative.

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