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International New Venture Founders: Who Are They?

Eric L. Hansen
Terrence H. Witkowski

Entrepreneurs who start new ventures for the purpose of conducting business across national boundaries are largely unexplained by existing international business theory and research. This article reports on a comparison of the founders of 55 international new ventures with their counterparts who started 166 domestic-only new ventures. These two groups differed significantly in terms of their international social networks at the time of the start-up, prior international business experience, and foreign language ability.

To establish sustainable competitive advantage in today's global economy,¹ businesses increasingly must consider crossing geo-political boundaries to transact business in foreign markets. Large corporations have the financial and technical resources to cross national borders and, when necessary, lobby home and host governments to pry open closed markets. Small- to medium-sized ventures, in contrast, face substantial transaction problems.² These issues have been explored in a growing body of research.³

However, these research efforts have focused mainly on existing ventures' expansion into international markets. Entrepreneurs who start international new ventures (INVs) with the *initial purpose* to conduct business across national boundaries remain largely unexamined and unexplained,⁴ perhaps because historically their numbers have been small.

This is changing. Recent founding rates for INVs appear to be increasing, and this phenomenon has begun to attract the attention of managers, public policymakers, and researchers. McDougall, Shane, and Oviatt⁵ used case research methods to study a sample of twenty-four such INVs. Their study specifically pointed out that monopolistic advantage theory, product cycle theory, stage theory of internationalization, oligopolistic reaction theory, and internalistic theory all fail to explain the formation of INVs, because all these theories assume that firms become international some time after they are formed. By contrast, INVs derive significant competitive advantage *at start-up* from the use of resources and/or the sale of outputs across national boundaries.

McDougall, Shane, and Oviatt⁶ propose that any theory of how INVs are formed must address three questions.

1. Who are the founders of INVs?
2. Why do they choose to compete internationally?
3. What form do their activities take?

A single, very early study by Vesper and Vorhies⁷ foreshadowed McDougall, Shane and Oviatt's. Vesper and Vorhies conducted in-depth interviews with ten entrepreneurs who had founded INVs. Three themes emerged from these interviews.

1. Almost all the entrepreneurs attributed their business idea to information they had obtained from friends or business contacts. One entrepreneur reported this lesson learned from his INV founding experience: "The best way to find leads for exporting a new product is personal contacts." This would suggest that social networking theory could be productively applied to studying the INV founding process.
2. The interviews generally supported a comment made by one of the subject entrepreneurs. "... It's always easier to *buy* something [in a foreign country] than to *sell* something [in a foreign country]." Exporting requires selling something in a foreign country and was considered to be a more complex business activity than importing; it required more international business expertise. Prior job experience was generally considered to be the best source of this expertise, with schooling second.
3. The entrepreneurs generally agreed that knowledge of a foreign language was not at all important. Only one felt that knowledge of a foreign language mattered, and by coincidence he had studied in Europe before starting his INV. None of the ten had learned a foreign language in order to start their INVs.

These themes generally suggest an investigation of three characteristics of founding entrepreneurs:

1. The founding entrepreneur's networks
2. The founding entrepreneur's prior international business experience
3. The founding entrepreneur's foreign language ability

The pilot study reported here compared INV and domestic-only new venture (DNV) founders in a sample of 221 ventures. We found that, for these three characteristics, founders of INVs differed significantly from their DNV counterparts. There are implications for intending INV founders,

public policymakers, future researchers, and international business pedagogy.

The Entrepreneur's Social Networks

This study proceeds from the assumption that international new venture start-ups are embedded within a larger social context of personal relationships and networks of relationships.⁸ Entrepreneurs discover opportunities and marshal resources based on their personal contacts with business associates, customers, friends, and family. Because of pronounced time, distance, and cultural barriers, these social networks are especially important for developing and maintaining international ventures. Indeed, many societies outside North America and Europe stress personal relationships in business, and some, such as the Japanese, invest considerable time in getting to know business partners.⁹

Social Capital

Burt¹⁰ described three kinds of capital that entrepreneurs bring to the founding process: (1) the entrepreneurs' personal financial capital, (2) the entrepreneurs' individual human resource capital, and (3) the entrepreneurs' social capital—the ability to access needed resources through social networks. Entrepreneurial activity is embedded in social networks and is affected by the nature of the individual entrepreneur's dyadic relationships.¹¹ From this perspective, entrepreneurial networks are potentially seen as opportunity structures laden with information and other resources.¹²

These networks create linkages between intending entrepreneurs, market opportunities, and various kinds of resources.¹³ They can be described in terms of mutual expectations. Their exchange content may include information and goods or services. They provide access to valuable information not otherwise available to the entrepreneur.¹⁴ They give the entrepreneur an entrée to suppliers, customers, technical and professional advisors, creditors and investors.¹⁵ They lower buyers' perceived risk, improve suppliers' credibility, and help both parties gain market knowledge.¹⁶ They support buying and selling companies' proactive responses to new opportunities and threats and can even spur technological development.¹⁷ They are a potential source of members for new venture teams.¹⁸

McDougall, Shane, and Oviatt¹⁹ have proposed that founders of INVs are able to "see" international opportunities in part because of their networks. Compared with founders of DNVs, INV founders would be much more likely to possess *international* social capital embedded in networks of contacts that cross national borders.

H1: Founders of INVs are more likely to have had contacts outside the U.S. at the time of founding than their DNV counterparts.

The Nature of Ties

Within entrepreneurial networks, the nature of interpersonal ties varies considerably, so that it is possible to distinguish between strong ties and weak ties.²⁰ Dispersed global "tribes," such as the Jews, British, Japanese, Chinese, Indians, have dominated international commerce for hundreds of years and "seem particularly well adapted to succeed within today's progressively more integrated worldwide economic system."²¹ Members of these tribes have been successful largely because of their tribal ties that cross national borders. This cross-border effect is created by the emigration and dispersal of tribal members, rather than because of their ethnicity and culture per se. In their native lands prior to immigration, individual group members rarely demonstrate entrepreneurial ability beyond that shown by their peers.²² These ties are not necessarily strong ones.

Strong ties are often familial or friendship relations, whereas weak ties are more likely to be solely business or customer contacts. When an entrepreneur's most immediate social network ties are strong, information flows quickly, and each person tends to know what the other knows. However, fresh information on new ideas and business opportunities tends to come from separate clusters that are connected to the primary social network by *weak* ties.²³ Through these weak ties, an entrepreneur can gain information and control benefits that can lead to sustainable competitive advantage.²⁴

H2: Founders of INVs are more likely to have had weak ties outside the United States at the time of founding than their DNV counterparts.

The Entrepreneur's Prior International Business Experience

Entrepreneurs with international social networks do not necessarily have prior international business experience, particularly if their ties are tribal. However, some research suggests that experience contributes directly to the context in which INV founders can "see" opportunities.²⁵ Founders of new ventures are likely to replicate aspects of their previous employers' businesses.²⁶ Therefore, entrepreneurs with prior international business experience are more likely to organize INVs than DNVs; and entrepreneurs with no prior international business experience are less likely to organize INVs.

H3: INV founders are more likely to have had prior international business experience than their DNV counterparts.

However, Vesper and Vorhies reported that exporting was considered to be a more complex business activity than

importing and required more international business expertise.²⁷ Importing was not as complex and was not as likely to require prior international business experience.

H3A: INV founders engaged in exporting are much more likely to have had prior international business experience than their DNV counterparts.

H3B: INV founders engaged in importing are not more likely to have had prior international business experience than their DNV counterparts.

The Entrepreneur's Foreign Language Ability

Many U.S. business schools require students to learn a foreign language as part of their international business studies. Yet, since the Vesper and Vorhies study in 1979, it appears that empirical research has not questioned the relationship between foreign language ability and the likelihood of an INV founding.

In their study, Vesper and Vorhies reported that nearly all the INV founders saw no reason to learn a foreign language.²⁸ However, their sample was small ($n=10$), twenty years have passed, and international business conditions have almost certainly changed. Today, therefore, it is neither completely clear (1) *how* conditions have changed, nor (2) what effect changing conditions have on the INV founder's need for foreign language ability.

Acknowledging the exploratory nature of this portion of the study, and without any empirical evidence to the contrary since the Vesper and Vorhies study, this article proposes that foreign language ability is not associated with the likelihood of an INV start-up.

H4: Founders of INVs are no more likely to have foreign language ability than their DNV counterparts.

Methodology

A list of all (22,927) business license holders was obtained from a major port city located in southern California. Firms with no apparent international business potential (rental properties, retail services, and food and beverage retail establishments) were eliminated, leaving 6,795 firms. From these, a random sample of 2,000 was selected. These firms were then contacted up to three times by telephone. Of the 2,000, 855 senior managers completed a telephone questionnaire (43% response rate).

The telephone survey protocol consisted of nine pages of questions. A summary of the survey questions is presented below.

- *The entrepreneur:* Respondents were asked if they were the owner/founder of the business, and if so, when they had started/purchased it.

- *Contacts outside the United States:* Respondents were asked if they had contacts outside the United States at the time they started/purchased their business, and if so, whether those contacts included business associates, and/or customer contacts, and/or friends, and/or family members.

- *Prior international business experience:* Respondents were asked if they had international business experience prior to starting/purchasing their business. If they answered affirmatively, they were further questioned to determine if they had lived in another country for business reasons. For purposes of this study, founders whose previous work activities were located in the United States were excluded, even when these included international transactions and/or occasional international business travel. The study did not differentiate international business experience based on the *length of time* the respondents had lived in another country. Given the need to balance the relatively large number (~2,000) of interviews to be conducted against the resources available for this project, the researchers opted for this tradeoff.

- *Foreign language ability:* Respondents were asked if they had ability in a language other than English before starting/purchasing their business.

- *Engaged in international trade:* Respondents were asked if they engaged in importing, exporting, or any other form of transaction that crossed US geopolitical boundaries, and if so, when they had begun.

A total of 221 of the 855 respondents (26%) were headquartered locally, and the person interviewed was the owner/founder. This study's sample consisted of these 221 firms.

Analysis and Findings

Of the 221 firms, 55 (25% of the sample) were engaged in international trade, either importing, exporting, or both. For these 55, the dates of founding/purchase were compared with the dates when they had begun importing and/or exporting. Of the 55, only 7 reported an importing and/or exporting date different from the founding/purchase date. In other words, 48 of the 55 international firms were international in scope from their date of founding/purchase.

Of the seven that had begun to engage in international trade some time after founding, only two had been founded within the last five years. The remaining five had been founded from fifteen to thirty-five years ago. The mean business age for the group of seven was twenty-three years. Compared with these seven, the forty-eight INVs had been founded/purchased more recently. Their founding/purchase dates ranged from zero to twenty-seven years, with an average of twelve years.

Despite the number of years elapsed since start-up, all of the members of the sample appeared to answer the questions without hesitation. Previous research²⁹ has suggested that start-up events are cognitively vivid and remain in the entrepreneurs' memory indefinitely. In any case, the questions themselves were relatively coarse-grained and did not require the entrepreneurs to recall minute details of their experiences.

This study was designed to focus on the founder/owners of INVs; that is, businesses that had been started as international. Therefore, the seven observations that had not been started as INVs (although they were involved in international trade) were excluded from the sample. Thus, all comparisons were performed between the 48 INVs and the 166 that had been started as DNVs.

It would have been interesting to include the international non-INV firms as a separate category. However, because of their small number, any findings would be highly speculative.

Analysis

Contacts outside the United States at the time of start-up, prior international business experience, foreign language ability, and the dependent variable, international business scope at the time of start-up, were treated as binary (yes or no) conditions. A 3-factor ANOVA was used to analyze the data. Separate ANOVAs were performed for the total dataset, the export subset, and the import subset. A mean strength-of-ties score (H2) was calculated for each of the two groups (international versus domestic only), and the means were compared using ANOVA.

Findings

The 3-factor ANOVA for the aggregated import and export data yielded strong support for the first hypothesis (see Exhibit 1). Entrepreneurs with contacts outside the United States at start-up were much more likely to start INVs than their counterparts who lacked such contacts and started DNVs ($p < .001$). Of the 48 INV founders, 30 (63%) reported contacts outside the United States at the time of founding compared with 23 (16%) of the 143 entrepreneurs who had started DNVs.

The means of the strength of ties scores for the two groups differed in the expected direction: 3.0 (a stronger average tie) for the domestic only group versus 2.2 (a weaker average tie) for the international group. However, the differences were not sufficiently great ($p = .19$) to achieve statistical significance in the subsample of fifty-three respondents who had overseas contacts at the time they started their new venture.

However, a post hoc review of the data indicated that, of the INVs with international contacts at start-up, eighty per-

Exhibit 1
Contacts Outside the United States, International Business Experience, and Foreign Language Ability on International New Venture

| Variables | df | F-test |
|-----------------------------------|----|----------|
| Contacts outside the U.S. | 1 | 41.47*** |
| International business experience | 1 | 3.31 |
| Foreign language ability | 1 | 0.58 |

*** $p < .001$

cent (24 out of 30) had only business and/or customer contacts (no family or friends; see Exhibit 2). Less than half (48 percent or 11 out of 23) of the comparable DNVs had such contacts. The majority of the international contacts that DNV founders did have were mixed business, customer, friends, and family. A simple t-test of this difference was significant at $p = .04$. Thus, the data did provide some support for the weak ties hypothesis (H2).

The aggregated data did not support the prior international business experience hypothesis (H3). However, they did support the foreign language ability hypothesis (H4). In a 3-factor analysis, foreign language ability did not distinguish the INV founders from the DNV founders.

For the export sub-set, the 3-factor ANOVA strongly supported the first hypothesis, significant at $p < .001$. In addition,

Exhibit 2
Strength of Ties and Business Scope

| | Firms With Contacts at Start-up | | | Firms w/o Start-up | |
|---------------|---------------------------------|----------------|----------------|--------------------|-------|
| | Business or Customer Only | Mixed Contacts | Total Contacts | Contacts | Total |
| Domestic Only | 11 | 12 | 23 | 143 | 166 |
| International | 24* | 6 | 30 | 18 | 48 |
| Total | 35 | 18 | 53 | 161 | 214 |

* $p < .05$

tion, H3A was supported at $p < .01$. Export INV founders were much more likely than their DNV counterparts to have had prior international business experience. Again, foreign language ability did not significantly differentiate between export INV and DNV founders (see Exhibit 3).

For the import subset, contacts outside the United

States were again significant ($p < .001$). In support of H3B, prior international business experience did not distinguish between import INV founders and DNV founders. However, contrary to the fourth hypothesis, foreign language ability *did* ($p < .01$; see Exhibit 4).

Discussion

There were more INVs in this sample than existing interna-

| Variables | df | F-test |
|-----------------------------------|----|----------------------|
| Contacts outside the U.S. | 1 | 12.58 ^{***} |
| International business experience | 1 | 7.41 ^{**} |
| Foreign language ability | 1 | 0.11 |

*** $p < .001$
** $p < .01$

tional business theory with its emphasis on stage-wise internationalization would suggest. Only seven of the fifty-five firms engaged in international business were *not* started with an international scope.

There are at least three possible explanations for this finding. First, the majority of prior international business research has focused on large corporations. By comparison, all the observations in this sample of fifty-five qualified as small businesses (fewer than 500 employees). Second, the sample was drawn from a population located in a port city with an active import/export infrastructure. In that sample, business foundings would be more likely to focus on some aspect of international trade than in a sample that was geographically distributed within the continental United

| Variables | df | F-test |
|-----------------------------------|----|----------------------|
| Contacts outside the U.S. | 1 | 18.14 ^{***} |
| International business experience | 1 | 1.59 |
| Foreign language ability | 1 | 8.25 ^{**} |

*** $p < .001$
** $p < .01$

States.

Third, the data suggest that the INV phenomenon is growing. The average age of the forty-eight INVs was twelve years, compared with twenty-three years for the seven firms that had begun to engage in international trade some time after they were started. Therefore, prior international research data would be less likely to include INVs.

Both import and export INV founders were much more likely than their DNV counterparts to have contacts outside the United States at the time of founding. This strongly supports a social capital view of new venture founding. When entrepreneurs start INVs as opposed to DNVs, this study suggests that they do so in part because their store of social capital includes superior international resources. The case studies presented by McDougall, Shane, and Oviatt³⁰ specifically illustrate the role of social capital across national borders in generating business ideas. Vesper and Vorhies³¹ proposition that INV founders frequently "discover" their business ideas through friends or other contacts also fits within this context.

Prior international business experience differentiated only the export INV founders from DNV founders. It did not significantly set apart the import INV founders. This finding would tend to support the Vesper and Vorhies³² anecdotal evidence that selling across international borders requires more international business expertise than importing, and that this expertise is best acquired through experience. All the cases presented from the McDougall, Shane, and Oviatt³³ study illustrate export INVs, where the founders acquired significant international business experience before founding their INV. None of their examples appeared to illustrate import INVs.

A corollary finding is that prior international business experience is not a prerequisite to founding an import business, presumably because importing is a simpler activity in terms of the resources required across national borders. This study does not suggest that founding an import business is necessarily simpler in terms of resources required *within the United States*. Gaining information about U.S. markets, distribution channels, and other factors probably still requires prior business experience; apparently it just does not require prior *international* business experience.

Foreign language ability did not explain any of the differences between export INV founders and DNV founders. This finding reaffirmed the general impression from the Vesper and Vorhies³⁴ study that learning a foreign language is not essential to founding an INV if the entrepreneur has an adequate stock of international social capital and an adequate stock of personal human resource capital, most notably prior international business experience. For example, Wilsher³⁵ describes the start-up of a U.K. INV devoted entirely to providing translation services for small- and medi-

um-sized businesses dealing across national boundaries. This INV was started by an entrepreneur who had lost £2.0 million as the result of a foreign language contract error. Presumably, an experienced international business manager would be aware of the need for translation resources and how to use them effectively.

Does this finding suggest that university-based international business programs should consider dropping their foreign language requirements? Probably not. Besides the obvious reasons (such as the need for more research), learning a language may play an important cultural role in the international business education process. Language is one of the ways in which a culture expresses itself. By learning a foreign language, the international business student gains some exposure to a foreign culture. Kramer³⁶ emphasizes the importance of this cultural learning by pointing out that even when business is conducted in English between two native English-speaking persons, successful communication may not take place if the speakers are from different countries (for example, the United Kingdom and Australia). The intending INV founder who learns about culture through prior international business experience gains this knowledge without necessarily learning the language, but simply by 'being there' and doing business in the foreign cultural environment.

Unexpectedly, foreign language ability set apart the import INV founders in this sample from their DNV counterparts. This study cannot directly explain this finding. However, it does suggest possibilities for future research. For example, in this study's design, English language ability was assumed. Therefore, immigrant entrepreneurs would report "foreign" language ability, referring to their first, or native, language. In that case, this study may be pointing to immigrant entrepreneurs who start certain types of import INVs. Aldrich and Waldinger and Bates³⁶ have described

the conditions under which immigrant entrepreneurs found businesses that serve their own ethnic communities with goods imported from their native countries. Alternatively, immigrant entrepreneurs, because of their ethnicity, are able to create convincing environments in which to retail ethnic goods and/or services to majority-culture customers. Either of these scenarios would appear in this study as import INV foundings by entrepreneurs with foreign language ability.

Implications and Conclusions

Clearly, the results of this study should be treated with some caution. Because they describe a sample drawn from only one port city located in California, they may not accurately represent the entire United States.

Acknowledging these cautions, however, it would appear that the number of INV foundings is growing and will continue to grow. For intending INV founders and for those who formulate public policy, the significance of developing foreign contacts cannot be overemphasized. The most important role for public institutions engaged in economic development may be the facilitation of entrepreneurial network-building across national borders.

Universities with international business programs should make every effort to create cross-cultural learning experiences by arranging for student exchanges. INV export start-ups are cautioned that selling a product or service across national borders does appear to require prior international experience. Importing does not. Potential INV founders daunted by a lack of language ability should reconsider the source of their unease. This study suggests that they may be reacting to a lack of contacts and significant international business experience.

Future U.S. researchers will almost certainly find high-yield designs in the area of international entrepreneurial networks.

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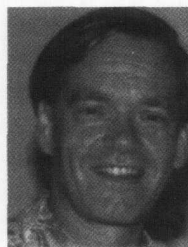
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