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Understanding eINVs through the lens of prior research in entrepreneurship, international business and international entrepreneurship

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8 In this chapter we examine the growing phenomenon of internet-based international new
9 ventures, which we label “eINVS,” through the lens of previous research in the fields of entre-
10 preneurship, international business and international entrepreneurship. Our purpose is to iden-
11 tify where these existing bodies of research help us to understand eINVs, and where there are
12 gaps that constitute important questions for future research. We define an eINV by adapting a
13 widely used definition of international new ventures (INV) (Oviatt and McDougall 2005: 5): an
14 eINV is a venture whose business model is enabled by a digital platform and that, from incep-
15 tion, seeks to derive significant competitive advantage from international growth. With a focus
16 explicitly on how extant research helps us understand eINVs, this review differs from that of
17 Reuber and Fischer (2011b), who focus on firm-level internet-related resources that are related
18 to the internationalization of ventures in general; that of Pezderka and Sinkovics (2011), who
19 focus on risk and the online foreign market entry decisions of small and medium-sized enter-
20 prises (SMEs); and that of Chandra and Coviello (2010), who focus on consumers using the
21 internet to pursue international opportunities.

22 There are both practical and theoretical reasons to study eINVs. From a practice perspective,
23 eINVs are experiencing a significant social and economic impact globally, and are attracting
24 widespread interest from entrepreneurs, investors and policymakers. A recent report by the
25 OECD highlights attractive market conditions for internet firms¹: within OECD economies,
26 they have constituted the fastest-growing sector for over a decade, and were among the most
27 profitable and R&D-intensive sectors in 2011 (OECD 2012: 45–48). Internet usage is nearly
28 ubiquitous, with roughly 90 percent of businesses and 67 percent of households in OECD
29 economies having a broadband internet connection (OECD 2012: 135, 103), 90 percent of
30 young people accessing the internet from home (OECD 2012: 108), and rapid adoption of
31 internet-connected mobile devices (OECD 2012: 107).

32 Literature reviews, summarizing the hundreds of studies investigating constructs and relation-
33 ships relevant to INVs, indicate that technology-intensive organizations tend to become more
34 international, earlier, than organizations in lower technology sectors (e.g. Aspelund et al. 2007;

1 Coviello and Jones 2004; Dimitratos and Jones 2005; Fischer and Reuber 2008; Jones et al.
 2 2011; Rialp et al. 2005), but little research has focused specifically on eINVs (cf. Reuber and
 3 Fischer 2011b). From a theoretical perspective, there is reason to believe that the internation-
 4 alization of eINVs is enabled by somewhat different factors than those of INVs. INV-related
 5 theory and empirical research is based on the resource limitations of young firms and on how
 6 factors such as internationally experienced founders and partnerships help to overcome them
 7 (e.g. McDougall et al. 1994; Oviatt and McDougall 1994). However, these factors seem to be
 8 insufficient to account for the trajectories of many successful eINVs. Those that survive tend not
 9 to be poor for long. For example, Airbnb was founded in 2008, received \$7.8 million in outside
 10 financing within two years (Airbnb 2013a), and, by 2011, supported 16 languages and 17 cur-
 11 rencies, operated in 192 countries, and attracted 75 percent of users from outside their domestic
 12 market (Airbnb 2013b). Skype was founded in 2003, received \$18.8 million in outside financing
 13 in its first year (Index Ventures 2004), and by 2005 was operating in 225 countries (eBay Inc.
 14 2005). In both cases, this early funding was explicitly aimed at international expansion. These
 15 anecdotal examples suggest that it is valuable to examine eINVs separately from INVs, rather
 16 than merely assuming they are a subset of INVs. It is for this reason that we go beyond interna-
 17 tional entrepreneurship theory in examining the phenomenon, and take into account theoretic-
 18 al developments in the fields of entrepreneurship, focusing on startup processes and choices;
 19 and international business, focusing on geographic expansion processes and choices.

20 In this chapter we focus on capabilities rather than resources, and describe an integrated
 21 framework of three “S” capabilities that underlie successful eINVs: sensing, scaling and spread-
 22 ing. These are shown in Figure 10.1. At the core is *sensing*, or the ability for firm managers to
 23 perceive how market-related external stimuli can be used to develop international opportuni-
 24 ties. Once opportunities are sensed, eINVs need to be capable of exploiting them through
 25 *scaling*, which is the rapid expansion of operations in terms of volume, value or scope. Effective
 26 scaling is necessary for value creation because it enables economies of scale to be realized and
 27 network effects to be capitalized on. Scaling, in turn, creates the need for the capability of *spread-*
 28 *ing*, or developing awareness of the eINV’s existence and appreciation of its offerings across a
 29 geographically dispersed base of online stakeholders. This capability is critical because eINVs
 30 lack the physical drivers of demand that are sparked by material proximity, yet must develop
 31 awareness and attention among distant audiences (Kotha, Rindova and Rothaermel 2001).

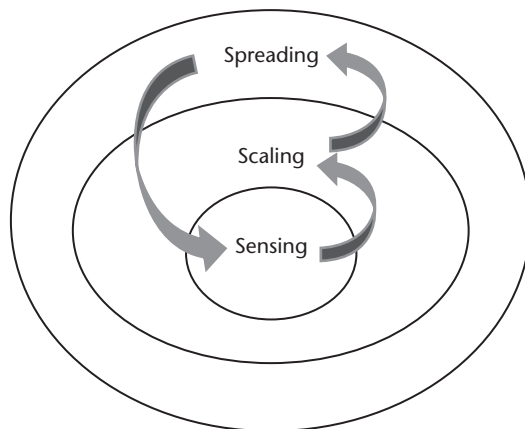


Figure 10.1 Capabilities enabling the success of eINVs

1 The activities involved in spreading can provide feedback to the sensing function; for example,
 2 a firm can analyse the user-generated content of online communities to sense new international
 3 opportunities.

4 In the remainder of this chapter we examine each of these capabilities in turn through the
 5 lens of existing theory and empirical research in the fields of entrepreneurship, international
 6 business (IB) and international entrepreneurship (IE). There is an extensive body of research
 7 on some topics and our aim is to provide a representative, rather than exhaustive, coverage of
 8 different perspectives. The key theoretical constructs identified from each perspective, as well
 9 as an e-marketing perspective in the case of the spreading capabilities, are shown in Table 10.1.
 10 The Discussion Section highlights gaps in our knowledge of eINVs that constitute important
 11 questions for future research, and presents the conclusions of this chapter for international entre-
 12 preneurship scholars. Table 10.2 summarizes the specific eINVs used as examples in this chapter,
 13 and shows that they are not solely a US-based phenomenon. It shows the wide range of eINVs
 14 we have examined, in terms of their startup place and time, the first year they received Silicon
 15 Valley financing (if any), and the extensiveness of their international presence, in terms of the
 16 number of distinct country-related URLs, the number of languages available on their website(s),
 17 and the number of countries where they have a physical presence.

18 **Sensing**

19 Sensing refers to the perceptions of market-related external stimuli both at the firm level and
 20 at the individual level by firm founders and managers. Although there is some overlap, the
 21 entrepreneurship literature and the international business literature tend to emphasize different
 22 aspects of sensing. The entrepreneurship literature, for the most part, focuses on the earliest
 23 days of the firm and so emphasizes individual-level perceptions relevant to developing an initial
 24 opportunity. In contrast, the international business literature tends to take a domestic presence
 25 as given, and focuses on the firm-level sensing of new markets that will enable the firm to grow.
 26 The international entrepreneurship literature falls somewhere in between, emphasizing network
 27 partners and market entries.

Table 10.1 Key concepts relevant to eINVs identified from the literature review

<i>Bodies of literature</i>	<i>Firm-level capabilities</i>		
	<i>Sensing</i>	<i>Scaling</i>	<i>Spreading</i>
Entrepreneurship	Opportunity recognition Opportunity creation	Business models Platform-based markets	Transfer of reputation and status Narratives, symbolic communication
International business	Learning from experience Sequencing market entries	Internalization Standard-setting Replication	Adaptation vs. standardization
International entrepreneurship	Networks Learning from experience Sequencing market entries	Financial resource acquisition	Networks Co-branding International forums
E-marketing			Online communities Data mining Customer relationship management

Table 10.2 The eINVs used as examples in this chapter

Company	Founding year and place	Description	Silicon Valley financing	Number of URL country domains	Number of website languages	Number of countries with an office
Airbnb	2008: San Francisco, USA	Online market for accommodation	2008	12	24	11
Alibaba	1999: Hangzhou, China	Online market for SME trade	2004	1	10	1
Amazon	1995: Seattle, USA	Online retailer	1995	11	8	18
BlueNile	1999: Seattle, USA	Online diamond retailer	1999	1	6	2
DesignCrowd	2008: Sydney, Australia	Crowdsourced design work	-	9	1	1
eBay	1995: San Jose, USA	Online auction site	1997	39	21	27
FreshBooks	2003: Toronto, Canada	Online accounting software	-	1	1	1
Groupon	2008: Chicago, USA	Online deal-of-the-day site	2008	49	22	1
HubSpot	2006: Boston, USA	Online marketing and web analytics	2008	1	1	2
Huddle	2006: London, UK	Document sharing/collaboration platform	2010	1	1	1
Jambal	2000: Berlin, Germany	Digital content distributor	-	15	9	1
MackieLab	2011: London, UK	Custom-made toys	-	1	1	1
MyMuesli	2007: Berlin, Germany	Online retailer in customized cereal	-	2	2	2
PayPal	1998: Palo Alto, USA	Online payment processing	1998	190	9	22
Pinterest	2010: San Francisco, USA	Online tool for collections	2011	1	8	1
Sellaband	2006: Amsterdam, Netherlands	Crowdsourced music funding	-	3	3	1
Skype	2003: Luxembourg	VoIP software and services	2003	1	23	3
Twitter	2006: San Francisco, USA	Online microblogging service	2007	1	36	1

Date sources: Company websites as of May 2013, press releases from companies, and news articles about companies.

1 *Entrepreneurship literature*

2 Much of the entrepreneurship literature on the sensing of opportunities assumes either that entre-
3 preneurs recognize opportunities that exist exogenously or that entrepreneurs create opportunities
4 endogenously (Alvarez and Barney 2007). A discovery, or opportunity recognition, approach is
5 predominantly cognitive in nature and involves two perceptions on the part of an entrepreneur:
6 first, that an opportunity exists due to changes in the environment, and second, that the firm has
7 the means and motivation to act on it (McMullen and Shepherd 2006). Through experience,
8 individuals develop cognitive frameworks that impact whether and how they perceive opportuni-
9 ties from external stimuli (Baron and Ensley 2006), and as well as cognitive processes that enable
10 them to draw on past market experiences when reasoning about possibilities for new technology
11 (Grégoire et al. 2010).

12 In contrast, an opportunity creation approach is predominantly action-oriented, in that
13 opportunities are viewed as being created endogenously by the actions and interactions of entre-
14 preneurs in a market. In particular, effectuation theory holds that opportunities are constructed
15 by entrepreneurs increasing their stock of knowledge and resources through commitments from
16 market actors such as partners and early customers (Read et al. 2009; Sarasvathy 2001). Thus,
17 sensing in opportunity creation is closely intertwined with both scaling and spreading, as all
18 three aspects are iteratively involved in building opportunities.

19 A close embeddedness of sensing, scaling and spreading is characteristic of recent perspectives
20 on opportunity that encompass a duality of recognition and creation. For example, Cornelissen
21 and Clarke (2010) argue that entrepreneurs use experientially-based inductive analogical reason-
22 ing when starting a venture (the recognition aspect) and that these analogies facilitate compre-
23 hension and justification of the venture for resource-providers in the market (the creation aspect).
24 From a practice perspective, the lean startup methodology popular among internet-based startups
25 (Ries 2011) emphasizes the articulation of hypotheses about a venture's target market and value
26 proposition (the recognition aspect) and the empirical testing of these hypotheses in the market
27 aimed at acquiring stakeholder commitment to the venture (the creation aspect). We therefore
28 consider the sensing of the opportunities associated with eINVs as involving both individual-level
29 cognition and firm-level venture development activities associated with scaling and spreading.

30 Although an individual's experience as a source of information (and cognitive biases) under-
31 lies much of the literature on entrepreneurial opportunities, this body of research also highlights
32 other sources of information, particularly social sources, which are relevant to opportunity rec-
33 ognition and creation. Such sources include user communities (e.g. Shah and Tripsas 2007),
34 mentors, industry networks and professional forums (e.g. Ozgen and Baron 2007), and feedback
35 from potential customers and partners (e.g. Read et al. 2009; Ries 2011). This knowledge is often
36 acquired from the internet itself and so may be socially sourced, but at a distance (Prashantham
37 2005). For eINVs, the sensing of the potential of emerging technologies, both at startup and
38 on an ongoing basis, is expected to be particularly important, given the continual changes in
39 networks, devices, operating systems, application services and cloud computing (OECD 2012:
40 61–80); however, this aspect of sensing has not been emphasized in the literature.

41 *International business literature*

42 In contrast to the entrepreneurship literature, which focuses on the level of the individual
43 entrepreneur and the founding management team in sensing, the international business litera-
44 ture, in general, focuses more at the level of the firm. This difference in the level of analysis is
45 consistent with the entrepreneurship literature's primary interest in explaining the development

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1 of early-stage opportunities, and the IB literature's primary interest in explaining foreign market
2 entries subsequent to a domestic presence. A particularly relevant stream of this literature for
3 eINVs is concerned with the sequencing of foreign market entries.

4 A long-established perspective on internationalization is that expansion into foreign markets
5 requires knowledge accumulation through firm-level experience (Johanson and Vahlne 1977;
6 2009). Successful internationalization is seen as incremental, from culturally similar to dissimilar
7 markets, and from low commitment entry modes like exporting to higher commitment entry
8 modes like establishing a subsidiary, in order to minimize the uncertainty associated with for-
9 eign market entry. This is consistent with a study of early internet-based firms from the US
10 which found that a greater cultural distance between the US and a possible host country is
11 associated with a lower likelihood of entering that country (Rothaermel, Kotha and Steensma
12 2006). It should be noted, however, that the negative relationship found between cultural
13 distance and likelihood of entry was positively moderated by market size, indicating that firms
14 were more motivated to overcome the risk of cultural distance when market returns were
15 expected to be higher.

16 The impact of learning from experience in other markets is affected by multiple factors. When
17 firms are new to a dissimilar culture, they can draw erroneous conclusions. This "incorrect learn-
18 ing" has been shown to be aggravated by a fast pace of foreign expansion (Zeng et al. 2013), which
19 is typically characteristic of rapidly growing eINVs. However, if a firm has a technological advan-
20 tage, and sets standards and trends, it has fewer challenges – and therefore lower learning needs – in
21 distant markets (Banalieva and Dhanaraj 2013). This can be an advantage for those eINVs which
22 benefit from herding behaviour, and a concomitant early dominance, in their market (cf. Duan,
23 Gu and Whinston 2009). Nevertheless, there are increasingly complex information-processing
24 demands on a firm as the number of foreign markets increases, which have been found to result
25 in an inverted U-shaped relationship between international diversification and firm performance
26 (Hitt, Hoskisson and Kim 1997). However, this relationship has not yet been tested in the context
27 of eINVs.

28 Firms can acquire knowledge about the potential of foreign markets from diverse sources:
29 current customers and domestic competitors (Martin, Swaminathan and Mitchell 1998), compa-
30 nies in the host country (Salomon and Wu 2012), and network partners (Johanson and Vahlne
31 2009). An additional source of knowledge that is expected to be particularly important for eINVs
32 is venture capital firms, which are increasing their international investments (Fernhaber and
33 McDougall-Covin 2009; Guler and Guillén 2010; Humphery-Jenner and Suchard 2013). Indeed,
34 new eINVs that are initially located (or that relocate early on) close to Silicon Valley, with its
35 internet-related expertise and financing power, are likely to enjoy a location-based advantage (cf.
36 Dunning 2009). There is a lower requirement to acquire market-specific knowledge in global
37 industries than in multidomestic industries because there is less pressure to conform to local
38 preferences, practices, and regulations (Kobrin 1991; Porter 1986), and a logical implication of
39 this argument is that eINVs operating in global market niches have less need to acquire local
40 information than those operating in multidomestic market niches.

41 *International entrepreneurship literature*

42 Although the international entrepreneurship literature has a wide scope, here we examine two
43 specific aspects of new ventures – network partners and market entries – that have been central
44 to the field since its inception (McDougall, Shane and Oviatt 1994; Oviatt and McDougall
45 1994). Both are relevant to an eINV's sensing capability.

1 Networks are an important enabler of early and extensive internationalization (Coviello
2 2006; Coviello and Munro 1997). Bell and Loane (2010) emphasize the importance of partner-
3 ships in providing eINVs with both online distribution and physical distribution in distant mar-
4 kets. We contend that establishing such partnerships is part of the opportunity creation process
5 for eINVs. This is consistent with research showing that rapid internationalization involves a
6 path-dependent process of opportunity development encompassing learning through experi-
7 ence and exposure to new information and network ties (Chandra, Styles and Wilkinson 2012;
8 Mathews and Zander 2007). However, network ties tend to be bounded by geography and
9 cultural distance, which can expand or constrain the opportunities an entrepreneur can perceive
10 (Chandra, Styles and Wilkinson 2012; Ellis 2011). In addition, the necessity for speed given
11 competitive pressures (cf. Loane, McNaughton and Bell 2004) and herding behaviours (cf.
12 Duan, Gu and Whinston 2009) in internet markets can limit the available time and attention
13 that managers can devote to developing the trust required for effective networks (cf. Johanson
14 and Vahlne 2009; Rangan 2000). This suggests that it can be difficult for entrepreneurs founding
15 eINVs to integrate foreign partnerships into the construction of their venture without access
16 to globally-connected social capital (cf. Prashantham and Dhanaraj 2010). Indeed, Fernhaber,
17 McDougall-Covin and Shepherd (2009) found that new ventures whose management teams
18 had limited international experience benefitted most from external knowledge sources, such as
19 alliance partners and venture capitalists, and we expect this to be especially true for eINVs.

20 The international entrepreneurship literature also indicates that the nature of market entries
21 affects the sensing capability of eINVs. Recent literature at the individual level suggests that
22 reasoning about internationalization decisions is based on experientially-developed heuristics or
23 analogies (Jones and Casulli 2014). At the firm level, there is evidence to suggest that INVs should
24 enter foreign markets, and diversified foreign markets, quickly after startup to enhance learning
25 capabilities in general (Autio, Sapienza and Almeida 2000) and technological learning in particu-
26 lar (Zahra, Ireland and Hitt 2000). However, it is important to note that these learning advantages
27 of newness have not been studied in the context of eINVs. Yamin and Sinkovics (2006) warn
28 against a “virtuality trap”, the perception “that the learning generated through virtual interactions
29 obviates the need for learning about the target markets through non-virtual means” (2006: 340).
30 It may be the case that as some eINVs internationalize quickly and widely, they become more
31 reliant on online data and more susceptible to the virtuality trap, which constrains the extent to
32 which they can learn about distant markets. This is expected to be particularly true for eINVs that
33 have only a minimal physical presence outside their home country.

34 The international entrepreneurship literature also points out that while some foreign market
35 entry is deliberate and intentional, it is often unplanned due to serendipitous encounters (e.g.
36 Crick and Spence 2005). Petersen, Welch and Liesch (2002) point out that setting up a website
37 can render a firm more visible to foreign partners and customers, leading to more unsolicited
38 orders, and more numerous, faster and ad hoc entries. Such serendipity may be dysfunctional:
39 Bingham’s research (2009) suggests that a deliberate, coherent selection of markets is preferable,
40 because it enables managers to build their experiential base of knowledge, from more similar
41 markets to less similar markets, and from smaller, less visible markets to larger, more visible mar-
42 kets. We do not yet have an understanding of which eINVs are best served by either approach.
43 The first strategy (expanding as fast as possible) may be advantageous when there is herding in
44 the market and the size of a firm’s user base is an important criterion on which a firm’s value
45 is based. The second strategy (a planned sequence of entries) may be preferable when there
46 is greater offline activity associated with a firm’s business model, such as, for example, a large
47 number of people selling local advertising or attracting local merchants.

1 Scaling

2 Scaling refers to an eINV's ability to configurationally enact and manage rapid international
3 growth through expansion of operations in terms of volume, value or scope. Considering
4 that internationalization is a costly pursuit affected by time compression diseconomies (Jiang,
5 Beamish and Makino forthcoming) and that growth and survival can be competing objectives
6 for young international firms (Sapienza et al. 2006), it might be puzzling that eINVs would
7 pursue rapid growth. Below we draw on the entrepreneurship, IB and IE literatures to address
8 this puzzle and to explain how rapid scaling may be achieved.

9 *Entrepreneurship literature*

10 Having something worth expanding is a necessary prerequisite for effective scaling. By focusing
11 on the question of how an organization may configure itself to best extract value, the entrepre-
12 neurship literature draws our attention to the scaling of a firm's business model (Zott and Amit
13 2007; Bock et al. 2012; George and Bock 2011; Onetti et al. 2010; Teece 2010). Following
14 George and Bock (2011), we define a business model as an "organization's configurational enact-
15 ment of a specific opportunity" (2011: 102). The business model literature argues that the process
16 of modelling involves purposeful weaving together of activities into a structure that explains what
17 the firm does and how it extracts value, and that this process begins with the question of the value
18 proposition itself (Zott, Amit and Massa 2011). Zott and Amit (2007) draw a useful distinction
19 between novelty and efficiency as sources of value. Novelty-centered models exploit new ways
20 of conducting transactions "by connecting previously unconnected parties, by linking transaction
21 participants in new ways, or by designing new transaction mechanisms" (2007: 184). MackieLab
22 and its business model, which straddles toy and online entertainment categories, represent a
23 case in point. Founded in 2011, the London-based firm exploits a technological capability of
24 converting digital game objects into physical toys to enable its customers to co-create customis-
25 able toys on demand, thus offering an innovation in the process of toy production. By contrast,
26 efficiency-centered business models rely on doing things in a more efficient way. For example,
27 BlueNile exploits inefficiencies in the global diamond industry value chain and adopts a made-
28 to-order logic to implement direct online sales of diamond jewellery to consumers. This business
29 model research suggests that, like any other entrepreneurial venture, eINVs need to have either
30 innovative novelty-centered or innovative efficiency-centered business models if they are to be
31 able to scale effectively.

32 Further, eINVs are distinguished by the complex and unusual ways that value may be
33 extracted and captured (Teece, 2010), and an important aspect of this is their digital platform.
34 Research on platform-mediated markets (Adomavicius et al. 2007; Parker and Van Alstyne 2008;
35 West 2003) draws attention to the difference between platform and product strategies, where
36 platforms are technology or service foundations that facilitate interactions between different
37 users (Eisenmann, Parker and Van Alstyne 2011). Gawer and Cusumano (2008) argue that while
38 product strategies rely on value extracted from transactions with end users, platform strategies
39 capitalize on complex arrangements involving a broad range of stakeholders and partners. End
40 users typically expect the service to be free (Teece 2010) and the goal of the platform is to pro-
41 vide an independent ecosystem that enables charging other platform participants (Parker and
42 Van Alstyne 2008). Online search engines like Google, for example, allow non-paying users to
43 access the platform for free because revenues are extracted from fee-paying advertisers. Platforms
44 can display strong network effects and achieving platform status often involves winner-takes-all
45 battles (Lee and Mendelson 2008), whereby a new platform replaces an older one (e.g. Facebook

1 replacing MySpace). The value of a platform depends on the number of users, and so rapid growth
2 is achieved through envelopment strategies involving complements, substitutes or functionally
3 unrelated products (Eisenmann, Parker and Van Alstyne 2011).

4 Platform ecosystems are subject not only to ongoing battles for scale, they are also subject to
5 constant change (Lee and Mendelson 2008). Ever-changing technologies, aggressive competi-
6 tors and contested norms mean that the ability to adjust continuously represents an important
7 strategic capability. Rindova and Kotha (2001) trace the evolution of two eINVs and show
8 that such hypercompetitive environments impose continuous change to firms' business models.
9 They conclude that flexible arrangements of resources and structures are needed for constant
10 readjustment. Their findings seem to support the notion that structural inertia and rigidities are
11 disadvantageous in rapidly changing environments (cf. Sapienza et al. 2006) and that reliance on
12 resources such as partners actually reduces strategic flexibility during business model innovation
13 (Bock et al. 2012). This contrasts with a tenet of the IE literature that emphasizes the benefits
14 of partners to international new ventures. Overall, the research on platforms helps to explain
15 why rapid geographical expansion represents a strategic imperative for at least some eINVs, an
16 imperative that seems to override the concerns of profitability.

17 *International business literature*

18 An effective business model is a necessary but not sufficient condition for scaling: what distin-
19 guishes scaling from other forms of opportunity exploitation is the explicit emphasis on rapid
20 expansion and enlargement of the opportunity. The question of how a firm may scale up its
21 operations by entering foreign markets represents the very cornerstone of international busi-
22 ness enquiry and so the IB literature offers valuable insights on eINVs pursuing international
23 expansion. There is a rich tradition in IB research concerning the interplay between a firm's
24 technology and the pattern of its international growth (Banalieva and Dhanaraj 2013; Nachum
25 and Zaheer 2005; Rangan and Sengul 2009). The principle of internalization is a dominant
26 theme within this stream of research (Buckley and Casson 1976; Rugman 1981). It holds that
27 large multinational firms exist because alternative means of organizing international transactions
28 such as markets, alliances or partnerships are less desirable, and this is particularly true when
29 proprietary technology is at play (Rugman and Verbeke 2004), as is often the case for eINVs.
30 Moreover, we expect that eINVs use information and communication technologies effectively,
31 which lowers the informational, communication and administrative costs on internalization
32 (Buckley and Casson 2009; Rangan and Sengul 2009). Thus, we expect that greater internaliza-
33 tion distinguishes eINVs from other INVs that prioritize control, rather than ownership, of
34 resources (cf. Oviatt and McDougall 1994).

35 Recent studies on trade theory in IB provide an additional insight into the link between
36 a firm's technological advantage and its internationalization (Melitz 2003; Nocke and Yeaple
37 2007). A premise of this literature is that when technology is highly sophisticated and valuable, as
38 it is for many eINVs, the technology itself may facilitate rapid international growth. Nocke and
39 Yeaple (2007) argue that as technology becomes more sophisticated, its imitability by competi-
40 tors decreases, and the firm becomes a standard setter. The establishment of a standard reduces
41 the need to adapt to local markets, which in turn reduces the cost of internationalization (Nocke
42 and Yeaple 2007). It is worth noting that the focus on standards in trade theory complements the
43 research on platforms (Eisenmann, Parker and Van Alstyne 2011; West 2003). If global consumers
44 become locked into a firm's technology because it constitutes a standard (cf. Amit and Zott 2001),
45 it will be easier for that firm to deter local competition in distant markets, thereby accelerating its
46 internationalization.

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1 The final insight from the IB literature concerns replication as a distinct scaling mechanism
 2 for international expansion (Jonsson and Foss 2011). Unlike innovation, which involves flex-
 3 ibility and change, replication relies on leveraging existing routines and organizational rigidities
 4 (Friesl and Larty 2013). The logic of replication assumes that rather than following a slow process
 5 of learning and change in the process of international growth (Vermeulen and Barkema 2002;
 6 Johanson and Vahlne 1977; 2009), organizations may standardize, fix and then replicate parts
 7 of their value chain (Winter and Szulanski 2001). The German digital content provider Jamba!
 8 and their template-based internationalization clearly illustrates this principle (Kaufmann et al.
 9 2006). During their expansion into European markets in 2003, Jamba! developed a “country
 10 launch manual” where each foreign market entry strictly adhered to four detailed steps: linking
 11 to aggregator, preparing content, implementing media plan and administering the launch. The
 12 exploitation of the standardized pattern enabled the venture to enter 12 countries and more than
 13 quadruple its workforce in the time span of 12 months.

14 A narrow value proposition, a narrow product line, and a need to mass distribute the end
 15 product are characteristics that favour replication (Jonsson and Foss 2011). Huddle, a London-
 16 based venture established in 2006, offers an illustration. By concentrating on a narrow set of
 17 functionalities (document sharing and collaboration solutions for larger enterprises), the venture
 18 was able to standardize and rapidly scale up its operations to span 180 countries by 2012 (*Financial*
 19 *Times* 2012). The example of six-year-old MyMuesli, a German online firm that offers custom-
 20 ized cereal boxes, demonstrates that replication may also be beneficial in consumer markets.

21 Empirical studies on replication show that in order to replicate, routines need to be made
 22 explicit and formatted into guidelines or manuals (Jonsson and Foss 2011). In other words, suc-
 23 cessful replication relies on the ability to effectively code and encode the business format to con-
 24 vert it into practice (Szulanski 1996; 2000). The examples above show that digitization of a firm’s
 25 offering seems to favour replication. By virtue of being online, eINVs are firms with significant
 26 parts of the business process digitized, and therefore already encoded (Kallinikos 2009). We there-
 27 fore expect replication to be particularly advantageous as a method of scaling for eINVs.

28 *International entrepreneurship literature*

29 The IE literature holds that the rapid internationalization of young firms is possible because access
 30 to resources is explicitly differentiated from, and prioritized over, ownership of them (Oviatt and
 31 McDougall 1994). Given that scaling requires resources, the resource access mechanisms identified
 32 in the IE literature (such as partnerships) are relevant to scaling. For example, many eINVs rely
 33 on financial resources provided by external partners, typically venture capitalists. Evidence shows
 34 that external financing facilitates international growth by allowing a more aggressive approach to
 35 be adopted (McDougall et al. 2003), which enables a broader scale and scope of foreign market
 36 entry (George et al. 2005). The knowledge and reputation of external stakeholders can also sup-
 37 port scaling (Fernhaber and McDougall-Covin 2009). The role of external stakeholders is yet to
 38 be examined specifically for eINVs, but the track records of well-known eINVs provide strong
 39 evidence of their need for, and their ability to attract, resources that facilitate the scaling capability.

40 **Spreading**

41 The third capability we consider is “spreading”, which refers to developing awareness of an
 42 eINV’s existence and appreciation of its offerings across a geographically dispersed base of online
 43 stakeholders. Given that eINVs lack the drivers of demand that are sparked by proximity, how can
 44 these ventures with limited track records build both awareness and positive affect in short order?

1 This challenge is particularly difficult given that competition for online attention and affiliation is
2 intense (cf. Humphreys 2013; Wang, Butler and Ren 2013). In this section, we scan the entre-
3 preneurship, IB, IE and e-marketing literatures to illuminate how eINVs can meet this challenge.

4 *Entrepreneurship literature*

5 Two streams in the entrepreneurship literature offer insights that could apply to eINVs seeking to
6 spread awareness of, and appreciation for, their offerings. The first investigates how startups lever-
7 age their affiliations with other parties, such as partners, investors, and customers (e.g. Deutsch
8 and Ross 2003; Reuber and Fischer 2005; Shane and Cable 2002; Stuart, Hoang and Hybels
9 1999). Studies in this stream show that prospective stakeholders exposed to information that links
10 a startup with an established and reputable entity, such as a prestigious investor or a blue-chip
11 customer, are likely to regard that startup as more credible than one that lacks such affiliations
12 (Fischer and Reuber 2007). Reuber and Fischer (2005) also note that when new firms can pub-
13 licize their affiliations with particular types of customers, they can also create awareness of the
14 range, size and segments of customers they are able to serve. This is relevant to those eINVs that
15 can showcase endorsements from customers based in diverse geographic regions because they can
16 signal to prospective clients that they are capable of serving international markets. Freshbooks, a
17 Toronto-based eINV selling accounting software to small businesses, profiles international clients
18 on its website to convey to non-domestic prospects that it can serve their needs (Reuber and
19 Fischer 2011a).

20 The second stream in the entrepreneurship literature deals with narratives (Martens, Jennings
21 and Jennings 2007) or symbolic communication practices (Zott and Huy 2007) that new firms
22 can use to increase their perceived legitimacy and reputability in the eyes of stakeholders. Aldrich
23 and Fiol (1994) were the first to draw attention to how entrepreneurial firms can deploy selected
24 symbolic practices and narrative tactics to encourage stakeholders to regard them favourably. In
25 a study of narratives in IPO prospectuses, Martens, Jennings and Jennings (2007) found that por-
26 traying entrepreneurial firms as aspiring leaders with track records had a positive impact on the
27 valuation premiums at IPO, but portraying them as aspiring leaders with social ties or conveying
28 ambiguous identity narratives both had a *negative* impact on valuation premiums. And in a study
29 of symbolic practices of new firms, Zott and Huy (2007) found that impactful communications
30 included, for example, those conveying the entrepreneur's personal credibility (e.g. displaying
31 educational credentials), those indicating the organization's capability for professional organizing
32 (e.g. maintaining a highly functional website), and those signifying the organization's achievement
33 (e.g. publicizing awards won). The specific kinds of symbolic communication practices or narra-
34 tives that will lend credibility to eINVs may differ from those appropriate for other new ventures,
35 given that different genre conventions (cf. Orlikowski and Yates 1994) may dominate in the
36 online communication platforms on which eINVs rely; however, the premise that some narratives
37 are more effective than others for engaging stakeholders appears likely to hold for eINVs.

38 *International business literature*

39 International business scholars have asserted that to gain international awareness and attention,
40 businesses must leverage their home-market reputations (e.g. Kotha et al. 2001: 772). The logic
41 is that firms that are prominent and well-regarded in their home environment can take advantage
42 of their reputational assets because potential stakeholders in foreign markets will already know
43 and be favourably disposed towards the firm. However, eINVs may have no home-market track
44 record to draw on, making this aspect of the international business literature of limited relevance.

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1 A second strand of the international business literature, one that might be more applicable
2 to eINVs, debates the adaptation versus standardization of marketing strategies for communicat-
3 ing with stakeholders in diverse geographic regions (e.g. Cavusgil, Zou and Naidu 1993; Levitt
4 1983; Samiee and Roth 1992; Wind 1986). This literature has evolved toward a contingency
5 perspective, advocating that the advisability of adaptation depends, for example, on the company,
6 physical product, and targeted export market characteristics. Cavusgil, Zou and Naidu (1993)
7 argue that firms should adapt their positioning, packaging/labeling and promotional approaches
8 when they have high export sales goals and unique products, as is the case with eINVs. However,
9 they also argue that firms should not adapt their positioning, packaging/labeling and promotional
10 approaches when they are selling technology-intensive products and targeting multiple export
11 markets simultaneously, as is also the case with eINVs. Thus at present it remains unclear under
12 what contingent conditions eINVs should adapt rather than standardize the tactics they use to
13 spread awareness and gain positive affect toward their offerings.

14 *International entrepreneurship literature*

15 This body of work overlaps with both of those already reviewed, but studies specifically focused
16 on INVs provide some distinct, and valuable, insights. Several INV articles indicate that leveraging
17 the resources (including, but not limited to, reputation) of international stakeholders with whom
18 the firm is affiliated can help a startup spread their global visibility and credibility (e.g. Altshuler
19 and Tarnovskaya 2010; Coviello and Munro 1997; Gabrielsson 2005; Gabrielsson and Gabrielsson
20 2003; Gabrielsson and Kirpalani 2004). Co-branding between a startup and multinational is one
21 such type of leveraging. Co-branding is a form of cooperation between firms in which the brand
22 names of both are exposed to their joint customer base (Blackett and Boad 1999). Paypal is an
23 eINV that achieved significant international spread by virtue of its brand alliance with the more
24 established firm, eBay, that featured Paypal as a payment option on its website. So successful did
25 Paypal's "spread" become that eBay ultimately bought the company and shut down development
26 of a competitor (Fischer and Reuber 2007).

27 The INV literature also highlights that new firms can leverage international forums to achieve
28 spread (e.g. Gabrielsson 2005), as they reach well beyond a domestic audience. International
29 tradeshows are one such type of forum. To illustrate, the eINV Freshbooks takes advantage of
30 the annual SXSW tradeshow to achieve spread among the segment of potential customers who
31 attend this music, film and interactive gaming event. Online markets are another type of interna-
32 tional forum of value to some eINVs. For example, the online market download.com provides
33 an international platform for many eINVs selling software. While not every eINV competes in
34 an industry that features such international forums, those that do can accelerate spread by taking
35 advantage of them.

36 *E-marketing literature*

37 A growing body of marketing studies examines how firms can broaden their reach online. Most
38 research thus far on successful online "spreading" has been conducted for established companies
39 selling consumer goods (e.g. Fournier and Avery 2011), though a few have considered new
40 and/or B2B firms (e.g. Ashworth et al. 2006; Fischer and Reuber 2012). As of yet, none have
41 considered how new online firms can increase awareness and appreciation among international
42 audiences; however, two interrelated threads in this work are useful for understanding eINVs.

43 The first thread focuses on networks that emerge (or that can be created) among online
44 stakeholders and how these may benefit firms. Numerous studies have discussed on-line

1 “communities” or collectives of people who share an interest in product categories (such as
2 smart-phones, e.g. Kozinets et al. 2010) or brands (such as Stri-vectin, e.g. Schau et al. 2009).
3 Evidence indicates that, in such online networks, members frequently share information and
4 opinions about specific companies and offerings, since participants derive value from doing so
5 (Schau et al. 2009). Some firms have tried to accelerate communication about their own brand
6 within existing communities, while others have tried to create new online communities by
7 promoting Facebook fan pages or company Twitter accounts (e.g. Dholakia and Durham 2010).
8 Although certain studies indicate that firms can benefit from these efforts, others note that firms
9 may face backlash and hostility from online community members if their efforts are too explicitly
10 sales oriented or if interactions that express negative sentiments are censored (e.g. Fournier and
11 Avery 2011).

12 Some eINVs have nonetheless managed to achieve spread effectively via online networks. For
13 example, despite initial skepticism about a user-generated innovation, the “hashtag” symbol (#)
14 that allowed users to assign a topic to their posts to the micro-blogging website, Twitter execu-
15 tives ultimately recognized and harnessed the potential inherent in communities of interest that
16 clustered around hashtags to increase levels of awareness and usage among geographically dispa-
17 rate users. By making it easy to search for and find posts about hashtagged topics on Twitter (for
18 example, during political uprisings such as those in Iran or during natural disasters such as the earth-
19 quake in Haiti, both in 2009) Twitter not only enabled existing users to communicate with one
20 another, it also enabled new users to find others who shared similar interests. Twitter’s fame and
21 user base also spread because of the publicity that ensued when mainstream media realized the role
22 Twitter could play in facilitating communication among citizens at critical times in critical places
23 (Bilton 2013). While this example is a vivid one, it begs the question for eINVs of less celebrity of
24 what tactics are effective when they attempt to cultivate spread in online communities that include
25 stakeholders from disparate cultures with disparate needs and perceptions.

26 The second practice highlighted by the e-marketing literature entails harnessing the massive
27 volumes of data that the firm may be able to glean from monitoring online behaviours of its
28 customers. The OECD (2012) refers to this as “social customer relationship management (social
29 CRM)” and defines it as “the use of social media services, techniques and technology by organiza-
30 tions to actively engage with customers” (p. 77). One example of such social CRM is “suggestive
31 selling”, which refers to the practice of recommending products to a prospective customer based
32 on perceived similarity with the detected purchase or preference patterns of prior customers. eINVs
33 with the capacity for capturing and analyzing the data that online selling so abundantly affords can
34 develop customized recommendations (Barrutia and Echebarria 2007) and even highly customized
35 product offerings (cf. Bell and Loane 2010). Amazon’s practice of recommending books purchased
36 by readers with similar patterns of interest illustrates this suggestive selling approach.

37 Discussion

38 Having considered how prior research and theory illuminate the capabilities that matter for eINVs,
39 we now highlight a number of research questions that seem particularly relevant for eINVs and yet
40 are not addressed by prior research. These research questions are not specific to any one capability
41 discussed above, but rather span two or more.

42 The first research question we identify concerns how eINVs can reconcile the requirements
43 of scale and international diversity, yet retain a competitive advantage over time, given that
44 complexity escalates as firms do business in multiple, increasingly diverse, foreign markets. An
45 approach to addressing this question would be to identify the conditions under which there is
46 an inverted U-shaped relationship between international diversification and firm performance

1 among eINVs, a relationship that has been found for manufacturers (e.g. Hitt et al. 1997). While
2 some eINVs may be able to target an ever wider array of new countries without encountering
3 a point beyond which it becomes decreasingly profitable, we expect that many will face limits
4 to business model scalability given demands for local isomorphism (Salomon and Wu 2012) and
5 local partners (Johanson and Vahlne 2009). Early in their history, eINVs may be able to avoid
6 this variability if their opportunity is constructed around a narrow, homogenous target market
7 and a value proposition that enables scaling and spreading. However, as competitors enter the
8 market and as the management team looks for product diversification opportunities, there may
9 be pressures to widen both the value proposition and the target market in order to expand the
10 functionality of the market offering.

11 A second research question concerns the differences in the sensing and spreading capabilities
12 required depending upon the eINV's method of customer acquisition and revenue generation.
13 Firms that primarily acquire customers offline (e.g. Groupon's acquisition of merchants and
14 HubSpot's acquisition of customers) may require different sensing and spreading capabilities
15 than those that primarily do so via online "self-service" (e.g. Twitter). Similarly, the sensing
16 and spreading capabilities required by eINVs that rely primarily on advertising revenue (e.g.
17 Facebook) may differ from those that rely primarily on customer payments (e.g. FreshBooks)
18 because of the local nature of much advertising. eINVs that acquire customers offline, as well
19 as those that rely on customers for revenue, may need to commit to a physical presence in local
20 markets, and so the sensing and spreading functions may need to be isomorphic with companies
21 in those local markets (cf. Salomon and Wu 2012). However, the extent to which this is the
22 case, and the extent to which this affects scalability, are topics that require empirical investiga-
23 tion in the future.

24 A third research question is: when is it beneficial for an eINV to have an online intended
25 market image (cf. Brown et al. 2006: 103) that is global vs. multi-domestic? There is variation
26 in practice. For example, Pinterest, a multi-billion dollar eINV, makes no mention of its inter-
27 national activities on its website, while Airbnb, another eINV with a valuation exceeding \$1
28 billion, emphasizes them. DesignCrowd has different domain names for different countries, and
29 there is an Australian accent in the "how it works" video on the ".com.au" website, a British
30 accent on the ".co.uk" website and an American accent on the ".com" website. In contrast,
31 Sellaband, another crowdsourcing eINV, has a single English website. Amazon has 10 country-
32 specific domain names, Skype has websites in over 25 languages available at a single ".com"
33 domain name, and Twitter is available in more than 20 languages by changing user preferences
34 at the single domain name. A related question is: when is it desirable for eINVs to emphasize an
35 image based on their country-of-origin (e.g. Gurhan-Canli and Maheswaran 2000). For example,
36 Alibaba emphasizes its Chinese origins and presence which highlights the vast number of manu-
37 facturers that global buyers can connect with. However, it may be desirable for eINVs to hide
38 their country-of-origin if it is associated with negative stereotypes (Reuber and Fischer 2011b).
39 These observations indicate that we require research to understand the contingencies that matter
40 to which kind of spread-related capabilities an eINV should seek to build, and how the types of
41 spreading capabilities impact the sensing and scaling capabilities required. We also point out that
42 scholars should be aware of the variation in practice, and the reasons behind this variation, when
43 using indicators such as website-based languages or the number of country-specific domain names
44 as measures in empirical research.

45 A fourth potential area for investigation concerns the interplay between the pace of inter-
46 national expansion and firm-level learning. Both the IE and IB literatures maintain that inter-
47 national experience accumulates over time and that time compression (a more rapid pace of

1 internationalization) may inhibit learning (e.g. Zeng et al. 2013) and have a negative impact on
2 performance (e.g. Jiang et al. forthcoming; Vermeulen and Barkema 2001; 2002). Given this
3 evidence, how do some eINVs manage to internationalize at unprecedented speed, seemingly
4 without the opportunity to learn through experience? A contrasting view is that when a busi-
5 ness is radically innovative, prior learning may be of little relevance and there can be a risk of
6 either knowing the wrong thing or learning incorrectly (Zeng et al., 2013). Further, it may be
7 that for the eINVs that are pioneers in homogeneous global markets (for example, DropBox),
8 local conditions may be of little relevance, rendering rapid, profitable internationalization
9 possible. In general, further research is required to understand the factors that may enable eINVs
10 to overcome liabilities of foreignness at unprecedented speed.

11 Fifth, it is worthwhile to note the similarities and differences between our sensing-scaling-
12 spreading framework of eINV capabilities and Teece's sensing-seizing-reconfiguring frame-
13 work of dynamic capabilities for sustainable superior performance (2007). We use "sensing"
14 similarly to Teece: we emphasize the need for "scanning, creation, learning, and interpretive
15 activity" (2007: 1322) in markets that are in constant flux. Teece's seizing function is applicable
16 to eINVs, but because of our more narrow focus, we concentrate here more narrowly on the
17 scaling and spreading aspects of seizing an opportunity because they are uniquely crucial to
18 digital firms. We expect reconfiguration – the ability "to maintain evolutionary fitness and, if
19 necessary, to try and escape from unfavorable path dependencies" (2007: 1335) – to be appli-
20 cable to eINVs, as they are to any organizations, on the one hand. On the other hand, however,
21 we see two potential differences in this context. The first is that digital artifacts are inherently
22 unstable and easy to modify (Kallinikos et al. 2013), and so reconfiguring the routines of eINVs
23 is likely to be substantially different than reconfiguring the routines of INVs. Second, the need
24 for reconfiguration may be different for eINVs that benefit from herding behavior, and early
25 dominance of their market, than for those that do not. Although prior research indicates that
26 platform ecosystems are subject to constant change (Lee and Mendelson 2008) and business
27 models of internet-based businesses evolve continuously (Rindova and Kotha 2001), dominant
28 eINVs such as Facebook, Twitter, eBay and Amazon have grown and internationalized with
29 remarkably little change to their core nature. This suggests that there may be beneficial path
30 dependencies for eINVs. For these reasons, we believe that the reconfigural aspects of eINVs
31 represent a fruitful direction for future investigation.

32 We conclude our chapter by stressing once more that it is timely and important to think
33 about, and to study, eINVs systematically. As we pointed out in our introduction, eINVs
34 are a growing force in the global economy, which offers a pragmatic rationale for studying
35 them carefully. A more theory-relevant reason for studying eINVs is that in doing so, our
36 understanding of the nature and dynamics of international new ventures as a whole could be
37 revised and expanded. For instance, as some of the examples here indicate, eINVs may be able
38 to leverage sensing, scaling and spreading capabilities to win a major share of a global market
39 in certain "winner-takes-all" competitions; that is, they represent cases of international new
40 ventures that rapidly become large and enjoy some advantages of a near-monopoly. This contrasts
41 with earlier work on international new ventures suggesting that they are nearly always small,
42 and that monopolistic advantages theories are therefore inapplicable to them (e.g. McDougall
43 et al. 1994: 472). While observations such as these do not invalidate prior research on INVs,
44 they sensitize us to the possibility that there may be boundary constraints on the applicability
45 of earlier findings, and that our theories of new venture internationalization may need to be
46 adapted to account fully for phenomena such as eINVs. This chapter constitutes a step in that
47 direction.

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6 Note

7 1 In this OECD report, the “internet firm” category is broader than our definition of eINVs, and includes
 8 firms that earn revenue from (a) internet-based activities; (b) internet intermediation; (c) providing services
 9 facilitating internet use; (d) providing internet-based software; (e) providing e-commerce platforms offline
 10 (OECD 2012: 43–44).

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