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## Factors enhancing high commitment entry modes in international new ventures

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## **Factors enhancing the choice of higher resource commitment entry modes in international new ventures**

### **Abstract**

The choice of entry mode in foreign markets is an important strategic decision with major consequences for the success of international new ventures (INVs). It is generally accepted that these firms choose relatively low-resource commitment entry modes to operate in foreign markets. Nevertheless, some researchers have suggested that higher resource commitment entry modes in foreign markets also seem to be competitive strategies for INVs. In this study, from a marketing/international entrepreneurship interface perspective and focusing on organizational issues, we centre our attention on international market orientation as a neglected yet important factor in INVs' choice of higher resource commitment entry modes in foreign markets. We suggest that an entrepreneurial orientation and early international entry are important correlates to an international market orientation. We also suggest that the international learning effort of INVs through their international market orientation has a direct, positive impact on the resources these companies commit to their foreign markets through the use of higher resource commitment entry modes. Accordingly, the model proposes a positive effect of entrepreneurial orientation and early international entry on international market orientation which, in turn, is positively related to higher resource commitment entry modes. The hypotheses were tested on country-level data from Spain, using a structural equation model to analyze relationships between the latent variables.

This study extends previous international entrepreneurship research, including insights on antecedents of INVs' choice of resource commitment entry modes in foreign markets. The paper also goes further than previous international entrepreneurship research, by addressing the strategic consequences of rapid entry into foreign markets. Additionally, the results of this work encourage international entrepreneurs to look beyond the explicit value of experiential market knowledge to realize the potential value of international market orientation as an antecedent to higher resource commitment entry modes.

**Keywords** International New Ventures; Entrepreneurial Orientation; Early Entry; International Market Orientation; High- resource commitment Entry Modes.

**JEL:** M13, M16, M31

## 1. Introduction

It has traditionally been argued that firms need time to obtain the necessary resources to deal with the problems and challenges of internationalization (Johanson and Vahlne 1977 and 1990). But in 1993, a study of the consultants McKinsey for the *Australian Manufacturing Council* identified a new type of firm that moves into foreign markets soon after creation (McKinsey and Co. 1993; Rennie 1993). These firms have been widely referred to as International New Ventures (INVs) and have been defined as “*business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries*” (Oviatt and McDougall 1994: 470). They are entrepreneurial firms that exhibit an international orientation derived from early entry in foreign markets”

Since Oviatt and McDougall’s (1994) seminal article, study of the factors that could encourage early international behavior in new firms has attracted the attention of many researchers in the fields of entrepreneurship, internationalization and marketing (see Zahra and George 2002; Etemad and Wright 2003; Rialp et al. 2005 or Aspelund et al. 2007 for a review). All these studies have significantly contributed to our understanding of the reasons that drive early internationalization in these firms. However, rapid international expansion alone is not a sufficient strategy for new ventures; it must be supported by entry mode strategies (McDougall and Oviatt 1996).

Choice of entry mode is an important strategic decision for INVs as it involves a given level of resource commitments in different target markets with different levels of risk, control and profit return. By foreign market entry modes we mean the organizational arrangements employed by INVs to enter foreign markets (Anderson and Gatignon 1986; Root 1987; Sharma and Erramilli 2004). As suggested by Kumar and Subramanian (1997), there is a natural hierarchy among the various modes of entry according to different degrees of resource commitment in foreign markets. It would seem logical to assume that INVs choose relatively low resource commitment entry modes whenever they can in order to overcome resource constraints and handle foreign risk (Jolly et al. 1992; McDougall et al. 1994; Coviello and Munro 1997; Burgel and Murray 2000; Aspelund et al. 2007). Nevertheless, some authors have recently shown that not only do INVs use entry modes involving high resource commitment in foreign markets right from the start (Aspelund et al. 2007) but that it also seems to be a competitive strategy for INVs (Zahra et al. 2000).

In spite of the potential strategic benefits associated with the choice of entry modes which involve high resource commitment in foreign markets, the study of the factors that can encourage these less traditional firms develop foreign direct investment activities and other forms of resource commitment in multiple countries has been neglected in favour of the assumption that small new ventures will choose low resource commitment entry modes. This perspective has shown the picture only from one point of view focusing on firm size and age as the main factors affecting entry mode choice. Factors that influence entry mode decisions are often classified into host country-specific variables, home country-specific variables, company-specific variables, and venture-specific variables (Hill et al. 1990; Sarkar and Cavusgil 1996; Malhotra et al. 2004; Tsang 2005). External factors are frequently shown to exert a strong influence on the entry mode decision (Shama 2000; Zhao et al. 2004; Tihanyi et al. 2005). The specific characteristics of a foreign market are seen to be essential when choosing an entry mode (Yiu and Makino 2002; Quer et al. 2007). In a recent review of entry mode research Canabal and White III (2008) point out that culture/cultural distance, uncertainty, risk and other institutional variables of a foreign market are the external factors that have aroused the most interest among researchers in the entry mode domain.

As INVs lack tangible resources, the choice of high resource commitment entry modes cannot be principally based on these resources. It is more reasonable to suppose that this choice may be based on the capacity of INVs to leverage a collection of fundamental intangible resources (Gleason and Wiggenhorn 2007). In this regard, Weerawardena et al. (2007) highlight foreign market knowledge and the process by which foreign market knowledge is acquired, developed and used in INVs’ strategic decisions as intangible resources that can influence the choice of higher resource commitment entry modes in foreign markets. As a consequence, this research sheds lights on the current literature on this topic and paves the way to future research by analyzing some company-specific factors that can enhance the choice of higher resource commitment entry modes in INVs. We approach this problem adopting a marketing-entrepreneurship interface perspective. Consequently, we center our attention on international market orientation as an important factor that can encourage INVs to choose higher resource commitment entry modes. We also explore the organizational factors of early international entry and entrepreneurial orientation that may contribute to increase international market orientation in INVs (Zahra and George 2002).

In developing and testing our model, we make several contributions to the literature. First, this study extends previous international entrepreneurship research mainly focused on the factors that can promote early international entry (Zahra and George 2002) to include insights on why these INVs can use higher resource commitment entry modes. Moreover, gaining additional insight into this choice will ease

comparisons with gradualist approaches (Jones and Coviello 2005) or other internationalization pathways (Aspelund et al. 2007), thus enabling us to better understand the INVs internationalization process from a strategic rather than a structural perspective.

Second, by considering early international entry as an independent variable, the present paper also advances past international entrepreneurship research because, to date, the literature has not paid the same attention to the strategic consequences of early entry into foreign markets (Autio et al. 2000; Oviatt and McDougall 2005; Kuivalainen et al. 2007). Zahra (2005: 26) emphasises that this analysis could “*open the black box that appears to exist in theorizing about the advantages that INVs might reap from early internationalization*”. Consequently, our study considers early entry in foreign markets as a strategic rather than a descriptive factor.

Third, while there is an established tradition of researchers that have conceptualized entry mode choices as binary (Davidson and McFetridge 1985; Kogut and Singh 1988; Erramilli and Rao 1993; Barkema and Vermeulen 1998; Burgel and Murray 2000), our study considers a wide range of entry modes providing a more accurate analysis of the real effects of international market orientation on the choice.

Additionally, considering international market orientation as a mediator factor in the choice of entry mode, this study answers the call for multidisciplinary research voiced in international entrepreneurship (McDougall and Oviatt 2000). Market orientation is a well known concept in marketing studies that has received little attention in international entrepreneurship literature. Researchers have tended to specialize in international business or entrepreneurship (Coviello and Jones 2004). This study presents the results of the interface between internationalization, entrepreneurship and marketing.

Finally, the results of this work encourage entrepreneurs to look beyond the explicit value of experiential market knowledge to realize the potential value of international market orientation to promote high-resource commitment entry modes in INVs.

The remainder of this article is organized as follows. The next section reviews the relevant literature on the characteristics of INVs, the concept of entrepreneurial orientation, early entry and international market orientation and the relationship between them, and between international market orientation and higher resource commitment entry modes. The research hypotheses are then proposed, followed by the presentation of the proposed model. Then an explanation of the methodology used in the empirical study is provided, followed by an analysis of the study results. The article concludes with a discussion of the major findings of the study, its limitations, and suggestions for future research arising from it.

## **2. Theoretical development and hypotheses**

Study of the different entry modes and their relationship with a firm’s international performance has caught the attention of researchers from various scientific traditions. Among economic theories of particular interest is the monopolistic advantage theory (Kindleberger 1969; Hymer 1976), the internalization theory (Buckley and Cason 1976) and the eclectic paradigm of Dunning (Dunning 1979). These approaches all coincide in considering that the foreign investment decision is a totally rational process based on costs and the economic advantages of outsourcing certain activities of the value chain in foreign markets. Transaction cost theory has led researchers to propose transaction-related variables as determinants of the most efficient governance mode: the value of contributed assets and the tacit nature of transferred know-how. These variables reflect the dissemination risk that the firm faces in new markets (Gatignon and Anderson 1988; Erramilli and Rao 1993; Madhok 1998; Chen and Hu 2002). Dissemination risk refers to the risk that a firm’s specific advantages might be expropriated through a license or by a partner in a joint venture (Hill and Kim 1988). Adopting an organizational behavior perspective, gradualist models consider involvement in internationalization to be a function of experiential knowledge of foreign markets. Accordingly, a new venture would be expected to gain initial experience through reactive exporting before proactively venturing into foreign markets. The choice between direct exporting and the use of more complex and proactive entry modes in foreign markets thus depends on firm experience and foreign market knowledge. Within this approach, of particular interest are the following models: the product life-cycle model (Vernon 1966), the Uppsala model (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975) or the innovation model (Bilkey and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982). Finally, the organizational capabilities-based perspective maintains that the basis for internationalization must be sought in the pull of resources and the firm’s capabilities. In this regard, when firms internationalize, they seek more efficient use of resources or to expand or acquire new resources and capabilities. Firms choose entry modes according to their capacity to satisfy this demand, taking into account the influence of different internal and external factors. Thus, a contingent approach is taken in order to make the choice (Hurry 1994; Roth 1995; Ahokangas 1998).

The choice of entry modes “*is too complex and too broad in scope to be accommodated by any one model or any one perspective*” (Coviello and Jones 2004: 497). “*Traditional models are still as valid at some level as complementary models, but they need to be extended with new insights*” (Laanti et al. 2007: 3). Bearing in mind these considerations we agree with these authors on the need to study INVs using a holistic and contingent approach (Crick and Jones 2000; Coviello and Jones 2004; Crick and Spence 2005). Following this tradition, our research borrows some of the lines of argument from the theoretical developments presented in the previous paragraph.

Focusing on outward activities, in the case of INVs, the firm’s physical experience in foreign markets cannot be used to explain how they develop foreign market knowledge and why they opt for higher resource commitment entry modes, since these firms do not have that experience. Furthermore, Burgel and Murray (2000) evidenced that the international experience of entrepreneurs in a sample of new firms operating in the high-technology sector did not influence their choice of entry mode when moving into new markets. For Burgel and Murray (2000), INVs choose entry modes based not only on their available resources, but also on the local specific demands for customization, support, etc. (Burgel and Murray 2000). In fact, other empirical evidence shows that INVs that internationalize by using higher resource commitment entry modes place great importance on being in close proximity to their most important foreign customers and on receiving instant feedback about the company’s products (Melén and Rovira 2009).

Following De Clercq et al. (2005) two main arguments may be given for proposing a positive relation between foreign market knowledge and the process by which foreign market knowledge is acquired, developed and used in INVs’ and the choice of higher resource commitment entry modes in foreign markets: first, when INVs get more comfortable with the particular situations encountered in foreign markets, the uncertainty related to further increasing the intensity of international activities may diminish and second, the more market knowledge a INV has gained, the more willing it will be to utilize and explicate this knowledge through subsequent international activity. Three types of foreign market knowledge are important for INVs: institutional, business and international knowledge (Eriksson et al. 1997). Institutional knowledge is defined as knowledge of the government and institutional framework that applies in the market where firms operate. Business knowledge is defined as knowledge about customers, competitors and market conditions in particular markets. Finally, international knowledge is defined as knowledge of how the firm manages market information and transforms it into specific actions to bridge the interface between the firm and its international markets (Eriksson et al. 1997; Liesch et al. 2002). This knowledge is firm-specific, and integrates and coordinates all the firm’s internationalization activities, including the search for and transmission of business and institutional knowledge (Blomstermo et al. 2004). Market orientation focused towards external markets can help INVs to develop, expand and utilize these different types of market knowledge and to increase their resource commitment in foreign markets.

Taking the two main market orientation approaches and their definitions (Kohli and Jaworski 1990; Narver and Slater 1990), market-oriented organization can be defined as one that develops coordinated behaviors among the various functions of the organization dedicated to seeking and gathering information on consumers, competitors and the general environment in its international markets. This information is disseminated across the organization and a response is designed and implemented in accordance with the information obtained. Distinctive capabilities in the organization are identified and constructed, with the aim of satisfying consumers by providing superior value. In this paper the market orientation construct is adapted to international markets. What differentiates international market orientation from broader market-oriented activities is that international market orientation is focused towards international markets’ current and future needs, competition within the firm’s international markets, and other exogenous factors influencing the firm’s international performance (Cadogan et al. 2001). International market orientation develops behaviors that tend to improve the INV’s internal and external information flow in such a way that the INV can explore changes in its international environment more rapidly and adapt its actions to the specific needs of each market. Thus, international market orientation can play a determining role in explaining not only how an INV acquires foreign business, institutional and international information, but also how these firms manage this information to develop new knowledge (Knight and Cavusgil 2004; Armario et al. 2008). Moreover, if we consider that a firm’s absorptive capacity can be defined as the “*ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends*” (Cohen and Levinthal 1990: 1), international market orientation can help INVs to improve their absorptive capacity and enhance their international learning, because it emphasizes the structure of communication between the external environment and the organization, as well as among the subunits of the organization, and also emphasizes the distribution of information and knowledge within the organization (Cohen and Levinthal 1990).

The model we develop here also analyzes the organizational factors that can act as enablers to INVs' international market orientation (Sharma and Blomstermo 2003; Laanti et al. 2007). Borrowing arguments from the attention-based view of the firm, we can note that of the various factors that characterize the behavior of INVs (see Zahra and George 2002; Rialp et al. 2005 for a review of past research in defining INVs' characteristics), entrepreneurial orientation and early entry in foreign markets are particularly significant as determinants of international market orientation. The central argument of the attention-based view is that firm behavior is the result of how firms channel and distribute the attention of their decision-makers. What decision-makers do depends on what issues and answers they focus their attention on. What issues and answers they focus on depends on the specific situation and on how the firm's rules, resources, and relationships distribute various issues, answers, and decision-makers into specific communications and procedures. At organizational level, the principle of structural distribution of attention builds on research and theory from organizational decision-making, strategy formulation, and cognitive anthropology to explain how the firm's economic and social structures regulate and channel issues, answers, and decision-makers into the activities, communications, and procedures that constitute the situational context of decision-making. According to this view, the accurate planning and performance of strategic actions and the speed of execution require that individual and group decision-makers concentrate their energy, effort, and mindfulness on a limited number of issues and tasks (Ocasio 1997). Thus, the main idea of the attention-based view is that managerial orientation, the current use of its international assets and the firm's international identity should all be critical to determine where a firm directs its effort (Ocasio 1997; Sapienza et al. 2005). Entrepreneurial orientation reflects how a firm operates rather than what it does (Lumpkin and Dess 1996), it can be considered like a type of organizational knowledge. As an organizational knowledge it can influence the way in which INVs manage and lead their processes towards identifying and developing new opportunities in international markets (Wiklund and Shepherd 2003; Jantunen et al. 2005). Fast entry in foreign markets and therefore the rapid involvement of the company in international activities may leave a "mark" on the INV which is capable of influencing its future functioning (Milanov and Fernhaber 2009). It will give the company an international orientation which will pervade all the processes developed in the INV guiding them towards its international markets (Sapienza et al. 2005).

### **2.1. Entrepreneurial orientation and international market orientation**

Entrepreneurial orientation was originally studied as a market entry problem: "*What business shall we enter?*" (Miles and Snow 1978). A more recent conceptual domain of entrepreneurship involves entrepreneurial management processes, "*the methods, practices, and decision-making styles managers use to act entrepreneurially*" (Lumpkin and Dess 1996: 136). The conceptualization of entrepreneurial orientation has been the focus of systematic inquiry in the literature (e.g. Lumpkin and Dess 1996; Lyon et al. 2000; Covin et al. 2006), and different key dimensions of the construct have emerged. Miller (1983), the most accepted author in the conceptualization of entrepreneurial orientation, suggests that a firm's degree of entrepreneurial orientation is the extent to which it innovates, acts proactively, and takes risks. Consequently, this paper considers innovativeness, proactiveness and risk-taking to be the main important dimensions of an entrepreneurial orientation (Covin and Slevin 1989; Lumpkin and Dess 1996).

Sapienza et al. (2005) suggest, from the attention based-view of the firm, that a firm's organizing principles can be critical to develop international learning processes. The development of an entrepreneurial orientation can be considered as an organizational knowledge which pervades all the processes carried out in the firm, directing them to seek and develop new business opportunities (Wiklund and Shepherd 2003; Jantunen et al. 2005). INVs with high levels of entrepreneurial orientation will tend to constantly scan and monitor their operating international environment in order to find new opportunities and strengthen their competitive positions in their international markets (Covin and Miles 1999; De Clercq et al. 2005). Jantunen et al. (2005) also take the same line when they suggest that entrepreneurial orientation should be instrumental in INVs' development and enactment of key organizational routines to search and integrate foreign market knowledge into the firm's knowledge base. Recently, Keh et al. (2007) have indicated that information acquisition and utilization activities are mainly developed in firms with high levels of entrepreneurial orientation. In their seminal article, Slater and Narver (1995) go even further to suggest that entrepreneurial orientation can trigger market-oriented behaviors that enable the firm to identify the innovations or improvements that the end consumer requires, overtake its competitors and assume the risk implicit in these decisions. The assertion that entrepreneurial orientation precedes international market orientation also matches Dess et al.'s (1997) and Knight's (2000) suggestion that the pursuit of a marketing orientation receives support when management adopts an entrepreneurial orientation. Consequently it is hypothesized that entrepreneurial orientation is an antecedent to international market orientation in INVs.

*H<sub>1</sub>: Entrepreneurial orientation positively influences the development of an international market orientation in INVs.*

## **2.2. Early international entry and international market orientation**

Industry factors are related to the internationalization patterns of the firm (Andersson 2004). Literature has often stated (Madsen and Servais 1997; Madsen et al 2000; Moen and Servais 2002; Dimitratos et al 2003; Knight and Cavusgil 2004; Rialp et al. 2005) that the existence of firms that are INVs can be explained by differences between industries. However, whether INVs are more likely to occur in some industries than others is one of the basic research questions scholars in the field have asked. Arguably, some sectors are more international than others (Autio et al. 2000; Keeble et al. 1998) and hence also more prone to give birth to INVs (Andersson and Wictor 2003; McDougall et al. 2003; McNaughton 2003). Although the review by Aspelund et al. (2007) suggests that the technology intensive sectors of the economy have been given special attention in INV research, there is no indication that INVs are restricted to these sectors (Crick et al. 2001). As an example of the latter, McAuley (1999), finds that INVs represent a considerable portion of firms even in a low technology sector such as the Scottish arts and craft sector.

Several gradualist models of internationalization and export studies emphasize the importance of the firm's national and foreign experience (see Blomstermo et al. 2004 for a brief review). However, learning theory suggests that prolonged focusing of attention on a limited domain creates competency traps that are difficult to overcome (Cohen and Levinthal 1990). McDougall et al. (1994) argued that international entrepreneurs formed INVs rather than domestic ventures due to a fear that domestic resource development would inhibit the organization's ability to create effective international managerial systems at a later stage. In the same vein, the attention-based view considers that the firm's specific organizational context and situations in which individual decision-makers find themselves, condition the firm's behavior (Ocasio 1997). The argument is further supported by findings that show that initial strategic decisions about resource development in INVs will have long-term consequences (Moen 2002; Moen and Servais 2002; Aspelund et al. 2007). Early international entry may contribute to the creation of an international identity that encourages the firm's international "attention" and facilitates the process of acquiring knowledge from international markets (Ocasio 1997; Autio et al. 2000) and responding according to that information. As Autio et al. (2000) argue in that way INVs see foreign markets as less "foreign". Therefore, early international entry may help INVs to focus their efforts on foreign markets thereby facilitating the development of an international market orientation (Sapienza et al. 2005). As a consequence, in this paper we propose a positive relationship between early internationalization and international market orientation in INVs.

*H<sub>2</sub>: Early international entry positively influences the development of an international market orientation in INVs.*

## **2.3. International market orientation and higher resource commitment entry modes**

The hierarchy perspective is the conceptual basis for modeling entry modes as a continuum of increasing levels of resource commitment, risk exposure, control, and profit potential (Chu and Anderson 1992). Licenses are at the lowest end of the entry mode resource commitment continuum as they involve low resource commitment by the licensing firm, which is limited to training the relevant personnel in the licensing firm. At the other extreme is direct foreign investment, where the firm assumes all the costs associated with entry, opening or business start-up in the new market or total or partial acquisitions. Other alternatives representing intermediate values on the continuum are also found, such as joint ventures.

It has been pointed out by gradualist models that high resource commitment entry modes are not a realistic way into international markets in the early stages (McAuley 1999). Accordingly INVs should opt for lower resource commitment foreign entry modes in order to reduce the risk associated to internationalization, especially due to lack of resources and institutional knowledge (Zaheer 1995). But this is not the case for INVs. INVs' behavior seems to reflect a different way of thinking (Blomstermo et al. 2004).

Grounding on transactional cost tradition, the transfer of know-how with a high tacit component can expose the INV to a higher dissemination risk because this type of know-how cannot easily be protected by patents (Anderson and Gatignon 1986). As a consequence, transmission of such know-how implies significant transaction costs, owing to a high dissemination risk, as a result, INVs are more likely to choose entry modes that involve higher commitment in foreign markets when transferring tacit know-how (Kim and Hwang 1992; Madhok 1998; Luo 2001). In this regard, the use of entry modes involving lower resource commitment in foreign markets has an undesirable counterpart for INVs who have developed an international market orientation. The capacity to acquire market information, develop it and

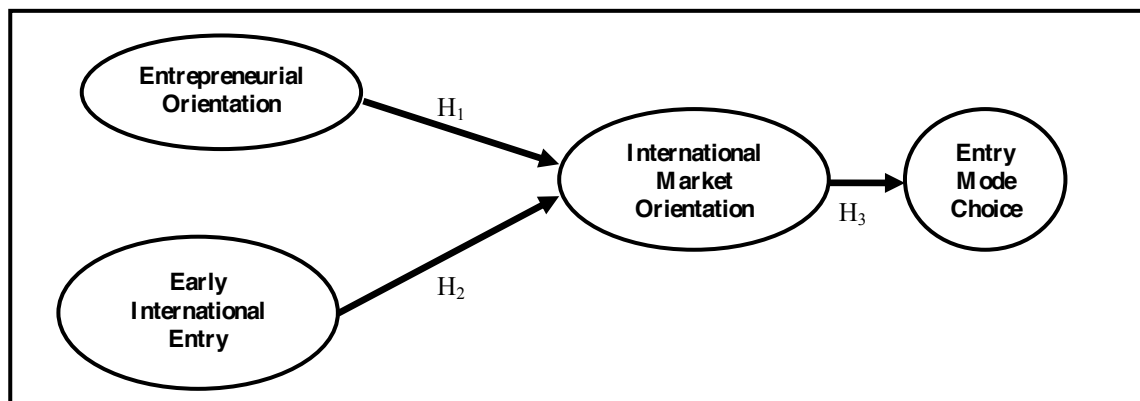
integrate it into the firm's knowledge base so that it can be used in the firm's decisions and actions is an important marketing capability (Madhok 1998; Luo 2001). When INVs have marketing capabilities, higher resource commitment entry modes tend to outperform lower resource commitment entry modes. Marketing capabilities are based on tacit knowledge (Teece et al. 1997), are firm-specific (Nonaka 1994), valuable to customers and are not easily codified or articulated (Nelson and Winter 1982; Teece et al. 1997; Peteraf and Bergen 2003), so they are not easily transferable. In this case, the choice will be associated with higher profits, because the use of cooperation-based modes could erode the INVs' competitive advantage.

Moreover, the processes involved in an international marketing orientation behavior help INVs to lower the risk associated with the lack of institutional knowledge of foreign markets. Thus, it seems more likely that, in order to take advantage of market knowledge and reduce the risk associated to higher resource commitment in foreign markets, INVs will adopt first an international market orientation and then, as a consequence of the response dimension of this orientation, they decide which high resource commitment entry modes best fit the information collected and processed.

*H<sub>3</sub>: International market orientation positively influences the choice of higher resource commitment entry modes in INVs.*

These hypotheses are illustrated in Figure 1.

Figure 1. Model of effects of entrepreneurial orientation, early international entry and international market orientation on entry mode choice in INVs



### 3. Methodology

#### 3.1. Sample

To test these hypotheses, data were collected from a sample of INVs from Spain operating in several industries. Firms were selected from the Dun & Bradstreet database, which contains references on 850,000 Spanish firms in terms of turnover. Three criteria were used to select the sample of firms. Firstly, the firms had to be new ventures. Although Oviatt and McDougall's definition suggests an INV needs to be international "at inception" (Oviatt and McDougall 1994), in general the length of time considered to define an INV varies from three years (Madsen and Servais 1997), six years (Zahra et al. 2000), seven years (Jolly et al. 1992) and up to eight years (McDougall and Oviatt 1996) after the firm's creation. Since the aim of this research is to study how early international entry, entrepreneurial orientation and international market orientation can influence the way INVs use higher resource commitment entry modes in foreign markets, we required our sample firms to have been operating for a maximum of 7 years in order to give them time enough to have implemented their strategies. Secondly, firms had to be engaged in international activities in a consolidated way; we considered a level of 25% of annual income coming from foreign markets as a threshold for consolidated international presence. Thirdly, firms could not be subsidiaries or affiliates.

The questionnaire was pre-tested through personal interviews with 25 CEOs of INVs. Each participant in the pre-test answered the questions as s/he read them and verbalized any thoughts that came to mind. The interviewers specifically asked the CEOs to consider ambiguities, inapplicable questions, interesting issues, etc. Taking into account the results of these interviews no changes to the items were required.

The field research was carried out during the last quarter of 2005. After applying the above mentioned selection criteria, 537 Spanish INVs were randomly selected. For the field research, managers' collaboration was requested, together with confirmation of their e-mail address. Once the questionnaire had been sent out, follow-up contact was made by telephone to increase the response rate. The



questionnaire was posted on the Internet and an e-mail was also sent to each CEO with a link to the questionnaire. A total of 135 Spanish firms (25.14 per cent) completed the questionnaire. Table 1 summarizes the main characteristics of the sample.

Table 1. Characteristics of the sample

<b>Economic sector</b>	<b>Age</b>	<b>Management Team</b>	<b>Turnover</b>	<b>Employees</b>	<b>International income</b>
Main sector where the company develops its activity	Number of years from the creation of the company	Number of people within the management team	Last year approximate turnover (x 1000 €)	Number of employees of the company	Approximate percentage of income from foreign markets
Industrial = 55.6 %	1 - 4 = 47.4 %	1 - 3 = 75.6 %	Below 800 = 47.3%	3 - 15 = 60 %	25% - 50% = 43.2 %
Services = 17.8 %	5 = 24.4 %	4 - 6 = 20 %	800 - 5,000 = 33.3%	16 - 55 = 25.4 %	51% - 75% = 35.6 %
Others = 26.6 %	6 - 7 = 28.1 %	7 - 10 = 4.4 %	Over 5,000 = 19.4%	56 - 165 = 14.6 %	76% - 100% = 21.2 %
<b>Mean (M)</b>	M = 4.38 years old	M = 2.98 people	M = 20532.35 €	M = 25.91 people	M = 57.284 %

Note: The data show the percentage of companies in the total sample that met each criterion.

### 3.2. Measuring instruments

All items in the questionnaire were adapted from published works that were relevant to our study.

We use one indicator to measure early international entry: the time between the creation of the firm and its internationalization. The indicator was inverted so that higher values meant shorter internationalization time for the firm.

In this paper we consider the concept of entrepreneurial orientation defined by Miller (1983) as the interrelation of three basic characteristics: innovative attitude, willingness to take controlled risks, and proactiveness; we use the extended version of Miller's scale from the specialized literature (Covin and Slevin 1991). This measure has been used in a wide variety of research settings and has exhibited high levels of reliability and validity in numerous studies (Becherer and Maurer 1997; Dickson and Weaver 1997; Barringer and Bluedorn 1999; Kreiser et al. 2002; Wiklund and Sepherd 2005). Concretely, this 5-point Likert type scale (1 = totally disagree; 5 = totally agree) has three dimensions (see Table 2): innovation (3 items), proactiveness (4 items) and risk assumption (3 items).

Table 2. Entrepreneurial orientation scale

<b>Innovation</b>	
1.	The top managers of my firm favor a strong emphasis on R&D technological leadership and innovations. (Innov1)
2.	My firm has recently entered into new activities and/or launched new products. (Innov2)
3.	My firm frequently carries out significant changes in product lines or services. (Innov3)
<b>Proactiveness</b>	
4.	My firm only undertakes actions in the sector after becoming familiar with the movements of competitors. (Proact1)
5.	My firm undertakes actions in the sector which are later followed by competitors. (Proact2)
6.	My firm is a pioneer in developing new products, administrative techniques or technologies. (Proact3)
7.	My firm avoids direct confrontation when facing the actions of its competitors. (Proact4)
<b>Risk Assumption</b>	
8.	Due to the dynamism of the environment, my firm prefers to start with small investments and to gradually expand its commitment of resources. (Risk1)*
9.	My firm prefers to undertake high-risk investment projects. (Risk2)
10.	When my firm is faced with a decision involving a certain degree of uncertainty, we adopt a prudent position. (Risk3)*

\* Reversed coding.

The two most widely used scales for measuring the degree of market orientation in a firm are the MKTOR scale developed by Narver and Slater (1990) and the MARKOR scale proposed by Kohli et al. (1993). They both measure market orientation as a multidimensional concept in which each dimension represents a different characteristic of market orientation. The main problem in opting to use these scales is that they measure market orientation either from a behavioral approach (the MARKOR scale) or from a cultural approach (the MKTOR scale) centered on the customer, without considering distributors and environments as elements of market orientation. This drawback leads us to consider the eclectic scale proposed and validated for Spanish small and medium firms by Blesa and Bigné (2005). The dimensions of this scale were based on the MARKOR (Kohli et al. 1993) and MKTOR (Narver and Slater 1990) scales. Some items, however, had to be relocated from their original place on the scale because, although both scales deal with the same construct, they take different approaches and so the dimensions were not

the same. Repeated items were also removed and items from other scales referring to aspects not reflected in the above scales were included, such as price policies, discussion of market tendencies (Deshpandé et al. 1993), identification of emerging segments, appearance of new products, information exchange stimulations, environment-directed strategies, and information flow to consumers. This procedure was similar to that applied by Matsuno et al. (2000) to refine the MARKOR scale. Furthermore, since this paper sets out to measure international market orientation in INVs, following Knight and Cavusgil (2004), all the items refer to the international market. Specifically, the 5-point Likert type scale (1 = totally disagree; 5 = totally agree) was made up of a total of 16 items divided into 5 general dimensions (see Table 3): interfunctional coordination (2 items), information search (3 items), dissemination of information (5 items), response design (2 items) and response implementation (4 items).

Table 3. International market orientation scale

<b>Interfunctional Coordination</b>	
1.	We hold an interdepartmental meeting at least once a quarter to discuss international market tendencies and development. (Coord1)
2.	The personnel in all our firm's departments hold periodic meetings to jointly plan responses to changes occurring in the international environment. (Coord2)
<b>Information Search</b>	
3.	We periodically meet with some of our international customers to ascertain their current needs and the products they will be needing in the future. (Search1)
4.	We systematically gather information on the problems that international distributors may have when marketing our products. (Search2)
5.	We periodically collect information on international distributor satisfaction. (Search3)
<b>Information Dissemination</b>	
6.	The information on end-user satisfaction is systematically distributed to all sections of our firm. (Dissem1)
7.	Sales or marketing personnel devote a great deal of their time to debating potential future needs of the international customers, both amongst themselves and with the rest of the staff. (Dissem2)
8.	High-level managers discuss the strengths and weaknesses of our international competitors with the other managers in the firm. (Dissem3)
9.	When a staff member has important information on our international competitors, he or she quickly alerts other departments in the firm. (Dissem4)
10.	Any information coming from the international market is distributed to all sections in the firm. (Dissem5)
<b>Response Design</b>	
11.	We periodically revise our products to make sure they match international end-user needs. (Design1)
12.	Our firm ensures its international market strategy is compatible with our international distributors' objectives. (Design2)
<b>Response Implementation</b>	
13.	We offer full information to our international end-users for better use of our products. (Imple1)
14.	We provide relevant information to our international distributors on our international marketing strategy. (Imple2)
15.	We carry out actions to convince our international distributors of the advantages of working with us. (Imple3)
16.	We participate actively in actions that show the social usefulness of our sector to the general public. (Imple4)

Regarding the measurement of entry modes, from the literature review we found that most of works that have addressed this variable have been qualitative. In this regard, the criteria used in several recent works allow us to develop a measurement index for entry modes (Pan and Tse 2000; Nakos and Brouthers 2002; Kalantaridis 2004; Wei et al. 2005). In specifying the entry modes, we followed studies that have considered entry modes as a spectrum of involvement and, consequently have tried to overcome the dichotomy between equity and non-equity modes (Burgel and Murray 2000; Zahra et al. 2000; Brouthers 2002; Wei et al. 2005). Accordingly, to construct an entry mode index, respondents were asked to specify the entry mode that they used in their most recent foreign entry (Nakos and Brouthers 2002). As Table 4 shows, the possible response options (export, brand licensing, commercialization, franchising and production agreements, joint-venture, acquisition of a sufficiently high capital share to control a business that was operating in the new market, acquisition of 100% of the capital of an existing business and creation of a new business or a subsidiary) were arranged hierarchically according to the resources committed to each of them (Pan and Tse 2000; Kalantaridis 2004, Wei et al. 2005).

Table 4. Entry modes scale

<b>Entry Modes</b>	<b>Value</b>
1. A new firm or a subsidiary was created with capital exclusively from our firm.	9
2. 100% of the capital of an already existing firm in the new market was acquired.	8

3.	A share of sufficient capital to control a firm that was operating in the new market was acquired.	7
4.	A joint venture was created in the new market.	6
5.	Joint production agreements were formalized with firms that were operating in the new market.	5
6.	Our products were exported directly to the new market.	4
7.	Distribution franchising agreements were formalized in the new market.	3
8.	The marketing of our products was subcontracted to a firm in the new market.	2
9.	The brand was transferred to another firm that was operating in the new market.	1

### 3.3. Validity and reliability of the scales

Confirmatory factor analysis was performed to purify the reflective scales (entrepreneurial and international market orientations). This methodology allows the researcher to contrast theoretical models in which the representative latent variables of a certain theoretical concept and the indicators designed to measure them are present. Confirmatory factor analysis has become an essential tool in validating measurement scales as a result of these properties (Steenkamp and Van Trijp 1991).

The model was progressively improved by the sequential elimination of the least suitable indicators. Thus, indicators whose standardized coefficients ( $\lambda$ ) were below 0.4 (Hildebrandt 1987), and whose student t-test statistic was lower than 2.58, were removed. Following these criteria, we eliminated items Proact1, Proact4 and Risk3 from the entrepreneurial orientation scale and items Dissem5 and Imple4 from the international market orientation scale. One diagnostic tool to evaluate internal consistency is the coefficient of reliability that evaluates the consistency of the entire scale, and in which Cronbach's alpha (Nunnally 1979) is the most extensively used measurement. Additionally, other complementary reliability tests were carried out: composite reliability of the construct and extracted variance analysis.

A confidence interval test was performed to examine discriminant validity. This test consists of verifying that the value '1' does not appear in the estimated confidence intervals for the correlations between each pair of dimensions.

### 3.4. Control variables

Extrapolation from respondents to non-respondents is problematic due to non-response bias. Gendall (2000) and Wright and Armstrong (2008) state one of the most effective and reliable factors that could minimize non-response bias is to achieve a high response rate. Another way to ensure that the probability of incurring non-response is low is comparing the responses of early and late respondents (Armstrong and Overton 1977). The early versus late method of testing for non-response bias is based on the premise that early respondents accurately represent the average respondent, while late respondents accurately represent the average non-respondent. A t-test of independent means was performed on the different dimensions of the variables in the proposed model. This test was conducted using the first 45 respondents and last 45 respondents. No significant differences were found between these respondents at the 0.05 level, indicating an absence of non-response bias (Armstrong and Overton 1977).

Although we were interested in developing a parsimonious model, other factors that might also influence the relationships had to be considered to ensure results were not unjustifiably affected. Extent of internationalization was measured as the percentage of foreign activity since internationalisation. The percentage of activity carried out abroad was computed by taking into account the following activities of the firm's value chain: manufacture, research and development, marketing, advertising and promotion, after-sales service; similarly to other studies in the field (Servais et al. 2008). It seems that the degree of confidence increases as managers learn about competitors through their actions and thereby accumulate corporate international experience (Pehrsson 2008). International experience was measured by the length of time a firm had been operating internationally (Taylor et al. 2000) and the international experience of its managers. Moreover, to control for geographical experience (Taylor et al. 2000), we consider the number of countries the company entered. Size is a characteristic that is often used to control for a corporate effect (e.g., Taylor et al. 2000; Buysse and Verbeke 2003), and this was also incorporated in this study. The rationale is that large firms frequently have a more developed market position than small firms. Size was measured by the previous year's turnover and number of employees, which were used as control variables. ANOVAs were therefore performed to confirm that sample characteristics had no effect on the constructs in the model. No significant differences were found in any of the analyses (see Table 5).

Table 5. Results of control variables tests

Control variable	ANOVA	Variable									
		Early	Innov	Proact	Risk	Coord	Search	Dissem	Design	Imple	Entry

International age	F	0.466	0.411	0.341	1.324	0.408	0.533	1.170	0.733	0.801	0.749
	Sig.	0.878	0.912	0.948	0.238	0.914	0.829	0.323	0.662	0.603	0.648
Extent of internationalization	F	1.423	0.933	1.289	1.592	0.678	0.724	0.811	1.767	0.904	1.735
	Sig.	0.758	0.637	0.278	0.180	0.608	0.577	0.520	0.139	0.464	0.140
Countries entered	F	0.705	0.834	1.500	1.160	0.795	1.381	1.155	1.021	1.665	0.888
	Sig.	0.855	0.702	0.075	0.290	0.753	0.125	0.296	0.450	0.055	0.629
Experience	F	0.523	0.658	0.752	1.199	0.518	1.680	0.695	1.431	0.730	0.620
	Sig.	0.758	0.656	0.586	0.313	0.762	0.144	0.628	0.218	0.602	0.685
Turnover	F	0.817	1.044	1.242	1.130	0.779	0.835	0.786	0.923	1.109	1.272
	Sig.	0.787	0.439	0.207	0.324	0.837	0.762	0.829	0.627	0.351	0.182
Employees	F	1.039	1.233	1.063	0.783	0.674	0.592	0.728	0.539	0.664	1.127
	Sig.	0.431	0.202	0.397	0.380	0.926	0.972	0.877	0.987	0.933	0.314

Similarly, a further ANOVA was performed to test for any possible influence of destination country risk on choice of entry mode. Risk has been considered a determinant variable of entry modes. Studies utilizing risk have investigated how perceived levels of risk will often predict levels of control by firms entering foreign markets (Canabal and White III 2008). Specifically, we consulted the latest version of the International Country Risk Guide (ICRG), produced monthly since 1980 by Political Risk Services, to construct a variable that covered different risk levels according to the countries where the firm was going to sell its products (see Table 6). ICRG is a predictive tool for international investments. It analyses the financial, economic and political environments in developed and emerging countries, providing insight into investment risks and business opportunities, as well as the impact of current and future worldwide events. ICRG incorporates several economic risk factors to determine a country's investment potential, including loan default, delayed payment of suppliers' credits, political leadership, inflation and international liquidity ratios. Each country is given a risk rating. This tool has been used in the international business literature for the same purpose as our study (Buckley et al. 2007; Duanmu and Guney 2009). Our results did not reveal significant differences in the choice of entry mode according to risk level ( $F=0.897$ ;  $Sig.=0.579$ ).

Table 6. International Country Risk Guide

1st Level of risk	2nd Level of risk	3rd Level of risk
South-east Asia / China / Japan, Australia / New Zealand, European Union, North America	Russia and Eastern Europe	Middle East, Africa, South Asia, South America, Central America, Arabian Peninsula, Afghanistan / Iran / Turkey

### 3.5 Common method variance

We tested the possible effects of common method variance for the variables using Harman's one factor test (Harman 1976). If common method variance was a serious problem in the study, we would expect a single factor to emerge from a factor analysis or one general factor to account for most of the covariances in the independent and dependent variables (Podsakoff and Organ 1986). All the items used to create the reflective variables, a total of 26 items, were factor analyzed using principal axis factoring where the unrotated factor solution was examined, as recommended by Podsakoff et al. (2003). Kaiser's criterion for retention of factors was followed. The sample size seemed to be large enough for factor analysis according to the Kaiser-Meyer-Olkin measure of sampling adequacy ( $KMO = 0.831$ ).

Factor analytic results indicated the existence of six factors with eigenvalues greater than 1.0. The six factors explained 66.962 percent of the variance among the 26 items, and the first factor accounted for 25.176 percent of the variance. Since several factors, as opposed to one single factor, were identified and since the first factor did not account for the majority of the variance, a substantial amount of common method variance does not appear to be present (Podsakoff et al. 2003; Green et al. 2008; Friedrich et al. 2009). Thus, we conclude that common method variance bias is not a threat to the validity of the results. One should bear in mind though that this procedure does nothing to statistically control for the common method effect: it is just a diagnostic technique (Podsakoff et al. 2003). As a result, the presence of common method problems cannot be fully ruled out.

## 4. Results

The method chosen to verify the hypotheses proposed in the relationship model was determined according to the type of model under consideration and sample size. Under the first criterion, according to

the literature equation models (SEM) and partial least squares (PLS) can generally be used. Both models have proved particularly useful when the research aim is to establish the direct causal contribution of one variable to another in a non-experimental situation (Wold 1966; Jöreskog and Sörbom 1993). Furthermore, unlike techniques such as multiple regression, factor analysis, multivariate analysis of variance and so on, which can only examine one relationship at a time, analysis with these models can simultaneously explore a series of dependency relationships (Hair et al. 2006). Therefore either of these techniques is particularly useful when a dependent variable becomes an independent variable in subsequent dependency relationships.

Sample size is usually the main criterion for deciding which model to use, although in both cases it must be remembered that there are no precise formal rules for determining the minimum number of cases required to use the model, only figures guided by empirical experience. Thus PLS is usually used when sample size is extremely small, and some studies recommend its use when sample size is between 30 and 100 (Fornell and Cha 1994; Chin and Newsted 1999). Practical rules for SEM recommend its use in samples which vary from 5 to 10 cases per parameter to be estimated (Bryant and Yarnold 1995; Hair et al. 2006; Westerlund et al. 2008). This requirement can be increased to 15 cases when data do not fulfill multivariate normality assumptions (Bentler and Dudgeon 1996; Hair et al. 2006).

With these criteria in mind, it was decided to use SEM analysis with maximum likelihood estimation (MLE). MLE is the most commonly used procedure due to its asymptotic properties of lack of bias, consistency and efficiency and it has offered valid results in samples with only 50 observations (Hair et al. 2006), although it is generally accepted that minimum sample size to ensure appropriate use of MLE is 100 cases and a maximum of 200 (Gorsuch 1983; Anderson and Gerbing 1988; Hatcher 1994; Chou and Bentler 1995; Hoyle and Kenny 1999; Hutcheson and Sofroniou 1999; Holbert and Stephenson 2002; Norušis 2005; Hair et al. 2006; Westerlund et al. 2008).

In order to simplify the model according to the sample, entrepreneurial and international market orientations, measurement scales were narrowed down to three and five indicators respectively, which corresponded to its dimensions. To do this, the items making up each dimension were averaged. This option has been widely used in the SEM literature in cases that are characterized by small populations and a limited possibility to obtain a relatively high response rate (Hair et al. 2006). In our case, we find that our purified model leads to contrast a total of 22 parameters which requires a minimum sample of 110 companies. Thus, this option allows us to perfectly cover the requirements in the SEM literature.

Table 7 shows the results of the estimation of the relationship model with SEM using statistical software LISREL 8.8. The results confirm all the hypotheses proposed in the theoretical model. Thus, entrepreneurial orientation and early entry show a positive and significant relationship with the development of an international market orientation in INVs ( $\gamma = 0.63$ ;  $t = 11.86$  and  $\gamma = 0.14$ ;  $t = 3.35$  respectively), confirming hypotheses  $H_1$  and  $H_2$ . Moreover, the development of international market oriented behaviors has a positive effect on the use of high entry modes by INVs ( $\gamma = 0.18$ ;  $t = 2.61$ ), confirming hypothesis  $H_3$ .

Table 7. Results of the estimation of the standardized parameters of the model

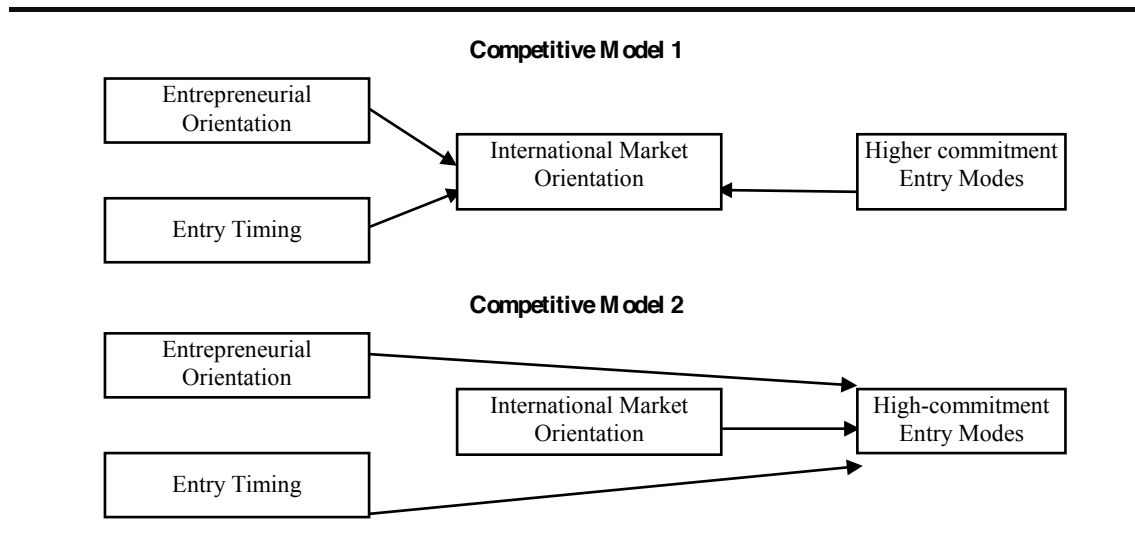
Relationship		$\gamma$ value	t value	Hypothesis	Result			
Entrepreneurial Orientation – International Market Orientation		0.63	11.98 (p<0.001)	$H_1$	Accepted			
Early Entry – International Market Orientation		0.14	3.48 (p<0.001)	$H_2$	Accepted			
International Market Orientation – High-commitment Entry Modes		0.26	2.41 (p<0.05)	$H_3$	Accepted			
Quality of fit measures								
$\chi^2 / gl$	RMSEA	NFI	CFI	IFI	RFI	RMSR	GFI	AGFI
20.84 / 29 (P=0.87)	0.000	0.96	1.00	1.00	0.93	0.062	0.98	0.96

Evaluation of the model was completed by comparing the proposed model with a series of competing models acting as alternative explanations for the proposed model. The acceptability of the proposed model can thus be determined according to whether better fit can be achieved with any other similarly formulated model (Anderson and Gerbing 1988; Hair et al. 2006; Yukl 2006; Friedrich et al. 2009). For this purpose, two alternative models are proposed (see Figure 2).

The first (Competitive Model 1) suggests an inverse relationship between international market orientation and the use of higher resource commitment entry modes. In fact, although in our model we hypothesized that market orientation provides the capabilities needed for choosing high entry methods, it can be also stated that a high control mode might offer more opportunity for firms to engage with foreign customers, search and disseminate information about foreign customers since high control firms have more at stake.

The second (Competitive Model 2) proposes a non-mediator relationship between the variables. From this point of view the innovation, proactiveness and risk assumption of entrepreneurs will bring them to choose higher resources commitment entry modes in international markets. In the same vein, early internationalization will lead to the choice of entry modes associated to higher control for the venture but that also require higher international involvement.

Figure 2. Competitive Models Analysis



Quality of fit measures for the different models is compared (see Table 8). Results show that the proposed model shows better fit indices in the different types of fit measures. The absolute fit measures show that although the GFI value is the same, complying with the values around 1 requirement (Kacmar and Carlson 1997), the other measures are favorable in the proposed model with RMSR and RMSEA below 0.08 (Nunnally and Bernstein 1994; Garretson et al. 2002; Hair et al. 2006). Furthermore  $\chi^2$  has the lowest value and the highest likelihood. All the incremental fit measures for the proposed model, fulfilling the values around 1 requirement, are equal to or higher than those of the competitive models (Mulaik et al. 1989; Bentler 1990; Bollen 1990; Kacmar and Carlson 1997; Jayawardhena 2004; Hair et al. 2006). Finally, parsimonious fit measures exceed all the values obtained with the competitive models. The proposed model is accepted in the light of these results, which strengthens both the empirical and the theoretical basis of this work.

Table 8. Comparison of goodness of fit measures in relation to the competitive models

Models	Absolute fit measures				Incremental fit measures						Parsimonious fit measures		
	$\chi^2$ (P)	GFI	RMSR	RMSEA	AGFI	NNFI	NFI	CFI	IFI	RFI	PNFI	PGFI	AIC
EM	20.84 (P=0.87)	0.98	0.062	0.000	0.96	1.00	0.96	1.00	1.00	0.93	0.62	0.52	72.84
CM 1	38.07 (P=0.12)	0.98	0.066	0.048	0.95	0.99	0.95	1.00	1.00	0.93	0.61	0.51	90.07
CM 2	32.14 (P=0.31)	0.98	0.066	0.028	0.95	0.99	0.95	1.00	1.00	0.93	0.61	0.51	84.14

Note: where EM = estimated model; CM 1 = competitive model 1; CM 2 = competitive model 2.  
In all the models the degree of freedom is 29.

## 5. Discussion

The motivation for this study arose from a growing body of literature in international entrepreneurship that increasingly recognizes the importance of INVs for the economic and social progress of ever more globalized economies (see Zahra and George 2002; Oviatt and McDougall 2005; Rialp et al. 2005; Hessels and Van Stel 2007). Despite the major contributions from these studies, however, prior literature has not uncovered the factors determining higher resource commitment entry modes in INVs. To pursue this line of inquiry, we examined whether the development of an international market orientation in INVs might influence them to choose entry modes involving higher resource commitment of resources in foreign markets. We also developed theoretical arguments to explain the

relationship between entrepreneurial orientation, early international entry, and international market orientation.

Taken together, our results seem to voice one common message: in addition to experiential knowledge, foreign market knowledge generated through the development of an international market orientation is also important to understand the level of resource commitment firms make in international markets. Our research highlights the importance of developing an international market orientation to distinguish the early internationalization path from traditional ways of internationalizing. This study therefore extends past international entrepreneurship research as it explains how firms experiencing the liabilities of newness, smallness and foreignness can deviate from the conventional internationalization model (Bell et al. 2004; Chetty and Campbell-Hunt 2004; Laanti et al. 2007). Additionally, the results of this study reveal that the effect of early international entry and entrepreneurial orientation stretches beyond influencing the INV's immediate performance (Knight and Cavusgil 2004) to determine the extent of resource commitment in foreign markets.

Studied independently, it may appear a priori that these results do not coincide with the arguments developed by much of the international entrepreneurship literature, since, due to their entrepreneurial character, it is argued that INVs might prefer to use cooperation agreements with distributors and international trade agents. The fact that INVs have limited resources would lead them to establish relationships with partners that would provide them with the resources necessary to facilitate their growth in international markets (Zacharakis 1997). The variable costs borne by INVs through using external agents will always be lower than the total administrative, marketing and organizational costs associated with capital intensive entry modes (Zheng and Kavul 2005). Furthermore, it has been argued that these firms might positively value the use of entry modes that do not involve higher resource commitment in different markets, since these modes could guarantee the operational flexibility they require to operate in these markets (Knight and Cavusgil 2004; Jantunen et al. 2005).

However, despite all these arguments, the real situation appears to suggest that INVs can use higher resource commitment entry modes in their foreign markets (Oviatt and McDougall 1994; Aspelund et al. 2007). This study confirms the fact that the lack of tangible resources does not condition the choice of entry mode used by INVs; their choice appears to be motivated by the possession of a set of intangible resources (Gleason and Wiggenhorn 2007), such as the development of an international market orientation. In this vein, the present study may complement that of Hashai and Almor (2004) and Hessels and Terjesen (2010), by pointing to the importance of international market orientation as a key variable in INVs' choice of entry mode. Hashai and Almor (2004) conclude that in important markets, wholly owned subsidiaries are the preferred foreign market-servicing mode. Hessels and Terjesen (2010) concluded that SMEs are more likely to export using direct mode if they are located in home markets with favorably perceived production costs and access to knowledge and technology.

Based on the recommendations of Sharma and Blomstermo (2003) or Laanti et al. (2007) and on some arguments from the attention-based view of the firm (Ocasio 1997), this study also analyzed whether the characteristics that define INVs might encourage these firms to develop an international market orientation. The results of our study give us a better understanding of the factors behind INVs' use of entry modes that involve a higher commitment of resources. It can be confirmed that early international entry and entrepreneurial orientation are contributing factors in the development of an international market orientation in INVs. This orientation also influences their decision to use higher resource commitment entry modes in foreign markets. This work therefore confirms proposals from the attention based-view of the firm (Ocasio 1997) and is in line with works such as those by Sapienza et al. (2005) as it relates early international entry and entrepreneurial orientation with a greater tendency for INVs to develop learning processes based on their international markets.

This study has confirmed that an entrepreneurial orientation is an antecedent of an international market orientation in INVs. Analysis of the complex relationship between entrepreneurial orientation and market orientation in a domestic context has attracted the interest of many researchers over the last decade (see Wiklund and Shepherd 2003; Bhuian et al. 2005). It is generally held that firms should combine these two orientations to obtain long-term sustainable competitive advantages in international markets (Knight et al. 2004; Knight and Cavusgil 2004). The results from this study, however, uphold the thesis of those who consider entrepreneurial orientation to be an antecedent of market orientation in firms (Slater and Narver 1995; Matsuno et al. 2002; Weerawardena and O'Cass 2004) to the detriment of those claiming precisely the opposite relationship (Atuahene-Gima and Ko 2001; Liu et al. 2003; Armario et al. 2008). Our findings therefore contribute to clarifying the controversy surrounding the complex relationship between the two orientations in the specific case of INVs. We have demonstrated that in INVs, entrepreneurial orientation generates an international market orientation that enables new firms to identify and proactively develop new business opportunities in international markets.

The establishment of early international entry as a factor that can influence INVs' capability to acquire new knowledge of international markets contrasts with one of the hypotheses raised by the traditional models of internationalization. In their hypotheses, the firm's experience and its physical presence in international markets are assigned a fundamental role when it comes to explaining how firms acquire knowledge of the foreign market and how firms increase their involvement in international markets (Bilkey and Tesar 1977; Johanson and Valhne 1977 and 1990; Cavusgil 1980). Our results enrich the conceptual framework developed by Autio et al. (2000) and Kuivalainen et al. (2007) by showing that the speed of international market entry contributes to the development of an international market orientation, which in turn enables INVs to adopt high resource commitment entry modes. Our study confirms that early international entry influences the capability of INVs to absorb foreign market knowledge since it can be considered an antecedent of an international market orientation in these firms. In other words, it influences how INVs acquire data and knowledge from the foreign market, and how they process that information and generate actions according to it. The results of this study therefore suggest that the learning advantages of newness (Autio et al. 2000) may be due to the fact that early international entry fosters an international market orientation in INVs. In sum, our results support the thesis put forward by Sapienza et al. (2005), since we show that both the age at which a firm internationalizes and its entrepreneurial orientation lead it to direct its efforts towards knowledge development and renewal in foreign markets and increase its resources in foreign markets.

## **6. Conclusions, limitations and future research**

Our conclusions highlight the idea that an international market orientation can be considered a key aspect in INVs' choice of entry modes involving higher commitment of resources. Moreover, the results seem to demonstrate that an entrepreneurial orientation and early international entry act as antecedents to the development of an international market orientation in Spanish INVs. At managerial level, this implies that the entrepreneur will be capable of generating the necessary relevant information to support and justify the choice of higher resource commitment entry modes to expand into foreign markets. To do so, he or she must adopt international market intelligence systems that guarantee the generation of information on the firm's different markets and environments, which must then be distributed across all levels of the INV, enabling opportunities to be identified in the most effective way and thus foster the definition of a coordinated response that allows INVs to choose foreign entry modes involving a greater level of resource commitment. In addition, the entrepreneur should possess, and at the same time infuse throughout his or her firm, a culture that embraces the development of innovative and proactive actions and behaviors addressed towards the new market from its base, that will facilitate the development of an international market orientation. Moreover, entrepreneurs should be aware of the importance of early internationalization for their firms. In this paper, we argue that early internationalization contributes to the development of an international market orientation which, in turn, is conducive to INVs choosing entry modes involving high levels of resource commitment in these markets.

Certain limitations should be taken into account when considering the conclusions drawn in this study. Although our study is confined to company-specific variables, the influence of external factors on these variables cannot be completely ruled out. The implication of this limitation is double. Firstly, our model states that entry mode decisions could be explained by company inner processes. As Michailova (2010: 132) points out: *"there are numerous contextual challenges of 'transporting' social science models across societies and across the intellectual and academic spaces embedded in these societies"*. Thus direct generalisation of the result to companies in different political, economic, cultural and social contexts must be approached with caution. In this regard one of the limitations of our model is that being context-free (Tsui 2004) tends to produce universal knowledge which is only practical and applicable if the world is considered to be a linear variable space where time and place do not matter (Buckley and Lessard 2006). In this type of research, country context is treated as a boundary condition that is considered only when contradictions arise from empirical evidence (Michailova 2010). As Whetten (2009: 30) points out, *"single context theorizing is as likely as not to produce context insensitive theory"*. Systematic context sensitive research must be fostered especially in organizational studies (Griffin 2007; Whetten 2009). Systematic context theorizing means that that context of the study is theorized as a conceptual construct, and operationalized as a variable in the study and that variance associated with the context is directly incorporated in the analyses (Whetten 2009). Secondly, the results may have changed since the time of data collection, especially given the economic downturn of recent years. Research in the new economic conditions could throw light on the magnitude of these changes.

Another limitation of the study is in the selection of the sample. Due to the difficulty of contacting disappeared firms only those that survived were taken up in the population. Considering that INV entry and exit is quite high, the search criteria could have introduced selection bias in the population.



This selection bias is potentially problematic because only a specific type of INV internationalizes quickly enough to qualify for inclusion in our research. Although the responses of early and late respondents were compared in order to test for non-response bias, results could be influenced by this selection bias.

The elimination of the three reverse indicators on the entrepreneurial orientation scale during the measurement instrument validation process may be due to an erroneous interpretation of the questions; future research should avoid using these reverse indicators. Moreover, the use of cross-sectional data to make causal inferences could be seen as a limitation of the present study. However, as the main explanatory variables of the proposed model are path-dependent and time-consuming activities embedded in organizational routines and processes (Jantunen et al. 2005), it might be reasonable to assume a causal explanation structure such as we have done in this paper, in which international market orientation has a positive impact that implies a better international competitive position will be obtained. Taking into account the above limitations, future research should study the proposed relationships using longitudinal data and combining positivist and interpretivist methods, such as ethnographic or phenomenological methods (Coviello and Jones 2004). Following Coviello and Jones (2004) the reconciliation of positivist and interpretivist methodologies will help to provide a fuller understanding of INV behavior.

Our empirical study was based on common method bias. This procedure raises the question of whether one respondent alone can adequately report for the entire firm. On this issue, as our study is based on new ventures, the entrepreneur can be considered as the appropriate respondent to provide information about the strategic orientations and associated results in new ventures (Davidsson 2004). Although, there are limitations to using entrepreneurs as key informants (Hogarth and Mkridakis 1981; Barnes 1984), they possess the most comprehensive knowledge of the characteristics of the organization, its strategy and performance (Hambrick 1981). The entrepreneur is familiar with all the aspects of the firm's operations, influences the strategic management of the firm and plays a key role in technology adoption decisions (Miller and Toulouse 1986). Data on strategy gathered from middle and lower managers have questionable validity because these managers typically do not have access to information about how the whole system operates (Kotha and Vadlami 1995). Similarly, a growing number of researchers argue that in marketing strategy development activity, it is the firm's management who formulate strategies aimed at exploiting market opportunities on the basis of perceptions. A strong case can therefore be made that in the context of innovation, learning and marketing strategic actions are more likely to be consistent with management perceptions than with objective criteria (Miles et al. 1974).

We used Internet to distribute the questionnaire, so our online survey is very similar to a mail survey. In fact, in general, the online mode of data collection resembles paper-and-pencil in most respects, including visual perception of the questions, manual response to the questions, and self-administration. Although there is little reason to expect response differences between paper-and-pencil and online modes, empirical evidence shows lower levels of negative and extreme responses, which tentatively seems to point toward a more moderate response to items (Weijters et al. 2008).

While we believe that our findings are exciting in that they emphasize the value of studying the relationships between international market orientation, entrepreneurial orientation and early international entry to explain higher resource commitment entry modes in INVs, a multitude of other strategic factors - industry, firm and transaction related factors - (Yip 1982a and 1982b; Anderson and Gatignon 1986; Kim and Hwang 1992; Brouthers and Nakos 2004; Ekeledo and Sivakumar 2004; Pehrsson 2007) and other institutional factors (Hessels and Terjesen 2010) like mimic local host country firm actions or competitor actions in the same market, or how corrupt institutions are (Canabal and White III 2008) can condition that choice. Moreover, these strategic and institutional factors are important to our understanding of the appropriateness of different entry modes (Brouthers 2002; Brouthers and Nakos 2004). Therefore, we suggest future research to analyze the effect of other factors on INV entry mode choice and international performance. This analysis must be extended to study the relatively under-explored area of post-entry strategic decisions and performance in INVs (Canabal and White III 2008). In the same vein, the effect that the use of certain entry modes may have on the subsequent choice of other entry modes would further understanding of INVs' international behaviour (Melén and Rovira 2009). The lack of these studies may be explained by the difficulty for scholars interested in entry modes encounter of collecting longitudinal data (Melén and Rovira 2009).

Our conclusions suggest that the development of an international market orientation is important for understanding the choice of entry modes involving higher commitment of resources by suggesting that it contributes to improving an INV's absorptive capacity. In this regard, future research should focus on exploring other factors which could also contribute to improving INVs' absorptive capacities. The study of the absorptive capacity of these firms is a subject which will almost certainly capture the attention of future research.

The specialized literature has also noted the importance of firm networks in INV creation. In their seminal article, Oviatt and McDougall (1994) point out that it would not be possible to understand this entrepreneurial phenomenon without taking into account the characteristics of entrepreneurs' networks. Coviello and Munro (1995) observe that to better understand the internationalization process of INVs, this process needs to be studied from a relational perspective. These authors consider both the decision to operate in international markets, and the choice of markets in which new ventures operate to be the result of the opportunities that are created through the contacts that entrepreneurs maintain with different members of their networks. One of the advantages of INVs' networks may be access to a great amount of knowledge. Every INV uses its relations to access new knowledge, sharing its own knowledge with trusted firms. Loane and Bell (2006) point to the mechanisms and routines that allow INVs to acquire knowledge through networks as deserving of researchers' attention. There is a lack of studies that analyze how entrepreneurial network characteristics influence the rate at which INVs increase their international involvement and enter new markets (Oviatt and McDougall 2005; Coviello 2006). Such research will undoubtedly further the understanding of the factors that contribute to the international competitiveness of INVs. In addition, just as competition is said to take place between value networks or chains rather than between firms, international market orientation also occurs on an entrepreneurial network level, which explains how some networks can become more competitive and effective than others in the same market. In this regard, inter-firm international market orientation refers to the activities that two or more independent firms conduct together in order to be more sensitive to market demands (Elg 2002). Moreover, given the scarcity of resources characteristic of the INVs business community, INVs can use their social networks to obtain the resources they need to rapidly increase their activities in international markets. Oviatt and McDougall (1994) underline the importance of social networks as a source of resources for INVs. In fact, management and development of networks involves nurturing expertise with a strong marketing focus (O'Driscoll et al. 2000). Trulsson (2002) also notes that INVs benefit from the advantages stemming from this association as a means of achieving growth in international contexts. It therefore seems opportune to extend the scope of INV research to include the networks in which they participate; this would also lead to explorations of the relationship between entrepreneurial orientation and international market orientation in the whole network as fundamental elements to our understanding of internationalization in these firms.

In the same vein, Gabrielsson et al. (2008) consider that early international entry does not necessarily imply rapid international growth. Rapid international growth is the key variable for understanding the different international behavior of new firms. In this context we might consider whether the development of international market orientation can contribute to new international companies experiencing rapid growth in their foreign markets. That is, they might be entering new markets in shorter and shorter periods of time and the percentage of their income deriving from their international operations might also be growing quickly (Oviatt and McDougall 2005).

Our research has focused on the study of INVs that have been able to overcome the liabilities of newness and foreignness. However, a very high percentage of INVs do not overcome these challenges and they are one of the collectives of new companies with the highest death rate (Onkelinx and Sleuwaegen 2010). Along with Onkelinx and Sleuwaegen (2010) we consider that future studies should explore the factors behind this high death rate in greater depth as that would undoubtedly strengthen our understanding of this business phenomenon.

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## Appendix 1

### Correlation matrix of the factors

	<b>Coord</b>	<b>Search</b>	<b>Dissem</b>	<b>Design</b>	<b>Imple</b>	<b>Entry</b>	<b>Innov</b>	<b>Proact</b>	<b>Risk</b>	<b>Early</b>
<b>Coord</b>	1.00									
<b>Search</b>	0.49	1.00								
<b>Dissem</b>	0.49	0.60	1.00							
<b>Design</b>	0.39	0.62	0.61	1.00						
<b>Imple</b>	0.37	0.57	0.57	0.61	1.00					
<b>Entry</b>	0.22	-0.02	0.07	0.01	0.29	1.00				
<b>Innov</b>	0.37	0.24	0.37	0.27	0.41	0.18	1.00			
<b>Proact</b>	0.34	0.38	0.41	0.32	0.45	0.15	0.60	1.00		
<b>Risk</b>	-0.16	0.04	-0.03	-0.08	0.10	-0.02	0.04	0.13	1.00	
<b>Early</b>	0.11	0.06	0.13	0.13	0.08	0.09	0.03	-0.02	-0.19	1.00