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On the foundation and early development of domestic and international new ventures

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Abstract The founding and early development of Domestic New Ventures and International New Ventures is examined based upon a large scale survey of Danish manufacturing firms. The firms are classified into five different categories and compared with regard to their foundation and development within the first 3 years. The article contributes with a demonstration of differences between these categories of firms with regard to the number and mindset of founders, the growth of the firm, and the networks of firm.

Keywords International new ventures · Foundation · Early growth · Internationalization · Manufacturing firms

1 Introduction

During the last decade there has been an increase in the interest for research combining the internationalization of the firm and entrepreneurship, i.e. the founding process of International New Ventures (INVs). This interest can be seen in a number of review articles as in e.g. (Autio 2005; Zahra 2005; Dimitratos and Jones 2005; Rialp et al. 2005; Aspelund et al. 2007; Keupp and Gassmann 2009). In the literature several case studies of INVs has appeared, but so far only few large scale studies have been conducted with the purpose to compare the founding process and

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early development of the highly international firms with that of e.g. local or slowly internationalizing firms.

This article attempts to fill this gap by presenting a large scale study of manufacturing firms in Denmark. The founding process of different types of firms is analysed and it is investigated how they develop within the first 3 years after their inception. Besides this contribution the article develops a typology of firms—from the most domestic firms to the most international firms. The article thus expands the comparison by Westhead (1995) of exporting and non-exporting firms. To do this we supplement the definition of 'international' from highlighting only export activities (Knight and Cavusgil 1996) to include two types of international activities—sales and sourcing as suggested by Oviatt and McDougall (1994). Drawing on the resulting typology we demonstrate significant differences in the founding process and early development of different types of firms.

2 Defining (International) new ventures

Early research on the internationalization process of firms found patterns in how companies proceed in stages towards higher foreign market involvement (Johanson and Vahlne 1977). However, it has for many years been argued that these models do not reflect internationalization processes in global environments and that small companies often jump over stages (Oviatt and McDougall 1994). International Entrepreneurship (IE) has received increased attention from a number of researchers over the last decade (McDougall and Oviatt 2000). Some of this research has focused on the early years of INVs (see e.g. Autio et al. 2000; Zahra 2005; Madsen and Servais 1997; Chetty and Campbell-Hunt 2004) stressing the antecedents and the necessary and sufficient conditions for the emergence of INVs.

Oviatt and McDougall (1994;49) originally defined an INV as a *"business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries"*. They also suggested that there are four types of INVs: export/import start-ups, multinational traders, geographically focused start-ups, and global start-ups. Knight and Cavusgil (1996) labeled a similar type of firm Born Globals and many others have followed this path (Chetty and Campbell-Hunt 2004; Rialp et al. 2005). Research has reported about INVs whose development fits the definition of geographically focused start-up firms. Researchers from Europe in particular have noted that there are born regional or born international firms that internationalize rapidly within Europe, but do not globalize to other continents to any great extent (Kuivalainen et al. 2007). As noted by Zahra (2005) little is known about the survival of INVs as well as their further development and also the founding process is not fully unraveled.

In many studies focusing on these types of firms, the firm's degree of internationalization is measured by studying the **amount/intensity** of turnover derived from international operations. One of the first commonly used criteria to define a born global firm is presented by Knight and Cavusgil (1996): '*a born global is a firm that has reached a share of foreign sales of at least 25% after having started export activities within* 3 *years after its birth*'. In a more recent article

Knight and Cavusgil (2004) notice that the 25 percent cut-off ratio for exports is '*somewhat arbitrary*' and '*…established in light of the exploratory goals of the research…*' The 25% criterion is, however, probably a figure which means that a US based firm needs to take its international operations seriously meaning that internationalization is not sporadic any more. In this sense, this cut-off rate serves its purpose and it seems that this criterion coined by Knight and Cavusgil (2004) is widely accepted in the field.

Concerning the **speed** of internationalization (the time from establishment of the firm to the first international activity), there has been more variety in the literature. For example, Rennie (1993) and Moen and Servais (2002) apply the time span '2 years from the foundation', whereas Knight and Cavusgil (1996) and (Madsen et al. 2000) define Born Globals as firms that have begun export activities 'within 3 years after their birth'. In the entrepreneurship literature a time span of 6 years has been applied. It is important to note that speed of internationalizastion may differ between industries since some product are more difficult to sell internationally than others.

In the case of geographical **scope** there are no exact definitions. For example, in their seminal 1994 article, Oviatt and McDougall define an international new venture as '*…a business organization that, from inception, seeks to derive significant competitive advantage from… the sale of outputs in multiple countries*' (Oviatt and McDougall 1994). They do not specifically define the number of countries or otherwise specify where the countries are located, i.e. the global extent of a firm's operations. Zahra et al. (2000) studied US based new ventures that diversified internationally (measured with five indicators including e.g. number of export countries and geographic diversity). They found that some dimensions of diversity have positive effects on performance and some have negative or no results. The above-mentioned studies (as well as many others) are based on samples of North American high-technology firms, and the measures used are often context specific and do not easily allow comparisons.

Knight and Cavusgil (1996) defines a Born Global as a firm having a share of foreign sales of at least 25% and having foreign operations within 3 years after inception. As demonstrated by empirical research carried out e.g. by Madsen et al. (2000) and Moen and Servais (2002) this definition is, however, difficult to use in a European setting. In small countries, too many firms meeting this definition are quite small and have international activities in a limited number of neighbouring countries. In order to overcome this problem, Madsen and Knudsen (2002) suggest to use the proportion of foreign activities outside the firm's own continent (and not just outside its own country) as a more valid measure of the firm's international or global scope. Considering today's market conditions involving easy and inexpensive transportation as well as communication, many firms, as a minimum, sell products or source input from neighbouring countries. A new Belgian firm, for example, sourcing input from France and selling its product in the Netherlands is probably more the rule rather than the exception.

A firm's international expansion is, however, not confined to export activities alone. Following Oviatt and McDougall (1994) the focus on the selling side should be supplemented with the inclusion of the **sourcing of input** as a dimension in the categorization of this type of firms. In a review of the academic literature Liang and Parkhe (1997) reveal a striking imbalance; while one side of the coin—the exporter side—has been extensively studied, the importer side and the associated motives have largely been neglected. This finding is further stressed by the findings of Lye and Hamilton (2000). Cavusgil (1998) highlights perspectives on some fundamental questions in the field of international marketing and some promising research avenues. Among the mentioned avenues is the analysis of firm expansion in international markets, e.g. inward and outward internationalization.

Since the late 1980s, a growing concern for manufacturing firms' international sourcing (inward) activities has emerged, stressing the importance of this phenomenon for the success of the firm (Scully and Fawcett 1994). The connection between import and export activities within a firm and the way it affects the internationalization process of the firm has received only scattered interest in the literature (Korhonen et al. 1996). In a study of a large number of Finnish manufacturing firms, Korhonen et al. (1996) found that the vast majority of Finnish firms began international activities on the inward side rather than with export, thus pointing to the potential importance of inward activities as a jumping-off ground for outward activities. Typical inward operations were the import of physical products like raw materials, machinery, and components. These observations are in accordance with Oviatt and McDougall (1994) whose original idea was that the sourcing of input as well as the selling of output should be important dimensions in the categorization of INVs. However, the sourcing side is still largely unresearched.

The subsequent empirical study will categorize firms according to their international selling and sourcing activities within the first 3 years of operation. Defining characteristics will be their activities in Denmark, the rest of Europe, and outside Europe. A cut-off point of 25% of activities outside Europe will be applied. These criteria are used in order to respond as well as possible to the issues and criteria mentioned above.

3 Methodology

The empirical data used for the analysis were gathered as part of the project Market Strategy of Firms in Global Environments which was primarily focused on new (international) business ventures. The unit of analysis was the business firm. The founder of the firm, as well as the structure and processes of the firm's internal organization, is included in the study, as well as its relationship with external business partners like suppliers, intermediaries, and customers. The study comprises manufacturing firms, including the industries with NACE codes 15–37 (manufacturing), 72.21 (development of software), and 73.1 (high-tech, but not in 15–37). Manufacturing firms in general, and not only high-tech firms or knowledge-based firms were included in order to examine the prevalence of INVs/BGs also in more traditional industries since we expected to find such firms in any industry.

Data were collected in 2005, and therefore firms established in 2002 or later were excluded since a firm had to have been in operation for at least 3 years in order to be classified. Only firms with a minimum of 10 employees at the time of the survey were included. For older firms established before 1982 only medium-sized and large firms (with more than 50 employees) were included; this is due to the fact that our main interest lies in younger firms since we expect that the majority of INVs/BGs are established after 1982. Furthermore, the population was reduced to include only limited companies. The population of business firms studied was identified by means of the database CD-Direct which lists all private Danish business firms. All manufacturing firms were selected from the database CD-Direct according to the criteria mentioned above. A total of 3048 firms met the criteria. Most of the firms are small and medium-sized (only 650 firms have more than 100 employees), which is a well known feature of the Danish business community that has only very few large companies.

The survey's very broad scope required a data collection procedure involving a number of steps. The first activity was to go through all 3,048 firms in order to identify possible doublets. In total, 91 such doublets were identified, leading to a revised population of 2,957 firms. Initially, a letter was sent to the CEO of all 2,957 firms. Attached to the letter were seven questions concerning the activities of the foundation process as well as activities of the firm within the first 3 years after their foundation. These seven questions are the basis for classifying firms as different types of new ventures. All CEOs were then approached by telephone in order to ask them to participate in the survey and to answer the seven questions during the telephone interview. In this process, a total of 49 wrong registrations were identified (the firm was closed, further doublets, firms with wrong NACE code, etc.) which reduced the population to 2,908 firms.

Because of budget and time constraints it was decided to contact each firm only five times. If it was not possible to reach the CEO after 5 phone calls, the firm was defined as unreachable, and thus as not belonging to the population. This was the case for a total of 381 firms which led to the effective population size of 2,527 firms. About 57% of the firms in the effective population of 2,527 firms (1,456 firms) refused to participate in the survey, whereas 1,071 firms answered the seven initial questions, out of these 897 firms answered all questions necessary to classify them according to the criteria mentioned in the previous section. Additional information regarding the founding process and early development of the firm was obtained by a questionnaire sent to the founder of the firm, or to its present CEO. A total of 331 firms answered this questionnaire.

4 Findings

In continuation of the previously mentioned classification, all 897 firms who answered the questions about activities within the first 3 years were classified accordingly. It is obvious that it is difficult for old firms to answer questions about their activities within 3 years after foundation. Since we obtained the answers to these questions on the telephone we attempted to minimize reliability and validity problems by asking the CEO only to answer these questions if (s)he had good knowledge about the firm′s initial activities right after foundation.

The firms were classified into five categories depending on their scale and scope of internationalization, cf. the criteria mentioned earlier. Figure 1 shows the resulting nine categories of new ventures as well as the names assigned to them. Domestic new ventures are represented in the upper left cell; the rest represents different degrees of INVs. The names of the categories are hopefully quite obvious and descriptive for each category. The most international firms are chosen to be labeled as Born Global if it has international sourcing as well as selling activities—and if at least one type of activities amounts to at least 25% outside Europe.

The only Domestic New Ventures are the Born Local Firms, since these firms have no international activities whatsoever within the first 3 years after inception. The next type is the Born International Sourcer, which represents firms with no foreign sales within 3 years after inception, but has some foreign sourcing during the first 3 years. It should be noted that the size of this typology strongly indicates that inward internationalization is important. Another type is the Born International Seller that has no foreign sourcing after 3 years after inception but has some foreign sales within 3 years after inception. The label Born European Firm represent a firm that have both sales to and sourcing within Europe within 3 years after inception, but only include activities outside Europe to a minor extent within that period. Born Global Firms

	No Foreign Sourcing Within Three Years After Inception	Less Than 25% of Foreign Sourcing Outside Europe Within Three Years	More Than 25% of Foreign Sourcing Outside Europe Within Three Years	Total
No foreign sales within three years after inception	350 Born Local Firm	123 Born International Sourcer	17 Born International Sourcer	490
Less Than 25% of Foreign Sales Outside Europe Within Three Years	100 Born International Seller	209 Born European Firm	30 Born Global Firm	339
More Than 25% of Foreign Sales Outside Europe Within Three Years	17 Born International Seller	34 Born Global Firm	17 Born Global Firm	68
Total	467	366	64	897

Fig. 1 Empirical classification of firms

represent a group of firms that are heavily involved in sales and/or sourcing outside Europe. By including the scale (percent of total sales/sourcing outside the firm's own continent) as well as the scope (activities within national, regional and global markets) of two value chain activities (sales and sourcing) this classification in fact extends the classification proposed by Oviatt and McDougall (1994).

It is important to remember that this classification into the five groups has been made by examining the activities in the firm within the first 3 years after its foundation. It is thus possible that a local firm can develop into a highly international firm some years after its foundation.

4.1 The founding process

This section takes a closer look at differences with regard to the founding process between the five categories of firms, especially, between the locally oriented firms and the internationally oriented firms. The first theme concerns the number of founders where large differences are found.

Slightly more than half the firms in the survey had more than one founder involved. A 'founder' is defined as a person who is actively involved in the founding process and is (joint) owner of the firm. Table 1 exhibits large differences between Born Local Firms and the four categories of international firms. The typical Born Local Firm has one founder, while the typical Born Global firm has two or more founders. Very few of the local firms have more than two founders, while more than one-third of the Born Globals has three or more founders.

Differences become even more explicit when considering the number of non-owners that took actively part in the founding process. Besides the founder(s), a Born Local Firm had on average 2,04 non-owners that took actively part in the foundation of the firm, The same figure is 6,88 non-owners in Born Global Firms. Except for the much higher number of active non-owners there is also a difference in the type of non-owners. Whereas the Born Local Firms often relied on family, bank and lawyers, the founders/owners Born Global Firms would typically involve non-owners with specific knowledge about for example the (international) market conditions. It is characteristic for Born Local Firms that they rely on the family as the most important network during the foundation and, in many cases, as the primary source of financial support, too.

A small number of founders have had connections with their previous employers during the founding process, but very few have had contact to organizations,

Table 1 The number of founders

Type of firm $N = 247$	One founder (%)	More than one founder (%)
Born local firm	64	36
Born international sourcer	55	45
Born international seller	34	66
Born European firm	41	59
Born global firm	32	68

Table 2 It was the Founder's Ambition that the Firm Should Grow Large

Type of firm $N = 258$	To some extent + to a large extent + to a very high extent (%)
Born local firm	32
Born international sourcer	49
Born international seller	44
Born European firm	57
Born global firm	45

research institutions, etc. Interviews carried out with some of the firms show that the task of building a network during the foundation years is very important and quite difficult. Their contacts (except for family and the necessary contact to e.g. banks) were primarily to suppliers and customers and not to other firms in the same situation as themselves.

One could hypothesize that growth ambitions could be the driver behind rapid international or global development. Table 2 shows that the differences between the five categories of firms were not that large. It is evident, though, that the four internationally oriented categories were more growth oriented than the locally oriented firms. Nonetheless, the differences were not as large as could be expected, and they are not statistically significant.

In all categories of firms some founders and firms were extremely growth oriented and others were not. These results support the notion that the internationalization of the firm is seldom based on the ambition for growth. For many of the firms, the term 'international expansion' is rather meaningless because the idea behind internationalization is not growth. Instead, it is often a question of finding the right type of customers all over the world which is, of course, much easier if the founder has previous international experience. Our data do support the expectation that there is a positive association between export experience and speed/scope of internationalization of new ventures. Among Born Local Firms only 12% of the founders had previous export experience whereas 67% of founders of Born Global Firms had such experience that they exploit in their foundation of the firm.

It is interesting, though, to observe that even amongst the Born Global firms one-third of the founders did not have any prior experience with exporting. Among the Born European firms that were highly active with both selling and sourcing in Europe, almost two-thirds of the founders had no experience with export prior to the foundation of the new firm. So, despite of previous experience some founders think internationally right from the inception of their firm, perhaps as a consequence of involving a number of skilled non-owners in the foundation process.

4.2 International speed and scope of new ventures over time

It has been argued in the literature that manufacturing firms become international faster than in earlier times (see literature reviews such as Rialp et al. 2005 and Aspelund et al. 2007). We have tested this proposition on the Danish data, since we

Table 3 Typology and the foundation year

Type of firm	Established 1981 or earlier	Established 1982–1991	Established 1992–2001	Total
Born local firm	230 (54.4%)	85 (33.3%)	35 (15.6%)	350 (39.0%)
Born international sourcer	73 (17.3%)	38 (14.9%)	29 (13.3%)	140 (15.6%)
Born international seller	37 (8.7%)	42 (16.5%)	38 (17.4%)	117 (13.1%)
Born European firm	65 (15.4%)	69 (27.1%)	75 (34.4%)	209 (23.3%)
Born global firm	18 (4.3%)	21 (8.2%)	42 (19.3%)	81 (9.0%)
Total	423 (100.0%)	255 (100.0%)	219 (100.0%)	897 (100.0%)

have information about the time of establishment of the firms as well as their activities within the first 3 years. Table 3 divides the categories of firms into three groups related to the foundation year. The table shows how firms are classified into the five groups of new ventures according the their year of establishment: the youngest firms established from 1992 to 2001, the firms established during the previous decade from 1982–1991, and older firms established before 1982.

Table 3 demonstrates large (and significant) differences between the three groups of firms. The number of local firms, that had no international activities within 3 years after the foundation, has been decreasing dramatically, from 54% for the oldest firms, to 33%, and then to 16% among the youngest firms. This means that seven out of eight manufacturing firms established in Denmark during 1992–2001 have international activities within the first 3 years after their foundation. In the same vein the proportion of Born Global firms has gone from 4–19%. The analysis above shows that it is almost impossible for manufacturing firms being established in Denmark during the recent years **not** to be internationally oriented. Accordingly, our findings confirm the expectations expressed in the literature about increasing speed and scope of internationalization. As a consequence we find significant differences with regard to the year of establishment: Born Local Firms are oldest (average year of establishment 1959) followed by Born International Sourcers (1969) with Born Global Firms being youngest (1985).

In order to explore the scope of internationalization more in detail, the respondents were asked to provide information regarding the firm's first export countries. The answer was open-ended and it was possible for the respondent to name more than one country or a part of the world. This information was re-coded into three parts of the world: the Nordic countries, the rest of Europe, and the rest of the world. The total number of firms that answered this question was 792 and of these 407 had export activities within the first 3 years.

As it is evident from Table 4, the Nordic countries (Sweden, Norway, Finland, Iceland) are very important for Danish firms as the first step towards internationalization, but this importance has been steadily decreasing over time. The importance of the European market has been growing slightly and the importance of export to the rest of the world has been growing quickly with regard to importance as the first international market for Danish manufacturing firms. Among exporting firms established during 1992–2001, almost 20% had countries outside

Table 4 First export region

$N = 792$ of which 407 had export	Established before 1982 (%)	In the period 1982–1991 (%)	In the period 1992–2001 (%)
Nordic countries	49	41	29
Rest of Europe	48	47	52
Rest of the world	8	12	19

Europe as their first export market, further supporting the notion of increasing international scope of Danish manufacturing firms. However, even if the Danish firms have developed a more global outlook in their sales activities, the data show that they have rather limited global sales. In the latest available year (typically 2003) the Danish firms, as a group, had 60% of their sales in Denmark, 32% in the European market (outside Denmark), and only 9% to markets outside Europe. Hence, although the study shows a trend toward an increasing global focus among Danish firms, the vast majority still seems to look for export opportunities within Europe and rely on these geographically close markets for the majority of their sales.

In conclusion, our study confirms the views expressed in the literature about speed and scope of internationalization over time. So far, however, the expectations about increasing international speed and scope have not been demonstrated and confirmed by a large scale study of a cross-sector population of manufacturing firms. This is an important contribution of the present paper.

It is of vital importance for managers, but perhaps even more for public policy makers to gain insight into why some new ventures become international or even global in their market scope and why others become local. If such knowledge exists it will be important input to policies directed at entrepreneurs since most governments would like new ventures to be internationally oriented in order to support the competitiveness of the country (see e.g. Porter 2000). It has often been suggested in the literature (see e.g. Aspelund et al. 2007; Keupp and Gassmann 2009) that high-tech firms are more internationally oriented and competitive. Our research design has made it possible to test whether high-tech firms have higher international speed and wider international scope. We do find that industries such as software and electronics have a higher prevalence of INVs and especially BGs (as defined above), but differences are not large and all types of new ventures are present in all industries.

According to our data, the most significant differences between types of firms are related to the foundation process of the ventures as demonstrated in the previous section.

5 Discussion and conclusion

Based on a large scale empirical study the article has demonstrated that the number of locally oriented firms has been decreasing sharply over time. At the same time the number of Born European firms and Born Global firms has been increasing. In fact, 85% of the manufacturing firms established during the period 1992–2001 had international activities within 3 years after their foundation. As demonstrated in the article the Nordic region is still an important region for export during the firms' first 3 years of existence but the importance of this region has been decreasing from the over time. Europe is the most important region and the importance has been nearly uniform from before 1982 until present. This means that the world outside Europe has increased its importance as the first export region. Growth was not found to be the key driver of international expansion; more locally oriented firms were less growth oriented, but differences are not large. Significant differences related more to the foundation process and the persons involved.

The study provides evidence that the foundation process of the firm may be of decisive importance for the speed and scope of its international development. Among the Born Global firms approximately two-thirds of the firms had more than one founder. This was in sharp contrast to the locally oriented firms, where two-thirds of the firms had only one founder. In addition to the founder(s) a large number of non-owners were actively taking part in the foundation process of especially Born Global Firms. This indicates that it is important to involve broader and deeper competences in order to increase a firm's international outlook. In the same vein not all founders of the highly international categories of firms had experience with exporting prior to the foundation of the firm.

5.1 Implications for theory and future research

Our study confirms previous research by demonstrating the increased presence of the INV/BG phenomenon. The large scale cross-sectional study furthermore shows that the phenomenon is widespread, also in more traditional manufacturing industries. This is in accordance with much literature on INVs/BGs, but also to a wide extent with the traditioal state-and change aspects model developed by Johanson and Vahlne (1977). According to the latter, the starting point is the present market knowledge of the decision makers. We have demonstrated that founders of BGs very often have previous experiential knowledge about foreign markets as well as of the actual international market conditions. Johanson and Vahlne then argued that commitment decisions would be in response to perceived problems and opportunities. Since a much broader knowlegde base and experinces were active in the foundation of BGs it should be clear that such a group of business people would see many business opportunities abroad, and hence this may explain the international speed and scope of these firms.

We have also brought evidence that the neighboring countries are still very important, even for highly internationally oriented firms which brings support to the traditional model that predicts small steps into the global market because of limited resouces and in order to reduce risk. The fact that markets are more internationalized makes it natural that all firms increase their international scope which was also pointed out by Johanson and Mattsson (1988) in their development of the so-called Late Starter model. Our study therefore supports the notion that the theories about INVs/BGs is not in opposition, but rather complementary to the traditional internationalization theories. It would be highly interesting if future research could address such theoretical issues. The traditional internationalization theories were formulated on the basis of the behavioral theory of the firm (Madsen 2005), and this basic understanding of the development of the firm should still be valid, also for INVs/BGs. We therefore call on future research in this area to explore the relevance of this theoretical stand to explain the development of these firms.

5.2 Implications for management and public policy

Our study has some important messages to managers. The basic message is that any firm may choose its own internationalization process. Since INVs/BGs are spread out in all manufacturing industries it seems not to be the product, but rather the mindset and proactive decision of the founder(s) that is of decisive importance for a firm's international speed and scope. This in in accordance with the phenomenon of the so-called Born-Again-Globals (Bell et al. 2001), i.e. locally oriented firms that become international or global because of new ownership or new management. This has implications also for public policy makers. First of all it becomes very important to integrate the export support system with support to entrepreneurial activity. For both managers and policy makers it seems to be important to secure that founders of manufacturing firms are challenged and supported by persons with an international outlook as well as international experience.

We know from the present study as well as from the literature that INVs/BGs often have to rely on low commitment entry modes. Therefore it is important for them to be very effective in finding and choosing partners in foreign countries as well as be able to set up contracts for collaboration that gives them feedback from the market place, even though they are not able to be physically present very often at each particular country-market. The use of infromation and communication technologies is very important in this respect. This also represents challenges to public export support systems. These are often aiming at providing knowledge about culture and general market conditions in a specific country-market, but INVs/BGs may need much more precise support to getting into contact with relevant partners and setting up contracts with them. Therefore managers as well as public policy makers have to adapt to these new conditions.

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