

TOWARD A THEORY OF INTERNATIONAL NEW VENTURES

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Abstract. The formation of organizations that are international from inception—international new ventures—is an increasingly important phenomenon that is incongruent with traditionally expected characteristics of multinational enterprises. A framework is presented that explains the phenomenon by integrating international business, entrepreneurship, and strategic management theory. That framework describes four necessary and sufficient elements for the existence of international new ventures: (1) organizational formation through internalization of some transactions, (2) strong reliance on alternative governance structures to access resources, (3) establishment of foreign location advantages, and (4) control over unique resources.

INTRODUCTION

The study of the multinational enterprise (MNE) has focused on large, mature corporations. Historically, many MNEs developed from large, mature, domestic firms [Chandler 1986], and they commanded attention because they wielded significant economic power, especially after World War II [Buckley & Casson 1976; Dunning 1981; Hennart 1982]. However, recent technological innovation and the presence of increasing numbers of people with international business experience have established new foundations for

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MNEs. An internationally experienced person who can attract a moderate amount of capital can conduct business anywhere in the time it takes to press the buttons of a telephone, and, when required, he or she can travel virtually anywhere on the globe in no more than a day. Such facile use of low-cost communication technology and transportation means that the ability to discover and take advantage of business opportunities in multiple countries is not the preserve of large, mature corporations. New ventures with limited resources may also compete successfully in the international arena.

Since the late 1980s, the popular business press has been reporting, as a new and growing phenomenon, the establishment of new ventures that are international from inception [Brokaw 1990; *The Economist* 1992, 1993b; Gupta 1989; Mamis 1989]. These start-ups often raise capital, manufacture, and sell products on several continents, particularly in advanced technology industries where many established competitors are already global.

LASA Industries, Inc., which sold an unusually efficient microprocessor prototyping technology, is representative of these international new ventures formed within the past decade. As detailed by Jolly, Alahuhta and Jeannet [1992], LASA's strategy was international in multiple respects. Its founders were American, Swiss, and French. Its funding was European. The operational headquarters and R&D were located in the United States, while marketing was managed from France and finance from Switzerland. Manufacturing was centered in Scotland to take advantage of attractive regional grants, and initial sales were in France and the United States.

IXI Limited, a British venture that became a leading supplier of desktop windowing computer software for UNIX operating systems, violated the usual expectation that firms begin with sales in their home country and later sell to foreign countries. Ray Anderson, the venture's founder and chairman, had previously worked for a British computer company that failed. Through Anderson's work in that company's Boston and Canadian operations he became aware of the needs of the North American market. While discussing the failure of his former company Anderson said,

... it did not succeed because we tried to sell the product by starting up in England and then selling in the U.S., and by that time it was too late. We should have developed our products first of all for the U.S. market and then sold it back into England. [Anderson 1992]

When Anderson started IXI, his stated strategy was to target the United States first, Japan second, and then move back into the United Kingdom. Funding for the venture was from the United Kingdom, Germany, Austria and Japan. Foreign subsidiaries were set up in the United States and Japan. Only after establishing itself in both those countries did IXI turn its attention to its home country, and then to mainland Europe. In an interview four years after the product's introduction, Anderson estimated 60% of IXI's revenues came from the United States, 20% from the United Kingdom, 10% from Japan, and 10% from other countries.

Actually, international new ventures have existed for centuries. The famous East India Company was chartered in London in 1600 [Wilkins 1970]. In early 19th century America, the unprecedented value of cotton exports gave birth to specialized cotton traders [Chandler 1977]. The Ford Motor Company also seems to have been an international new venture at its founding in 1903 [Wilkins & Hill 1964]. However, the focus of interest has been on MNEs that developed over time from large, mature, integrated enterprises [Chandler 1986], and we believe that has obscured the existence of international new ventures.

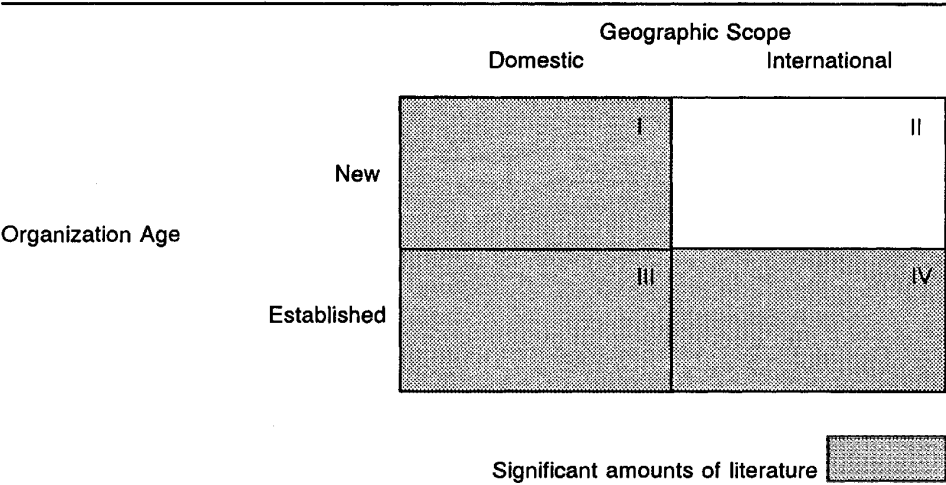
As a result, scholars of organization science have ignored international new ventures until very recently. Figure 1 depicts our sense of the domain of scholarly literature on organizations. A substantial body of research has been published on established firms, both domestic and international, and on domestic new ventures. However, there is much less work in the quadrant of international new ventures. Entrepreneurship research on international issues has largely concerned itself with (1) the impact of public policies on small-firm exporting (e.g., Rossman [1984]), (2) entrepreneurs and entrepreneurial activities in various countries (e.g., Ohe, Honjo, Oliva, Considine & MacMillan [1991]; Westhead [1990]), and (3) comparisons between small-firm exporters and non-exporters (e.g., Kedia & Chhokar [1985]).

The age of an organization when it internationalizes has been considered infrequently. Vozikis and Mescon [1985] did show that exporters that were start-ups reported more problems with export operations than did mature small exporters. More often, reports of new ventures that were international at or near inception have been regarded as exceptional (e.g., Welch & Loustarinen [1988]). In addition, the age of small exporters has frequently been viewed as an unimportant demographic characteristic (e.g., Malekzadeh & Nahavandi [1985], or a side issue (e.g., Cooper & Kleinschmidt [1985]).

However, since 1989, reports based on case studies of international new ventures have begun to appear from scholars of entrepreneurship. Some have shown that such ventures form because internationally experienced and alert entrepreneurs are able to link resources from multiple countries to meet the demand of markets that are inherently international [Coviello & Munro 1992; Hoy, Pivoda & Mackrle 1992; McDougall & Oviatt 1991; Oviatt, McDougall, Simon & Shrader 1994; Ray 1989]. Other case studies have shown that the success of international new ventures seems to depend on having an international vision of the firm from inception, an innovative product or service marketed through a strong network, and a tightly managed organization focused on international sales growth [Ganitsky 1989; Jolly et al. 1992; McDougall, Shane & Oviatt 1994].

Collectively, these case studies indicate that international new ventures are an important phenomenon. They have identified the formation of international new ventures in more than ten countries in all parts of the world, suggesting that global forces may be promoting their development. In addition, the

FIGURE 1
The Domain of Academic Literature on Organizations¹



¹adapted from the presentation of Candida Brush in McDougall, Oviatt & Brush [1991]

studies show that interest in the topic is recent and has emerged independently and nearly simultaneously from several groups of scholars. Finally, while many of the ventures studied were in high-tech businesses, services and even aquaculture were represented, suggesting that international new ventures may appear in a wide range of industries.

Additional indicators of the emergence of international new ventures have also appeared. Brush's [1992] study of small, internationalized, U.S. manufacturers found 17 firms—13% of her random nationwide sample—were internationalized during their first year of operation. Ernst and Young's survey of 303 firms in the North American electronics industry [Burrill & Almassy 1993] showed that in 1987 53% of the firms in the industry were operating domestically. In 1992, only 17% were domestic, and by 1997 only 9% were expected to be. A third of the firms surveyed were still in development with less than \$5 million in revenue.

The fact that the business press believes the emerging phenomenon of international new ventures is important and that some academics working independently around the world have described similar organizations indicate a need for systematic research on these infrequently studied new ventures. However, the overall purpose of this paper is not to add to the growing descriptions of particular international new ventures. Rather, it is to define and describe the phenomenon and to present a framework explaining how international new ventures fit within the theory of the MNE. We hope that a well-delineated, theoretical framework will unify, stimulate and guide research in the area.

The next section provides a formal definition of international new ventures. Following that, certain problems are considered regarding the application of standard MNE concepts to international new ventures. Next, a theoretical framework explaining international new ventures is presented. It integrates accepted MNE theory with recent developments in entrepreneurship and strategic management research. Finally, four types of international new ventures are described in terms of our international new venture framework, the number of value chain activities they coordinate [Porter 1985], and the number of countries in which they operate.

A DEFINITION OF INTERNATIONAL NEW VENTURES

We define an *international new venture 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*. The distinguishing feature of these start-ups is that their origins are international, as demonstrated by observable and significant commitments of resources (e.g., material, people, financing, time) in more than one nation. The focus here is on the age of firms when they become international, not on their size. In contrast to organizations that evolve gradually from domestic firms to MNEs, these new ventures begin with a proactive international strategy. However, they do not necessarily own foreign assets; in other words, foreign direct investment is not a requirement. Strategic alliances may be arranged for the use of foreign resources such as manufacturing capacity or marketing. Thus, consistent with Buckley and Casson's [1976] definition of the multinational enterprise, the definition of the international new venture is concerned with value added, not assets owned [Casson 1982].

The fact that international new ventures are international from inception implies that some decision must inevitably be made about when inception occurs. Much has been written in the entrepreneurship literature concerning the point at which a new venture is considered to exist as an organization (e.g., Katz & Gartner [1988]). However, Vesper argued that there can be no ultimate resolution, because the emergence of a venture is "spread over time in which its existence becomes progressively more established" [1990, p. 97]. Thus, empirical studies of international new ventures must resolve a definitional ambiguity. We believe researchers should rely on observable resource commitments to establish a point of venture inception. For new ventures that have no sales because their product or service is under development, there must be a demonstrated commitment to sell the output in multiple countries upon completion of development.

PROBLEMS IN THE APPLICATION OF MNE THEORY TO INTERNATIONAL NEW VENTURES

Stage theories of the MNE and the common emphasis on organizational scale as an important competitive advantage in the international arena are

inappropriate explanations of multinational business activity for new ventures that are instantly international.

The Stage Theory of MNE Evolution

MNEs are believed by many people to evolve only after a period of domestic maturation and home market saturation [Caves 1982; Porter 1990]. Empirical researchers have in the past found that large, mature MNEs and small exporters go through distinct stages in the development of their international business. They begin perhaps with an unsolicited foreign order, proceed sometimes through exporting and the development of an international division, and occasionally advance to the establishment of a fully integrated, global enterprise [Aharoni 1966; Bilkey & Tesar 1977; Czinkota & Johnston 1981; Stopford & Wells 1972].

This staged development of firm internationalization is described as an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment [Johanson & Vahlne 1977, 1990]. The process preserves routines that bind organizational coalitions, and recognizes the difficulty of gaining knowledge about foreign markets. Differences in language and culture and, in the past, the slow speed of communication and transportation channels between countries have inhibited the gathering of information about foreign markets and have increased the perceived risks of foreign operation.

With a logical explanatory theory and repeated empirical confirmation, stage models of MNE development have been transformed from descriptive models, and “were soon applied prescriptively by consultants, academics, and managers alike” [Bartlett & Ghoshal 1991, p. 31]. In addition, Caves indicated that international firms must experience an extended evolutionary process when he directly contrasted MNEs with “newly organized firms” [1982, p. 96]. However, recent studies have found contradictions. For example, Welch and Loustarinen [1988] discussed reports of small English firms, Australian start-ups, and established Swedish firms that skipped important stages and were involved with unexpected speed in direct foreign investments. In addition, Sullivan and Bauerschmidt [1990] found that a firm’s stage of international involvement was an unexpectedly poor predictor of European managers’ knowledge and beliefs. Finally, Turnbull [1987] presents a strong conceptual and empirical criticism of the stages theory of internationalization.

Johanson and Vahlne [1990] dismissed these concerns as merely indicative of the need for adjustment to their model of firm internationalization. We believe, however, that the emergence of international new ventures presents a unique challenge to stage theory. It purportedly best applies to the early stages of internationalization with only three exceptions [Johanson & Vahlne 1990]. First, firms with large resources are expected to take large steps toward internationalization. Second, when foreign market conditions are stable and homogeneous, learning about them is easier. Third, when firms have considerable experience with markets that are similar to a newly targeted

foreign market, previous experience may be generalizable to the new arena. Yet none of the exceptions seem to apply to international new ventures. Resources are constrained by their young age and usually by small size. Their markets are among the most volatile (indeed, several of the international new ventures we have studied appear to contribute to industry volatility). Finally, new ventures, by definition, have little or no experience in any market. Therefore, according to Johanson and Vahlne's [1990] own standards, stage theory needs more than a minor adjustment.

Scale and the MNE

In addition to the belief that firms must go through stages of evolution before venturing into foreign lands, large size is often thought to be a requirement for multinationality. The first modern MNEs evolved in the 1880s and 1890s and were large, mature, integrated companies [Chandler 1986]. They and their descendants have reaped substantial economies of scale in R&D, production, marketing, and other areas. An additional advantage of large, vertically integrated or diversified MNEs has been their ability to efficiently manage international communication and transportation and the exchange of production and market information among many countries [Stopford & Wells 1972]. In addition, their market power in oligopolistic industries has been highlighted as a source of MNE advantage [Dunning 1981; Glickman & Woodward 1989; Porter 1990].

Yet, if large size were a requirement for multinationality, international new ventures would seldom form because they are almost always small organizations. One key to understanding how they can exist is to recognize that large size may be both a cause and an effect of multinational competitive advantage. In some industries, such as pharmaceuticals, the sales volume generated by multinational operation makes feasible a large-scale R&D effort. In turn, R&D produces differentiated products, such as patented drugs, that provide competitive advantages over purely domestic firms in many countries. Thus, despite the fact that size is the main firm-specific variable that has explained multinationality [Glickman & Woodward 1989], large MNE size may be a concomitant, not a cause, of other more elemental sources of competitive advantage [Casson 1987; Caves 1982]. Those more elemental sources of advantage make international new ventures possible.

THE CHANGING INTERNATIONAL ENVIRONMENT

Although large size continues to be an important source of advantage for some MNEs, changing economic, technological, and social conditions have in recent years highlighted additional sources. Dramatic increases in the speed, quality, and efficiency of international communication and transportation have reduced the transaction costs of multinational interchange [Porter 1990]. Furthermore, the increasing homogenization of many markets in distant countries has made the conduct of international business easier to

understand for everyone [Hedlund & Kverneland 1985]. The upshot is that increasing numbers of business executives and entrepreneurs have been exposed to international business. International financing opportunities are increasingly available [Patricof 1989; Valeriano 1991]. And human capital is more internationally mobile [Johnston 1991; Reich 1991].

With such conditions, markets now link countries more efficiently than in the past, and the hierarchies of large, established firms no longer have the competitive advantage they once enjoyed in international communication and trade [*The Economist* 1993a]. Internationally sustainable advantage is increasingly recognized to depend on the possession of unique assets [Barney 1991; Caves 1982; Hamel & Prahalad 1990; Stalk, Evans & Shulman 1992].

A priori, valuable unique assets should permit organizations with more constrained resources, such as new ventures, to enter the international arena. In addition, improved international communication and transportation along with the homogenization of markets in many countries should, a priori, simplify and shorten the process of firm internationalization. Thus, firms may skip stages of international development that have been observed in the past, or internationalization may not occur in stages at all.

We believe that is precisely what has been observed recently by a number of business journalists and business academicians—firms not following the theories of incremental firm internationalization. However, that does not mean that established theories are wrong; they still apply to some firms and industries. Yet it does mean that the established theories are less applicable in an expanding number of situations where technology, specific industry environments, and firm capabilities have changed as we have described.

NECESSARY AND SUFFICIENT ELEMENTS FOR SUSTAINABLE INTERNATIONAL NEW VENTURES

With many markets internationalizing, fewer new ventures can escape confrontations with foreign competition, and more entrepreneurs are adopting a multinational viewpoint [Drucker 1991; Ohmae 1990; Porter 1986, 1990]. Thus, the stage theory of firm internationalization is increasingly incongruent with recent developments, and large scale has become only one among many ways to compete internationally. As a result, a new framework is needed to lead both theoretical development and empirical investigation toward greater understanding of international new ventures.

The foundation of the theoretical framework that we propose is traditional in its reliance on transaction cost analysis, market imperfections, and the international internalization of essential transactions to explain the existence of the MNE. However, the framework also incorporates recently developed ideas from entrepreneurship scholars about how ventures gain influence over vital resources without owning them and from strategic management scholars about how competitive advantage is developed and sustained. Together,

all these elements describe the international new venture as a special kind of MNE.

Essentially, the theoretical framework is an elaboration of Figure 1 (shown earlier), which classifies four types of organizations by age and geographic scope. Figure 2 depicts the framework. The boxes show sets of economic transactions that are of particular interest in this paper. The arrows represent elements that distinguish a subset from a larger set of transactions.

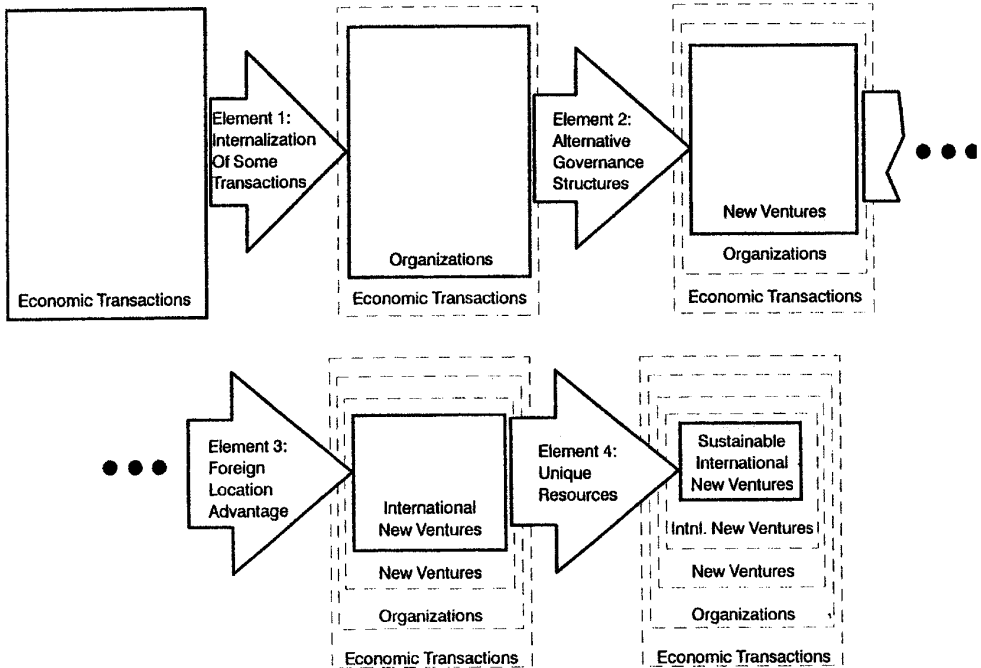
The framework begins with the box at the upper left, which is the set of all types of *Economic Transactions*. Four necessary and sufficient elements, which are enumerated within the large arrows, progressively distinguish subsets of transactions. "Element 1: Internalization of Some Transactions" distinguishes transactions that take place in *Organizations* from those that are governed by markets. From the set of all *Organizations*, strong reliance on "Element 2: Alternative Governance Structures" separates the subset of transactions associated with *New Ventures* from those in established firms. Next, "Element 3: Foreign Location Advantage" distinguishes the subset of transactions constituting *International New Ventures* from those that constitute domestic new ventures. Finally, "Element 4: Unique Resources" differentiates the subset of *Sustainable International New Ventures* from those likely to be short-lived. The dashed concentric boxes highlight the fact that the interior boxes depict the progressively more narrow subsets, and the shading shows the path of our narrowing interests. The effects of the four elements are fully described in the sections below.

Element 1: Internalization of Some Transactions

The internalization element is most basic and is clearly part of traditional MNE theory. Organizations form where economic transactions are inefficiently governed by market prices [Coase 1937; Williamson 1985]; in other words, where market imperfections exist. It is the defining element of all organizations, whether new or established, domestic or multinational. When the transaction costs of constructing and executing a contract and monitoring the performance of the contracting parties are at their lowest in an organization, its hierarchical authority (not market prices or a hybrid contract) will be the governance mechanism chosen, and the transaction is said to have been internalized within an organization [Buckley & Casson 1976; Dunning 1981, 1988].

It should be noted that the internalization element of MNE theory is often used to explain foreign direct investment; that is, ownership of assets located in foreign countries. Indeed, Hymer's [1960] seminal work on the internalization of international transactions was among the first theoretical presentations to distinguish between passive portfolio investment and foreign direct investment, and it focused on explaining the latter. Nevertheless, *ownership* of foreign assets is not a defining characteristic of either MNEs or international

FIGURE 2
Necessary and Sufficient Elements
for Sustainable International New Ventures



new ventures [Casson 1982]. Of course, an organization must own some assets, else it will have nothing of value to exchange in an economic transaction.

Element 2: Alternative Governance Structures

Poverty of resources and power may not be a defining characteristic of the new venture, but it is a nearly universal association [Stinchcombe 1965; Vesper 1990]. Thus, new ventures commonly lack sufficient resources to control many assets through ownership. The result is that new ventures tend to internalize, or own, a smaller percentage of the resources essential to their survival than do mature organizations. Entrepreneurs must rely on alternative modes of controlling many vital assets [Vesper 1990], and that fact distinguishes new ventures from other organizations.

Williamson [1991] noted that under conditions of moderate asset specificity and low to moderate disturbance frequency, hybrid structures, such as licensing, and franchising, are often useful alternatives to both internal control and market control over the exchange of resources. Hybrid partners share complementary assets to their mutual benefit. However, due to the potential for opportunism, as evidenced by the elaborate contracts that usually structure

the relationships between the parties and the frequent reports of hybrid failure [Kanter 1989; Porter & Fuller 1986], new ventures risk expropriation by their hybrid partners of the valuable assets that they do own [Teece 1987]. Large Japanese firms, for example, have sometimes appeared to form predatory alliances with American high-technology start-ups.

An even more powerful resource-conserving alternative to internalization for new ventures is the network structure [Aldrich & Zimmer 1986; Larson 1992]. Networks depend on the social (i.e., informal) control of behavior through trust and moral obligation, not formal contracts. Cooperation dominates opportunism because business and personal reputations are at stake that may greatly affect economic rent in and beyond a spot transaction. Larson's [1992] rich description of the gains in resources and knowledge of four entrepreneurial organizations in seven intimate network alliances is impressive. Yet risks were also clear. Two of the seven relationships failed after many years of successful operation, leaving both partners with weaknesses. Nevertheless, even after failure, proprietary knowledge was protected and trust was maintained.

In summary, a major feature that distinguishes new ventures from established organizations is the minimal use of internalization and the greater use of alternative transaction governance structures. Due to their poverty of resources and power, new ventures may even use such structures when the risk of asset expropriation by hybrid partners is high.

Element 3: Foreign Location Advantage

The location advantage element of the framework distinguishes international from domestic organizations. Essentially, firms are international because they find advantage in transferring some moveable resources (e.g., raw material, knowledge, intermediate products) across a national border to be combined with an immobile, or less mobile, resource or opportunity (e.g., raw material, a market) [Dunning 1988].

However, a firm conducting transactions in a foreign country has certain disadvantages vis-à-vis indigenous firms, such as governmentally instituted barriers to trade and an incomplete understanding of laws, language, and business practices in foreign countries. As noted earlier, MNEs have often relied on the advantages of scale to overcome such obstacles. But international new ventures must usually rely on other resources.

Private knowledge is the most obvious alternative, and it has some interesting properties [Buckley & Casson 1976; Caves 1982; Rugman 1982]. The property that provides location advantage for modern MNEs, including international new ventures, is the great mobility of knowledge once it is produced. With modern communication infrastructures, valuable knowledge can be reproduced and can travel literally with the speed of light at minimal marginal cost. For example, software often requires years of development, but once

written, it may be copied and used ad infinitum with insignificant additional costs. Knowledge can then be combined with less mobile resources in multiple countries (e.g., factories where the software is needed). Thus, private knowledge may create differentiation or cost advantages for MNEs and international new ventures that overcome the advantages of indigenous firms in many countries simultaneously.

That appears to be why knowledge-intensive industries have been globalizing at such a rapid pace [Reich 1991], and why a new venture with valuable knowledge is propelled to instant rather than evolutionary internationalization. When a firm introduces valuable innovative goods or services it signals at least the existence, if not the essence, of its special knowledge to outsiders.

Competitors, therefore, will try to uncover the secret or to produce equifinal alternative knowledge, and the recent increased efficiency of international markets speeds the whole competitive process. New ventures confronted with such circumstances must be international from inception or be at a disadvantage to other organizations that are international already. Thus, the prevalence of international new ventures is predicted to accompany the increasing efficiency of international markets.

Element 4: Unique Resources

The first three elements define the necessary conditions for the existence of an international new venture: Internalization of some transactions, extensive use of alternative transaction governance structures, and some advantage over indigenous firms in foreign locations. However, these are not sufficient conditions for sustainable competitive advantage.

Sustainable competitive advantage for any firm requires that its resources be unique [Barney 1991]. Unfortunately, for the knowledge-based international new venture, knowledge is at least to some degree a public good. Its easy dissemination threatens a firm's rent-earning opportunity because knowledge may not remain unique for long. Thus, the ability to reproduce and move knowledge at nearly zero marginal cost, is a simultaneously beneficial (as noted in Element 3) and troublesome property. The international new venture must limit the use of its knowledge by outsiders in many countries for it to have commercial value. In general, the use of such knowledge may be limited by four conditions.

First, if knowledge can be kept proprietary by direct means, such as patents, copyrights, or trade secrets, then the possessor of internalized valuable and rare knowledge may be able to prevent imitation and slow the development of substitutes. Yet patents and copyrights are ignored in some countries. Even where they are respected, release of patented knowledge into a market may advance competitors' production of alternative or even improved technology. Thus, knowledge that has potential commercial value is often best protected with secrecy.

Imperfect imitability is the second condition that may keep expropriable knowledge proprietary [Barney 1991; Schoemaker 1990]. A unique organizational history, socially complex knowledge, and ambiguous causal relationships between knowledge and the competitive advantage it provides may all prevent imitation by competitors. New ventures often claim their unique management style and organizational culture provide advantages, perhaps because they embody all three characteristics of imperfect imitability. However, it should be noted that these same characteristics that block competitors' imitations may constrain the spread of such intangible assets as management style into multiple national cultures within the same organization. Yet where it can be accomplished, the inimitability of an international new venture is further reinforced.

Licensing is the third way outside use of a venture's knowledge may be limited. When knowledge is expected to retain its value for a lengthy period, a limit pricing strategy (i.e., low license fees) may be used to discourage competitors or to influence the rate and direction of knowledge dissemination. When demand is strong for expropriable knowledge, but its valuable life is believed to be short (e.g., some personal computer innovations), high fees may be used to extract maximum rents over a short period.

The fact that new ventures frequently use network governance structures (as discussed under Element 2) is the fourth condition that may limit the expropriation of venture knowledge. Although alliances with complementary organizations, such as manufacturers and downstream channels, risk expropriation [Teece 1987], the network structure itself tends to control the risk. The relationships inherent in a network can have high personal and economic value because network members usually share rents and the relationships contrast so starkly with the usual background of economic opportunism [Larson 1992]. Thus, venture network members are at least somewhat inhibited from usurping the venture's knowledge. For such relationships to exist in new ventures that cross national borders, logic suggests that founding teams must usually include internationally experienced business persons of various national origins.

TYPES OF INTERNATIONAL NEW VENTURES

The previous section described basic elements for all sustainable international new ventures, but the published papers that describe actual cases indicate that these elements manifest themselves in a variety of ways. Some ventures actively coordinate the transformation of resources from many parts of the world into outputs that are sold wherever they are most highly valued [McDougall & Oviatt 1991]. Other international new ventures are primarily exporters that add value by moving outputs from where they are to locations where they are needed [Ray 1989]. In the sections that follow, different types of international new ventures will be identified, some published examples will be considered briefly, and the variety of ways that the necessary and sufficient elements are manifested will be described.

Figure 3 shows that different types of international new ventures may be distinguished by the number of value chain activities that are coordinated and by the number of countries entered. The figure identifies particular types of firms at the extremes of the two continua, but mixed types certainly appear in between, and over time new ventures may change type by coordinating additional or fewer activities and by operating in additional or fewer countries. Although the figure uses Porter's [1985] value chain and is similar to Porter's [1986] depiction of international strategy for established MNEs, Figure 3 focuses on international new ventures only. In addition, the horizontal dimension of Figure 3 simply concerns the number of countries in which any value chain activities occur. Porter's diagram focuses on the degree of dispersion among activities when sales are assumed to be in many countries.

New International Market Makers (Figure 3, quadrants i and ii)

New International Market Makers are an age-old type of firm. Importers and exporters profit by moving goods from nations where they are to nations where they are demanded. The most important value chain activities and, therefore, the ones most likely to be internalized are the systems and knowledge of inbound and outbound logistics. Transactions involving other activities tend to be governed by alternative structures. Direct investment in any country is typically kept at a minimum. The location advantage of such new ventures lies in their ability to discover imbalances of resources between countries and in creating markets where none existed. Sustained competitive advantage depends on (1) unusual abilities to spot and act on (sometimes by charging high fees) emerging opportunities before increased competition reduces profits in markets they had previously established, (2) knowledge of markets and suppliers, and (3) the ability to attract and maintain a loyal network of business associates. New International Market Makers may be either Export/Import Start-ups or Multinational Traders. Export/Import Start-ups focus on serving a few nations with which the entrepreneur is familiar. Multinational Traders serve an array of countries and are constantly scanning for trading opportunities where their networks are established or where they can quickly be set up.

Geographically Focused Start-ups (Figure 3, quadrant iii)

Geographically Focused Start-ups derive advantages by serving well the specialized needs of a particular region of the world through the use of foreign resources. They differ from the Multinational Trader in that they are geographically restricted to the location of the specialized need, and more than just the activities of inbound and outbound logistics are coordinated. They differ from the Export/Import Start-up only in the latter respect. In other words, competitive advantage is found in the coordination of multiple value chain activities, such as technological development, human resources, and production. Successful coordination may be inimitable because it is

FIGURE 3
Types of International New Ventures

Few Activities Coordinated Across Countries (Primarily Logistics)	New International Market Makers	
	Export/Import Start-up i	Multinational Trader ii
Coordination of Value Chain Activities	Geographically Focused Start-up iii	Global Start-up iv
Many Activities Coordinated Across Countries	Few	Many
	Number of Countries Involved	

socially complex or involves tacit knowledge. That advantage may be further protected by a close and exclusive network of alliances in the geographical area served.

For example, in recent years, numerous entrepreneurs have established firms to profit from the transfer of Western management and economic know-how to formerly communist countries. *Profit* magazine was formed by two former editors of *Soldier of Fortune* magazine who were familiar with Eastern Europe [McDougall & Oviatt 1991]. It published practical advice for Eastern European entrepreneurs; and it was written by or about successful entrepreneurs in the United States who came from Eastern Europe. The first issue of the magazine was printed in the Czech Republic with English and Czech translations on facing pages and was distributed by a Czech entrepreneur who shared the profits. Additional versions were planned for other European countries emerging from centrally planned to market-driven economies. However, there was no strategy to move beyond that geographic region because their competitive advantage was in their unique knowledge of the Eastern European culture and their ability to establish a network there.

Global Start-ups (Figure 3, quadrant iv)

The phrase “Global Start-up” is used because it is a common term of trade [Mamis 1989]. It is the most radical manifestation of the international new venture because it derives significant competitive advantage from extensive coordination among multiple organizational activities, the locations of which are geographically unlimited. Such firms not only respond to globalizing markets, but also proactively act on opportunities to acquire resources and sell outputs wherever in the world they have the greatest value.

Global Start-ups may be the most difficult international new ventures to develop because they require skills at both geographic and activity coordination. However, once successfully established, they appear to have the most sustainable competitive advantages due to a combination of historically unique, causally ambiguous, and socially complex inimitability with close network alliances in multiple countries. One global start-up we studied identified its "proprietary network" as its essential competitive advantage.

Another example was Momenta Corporation of Mountain View, California [Bhide 1991; McDougall & Oviatt 1991], a start-up in the emerging pen-based computer market. Its founders were from Cuba, Iran, Tanzania, and the United States. From its beginning in 1989, the founders wanted the venture to be global in its acquisition of inputs and in its target market. A global market would permit rapid growth and was believed to be necessary because potential competitors were global. Input acquisition was global because all the highest value (i.e., high quality to cost ratio) factors of production were not to be found in any single country. Thus, software design was conducted in the United States, hardware design in Germany, manufacturing in the Pacific Rim, and funding was received from Taiwan, Singapore, Europe, and the United States.

CONCLUSION

This article has identified, defined and described the emerging phenomenon of international new ventures, and has shown that some current theories of the MNE do not explain it well. Most important, it has integrated the traditional MNE concepts of internalization and location advantage with recent entrepreneurship research on alternative governance structures and with developments in strategic management on the requirements for sustainable competitive advantage. The result is a rich yet parsimonious theoretical framework that explains the existence of international new ventures, and appears useful in describing their distinct types.

Our framework describes sustainable international new ventures as controlling assets, especially unique knowledge, that create value in more than one country. Their internationality occurs at inception largely because competitive forces preclude a successful domestic focus. Their emphasis on controlling rather than owning assets is due to resource scarcity that is common among new organizations.

The framework indicates that empirical investigators interested in international new ventures will find larger sample sizes in industries where international competition for unique knowledge is a dominant characteristic. The framework also identifies ways of protecting rents derived from such knowledge (i.e., direct patent protection, uncertain imitability, license fees, and network alliances), but empirical research is needed to understand the differential success of these mechanisms more completely.

This article is partially a response to Casson's [1985] call to include the role of the entrepreneur in explaining the dynamics of the MNE. The defensive role of network formation and, thus, the importance of social interaction by entrepreneurs is highlighted. Although networks certainly provide vital information, their function as a defense against the expropriation of tenuously defended valuable and rare knowledge needs more attention. How unusual are the intimate alliances that Larson [1992] describes, and what social and economic processes and conditions promote network building across national borders? Although entrepreneurship scholars have examined some of these issues within various countries (e.g., Aldrich, Birley, Dubini, Greve, Johannisson, Reese & Sakano [1991]), we are unaware of investigations that explicitly include a sample of international new ventures.

Considering a wider arena, it may be recognized that our emphasis on the importance of alternative governance structures for new ventures is consistent with the advice of some scholars that all organizations may find advantages in outsourcing [Quinn, Doorley & Paquette 1990] and impartitioning [Barreyre 1988]. The primary advantages are (1) increased concentration of limited resources on the primary internal sources of competitive advantage and (2) the cost, quality and flexibility benefits that may be derived from using outside experts to supply all peripheral resources. However, the risks of dissipating competitive advantages, losing opportunities for learning, and becoming a "hollow corporation" are significant [Teece 1987]. The existence of international new ventures that must outsource many inputs provides a natural laboratory from which to gain insight into the results of this trade-off.

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