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ENTREPRENEURSHIP

IN SMALL FIRM INTERNATIONALISATION

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A thesis submitted
in fulfilment of the requirements
for the degree of Doctor of Philosophy
in Management,
The University of Auckland,
2014
ABSTRACT

With small firms increasingly engaging with international markets, often with great speed and close to firm inception, there is a strong business and research interest in the internationalisation of small firms. Such interest is particularly strong in a small nation such as New Zealand, whose future economic growth may lie in improving the international involvement of its small firms. Yet, small firm internationalisation is not well understood.

This thesis seeks to better understand small firm internationalisation by studying the internationalisation of twelve small New Zealand firms, using case study methodology. In doing so, it explores the intersection of entrepreneurship and internationalisation by paying special attention to the entrepreneur and his role in internationalisation. In particular, this research examines the subjective dimensions of entrepreneurial opportunity discovery, creation, evaluation, and exploitation, and entrepreneurial thinking. Such an approach addresses a shortcoming of internationalisation research which has failed to adequately account for the role of the entrepreneur in internationalisation.

The thesis reports that recent internationalisers have behaved differently from past internationalisers as a result of changes in the current international environment. Recent internationalisers – some of which are “small globals” – have engaged in accelerated internationalisation, intensive internationalisation to more international markets, and broader and global geographic expansion of international activities. Recent internationalisers also show a fluctuating international involvement and limited commitment to specific international markets. Such internationalisation behaviour of recent internationalisers may be aptly described as involving “compressed internationalisation” or the shortening of internationalisation processes across distances and geographic markets.

The thesis also shows that despite broad and far-reaching changes in the international environment, their effect on internationalisation behaviour was mediated by entrepreneurial thinking. Apart from causation and effectuation, the thesis identifies a dimension of effectuation – potentially a third type of entrepreneurial thinking – which is future-orientated and based on an imagined future. The findings of this thesis have implications for business practitioners, researchers, and policy-makers, which are outlined in the concluding chapter.
ACKNOWLEDGMENTS

Looking back to more than four years of PhD work, I know I couldn’t have made it this far without the support and assistance of others. My list of “angels” might be long, but it shows how invaluable they have been to the completion of my PhD thesis.

First and foremost in my list of “angels” is Professor Hugh Whittaker, my PhD supervisor and mentor. If not for him, I would never have started on my PhD in the first place. Because of him, my family and I are now in a much better place than we were before. As supervisor, Hugh was most generous with his time, despite his many professional responsibilities, and patient with my struggles to learn how to do doctoral research and write a PhD thesis. To me, he is the best PhD supervisor any PhD student can have. I owe him my emergence as an early academic and researcher, although my shortcomings continue to be mine alone. Thank you so much, Hugh, from the bottom of my heart.

I am also very grateful to the providers of the MSA Charitable Trust PhD Scholarship which funded my doctoral studies for three years. Without the generous scholarship, my family and I would have struggled financially and the completion of my PhD would have been delayed. I thank the University of Auckland Business School as well for choosing me to be the recipient of the scholarship. My gratitude goes as well to Brad Weekly and Amanda Stanes.

My thanks also go to the New Zealand Asia Institute for supporting my research. In particular, I thank its Director, Hugh, Dinah Towle, Dr. Ben Fath, and Dr. Ante Fielder. I am also grateful to the Asia: New Zealand Foundation for funding support through the Emerging Asia Researcher Grant. I also acknowledge Professor Helen Sword, Dr. Ian Brailsford, Dr. Matiu Ratima, and Tessa Sillifant for supporting me in doing my Postgraduate Certificate in Academic Practice while doing my PhD.

I am also grateful to Associate Professor Chris Woods, my PhD co-supervisor, for pointing out critical literature that I needed to address and how to improve the writing of my thesis.

To the participants of this study, without your generosity in sharing your time and putting me in your confidence by answering my questions candidly, this research would not have been
possible. Thank you so much. I am also grateful to my Mom for being a gentle, constant
presence through my PhD studies and my late Dad for inspiring me to take the extra mile.
Special thanks as well to my sister-in-law, Rhoda Beck Bardilas, who watched over baby
Mabelle for close to a year so I could work uninterrupted on my PhD.

Finally, to the most important people in my life, my wife Roma and children Patricia, Manny,
William, Kevin, and Mabelle, I dedicate this PhD thesis to you. Thank you for your patience,
support, and understanding. You always heard me say that my thesis is almost done. Finally it
is.
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CHAPTER 1

Introduction

For a small nation such as New Zealand, improving the international involvement of its firms is a key to its future economic growth (Bowen, Haworth & Wilson, 2003). There is thus a strong business and research interest in the engagement of New Zealand firms with international markets. However, any firm that seeks to internationalise faces major challenges, including a lack of foreign market knowledge and internationalisation experience (Johanson & Vahlne, 1977; Eriksson, Johanson & Majkgard, 1997; Crick, 2009; De Lemos, Johanson & Vahlne, 2011; De Clercq, Sapienza, Yavuz & Zhou, 2012), and difficulties in identifying foreign business opportunities (OECD, 2009). An internationalising firm must deal with a “liability of foreignness” or additional costs in operating overseas (Hymer, 1960; Kindleberger, 1969; Zaheer, 1995), as well as a “liability of outsidership” in being an outsider to usual relationship networks (Johanson & Vahlne, 2009). Small firms also typically face a “liability of smallness” with severe resource constraints in entering foreign markets (Oviatt & McDougall, 1995; Bell, McNaughton & Young, 2001; Dimitratos et al., 2003). New ventures also suffer a “liability of newness” or a higher risk of failure than more established ventures, because they have low levels of legitimacy and have to compete against established ventures (Stinchcombe, 1965; Freeman, Carroll & Hannan, 1983). Compounding internationalisation difficulties for New Zealand businesses, 97.2% of which are small (Ministry of Economic Development, 2010), are geographic distance and isolation.

It was in this context that this study, which seeks to better understand the internationalisation of small New Zealand firms, began to take shape. The study was also closely linked to research by the New Zealand Asia Institute (NZAI) into New Zealand’s business engagement with Asia.
With the increasing international involvement in recent years of small firms (Coviello & McAuley, 1999; Ruzzier et al., 2006;), including those in South and East Asia (Etemad, 2013a), interest in small firm internationalisation has grown (McDougall & Oviatt, 2000; Acs, Dana & Jones, 2003; Schweizer, 2011). Foreign markets which used to be the exclusive concern of large, multinational enterprises (McDougall & Oviatt, 2000) are now witnessing greater engagement by small, internationalising firms – sometimes called “hidden champions” (Simon, 1996), “little champions” (Chandra, Styles & Wilkinson, 2009), and international SMEs (Knight, 2000). These small internationalising firms are credited with job creation (Robson & Gallagher, 1994), innovative activities (Acs et al., 1997), and economic growth and development (Minniti & Levesque, 2010).

However, international business (IB) research, which has spawned various process models and approaches to explain internationalisation, has been typically associated with the study of large and established multinational enterprises (Bloodgood et al., 1996; McDougall & Oviatt, 1997; Rialp & Rialp, 2001; Acs et al., 2003). These models and approaches, while making major contributions to the understanding of internationalisation processes, have been shown to have limited explanatory power when it comes to small firms (Cannon & Willis, 1981; Reid 1984; Turnbull, 1987; McDougall & Oviatt 2000). For instance, contrary to stage theories, which suggest that firms gradually and incrementally internationalise only after establishing themselves in domestic markets (Johanson and Weidersheim-Paul, 1975; Johanson & Vahlne, 1977), some small firms do not internationalise incrementally (Cannon & Willis, 1981; Turnbull, 1987). International new ventures (INVs) – firms that internationalise at or near inception – have appeared with increasing regularity, accentuating the shortcomings of stage theories (Rennie, 1993; Oviatt & McDougall, 1994; Knight & Cavusgil, 1996).

Perhaps changes in the international environment, as signified by the ubiquity of advanced technologies, globalisation, free trade, cheap transportation (Porter, 1990; Oviatt & McDougall, 1995; Wright & Etemad, 2001) and vast improvements in logistics and containerisation (Etemad, 2013a) are enabling small firm internationalisation in ways that are not yet well understood. This possibility looms considering that many of the internationalisation theories and approaches in IB research emerged in the 1970s and
1980s. In light of changes in the international environment, it seems appropriate to examine small firm internationalisation. This leads to the first and basic research question of this thesis:

*How do small firms internationalise?*

However, it is not just the changing environment which needs to be taken into account. A shortcoming of internationalisation theories and perspectives has been their failure to fully account for the role of the entrepreneur in internationalisation (Acs et al., 2003). Casson (1985) and Oviatt and McDougall (1994) cited the need to include the role of the entrepreneur in explaining the dynamics of internationalisation. Entrepreneurs after all have been acknowledged to be change agents of their local environments (Shapero, 1975, 1985; Reynolds & White, 1997). If the entrepreneur is at the core of entrepreneurship (Baumol, 1968; Schumpeter, 1976; Foss et al., 2008) and is “the driving force of the whole market system” (von Mises, 1949, p. 249), arguably, the entrepreneur must have a role in internationalisation, especially in small firm internationalisation. Etemad (2004a) also argued that the entrepreneur, together with the entrepreneurial firm and the market, is part of a dynamic open complex adaptive system where the entrepreneur and the firm interact with, adapt to, and influence the market conditions in which they are embedded.

However, studies which have taken the entrepreneur as the unit of analysis are few (Acs et al., 2003), and generally focus on “objective” entrepreneurial attributes, while there has been limited attention on subjective entrepreneurial dimensions. This has begun to be addressed by current international entrepreneurship (IE) research which, although initially focusing on the INV (McDougall, 1999), now recognises “the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services” (Oviatt & McDougall, 2005, p. 540). The evolution of IE research coincides with Venkataraman’s (1997, p. 120) proposal that entrepreneurship as a scholarly field should “seek to understand how opportunities to bring into existence
‘future’ goods and services are discovered, created, and exploited, by whom, and with what consequences.”

As its name suggests, international entrepreneurship has two dimensions: internationalisation and entrepreneurship (Oviatt, Masimov & McDougall, 2011). The entrepreneurship part of IE, however, has not been adequately explored, particularly how opportunities to enter international markets are perceived, evaluated, and created (cf. Chandra et al., 2009). Johanson and Vahlne (2006, p. 167) themselves admitted that “the opportunity side of the internationalization process is not very well developed in our earlier papers.” This neglected dimension of international entrepreneurship – the “E in IE” – may provide new insights and better understanding of the process of internationalisation. It also addresses an observation of Baumol (1968, p. 66) who – slightly paraphrased – said, “An (international) entrepreneurship study that does not take into account the entrepreneur is like a study of Shakespeare in which the Prince of Denmark has been expunged from the discussion of Hamlet”. Following the research thrust of IE towards opportunities, a second research question of this thesis can now be stated:

**How are opportunities to enter international markets discovered, created, evaluated, and exploited internationally?**

In a sense, this thesis seeks to draw together the theories of internationalisation and entrepreneurship which generally have been pursued along distinct paths (Madsen & Servais, 1997), the result of a “demarcation segregating international business and entrepreneurship” (McDougall & Oviatt, 2000, p. 902). The thesis responds to calls for better integration of the research streams of IE and entrepreneurship (Madsen & Servais, 1997; McDougall & Oviatt, 2000), and enhancement of IE research by borrowing from the field of entrepreneurship (Jones & Coviello, 2005). If we are to understand international entrepreneurship better, we must understand the “entrepreneurship” in international entrepreneurship.
To do this, this thesis further explores entrepreneurial thinking and decision-making, which corresponds to a new and interesting area of IE research relating to entrepreneurial cognition (Jones et al., 2011). In particular, IE research has started to draw on the entrepreneurship-related work of Sarasvathy on effectuation (e.g., Mainela & Puhakka, 2009; Schweizer, Vahlne & Johanson, 2010; Andersson, 2011; Jones et al., 2011; Kalinic, Sarasvathy & Forza, 2012). But a possible dimension of effectuation which is future-orientated and based on an imagined future, emanating from subjectivist economics (Lachmann, 1969, 1971, 1994; Kirzner, 1982; Shackle, 1984), has largely been neglected in the entrepreneurship literature, and is virtually absent in the IE field. This thesis explores this type of entrepreneurial thinking as well, through a final research question:

*How do entrepreneurs think and make decisions in discovering, creating, evaluating and exploiting opportunities to create future goods and services internationally?*

To answer the research questions empirically, a case study methodology was adopted, in order to examine the particulars and dynamics of individual cases (Boggs, 1986; Eisenhardt, 1989), especially in relation to the phenomena being investigated (Swanborn, 2010). Twelve New Zealand internationalising firms were selected as cases. Data were collected from in-depth interviews with the CEOs, founders, and/or General Managers of case firms, and company brochures, reports and websites, online news, and media publications. In order to highlight what went on in an entrepreneur’s mind (Koppl & Langlois, 2001) and the “internal, mental processes and subjective meanings incorporated in entrepreneurial acts” (Endres & Woods, 2007, p. 222), the methodological approach was subjectivist.

There are two other reasons for the subjectivist approach. The first relates to a subjectivist assumption that market outcomes spring from individual acts of choice (O’Driscoll & Rizzo, 1996) and human action (Lachmann, 1986). Entrepreneurship and internationalisation are outcomes of people acting on and pursuing opportunities (Shane, Locke & Collins, 2003). The second reason for a subjectivist approach rests on
subjectivism’s view of entrepreneurs as creators of new, forward-looking imaginations (Chiles et al., 2010a). Lachmann (1994, p. 221) said, “The future is unknowable though not unimaginable.” In order to glimpse the unknowable future, an individual may form expectations (Lachmann, 1994) and seek to create an imagined future (Lachmann, 1969). Lachmann’s view of an imagined future coheres with the hypothesis of a forward-looking and future-orientated entrepreneurial thinking.

Having indicated the thrust and backdrop of this research, which focuses on entrepreneurship in small firm internationalisation, there are five key contributions to entrepreneurship and internationalisation research that this thesis seeks to make.

First, it elucidates concretely (in Chapter 6) the distinction – often dealt with abstractly in the entrepreneurship literature – between opportunity discovery and creation by showing that discovered opportunities are typically potential opportunities that require a process of creative transformation into an entrepreneurial opportunity to be capable of exploitation domestically or internationally. This distinction shows the role and interdependence of both processes in entrepreneurship and internationalisation. As well, whereas discovery may be a spontaneous, unplanned process, creation is mainly purposive and deliberate.

Second, this thesis explores (in Chapter 7) the “entrepreneurship” in international entrepreneurship and how entrepreneurs discover, create, and evaluate opportunities for international market entry, addressing the “opportunity side of the internationalisation process” which is underexplored (Johanson & Vahlne, 2006, p. 167; see also Chandra et al., 2009). The chapter also highlights the critical the role of the entrepreneur in internationalisation and the subjective dimensions of internationalisation, and addresses a shortcoming in internationalisation studies which have tended to focus on the firm as the unit of analysis.

Third, using an international value chain approach that captures the full dimensions of internationalisation, this thesis reports in Chapter 8 that recent internationalisers (firms that internationalised after 1990) have internationalised differently from past internationalisers. This finding further highlights the need for new models and theories of internationalisation
that may better explain internationalisation, especially in small firms and in more recent
times. Recent internationalisers have tended to internationalise early and quickly, have less
commitment to international markets, engage in broader geographic diversification, and
internationalise to more psychically distant markets. The thesis also describes the
emergence of “small globals” or small firms that, despite severe resource constraints and
distance barriers, have rapidly internationalised to multiple markets across the globe.

Fourth, to describe the qualitatively different internationalisation of recent
internationalisers, this thesis proposes in Chapter 9 a theory of “compressed
internationalisation” which involves a compression or shortening of internationalisation
processes across distances and geographic markets. As a result of fundamental changes in
the international environment of the 1990s, as manifested by advanced technologies, cheap
transportation, globalisation and economic liberalisation, internationalisation processes and
“stages” that previously occurred sequentially now occur simultaneously. Hence, recent
internationalisers in an era of compressed internationalisation internationalise differently
from past internationalisers. Recent internationalisers also cannot replicate the
internationalisation processes of past internationalisers.

Finally, Chapter 10 elucidates prospection, a type of entrepreneurial thinking that is
orientated towards an imagined future. Prospection (a dimension of effectuation), with its
emphasis on imagination and beliefs over logic and reason, on intuition over analysis, and
trial-and-error over planning and prediction, influences internationalisation choices and
decisions differently from causation. This finding may be significant because it poses a
counter-balance to causal thinking – a dominant paradigm of entrepreneurial thinking and
decision-making – which emphasises planning and analysis over improvisation and trial-
and-error. In the context of bounded rationality (see Cyert & March, 1963), prospection
may be an effective approach to decision-making.

How these contributions and themes fit together is shown in a simplified model of
entrepreneurship in small firm internationalisation (Figure 1.1). The model will be
unpacked and explained in Chapters 6 to 10. A full model is elaborated in Chapter 11. The
model shows the interaction of the entrepreneur, firm and international environment in
entrepreneurship and small firm internationalisation, addressing calls for multi-level analysis research (Low & MacMillan, 1988; Davidsson & Wiklund, 2001). The model links opportunity discovery, creation, and evaluation – key aspects of entrepreneurship – to internationalisation and the exploitation of opportunities internationally. As well, the model acknowledges the importance of firm resources, capabilities, and networks in entrepreneurship and internationalisation, whose role is moderated by entrepreneurial thinking.

This thesis is structured as follows. Chapter 2 examines the literature on internationalisation and international entrepreneurship research, and their gaps. Chapter 3 reviews the literature on entrepreneurship and focuses on the struggles of entrepreneurship research over the “opportunity” construct, subjectivism, and the current paradigms of entrepreneurial thinking (e.g. effectuation and causation). In Chapter 4 (methodology), the use of a case study methodology and a subjectivist methodological orientation is explained. How and why the twelve case entrepreneurs and their firms were chosen is also discussed.
Research findings are presented starting in Chapter 5 with a synopsis of six case studies to sketch how entrepreneurs discovered and created entrepreneurial opportunities to develop or create future goods and services across national borders. Chapter 6 examines the discovery and creation of entrepreneurial opportunities by case entrepreneurs. We then look at the discovery and creation of opportunities to enter international markets – the “entrepreneurship” in “international entrepreneurship” – in Chapter 7.

Small firm internationalisation and the exploitation of entrepreneurial opportunities in international markets – the “international” dimension of international entrepreneurship – are addressed in the next chapter. Chapter 9 takes a macro perspective and examines the international environment to explain the “new” internationalisation behaviour of recent internationalisers.

Chapter 10 explores entrepreneurial thinking and decision-making on entrepreneurship and internationalisation. This thesis is drawn to a close with a concluding chapter which acknowledges the limitations of this study and identifies the implications for policy-makers and business practitioners, and for further research.

In particular, this thesis calls for further research into the the link between internationalisation and firm performance and financial returns. For instance, further research may shed light on whether a broad geographic involvement results in higher profitability, firm growth, and firm stability in the long-term. In addition, it may be worth exploring whether international market entry strategies influence or constrain the international market development strategies that are subsequently employed by a firm, as there is an opportunity cost to decision-making that forecloses other options once a decision to pursue a particular course of action is made.

As well, this thesis calls for further study of entrepreneurial learning in internationalisation that may influence a firm’s international resilience and willingness to ride out adverse international market conditions. Finally, this thesis points to the need for further research into low but greater geographic involvement in international markets, which is different
from the progressive, stepwise expansion of firms into international markets reported in past research (see Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977).
CHAPTER 2

Internationalisation and International Entrepreneurship

There has been a lot of business and academic interest in firm internationalisation in recent decades. Yet internationalisation studies have typically focused on the firm, particularly large, mature firms, as unit of analysis. As a result, the entrepreneur has often been missing in internationalisation. To explain internationalisation, international business (IB) research has spawned various process models (e.g., Uppsala and innovation-related internationalisation stage models) and approaches (e.g., network-view, resource-view, and knowledge-view). While making major contributions to our understanding of internationalisation studies, these models and approaches have left some questions unanswered.

The emergence of international new ventures (INVs), in particular, has shown the shortcomings of current models and approaches. INVs do not internationalise gradually and incrementally as suggested by process models, and often venture into international markets despite limited resources, and in the absence of international networks and international experiential knowledge. More established firms have also engaged in rapid internationalisation and ventured into psychically distant markets, belying the notion of psychic distance. The increasing international involvement of small firms – which are different from large firms – and the failure of internationalisation theories to explain their internationalisation behaviour, have spurred a need for new approaches to understanding firm internationalisation. Such approaches must especially address small firm internationalisation, and account for entrepreneurship processes (Zahra & George, 2002; Oviatt & McDougall, 2005).

To lay the groundwork for this study’s research questions, this chapter examines the literature on firm internationalisation. The first section elaborates on internationalisation theories and approaches in IB research, and identifies some shortcomings. The next section shows that large and mature firms have typically dominated internationalisation studies, to
the neglect of small firms, which are different and not just smaller versions of large firms. However, changes in the international environment, as signified by advanced technologies, globalisation, free trade, and cheap transportation, have facilitated internationalisation of small firms as well, although their internationalisation behaviour is not well understood.\(^1\)

This leads to the first research question:

*How do small firms internationalise?*

The failure of internationalisation theories and perspectives to adequately account for the role of the entrepreneur in internationalisation, especially in small firm internationalisation, is discussed in the following section. The few internationalisation studies that have accounted for the entrepreneur, moreover, have typically focused on “objective characteristics”, but failed to show a conclusive link between internationalisation and “objective” entrepreneurial attributes. International entrepreneurship (IE) research, positioned at the crossroads of IB and entrepreneurship research, has begun to look into “subjective” entrepreneurial factors in internationalisation, which is discussed in the next section. In particular, IE research has sought to understand how opportunities to create future goods and services – across national borders – are discovered, created, evaluated and exploited (Oviatt & McDougall, 2005). This focus is the subject of the second research question of this thesis:

*How are opportunities to enter international markets discovered, created, evaluated, and exploited internationally?*

### 2.1. International business research and the firm

International business (IB) research on internationalisation processes has generally focused on the firm as unit of analysis (Bilkey & Tesar, 1977; Wright & Ricks, 1994; McDougall

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\(^1\) See also Etemad’s (2013a) discussion of the “tsunamis” of technological innovation and the socio-political changes in the international business environment, and how they have fundamentally altered internationalisation processes.
& Oviatt, 1997; Coviello & Jones, 2004). Typical of the firm-level analysis in IB studies are the stage models of internationalisation: the Uppsala internationalisation model of Johanson and colleagues (1975; 1977), and the innovation-related internationalisation models (Andersen, 1993) of Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981), and Czinkota (1982).\(^2\) Johanson and Weidersheim-Paul (1975) proposed a process model of internationalisation that showed the internationalisation process as evolving through stages that generally started with a firm having no regular export activities, then moving towards exporting via independent representatives and later a sales subsidiary, and eventually production in a host country. They called this “stepwise extension of operations” or “sequence of stages the *establishment chain*” (p. 307). The Uppsala model also postulates that after initially engaging with psychically close markets, firms increasingly engage with psychically-distant ones (Johanson & Vahlne, 1977; 1990).

Bilkey and Tesar (1977) introduced a six-stage model of internationalisation in which management is initially disinterested in internationalisation, gradually engages in international activities by filling an unsolicited export order, explores the feasibility of exports, exports experimentally to a psychologically close country, exports regularly, and finally engages with countries that are psychologically further away. The stage models of Cavusgil (1980), Reid (1981), and Czinkota (1982) are essentially similar to Bilkey and Tesar’s model, except “in the number of stages and the description of each stage… (although) the differences between the models seem to reflect semantic differences rather than real differences about the nature of the internationalization process” (Andersen, 1993, p. 212).

Under the stage models, internationalising firms typically establish themselves in domestic markets first (Johanson & Weidersheim-Paul, 1975; Johanson & Vahlne, 1977) and only consider internationalisation after saturating their home markets (Caves, 1982; Porter, 1990; Oviatt & McDougall, 1994). Internationalising firms then proceed to internationalise “in a slow and incremental manner… like ‘rings in the water’”, to

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\(^2\) Andersen (1993, p. 212) considered the models of Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981), and Czinkota (1982) as innovation-related internationalization models since “the internationalization decision is considered as an innovation of the firm… (and they) are derived from Roger’s (1962) stages of the adoption process”.


Although stage models have considerable support, they have also drawn heavy criticism (Bell, 1995). Cannon and Willis (1981) questioned the assumption of incremental, step-by-step internationalisation, arguing that many internationalising firms jump stages to hasten the internationalisation process. Reid (1984) found existing models too deterministic and suggested a contingent view of internationalisation. Welch and Luostarinen (1988) also reported that some firms skipped “stages” and entered foreign markets with surprising rapidity, leading some scholars to assert that firm internationalisation is not always linear and deterministic as suggested by stage theories (Bell, 1995). Further, despite Johanson and Vahlne’s (1990) attempt to deflect criticism of stage theories by arguing that they apply best to the early period of firm internationalisation, McDougall, Shane and Oviatt (1994) questioned the failure of stage models to account for the rise of international new ventures (INVs) that not only skipped stages of internationalisation but went international from inception.³

Internationalisation may also be explained from a network perspective. Under this perspective, membership in a network facilitates a firm’s international expansion (Johanson & Mattson, 1988; Madsen & Servais, 1997; Johanson & Vahlne, 2009), rather than its distinct firm (internal) advantages (Coviello & McAuley 1999). A firm’s relationships with its foreign suppliers (Bell, 1995), customers (Coviello & Munro, 1997), and partners are part of its international network that may drive internationalisation (Johanson & Vahlne, 2009). A network influences a firm’s strategic decisions, facilitates an exchange of resources and sales among its members (Johanson & Mattson, 1987), and complements the resources of each member in the network (Dana, Etemad & Wright, 1999; Jones, 1999). In fact, internationalisation is often “a by-product of a firm’s efforts to improve its position within its network or networks,” argued Schweizer and colleagues

³ International new ventures have also been called “born globals” (Rennie, 1993; Knight & Cavusgil, 1996; Madsen & Servais, 1997; Moen, 2002), “global start-ups” (Oviatt & McDougall, 1994), “instant exporters” (McAuley, 1999), and “international start-ups” (Johnson, 2004).
More than psychic distance, outsidership or non-membership in a relevant network is the root of internationalisation uncertainty (Johanson & Vahlne, 2009).

Notwithstanding the crucial role played by networks in internationalisation, however, empirical studies do not always attribute internationalisation to the presence of networks (McDougall et al., 1994; Bell, 1995). As well, we can surmise that although most firms are part of networks, which involve sets of interconnected exchange relationships (see Johanson & Mattson, 1987, 1988) such as suppliers, partners, customers, etc., they do not necessarily internationalise. The existence of INVs, which because of their newness are typically not part of networks, also weakens the network view.⁴

The resource-based approach sees internationalisation as “a function of firm-specific resources” (Bloodgood, Sapienza & Almeida, 1996, p. 64). It also sees firms as “unique bundles of accumulated tangible and intangible resource stocks” (Roth, 1995, p. 200). Resources, which “include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” (Barney, 1991, p. 101), enable a firm to enter international markets (Westhead, Wright & Ucbasaran, 2001) and increase its commitment therein (Johanson & Vahlne, 1977). To the extent that these resources are unique, i.e. they are valuable, rare, imperfectly imitable, and non-substitutable, they are a source of international competitive advantage (Barney, 1991; Bloodgood et al., 1996) and strength for the formulation and implementation of firm strategies (Porter, 1981). On the other hand, resource constraints generally impede international expansion (Cannon & Willis, 1983; Oviatt & McDougall, 1995; Dimitratos et al., 2003).

Despite the attractiveness of the resource-based view in IB research (Peng, 2010), it does not fully explain internationalisation. If we examine internationalising firms, we might find some unique, firm-specific resources, but not all firms with unique and firm-specific resources internationalise. As well, the increasing engagement by small firms in

⁴ Arguably, founders of INVs may belong to networks which facilitate early internationalisation. However, not all INV founders belong to networks, as exemplified by many case entrepreneurs in this study.
international markets, with severe resource constraints (Hedlund & Kverneland, 1985; Oviatt & McDougall, 1995; Dimitratos et al., 2003) and often against more established and better resourced host firms, weakens the explanatory power of the resource-based view.

The knowledge view suggests that internationalisation is determined by knowledge of international markets and operations (Autio, Sapienza & Almeida, 2000; McNaughton 2001), particularly experiential knowledge (Johanson & Vahlne, 1977). A lack of experiential knowledge constrains firm involvement in international markets (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). Gradual and incremental internationalisation is a consequence of “the lack of, and difficulty of obtaining knowledge in international operations… (and) of market information and the uncertainty occasioned thereby” (Johanson & Vahlne, 1977, p. 26). Lack of experiential knowledge also explains why firms, to avoid uncertainty, typically internationalise to neighbouring or psychically-close countries (Johanson & Wiedersheim-Paul, 1975). In both the Uppsala and innovation-related models, experiential knowledge, rather than objective knowledge, figures prominently in internationalisation (Eriksson et al., 1997). Objective knowledge can be taught (Penrose, 1966) and acquired through standardised methods of information collection such as market research (Eriksson et al., 1997); experiential knowledge requires involvement in actual international operations (Johanson & Vahlne, 1977). Eriksson and colleagues (2000, p. 340-341) pointed out that “experiential knowledge is country-specific and cannot be transferred between firms or business units… The firm’s experiential knowledge derived from the domestic market is of limited value in markets located at a great psychic distance.”

Four criticisms, however, can be raised against the knowledge view.⁵ First, although previous international experience of entrepreneurs facilitates internationalisation (Westhead et al., 2001; Zucchella, Palamara & Denicolai, 2007), arguably not all internationalising entrepreneurs have previous international experience – as was the case

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⁵ From a theoretical perspective, Etemad (personal communication, October 23, 2013) questioned the knowledge view for being premised implicitly on a firm’s direct involvement in international markets and for failing to acknowledge the possible acquisition of knowledge through foreign intermediaries, such as foreign dealers and distributors, which can lead to indirect internationalisation.
with many case entrepreneurs in this study. Second, some firms initially internationalise to psychically distant markets (Czinkota & Ursic, 1987; Bell, 1995). Third, internationalising firms do not always internationalise in small incremental steps and often skip “stages” (Cannon & Willis, 1983; Hedlund & Kverneland, 1985; Bell, 1995). Fourth, some firms arguably may possess experiential knowledge (McDougall et al., 1994; Autio, et al., 2000; Crick, 2009), but do not internationalise anyway, suggesting that other factors play an important role.

2.2. Internationalisation of small firms

As noted, IB research is typically associated with the study of internationalisation of large and established firms or multinational enterprises [MNEs] (Bloodgood et al., 1996; McDougall & Oviatt, 1997; Rialp & Rialp, 2001; Acs et al., 2003; Etemad, 2013a). Such enterprises are characterised by boards of directors, management teams, and a large employee base able to do multiple and specialist functions, such as international marketing and sales, production, R&D, human resources, finance, etc. Decision-making is typically decentralised and organisational routines are in place. Large firms have more resources and networks, and are able to bear investment losses better than small firms. They are also likely to be more stable, mature (Freeman, Carroll & Hannan, 1983; Hannan & Freeman, 1984), and well-established in their domestic markets (Etemad, 2013a).

Small MNEs are different from large MNEs. Small firms “are not smaller versions of big business” (Shuman & Seeger, 1986, p. 8) and are “quite different from big firms” (Julien, 1993, p. 158). They not only have limited resources (Bell, McNaughton & Young, 1991; Etemad, 2013a), they also bear a “liability of smallness” and a higher rate of mortality (Freeman, Carroll & Hannan, 1983). Hannan and Freeman (1984) attribute the high mortality rate of small firms to their quick responsiveness to environmental change (low levels of inertia), but which leads to reproduction of unreliable structures. Small firms also

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6 There is no common definition of “large” firms. Recent studies define large firms as those employing 250 or more employees (Commission of the European Communities 2003; Schniemann, 2008; Audretsch et al. 2009). An earlier work of Acs and Audretsch (1988) saw large firms as those with at least 500 employees.
typically lack strong operating procedures and governance systems and face stringent legitimacy questions abroad (Etemad, 2013a).

Small enterprises have other disadvantages compared with large enterprises, including greater difficulty in raising capital and dealing with governmental regulations, and disadvantages in competing for labour inputs (Aldrich & Auster, 1986; Singh & Lumsden, 1990). They are also not diversified and are “one product, one market companies”, which make them especially vulnerable to sudden changes in market conditions (Buckley, 1989, p. 91). But small firms have advantages, too, of having structures that are simpler, less formal, and more flexible (Carrier 1994; Carson & Coviello 1996), quick decision-making (Julien, 1993), agility, flexibility, and adaptability (Knight, Bell & McNaughton, 2003).

A consequence of the IB focus on large firms was the development of internationalisation theories and approaches that explained – in part – the internationalisation of large firms. Many of these internationalisation theories and approaches emerged in the 1970s and 1980s, and may need refinement. After thirty years, much has changed in the international environment, signified by the ubiquity of advanced technologies, globalisation, free trade, and cheap transportation which have facilitated internationalisation especially of small firms.

It is likely that changes in the international environment are enabling small firm internationalisation (see also Etemad, 2013a) in ways that are not yet well understood. In light of such developments, it is appropriate to examine small firm internationalisation. This leads to the first research question of this thesis:

*How do small firms internationalise?*

### 2.3. “‘Who is an entrepreneur?’ Is the wrong question”

A shortcoming of internationalisation theories and perspectives is their failure to fully account for the role of the entrepreneur in internationalisation, especially in small firm
internationalisation. “The role of the entrepreneur has been conspicuously under explored in international business journals” (Acs, Dana & Jones, 2003, p. 5). Casson (1985) and Oviatt and McDougall (1994) cited the need to include the role of the entrepreneur in explaining the dynamics of internationalisation. If the entrepreneur is at the core of entrepreneurship (Baumol, 1968; Schumpeter, 1976; Foss et al., 2008) and is “the driving force of the whole market system” (von Mises, 1949, p. 249), arguably the entrepreneur should have a role in internationalisation, especially in small firm internationalisation.

Internationalisation in small firms can proceed only on the basis of entrepreneurial decisions and the investment of resources based on expected market conditions (Foss & Klein, 2012). Miesenbock (1988, p. 42) asserted that the “key variable in small business internationalisation is the decision-maker of the firm. He or she is the one to decide starting, ending and increasing international activities. He lays down the goals concerning exporting and determines organisational commitment.”

In internationalisation studies that have explicitly considered the entrepreneur, the focus has typically been on “objective characteristics” (Miesenbock, 1988, p. 42) such as: education (Kundu & Katz, 2003), foreign languages and prior work experience (Zucchella et al., 2007), international experience (Roth, 1995; Bloodgood et al., 1996), management know-how and age (Westhead et al., 2001), background (Madsen & Servais, 1997) and past experience (McDougall et al., 1994; Madsen & Servais, 1997). Such studies often explicitly or implicitly take a resource-based view (Roth, 1995; Conner & Prahalad, 1996; Westhead et al., 2001).

However, results of internationalisation studies that sought a correlation between objective entrepreneurial attributes and internationalisation have been mixed. The study of Westhead and colleagues (2001) showed that firms whose founders were older and had considerable management experience were more likely to internationalise. But many variables on management know-how failed to significantly predict internationalisation. International work experience, which facilitates the acquisition of knowledge and experience of international markets and operations, and the development of international relationships, has been linked to internationalisation, but not international schooling (Bloodgood et al.,
It would seem that international schooling may lead to an acquisition of knowledge and experience of international markets, but not of international operations which are crucial for international firm expansion.

While foreign travel was found to be a key variable in exporting by Ganier (1982), Angelmar and Pras (1984), Dichtl and colleagues (1984), and Karafakioglu (1986), research by Simpson and Kujawa (1974), Brooks and Rosson (1982), and Ogram (1982) did not find any significant correlation between foreign travel and exporting. This may be because mere exposure to an international market is inadequate for its deep understanding (Roth, 1995). The failure of internationalisation studies to show a clear link between objective entrepreneurial attributes and internationalisation raises the relevance of Gartner’s (1988) famous quip, “‘Who is an entrepreneur? is the wrong question.’”

2.4. “Opportunities” in international entrepreneurship

Recently, there has been growing recognition of subjective entrepreneurial factors in internationalisation, particularly entrepreneurial cognition and associated behaviour, in the field of international entrepreneurship (Oviatt & McDougall, 2005; Schweizer, Vahlne & Johanson, 2010; Jones, Coviello & Tang, 2011; Andersson, 2011). The international entrepreneurship (IE) field emerged from McDougall’s (1989) comparison of domestic versus international new ventures and was a “newer thrust of (IB) research” at the start (Wright & Ricks, 1994, p. 699). Since then, IE has emerged as field of study of its own right (Oviatt & McDougall, 2005; Coviello et al., 2011).

IE research initially focused on the INV (McDougall, 1989; Oviatt & McDougall, 1994) and on small firm internationalisation (Jantunen et al., 2005; Coombs, Sadrieh & Annavarjula, 2009; Keupp & Gassmann, 2009; Coviello et al., 2011). It has since expanded to the study of “new and innovative activities that have the goal of value

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7 The failure of entrepreneurship research to uncover what made the entrepreneur distinctive led Gartner (1988, p. 11) to claim “Who is an entrepreneur? is the wrong question.” He argued that focusing on the entrepreneurial traits and characteristics is unhelpful because there are too many differences among entrepreneurs.
creation and growth in business organizations across national borders,” drawing more on entrepreneurship research (McDougall & Oviatt, 1997, p. 293). Building further on entrepreneurship research, the authors (2000, p. 903), revised their definition to “innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations.” They concluded that the “demarcation segregating international business and entrepreneurship has begun to erode” and characterised IE research as the “intersection” of these two research areas (p. 902).

Noting the close theoretical link between entrepreneurship and IB research observed previously by IE scholars, and building on the entrepreneurship work of Shane and Venkataraman (2000), Zahra and George (2002, p. 261) offered another definition of international entrepreneurship as “the process of creatively discovering and exploiting opportunities that lie outside a firm’s domestic markets in the pursuit of competitive advantage.” This was followed by a similar conceptualisation by Oviatt and McDougall (2005, p. 540) of IE as “the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services.”

The focus on opportunities in internationalisation is appropriate since it is a subject that has not been adequately explored in internationalisation research (Chandra et al., 2009). Internationalisation theories, including the Uppsala stage theory of Johanson and Vahlne (1977) and the network view of Johanson and Mattson (1988, 1992), typically assume the existence of opportunities without explaining how such opportunities emerged (Chandra et al., 2009). Johanson and Vahlne (2006) themselves acknowledged that the opportunity side of the internationalisation process is a shortcoming of their earlier papers. Hence, the

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8 The impetus for the broadening of the domain of IE research may have been a 1991 survey among entrepreneurship researchers who expressed the view that “narrowing the scope of international entrepreneurship is not the right thing to do, at least not at the present time” (Giamartino, McDougall & Bird, 1993, p. 38).

9 In revising their definition, McDougall and Oviatt built on the work of Covin and Slevin (1989). Although McDougall and Oviatt (2000) did not say it, their definition also drew on Lumpkin and Dess (1996) who identified an entrepreneurial orientation that lead to new entry which consisted of five salient dimensions: innovativeness, proactiveness, risk taking, autonomy, and competitive aggressiveness. Oviatt, Maksimov and McDougall (2011, p. 69) later acknowledged the influence of the notion of “entrepreneurial orientation” on the definition of international entrepreneurship.

10 Shane and Venkataraman (2000, p. 218) defined “the field of entrepreneurship as the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited.”
formation of opportunities “deserves more systematic research attention than it has so far received because it is the trigger that starts” the internationalisation process, argued Chandra and colleagues (2009, p. 31).

Having delineated the importance of “opportunities” in IE and internationalisation research in general, the second research question of this thesis can now be stated:

_How are opportunities to enter international markets discovered, created, evaluated, and exploited internationally?_

**2.5. Concluding comments**

This chapter provided a brief sketch of research into firm internationalisation processes, and highlighted the shortcomings of current internationalisation theories and approaches, particularly in explaining the internalisation of INVs. The increasing international involvement of small firms – which are different from large firms – and the failure of internationalisation theories to explain their internationalisation behaviour were also shown to have spurred a need for new approaches to understanding firm internationalisation. The first sections pointed out that any new approach must especially address small firm internationalisation and showed the importance of this thesis first research question: _How do small firms internationalise?_

The chapter also raised the failure of internationalisation studies to adequately account for the role of the entrepreneur in internationalisation. In internationalisation studies that have explicitly considered the entrepreneur, the focus has typically been on “objective characteristics” (Miesenbock, 1988). However, results of internationalisation studies that sought a correlation between _objective_ entrepreneurial attributes and internationalisation have been mixed. The failure of internationalisation studies to show a clear link between objective entrepreneurial attributes and internationalisation raises the relevance of Gartner’s (1988) famous quip, “‘Who is an entrepreneur?’ is the wrong question.”
The chapter closed by showing how international entrepreneurship (IE) research, positioned at the crossroads of international business (IB) and entrepreneurship research, has slowly stepped into the gap by drawing on entrepreneurship research and examining the *subjective* entrepreneurial factors in internationalisation. In particular, IE research has sought to examine how opportunities to create future goods and services, across national borders, are discovered, created, evaluated and exploited, and the role of the entrepreneur in these processes. These were identified as the subject of this thesis’ second research question. *How are opportunities to enter international markets discovered, created, evaluated, and exploited internationally?*

Having highlighted the increasing influence of entrepreneurship research in internationalisation studies, we explore further in the next chapter the areas of entrepreneurship research which have influenced international business research.
CHAPTER 3

Entrepreneurship and International Entrepreneurship

The previous chapter highlighted how internationalisation research has increasingly drawn on entrepreneurship research. The emergence of international entrepreneurship (IE) as a field of its own right (Oviatt & McDougall, 2005; Coviello et al., 2011) has particularly facilitated the introduction of entrepreneurship research into, and enrichment of, internationalisation research. These developments respond to calls for better integration of the research streams of IE and entrepreneurship (Madsen & Servais, 1997; McDougall & Oviatt, 2000) and enhancement of IE research by borrowing from the field of entrepreneurship (Jones & Coviello, 2005). They also reflect an erosion of the “demarcation segregating international business and entrepreneurship” and the “intersection” of these two research areas (McDougall & Oviatt, 2000, p. 902).

In this chapter, we explore further the areas of entrepreneurship research which have influenced international business (IB) research. In the first section, we revisit the “opportunity” concept and examine the conceptual difficulties over it in entrepreneurship research. We also look at how IE research has, by drawing on the opportunity concept, unavoidably waded into the entrepreneurship debate on whether opportunities are discovered or created.

The succeeding section examines entrepreneurship research on entrepreneurial thinking and judgment, which influence the discovery, creation, evaluation and exploitation of international opportunities, and corresponds to a new and interesting area of IE research relating to entrepreneurial cognition (Jones et al., 2011). In particular, we look at the entrepreneurship-related work of Sarasvathy on effectuation, which has received attention in IE research (e.g., Mainela & Puhakka, 2009; Schweizer et al., 2010; Andersson, 2011; Jones et al., 2011; Kalinic et al., 2012). The section brings up a possible dimension of effectuation and potentially a distinct type of entrepreneurial thinking called “prospectual thinking”, which is future-oriented and based on an imagined future. The core ideas on
prospectual thinking emanated from subjectivist economics (Lachmann, 1969, 1971, 1994; Kirzner, 1982; Shackle, 1984), and have largely been neglected in the entrepreneurship literature and is virtually absent in the IE field. This type of entrepreneurial thinking is examined through a final research question:

*How do entrepreneurs think and make decisions in discovering, creating, evaluating and exploiting opportunities to create future goods and services internationally?*

The final section explores “subjectivism”, a body of thought which has strongly influenced economics and entrepreneurship research, and guides the theoretical approach of this research. It looks at the different views on subjectivism, beginning with Menger’s subjectivism of values, needs and preferences, and then examines Mises’ subjectivism of means and ends, and subjectivism of mind – identified by Lachmann (1990) as the second level of subjectivism. The chapter closes by examining Lachmann’s (1994b) “subjectivism of the active mind” – the “‘highest’ stage of subjectivism” (ibid., p. 48) – a “radical subjectivism” involving the subjectivism of human expectations and interpretations. Such subjectivism is the basis of an uncertain and unknowable but imaginable future. On such subjectivism, which recognises that opportunities can be imagined and created, and new ends, new means and new ends-means frameworks can constantly emerge (Gloria-Palermo, 1999; Chiles et al., 2010a), also rests the “creative” character of entrepreneurship and internationalisation.

**3.1. Opportunities in entrepreneurship research**

Before Venkataraman (1997, p. 119) suggested that entrepreneurship as a scholarly field should seek to “understand how opportunities to bring into existence ‘future’ goods and services are discovered, created, and exploited, by whom, and with what consequences”, entrepreneurship research often focused on the personological or traits approach (Katz & Shepherd, 2003). The traits approach assumed that “if we can just find out who the entrepreneur is, then we’ll know what entrepreneurship is” (Gartner, 1988, p. 23). It also
sought to understand firm performance by looking at the traits and characteristics of entrepreneurs (Kao, 1989). But the trait approach attracted criticism from a number of entrepreneurship researchers. Stevenson, Roberts, and Grousbeck (1985) argued that it is not helpful to explore entrepreneurial traits further because there is more at play in entrepreneurship than just individual traits. Hisrich and Peters (1995, p. 27) acknowledged that there are few firm conclusions to be drawn from all the research regarding (universal) personality traits of entrepreneurs, and concluded “there is no such person as a typical entrepreneur” (p. 27). Drucker (1985, p. 25) was even more pointed in arguing that entrepreneurship “is not a personality trait” or even a bundle of traits.

Entrepreneurship research has since widely embraced Venkataraman’s proposal. There is also a general agreement in entrepreneurship research that at the heart of entrepreneurship is an “opportunity” (Stevenson & Jarillo, 1990; Venkataraman, 1997; Shane & Venkataraman, 2000; Gartner, Carter & Hills, 2003; Short et al., 2010). “Without an opportunity, there is no entrepreneurship,” said Short and colleagues (2010, p. 40). However, whether opportunities are discovered or created is contested (Krueger, 2003; Alvarez & Barney, 2007; Zahra, 2008; Alvarez, Barney & Young, 2010). Alvarez and Barney (2007, p. 11) characterise the debate as one involving “mountain climbing” in which opportunities are “just waiting to be discovered”, and “mountain building” where opportunities are created by entrepreneurial action.

The discovery view, which has dominated the entrepreneurship literature, particularly that deriving from economics (Gaglio & Katz, 2001; Alvarez & Barney, 2007; Foss & Klein, 2010), looks at opportunities as objective (Shane & Venkataraman, 2000) and concrete phenomena (Gartner et al., 2003). Discovery typifies Kirzner’s (1979; 1985; 1997a) view of opportunities as being in the environment and existing independent of entrepreneurs (Gartner et al., 2003). Kirzner (1995, p. 17) held that discovery involves

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11 Discovery theory emerged from Austrian economics to explain the tendency of market processes toward equilibrium, and has been absorbed in entrepreneurship literature. Kirzner (1985, p. 12) said, “Without resorting to any assumption of systematic, deliberate search, and without relying on sheer luck, I postulate a continuous discovery process – an entrepreneurial discovery process – that in the absence of external changes in underlying conditions, fuels a tendency toward equilibrium.” He (1997a, p. 62) added, “The dynamic competitive process of entrepreneurial discovery (which is the driving element in this Austrian approach) is one which is seen as tending systematically toward, rather than away from, the path to equilibrium.”
“unnoticed opportunities to be noticed and grasped.” Such opportunities are “just around the corner” to be discovered by an alert entrepreneur (Kirzner, 1979, p. 7). Kirzner (1997a) also pointed out that discovery lies midway between search and pure chance. He made this clarification because to him, an “opportunity for pure profit cannot, by its nature, be the object of systematic search” (ibid., p. 71). Discovery is different from successful search because the former “involves the surprise which accompanies the realization that one had overlooked something in fact readily available. (‘It was under my very nose!’)” (ibid.).

The creation view, on the other hand, regards opportunities as having no objective existence, and hence they cannot be mere objects of discovery (Foss & Klein 2012). Opportunities in this view exist only in the minds of entrepreneurs (Gartner et al., 2003; Klein, 2008). In rejecting the discovery view, Buchanan and Vanberg (1991) asserted that it is difficult to speak of opportunities as given, since opportunities are products of entrepreneurial choices. They are also created by the actions (Alvarez and Barney, 2007; Endres & Woods, 2007; Foss & Klein, 2012) and imagination of entrepreneurs (Venkataraman & Sarasvathy, 2001a).

Other scholars have taken a different approach to the opportunity ontology debate. Foss and Klein (2010, p. 112) argue that the ontology of opportunities is a non-issue and to debate the issue is to miss the point. After all, they argue, Kirzner did not intend for opportunities to be understood as objective realities, but merely used the concept of opportunity as a metaphor to explain the tendency of markets to equilibrate, not as the object of analysis. Kirzner had described opportunities as “metaphorically waiting to be discovered,” not literally waiting to be discovered (Foss & Klein, 2010).

Short and colleagues (2010) suggest that differences in theoretical perspectives may drive the differences in conceptualising the opportunity construct. Philosophical assumptions of entrepreneurship have largely been ignored by scholars (Grant & Perren, 2002; Jennings, Perren, & Carter, 2005). Chiles and colleagues (2010a, p. 139) identify four paradigmatic philosophical assumptions concerning ontology, which proponents accept “on faith” as a set of distinct beliefs about the nature of the world. These range from positivists on one end, who view the world as having an existence independent of individual knowledge, to
constructivists on the other, who see the world as subjectively created by human actors (ibid.).

Another approach finds a middle ground where some opportunities are effectively discovered and others are created. This view, which I take, is favoured by Sarasvathy and colleagues (2003), Oviatt and McDougall (2005), Whittaker and colleagues (2009), and Short and colleagues (2010). It is also consistent with Venkataraman’s (1997, p. 120) view of entrepreneurship as seeking “to understand how opportunities to bring into existence ‘future’ goods and services are discovered, created, and exploited, by whom, and with what consequences” (emphasis in the original). Zahra (2008, p. 243) suggests that discovery and creation coexist in “a virtuous and dynamic cycle where discovery enriches creation which, in turn, fosters the discovery of new opportunities.” In taking the middle ground, this approach accepts that some opportunities may be discovered by any “alert” and sufficiently motivated entrepreneur, while others are the subjective and concerted creations of entrepreneurs.

Following the paradigmatic philosophical assumptions on ontology identified by Perry and colleagues (1999), and Chiles and colleagues (2010a), the middle approach potentially has an ontological contradiction. On the one hand, acknowledging that an opportunity has an independent and objective existence external to individuals is positivist (see also Chiari & Nuzzo, 1996). On the other hand, to suggest that an opportunity exists solely in the mind is constructivist or at least critical realist.

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12 Shane and Venkataraman (2000, p. 218) later adopted this definition in delineating the field of entrepreneurship, but (inexplicably) dropped the notion of opportunities as created. The IE definitions of Zahra and George (2002), and Oviatt and McDougall (2005) also excluded opportunity creation.

13 Perry and colleagues (1999) identified four alternative paradigmatic belief systems: positivism, realism, critical theory, and constructivism that differed in terms of ontology, epistemology, and methodology. Chiles and colleagues (2010a) identified: positivism, postpositivism, critical realist, and constructivism. Except for differences in terminology (e.g. realism and postpositivism, and critical theory and critical realist), the substance of their frameworks are essentially the same.
In fact, critical theory/critical realism and epistemological constructivism support the middle ground.\textsuperscript{14} Both critical theory/critical realist and epistemological constructivism, which differ in terms of the degree of subjective mediation of external reality, assume an external reality, independent of individual knowledge, that is subjectively experienced (Perry et al., 1999; Babbie, 2007) and subjectively created (Viney, 1992; Raskin, 2002). Here, attention is drawn to the close association between critical theory and Austrian subjectivism (Perry et al., 1999), and constructivism and Austrian subjectivism (Mahoney, 1995; Woods, 2002), which we shall return to shortly.

Compounding the opportunity debate is the diverse use of terminology (Gartner et al., 2003; Ardichvili et al., 2003; Hansen, Shrader & Monllor, 2011). In addition to discovery and creation, the process by which opportunities are formed has also been described in terms of: search (Kaish & Gilad, 1991; Snow, 2002), recognition (Christensen, Madsen & Peterson, 1994; Singh, 2000; De Koning, 2003; Krueger, 2003; Baron & Ward, 2004), identification (Ardichvili, et al., 2003; Mitchell et al., 2007; Foss & Klein, 2010), perception (Kirzner, 1985; Bygrave & Hofer, 1991; Shane, 2000), and development (Ardichvili, et al., 2003). Writers often use the terms interchangeably. Kirzner (1979, 1985) equates perception with discovery, while Ardichvili and colleagues (2003) use recognition and perception as synonymous with discovery. Other researchers propose a third and distinct opportunity formation process, in addition to discovery and creation. Zahra (2008) suggests search, while Venkataraman and Sarasvathy (2001a) propose recognition, as another opportunity formation process. Ardichvili and colleagues (2003) advance an opportunity identification triad involving recognition, development, and evaluation. Following Zahra (2008), this thesis treats the processes of discovery, creation, and search as discrete and conceptually distinct, and the processes of recognition,

\textsuperscript{14} Constructivism has many varieties (Kwan & Tsang, 2001; Neimeyer & Raskin, 2001; Raskin, 2002) that cut across a range of epistemological positions, including realism (Mir & Watson, 2001), moderate constructivism (Raskin, 2002), which is similar to epistemological constructivism, and radical constructivism. The extreme form of constructivism – radical constructivism – is “a form of antirealism” (Kwan & Tsang, 2001, p. 1164; see also Hess, 1997) and is a source of dispute in what has been called the “science wars” (Ross, 1996; Ward, 1996; Latour, 1999). A deeper discussion on varieties of constructivism, which is beyond the scope of this thesis, may be found in Mahoney (1988, 1995), Botella (1995), Lyddon (1995), Chiari and Nuzzo (1996), and Sexton (1997).
identification, perception, and development as involving varying degrees of discovery and creation.\textsuperscript{15}

3.2. Entrepreneurial thinking and judgment

A final area of interest of this research is entrepreneurial thinking and judgment. These research themes, which are related to the discovery, creation, evaluation, and exploitation of opportunities, have attracted interest in entrepreneurship research (Foss & Klein, 2005, 2012; Foss et al., 2008). IE research has also started to delve into this new area of research (Jones et al., 2011), drawing on the entrepreneurship-related work of Sarasvathy on effectuation (e.g., Mainela & Puhakka, 2009; Schweizer, Vahlne & Johanson, 2010; Andersson, 2011; Kalinic et al., 2012).

The integration of entrepreneurial cognition into IE (Jones et al., 2011) reflects the rapid growth of the field of entrepreneurial cognition, a stream in entrepreneurship research (Baron & Ward, 2004; Mitchell et al., 2007). Baron and Ward (2004, p. 554) delineated the field of entrepreneurial cognition as including “all aspects of cognition that can, potentially, play a role in important aspects entrepreneurial process – everything from discovering opportunities and deciding to pursue them through making complex decisions and solving difficult and unexpected problems while running a new venture.” Within that field, Mitchell and colleagues (2007) identified a substantial development in the study of entrepreneurial thinking and decision making, including Sarasvathy’s effectuation (2001a, 2001b).

Judging by the amount of scholarly work it has spawned, Sarasvathy’s work on effectual thinking is well accepted in the literature on entrepreneurship and on entrepreneurial thinking in particular. While Sarasvathy (2001a) indicates that a particular \textit{behaviour} may be effectual or causal, she states that effectuation and causation are mainly cognitive processes, a point similarly highlighted by Sharma and Salvato (2011) and Perry, Chandler and Markova (2012). Effectual thinking leads to entrepreneurial action to transform

\textsuperscript{15} See Chapter 6 for a more detailed account.
existing realities into new ventures and new markets (Sarasvathy & Dew, 2005; Sarasvathy & Berglund, 2010). Effectuation has been described by some as a “paradigmatic shift in the way that we understand entrepreneurship”, which contrasts with the predominant goal-driven and causal entrepreneurial decision model (Perry, Chandler & Markova, 2012, p. 838; see also Kraaijenbrink, 2012). Effectuation finds supports in March (1972) who questioned assumptions of pre-existent goals in the management literature. He said:

To say that we make decisions now in terms of goals that will only be knowable later is nonsensical – as long as we accept the basic framework of the theory of choice and its presumptions of pre-existent goals. I do not know in detail what is required, but I think it will be substantial. As we challenge the dogma of pre-existent goals, we will be forced to reexamine some of our most precious prejudices (p. 75).

Using think-aloud verbal protocols, Sarasvathy (2001a) asked expert entrepreneurs to solve ten decision problems relating to the establishment of a new company for an imaginary product, in order to examine entrepreneurial decision-making processes, and identified two types of entrepreneurial thinking: causation and effectuation. She explained, “Causation processes take a particular effect as given and focus on selecting between means to create that effect. Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means” (p. 245). Whereas causation begins with given goals, the starting point for effectuation is “three categories of “means”: they know who they are, what they know, and whom they know – their own traits, tastes, and abilities; the knowledge corridors they are in; and the social networks they are a part of” (Sarasvathy, 2001a, p. 250). Effectual entrepreneurs consider means that are readily available instead of proper resources to start their ventures (Sarasvathy & Dew, 2011).

Causation and effectuation also differ in their set of choices: causation involves a choice between given means to create a specific effect while effectuation involves a choice between many possible effects using a given set of means (Sarasvathy, 2001a). Hence, causation leads to “many-to-one mappings” while effectuation involves “one-to-many mappings” (ibid.). Sarasvathy (2001a; see also Dew et al., 2009) further distinguishes
causation and effectuation according to decision-making selection criteria, competencies employed, context of relevance, nature of unknowns, underlying logic, and outcomes.

Causation and effectuation have been contrasted with Baker and Nelson’s (2005) “bricolage” by Fisher (2012). Borrowing from Levi-Strauss (1967) who distinguished the actions of an engineer and a “bricoleur” (handyman), Baker and Nelson (2005, pp. 329-330) had found that “bricolage” or “making do with what is at hand” helped explain “how some entrepreneurs create something out of nothing in resource-constrained environments.” However, bricolage is arguably a behavioural theory of entrepreneurship (see also Fisher, 2012) and is beyond the scope of this thesis which focuses on entrepreneurial cognition and decision-making. It also concerned mainly with firm-level behaviour, not entrepreneurial thinking.

Kraaijenbrink (2012, p. 196) questions the dichotomy between effectuation and causation. He argues that the dichotomy “is an oversimplification” since the dimensions in which the two thinking processes differ are not exclusive to either. For instance, effectuation is also suitable for existing products and existing markets, and causation works for the creation of new products and markets (ibid.). As well, causal logic can follow a risk-averse strategy to minimise risks and potential losses. Effectual logic can also focus on predictability (ibid.). Perry and colleagues (2012, p. 852) assert that effectuation and causation are not opposing constructs but are “orthogonal (similar to satisfaction and dissatisfaction).” They explained:

The opposite of “beginning with a set of given means” is not “beginning with a given goal.” The opposite of “focusing on affordable loss” is not “focusing on expected returns.” The opposite of “emphasizing strategic alliances” is not “emphasizing competitive analysis.” The opposite of “leveraging contingencies” is not “exploiting pre-existing knowledge” and the opposite of “seeking to control an unpredictable future” is not “trying to predict a risky future.

Moroz and Hindle (2011, p. 806) also question the failure of Sarasvathy to convey the co-existence of effectuation and causation within the entrepreneur and their use in various degrees across different situations. They also critique the limited role effectuation ascribes to “purposeful human action – in the sense of setting and seeking to achieve goals – in an
entrepreneurial process.” They argue that planning, even one which is solely cognitive and not articulated in a formal business plan, is a crucial component of any purposive entrepreneurial process.

Although it is the “pragmatist” dimension of effectuation that is often emphasised (Kraaijenbrink, 2012), i.e. one which does not assume pre-existing goals but sees them as being emergent (Ventakataraman & Sarasvathy, 2001), there is a crucial teleological underpinning to effectuation. While effectuation begins with given means, it proceeds from a “generalized end goal or aspiration” (Sarasvathy, 2001a, p. 245). Said Perry and colleagues (2012, p. 837), “When using effectuation processes, entrepreneurs start with a generalized aspiration and then attempt to satisfy that aspiration using the resources they have at their immediate disposal.” Sarasvathy ties this generalised end goal or aspiration to the future and imaginative sculpting by an entrepreneur of a “vision of the society we want to live in (Sarasvathy, 2002, p. 106; underscoring in the original). She said, “At its heart, entrepreneurship is about the future. Not the future that has already happened and is therefore predictable … but the future that is barely imagined today and can only be known in the creation of it tomorrow” (p. 109). These views of Sarasvathy and her reference to “creative action” and “human imagination” led Chiles and colleagues (2007, p. 487) to conclude, “Sarasvathy’s economic approach to entrepreneurship is decidedly Lachmannian.”

Sarasvathy and Dew (2008) responded by seeking to distinguish effectuation from Lachmann’s views on entrepreneurship. However, they acknowledged effectuation’s affinity with the latter. They said, “Effectuation seeks to put the ‘human’ back into human action. To be human, here, is to be a product of physical and historical contingency – a product nonetheless that seeks to impose its will on the very contingency that made it. In this sense, to paraphrase Loasby (1998: 29), effectuation is indeed Lachmannian – optimistic without illusions” (p. 243). In reply, Chiles, Bluedorn and Gupta (2008, p. 247)

16 Causation which proceeds from given ends (Sarasvathy, 2001a) also has a teleological dimension. Although “(e)nds can be conceived as observable states of affairs only after their achievement… (a)t the time of the contemplation of action, ends are to the actor only anticipations of future hoped-for states of affairs” (Kirzner, 1976, p. 125).
concluded that “the Lachmannian and effectuation approaches may share more common
ground than S&D realize in some areas and less than we thought in others.”

Lachmann (1994, p. 221), a central figure in Austrian economics who has been neglected
in entrepreneurship research (Chiles et al., 2007), had said that “the future is unknowable
though not unimaginable.“17 In order to glimpse the unknown, Lachmann (1969) argued
that an individual may imagine the future and develop a plan, which is the product of
mental processes that are orientated to an imagined future. He explained, “The plan of
action, its ‘blueprint’ or scheme of intended action… guides the course of action, or that
the latter may be ‘explained’ by the former as its ‘cause’. This whole scheme of action
exists within the actor’s mind at any moment of time, but finds its external manifestation in
an observable course of action that gradually unfolds over time” (1994, pp. 219-220). The
plan, with its various components and design, also binds together the various purposes and
means employed (Lachmann, 1971) – following a purposive human action (Lachmann,
1943; 1977) – and provides the “means-ends frameworks for human action” (Sarasvathy &
Dew, 2008, p. 242). It charts the way for the achievement of an individual’s purpose “in
the topography of his mind” (Lachmann, 1977, pp. 68–69).

17 Lachmann, whose writings have only recently attracted the attention of entrepreneurship
scholars, notably Chiles and colleagues (2007; 2010a; 2010b), and Foss and colleagues (2008), was
a “maverick economist” of the Austrian subjectivist school (Gloria-Palermo, 1999) who went
against established economic thinking in Austrian economics (Boehm et al., 2000, p. 394). He
strongly rejected orthodox economics, arguing not only that markets never achieve equilibrium, but
that they did not unambiguously tend toward equilibrium (Boehm et al., 2000). Hence, Lachmann’s
subjectivism was considered “radical” (Littlechild, 1986; Horwitz, 1994; Kirzner, 1995; Boehm et
al., 2000; Chiles et al., 2007). (See also Koppl and Mongiovi [1998] who anchor Lachmann’s
“radical subjectivism” on his [1982] idea that individuals continually and incessantly order and
formulate ends, allocate means to them, and make and revise plans. Loasby (1998, p. 13), on the
other hand, considered Lachmann a “radical subjectivist – too radical for many of his fellow
Austrians – for claiming that “market processes were not always superior to any alternative.”) Chiles
and colleagues (2007, p. 472) described Lachmann’s approach to entrepreneurship as “one
that jettisons neoclassical economics to pursue Austrian economics in its radical subjectivist form.”
Lachmann (1976a, p. 130) said, “Autonomous changes in demand and supply continually impinge
on the system and prevent equilibrium from being reached.” See Chiles and colleagues (2007) for
an exhaustive review of Lachmann’s work, which they argue can provide a coherent conceptual
framework to entrepreneurship research.
However, future-orientated entrepreneurial thinking, though prominent in subjectivist economics, is largely neglected in the entrepreneurship literature and absent in the IE field. This type of thinking, which might be called “prospectual” thinking (see Gilbert, 2007), is also an unexplored dimension of effectuation. Prospectual thinking potentially influences entrepreneurship and internationalisation processes, and may be a promising field of research. Hence, paraphrasing a key question posed by Mitchell and colleagues (2007), a third research question is advanced:

*How do entrepreneurs think and make decisions in discovering, creating, evaluating and exploiting opportunities to create future goods and services internationally?*

### 3.3. Subjectivism

Subjectivism, which was earlier cited in relation to constructivism/critical realist and entrepreneurial thinking and will also be cited in the next chapter relating to a subjectivist orientation in research methodology, has attracted stronger attention in entrepreneurship research (Koppl, 2003; see Endres & Woods, 2007; Chiles et al., 2007; Chiles et al., 2008; Foss et al., 2008). The writings of economists associated with the Austrian school, particularly those of Kirzner on the discovery of opportunities by an alert entrepreneur and Schumpeter on “creative destruction” has for some time been cited in entrepreneurship research (see Venkataraman, 1997; Shane, 2000; Shane & Venkataraman, 2000; Gaglio & Katz, 2001). But “subjectivism” itself, another key theme in Austrian economics (Vaughn, 1994), has only recently attracted attention in entrepreneurship research.

Subjectivism emerged from the Austrian school of economics, a “school of thought” (Boettke, 1994, p. 3) which holds “rigorous but heterodox views” on entrepreneurship, market processes, and the use of mathematics in economic theory (Vaughn, 1994, p. viii; see also Gunning, 1997). Its key contributors include: Carl Menger, Ludwig von Mises, Friedrich A. Hayek, Israel M. Kirzner, and Ludwig Lachmann (White, 1984; Vaughn,

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18 For Mitchell and colleagues (2007), the key question for cognitive research is: “How do entrepreneurs think, reason, and behave such that they create value and wealth through the identification and implementation of market opportunities?” (p. 5).
Schumpeter whose work is often cited in entrepreneurship research (Gunning, 1997; Koppl, 2003; Boettke & Coyne, 2003) and G.L.S. Shackle are also considered part of the Austrian school (Kirzner, 1995; Vaughn, 2004; Chiles et al., 2007), having been “partially influenced by the Austrians” (White, 2003, p. 5). Hayek (1955, p. 31) said, it is “probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the constant application of subjectivism.”

Subjectivism emerged as a reaction to the “objective value theories of the classical school” (Kirzner, 1976, p. 55) and the neglect of “subjectivist” human action by neoclassical economics (Lachmann, 1994), and indeed the role of the entrepreneur in market processes (Kirzner, 1973, 1997). Although “subjectivism”, a broad concept with multiple meanings (Csontos, 1998, p. 80), “has come to mean entirely different things to different doctrinal traditions within modern economics” (Kirzner, 1995, p. 11), it is more expansively understood in Austrian economics to include other dimensions of human subjectivism, and not only the “limited subjectivism” of neoclassical economics which posits subjective preferences (Vaughn, 1994, p. 4).

Carl Menger, recognised as founder of the Austrian school of economics (Von Mises, 1969; Vaughn, 1994), first drew attention to “subjectivism” by expressing a causal link between subjective values of consumer choices and objective market prices, based on a general theory of human action (Salerno, 1999), and by emphasising subjective utility over objective cost in a theory of value (Kirzner, 1976; 1995). “Menger’s vision is thus subjective in the fundamental sense that what emerges in real-world economies is the expression of human preferences as exercised against a background of given passive resource constraints and endowments” (Kirzner, 1995, p. 12). In particular, Menger

It was not until the 1970s that the Austrian school had its renaissance (Vaughn, 1994; Horwitz, 1994; Koppl & Mongiovi, 1998), marked by the start of a programme in Austrian economics at New York University under Israel Kirzner (Koppl & Mongiovi, 1998), the publication of Dolan’s The Foundations of Modern Austrian Economics in 1976, and Hayek’s Nobel Prize in 1974 (Boettke, 1994). Austrian economics is distinctive for its avoidance of formal economic models and mathematical symbols to express economic ideas, for which it continues to be criticised by mainstream economists (ibid.). Vaughn (1994, p. x) argues that “there really is as yet ‘no Austrian economics’ where that means a fully articulated and importantly distinct economics apart from the neoclassical paradigm.” Boettke (2008) also claims that “the label ‘Austrian’ no longer possesses any substantive meaning,” even as there are key propositions about “economics that so-called Austrians believe.”
highlighted differences in individual satisfaction and needs, and the subjectivity of value. Menger (1981, pp. 115-128; italics are mine) said:

The *varying importance that satisfaction* of separate concrete needs has for man is not foreign to the consciousness of any economizing man. . . (W)e can observe how economizing individuals weigh the importance of satisfaction of their *various needs* in general, how they weigh especially the relative importance of the separate acts leading to the more or less complete satisfaction of each need, and how they are finally guided by the results of this comparison into activities directed to the fullest possible satisfaction of their needs (economizing)… (Value is) the importance that individual goods or quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs… The value of all goods is merely an imputation of this importance to economic goods… Value does not exist outside the consciousness of men…. [T]he *value of goods is entirely subjective* in nature.

By acknowledging the subjectivity of needs and wants or preferences (Koppl & Mongiovi, 1998), Menger identified markets as composed not only of efficient producers and sellers but also of consumers (Lachmann, 1994b). This view turned the “science of wealth” of classical economics into “catallactics”, the science of markets in which consumers played an equally prominent role as that of producers (ibid., p. 47, citing Mises, 1949). Such view also recognised the individuality of consumers who cannot be treated stereotypically (ibid.), and whose choices are inherently subjective (McMullen, 2010). Certainly, it is not for another individual to judge the correctness of individual choices, as this would suggest that there are choices that are superior – negating subjectivity and individuality (Boehm et al., 2000). Said von Mises (1944, p. 532), “Nobody else than the individual himself can decide what satisfies *him* better and what less… (J)udgments of value are purely subjective and … there is no such thing as an absolute state of satisfaction or happiness irrespective of the desires of the individual concerned.”

Subjectivism has since developed beyond Menger’s theory of subjective value (White, 2003), and acquired multiple meanings and conceptualisations (Yeager, 1987; Kirzner, 1995; Csontos, 1998; Boettke & Leeson, 2003). For instance, Kirzner (1995, p. 21) argues a “modern Austrian version of subjectivism… (wherein) the idea of human entrepreneurial alertness is the analytical device that enables us to see how human creativity is in fact geared towards a tendency pointing to the discovery of opportunities that are in fact
‘waiting’ to be discovered.” Kirzner (1973) makes the argument because to him, market processes cannot be properly understood by referring solely to economising and maximising individuals and without the entrepreneurial element of human action, which is active and creative.

In fact, Kirzner’s (1973; 1979) notion of entrepreneurial alertness involves human action which leads to the exploitation of discovered opportunities. He (1979) said, “It follows, then, that for opportunities for social improvement to be more rapidly discovered and exploited, these opportunities must be translated into opportunities that are not merely encountered... but into opportunities that are to the advantage of these potential entrepreneurs, and that most effectively excite their interest and alertness” (p. 149; underscoring mine). Kirzner’s emphasis on human action accords with the views of Von Mises, his teacher (Gunning, 1997). Von Mises (1949, p. 252) stressed that it is human action which makes every individual “always an entrepreneur and speculator.” Human action then leads to entrepreneurship (Boettke & Coyne, 2003) and puts man “as an actor... at the center of economic events” (Lachmann, 1977, p. 51).

What makes human action equally distinctive is its purposiveness, a key theme of Austrian subjectivism (Shand, 1980; White, 1984; Boettke, 1994). Individuals act purposively towards chosen goals (Shand, 1980). Stemming from Mises’ subjectivism of means and ends, which represents a departure from Menger’s subjective wants, this conceptualisation is the second stage of subjectivism’s evolution as an economic theory (Lachmann, 1994b). It recognises the subjectivism of choice and of mind (ibid.). Said Lachmann, “Here choice has become the prototype of human action, and choice presupposes a mind capable of choosing between rival ends” (p. 47).

Closely related to subjectivism of choice and mind is autonomy of choice (O'Driscoll & Rizzo, 1996), indicating a freedom of human action and behaviour (Kirzner, 1992a). An examination of human action will show that it arises from individual choice and not external events (von Mises, 1978; Dugger, 1983). Said Kirzner (1992a, p. 46), human action is “‘uncaused’; it is not determined by circumstances (even by the agent's own preferences). Heavy rainfall does not inexorably drive the consumer to buy an umbrella –
although it may inspire him freely to choose to do so.” Hence, there is no causal nexus between objective phenomena, physical phenomena and human action (ibid.). Von Mises (1978) argues that it is difficult to conceive of human behaviour as being directed by unknown forces that are beyond analysis and description. Hence, external events do not determine decision-making (O’Driscoll & Rizzo, 1996). Individuals are not automatons who react automatically to given circumstances (Kirzner, 1985), nor are they “atoms or billiard balls” or agents who “do not make real choices or exercise no imagination” (Horwitz, 1994, p. 20).

Nonetheless, the autonomy of human choice does not mean that human action is arbitrary (Lachmann, 1971). Human action after all is purposeful (Kirzner, 1992a). As well, individuals may be free to choose, but once they have made their choice, they are not totally free to change their minds (Lachmann, 1959). Once a choice is made and acted upon, a chain of events is triggered that inhibits the abandonment of choice (ibid.). In addition, human action is not unbridled. While external circumstances themselves do not determine human action, they constrain it (Kirzner, 1992a). Scarcity of means at the disposal of actors also means that human action is bounded (Lachmann, 1971).

To Lachmann (1994b), however, Misesian subjectivism of mind does not go far enough. It is still “one of limited mind.” The third stage of subjectivism is one that recognises the “subjectivism of the active mind” (ibid.), one in which choice is creative and imaginative (Horwitz, 1994), and which leads to interpretations and possibilities that cannot be known in advance (Lachmann, 1994a). This is the “‘highest’ stage of subjectivism” (ibid., p. 48), a “radical subjectivism” involving “the subjectivism, not only of human tastes and preferences, but also of human expectations and human interpretations of current events” (Kirzner, 1995, p. 19).

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20 See Koppl and Mongiovi (1998, p. 5) who cited Lachmann’s (1990) three “levels” of subjectivism (1990). They said, “First, the subjectivism of wants recognises that different people have different tastes and pursue different ends. Second, the subjectivism of ends and means recognises that people may pursue similar ends in dissimilar ways. People have diverse, sometimes erroneous, ideas about the best ways to achieve any goal. Finally, the subjectivism of active minds recognises that in all aspects of action the active mind may produce interpretations and possibilities the observing economist cannot imagine in advance.” Horwitz (1994, p. 20) also observed that whereas “Hayek moved Austrians from subjective value to subjective knowledge, Lachmann has taken the next step to subjective expectations.”
formulating ends, allocating means to them, making and revising plans, determining when action has been successful, all these are its forms of expression.”

The subjectivism of human expectations and interpretations, founded on the subjective nature of beliefs, “imparts indeterminateness” (Lachmann, 1943, p. 73), leading to a world that is open-ended and kaleidic (Shackle, 1972; Kirzner, 1982), and a future that is uncertain and unknowable (Dugger, 1983; Lachmann, 1986; 1994a; O’Driscoll & Rizzo, 1996).21 Such a world is characterised by individuals encountering other market participants with conflicting plans, which leads to autonomous changes in the market (Lachmann, 1976a), and in which no individual can accurately predict the consequences of a choice or the choices made by others (Zappia, 1998).22 To claim complete prediction would require an ability to know all decisions in the future, which would either be “a contradiction in terms or an abolition of the concept of decision except in a perfectly empty sense” (Shackle, 1958, pp. 103-104). This implies indeterminacy to human action, which Kirzner (1995, p. 16) argues leads to the “nihilism” and rejection of market equilibrating tendencies of radical subjectivism.

However, even if human action is indeterminate, it can be intelligible. To understand human action is “to understand the plan which guides the observable acts to which it gives rise” (Lachmann, 1994b, p. 49). Elaborating on human plans, Lachmann (1994, pp. 219-220) said, “The plan of action, its ‘blueprint’ or scheme of intended action… guides the course of action, or that the latter may be ‘explained’ by the former as its ‘cause’. This whole scheme of action exists within the actor’s mind at any moment of time, but finds its external manifestation in an observable course of action that gradually unfolds over time.”

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21 The notion of uncertainty, especially relating to decision making under conditions of uncertainty, is crucial to entrepreneurship (Kirzner, 1979; Baumol, 1993; Sarasvathy & Kotha, 2001; Foss, Foss & Klein, 2007) and internationalisation (Schweizer, Vahlne & Johanson, 2010). It is the fact that decision-making occurs under uncertainty which makes entrepreneurship entrepreneurial (Foss et al., 2007), the entrepreneurial function speculative (Kirzner, 1985; Gloria-Palermo, 1999) and the entrepreneur “always a speculator” (von Mises, 1949, p. 288). Such uncertain, open-ended world shows the “creative” character of entrepreneurship and internationalisation. It recognises that opportunities can be imagined and created, and new ends, new means and new ends-means frameworks can constantly emerge (Gloria-Palermo, 1999; Chiles et al., 2010a), and be recombined in new and previously untested ways (Dahl, Chattopadhyay & Gorn, 2001; Chiles et al., 2010b).

22 It is based on the idea of individuals continually and incessantly ordering and formulating ends, allocating means to them, and making and revising plans that Lachmann (1976a) anchors his view of markets as not tending towards equilibrium.
Plans, with their various components and design, bind together the various purposes and means employed (Lachmann, 1971). They form the basis for establishing commitment and a priority amongst various purposes and means, and ensure coherence amongst actions (Parsons, 1998). In fact, means may only be understood in the context of a given plan and the means they are to serve (Lachmann, 1994).

Human plans, which guide human action (Lachamann, 1986), are products of mental processes that are oriented to an imagined future (Lachmann, 1969). Hence, even in a world of uncertainty, “the future is unknowable though not unimaginable” (Lachmann, 1994, p. 221; see also Lachmann, 1969). Man constantly seeks to envisage the future (Kirzner, 1982) and imagine a desirable future state (von Mises, 1949; Lewis & Runde, 2007). Such an imagined future captures man’s dreams, imaginations, and aspirations (von Mises, 1949), and comes from an unremitting exercise of human imagination (Kirzner, 1992a). Man’s choices are not even limited to what exists, but expands according to his future dreams and hopes (Shackle, 1972).

3.4. Concluding comments

This chapter explored the areas of entrepreneurship research which have influenced international business (IB) research. In the first section, we revisited the “opportunity” concept and examined the conceptual difficulties over it in entrepreneurship research, particularly on whether opportunities are discovered or created. The discovery view which has dominated the entrepreneurship literature and originates from Kirzner (1979; 1985; 1997a) looks at opportunities as objective (Shane & Venkataraman, 2000) and concrete phenomena (Gartner et al., 2003). The creation view, on the other hand, regards opportunities as having no objective existence, and hence cannot be mere objects of discovery (Foss & Klein 2012). A middle ground, which I take, accepts that some opportunities may be discovered by any “alert” and sufficiently motivated entrepreneur, while others are the subjective and concerted creations of entrepreneurs.
The succeeding section examined entrepreneurship research on entrepreneurial thinking and judgment, which influence the discovery, creation, evaluation and exploitation of international opportunities, and corresponds to a new and interesting area of IE research relating to entrepreneurial cognition (Jones et al., 2011). In particular, it looked at the entrepreneurship-related work of Sarasvathy on effectuation, which she sought to distinguish from causation. We also examined the criticisms against the supposed dichotomy between effectuation and causation and the failure of Sarasvathy, according to Moroz and Hindle (2011), to convey the co-existence of effectuation and causation within the entrepreneur and their use in various degrees across different situations. More importantly, the section brought up a possible dimension of effectuation and potentially a distinct type of entrepreneurial thinking called “prospectual thinking”, which is future-orientated and based on an imagined future and whose core ideas are rooted in subjectivist economics, particularly the works of Lachmann, Kirzner, and Shackle. Prospectual thinking potentially influences entrepreneurship and internationalisation processes, and may be a promising field of research. This led to the final research question for this thesis: How do entrepreneurs think and make decisions in discovering, creating, evaluating and exploiting opportunities to create future goods and services internationally?

The final section explored “subjectivism”, a body of thought which has strongly influenced economics and entrepreneurship research, and guides the theoretical approach of this research. The closing section looked at the different views on subjectivism, beginning with Menger’s subjectivism of values, needs and preferences. It then examined Mises’ subjectivism of means and ends, and subjectivism of mind – identified by Lachmann (1990) as the second level of subjectivism – which proceed from the purposiveness of human action. The chapter closed by examining Lachmann’s (1994b) “subjectivism of the active mind” – the “‘highest’ stage of subjectivism” (ibid., p. 48) – a “radical subjectivism” involving the subjectivism of human expectations and interpretations. Such subjectivism is the basis of an uncertain and unknowable but imaginable future. On such subjectivism, which recognises that opportunities can be imagined and created, and new ends, new means and new ends-means frameworks can constantly emerge (Gloria-Palermo, 1999; Chiles et al., 2010a), also rests the “creative” character of entrepreneurship and internationalisation.
In the next chapter, we look at research methodology and how this thesis seeks to answer the three research questions.
CHAPTER 4

Research Methodology: Getting the Answers

For business research, the choice of research methodology has to be adequately assessed and articulated, since the impact of business research depends on the rigour of the methodology chosen (Aldag & Steams, 1988; Scandura & Williams, 2000). For one, design choices affect the conclusions that can be drawn from a study (Sackett & Larson, 1990). Explicating the research methodology also lends rigour to the research (Gibbert et al., 2008) and enhances the plausibility of conclusions that are reached (Siggelkow, 2007).

In this chapter, we first look at research methodology and the use of case studies to answer the research questions. We begin by examining the reasons for the use of case study as a methodology and address some of the concerns that are usually raised against it. We also look at the use of a subjectivist methodological orientation in this research. We then examine the criteria for selecting the cases in this research and the reasons for such criteria. Next, we consider the reasons for a purposive, theoretical sampling and the reasons why random, probability samples are neither necessary nor preferable. The sampling frames from which case firms were drawn is described next.

We then look at how in-depth interviews with key informants were conducted as primary sources of data. The two phases of the data collection and the data collected are next described. This is followed by a discussion on how data were coded and classified, which made “the trees visible, but not the forest.” Why this research is in the “spirit” of grounded theory, but is not based on a grounded theory approach itself, is next explained. The progress towards the bigger picture and seeing the connections between phenomena is discussed next. The chapter closes with a section on “writing up” to explain how writing the research can enhance data analysis.
4.1. Case study methodology

To answer the research questions of this thesis, a case study methodology was adopted. The choice was driven by a need for a detailed examination and analysis of individual cases (Boggs, 1986; Eisenhardt, 1989), particularly: how firms internationalise; how opportunities are discovered, created, evaluated, and exploited internationally; and how entrepreneurs think and made decisions relating to those processes. This goal would not have been met by other research methodologies. As well, by allowing a wide range of questions (Hesse-Biber & Leavy, 2004), including “how” and “why” questions, to be asked (Yin, 2003), case study methodology was ideally suited for the generation of rich descriptions and explanations (Geertz, 1973; Eisenhardt, 1989; Swanborn, 2010) of internationalisation and entrepreneurship processes.

This thesis also sought to investigate entrepreneurial thinking and decision-making. Investigating these phenomena involved an attempt to peer into the minds of entrepreneurs. Accomplishing this task was best addressed by case study methodology which facilitated an exploration of the mental content and psychological processes of entrepreneurial decisions, by uncovering the mental images formulated by entrepreneurs (cf. Endres & Woods, 2007).

Moreover, there was an interest in a deep – not superficial or cursory – understanding of specific cases (Eisenhardt, 1989) and learning as much as possible from them (Punch, 1998; Stake, 2003), which could best be achieved by case study methodology. Hence, each case with its own unique history and context was the focus of research (Stake, 2003; Bryman, 2004; Swanborn, 2010). This enabled a detailed exploration of multiple variables and constructs of interest in each case (Yin, 1994) and broad time spans (Schramm, 1971) from firm establishment to internationalisation.

Although case studies may involve one case (single-case study), this research used multiple cases which is typical of most research using case studies (Swanborn, 2010). The use of a multiple case design increases reliability by uncovering replication of phenomena across cases (Swanborn, 2010) and cross-case comparisons (Eisenhardt, 1989; Gibbert et
Such design can also lead to *analytical* (Yin, 1994; Gibbert, Ruigrok & Wicki, 2008) or *theoretical* generalisation beyond the unique attributes of a specific study (De Koning, 2003), even if generalisability to a population may not be feasible (Yin, 1994; Numagami, 1998).

Arguably, even single-case studies can vividly describe a phenomenon and persuade (Siggelkow, 2007). Allison’s (1971) much-cited work on the Cuban missile crisis is a case in point. But analytical generalisation is especially enhanced when a case study involves cross-case analysis of four to ten case studies (Eisenhardt, 1989; Gibbert et al., 2008). In this research, twelve cases were involved. Using the analogy of laboratory experiments, a theory is more plausible, better grounded, and “more generalizable (all else being equal) when it is based on multiple case experiments” (Eisenhardt & Graebner, 2007, p. 27).

The use of case studies in this research is consistent with research methodologies of studies in international business (IB) and international entrepreneurship (IE), which widely use case studies. These include studies by: Johanson and Wiedersheim-Paul (1975), McDougall and colleagues (1994), Coviello and Munro (1997), Andersson (2000), Bell, McNaughton and Young (2001), and Crick and Spence (2005). In management and strategy research, interest in the case study methodology is also strong (Eisenhardt & Graebner, 2007; Siggelkow, 2007; Gibbert et al., 2008).

Relying heavily on interviews, this case study was qualitative (Eisenhardt, 1989). This is not always true for case studies, which may make extensive use of quantitative data collection methods such as questionnaires (Eisenhardt, 1989; Swanborn, 2010). Case studies can also employ measurement and analysis that are highly quantified, especially

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23 Siggelkow elaborated, “The first big obstacle that many writers feel they face is the charge of having too small a sample. Yet, imagine the following scenario, adapted from Ramachandran (1998): You cart a pig into my living room and tell me that it can talk. I say, “Oh really? Show me.” You snap with your fingers and the pig starts talking. I say, “Wow, you should write a paper about this.” You write up your case report and send it to a journal. What will the reviewers say? Will the reviewers respond with “Interesting, but that’s just one pig. Show me a few more and then I might believe you”? I think we would agree that that would be a silly response. A single case can be a very powerful example” (2007, p. 20).
when there is an abundance of within-case data (Swanborn, 2010). Said Stake (2003, p. 134), “As a form of research, case study is defined by interest in individual cases, not by the methods of inquiry used.”

4.2. Subjectivist methodological orientation

A subjectivist methodological orientation – rejecting positivist assumptions – was adopted in this research.24 Such orientation assumes that although there is an external reality that is independent of individual knowledge, such reality is subjectively created (Viney, 1992; Raskin, 2002) and subjectively experienced (Babie, 2007). Articulating this methodological position is important because a researcher’s epistemological orientation may be as crucial as the methodology itself in generating knowledge (Morgan & Smircich, 1980). As well, researchers often ignore stating their philosophical assumptions even if these strongly influence their findings (Grant & Perren, 2002; Jennings et al., 2005). Adopting a subjectivist methodological orientation had key implications for this research.

First, this orientation acknowledged a potential gap between what was articulated by informants and their actual experiences (cf. House, 1978). Such gap, more than an outcome of recall bias, i.e. the fact that people forget past events (Evans & Leighton, 1995) due to memory decays (Sudman & Bradburn, 1973), is a consequence of human subjectivity and how past events may be interpreted differently (cf. Shackle, 1949, 1972; Lachmann, 1976b, 1977; Vaughn, 1994). Hence, as a subjectivist researcher, my task was not to render an unvarnished “truth” or “reality”, but to describe a reality as created and temporally experienced by informants. This also acknowledged room for potential contradiction in informants’ stories and a responsibility not to impose a seamless narrative for the sake of coherence.

24 Following Chiles and colleagues (2010a, p. 139), such a philosophical assumption is accepted “on faith” as a set of distinct beliefs about the nature of the world. Definitively arguing its strengths against other paradigmatic philosophical assumptions is beyond the scope of this thesis, but it logically follows the questions asked, and the processes and subjects of interest.
Second, and as a corollary to the gap just cited, a subjectivist methodological orientation recognises that research and inquiry are essentially interpretive (cf. Guba, 1990; Nelson, Treichler & Grossberg, 1992). As researcher, total detachment from the “facts” is neither possible nor necessary (House, 1978). It is accepted that the researcher may potentially co-create knowledge and meaning (Perry et al., 1999). While this has often been a source of discomfort for positivists, prompting the critique of being unscientific (see Huber, 1995; Carey, 1989), the validity of such position is widely accepted (Denzin & Lincoln, 2000).

Third, having a subjectivist approach involved an attempt to “look” from inside the entrepreneur’s mind (Koppl & Langlois, 2001) and investigate the cognitive content and psychological processes of entrepreneurial decisions (Endres & Woods, 2007). Human action is understood not as a function of external events but of autonomous choices (von Mises, 1978; Dugger, 1983; O’Driscoll & Rizzo, 1996) and subjective meanings (von Mises, 1949; Horwitz, 1994). A key research task – facilitated by a case study methodology – is to access the mental content and psychological processes of entrepreneurial decisions by uncovering the mental images formulated by entrepreneurs (cf. Endres & Woods, 2007).

Finally, adopting a subjectivist methodological orientation acknowledged subjectivity of individual decision making and choice (McMullen, 2010), and of human preferences (von Mises, 1949), expectations (Shackle, 1949, 1972) and interpretations (Lachmann, 1976b, 1977). Although it is common to respect informants’ voices as part of ethical research practice, a subjectivist stance requires respect for individual judgments of value and preference (cf. Boehm et al., 2000). Hence, the entrepreneur as research informant is the sole arbiter of what is of personal value and satisfaction (ibid.). It is impermissible, as researcher, to judge such choices.

4.3. Case selection criteria

Having explicated the rationale for a case study methodology and a subjectivist methodological orientation, how cases were selected is discussed next. Four selection
criteria were used. First, a firm had to have been involved in outward international activities. Broadly viewed, a firm that imports exclusively may be an internationalising firm (Welch & Luostarinen, 1988; Servais et al., 2006). But this research was more interested in firms that engaged in outward international activities because of the greater complexity and resource requirements they involve, and the potential contribution to business practitioners interested in selling to international markets. Second, the internationalising firm had to have been established in New Zealand because of our interest in knowing how small New Zealand firms engage in cross-border activities. Hence, internationalising firms founded abroad by New Zealanders were excluded, while a firm founded in New Zealand by a migrant could be part of the sampling frame. Third, the firm had to have less than 250 employees, consistent with the small and medium enterprises (SME) definition of the Commission of the European Communities (2003; Schmiemann, 2008; Audretsch et al. 2009). For Cameron and Massey (1999), a small firm is one with fewer than 100 employees, and in fact, all case firms had less than 100 employees. Fourth, the internationalising SME had to have engaged with Asia, although it may have engaged with other foreign markets as well. This condition was due to research funding conditions, a constraint faced by some researchers (Kuzel, 1999; Swanborn, 2010), which required a firm subject of this research to be engaged with Asia.

This research was part of a broader study of New Zealand business engagement with Asia undertaken by the New Zealand Asia Institute (NZAI), a research centre within the University of Auckland Business School. Although this research focused on New Zealand SMEs, the NZAI sought to cover at least thirty leading New Zealand-based businesses and fifty SMEs known to be doing business in Asia. The fact that this research was part of a broader NZAI study meant that when I collected data, I was doing so both for my own PhD and for the NZAI. This dual research role was a source of opportunities and challenges.

For both this research and the NZAI study which sought to understand small firm internationalisation, the firm was necessarily the primary unit of analysis. Consequently, a firm’s history and processes could be tracked longitudinally despite any changes in

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25 For this study, firm sales or assets were not used to delineate a small firm because such data are not widely available, and owner-entrepreneurs can be reluctant to divulge them.
ownership or the departure of the founding entrepreneur. This point is crucial because in two of the case firms (established in the 1850s and 1950s), their founders were no longer around. In others, there were changes in the ownership structure of the firm.

4.4. Theoretical sampling

The cases in this study were purposively selected based on established criteria (Creswell 1998; Mason, 2002; Patton, 2002). Purposive sampling was used on the assumption that only cases from which insights into internationalisation could be gained should be selected (cf. Merriam, 1988; Ritchie, Lewis & Elam, 2003). Hence, internationalising firms were purposively selected because they represented the phenomenon being studied, and had particular features and attributes which enabled detailed exploration and understanding of internationalisation.

In choosing cases, there was no attempt to choose those that represented a wider population. The use of purposive sampling meant that estimating the incidence of internationalisation in a wider population and generalising were not relevant (Ritchie et al., 2003). Neither statistical representation nor scale was an important consideration (Holloway & Wheeler, 1996; Mason, 2002). The ability of a case to manifest salient attributes (Ritchie et al., 2003) and provide opportunities for learning guided the selection process (Stake, 2003).

Hence, in using purposive sampling, cases were chosen for theoretical, not statistical, reasons (Glaser & Strauss, 1967; Eisenhardt, 1989). Each case makes no claim to being representative of the wider population being studied (Yin, 2009), but does contribute to a better understanding of a larger class of similar cases (Gerring, 2007). Although it is not possible to generalise from single cases or small samples, a great deal can be learned from them still (Patton, 2002). Hence, selection of cases at random was neither seen as important or desirable (Eisenhardt, 1989). Given constraints on the number of cases which can typically be studied, it also made sense to focus on cases which demonstrated the phenomenon of interest, primarily internationalisation (see Pettigrew, 1988).
4.5. Sampling frame

In 2009, in looking for the cases to be studied, an initial problem was encountered. Surprisingly, there did not seem to be a complete and current directory of New Zealand exporters or internationalising firms. The few available directories were published prior to 1995 and hence severely out-of-date.26 Although not explicitly articulated by other New Zealand researchers, they, too, seem to have been stumped by this issue. For instance, in their studies of New Zealand internationalising firms, Chetty and Campbell-Hunt (2003, 2004), explained that their cases were generated from an advisory panel of industry leaders, policy advisers, business-support agencies, and business journalists. Coviello and Munro (1995) drew their cases from the membership list of the New Zealand Software Exporter’s Association, an organisation which has since reorganised into the New Zealand Software Association. (The firms in this group would have been too specialised for this study.) Bell and colleagues (2003) constructed samples using the databases provided by the Dunedin City Council and the Victoria Chamber of Commerce, databases that were limited to businesses operating within those specific localities. Said Chetty and Campbell-Hunt (2003, p. 9), “Many of the relevant (internationalising) firms are unlisted.” Statistics New Zealand (2009, p. 4) also remarked, “There is an absence of information about international trade in services or the overseas operations of New Zealand businesses.”

Alternative sampling frames had to be constructed. One was a short list of New Zealand internationalising firms that the New Zealand Asia Institute (NZAI) had started to generate for its study of New Zealand business engagement with Asia. From this list, ten were initially selected for screening for fit with the case selection criteria (De Koning, 2003).27 Most in the list were well-known New Zealand large international firms and thus excluded. Initial screening involved Internet research on, and/or email communication with, the firms. One was dropped due to its lack of business engagement with Asia.

27 As will be elaborated shortly, there were two interview phases for this research. The initial phase involved interviews with eight case firms between May and August 2010. The second phase involved interviews with four more case firms: July 2011 (one firm), March 2012 (two firms), and May 2012 (one firm).
As well, five potential cases were identified after having been featured for their internationalisation activities in New Zealand media or websites of government agencies. Having received media attention about their international engagements, these firms showed that they had interesting stories to tell. They were also typically described as success stories, which validated the use of a purposive sampling in this research. Three other case firms emerged as a result of opportunistic sampling (Ritchie et al., 2003): one communicated with me after I was featured in the Asia: New Zealand Foundation website, while the other two were my co-participants at a University of Auckland Business School seminar, whom I later contacted.

Case firms identified as meeting the sampling criteria were invited to participate in the NZAI research on New Zealand business engagement with Asia. Invitation letters were sent by email to the founder, CEO and/or International Director of potential case firms, asking them to be interviewed. The letter stated that the interview with NZAI researchers would cover the development of engagement with Asia; internationalisation process and current markets; strategy within those markets; fit of Asia within overall strategy; finance and related strategies; capability development to address Asian opportunities; and current and future challenges.

Of the ten firms in the NZAI sampling frame that were invited, six agreed to join the study while four declined. Three of the firms featured in New Zealand media or websites of government agencies agreed to participate, while two declined. The three case firms which serendipitously emerged as potential participants also agreed to participate. In sum, of the twelve case firms in this study, six were from the NZAI list, three were sourced from media and online news, and three were known by chance; five declined to participate. Typically, after an invitation was sent to potential research participants, they were subsequently contacted by phone or email to follow up the invitation, answer some questions, and set the interview schedule.  

28 Of the five firms that declined to participate, one (which initially agreed to join) declined eventually due to difficulties in setting a common interview schedule. The firm was based outside of Auckland.
4.6. In-depth interviews

In-depth interviews, usually running for about 1.5 hours, were conducted with the CEOs, founders, or General Managers of case firms. These interviewees were credible sources of corporate memory and possessed wide knowledge about their firms’ development (Jones, 2001). Interviews were semi-structured, and used an NZAI interview protocol (see Appendix 1) to ensure a comprehensive coverage of key themes (Creswell 1998; Rubin & Babbie 2007) and a high level of consistency across interviews, not just those by this researcher but by other researchers of NZAI.

Open-ended questions were typically used to introduce a topic (Payne, 1951; Bradburn & Sudman, 1979) and to provide the informants with sufficient leeway in giving answers (Bhave, 1994). Open-ended questions were also designed to elicit detailed narratives that could include unanticipated data (De Koning, 2003). When necessary, probing questions were asked (Bhave, 1994). The oral histories of the entrepreneurs allowed a reconstruction of longitudinal data on entrepreneurship and internationalisation processes. Prior to an interview, a company profile was prepared based on company brochures, reports, and websites, online news, and media publications. This would ensure that I would go to interviews with sufficient knowledge of case firms. As well, having multiple sources of information enhanced data triangulation (Denzin, 1989; Stake 2003) and construct validity (Gibbert et al., 2008). Company profiles were later updated when further information was acquired. These are part of the NZAI database to strengthen research reliability (Gibbert et al., 2008).

Each interview – audio-recorded with the prior written consent of informants – was typically done by at least two researchers: a lead interviewer (typically me) who directed the interview and a second interviewer who made sure that the main research questions were covered, and answers were clarified and amplified when needed (Pettigrew, 1988; Eisenhardt, 1989). These team interviews had another advantage: the other researcher, who brought knowledge and experience of his/her own, often asked important questions that I had not thought of. Extensive field notes were also taken of salient information given and
observations made during the interview. Following Eisenhardt (1989, p. 539), note-taking were opportunities to ask: “What am I learning?” and “How does this case differ from the last?” Interviews were concluded after the key questions in the interview protocol had been covered (De Koning, 2003). A debriefing was conducted after each interview.

In addition, after each interview recording had been transcribed and reviewed, I met with the NZAI lead researcher to go over how the interview was done and receive formative feedback. This was an important part of my learning process as I learned to correct my propensity to ask probing questions with the intensity of a cross-examining trial lawyer. I also learned to give informants ample opportunity to answer, instead of interrupting them with many follow-up questions, which were apt to probe too deeply at the expense of breadth. With guidance and practice, I also learned to be comfortable with silence as opportunities for rumination.

4.7. Data collection

At the beginning of the research, the plan was to collect data from eight cases as part of a multiple-case design (Swanborn, 2010). Such number of cases was consistent with the ideal of having between four and ten cases in case study methodology suggested by Eisenhardt (1989). But there was openness to adding more cases when necessary. Swanborn (2010) advised against premature closure in data collection and reminded researchers to follow a flexible research practice that was open to unexpected leads in the data. Data was collected from eight case firms between May and August 2010. While data was being collected from other cases, I started analysing the data (Corbin & Strauss, 1990), which I elaborate in the next section.
While key themes had begun to emerge and theory could potentially be generated from the cases, my supervisor and I felt that theoretical saturation had not yet been reached and additional cases were still necessary. Hence, four more case firms were added between July 2011 and May 2012 as part of the second phase of data collection. Unlike the first phase when eight firms were interviewed within four months, the second phase – which transpired a year after the first phase ended – was more tentative and involved the addition of cases only when needed. Information on case firms and interview dates are presented in Table 4.1.

In March 2012, as data continued to be collected and analysed, and some chapters were written up, the websites of firms interviewed in 2010 were examined to determine any major changes in their international activities. Beam Wear in particular stood out because, while it was in only five countries at the time of the initial interview in August 2010, it had already ventured into twenty-eight countries at the time of the second interview – or twenty countries in two years. A second interview was also conducted with Road Worx in 2012 to gain more insight into its history. Answers to follow up questions were also received from Advanced Solutions. In all, the audio-recorded interviews, transcribed by a professional transcriptionist or by this researcher, produced 397 single-spaced pages of transcripts,
180,290 words, and 19:29 hours of interview data (Table 4.2). These are all part of the NZAI database.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Pages</th>
<th>Words</th>
<th>Hours</th>
<th>No. of Informants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trans Build</td>
<td>50</td>
<td>26,024</td>
<td>2:53</td>
<td>2</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>35</td>
<td>17,095</td>
<td>2:06</td>
<td>1</td>
</tr>
<tr>
<td>Com Apps</td>
<td>31</td>
<td>13,018</td>
<td>1:23</td>
<td>1</td>
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<tr>
<td>Hobby Light</td>
<td>25</td>
<td>11,501</td>
<td>1:09</td>
<td>1</td>
</tr>
<tr>
<td>Learn Tech</td>
<td>30</td>
<td>11,350</td>
<td>1:23</td>
<td>1</td>
</tr>
<tr>
<td>Team Connect</td>
<td>39</td>
<td>16,170</td>
<td>1:49</td>
<td>1</td>
</tr>
<tr>
<td>Beam Wear</td>
<td>50</td>
<td>22,313</td>
<td>2:14</td>
<td>1</td>
</tr>
<tr>
<td>Road Worx</td>
<td>38</td>
<td>12,709</td>
<td>1:10</td>
<td>2</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>28</td>
<td>12,795</td>
<td>1:24</td>
<td>1</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>25</td>
<td>13,558</td>
<td>1:29</td>
<td>1</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>24</td>
<td>12,093</td>
<td>1:04</td>
<td>1</td>
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<tr>
<td>Safe Notes</td>
<td>22</td>
<td>11,664</td>
<td>1:25</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>397</strong></td>
<td><strong>180,290</strong></td>
<td><strong>19:29</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

After data from the twelfth case firm was collected, there was a clear sense that the case study had reached theoretical saturation. Incremental learning from new cases appeared minimal as the same processes, phenomena and relationships constantly appeared (Glaser & Strauss, 1967; Eisenhardt, 1989). Adding another case had little potential for adding anything substantial to the stock of knowledge already acquired (Swanborn, 2010).

### 4.8. Data analysis and coding

As earlier indicated, I started analysing the data while I continued to collect more data from new cases. My challenge in data analysis was trying to make sense of the data, identifying the overarching themes, and making the connections (Strauss, 1987). I began my data analysis by immersing myself in the fine details of each case (Siggelkow, 2007; Wellington & Szczersbinski, 2007), as part of my “within-case analysis” (Eisenhardt, 1989; Gerring, 2007). This process involved reading and rereading each transcript, and
highlighting key phrases, sentences, and paragraphs, and trying to answer my research questions.

Using NVivo 9, I also began to code and classify key parts of each transcript (Dey, 1993; Boeije, 2010), and kept memos of my insights and ideas into cases (Glaser & Strauss, 1967; Strauss, 1987). Coding allowed me to disassemble and rearrange data into key elements and themes (Jorgensen, 1989), and enabled the connections between nodes and concepts to become visible (Silverman, 2000). With NVivo, I could also click on a node and access specific transcript data, or open multiple nodes simultaneously and retrieve data from multiple cases. It was also easy to build diagrams and models to graphically represent the connections among concepts, and see the connections between themes and cases with ease. In the course of coding, some NVivo nodes were merged, renamed, or deleted.

During coding, I constantly tried to answer my research questions, looked for key themes and patterns, and related my initial findings to the literature. I also made cross-case comparisons as part of my data analysis to look for similarities and differences (Eisenhardt, 1989; Gibbert et al., 2008). Data did not always cohere neatly and often contradicted each other. This required digging deeper into the differences in data and trying to find an overarching theme or framework around which data could be organised. In time, patterns across multiple cases emerged and plausible answers to the research questions formed. To facilitate data analysis, I also started to write my findings chapters. Writing forced me to seek coherence in my findings and narrate a coherent story.

4.9. In the “spirit” of grounded theory

In coding the data, many categories or codes were not predetermined. They gradually emerged from the data and were continually added to the pool of categories. Other concepts came from the literature, while others were based on personal hypotheses and theories. In a sense, in the “spirit” of grounded theory, I approached the research process as one of discovery and retained the capacity to be surprised (Glaser & Strauss, 1967). I also started data analysis as soon as data was collected and often brought into succeeding
interviews what I had learned from previous ones (Corbin & Strauss, 1990). I was determined to build theory that was grounded in the data (Neuman, 2006).

Still, it is with some discomfort that I would describe my approach to the process of data analysis as grounded theory, which requires adherence to a formal set of procedures (Babbie, 2007). Undoubtedly, grounded theory is popular in a wide range of research fields and is highly esteemed as a method of social analysis (Thomas & James, 2006). Miller and Fredericks (1999, p. 538) described the grounded theory approach as the “paradigm of choice” for qualitative researchers in many disciplines. Denzin (1994, p. 508) also noted, “The grounded theory perspective is the most widely used qualitative interpretive framework in the social sciences today.”

Yet, grounded theory has its limitations. It is difficult to claim ignorance of the field in analysing data (Siggelkow, 2007). A body of knowledge has already been assembled and accumulated (Silverman, 1993; 2000). This critique is particularly acute for a PhD student who has to prepare a PhD Research Proposal in his first year. Siggelkow (2007, p. 21) warned that claiming ignorance “in the worst case can be taken by reviewers as describing the author’s, rather than the field’s, state of knowledge.” It is also difficult to ignore existing theories by avoiding a literature review or shed the intellectual baggage from one’s own discipline (Grbich, 2007). Layder (1993) argues that data should guide, not limit, theory development. Thomas and James (2006) also assert that grounded theory may constrain analysis by emphasising procedure over interpretation.

Although Strauss (1987) insists that his own suggested methods are mere guidelines and not meant to be rigidly followed, I found his coding process too cumbersome to follow and failed to adhere to it.29 Hence, my statement that I approached data analysis in the “spirit” of grounded theory. Grbich (2007) had also warned that that focusing on the coding process may cause the researcher to ignore overarching themes which might emerge.

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29 Glaser and Strauss, who co-developed grounded theory, have since developed the theory differently, causing their research paths to diverge (Strauss, 1987; Covan, 2007). It is difficult to speak of a grounded theory approach.
4.10. Writing up: Presenting the conclusion

Ultimately, data analysis must lead to conclusions that are plausible and well-articulated (Siggelkow, 2007). They must also be written up and presented (Wellington & Szczerbinski, 2007). Actually, data analysis and writing up are not sequential tasks; data analysis is enhanced by the act of writing. Writing allows better thinking, and better thinking leads to better writing (Huff, 1999). Weick (1995, p. 61) also famously said, “How can I know what I think until I see what I say?” There is an unseen power in the act of writing that forces ideas to take shape and to cohere.

Unless ideas are written down, they lurk merely in the shadows delicately untested. Once a conclusion is written, its strengths and weaknesses become visible to one’s self and, more importantly, to others. The act of writing compelled the articulation of a plausible conclusion and a coherent narrative. Hence, writing, as analysis, was an iterative task involving the continual articulation of key ideas and conclusions.

4.11. Concluding comments

This chapter explained the choice of case study methodology – a common methodology in international business (IB) and international entrepreneurship (IE) research – to answer the research questions of this thesis. The need, among others, for a detailed examination and analysis of individual cases, and the generation of rich descriptions and explanations of internationalisation and entrepreneurship processes, justified the use of case study methodology. For this study, a multiple case design was also adopted to increase reliability by allowing replication of phenomena across cases and through cross-case comparisons. Such design could also lead to analytical or theoretical generalisations beyond the unique attributes of this research.

The adoption in this research of a subjectivist methodological orientation, which rejected positivist assumptions and assumed an external reality that is subjectively created and
subjectively experienced, was also explicated. Such an orientation acknowledged a potential gap between what was articulated by informants and their actual experiences as a consequence of human subjectivity. Hence, as subjectivist researcher, my task was not to render an unvarnished “truth” or “reality”, but to describe a reality as created and temporally experienced by informants, and recognise that research and inquiry are essentially interpretive. A subjectivist approach also focused on accessing the mental content and psychological processes of entrepreneurial decisions by uncovering the mental images formulated by entrepreneurs.

The chapter also explained the criteria for selecting the cases in this research and the reasons for using a purposive, theoretical sampling. The sampling frames from which case firms were drawn was described next. The chapter then looked at how in-depth interviews with key informants were conducted as primary sources of data. This was followed by a discussion on how data were coded and analysed, and why this research was conducted in the “spirit” of grounded theory. The chapter closed with a section on “writing up” to explain how writing the research enhanced data analysis.

In the succeeding chapters, we explore the findings of this research. We begin with six vignettes of entrepreneurship and international entrepreneurship in Chapter 5 which give the reader an overview and holistic sense of the cases and become familiar with them. We then begin specific thematic analysis starting in chapter 6 on “Entrepreneurship and Opportunities.”
Children, only animals live entirely in the Here and Now. Only nature knows neither memory nor history. But man – let me offer you a definition – is the story-telling animal. Wherever he goes he wants to leave behind not a chaotic wake, not an empty space, but the comforting marker-buys and trail-signs of stories. He has to go on telling stories. He has to keep on making them up. As long as there's a story, it's all right. Even in his last moments, it's said, in the split second of a fatal fall – or when he's about to drown – he sees, passing rapidly before him, the story of his whole life.

- Graham Swift, *Waterland* 30

In *Waterland*, Swift (1983) captures man’s natural impulse to narrate, to tell stories (White, 1980). Stories allow us to vicariously experience events, understand them better, and remember them longer (Dyer & Wilkins, 1991). Stories provide rich and vivid descriptions of people, scenes, and phenomena (Erickson, 1986; Dyer & Wilkins, 1991), lending “a sense of reality to the account, so that (we) will feel (we) are there, in some sense” (Strauss, 1987, p. 216). Stories especially enable us to get close to the world of others (Dalton, 1959), enter into their subjective experiences, and even develop an understanding of experiences outside our own (West, 1993; Menkel-Meadow, 2000). Hence, stories can be more powerful and more persuasive than ideas that are statistically demonstrated (Martin & Powers, 1983).

Stories, too, illuminate the “richness of real life” (Clark, 2002, p. 298) and “the rich background of each case” (Dyer & Wilkins, 1991, p. 613), conveying key themes and ideas (Merriam, 1988) that may otherwise be lost in theoretical abstractions. They expose the deep structure of human behaviour (Light, 1979) and the intricacies of specific contexts (Van Maanen, 1979). They convey information and emotion, the explicit and implicit, and

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30 The opening quotation is from Swift (1983, p. 53).
the core and context (Snowden, 2000). Through stories, data become alive and allowed to speak for themselves. Made visible and accessible, data as narrated may generate new knowledge not apparent to the storyteller – the researcher – and enable others to make empirical inferences of their own.

In the following pages, six stories of entrepreneurship and international entrepreneurship are told. We focus on the entrepreneurs and their stories, particularly on Dick O’Reilly (Learn Tech), Simpson Duane (Beam Wear), John McAllister (Hobby Light), Derrick Lane, Dwight Eagles and Fred Mack (Com Apps), Mike Phung and his co-founders (Advanced Solutions), and Paul Clement (Wet Mountains). The goal in focusing on six of the cases is to enable the reader to get an overview and holistic sense of the cases, become familiar with them, and glimpse some of the overarching themes, without getting mired in the details of all the cases. Brief summaries of the remaining cases involving Jake Tooley (Road Worx), Kirk Seagal (Trans Build), Shawn MacDonald (Safe Notes), Shawn Adams (Team Connect), Phil Sims and Mitch Vaughn (Fine Widgets), and Jeff Harper (Cool Fibres) are found in Appendix 2. A specific thematic analysis which is based on all of the cases is undertaken in the succeeding chapters.

In the six stories depicted in this chapter, we get a glimpse of how entrepreneurs discover, create, evaluate, and exploit opportunities to produce goods and services, and to enter international markets. We get a sense of where business ideas and opportunities come from. We also see how entrepreneurs acquire resources, and deal with uncertainty and challenges. Finally, we get a glimpse of the way entrepreneurs think, hear their voices, feel their anxieties and frustrations, and sense their excitement and optimism. Unfortunately, to preserve anonymity, the names of businesses and entrepreneurs, and some details have been slightly altered.

31 The use of “he” and “him” in this thesis is for convenience, and reflects the fact that all entrepreneurs in this study happened to be men.
5.1. Learn Tech

Dick O’Reilly, then a Director of Kaero New Zealand, a subsidiary of Swiss-based mobile phone company Kaero Global, “sensed that there was an opportunity to do something in the service area around mobile phones.” O’Reilly, who had worked with Kaero Global for 15 years, felt that the mobile phone industry, despite producing innovative products and growing into a trillion-dollar industry, paid scant attention to service. The idea of doing something around mobile phone services so attracted him that he decided to take a year off from Kaero to think about it and pursue a Masters in Telecommunications Systems from a European university in the meantime. He also felt that he needed to acquire new skills if he were to leave Kaero and build his own company.

While working on his MBA, he sought to better understand what was really going on in the mobile phone industry by commissioning a university research team to do a survey on mobile phone user experience. He also interviewed mobile phone manufacturers, phone operators, dealers, and users in New Zealand. In one of his interviews with mobile phone users, a customer wondered if he might have access to a mobile phone application (app) that allowed him to organise his daily activities. That’s when he realised that smartphone users were typically busy individuals with multiple activities, at work and at home, that needed to be organised well. He said:

One of the customers I interviewed said to me, “I just need someone to help me organise my life. There’s so much to do at work and at home, I’m having a hard time getting things done.” And I said to myself, “Alright, that’s it! So, we’ll do it. We’ll develop mobile phone applications that help users to organise their daily activities.

Before O’Reilly perceived an opportunity to develop an activity-organiser application, he had sensed an opportunity to do something about mobile phone services. The initial opportunity though was quite broad and could not be linked to a specific service around which a business could be built. O’Reilly had to find out and search for a specific service proposition that could be offered to customers. Presumably, in the course of many interviews, several service ideas came up. It was the idea, though, of developing mobile
phone applications to help users organise their daily activities that resonated with him. It was this specific service proposition that O’Reilly recognised as an entrepreneurial opportunity.

Three distinct cognitive processes were involved – discovery, search, and recognition – before O’Reilly came up with a business idea that had market potential. But perceiving the business idea was only the start. It had to be developed. O’Reilly wrote a business plan around the idea of mobile phone mentoring and showed it to his colleagues and business school professors who helped strengthen his business concept. Getting the funding for his business and hiring people came next. He pitched his business idea to Kaero executives at their global headquarters, and eventually received funding. O’Reilly had already approached local investors who turned him down.

With the funding from Kaero, O’Reilly set up Learn Tech in December 2004 and started in the Icehouse, a business incubator. His next task was to get clients. O’Reilly saw an opportunity to deal directly with New Zealand companies, instead of selling his apps individually to mobile phone users. He approached many companies in New Zealand and showed how his application could improve worker productivity. Telfone New Zealand signed a contract and became Learn Tech’s first institutional customer. Telfone’s largest premium phone dealer followed suit and signed up as well.

But from the start, O’Reilly wanted to build a global business. His goal, he said, was to “do 50 countries in 5 years.” He explained:

I knew that we weren’t going to make any money in New Zealand. I also knew that I wanted to build a global business. I guess I had a global mindset. It would be very hard for me to do the opposite. It would be very hard for me to be in just one country and be happy with it. So, you could say that I had global aspirations because of who I am.

The opportunity to enter international markets came three years later. O’Reilly serendipitously discovered an opportunity to enter the Brazilian market when one of his senior managers encountered a former colleague who had moved to Brazil to manage a
mobile phone business and was in New Zealand on holiday. O’Reilly met with the Kiwi expat and suggested the idea of Learn Tech’s entry into Brazil. After working out the details of a business partnership, including selling equity to Brazilian investors, Learn Tech set up a subsidiary in Brazil. This subsidiary later succeeded in signing a five-year multimillion dollar contract with a Brazilian telecom operator.

O’Reilly next set his sights on Australia and searched for opportunities to enter the market through connections. He found one. He said, “We got into Brazil through a Kiwi contact and we got into Australia through a Kiwi contact. It just happened through relationships.” He met with senior Stellar executives in Australia who were initially sceptical about Learn Tech, until he mentioned the contract in Brazil. “When I mentioned the contract, they sat up, opened their notebooks, and starting writing things down. And that was the turning point,” said O’Reilly.

After the twin successes in Brazil and Australia, O’Reilly set his sights on China. He recognised the vast potential of the Chinese market, given its huge population and the growing Chinese economy. The preparation to break into the Chinese market started early, with Learn Tech hiring and training key individuals as part of a long term preparation. In 2008, Learn Tech entered China by hiring a country manager who had good relationships and networks there. This paid off when the country manager signed a pilot deal in January 2009 with one of China’s largest telecom companies. That same year, a group of South Africans contacted Learn Tech to propose a joint venture in South Africa. Before this event, Learn Tech was not even aware that there were potential opportunities in South Africa. After a series of meetings, a licensing agreement was signed under which Learn would be paid license fees by the South African group.

5.2. Beam Wear

Simpson Duane also discovered an opportunity serendipitously. In 1985, he had been backpacking and photographing sunsets on the mountains of Tioman Island, Malaysia, when he lost track of time and got caught in complete darkness. He almost fell off a cliff.
while crawling through the bush in his efforts to get back to his lodging. This experience made him realise that he should have light with him when exploring the mountains. He said:

So the silly thing was, I didn’t have a light with me. And I thought to myself, “Why don’t we have a light that’s built into our clothing?” When I went back the next day to the place where I’d crawled, it actually went along a cliff face to rocky death below. So I really thought more and more: “We should have a light, preferably one that you’re wearing so you don’t have to go and look for it when you need it. The point being that you’re already wearing it and it’s always there for you.

However, it was not until 2004, almost 20 years later, when newer technologies emerged that Duane, a Computer Science graduate who studied Robotics in Europe, started to develop his product. By then, the idea of “light that’s built into our clothing” had evolved more specifically into a bracelet with solar-powered light. “Light that's built into our clothing” could literally have meant clothing with built-in light, perhaps even phosphorescent clothing that gives off light at dark. It could also have been a solar-powered patch sewn into the clothing as a badge or nameplate with an array of strong LEDs that could be activated at night. Duane explained that he chose a bracelet with solar-powered light because it was convenient for people to wear. The product idea was, of course, just one of “a whole drawer full of ideas, of products that are completely unique,” said Duane.

The bracelet was one of Duane’s many product ideas which included unmanned aerial vehicles for taking photos and a robot vacuum cleaner. But he chose the bracelet with solar-powered light believing that he “could quickly make some money” which would then allow him to develop his other product ideas. When he searched the Internet, he realised that while there were similar products being offered, there was none that that had the fully-integrated, microprocessor-controlled solar light bracelet that he envisioned. He said, “Well, I wasn’t thinking about it all that time, but I knew it was still needed. I couldn’t believe that it hadn’t existed and I’m going to build it!” At that time, Duane had been building mapping systems for a technology company as Software Development Manager. He tried to sell the idea to the company but could not get its support. He recalls:
Ultimately I realised that I wasn’t going to grow within that business because I was too focused as an engineer and wanted to invent cool stuff. And they were like, “No, Duane, that’s way up there. We’ve got to do one step at a time. First, you’ve got to do this and then this. Maybe in 10 years, we’ll get to that product.” I was like, “No! I want to do that product now.”

He started developing his bracelet in the evenings while keeping his day job. He spent many long nights working on the cost of components, the design, and the CAD drawings. He also had to think about packaging the whole technology components and integrating them into the bracelet. His development work finally led to an easy-to-use bracelet with light which can operate all night and had a flexible solar panel controlled by a microprocessor with his proprietary code. The microprocessor manages the bracelet’s lighting and power functions. The bracelet also had many designs for various users and different occasions.

After close to three years of product development, all through personal funding, Duane formally incorporated the Beam Wear Company and launched it in a mall in December 2006. The launch was a bit “flat”. A planned marketing campaign did not materialise when Duane’s marketing partner pulled out at the last minute. He said, “We never really replaced that marketing partner so we have had to learn from the ground up how to merchandise and bring the product to market. It has not been an easy experience.” To search for customers, he also tried joining trade shows, in particular an Eco Expo in Christchurch. The turn-out of participants, however, wasn’t quite what he expected.

From the start, Duane aimed for overseas markets. New Zealand, with a population of just over 4 million, is a small market. He said, “It has always been about export. It has never been about the New Zealand market. I think the product itself is the main reason for that, knowing that we’d never make money out of selling this in New Zealand.” Duane was able to tap into government funding for international market development and searched for opportunities abroad. He joined an outdoor trade show in Germany where he networked and met his first international customer. Beam Wear did not even have its own stand, but
Duane received an order for 3,000 solar-powered bracelets. “We celebrated because that was our biggest order,” recalls Duane jubilantly.

He also engaged a marketing agency to help develop a marketing program for his company. He invested in marketing collateral and Internet advertising through Google AdWords and Facebook. Marketing collateral in various languages was also produced and made available on his company website. Through these activities, international customers got in touch with Learn Tech and placed orders for his product.

5.3. Hobby Light

Hobby Light founder John McAllister’s discovery of an opportunity to commercialise his improvised camera light was fortuitous. McAllister, a professional photographer, had developed his own camera light, using a standard flash gun, polypropylene sheets, duct tape, and tin foil, to take photographs with beautiful lighting. Professional camera lights were expensive and sold for thousands of dollars. They were also bulky and needed costly power packs. McAllister said, “There was no way that I was going to be able to buy one.” On the Internet, he discovered that a number of photographers had been improvising and building their own versions of a specialised camera light. In 2005, McAllister started building his own. It took a number of attempts before he came up with one that actually worked. He remembers:

So, late in 2005, I tried to build one and it didn’t work. Then I tried to build another one, but it didn’t work either. Eventually, I got one to work. The results were so spectacular that, just looking at the view screen at the back of my camera, I said, “Wow!” And the person I photographed went, “That’s brilliant! How did you do that?” You know, very quickly I started using it a lot… That’s when I thought, “Aha! There is probably an idea here to commercialise this.”

However, McAllister’s camera light in its improvised form was not commercially viable. It had to be developed. This required a decision on his part to venture into entrepreneurship. “Quite a few people have an idea that could go to market. Almost no one takes those ideas to market,” McAllister reflected. He decided to pursue the opportunity. He set up Hobby
Light, and raised capital by taking out a loan on his house and acquiring additional funds from friends and family. Without resources, McAllister would have been unable to move the opportunity forward. He then hired optical engineers and product designers to redesign the camera light.

McAllister, who spent a number of years working as an investment banker in Europe, knew he had to get help from experts if his idea was to go beyond being a mere DIY device. His collaboration with experts led to the development of Hobby Light, a specialised camera light made of durable ABS plastic that used proprietary light-shaping technology. “Basically, the product that we were developing would be better than anything that you can build yourself,” said McAllister. The task of having the product commercially manufactured came next. To enhance the functionality of the Hobby Light, a shiny metallic surface had to be applied inside it through chroming. This process created a dilemma for McAllister, who wanted to manufacture his product in New Zealand; the kind of chroming he wanted was unavailable in the country. That was when McAllister realised he had to go for production offshore. Serendipity was to work in his favour.

In April of the following year, McAllister joined the Icehouse, the same business incubator which Learn Tech’s O’Reilly joined. At the Icehouse, McAllister made a small presentation on Hobby Light to a Chinese trade delegation. One of the delegates happened to own a manufacturing plant in China that was capable of developing the product specifications of Hobby Light and offered to be his manufacturer. This encounter led to the production of Hobby Light in China. Having finally found a manufacturer for his product, McAllister then focused on marketing. From the start, he set his sights on the global market. His international background probably explains part of his global outlook. McAllister is half English, half Italian, who migrated to New Zealand in 2002 after living in various countries. Explaining his decision to focus on the global market, he said, “New Zealand is a small country with an income which is much lower compared to other developed countries. Its currency also does not stack up well against the currencies of other countries. So, why would you focus on New Zealand?”
His plan was to build the demand for Hobby Light prior to an actual market launch. He said, “By the time you launch your product, it should be in demand. Otherwise, you’re not going to sell it. If you launch and then build demand, you’re going to have a product that no one wants for months and months.” To build demand for Hobby Light, McAllister began to engage with key bloggers in the industry. Soon, websites began to mention him and his product. He also used social media sites like YouTube and Flickr to create brand awareness and community loyalty among professional and hobby-users of photographic lighting equipment. He also actively participated in chat sites, where he had one-on-one conversations with customers. He said, “I’m now becoming well known as some kind of social media marketing or on-line marketing ‘guru’. Much of it has to do with being a very furious networker.”

In July 2008, a few months before launching Hobby Light, McAllister started to send out pre-release images of its prototype. He said, “You couldn’t tell everything about the product, but you’d have an idea about the product as a cool new gadget.” He also engaged in some publicity, asking people to sign up to his newsletter. The newsletter list went very quickly “from 150 people to 700 before we launched,” he said. Having softly built the demand for Hobby Light online, when McAllister launched it in December 2008, the product launch went “spectacularly well.” He sold his first production run to customers worldwide in three to four months, and generated close to a million dollars in his first year of operation.

The successful launch got the attention of potential distributors and dealers worldwide. McAllister said, “The great thing about our initial success was that our product made a splash in the industry and encouraged international distributors to get in touch with us.” Hobby Light quickly entered into distribution agreements with dealers in Japan, the U.S., Germany, the U.K., and Belgium. More international distribution agreements were signed in 2009.
Com Apps co-founders Derrick Lane and Dwight Eagles saw an opportunity to develop a novel server platform for telecommunications companies after reading the Master’s thesis of Fred Mack, another co-founder. Looking for work, Mack had visited Lane and Eagles at their office at NettLabs, a company that did outsourcing work for Solar World Enterprises, a multinational company. Lane said, “We felt that there was stuff to be used out of his thesis and looked at forming a company.” At that time, it wasn’t clear to the Com Apps founders what the product would ultimately be. The idea of a “novel” server platform was just a general, vague idea of a potential product, but they set up the company anyway and started developing the technology.

They received initial funding from NettLabs. For nearly four years the founders worked on developing the technology. Their platform represented a new model that challenged existing standards and threatened traditional suppliers. The founders knew that even if they could “actually get the technology to where it needed to be,” getting buy-in from telecommunications carriers would be difficult. For one, a breakdown in their technology could anger hundreds of thousands of customers and lead to huge business losses. It was risky for carriers to deal with a small company offering a new, untested product. Lane admits that they put up the company not knowing “whether we can get anything out of this.” He said, “Com Apps was really just a high-risk technology development company.” Despite the risks the founders were taking, they were motivated by the idea of developing the new technology.

From the beginning, Com Apps was focused on global markets. Said Lane, “One of our mantras is that our technology will be involved in every transaction, every telephone call globally. That’s what we want to do. So, we have to be focused on the global market.” The founders also hoped to get New Zealand telecommunications company on board. But when the technology was finally commercially viable, it was rejected by local telecommunications companies for being it too risky. Lane said, “There was some hope that we were going to get some sort of deployment in New Zealand. That didn’t eventuate. We tried to go so far down the track with it, but it just didn’t happen.” He continued, “We
would love to have had Telfone New Zealand as a reference customer, but it didn’t work like that. We had to do it without them.”

However, in seeking to sell the product to Telfone NZ, a local subsidiary of a global firm, the founders were able to establish a connection with one of its key officers. This officer became a “champion” for Com Apps within the global firm and introduced Com Apps to Telfone Madrid, a subsidiary in Spain. The Spanish company showed interest in Com App’s technology and eventually purchased it. The contract with Telfone Spain led to a further sale with Telfone Lisbon, another subsidiary, in Portugal the following year. That same year, Com Apps discovered an opportunity to enter Japan. Two employees of a global high-technology company in Japan, who had had strong relationships with people in the Japanese telecommunications industry, approached Com Apps. They offered to work for Com Apps in introducing its new server technology with Japanese companies. Com Apps hired the two individuals and opened an office in Japan. Said Lane, “From what we could see, there was a market for what we were trying to do. That market was kind of presented by these two employees. I think there was a market, but still there was a credibility gap.” A year later, Com Apps succeeded in selling its technology to a Japanese telecommunications company.

For Com Apps, business also began to develop in Europe. Its sale in Spain had attracted investors in the U.K. who infused capital to the firm in 2006. This led to the restructuring of Com Apps’ organisation. Its headquarters was transferred to the U.K., a move that included converting the New Zealand business into a subsidiary. Explaining the move, Lane said, “We had to have a head office up there. Telfone Germany won’t deal with a New Zealand company. We had to be in Europe to be able to deal with European companies.” In the restructuring, the U.K. office also took charge of marketing and sales activities, leaving the New Zealand operation to focus on technology development.

That same year, a Com Apps’ newly-hired CEO suggested that the company consider selling to Indonesian companies. He was confident that he could sell the company’s technology to SmarTel, a leading telecommunications provider in Indonesia, whom he had previously dealt with. He pitched Com Apps’ technology to the Indonesian company and
won a contract over other larger rivals. Lane acknowledged that the CEO’s relationship with SmarTel was crucial. Lane said, “We were very much a technology development company. So we wouldn’t even have known where to start in Indonesia, let alone know of an opportunity there.” Buoyed by newly infused resources and its successful entry in Spain, Portugal, Japan, and Indonesia, Com Apps took steps to expand its international activities and established a sales office in Singapore to develop its Asia-Pacific market. This marketing activity paid off with export sales to the Philippines in 2009.

5.5. Advanced Solutions

Mike Phung and his four Advanced Solutions co-founders ventured into entrepreneurship in 1993 after recognising opportunities in the software development industry. The five were classmates graduating from a local university with undergraduate degrees in computer programming and business information systems. They felt that their skills, acquired from their undergraduate degrees, could be leveraged commercially to exploit opportunities in the software development industry. Phung said, “We definitely saw opportunities. Those were, I guess, the beginning of the golden days of software development in New Zealand.” The five were excited by the “idea of creating software out of nothing: from somebody’s idea, and actually putting that together and making a product that works.” They were equally committed to starting a business together.

About to graduate, they had a choice of looking for jobs in different companies or seizing the opportunity to be in business. Given their youth, “We really had nothing to lose,” Phung said. Before the final exams of their final university year, the five contributed less than a thousand dollars each in capital and set up Advanced Solutions. Their first task was to identifying their target market. The novice entrepreneurs noticed that software development companies were either focused on big businesses or the mass market. There was a “big gap in the middle.” In this space, the needs of many local businesses, which had no customised software systems, were unmet. Phung said, “The future for us was in this market. It was a very open market.” Having decided to focus on custom software development, the company searched for sales opportunities. Phung explained:
We searched for customers through people we knew, our connections. We used everything we had in terms of personal connections: parents, family, and friends. And then we also had our connections from university: classmates, lecturers, etc. Pretty much, we tried everything we could to find customers. It took a while but it worked.

It did not take long for Advanced Solutions to acquire its first customer: a large pharmaceuticals company that had been operating in Australiasia for some time. But while Advanced Solutions got off to a good start with its first customer so early after its founding, it was not all smooth sailing for the business. The business did not return any profit in its first three years and the business partners were forced to continue to do part-time jobs to feed themselves. Questions on whether to continue or shut down the business surfaced occasionally. Phung recalls:

That question occurred often because the business was not doing well. All the time you had to think about it and ask, “Is this business viable thing? How long can we keep on doing this? Are there enough opportunities on the horizon that would allow us to finance ourselves in other ways?”

But for the business partners, quitting was not in the agenda. Their perseverance paid off when Advanced Solutions finally made a profit on its fourth year. For this milestone, the company issued dividends of “$12.50 each”. Controlling business expenses helped stabilise the company’s financials. For instance, in their first year, the five partners worked from their respective homes and took turns hosting business meetings. It was not until the following year that they rented an office: a house. Advanced Solutions hit its growth curve five years into the business.

In 1997, Phung returned to his home country in Southeast Asia and saw an opportunity to expand to that country. But it was not until 2004 that Advanced Solutions built its first overseas base there. One of the reasons for the long delay was capital constraints. By 2004, Advanced Solutions was of a “different size.” Phung said, “The constraint initially is very similar to that of most start-ups. That’s around capital. With capital we could have done more.” The company set up its overseas office to use skilled local IT staff for the
company’s operations in New Zealand. The company had struggled to find skilled IT staff in New Zealand. Although Advanced Solutions initially hoped to get customers in Phung’s home country, it was unable to. Phung said, “The reason is very simple. If they are local, it is actually better, easier and cheaper for them to use a local service provider.” Phung acknowledged that having family connections was a motivation for entering his home country. His family connections also allowed Advanced Solutions to rapidly set up its operations in that country. But a lack of personal connections was also a reason why his company discounted other Asian countries which have pools of highly-educated and highly-skilled staff.

5.6. Wet Mountains

Paul Clement is the unlikely founder of a speciality drink business. When he set up Wet Mountains in 2002, he had no knowledge or experience in beverage making or distribution, was not a chemist, and he had limited resources. But while working as marketing consultant for Kumar Pranab, owner of a chain of Mumbai Heaven restaurants, Clement noticed quality problems with the India-imported drinks they served in the restaurants. He said:

When you poured the drink into your glass, stuff was floating around in the glass. The drink also did not really taste fresh. So while I was walking to a meeting with Pranab one day, I thought we can make a better Indian-style drink here. In Canterbury, we’ve got some of the world’s most pristine artesian waters. We also have hops and barley that are grown in the Canterbury plains. So we had the ingredients right at our doorsteps. We could produce a new exciting interpretation of an Indian-style drink. So at the end of this particular meeting with Pranab, I said, “What about having an exciting New Zealand interpretation of an Indian-style drink in your restaurants?” And he said, “Very good idea, but how the hell are we going to do it?” I said, “Leave it to me, Pranab. There is a local brewer of some note.” So we saw there is a bit of an opportunity here to create a new drink to go with Indian cuisine.

Clement approached the local brewer who agreed to develop the drink. Pranab also agreed to sell the drink in his restaurants. Clement said, “Pranab agreed to take this product with
no name, no recipe, nothing. It was just an idea, but he agreed to support it.” Without Pranab agreeing to sell Wet Mountains in his restaurants, the product would not have got out of the blocks. Clement described his role as “pulling together and connecting the dots” to acknowledge the importance of Pranab and the brewer in the production and sale of Wet Mountains.

Despite the risks, Clement had the drink produced and introduced in Mumbai Heaven. Being a speciality drink, its production was in small batches and with high production costs. Wet Mountains was, thus, the most expensive drink in the Mumbai Heavens restaurants. Yet within 14 months, the drink was one of the most popular drinks in the restaurants. As well, the high production costs of Wet Mountains dictated that it be marketed solely as a restaurant-only product. Clement felt that selling in supermarkets was not a space he wanted to be in, considering that most premium drinks were typically sold as loss-leaders. Wet Mountains did not have the high-volume capability that would allow it to generate strong profits on low margins.

From the start, Clement wanted the drink to have an international branding approach. He was thinking, “If we get this right, then there is no reason why we can’t send it to India.” It took seven years for Wet Mountains to have its international debut. In 2009, like many economies in the world, New Zealand was in a slump. Clement recognised the difficulty of relying on one economy and looked to broaden the opportunities for Wet Mountains internationally. He searched for and found a distributor in Australia who would distribute Wet Mountains in restaurants and hotels. In 2010, Clement made his first international shipment to Australia. Clement was also determined to launch Wet Mountains in India. He said, “I had a dream. I just thought that one day perhaps we will export it to India. It’s just your imagination running wild. But after a while, you think, maybe you can do that. Let’s give it a nudge.”

Clement focused on Indian five-star hotels because they typically sold drinks duty-free. He identified a five-star hotel chain in India, communicated with its food and beverage manager, and arranged for samples to be sent. In 2011, he went to India to meet the hotel manager who agreed to distribute Wet Mountains in the hotel chain only if it was done
through an Indian distributor. “The only way into India, a highly regulated market, is to have a distributor,” Clement explained. After signing up a local distributor, Clement eventually exported his drink there. Asked if, in getting into the Indian market, he was deterred by his firm’s limited resources and the heavy competition, many of which were huge, dominant companies, he said:

Not really. The market is so big! If you can get 1% of the top 10% of the market, what’s the risk? If you have a product and a distributor willing to take a product, where’s the risk? Sure, I don’t know what to expect. I don’t know where things will end up. But what I do see is that India is a huge market. There’s going to be money circulating to support a product like Wet Mountains.

Before his trip to India, Clement also got in touch with an Englishman living in Singapore who distributed imported specialty drinks in Singapore hotels. Clement found the distributor after a search on the Internet. After a meeting in Singapore, the distributor agreed to distribute Wet Mountains there and explore selling the drink in other parts of South East Asia as well. That same year, Clement and a London-based friend also set up a sales subsidiary in the U.K. They succeeded in getting Wet Mountains to be sold in some of the high-end Indian restaurants in London in 2011. The drink also generated an international interest on its own. That year, a potential distributor from Malaysia contacted Clement and flew over to see him in New Zealand. The meeting promised to lead to opportunities in Malaysia.

5.7. Concluding comments

In this chapter, six mini-cases were presented to give an overview and holistic sense of some of the cases. Through the mini-cases, we caught a glimpse of how entrepreneurs discovered, created, evaluated, and exploited opportunities to produce goods and services, and to enter international markets. We learned where business ideas and opportunities came from, and how entrepreneurs acquired resources and dealt with uncertainty and challenges. We also got a sense of the way entrepreneurs thought, heard their voices, and
felt their anxieties, frustrations, excitement and optimism. In the succeeding chapters, we delve deeper into the cases as key themes are analysed and findings are presented.
CHAPTER 6

Entrepreneurship and Opportunities

A key research question of entrepreneurship research is how opportunities to create future goods and services are discovered, created, evaluated and exploited (Venkataraman, 1997; Shane & Venkataraman, 2000). This question is deemed central to entrepreneurship because as Short and colleagues (2010, p. 40) said, “Without an opportunity, there is no entrepreneurship.” This chapter seeks to answer that question drawing on twelve cases, including the six mini-cases presented in the previous chapter and the other cases summarised in Appendix 2. The next chapter focuses on the discovery, creation, and evaluation of opportunities to enter international markets (Zahra & George, 2002; Oviatt & McDougall, 2005; Chandra et al., 2009). Chapter 8 focuses on the exploitation of such opportunities and small firm internationalisation.

We begin the detailed examination of how opportunities to create future goods and services are discovered, created, evaluated and exploited, by examining how opportunities were discovered and how the entrepreneurs, and not others, discovered these opportunities. The second section explores the evaluation of discovered opportunities. Because discovered opportunities are typically potential opportunities and hence could not be exploited, some entrepreneurs engaged in search, the subject of the next section, to discover more specific opportunities or parts of opportunities.

The succeeding section looks at the creative transformation of discovered potential opportunities into concrete opportunities to create specific products or services that provide value to customers. The chapter then examines three distinct approaches to the exploitation of entrepreneurial opportunities. In the final section, a framework is presented that summarises how opportunities to create future goods and services are discovered, created, evaluated and exploited. Such a framework is then used to depict an opportunity-based model of entrepreneurship.
6.1. Discovery of opportunities

The discovery of opportunities was typically a spontaneous, unplanned process. Many case entrepreneurs did not deliberately set out to discover opportunities, but came across them without planning or intending to. They discovered opportunities to create future goods and services based on: 1) unmet personal or customer needs; 2) product ideas; or 3) their entrepreneurial capabilities. John McAllister (Hobby Light), Simpson Duane (Beam Wear), and Dick O’Reilly (Learn Tech) discovered opportunities to create products to meet unmet personal or customer needs. Paul Clement (Wet Mountains), Jake Tooley (Road Worx), and Derrick Lane (Com Apps) discovered opportunities to create products or services based on their imagination of valuable products. Other entrepreneurs, such as Mike Phung (Advanced Solutions), Phil Sims (Fine Widgets), Jeff Harper (Cool Fibres), and Kirk Seagal (Trans Build), discovered opportunities to create products or services based on their entrepreneurial capabilities.

Duane discovered an opportunity to develop a product based on a personal need for “a light that’s built into our clothing.” He realised the importance of such a product after being caught in complete darkness while photographing sunsets on the mountains of Tioman Island, Malaysia and almost falling off a cliff on his way down the mountains. This experience made him recognise an unmet need for a lighted product that could be worn conveniently. Although the unmet need was initially his, Duane recognised that there were potential customers who had the same unmet needs. When he discovered this opportunity, his focus was meeting customer needs and not on his capabilities to produce a product or building a product for its own sake.

McAllister also came across an opportunity to commercialise his improvised camera light when he realised that affordable professional camera lights were unavailable in the market. He said, “I just thought that I would buy one and of course there was none available. That’s when I thought, “Aha! There is probably an idea here to commercialise this.” McAllister discovered the opportunity based on an unmet need, which he recognised was probably shared by potential customers as well. O’Reilly discovered an opportunity to
meet unmet customer needs in the service arena around mobile phones. He felt such needs were neglected by the mobile phone industry. He said:

I saw a lot of the industry. What I was really conscious of was the fact that the industry grew based on good products – really cool, new, sexy devices. But service wasn’t a big feature. Providing good customer service was never a priority for the mobile phone operators or the manufacturers. I just sensed that there was an opportunity to do something in the service arena around mobile phones.

These three cases show examples of how entrepreneurs discovered opportunities to create products to meet customer needs. The entrepreneurs started the path to entrepreneurship by focusing on meeting potential customer needs, and not by looking at their entrepreneurial capabilities or developing products for their own sake. In fact, they typically did not have the capability to produce their envisioned products in the first place. They also did not think of getting into business initially, but only considered it after discovering an opportunity to meet customer needs.

Another set of entrepreneurs discovered opportunities by coming across potential products that they wanted to create. These entrepreneurs, like those who discovered opportunities based on unmet customer needs, also did not think of venturing into entrepreneurship initially. The discovery of an opportunity to create new or better products motivated them to go into business. But their interest in developing a product made them focus more on the product and its features, rather than on what customers wanted or entrepreneurial capabilities they possessed.

Clement noticed quality problems with the India-imported drinks served in Mumbai Heaven. In particular, the drinks did not taste fresh and had objects floating in them. Clement recognised an opportunity to create “an exciting New Zealand interpretation of an Indian-style drink” using available ingredients in Canterbury. In discovering such opportunity, Clement focused on the drink that he could potentially develop and not on his capabilities for developing it. In fact, he lacked the capabilities to develop the drink and relied on a local brewer to come up with the drink’s formula and produce it. As well, what potential customers actually wanted was not a key consideration. Clement sought to
develop an Indian-style drink even without asking potential drinkers if they may prefer such drink and despite a number of Indian drinks already being served in Mumbai Heaven.

Lane and Dwight Eagles also saw an opportunity to develop a novel server platform for telecommunications companies after reading the Master’s thesis of Fred Mack, another co-founder. Lane said, “We felt that there was stuff to be used out of his thesis and looked at forming a company.” These entrepreneurs focused on developing the novel technology more than trying to determine what potential customers needed or if there was a need for the technology in the first place. As it turned out, no New Zealand customer wanted their product. Furthermore, although the entrepreneurs had the capability to develop the novel technology, their capabilities were not a key consideration in recognising the opportunity to develop it. In fact, during more than four years of developing the technology, the founders were not sure that they would succeed because they struggled with the capability to develop it.

Other entrepreneurs discovered opportunities on the basis of capabilities that they possessed. These entrepreneurs already considered getting into business and recognised that their capabilities enabled them to do so. Phung and four other university classmates, who were about to graduate from university, wanted to explore being in business for themselves. They realised that their skills in computer programming and business information systems could be leveraged commercially to exploit opportunities in the software development industry. They first put up Advanced Solutions, and only then did they seek to develop a product and determine what customer needs were unmet.

Sims and his co-founder also discovered an opportunity to be in business based on their capabilities as engineers. They had been working for a small tool manufacturer which paid them per project, instead of by the hour. But they were dissatisfied with their work and thought of getting into business for themselves. In deciding to get into business, leveraging their capabilities was the key. Attracting potential customers and developing a product to meet their needs only came later.
Entrepreneurs who discovered opportunities based on their capabilities focused on what they could do rather than on what customers needed, at least initially. They also lacked clarity as to what customer needs were unmet and what product could be developed for potential customers. As was often the case, having entrepreneurial capabilities, however, did not necessarily translate into product ideas, which was a business challenge for these would-be entrepreneurs.

6.1.1. Why some, and not others, discovered opportunities

Shane and Venkataraman (2000) stated that one of the key questions in entrepreneurship research is why some entrepreneurs, and not others, discover opportunities. The cases showed that entrepreneurial differences in prior knowledge and imagination partly explained differences in the discovery of opportunities. Serendipity also played a role by allowing some entrepreneurs to encounter events or situations that led them to discover opportunities.

Learn Tech’s founder sensed an opportunity around services for mobile phones based on his prior knowledge of the mobile phone industry. He had worked in the mobile phone industry for fifteen years. Without such prior knowledge, he would not have discovered the opportunity. The founders of Advanced Solutions also relied on their prior knowledge of computer programming and business information systems to perceive opportunities in the software industry. The Fine Widgets founders identified an opportunity to be in business in the tool-making industry based on their prior experience in that industry. Cool Fibres founder Harper also went into the wool-trading industry based on his prior wool-trading experience.

Others entrepreneurs used their imagination to construct opportunities. The founder of Wet Mountains had no prior knowledge of the New Zealand beverage industry. Although he was exposed to the industry (as a consumer), he was never deeply involved in it. His work was in marketing, serving as marketing consultant for the Mumbai Heaven restaurant. However, he imagined developing an Indian-style drink using ingredients in Canterbury.
The founders of Com Apps used their imagination to imagine an opportunity to develop a novel server platform for telecommunications companies. They were not involved in the telecommunications industry, nor did they know of any opportunity in it. But they imagined a potential opportunity for a novel server platform based on a Master’s thesis which they read.

Finally, serendipity played a key role in why some, and not others, perceived potential opportunities. Had Beam Wear founder Simpson Duane not been stuck on a mountain at night without light, he would not have discovered an opportunity for “a light that’s built into our clothing”. A chance encounter with a high school teacher, who suggested using a different technology, led Road Worx founder Jake Tooley to develop durable and commercially-viable road construction equipment. Notwithstanding the role of serendipity in providing the setting in which entrepreneurs could potentially discover opportunities, entrepreneurs had to use prior knowledge and imagination to discover opportunities.

6.2. Evaluating opportunities

The discovery of opportunities was only an initial step to entrepreneurship. After discovering opportunities, entrepreneurs had to evaluate them. Opportunity evaluation involved determining the exploitability of the discovered opportunity and the desirability of exploiting it. Exploitability was related to whether a discovered opportunity could feasibly and readily be exploited, while desirability was tied to entrepreneurial choice and opportunity costs.

Typically, discovered opportunities could not be exploited. They were often incomplete and lacked other opportunity elements such as an unmet customer need, a product idea, or entrepreneurial capability to develop a product and meet customer needs. Entrepreneurs who discovered opportunities based on unmet customer needs often lacked product ideas and the capability to develop a product. Those with product ideas typically lacked the capability to develop their product ideas and needed to determine potential customer needs that were unmet. On the other hand, entrepreneurs who discovered opportunities based on
their entrepreneurial capabilities did not have clear product or services ideas or knowledge of customer needs that had to be met. Discovered opportunities were also typically broad and vague, and hence merely had “potential”.

Duane, who discovered an opportunity for “a light that’s built into our clothing,” did not have an idea as to the type of product that could actually be created or the capabilities to develop a potential product. Hence, the opportunity could not be exploited. He had to wait for twenty years before he came up with a product idea and the capability to build the product. McAllister also could not exploit the opportunity to commercialise his improvised camera light, which was initially made up only of a standard flash gun, polypropylene sheets, duct tape, and tin foil – a far cry from a professional camera light. He also lacked the capability to build a professional camera light and had to outsource its manufacturing to China.

Clement, who discovered an opportunity to create an Indian-style drink, also could not readily exploit the opportunity because he lacked the capabilities to produce the drink. As well, there were questions as to whether customers would want an Indian-style drink, given that well-known drinks from India were already available, and whether they would be willing to pay for a higher-priced drink. The drink could only be produced in small volumes at higher cost. Hence, despite a product idea being in place, other opportunity elements such as capabilities to develop the product and customer need were missing.

The founders of Com Apps had the same shortcoming. Although they discovered an opportunity for a novel server platform for telecommunications companies, they had limited capabilities to develop it and were unaware of a potential customer need for the product. Because of capability constraints, it took the founders more than four years to develop the technology. A lack of customer need eventually resulted in the failure of Com Apps to sell the technology to New Zealand telecommunications companies.

Opportunities that were discovered based on entrepreneurial capabilities were also often incomplete and lacked other opportunity elements such as a product idea and customer need. While the Advanced Solutions founders had capabilities in computer programming
and business information systems, they had no idea for a product and did not know what customers needed. The founders of Fine Widgets discovered an opportunity to be in business based on their capabilities as engineers but lacked a product idea and knowledge of what customers needed.

Moreover, determining whether a discovered opportunity could be exploited was only one aspect to opportunity evaluation. The other involved evaluating the desirability of exploiting a potential opportunity, a process that was not straightforward for entrepreneurs. There was an opportunity cost to pursuing opportunities. Pursuing one opportunity meant abandoning other potential opportunities. This was a major constraint for case entrepreneurs who, because of limited resources, had to carefully evaluate which opportunity to pursue. Beam Wear’s Duane, for instance, said that he had “a whole drawer full of ideas of products that are completely unique,” including ideas for a robot vacuum cleaner and unmanned aerial vehicles for taking photos. He had to shelve the pursuit of other opportunities while he focused on a solar-powered bracelet.

Entrepreneurs also needed to carefully evaluate opportunities because of risks in pursuing an opportunity. They had no way of knowing if an opportunity was viable and if there was sufficient customer demand for a product. Both Beam Wear and Com Apps failed to attract New Zealand customers and had to turn to international markets. During their initial years, many case firms struggled with weak customer demand and constantly faced the prospect of closure. They had no way of knowing how large a potential market was and whether market demand would grow for them to become profitable. Lacking knowledge of potential market demand, they relied on conjecture and imagination.

Evaluating the desirability of pursuing an opportunity was highly subjective. Entrepreneurs had different criteria in evaluating the desirability of opportunities. Financial viability and potential returns, while important, were only some of them. Many entrepreneurs, such as the founders of Wet Mountain, Com Apps, Advanced Solutions, and Fine Widgets, did not pursue opportunities on the basis of viability, at least primarily. They pursued opportunities because they wanted to develop an imagined product or wanted to make use of their
capabilities. It wasn’t because an opportunity had strong potential for commercial viability per se.

6.3. Searching for opportunities

After discovering and evaluating opportunities, some entrepreneurs engaged in search to discover more specific opportunities or parts of opportunities. The founders of Advanced Solutions searched for a product idea and potential customers, after discovering an opportunity to enter the software industry using their skills in software programming. Learn Tech founder O’Reilly did interviews with mobile phone manufacturers, phone operators, dealers, and users and commissioned a research team to do a survey on mobile phone user experience before coming across business idea for a mobile phone application.

Although the above examples involved a search for an opportunity to create a product, entrepreneurs also typically searched for other opportunities, such as opportunities to acquire capabilities, as we saw in the previous chapter. Without capabilities to develop a product or service, a product idea would have been ineffectual. Hobby Light founder John McAllister searched for optical engineers and product designers to redesign his camera light, and an international manufacturer to produce his product. Beam Wear founder Simpson Duane also had to acquire a flexible solar panel, microprocessor, and LED lights from various suppliers in order to develop his solar-powered bracelet. In fact, the appropriate technology – which was durable and affordable – did not emerge until more than twenty years later, delaying Duane’s involvement in entrepreneurship. Wet Mountains founder Paul Clement outsourced the production of his drink to a brewer, which also developed its formula.

Apart from searching for opportunities to create a product or service, and acquire or develop capabilities, entrepreneurs also typically searched for selling opportunities. Entrepreneurs searched for customers by asking people they knew (e.g. Mike Phung), engaging with potential customers on the Internet (e.g. John McAllister), approaching potential customers (e.g. Derrick Lane), joining trade shows (e.g. Simpson Duane), or
setting up a sales office abroad (e.g. Dick O’Reilly). These activities show that, unlike discovery which is a cognitive process, search can involve entrepreneurial action and the commitment of resources.

In addition, unlike the discovery of opportunities which was typically spontaneous and unplanned, a search of opportunities was deliberate and purposive. When entrepreneurs searched for opportunities, they focused on specific industries. They directed their attention to an environment where they could grasp relevant information and in which they could draw on their prior knowledge and entrepreneurial capabilities. Their search was not open-ended but bounded by what was relevant and salient.

6.4. Creating entrepreneurial opportunities

If we compare the potential opportunity that was discovered and the product or service that was created, we will notice a transformation of the opportunity. For instance, Beam Wear founder Duane initially thought of “a light that’s built into our clothing.” From this opportunity emerged the idea for a bracelet with solar-powered light. Learn Tech founder O’Reilly sensed an opportunity around mobile phone services. This became an opportunity to create mobile phone applications to help users organise their daily activities. The founders of Advanced Solutions saw opportunities in the software development industry. They decided to develop custom software for small businesses. We can see the difference between discovered opportunities and the created product in Table 6.1.
Table 6.1. Comparison of discovered opportunity and created product

<table>
<thead>
<tr>
<th>Business Name</th>
<th>Discovered Opportunity</th>
<th>Created Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learn Tech</td>
<td>“An opportunity to do something in the service arena around mobile phones”</td>
<td>Mobile phone applications to help users organise their daily activities</td>
</tr>
<tr>
<td>Beam Wear</td>
<td>“A light that’s built into clothing”</td>
<td>Bracelet with solar-powered light</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>“Saw opportunities in the software industry”</td>
<td>Customised software systems for small businesses</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>A camera light, using a standard flash gun, polypropylene sheets, duct tape, and tin foil</td>
<td>Specialised camera light made of durable ABS plastic with proprietary light-shaping technology</td>
</tr>
<tr>
<td>Com Apps</td>
<td>A rudimentary idea for a novel server platform</td>
<td>A highly-advanced server platform system</td>
</tr>
</tbody>
</table>

These examples show the creative transformation of a discovered potential opportunity into an actual opportunity to create a specific product that could provide value to customers. Without this creative transformation into an actual opportunity, the perceived opportunity would have remained potential and unexploitable. Hence, the creative transformation of discovered opportunities into concrete opportunities is *sine qua non* to market entry. *These concrete opportunities to create specific products that provide value to customers* may be called *entrepreneurial opportunities* to distinguish them from discovered *potential* opportunities (see Oyson, 2010).

An entrepreneurial opportunity embodies three key elements: product, customer, and capabilities. The product and customer elements are logically interrelated parts of an entrepreneurial opportunity. It is difficult to speak of an entrepreneurial opportunity without conceiving a product and customers. Capabilities, whether current or acquired, are important because without them, a product cannot be created. Hence, the creation of an entrepreneurial opportunity involved bringing the three opportunity elements together, cognitively and by entrepreneurial action. Acting on their thinking and thinking of their action gave clarity and shape to the entrepreneurial opportunity (cf. Weick, 1995). It is this creative process that transformed and re-created an incomplete, potential opportunity into a concrete opportunity to develop or create a specific product that provides value to
customers. In alluding to this cognitive process, O'Reilly said, “So, I put all those together.” Sims described it as “putting this one with this one.”

The creation of opportunities was mainly purposive and deliberate. Some entrepreneurs intentionally imagined the various elements of an entrepreneurial opportunity and put them together. They ruminated on a potential opportunity in order to develop it and create an entrepreneurial opportunity. The creation of entrepreneurial opportunities was also a dynamic and evolving process, involving the creation and re-creation of entrepreneurial opportunities to develop them over time. Often, the entrepreneurial opportunity that was created at a particular moment was only one of a series of iterative creations.

Entrepreneurial action was necessary to transform an entrepreneurial opportunity into an actual, concrete product. Once a product was creatively imagined, if it was to be of value to customers, it had to be transformed into a concrete product. Creative action included developing designs for the product, checking on costs, developing a prototype, sourcing components, and production. Duane spent time designing and doing CAD drawings to create his bracelet. He also developed a prototype by assembling the LED lights, flexible solar panel, microprocessor with his proprietary code, and bracelet. McAllister initially developed an improvised special camera light using an ordinary his own camera light, polypropylene sheets, duct tape, and tin foil. Tooley spent months designing his road construction equipment, acquiring component parts, and developing it.

Without customers, a product has no economic value. Hence, entrepreneurs acted to secure customers by engaging in sales and marketing activities. These activities typically included preparing flyers and brochures, visiting and dealing with potential customers, and marketing on the Internet. McAllister worked on building demand for his special camera light by engaging with key influencers in the photography industry worldwide and using social media sites like YouTube and Flickr to create brand awareness and community loyalty among professional and hobby-users of photographic equipment. He also actively participated in chat sites and engaged with potential customers one-on-one. The Com Apps founders acquired their first customer by developing a proof of concept for the customer and developing a software prototype to manage its marketing activities. They
also approached family, friends, and university connections to gain more customers. To create customers, entrepreneurs also typically appointed distributors and dealers, set up sales offices, and ventured into international markets. These activities will be elaborated on in the next two chapters.

Creating a product required capabilities, either current or acquired. Phung and his co-founders were able to develop custom software because of their backgrounds in computer programming and information systems. Sims and Vaughn had a smooth transition into instruments manufacturing based on their background as engineers and experience as a tool-makers. Seagal succeeded in specialising in the production of goods-handling equipment on the basis of his mechanical engineering background. Capabilities could also be acquired. Clement, who had no knowledge of beverage making, hired a brewer to develop the formulation for his Indian-style drink and produce it. McAllister outsourced the production of his special camera light to a company abroad. Duane bought the component parts for his lighted bracelet from various suppliers.

To acquire capabilities, entrepreneurs also created organisations (or bought them, as in the case of Seagal). They hired individuals who brought specialist skills and knowledge to the organisation. With more staff, their organisations were also able to engage in multiple and complex activities, including marketing, sales, technology development, distribution, logistics, and production. With an organisation, offices could also be established in various geographic locations and administered by individuals with specialist functions.

The creation of entrepreneurial opportunities was strongly influenced by the external environment (Figure 6.1). On the one hand, the external environment placed constraints on the creation of entrepreneurial opportunities. For instance, product ideas were shaped by current products and technologies known to the entrepreneur. In the case of O’Reilly, his idea of mobile phone applications, while emerging out of a customer interview, was closely linked to and shaped by what was happening in the mobile phone industry. For Phung and his co-founders, their idea of developing custom software was delimited by existing technologies, knowledge, competition, economic conditions, etc.
Yet, the external environment also enabled the entrepreneurial opportunity creation process. Access to suppliers, both domestic and international, allowed entrepreneurs to overcome limited capabilities by acquiring capabilities owned by others. McAllister developed his special photographic light with the help of optical engineers and product designers. He also became aware that no affordable portable photographic light existed in the market by checking on the Internet, showing how the Internet facilitated the process by which entrepreneurs became aware of current products, available technologies, and potential customers. Duane waited for more than twenty years for a technology that enabled him to create a microprocessor-controlled flexible solar panel on a bracelet.
6.5. Exploiting entrepreneurial opportunities

The end-goal of entrepreneurs was to exploit entrepreneurial opportunities by engaging in market entry and selling to potential customers to generate economic value (cf. Baron & Ensley, 2006). As with opportunity discovery, entrepreneurs had three discernible approaches to exploiting entrepreneurial opportunities: 1) customer-orientated, 2) product-orientated, and 3) capabilities-orientated. In a customer-orientated approach, exploitation was determined by customer types. McAllister focused on selling his special camera lights online because that was where he felt he could meet interested photography hobbyists worldwide. Duane dealt with dealers and distributors in order to widely distribute his lighted bracelets to potential customers. Given the market niche of Safe Notes, MacDonald regularly visited pre-selected customers at their offices to engage in personal selling. He also joined printing trade shows to meet with potential customers.

In a product-orientated approach, the nature of a product determined opportunity exploitation. Trans Build’s goods-handling systems were expensive, complex, and customised. As a result, its sales activities were directed at individual business customers and often involved a sales team to deal and negotiate with customers individually. Com Apps also engaged in one-to-one selling to targeted business customers in its niche market. Since its technology was new and not widely used, a targeted and individualised approach was necessary to overcome customer resistance.

Capabilities-orientated entrepreneurs’ capabilities determined the exploitation of entrepreneurial opportunities. While most drinks in New Zealand are sold in supermarkets and liquor stores, Wet Mountain drinks were initially sold exclusively in Mumbai Heavens. This strategy was based on Clement’s close relationship with the owner of the chain of Indian restaurants. He also found a separate distributor in the North Island later. The founders of Advanced Solutions initially relied on their networks to gain customers. Later, they used their relationships with new customers to get referrals and acquire new customers.
While there was often a dominant approach to opportunity exploitation, entrepreneurs considered the other approaches in varying degrees. Safe Notes typically used its networks and customers to access new business opportunities. Com Apps also used its relationships to solicit new accounts, in addition to targeting with individual customers. As well, an approach was occasionally tied to its effectiveness. Duane initially sold his products in a shopping mall but found this ineffective, and turned to dealers and distributors instead. Clement eventually engaged a distributor to expand the distribution of his drinks to supermarkets and restaurants, despite his concerns about competing against well-advertised brands.

Exploiting entrepreneurial opportunities also often led to the discovery of new potential opportunities to sell to new customers, acquire new dealers and distributors, improve product, or develop capabilities. These new opportunities would not have emerged had entrepreneurs not pursued entrepreneurial opportunities in the first place (cf. the “corridor principle” of Rondstadt [1988]).

6.6. The entrepreneurship process and opportunities: An opportunity-based model of entrepreneurship

Summarising the entrepreneurship process discussed in the preceding sections, we will observe that the entrepreneurship process began with the discovery of opportunities to create future goods and services (Figure 6.2). Case entrepreneurs typically did not set out to deliberately discover opportunities, but came across them spontaneously and without planning or intending to. They discovered opportunities based on: 1) unmet personal or customer needs; 2) product ideas; or 3) their entrepreneurial capabilities.

Opportunity discovery was only an initial step to entrepreneurship. After discovering opportunities, entrepreneurs evaluated them to determine if they could be exploited and if it was desirable to exploit them. Such opportunities, however, were typically only potential opportunities and could not be exploited. They were overly broad or incomplete and lacked other opportunity elements such as unmet customer or personal need, a product idea, or an
entrepreneurial capability to develop a product and meet customer needs. To discover more specific opportunities or parts of opportunities, some entrepreneurs engaged in search, a process that was deliberate and purposive.

![Diagram of the entrepreneurship process and opportunities]

If the discovered opportunity were to be compared to the product that was created, a transformation of the opportunity would have been apparent. The discovered potential opportunity was typically different from, and had little resemblance to, the product that was created. This indicates a creative transformation of the discovered potential opportunity into, and the creation of, an *entrepreneurial* opportunity or a concrete opportunity to create specific products or services that provide value to customers. The transformation into and creation of an entrepreneurial opportunity involved both cognition and entrepreneurial action to bring together the three complementary opportunity elements: product, customer, and capabilities.

However, the creation of an entrepreneurial opportunity did not necessarily lead to its exploitation, i.e. to market entry and sales to potential customers. Entrepreneurs also had to evaluate entrepreneurial opportunities to determine if they could be exploited and if it was desirable to exploit them. The evaluation of entrepreneurial opportunities involved considering their capabilities and resources to produce, market and distribute the product,
potential customer demand, and adequacy of the product for customer use. If an entrepreneurial opportunity was evaluated as ripe for exploitation, market entry and sales to potential customers followed. The exploitation of an entrepreneurial opportunity often led to the discovery of a new potential opportunity, which would not have happened had entrepreneurs not exploited entrepreneurial opportunities in the first place (cf. the “corridor principle” of Rondstadt [1988]).

The entrepreneurial processes just discussed can be depicted in an opportunity-based model of entrepreneurship, as shown in Figure 6.3. The discovery of a potential opportunity, a spontaneous process, marks the start of the entrepreneurship process. Such opportunity is then evaluated to determine if it could be exploited and whether it is desirable to exploit it. Since a discovered opportunity often only has potential and cannot be exploited, an entrepreneur may engage in search to discover a more specific opportunity or other parts of an opportunity.

Figure 6.3. Opportunity-based model of entrepreneurship
After an opportunity is evaluated, entrepreneurs creatively transform the potential opportunity into an entrepreneurial opportunity, i.e. a concrete opportunity to create specific products or services that provide value to customers. This involves bringing together – cognitively and by entrepreneurial action – three opportunity elements: product, customer, and capabilities. If an entrepreneurial opportunity is evaluated as ripe for exploitation, market entry and sales to potential customers may follow. The exploitation of an entrepreneurial opportunity can lead to the discovery of a new opportunity.

The entrepreneurship process is influenced by entrepreneurial imagination and knowledge. These two entrepreneurial attributes moderate the influence of firm resources and capabilities on the entrepreneurship process. In turn, entrepreneurial imagination and knowledge, as well as firm capabilities and resources are influenced by the external environment.

**6.7. Concluding comments**

This chapter sought to answer a key research question of entrepreneurship on how opportunities to create future goods and services are discovered, created, evaluated and exploited (Venkataraman, 1997; Shane & Venkataraman, 2000), by drawing on twelve cases, including the six mini-cases presented in the previous chapter. It began with an overview of how opportunities to create future goods and services are discovered, created, evaluated and exploited. This was followed by a detailed examination of each of the processes involved in the formation and exploitation of opportunities, beginning with the discovery of opportunities and how the entrepreneurs, and not others, discovered these opportunities. It showed that entrepreneurs discovered opportunities based on: 1) unmet personal or customer needs; 2) product ideas; or 3) entrepreneurial capabilities.

The chapter then explored the evaluation of discovered opportunities, which involved an entrepreneurial determination of whether a discovered opportunity could be exploited (exploitability) and whether it was desirable to exploit (desirability). Typically, discovered opportunities could not be exploited for being incomplete and being overly broad. Hence,
some entrepreneurs engaged in search to discover more specific opportunities or parts of opportunities.

The succeeding section showed that the discovered opportunity was typically different from the product that was created, indicating its creative transformation into an entrepreneurial opportunity, i.e. a concrete opportunity to create specific products or services that provided value to customers. The creation of an entrepreneurial opportunity involved both cognition and entrepreneurial action to bring together the three opportunity elements: product, customer, and capabilities.

The chapter then examined the exploitation of entrepreneurial opportunities by engaging in market entry and selling to potential customers to generate economic value. Three distinct approaches to the exploitation of entrepreneurial opportunities were identified, namely: 1) customer-orientated, 2) product-orientated, and 3) capabilities-orientated. In the final section, an opportunity-based model of entrepreneurship was presented to summarise the processes by which opportunities to create future goods and services are discovered, created, evaluated and exploited.

In the next chapter, we look at the “entrepreneurship” in international entrepreneurship and focus on the discovery, creation, and evaluation of opportunities to enter international markets. We look at the exploitation of such opportunities and small firm internationalisation in Chapter 8.
CHAPTER 7

Entrepreneurship in International Entrepreneurship

In the previous chapter we examined a key question in entrepreneurship research: how opportunities to create future goods and services are discovered, created, evaluated, and exploited. International entrepreneurship research has a similar interest in this question, namely in how opportunities to enter international markets are discovered, created, evaluated, and exploited (Zahra & George, 2002; Oviatt & McDougall, 2005; Chandra et al., 2009). The discovery, creation, and evaluation of opportunities to enter international markets represent the “entrepreneurship” in international entrepreneurship (Oyson & Whittaker, 2010a; 2010b), and will be the focus of this chapter. The exploitation of opportunities to enter international markets represents the “internationalisation” in IE, and is discussed in the next chapter.

In examining the entrepreneurship in international entrepreneurship, this chapter focuses on the entrepreneur and his role in internationalisation, particularly how he discovers, creates and evaluates international opportunities – the subjective dimension of entrepreneurship. Looking at this subjective dimension contributes to internationalisation research which has typically focused on “objective” entrepreneurial attributes (see Miesenbock, 1988; Kundu & Katz, 2003; Zucchela et al., 2007) and addresses a common shortcoming of internationalisation studies which have generally focused on the firm as unit of analysis (Wright & Ricks, 1994; Coviello & Jones, 2004).

While mindful of the view of internationalisation as including both inbound and outbound international activities (Welch & Luostarinen, 1988; Servais et al., 2006), this chapter focuses on the discovery, evaluation, and creation of opportunities for outbound international activities. The exclusion of inbound international activities is not to suggest that they are unimportant in internationalisation, but that it is arguably easier to perceive

32 Again the use of “he” and “him” in this thesis is for convenience, and reflects the fact that all entrepreneurs in this study happened to be men. However, as Adler (1994, 2004) reported, women are, of course, involved in international entrepreneurship as well.
and create opportunities to import or outsource than it is to venture into international markets through outbound activities. Outbound international activities are also arguably more complex and entail greater resource commitments – entailing higher risks – than inbound international activities.

As well, outbound activities are of more interest to entrepreneurs who are interested in selling their products or services in international markets. In proposing that IE should examine cross-border activities, Oviatt and McDougall (2005, p. 541) too, focused “on foreign outputs, not foreign inputs” or outbound internationalisation, particularly initial market entry, scope of foreign market involvement, and commitment of resources in foreign markets. While the focus is on outbound international activities, however, inbound activities will be reported and discussed in the next chapter on exploitation of international opportunities through firm internationalisation.

This chapter is organised along four key themes: discovery of initial international opportunities; discovery of subsequent international opportunities; evaluation of international opportunities; and creation of international entrepreneurial opportunities. We begin our examination by looking first at the discovery of opportunities to initially enter an international market and then the discovery of opportunities to subsequently enter international markets. A distinction is made between the discovery of opportunities to initially and subsequently enter an international market because first time internationalisation is often a milestone for a firm (Chandra et al., 2009). After initial internationalisation, a firm gains experiential knowledge of internationalisation processes which it lacked initially. As Johanson and Vahlne (1977) pointed out, a lack of experiential knowledge is an important obstacle to internationalisation. They also noted that experiential knowledge facilitates the discovery of subsequent international opportunities.

7.1. Discovery of international opportunities for initial internationalisation

As the following discussion will show, entrepreneurs discovered opportunities to enter international markets mainly on the basis of knowledge and serendipity. This finding is
consistent with internationalisation studies which reported the discovery of such opportunities based on knowledge (see Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Eriksson et al., 1997) and serendipity (see Crick & Spence, 2005). There were entrepreneurs, however, who did not have knowledge of international opportunities and did not come across them serendipitously, and yet internationalised. We examine them as well and see how they discovered international opportunities.

7.1.1. Knowledge-based discovery of international opportunity

Consistent with the findings of Johanson and colleagues (1975; 1977) and Oviatt and McDougall (2005), many of the case entrepreneurs steered their firms towards initial internationalisation based on knowledge of potential international opportunities. These entrepreneurs knew of international opportunities either through their networks or based on their knowledge of international markets. The entrepreneurs of Advanced Solutions, Team Connect and Fine Widgets learned of international opportunities through their networks, while those of Cool Fibres and Trans Build discovered international opportunities based on their knowledge of foreign markets.

The founders of Advanced Solutions learned of opportunities to develop software solutions for international customers in Malaysia and Singapore through their firm’s local customers. If not for these local customers, Phung would not have come across international customers in Malaysia and Singapore. The Team Connect management team learned of international opportunities to set up its loyalty program in Asia through Sea Power, a global energy company, with which it had a long term relationship in New Zealand. Sea Power’s global operations allowed it to know of opportunities in various international markets, particularly in Asia. Team Connect GM Shane Storey said, “Obviously if you had a relationship with Sea Power, you can leverage that relationship to find opportunities. That was our angle internationally.” Furthermore, Fine Widgets founder Phil Sims learned of an international opportunity to produce instruments for a company in China through a Chinese-Kiwi acquaintance who had returned to Beijing. The man called up the Fine Widgets founder to quote for a manufacturing job.
Other entrepreneurs discovered international opportunities on the basis of their knowledge of international markets. Cool Fibres founder Jeff Harper had wanted to export his fibre products and knew that most garment manufacturers were based in Hong Kong. He said, “There was a bit being done in Mauritius and a bit in Macau, but Hong Kong was the market at the time.” So he travelled to Hong Kong and made cold-calls on potential customers. On one of those customer visits, he secured an export contract from one of the major garment manufacturers. Trans Build founder Kirk Seagal, having done some construction jobs in New Zealand’s transport sector, learned of construction projects in American Samoa. His company placed a bid for a goods-handling project in there and secured a contract, starting Trans Build’s internationalisation activities.

**7.1.2. Serendipity-based discovery of international opportunity**

Not all entrepreneurs knew of international opportunities; some entrepreneurs came across them serendipitously. The entrepreneurs of Learn Teach, Com Apps, Safe Notes and Hobby Light discovered international opportunities by accident. Learn Tech founder Dick O’Reilly discovered an opportunity to enter the Brazilian market when one of his senior managers encountered a former colleague who was managing a telecommunications business in Brazil and was in New Zealand on holiday. O’Reilly met with the Kiwi expat and suggested that Learn Tech venture into Brazil. This meeting led to the company’s first overseas venture, in Brazil.

In the case of Com Apps, the company tried selling its software applications to Telfone NZ, a subsidiary of a global telecommunications company, and developed a relationship with a key officer. Said founder Derrick Lane, “The key sponsor we had within Telfone NZ then went up to Telfone Global in Germany, talked to them about the value of what we were doing and recommended that we get into a trial with another subsidiary, Telfone Madrid.” The engagement in Spain was the first of Com Apps’ many internationalisation activities.
Safe Notes also discovered international opportunities serendipitously. Safe Notes had bought equipment from an Australian company which was in the process of closing down. The Australian company gave Safe Notes its list of international customers. Safe Notes followed up with these customers and ended up doing printing work for most of them. It was also by chance that Hobby Light founder John McAllister came across opportunities in Japan. He had gone to Japan as part of a group of young New Zealand entrepreneurs invited by the Japanese government in a business counterpart programme. While there, he met two Japanese distributors who were interested in his product and entered into a distributorship agreement.

7.1.3. Imagination-based discovery of international opportunity

The entrepreneurs discussed above led their firms to international markets for the first time on the bases of known or serendipitously-discovered international opportunities. Yet three case entrepreneurs (a quarter of the total) also led their firms to international markets without knowledge of, or a serendipitous encounter with, international opportunities. How then did these entrepreneurs perceive international opportunities? The answer lies in their use of entrepreneurial imagination to conceive international opportunities. This finding indicates that entrepreneurs can drive their firms to internationalise on the basis of imagined international opportunities; a lack of knowledge of international opportunities is not necessarily an obstacle to the development of international operations.

The founders of Beam Wear, Wet Mountains and Road Worx took steps towards firm internationalisation by imagining international opportunities. Beam Wear founder Simpson Duane was focused on international markets from the start. Duane saw New Zealand, with its population of 4.4 million, as a small market for his high-priced lighted bracelets. So he joined a major outdoor trade show in Germany, hoping to sell abroad. He said, “We didn’t have our own stand. We just networked while we were there and we just made contact with our first European customer. He took 3,000 units and we celebrated.” Simpson’s narrative suggests that he imagined potential opportunities in the German trade show. He could have
been wrong and invested resources to travel from New Zealand to join the trade show, only to return home empty-handed.

Wet Mountains founder Paul Clement also imagined opportunities to sell his drinks in Australia. He did not know of any particular opportunity to distribute his drinks in Australia, nor did he know of anyone in that country. He was, in fact, unfamiliar with the Australian market, not having travelled there previously. But he imagined opportunities in Australia and travelled there to search for potential distributors. On his trip, he met potential distributors and succeeded in engaging one of them as distributor.

Road Worx founder Jake Tooley also imagined opportunities to sell his machines in Australia. He said, “We hired these machines in New Zealand. They were very successful. My brother-in-law who is an accountant said, ‘I think I could sell them in Australia.’ He didn’t have a clue. He was an accountant. He went to Australia, got a heavy traffic licence and sold the first 100 out of his house.” It was on the basis of imagination that the opportunity to sell Road Worx machines in Australia was perceived; they did not know if there was, in fact, a market for their machines there. A summary of how international opportunities for initial internationalisation were perceived is shown in Table 7.1.
Table 7.1. Discovery of opportunities for initial internationalisation

<table>
<thead>
<tr>
<th>Entrepreneur (Firm)</th>
<th>Basis of discovery</th>
<th>Explanation for discovery of initial international opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mike Phung (Advanced Solutions)</td>
<td>Knowledge</td>
<td>Learned of opportunities to develop software for international customers through his firm’s local customers</td>
</tr>
<tr>
<td>Shawn Adams (Team Connect)</td>
<td>Knowledge</td>
<td>Knew of international opportunities to set up his firm’s loyalty programme through a relationship with Company A</td>
</tr>
<tr>
<td>Phil Sims (Fine Widgets)</td>
<td>Knowledge</td>
<td>Learned of international opportunity to quote for a manufacturing job through a Chinese-Kiwi acquaintance</td>
</tr>
<tr>
<td>Jeff Harper (Cool Fibres)</td>
<td>Knowledge</td>
<td>Knew of international opportunities to sell to Hong Kong garment manufacturers based on his knowledge of international markets</td>
</tr>
<tr>
<td>Kirk Seagal (Trans Build)</td>
<td>Knowledge</td>
<td>Learned of construction projects in American Samoa based on construction work his firm was doing in New Zealand</td>
</tr>
<tr>
<td>Dick O’Reilly (Learn Tech)</td>
<td>Serendipity</td>
<td>Discovered an opportunity to enter the Brazilian market through a chance encounter with a Brazilian executive</td>
</tr>
<tr>
<td>Derrick Lane (Com Apps)</td>
<td>Serendipity</td>
<td>Came across opportunity to sell his firm’s product in Spain through serendipitous support from a local potential customer</td>
</tr>
<tr>
<td>Information not available</td>
<td>Serendipity</td>
<td>Acquired list of international customers, by chance, from an equipment manufacturer that was closing down</td>
</tr>
<tr>
<td>John McAllister (Hobby Light)</td>
<td>Serendipity</td>
<td>Encountered Japanese distributors on a government-paid trip to Japan as part of a New Zealand delegation of young entrepreneurs</td>
</tr>
<tr>
<td>Simpson Duane (Beam Wear)</td>
<td>Imagination</td>
<td>Believed in opportunities to sell his products overseas</td>
</tr>
<tr>
<td>Paul Clement (Wet Mountains)</td>
<td>Imagination</td>
<td>Imagined opportunities to sell his drinks in Australia</td>
</tr>
<tr>
<td>Jake Tooley (Road Worx)</td>
<td>Imagination</td>
<td>Imagined opportunities to sell his equipment in Australia</td>
</tr>
</tbody>
</table>

NOTE: Those with an asterisk are international new ventures or firms that were international at or near inception.

7.2. INVs and international orientation

We earlier saw that initial internationalisation was typically initiated as a result of knowledge of opportunities based on networks and social ties, or knowledge of international markets. This was evident in the case of entrepreneurs of established firms, both traditional (gradual) internationalisers and born-again global firms, i.e. domestically-established firms that engage in rapid and dedicated internationalisation (Bell et al., 2001). However, international new ventures or firms that are international from inception (Oviatt & McDougall, 1994), because of their newness, typically do not have access to networks
and lack knowledge of international markets. How then did INV entrepreneurs internationalise initially despite lacking knowledge of international opportunities?

Some researchers (e.g. Madsen & Servais, 1997) have shown that while INVs may lack knowledge of international opportunities, their entrepreneurs may acquire knowledge of international opportunities in previous work experiences or by living abroad. This explanation is *partly* true. The founders of Learn Tech and Com Apps indeed had previous international work experience. But they did not rely on it for their initial internationalisation. On the other hand, the founders of Hobby Light and Beam Wear had not worked or lived abroad prior to founding their respective firms. Other factors accounted for the initial internationalisation of their INVs.

Table 7.2 summarises the internationalisation types and the basis of initial international opportunity discovery. It shows that INV entrepreneurs, lacking knowledge of international opportunities, relied on either serendipity or imagination to perceive opportunities for initial internationalisation. Being new to the market, INVs typically did not attract the interest of international customers, distributors and dealers, and were not part of networks that could provide information on international opportunities. On the other hand, entrepreneurs of traditional internationalisers and born-again globals, being entrenched domestically, learned of international opportunities through their customers, business relationships and knowledge of international markets. They were also able to benefit from unsolicited international orders.
Table 7.2. Firm internationalisation types and basis of initial international opportunity discovery

<table>
<thead>
<tr>
<th>Entrepreneur (Firm)</th>
<th>Firm internationaliser type</th>
<th>Basis of discovery</th>
<th>Specific basis of discovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mike Phung (Advanced Solutions)</td>
<td>Traditional</td>
<td>Knowledge</td>
<td>Network</td>
</tr>
<tr>
<td>Shawn Adams (Team Connect)</td>
<td>Born-again global</td>
<td>Knowledge</td>
<td>Network</td>
</tr>
<tr>
<td>Phil Sims (Fine Widgets)</td>
<td>Traditional</td>
<td>Knowledge</td>
<td>Knowledge of international markets</td>
</tr>
<tr>
<td>Jeff Harper (Cool Fibres)</td>
<td>Traditional</td>
<td>Knowledge</td>
<td>Knowledge of international markets</td>
</tr>
<tr>
<td>Kirk Seagal (Trans Build)</td>
<td>Born-again global</td>
<td>Knowledge</td>
<td>Knowledge of international markets</td>
</tr>
<tr>
<td>Management team (Safe Notes)</td>
<td>Traditional</td>
<td>Serendipity</td>
<td>Chance encounter leading to foreign ties</td>
</tr>
<tr>
<td>Dick O’Reilly (Learn Tech)</td>
<td>INV</td>
<td>Serendipity</td>
<td>Chance encounter leading to foreign ties</td>
</tr>
<tr>
<td>Derrick Lane (Com Apps)</td>
<td>INV</td>
<td>Serendipity</td>
<td>Chance encounter leading to foreign ties</td>
</tr>
<tr>
<td>John McAllister (Hobby Light)</td>
<td>INV</td>
<td>Serendipity</td>
<td>Chance encounter leading to foreign ties</td>
</tr>
<tr>
<td>Simpson Duane (Beam Wear)</td>
<td>INV</td>
<td>Imagination</td>
<td>Imagination of sales opportunities abroad</td>
</tr>
<tr>
<td>Paul Clement (Wet Mountains)</td>
<td>Traditional</td>
<td>Imagination</td>
<td>Imagination of sales opportunities abroad</td>
</tr>
<tr>
<td>Jake Tooley (Road Worx)</td>
<td>Traditional</td>
<td>Imagination</td>
<td>Imagination of sales opportunities abroad</td>
</tr>
</tbody>
</table>

To internationalise, INV entrepreneurs (a quarter of the total) depended on serendipitous international opportunities, suggesting that internationalisation may depend on chance. But does it? Although serendipity played a key role in the initial internationalisation by INV entrepreneurs, internationalisation was in fact an outcome of an international orientation or a positive attitude, an aspiration even, towards international markets. From the start of their business operations, these entrepreneurs had an international orientation and were committed to entering international markets. This is what they said:

I wanted to do 50 countries in 5 years… I knew that we weren’t going to make any money in New Zealand. I also knew that I wanted to build a global business. I guess I had a global mindset. It would be very hard for me to do the opposite. It would be very hard for me to just do one company in country and be happy with it. So, you could say that it had global aspirations because of who I am. (Dick O’Reilly, Learn Tech)

It has always been about export. It has never been about the New Zealand market. I think the product itself is the main reason for that, knowing that we’d never make money out of selling this in New Zealand. (Simpson Duane, Beam Wear)

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33 This simplified view of international orientation is consistent with Johanson and Wiedersheim-Paul (1975, p. 306) who regard “international” as usually referring “to either an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad.” Knight (1997) has a “global orientation” construct – which, however, is unnecessarily complex to be useful in this discussion – consisting of commitment to international markets, international venturesomeness, international market orientation, etc.
New Zealand is a small country with an income which is much lower compared to other developed countries. Its currency also does not stack up well against the currencies of other countries. So, why would you focus on New Zealand? (John McAllister, *Hobby Light*)

We were focused on global markets. One of our mantras is that our technology will be involved in every transaction, every telephone call, globally. That’s what we want to do. (Derrick Lane, *Com Apps*)

These entrepreneurs had to wait for an international opportunity to emerge. There was, however, a readiness or receptiveness to unforeseen international opportunities and a willingness to take advantage of them. Arguably, without an international orientation, an entrepreneur can serendipitously encounter an international opportunity, but ignore it. On the other hand, entrepreneurs with international orientations were prepared to imagine international opportunities where none was known or serendipitously perceived. This is exemplified by Beam Wear’s Simpson Duane who used his imagination to conceive of international opportunities in an international trade show in Germany.

Such international orientation among many of the case entrepreneurs is not insignificant. An entrepreneur may potentially perceive an international opportunity, but be uninterested in internationalisation. Having an international orientation also contrasts with process theories of internationalisation (Johanson & Wiedersheim-Paul, 1975; Bilkey & Tesar, 1977; Cavusgil, 1980; Reid, 1981; Czinkota, 1982) which posit that firms are not interested in internationalisation at the beginning. For instance, Cavusgil (1980, p. 276) said, “For many firms, marketing beyond the domestic market is a distant, sometimes unheard of, possibility. Indeed, a large proportion of companies are not capable of exporting.”

If we examine many of these case firms, it would be easy to agree *a priori* with Cavusgil that many companies are incapable of exporting. Many of the case firms were under-resourced, and had limited capabilities and networks (Table 7.3). Four were actually micro-enterprises, employing five or fewer employees (cf. Cameron & Massey, 2003). It makes one wonder how their entrepreneurs could have contemplated, let alone managed, to venture abroad. Hence, we are confronted with a set of entrepreneurs – both entrepreneurs of INVs and traditional internationalising firms – whose international orientation contrasts
sharply with entrepreneurs in previous internationalisation studies. We shall return to this subject in Chapter 9 where we explore how the international environment is enabling internationalisation in a unique way, and Chapter 10 where we examine entrepreneurial thinking.

Table 7.3. Entrepreneurial international orientation and the firm

<table>
<thead>
<tr>
<th>Entrepreneur name</th>
<th>Company name</th>
<th>International orientation</th>
<th>Firm size</th>
<th>Year founded</th>
<th>Year at initial intrn.</th>
<th>Year(s) to intrn.</th>
</tr>
</thead>
<tbody>
<tr>
<td>John McAllister</td>
<td>Hobby Light *</td>
<td>Yes</td>
<td>0-10</td>
<td>2007</td>
<td>2007</td>
<td>0 year</td>
</tr>
<tr>
<td>Simpson Duane</td>
<td>Beam Wear *</td>
<td>Yes</td>
<td>0-10</td>
<td>2006</td>
<td>2007</td>
<td>1 year</td>
</tr>
<tr>
<td>Paul Clement</td>
<td>Wet Mountains</td>
<td>Yes</td>
<td>0-10</td>
<td>2002</td>
<td>2010</td>
<td>8 years</td>
</tr>
<tr>
<td>Jeff Harper</td>
<td>Cool Fibres</td>
<td>Yes</td>
<td>0-10</td>
<td>1950s</td>
<td>1960s</td>
<td>10 plus years</td>
</tr>
<tr>
<td>Mike Phung</td>
<td>Advanced Solutions</td>
<td>Yes</td>
<td>0-10</td>
<td>1993</td>
<td>2004</td>
<td>11 years</td>
</tr>
<tr>
<td>Derrick Lane</td>
<td>Learn Tech *</td>
<td>Yes</td>
<td>11-20</td>
<td>2004</td>
<td>2007</td>
<td>3 years</td>
</tr>
<tr>
<td>Jake Tooley</td>
<td>Road Worx</td>
<td>Yes</td>
<td>11-20</td>
<td>1985</td>
<td>1991</td>
<td>6 years</td>
</tr>
<tr>
<td>Derrick Lane</td>
<td>Com Apps *</td>
<td>Yes</td>
<td>21-50</td>
<td>2000</td>
<td>2004</td>
<td>4 years</td>
</tr>
<tr>
<td>Management team</td>
<td>Team Connect</td>
<td>Yes</td>
<td>50 plus</td>
<td>1984</td>
<td>1997</td>
<td>13 years</td>
</tr>
<tr>
<td>Kirk Seagal</td>
<td>Trans Build</td>
<td>Yes</td>
<td>50 plus</td>
<td>1972</td>
<td>1979</td>
<td>7 years</td>
</tr>
<tr>
<td>Phil Sims</td>
<td>Fine Widgets</td>
<td>No</td>
<td>21-50</td>
<td>1986</td>
<td>1994</td>
<td>8 years</td>
</tr>
<tr>
<td>Management team</td>
<td>Safe Notes</td>
<td>No</td>
<td>21-50</td>
<td>1850s</td>
<td>1990s</td>
<td>130 plus years</td>
</tr>
</tbody>
</table>

NOTE: Those with an asterisk are international new ventures.

An international orientation, however, can be developed and is not fixed. For instance, Fine Widgets and Safe Notes were focused on the New Zealand market for many years. Yet, they began to seriously consider internationalisation at some point. Fine Widgets founder Phil Sims said, “Initially, it was just about selling locally. But we happened to make a lot of money and started travelling abroad. And we thought, ‘Why can’t we go and knock on somebody’s door and offer to make their instruments’.” Acting on this thought, his company was able to sell to China and Thailand. Safe Notes owner Shawn MacDonald started to focus on international markets after feeling the constraints of selling exclusively in New Zealand. He saw the growth of his company as coming from offshore markets. “So that’s where we focused. We have to,” he said.
7.3. Subsequent internationalisation and opportunities

After initial internationalisation, case entrepreneurs sought to expand their firms’ international activities. When the entrepreneurs engaged in further international activities, they then possessed experiential knowledge of internationalisation processes and foreign markets which they lacked in their initial internationalisation. This experiential knowledge from initial internationalisation facilitated the discovery of subsequent international opportunities. As case entrepreneurs expanded their firms’ operations across national borders and engaged in subsequent internationalisation, they continued to discover new international opportunities.

Case entrepreneurs also discovered international opportunities for subsequent internationalisation based on knowledge, serendipity and imagination. However, the basis for their perception of subsequent international opportunities often differed from those for initial internationalisation. For instance, if they initially internationalised on the basis of known opportunities, subsequent internationalisation may have been based on imagination or serendipity, or vice versa.

As Table 7.4 shows, knowledge of international opportunities was the dominant driver of initial internationalisation. Being engaged in international activities typically led to knowledge of new international opportunities. But subsequent internationalisation was also spurred by interesting combinations.
Table 7.4. Discovery of opportunities for subsequent internationalisation

<table>
<thead>
<tr>
<th>Entrepreneur (Firm)</th>
<th>Basis of discovery of initial international opportunity</th>
<th>Basis of discovery of subsequent international opportunities</th>
<th>Explanation for discovery of subsequent international opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mike Phung (Advanced Solutions)</td>
<td>Knowledge</td>
<td>Knowledge</td>
<td>Learned of opportunities to develop software for international customers through his firm’s local customers</td>
</tr>
<tr>
<td>Management team (Team Connect)</td>
<td>Knowledge</td>
<td>Knowledge</td>
<td>Learned of international opportunities through their relationship with Sea Power Set up an Indonesian office on the belief that opportunities existed</td>
</tr>
<tr>
<td>Phil Sims (Fine Widgets)</td>
<td>Knowledge</td>
<td>Knowledge</td>
<td>Knew of opportunities in the U.S. as shown by strong manufacturing and a favourable foreign exchange rate After a trip to the U.S., “randomly” attended a trade show in Thailand and got contracts from Thai customers Imagined opportunities in Australia and deployed a salesman</td>
</tr>
<tr>
<td>Jeff Harper (Cool Fibres)</td>
<td>Knowledge</td>
<td>Knowledge</td>
<td>Relationships provided knowledge of international opportunities; foreign customers also typically initiated the engagement with Trans Build Chance meeting with a Chinese business executive at a trade show in China led to a project in Africa Set up offices in the U.S., China, India and Chile to search for opportunities</td>
</tr>
<tr>
<td>Kirk Seagal (Trans Build)</td>
<td>Knowledge</td>
<td>Knowledge</td>
<td>Acquired knowledge of opportunities in Australia through a connection Hired country manager in China to explore opportunities</td>
</tr>
<tr>
<td>Dick ’Reilly (Learn Tech)</td>
<td>Serendipity</td>
<td>Knowledge</td>
<td>Engagement with Telfone Madrid led to opportunities with its sister company in Portugal Believing in opportunities in Singapore, set up an international office in that country</td>
</tr>
<tr>
<td>Derrick Lane (Com Apps)</td>
<td>Serendipity</td>
<td>Knowledge</td>
<td>Business relationships provided knowledge of international opportunities; international customers also typically initiated contact with Safe Notes Targeted specific companies believed to be potential customers and offered services to them</td>
</tr>
<tr>
<td>Various entrepreneurs (Safe Notes)</td>
<td>Serendipity</td>
<td>Knowledge</td>
<td>Contacted by foreign companies which wanted to become distributors Joined trade shows and industry events to meet potential distributors and dealers</td>
</tr>
<tr>
<td>John McAllister (Hobby Light)</td>
<td>Serendipity</td>
<td>Knowledge</td>
<td>Customers typically initiated the engagement with the company Targeted potential distributors and offered distribution agreement to them</td>
</tr>
<tr>
<td>Simpson Duane (Beam Wear)</td>
<td>Imagination</td>
<td>Knowledge</td>
<td>Learned of potential international distributor in Singapore by doing a search on the Internet; knew of a distribution opportunity in the UK through an English friend Searched for distribution opportunities in India on the basis of a dream to sell his drinks in India</td>
</tr>
<tr>
<td>Paul Clement (Wet Mountains)</td>
<td>Imagination</td>
<td>Knowledge</td>
<td>Customers typically initiated the engagement with the company</td>
</tr>
</tbody>
</table>

Because case entrepreneurs typically engaged in multiple internationalisation activities, only a sample of their opportunity perception processes is presented.
How case entrepreneurs knew, imagined and serendipitously came across opportunities for subsequent internationalisation is next described in some detail, beginning with the striking case of Wet Mountains founder Clement who imagined opportunities in India.

7.3.1. Dreaming of India

When Clement launched his drink in the Mumbai Heavens chain of restaurants in New Zealand in 2002, he was already thinking: “In the back of my mind was that if we get this right, then there is no reason why we can’t send it to India.” There was no certainty of the drink being exported to India: the drink had just been introduced in New Zealand and might not have taken off. Clement also had limited financial resources to attempt such an international activity. He had never set up or run his own business, and did not have any connections or know anyone in India. He had never been to India or even travelled outside of New Zealand. Yet he said, “I have a dream! I think I always thought it would be a bit of a laugh to send Wet Mountains to India. You know, it sort of becomes something that you need in a way prove to yourself. It’s like, can you actually make this happen?”

Some eight years after the launch of Wet Mountains, Clement still dreamed of sending his drinks to India. By then, Wet Mountains had found acceptance among a niche of New Zealand drinkers and had signed up distributors in Australia. Still, the company had not grown much, with modest sales of a few hundred thousand dollars, and had not progressed beyond being a one-man operation. Clement, though, continued to believe in opportunities for Wet Mountains in India, given the size of the Indian drinks market. He said, “India is a huge market. There’s plenty of money that is going to be circulating in that country to support a product like Wet Mountains... The market is so big that if you can go in and get 1% of the top 10%... For us, we’ll never be the biggest but we can do well still.” Clement identified “Mahal”, a chain of hotels in India, got in touch with its Food and Beverage Manager, Emir Chandra, and arranged for some samples to be sent to him. Clement eventually travelled to India to meet Chandra. When he did, there was no certainty that Wet Mountains would be accepted in the hotel. In fact, Chandra initially refused. It was
only by signing up an Indian distributor that Chandra agreed to have Wet Mountains made available in the hotel chain.

This case shows that entrepreneurial imagination can be an important resource for identifying international markets. Had Clements not imagined and pursued the opportunity in India, Wet Mountains might not have grown beyond neighbouring Australia. By acting on his imagined opportunity, Clement set in motion events that led his firm to break into the Indian market. On the other hand, imagined opportunities may turn out to be nothing more than images in the mind, with no basis in fact. We shall see this in some of the opportunities imagined by the founders of Com Apps.

7.3.2. Running out of known opportunities

When the founders of Com Apps pursued known international opportunities, they typically succeeded in entering international markets. However, results were mixed when they pursued imagined opportunities. After Com Apps executives serendipitously came across an opportunity to sell their software application in Spain, they were then drawn to known opportunities in Portugal in 2005. Com Apps’ engagement in Spain had opened an opportunity to work with Telfone Madrid’s sister company in Portugal, which Com Apps readily pursued. That same year, the Com Apps founders came across opportunities in Japan. Two employees of a global high-technology company in Japan, a company the Com Apps founders had worked with previously, approached Com Apps. The two employees suggested that they work for Com Apps in introducing its software application to Japanese companies. The two had worked in Japan’s telecommunications industry for some time and had strong relationships with people in the industry. The Com App founders saw the opportunity, hired the two as pre-sales engineers, and set up an office in Japan. Explained Com Apps co-founder Lane, “From what we could see, there was a market for what we were trying to do. That market was kind of presented by these two employees.” In addition, Com Apps undertook a market study to verify the existence of an opportunity in Japan. This turned out to be affirmative and Com Apps sold its product to a major Japanese company.
In 2009, Com Apps entered Indonesia. This, too, was based on knowledge of opportunities. Jim Nelson, the Com App’s CEO at that time, had previously dealt with Indonesia Phone Pty. and was well-regarded by the Indonesian company. Said Derrick, “Jim talked about our value and what we could do for Indonesia Phone Pty. We wouldn’t even have known where to start with Indonesia, let alone that there was an opportunity there.” Com Apps placed a bid for a project of the Indonesian company and won. Buoyed by newly infused resources and its successful entry in Spain, Portugal, Japan, and Indonesia, Com Apps sought to expand its international activities. The company’s executives felt that there were opportunities in the Asia-Pacific markets and decided to establish a sales office in Singapore that same year. They did not actually know of opportunities for Com Apps but believed in the presence of opportunities in the region on the basis of the Singapore offices set up by global telecommunications manufacturers. The company’s investment in Singapore paid off partly. A Com Apps account manager thought that there were opportunities in the Philippines and visited some of its telecommunications companies to pitch his company’s products. One of those companies agreed to purchase Com Apps’ software application.

However, while Com Apps succeeded in selling in the Philippines, it was less successful in other Southeast Asian countries, including in Singapore. Lane expressed his dilemma with imagined international opportunities. He said, “How do I decide which market I want to be in? Do I want to be in China or do I want to be in the Philippines or do I want to be in Indonesia? How do you do that as a New Zealand company? How do you test that? It’s just... I don’t know.”

7.3.3. Knowledge gained, knowledge lost

Team Connect knew which countries to enter and where international opportunities were for its customer loyalty programme, at least when it first started to internationalise rapidly. In 1997, it developed strong relations with Sea Power, a global energy company that had a network of dealers worldwide in which Team Connect could set up its programme. Team
Connect rapidly established its loyalty program in four Southeast Asian countries where Sea Power had a dealership network, and experienced a period of quick international growth by leveraging its relationship with Sea Power. Team Connect not only learned of international opportunities through Sea Power, it also relied on the support of Sea Power. Its special relationship with the global energy company allowed Team Connect to operate internationally and engage with multiple foreign markets with less resource commitments. By piggybacking on Sea Power, Team Connect also entered South America and Europe at the turn of the millennium. The region that Team Connect failed to engage with was North America, where Sea Power did not have a network.

However, Team Connect’s international expansion ground to a halt in 2004. Sea Power changed its strategic focus, shed most of its dealership networks worldwide and sold its operations in New Zealand. Team Connect lost a key resource, its long-term relationship with a global company. Prior to 2004, Team Connect entered ten countries in Asia, South America and Europe in a span of seven years. During a seven year period after 2004, Team Connect ventured only to one new country in 2009. Said GM Shane Storey, “It’s slightly a different approach to take this time... We are re-engaging internationally. The major hindrance is that we don’t have a partner like Sea Power on board to facilitate that growth by identifying opportunities and the partners to work with.”

In engaging with Indonesia, Team Connect executives chose to focus on the Asian region where their company had operated for over a decade. They did not actually know of an opportunity in Indonesia initially. They explored opportunities in that country, imagining opportunities to exist, and found local companies which were interested in implementing Team Connect’s loyalty programme. But, said Storey, “It wasn’t really an opportunity. They were never willing to actually fund it.” Team Connect lost money in this instance.

7.4. Opportunities lead to other opportunities

Although entrepreneurs typically internationalised based on a combination of international opportunities that they knew, imagined and serendipitously encountered, it was their
knowledge of international opportunities that primarily drove broader involvement in international markets. The more international opportunities an entrepreneur knew, the more international markets he was able to lead his firm into.

Knowledge of international opportunities enabled Road Worx, despite a reactive approach to internationalisation, to expand to seven countries in a span of four years. By knowing international opportunities, McAllister also led Hobby Light to twenty-four international markets in four years, and Duane expanded Beam Wear’s distribution to twenty more countries in just over a year. In fact, what distinguished the scope of international market involvement of case firms was the ability of their respective entrepreneurs to know of international opportunities.

Knowledge of international opportunities strongly influenced international market entry. This seems logical because entrepreneurs were more likely to pursue known, as opposed to imagined, international opportunities. When an international opportunity was known, the issue was how and whether a firm had the capability to pursue it. On the other hand, when an international opportunity was imagined, the entrepreneur had to evaluate the likelihood that the opportunity existed, apart from determining how, and whether, a firm had the capability to pursue it.

What then accounted for some case entrepreneurs knowing of more international opportunities than others? One phenomenon strongly explains why some entrepreneurs knew of more international opportunities than others. This phenomenon also explains the broad international involvement of Road Worx, Hobby Light, Beam Wear and three other case firms which managed to enter ten or more international markets starting in 2000.

We get a glimpse of the reason behind the broad internationalisation of Hobby Light across twenty international markets in the statement of McAllister, who said, “The great thing was that the splash the product made in the industry made distributors and dealers around the world get in touch with us very quickly.” The firm’s growing international reputation had attracted international customers, distributors and dealers, and allowed its founder to know of new international opportunities without having to search for them. International
distributors came to him. Even entrepreneurs who adopted a reactive approach to internationalisation, such as Tooley, learned of international opportunities through international customers, dealers and distributors who initiated the engagement.

This, too, was the case with Beam Wear. At the time its founder was interviewed for this research in 2010, his products were distributed in only five countries. Yet over a year later, at the time of the second interview, his products were already distributed in twenty-eight countries around the world! Duane, who continued to focus on improving the technical aspects of his products, did not even initiate the engagement with international distributors. As the firm added new distributors worldwide and built its international distribution network, its international reputation grew. This attracted more international distributors who wanted to distribute Beam Wear in their own international markets, further expanding the product’s international distribution and reputation.

A positive cycle accelerated internationalisation. A strong international reputation attracted international customers, which led to new international opportunities. New international opportunities enabled a firm to expand its international market presence, enhancing its international reputation further and setting off an “enhanced international reputation-more international engagement” cycle. Safe Notes, Trans Build and Team Connect expanded their international presence on the basis of their international reputations as well. They learned of more international opportunities as international customers came to them.

On the other hand, firms which engaged with few international markets failed to build strong international reputations that could have attracted new international clients and unsolicited international orders. Consequently, these firms relied mainly on their networks and knowledge of international markets for further internationalisation. Imagining opportunities could potentially have driven international expansion. But such opportunities often turned out to be elusive, heightening the risks of failure and reducing their potential as internationalisation drivers. Serendipitous opportunities were too few to be counted on, even if they may have served to provide the opening for initial internationalisation.
7.5. Evaluation of international opportunities

Not all discovered international opportunities led to internationalisation. Entrepreneurs had to evaluate the international opportunities they perceived to determine which to pursue. Pursuing every perceived international opportunity was neither feasible nor desirable, given limited resources and capabilities. As well, even when entrepreneurs discovered international opportunities, it wasn’t readily apparent if these opportunities were “real”. Entrepreneurs had no way of knowing \textit{a priori} if an international opportunity existed. As Com Apps founder Derrick Lane lamented, “How do you test that? It’s just... I don’t know.” Often, what was thought to be an opportunity wasn’t. Speaking of their failed experience in Indonesia, Team Connect’s Shane Storey said, “It took us six months to actually realise that it wasn’t really an opportunity.”

To determine an opportunity’s viability, entrepreneurs sometimes travelled to a country in which they perceived an international opportunity to study the market and better understand it. This was the case with the founder of Advanced Solutions who travelled to his home country in Southeast Asia to informally research the market. He said, “For about seven years, our focus in my home country was in market research. We wanted to find out more about the country. We then started to better understand one thing about business in Asia: it is very much relationship-based, and is based on trust and connections. These things take time to build.”

Some entrepreneurs screened offers from potential international distributors. Beam Wear founder Simpson Duane said:

They will contact us and we will look at their business and say: ‘Who are you? How big are you?’ We have developed a process now to vet those inquiries because you get a lot of tyre-kickers: dreamers. A lot of people think it’s easy to sell this product because it is so unique, but actually that makes it hard to sell. So, we’re not even going to talk to you unless we know that you actually have sales channels or you have networks, and you have enough money to actually buy stocks.
Other entrepreneurs focused on specific markets and rejected potential opportunities from other markets. Road Worx founder Jake Tooley said, “You could spend the resources and go to lots of different places around the world, but for us it has been better to get a market and work on a particular market. You can only do so much. So we focus on doing well in specific markets, rather than being in so many markets and not doing well.” Trans Build’s Kirk Seagal sought to qualify international opportunities to ensure that they were viable and in a country that they were interested in. He said:

There are certain countries obviously, some of the Middle Eastern countries, that are a little bit more troublesome and have a bit more conflict. These we are not terribly active about targeting. I mean there is actually a bit of work, for example, coming out of Iraq and we would certainly supply our equipment to someone who wanted to go in and install it. But we would probably very seriously need to consider whether or not any of our project guys would want to go up and install in these countries.

Entrepreneurs also looked at their firms’ capabilities to determine if needs of potential customers could be met. They would sometimes avoid customers whose requirements exceeded their firms’ capabilities. Safe Notes owner Shawn MacDonald said, “We are focused on what we can bring to the table. I feel that we provide a better level of service to the small and medium producers, which is our market. We’re never going to be exporting to Royal Mail, they’re just too big. Or to the German Postal, we couldn’t produce that.”

7.6. Transforming potential opportunities: The creative process

Even after a discovered international opportunity was evaluated as viable and attractive, an entrepreneur was still unable to exploit that opportunity internationally. Such an opportunity was merely a potential opportunity to enter an international market. For internationalisation to eventuate, it had to be developed and transformed into a concrete, entrepreneurial opportunity. To see the transformation of potential opportunities, some examples are cited which represent the “creative” process occurring in all other cases in this study.
Advanced Solutions founder Phung discovered an opportunity in Southeast Asia as early as 1997. However, it was a vague opportunity that he perceived. He had no idea how Advanced Solutions would engage with his home country, what product it might offer, and who its customers would be. It wasn’t until seven years later after Advanced Solutions had grown in size and acquired more resources that the firm ventured into his home country.

Dick O’Reilly saw an opportunity for Learn Tech to enter Brazil through a chance encounter with a Brazilian executive who was on holiday in New Zealand. But the opportunity was nothing more than a general idea. O’Reilly did not know: how Learn Tech might collaborate with the Brazilian executive, how his company, given its limited resources, might venture into Brazil and distribute its product, and if Brazilian companies or mobile phone users would be interested in his mobile phone applications at all. Learn Tech eventually established a Brazilian subsidiary.

Paul Clement imagined an opportunity to distribute his drinks in India. It was just a vague idea though. He had no idea how to venture into India, what resources were necessary for internationalisation especially given the size of his firm, what obstacles there were, who his customers might be and who he needed to contact, and how he might export his drinks. Not until some seven years later was he was able to have his drinks distributed in a chain of Indian hotel through a local distributor.

These examples show that discovered opportunities (see Tables 7.1 and 7.4) were potential – typically broad, vague, and not ready for exploitation. Lacking in specifics as to whether there might be potential customers, who the customers might be, how a firm might internationalise, and what resources and capabilities might be needed, it was difficult to characterise these opportunities as being concrete and exploitable. For them to be exploited and internationalisation to take place, such potential opportunities needed to be transformed and “created” into concrete, entrepreneurial opportunities.

On one hand, the creation of entrepreneurial opportunities involved cognitively resolving key issues before internationalisation could take place. These issues may be broadly categorised into three: customers, product, and capabilities, which comprise the
interrelated elements of an entrepreneurial opportunity. Customer issues related to questions of whether there might be interested customers, who they were, what their needs might be, and how to reach them. Product issues concerned pricing, warranties, customisation, marketing and distribution. Capability issues required a determination of how to enter an international market and deal with potential competitors and challenges, whether a firm had capabilities, including networks and connections, for international market entry.

The process of cognitively bringing together the three entrepreneurial opportunity elements (customers, product and capabilities) was only one part of the process of creating international entrepreneurial opportunities. Entrepreneurial action was also required as part of the process of creating international entrepreneurial opportunities.

7.7. Entrepreneurial action in the creation of entrepreneurial opportunities

To create entrepreneurial opportunities for international market entry, i.e. concrete international opportunities that embodied ideas on customers, product, and capabilities, entrepreneurial action was also necessary. Entrepreneurial action entailed an investment of resources, effort and time. To create entrepreneurial opportunities, entrepreneurs often had to: travel abroad to meet customers; do cold-calls; network and engage with customers to talk about their needs and requirements, and a firm’s value proposition, product, and service; discuss collaborative options with potential international partners on such matters as ownership structure and joint venture agreements; develop or acquire firm capabilities; prepare designs and proofs of concept; submit quotes and proposals, and join bids; improve and customise products and services; and so on. These entrepreneurial acts can be seen in how entrepreneurial opportunities were created from opportunities perceived for initial internationalisation (Table 7.5).
Table 7.5. Entrepreneurial action in the creation of entrepreneurial opportunities

<table>
<thead>
<tr>
<th>Entrepreneur (Firm)</th>
<th>Perception of international opportunities for initial internationalisation</th>
<th>Creation of international entrepreneurial opportunity by entrepreneurial action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mike Phung (Advanced Solutions)</td>
<td>Learned of opportunities to develop software for international customers through his firm’s local customers</td>
<td>Talked to customers, submitted proof of concepts, and scoped requirements.</td>
</tr>
<tr>
<td>Shawn Adams (TeamConnect)</td>
<td>Knew of international opportunities to set up his firm’s loyalty programme through a relationship with Sea Power</td>
<td>Checked customer requirements, met with customers, and discussed value proposition and technology that will be in place and support.</td>
</tr>
<tr>
<td>Phil Sims (Fine Widgets)</td>
<td>Learned of international opportunity to quote for a manufacturing job through a Chinese-Kiwi acquaintance</td>
<td>Determined requirements of customer and submitted quote for manufacturing job.</td>
</tr>
<tr>
<td>Jeff Harper (Cool Fibres)</td>
<td>Knew of international opportunities to sell to HK garment manufacturers</td>
<td>Visited Hong Kong, did cold-calls on potential clients and convinced them to engage with his company.</td>
</tr>
<tr>
<td>Kirk Seagal (Trans Build)</td>
<td>Learned of construction projects in Australia based on construction work his firm was doing in New Zealand</td>
<td>Determined project requirements, did costing, prepared designs, and submitted bids.</td>
</tr>
<tr>
<td>Dick O’Reilly (Learn Tech)</td>
<td>Discovered an opportunity to enter the Brazilian market through a chance encounter with Brazilian executive</td>
<td>Got more information about the Brazilian executive, met with him, and talked about possible partnership (ownership structure, internationalisation mode, etc.)</td>
</tr>
<tr>
<td>Derrick Lane (Com Apps)</td>
<td>Came across opportunity to sell his firms’ product in Spain through serendipitous support from a local potential customer</td>
<td>Talked with international customer about their product’s capabilities and reliability, firm’s commercial viability, and ability to deliver on a contract within the given time frame.</td>
</tr>
<tr>
<td>Information not available (Safe Notes)</td>
<td>Acquired list of international customers, by chance, from an equipment manufacturer that was closing down</td>
<td>Joined trade shows, communicated by email, set meetings, met customers, checked customer requirements, and talked about what they could do for the customer.</td>
</tr>
<tr>
<td>John McAllister (Hobby Light)</td>
<td>Encountered Japanese distributors on a government-paid trip to Japan as part of a New Zealand delegation of young entrepreneurs</td>
<td>Arranged a meeting and met with Japanese distributors, did a product presentation using a product prototype, and talked about possible distribution arrangement.</td>
</tr>
<tr>
<td>Simpson Duane (Beam Wear)</td>
<td>Believed in opportunities to sell his products overseas</td>
<td>Joined trade show, networked with trade show participants, and explained to them how his product worked and its benefits.</td>
</tr>
<tr>
<td>Paul Clement (Wet Mountains)</td>
<td>Imagined opportunities to sell his drinks in Australia and searched for potential distributors in that country</td>
<td>Evaluated background of potential distributors, had phone discussions with distributors, met with distributors in Australia and talked about possible distribution agreement.</td>
</tr>
<tr>
<td>Jake Tooley (Road Worx)</td>
<td>Imagined opportunities to sell his equipment in Australia and sought distributors in that country</td>
<td>Jake’s brother-in-law had to travel to Australia to search for potential distributors, arranged meetings with them, did cold-calls, showed benefits of the product and talked of possible distribution agreement.</td>
</tr>
</tbody>
</table>

7.8. Concluding comments

This chapter focused on the “entrepreneurship” in international entrepreneurship and examined how entrepreneurs discovered, created, and evaluated opportunities for international market entry, highlighting the critical role of the entrepreneur in internationalisation and the subjective dimensions of internationalisation. It addressed a
shortcoming in internationalisation studies which tended to focus on the firm as unit of analysis.

In examining the “entrepreneurship” in international entrepreneurship, the experiences and perceptions of entrepreneurs were analysed and discussed. We began our examination of the process of opportunity perception by looking first at the discovery of opportunities to initially enter an international market. Later, we examined the discovery of opportunities to subsequently enter international markets. Two of the bases of international opportunity perception – knowledge (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) and serendipity (Crick & Spence, 2005) – are recognised in the internationalisation literature. A third basis – imagination – has not been explored and was examined to show how some entrepreneurs, who did not have knowledge of international opportunities or had not come across them serendipitously, imagined international opportunities.

How entrepreneurs of international new ventures (INVs) or firms that are international from inception perceived international opportunities was examined, particularly because their limited international experience prevented them from having knowledge of international opportunities. Being new to the market, INVs typically did not attract the interest of international customers, distributors and dealers, and were not part of networks that could provide information on international opportunities.

An analysis of case entrepreneurs showed that INV entrepreneurs (a quarter of the total) depended on serendipitous international opportunities to initially internationalise. Although serendipity played a key role in the initial internationalisation by INV entrepreneurs, internationalisation was heavily dependent on an international orientation. From the start of their business operations, some entrepreneurs were committed to entering international markets. As a result of an internationalisation orientation, entrepreneurs were prepared to imagine international opportunities where none was known or serendipitously known.

After initial internationalisation, case entrepreneurs sought to expand their firms’ international activities. In undertaking subsequent internationalisation, entrepreneurs already possessed experiential knowledge of internationalisation processes and foreign
markets, which they lacked initially. This involvement in international markets typically led to knowledge of new international opportunities, which drove further internationalisation. A few case entrepreneurs discovered subsequent international opportunities serendipitously and by using their imagination.

Knowledge of international opportunities strongly influenced international market entry at this stage. Some entrepreneurs knew of more international opportunities than others. A growing firm international reputation, which was a result of prior, broad involvement in international markets, led to new international opportunities being known as a firm attracted international customers who initiated the business engagement. New international opportunities then enabled the firm to expand its international market presence, enhancing its international reputation further and setting off an “enhanced international reputation-more international engagement” cycle.

However, the perception of an international opportunity was only an initial step to internationalisation. After a potential international opportunity was perceived, it had to be creatively transformed it into a concrete or entrepreneurial opportunity. The creation of entrepreneurial opportunities had two dimensions – cognition and entrepreneurial action – which brought together the three entrepreneurial opportunity elements of customers, product and capabilities.

By examining the discovery, creation, and evaluation of opportunities for international market entry, the “entrepreneurship” of IE has been addressed. In the next chapter, we look at the “international” dimension of IE or exploitation of opportunities for international market entry. As we shall see, a firm is required as vehicle for exploitation of international market entry opportunities (cf. Whittaker et al., 2009). Hence, in the next chapter, we shift our focus to the firm and look at small firm internationalisation.
CHAPTER 8

Internationalisation of Small Firms

The previous chapter focused on the “entrepreneurship” in international entrepreneurship and how entrepreneurs discovered, created and evaluated opportunities for international market entry. The “international” dimension of international entrepreneurship and the exploitation of entrepreneurial opportunities in international markets are addressed in this chapter. The firm, as vehicle for opportunity exploitation (Bygrave & Hofer, 1991; Whittaker et al., 2009) in international markets, is examined here. In doing so, the entrepreneur-opportunity-firm nexus in internationalisation is highlighted, laying the groundwork for a multi-level analysis of internationalisation.

This chapter examines the internationalisation of selected small New Zealand firms and seeks to contribute to the understanding of their internationalisation processes. Internationalising small firms face a “liability of smallness” with severe resource constraints in entering foreign markets (Oviatt & McDougall, 1995; Bell, McNaughton & Young, 2001; Dimitratos et al., 2003). They also have a “liability of foreignness” or additional costs in operating overseas (Zaheer, 1995), and a “liability of outsidership” in being an outsider to usual relationship networks (Johanson & Vahlne, 2009). New ventures may also be burdened by a “liability of newness”, which puts them at a higher risk of failure than more established ventures, because of low levels of legitimacy and competition against established businesses (Stinchcombe, 1965; Freeman, Carroll & Hannan, 1983). This liability is compounded when the product of a new venture is new to the market, and hence does not have a customer base. In the case of New Zealand firms, they are also burdened by geographic distance and isolation from international markets. Process models and approaches to explain internationalisation are typically associated with the study of large and established multinational enterprises (Bloodgood et al., 1996; McDougall & Oviatt, 1997; Rialp & Rialp, 2001; Acs et al., 2003), and have been shown to have limited explanatory power, especially when it comes to small firms (Cannon & Willis, 1981; Reid, 1984; Turnbull, 1987; McDougall & Oviatt 2000).
The chapter pays particular attention to the time period or “era” in which internationalisation took place, based on a hypothesis that different eras have different international environments which influence internationalisation. Particularly relevant is the period after 1990 when advanced technologies, globalisation, free trade, and cheap transportation became ubiquitous. Noteworthy is the fact that many of the internationalisation theories and approaches in IB research – which have failed to adequately explain small firm internationalisation (Cannon & Willis, 1981; Reid 1984; Turnbull, 1987; McDougall & Oviatt 2000) – emerged in the 1970s and 1980s.

An international value chain (IVC) approach was adopted to holistically capture the full dimensions of internationalisation. The approach involved mapping inward and outward internationalisation of value chain activities, acknowledging the importance of both activities in internationalisation (Welch & Luostarinen, 1999; Oviatt & McDougall, 1999; Servais et al., 2006) and avoiding a focus on discrete entry modes which fails to holistically account for other business activities that have been internationalised (Jones, 2001). The approach also involved modelling internationalisation processes using an IVC map that captured dimensions of time and international market entry to get a holistic view of internationalisation. To get a deeper sense of how the approach was used and how some firms internationalised, the IVC maps and a brief account of the internationalisation of three case firms are presented.

We then look at accelerated internationalisation and the much-observed phenomenon of firms – INVs – entering international markets early in their organisational life cycles. We next examine mode of entry abroad and how firms typically limited their cross-border activities to direct exports and outbound activities via distributors and dealers. We also look at international market involvement and how, contrary to the evolutionary model of internationalisation (Welch & Luostarinen, 1999), internationalisation in the twelve cases may be more aptly described as fluctuating, consisting of constant market expansion and contraction. We also take up the issue of international market choice and show that the theory of psychic distance may not apply. The geographic scope of international involvement of the case firms and evidence of New Zealand “small globals” are also
examined. The chapter ends with an analytical framework to describe differences in internationalisation behaviour among case firms.

8.1. An international value chain approach

A challenge in studying small firm internationalisation is to look at cross-border business activities holistically rather than at discrete entry modes (Jones, 2001). Focusing on entry modes fails to account for internationalisation as an evolutionary (Welch & Luostarinen, 1999), developmental process of small firms (Jones, 1999). Internationalisation also involves varying levels of international commitment, as the establishment chain suggests (Johanson & Weidersheim-Paul, 1975), indicating that firms can have varying levels of internationalisation. As well, focusing on outward international activities, as internationalisation studies typically do, overlooks the crucial role of inward international activities in internationalisation (Liang & Parkhe 1997; Servais et al., 2006). In addition, time as a conceptual dimension must be accounted for to acknowledge the evolutionary nature of internationalisation (Jones & Coviello, 2005).

To holistically capture the dimensions of internationalisation, looking at a firm’s internationalised value chain activities is a good starting point. Porter (1985) argued that a firm can be viewed as a collection of activities involving the design, production, marketing, delivery and support of a product. Hence, firm internationalisation may mean – and typically does – that only part of a firm’s value chain activities may be internationalised (Oyson & Whittaker, 2010). Oviatt and McDougall (1997, p. 97) observed that although the study of the value chain internationalisation promises to improve our understanding of cross-border behaviour, “little empirical knowledge has yet been developed about these issues, especially with regard to new and small ventures.”

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The IVC approach involved mapping inward and outward internationalisation of value chain activities, acknowledging the importance of both activities in internationalisation (Welch & Luostarinen, 1999; Oviatt & McDougall, 1999; Servais et al., 2006) and avoiding a focus on discrete entry modes which fails to holistically account for other business activities that have been internationalised (Jones, 2001). The approach also involved modelling internationalisation processes using an IVC map that captured dimensions of time and international market entry to get a holistic view of internationalisation. Consequently, the approach allows us to see: speed of internationalisation, mode of entry abroad, choice of international markets, and international geographic diversification.

The IVC approach modelled the internationalisation of six core value chain activities, namely: (1) imports and inbound logistics [I], (2) operations and production [O], (3) exports and outbound logistics [E], (4) marketing and sales [M], (5) service [S], and (6) support or auxiliary activities [A]. A model is a “simplified representation or abstraction of reality” (Turban & Meredith, 1991, p. 30) and “describes, reflects, or replicates a real object, or process, but does not ‘explain’ it” (Meredith, 1993, p. 5). By modelling the internationalisation of value chains, we gain insights into complex processes (Porter, 1991) and key elements of a complex reality (Johanson & Vahlne, 2009).

Porter (1985, p. 38, italics supplied) also said that value activities “are the building blocks by which a firm creates a product valuable to its customer.” Using the building blocks metaphor, internationalisation of case firms were depicted and modelled as laying building blocks (value chain activities) in an international market: more building blocks meant deeper international involvement. A firm that was fully involved in an international market internationalised its six value chain activities as shown in Figure 8.1. A firm that was less internationally involved only internationalised some of its value chain activities as shown in Figure 8.2.
In modelling the internationalisation of case firms, dimensions of time (to capture internationalisation age and speed) and international markets (to examine geographic scope of international market involvement and choice of markets) were also tracked. Time was flexibly tracked by yearly increments that enhanced research analysis (e.g. 1, 2, 5, or 10 years, etc.). For older firms, tracking international activities every 5 years was more tractable and avoided unnecessary detail. The internationalisation of new firms – INVs – was followed year-by-year to closely see how internationalisation evolved.

However, not all “international” activities were mapped. Only activities that involved an “observable and significant commitment of resources” in a foreign market (Oviatt & McDougall, 1994, p. 49) or were actually carried out abroad (Johanson & Wiedersheim-Paul, 1975, p. 306) were considered international. So, online marketing done by a firm from its home market, even if targeted at international markets, was not considered an international activity. A service such as online or phone technical support undertaken from a home market was also not considered an international activity even if it served international customers. As well, exports by foreign distributors were not considered as international activities of case firms. Such exports would more properly be international activities of the foreign distributors and not of the case firms.

In addition, international markets were grouped according to five main geographic regions: Asia-Pacific, Americas, Europe, Africa, and the Middle East. This regional grouping was motivated by the distinction sometimes made between an international and a global firm in
the international business literature (Oviatt & McDougall, 2005), “with ‘international’ referring to a firm crossing a single or a few country borders while ‘global’ is reserved for a firm involved in many countries or continents” (Coviello et al., 2011, p. 628). Rugman (2005) further argues that many so-called global firms are actually strongly regional. Grouping by region also depicted regional market concentration where they occurred.

### 8.2. Internationalisation of case firms

To get a better sense of how firms internationalised, the internationalisation processes of three cases firms – Hobby Light, Trans Build and Team Connect – are highlighted. A brief account of their internationalisation is presented as well as their IVC maps. Hobby Light, an INV and a micro enterprise, was chosen to exemplify the emergence of “small globals” which have internationalised across geographic markets worldwide, despite severe resource constraints (Table 8.1). The firm also demonstrates how internationalisation through dealers and distributors – limiting involvement in specific international markets – enabled rapid global internationalisation. The case of Trans Build demonstrates how some traditional internationalisers, internationally dormant for decades, engaged in rapid internationalisation globally in the 1990s and especially after 2000. It also shows how some internationalising firms, contrary to the establishment chain (Johanson & Wiedersheim-Paul, 1975), have shown little interest in expanding their involvement in particular geographic markets. The case of Team Connect exemplifies the fluctuating international behaviour of some firms, consisting of market expansion and contraction, contrary to an evolutionary view of internationalisation involving increasing international market commitments (Welch & Luostarinen, 1999).

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36 The IVC maps of other firms are found in Appendix 3.
37 For analytical purposes, case firms were further classified into micro (0 – 9 employees), small (10 – 49 employees) and medium (50 – 250 employees) in order to accentuate differences inter se in terms of firm resources, size, and sales. This classification adopts the classification system of the European Commission (2005).
Table 8.1. Overview of case firms

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Founded</th>
<th>Employees</th>
<th>Firm Size</th>
<th>Nature of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hobby Light</td>
<td>2007</td>
<td>0-5</td>
<td>Micro</td>
<td>Hobby lighting equipment manufacturer</td>
</tr>
<tr>
<td>Beam Wear</td>
<td>2006</td>
<td>0-5</td>
<td>Micro</td>
<td>Solar-powered bracelet manufacturer</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>2003</td>
<td>0-5</td>
<td>Micro</td>
<td>Beverage producer</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>1950s</td>
<td>0-5</td>
<td>Micro</td>
<td>Fibre distributor and manufacturer</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>1993</td>
<td>10-19</td>
<td>Small</td>
<td>Software solutions provider</td>
</tr>
<tr>
<td>Road Worx</td>
<td>1985</td>
<td>10-19</td>
<td>Small</td>
<td>Road repair equipment manufacturer</td>
</tr>
<tr>
<td>Learn Tech</td>
<td>2004</td>
<td>20-29</td>
<td>Small</td>
<td>Technology mentoring company</td>
</tr>
<tr>
<td>Com Apps</td>
<td>2000</td>
<td>20-29</td>
<td>Small</td>
<td>Server platform provider</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>1986</td>
<td>40-49</td>
<td>Small</td>
<td>Instrument manufacturer</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>1850s</td>
<td>40-49</td>
<td>Small</td>
<td>Specialty publisher</td>
</tr>
<tr>
<td>Team Connect</td>
<td>1984</td>
<td>50 or more</td>
<td>Medium</td>
<td>Loyalty program operator</td>
</tr>
<tr>
<td>Trans Build</td>
<td>1972</td>
<td>50 or more</td>
<td>Medium</td>
<td>Goods-handling manufacturer</td>
</tr>
</tbody>
</table>

8.2.1. Hobby Light: Global start-up in 24 countries

Hobby Light, a manufacturer of affordable hobby-lighting equipment, expanded to twenty-four countries in five regions of the world within four years from its establishment (Figure 8.3). Its first cross-border activity involved having a key equipment part processed in China; the processing technology was not available in New Zealand. The following year, the company started exporting via dealers – who required marketing and sales support – to Japan, the U.S., Germany, and the U.K, and a Belgian distributor – which handled its own marketing and sales activities.

In 2009, Hobby Light expanded to nine more foreign markets in Asia-Pacific and Europe through dealers and distributors. Hobby Light’s internationalisation activities continued to accelerate the following year when it signed up more dealers and distributors in Europe, Canada, the Middle East and South Africa – resulting in a global presence.
8.2.2. Trans Build: Born-again after 30 years

After building goods-handling systems for the New Zealand market, Trans Build engaged in cross-border activities for the first time by exporting its equipment to American Samoa, a one-off contract, in 1978 (Figure 8.4). This was quickly followed by an export contract to Australia. In the 1980s, the company sold its equipment to China and Japan. When Trans Build domestic and international sales slowed down, founder Kirk Seagal turned to the U.S., where he succeeded in securing some contracts to supply his equipment. He decided to increase his company’s U.S. involvement by undertaking marketing and sales activities.

In the 1990s, Trans Build exported its equipment to Malaysia, Indonesia and the Philippines. By then, it had stopped exporting to China and Japan. The company, however, became more involved in the Australian market where it had a contract to operate and service its equipment.
The 2000-2010 decade proved to be a period of international growth for the company. It exhibited characteristics of a born-again firm with its rapid and dedicated internationalisation, exporting to Canada, Chile, Peru, and Bolivia. The export contract to Peru included a service component. Trans Build also continued to sell well in the U.S., leading to its decision to open a manufacturing facility and fully operate in the U.S. The company also established marketing offices in Canada and Chile to develop the North and South American markets. During this period, Trans Build also exported to various customers in Asia, Europe, Africa, and the Middle East. Seeing the growth prospects in the Asian and African regions, the company set up marketing offices in China, Malaysia, India, and South Africa, in addition to those already operating in the U.S., Canada, and Australia.
8.2.3. Team Connect: Losing steam overseas

Team Connect, a loyalty program operator, operated solely in New Zealand for more than 13 years. In 1997, supported by global energy company Sea Power, with which it had developed strong relations in New Zealand, Team Connect suddenly embraced rapid and dedicated internationalisation (becoming a “born-again global”) and ventured into four Southeast Asian countries (Figure 8.5). It set up operations and service activities in Thailand, Singapore, Hong Kong and the Philippines. But managing these international operations, while being heavily committed in New Zealand, became difficult for the company. Its top management team struggled to find the time and devote adequate attention to overseeing Team Connect’s (larger) local and international operations. Financial resources were also spread thin with demands from some unprofitable international operations. The company exited from these markets by early 2000.

The hiring of a new management team in early 2000 triggered another round of intensive foreign market expansion into Malaysia, Argentina, and Belgium. In these countries, Team Connect operated its loyalty program and set up regional sales offices to develop international opportunities. However, in 2004, the company’s top management again experienced the strain of overseeing both local and international operations. It decided to pull out of Belgium and Argentina in order to focus its international operations in Asia. Setting up the regional office in Malaysia paid off when Team Connect acquired a service contract in Indonesia and India in 2009.

Figure 8.5. Team Connect international value chain map (Year 1= 1984)
8.3. Accelerated internationalisation

Of twelve case firms, four were involved in accelerated internationalisation and engaged in international activities early in their organisational life cycles (Shrader, Oviatt & McDougall, 2000). Beam Wear, Hobby Light, Com Apps and Learn Tech entered international markets within five years of establishment and were international new ventures (see McDougall, Oviatt & Shrader, 2003). Having a third of case firms as INVs may not necessarily be notable. The increasing international involvement of small MNEs early in their organisational life cycles has long been observed (McDougall et al., 1994; Aspelund & Moen, 2001; Bell et al., 2003). What is striking, however, was the speed at which three of the INVs – Hobby Light, Beam Wear and Com Apps – increased the geographic scope of their international market involvement, a second dimension of accelerated internationalisation (Oviatt & McDougall, 2005).

Since its founding in 2007, Hobby Light was already involved in twenty-four countries across the globe by 2012, just like Com Apps (Table 8.2). Beam Wear, established in 2006, had expanded its distribution to twenty-eight countries by 2012. What is even more remarkable in the case of Beam Wear was that, although it had ventured in only five countries at the time of the initial interview in August 2010, it had already ventured into twenty-eight countries at the time of the second interview – or twenty-three countries in two years. When we consider that Hobby Light and Beam Wear are micro enterprises with less than five employees, their speed of internationalisation is striking.
Table 8.2. Summary of international involvement starting in 2000

<table>
<thead>
<tr>
<th>Firm name</th>
<th>Founded</th>
<th>Internationalising firm type</th>
<th>Africa</th>
<th>Asia-Pacific</th>
<th>Americas</th>
<th>Europe</th>
<th>Middle East</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Wear</td>
<td>2006</td>
<td>INV</td>
<td>2</td>
<td>8</td>
<td>2</td>
<td>14</td>
<td>2</td>
<td>28</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>2007</td>
<td>INV</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>14</td>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td>Com Apps</td>
<td>2000</td>
<td>INV</td>
<td>6</td>
<td>2</td>
<td>15</td>
<td>1</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Safe Notes</td>
<td>1850s</td>
<td>Born-again global</td>
<td>3</td>
<td>14</td>
<td>1</td>
<td>1</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Trans Build</td>
<td>1972</td>
<td>Born-again global</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Road Worx</td>
<td>1985</td>
<td>Born-again global</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>Team Connect</td>
<td>1984</td>
<td>Traditional</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>1950s</td>
<td>Traditional</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>1986</td>
<td>Traditional</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>1993</td>
<td>Traditional</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>2003</td>
<td>Traditional</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Learn Tech</td>
<td>2004</td>
<td>INV</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td></td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

Firms also exhibited a marked difference in terms of the geographic scope of their international market involvement. Half of the firms broadly diversified to more than ten countries, while the other half were more narrowly involved in fewer than ten countries. This difference in geographic diversification clearly demonstrates differences in internationalisation behaviour among INVs and among traditional internationalisers. For instance, although INVs are, by definition, engaged in accelerated internationalisation (having entered international markets early in their organisation lives), the geographic scope of their internationalisation varied. Whilst Beam Wear, Hobby Light and Com Apps rapidly expanded the geographic scope of their foreign market involvement (each was in more than twenty countries), Learn Tech was less expansive. After eight years in operation, Learn Tech was in only four countries. In other words, while the internationalisation of Hobby Light, Beam Wear and Com Apps was fast and broad, that of Learn Tech was fast and narrow (Figure 8.6).
Traditional internationalisers also exhibited differences in internationalisation speed. While most entered new international markets gradually, some engaged in sudden, rapid internationalisation, exhibiting characteristics of born-again globals. Safe Notes, Trans Build and Road Worx broadly expanded and ventured into many international markets starting in 2000. Safe Notes was in eighteen countries, Trans Build in seventeen, and Road Worx in fifteen in 2011. Whilst these three case firms were involved in international markets in the previous decade, the geographic scope of their involvement, starting in 2000, was broader.

Of particular interest are the firms with broad international environment. While we could surmise that firms with more resources would be broadly diversified geographically, this was not necessarily the case. Team Connect and Fine Widgets, firms with more than forty employees each and with plenty of resources, had narrow geographic scopes of internationalisation. In contrast, Beam Wear and Hobby Light – micro enterprises – engaged with international markets broadly. Table 8.3 shows that a firm’s geographic scope of internationalisation has little to do with firm size. The twelve firms are evenly distributed in terms of firm size and geographic diversification. This suggests that firm
resources alone cannot explain internationalisation behaviour. We discuss this in the next section.

### Table 8.3. Geographic scope of internationalisation (2000 and after)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Founded</th>
<th>Employees</th>
<th>Firm size</th>
<th>Geographic scope of internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Wear</td>
<td>INV</td>
<td>0-5</td>
<td>Micro</td>
<td>Broad</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>INV</td>
<td>0-5</td>
<td>Micro</td>
<td>Broad</td>
</tr>
<tr>
<td>Road Worx</td>
<td>Traditional</td>
<td>10-19</td>
<td>Small</td>
<td>Broad</td>
</tr>
<tr>
<td>Com Apps</td>
<td>INV</td>
<td>20-29</td>
<td>Small</td>
<td>Broad</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>Born-again global</td>
<td>40-49</td>
<td>Small</td>
<td>Broad</td>
</tr>
<tr>
<td>Trans Build</td>
<td>Born-again global</td>
<td>50 or more</td>
<td>Medium</td>
<td>Broad</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>Traditional</td>
<td>0-5</td>
<td>Micro</td>
<td>Narrow</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>Traditional</td>
<td>0-5</td>
<td>Micro</td>
<td>Narrow</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>Traditional</td>
<td>10-19</td>
<td>Small</td>
<td>Narrow</td>
</tr>
<tr>
<td>Learn Tech</td>
<td>INV</td>
<td>20-29</td>
<td>Small</td>
<td>Narrow</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>Traditional</td>
<td>40-49</td>
<td>Small</td>
<td>Narrow</td>
</tr>
<tr>
<td>Team Connect</td>
<td>Traditional</td>
<td>50 or more</td>
<td>Medium</td>
<td>Narrow</td>
</tr>
</tbody>
</table>

### 8.4. Mode of entry and international market involvement

Geographic diversification is partly explained by the choice of foreign market entry mode. For example, Beam Wear and Hobby Light rapidly expanded across multiple international markets by limiting their cross-border activities to outbound (export) activities via distributors and dealers. By exporting via intermediaries, the two companies minimised their international resource commitments and left it to distributors and dealers to sell their products. This strategy allowed them to focus on developing their global distribution networks and international reputations, instead of deploying resources – which they lacked – to build up sales in individual markets, by hiring sales agents or setting up sales offices, for instance.

In fact, seventy-five percent of product firms used distributors or exported directly to enter international markets (Table 8.4). Not only was this true for the small and medium-sized firms (whose limited resources made minimal commitments practicable), it was true as well for large firms, such as Fine Widgets and Safe Notes. Service firms, on the other hand, internationalised by undertaking operational and service activities in foreign markets.
As a result, service firms typically made more resource commitments when they internationalised.

Undertaking operational and service activities abroad – which complicated internationalisation – meant hiring and deploying staff to deal with and work for customers in international markets; building, setting up, and customising the service offering; providing staff with resources and facilities; and exercising management control over foreign staff.

Table 8.4. Summary of international market entry modes

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>Firm size</th>
<th>Firm type</th>
<th>Primary entry mode</th>
<th>Secondary entry mode</th>
<th>Sales office</th>
<th>Overseas production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Wear</td>
<td>Micro</td>
<td>Product</td>
<td>Distributor/dealer</td>
<td>Same</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>Micro</td>
<td>Product</td>
<td>Distributor/dealer</td>
<td>Same</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>Micro</td>
<td>Product</td>
<td>Direct export</td>
<td>Same</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>Micro</td>
<td>Product</td>
<td>Distributor</td>
<td>Same</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>Small</td>
<td>Product</td>
<td>Direct export</td>
<td>Offshoring</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Road Worx</td>
<td>Small</td>
<td>Product</td>
<td>Direct export</td>
<td>Distributor</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>Small</td>
<td>Product</td>
<td>Direct export</td>
<td>Same</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>Small</td>
<td>Product</td>
<td>Direct export</td>
<td>Same</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Learn Tech</td>
<td>Small</td>
<td>Service</td>
<td>Operations and service</td>
<td>Technology license</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Com Apps</td>
<td>Small</td>
<td>Service</td>
<td>Operations and service</td>
<td>Sales office</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Team Connect</td>
<td>Medium</td>
<td>Service</td>
<td>Operations and service</td>
<td>Sales office</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Trans Build</td>
<td>Medium</td>
<td>Service</td>
<td>Operations and service</td>
<td>Same</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Moreover, it may be no coincidence that Team Connect, Trans Build, Learn Tech and Com Apps had more than 20 employees each, suggesting that service firms must be of a certain size in order to have the staffing and operational resources necessary to operate in international markets. Product firms, on the other hand, as exemplified by Hobby Light and Beam Wear, can be micro-enterprises and yet be globally active. To reduce their international market commitments, some service firms, such as Learn Tech and Com Apps, granted technology licenses to foreign companies; others, such as Team Connect, outsourced service activities. However, as part of their internationalisation activities, service firms typically established sales offices abroad to explain and sell intangible products to international customers. As well, since they often already had international
offices conducting operational activities, it was a logical extension to have sales and marketing activities.

8.4.1. Product firms and mode of entry

Although product firms typically internationalised by exporting, they differed in terms of whether they exported to customers directly or engaged distributors. Beam Wear, Hobby Light and Wet Mountains, which sold low-priced consumer products (less than NZ $100), engaged sales intermediaries. This arrangement allowed case firms to utilise the distribution channels of intermediaries and have ready access to international customers. It would have taken much time and expense for these firms to build their own international distribution networks, especially as transaction costs of dealing directly with individual consumers are high.

Other case firms, such as Safe Notes, Fine Widgets, Advanced Solutions and Cool Fibres, which sold high-priced products (over NZ $1,000), exported directly to their business customers and did not engage distributors or sales agents. There were few international distributors, if at all, that had channels through which the products of case firms could be cross-marketed. These case firms directly dealt with, and shipped their high-priced products to, international business customers. As well, their higher prices and higher margins enabled one-to-one relationships with business customers.

At first glance, it would appear that whether a firm exports to customers directly or engages distributors is determined by product price and customer type: low-priced, consumer products are likely to be sold through distributors, while high-priced business products are likely to be exported directly to customers. This is not necessarily case. What determined whether a firm could use distributors and dealers was whether its equipment was standardised (see Table 8.5). Being standardised, their products could be produced in advance, exported as-is, and used by international customers without need for customisation. Hence, firms such as Safe Notes, Fine Widgets or Cool Fibres with customisable products, engaged directly with international customers. On the other hand,
firms whose products were both standardised and high-priced engaged international distributors or exported to international customers directly.

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>Distributor/dealer</th>
<th>Direct export</th>
<th>Product price</th>
<th>Type of customer</th>
<th>Product attribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Wear</td>
<td>Yes</td>
<td>No</td>
<td>Low</td>
<td>Consumer</td>
<td>Standard, off-the-shelf</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>Yes</td>
<td>No</td>
<td>Low</td>
<td>Consumer</td>
<td>Standard, off-the-shelf</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>Yes</td>
<td>No</td>
<td>Low</td>
<td>Consumer</td>
<td>Standard, off-the-shelf</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>No</td>
<td>Yes</td>
<td>High</td>
<td>Business</td>
<td>Customised</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>No</td>
<td>Yes</td>
<td>High</td>
<td>Business</td>
<td>Customised</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>No</td>
<td>Yes</td>
<td>High</td>
<td>Business</td>
<td>Customised</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>No</td>
<td>Yes</td>
<td>High</td>
<td>Business</td>
<td>Customised</td>
</tr>
<tr>
<td>Road Worx</td>
<td>Yes</td>
<td>Yes</td>
<td>High</td>
<td>Business</td>
<td>Standard, off-the-shelf</td>
</tr>
</tbody>
</table>

8.5. Market expansion and contraction: Internationalisation as fluctuation

Internationalisation has been described as “an evolutionary, sequential build-up of foreign commitments over time… (T)he pattern internationalisation for most firms has been marked by a sequential, stepwise process of development” (Welch & Luostarinen, 1999, p. 88-89). This pattern of increasing involvement in individual countries is exemplified by the establishment chain model which suggests a “stepwise extension of operations” beginning with irregular exports and culminating in production/manufacturing in a host country (Johanson & Wiedersheim-Paul, 1975, p. 307).

In contrast to the model, some case firms generally had no intention of increasing their resource commitments in international markets by appointing a sales agent or setting up production/manufacturing operations. This is amply demonstrated by a common internationalisation pattern among case firms which showed no build-up of foreign operations over time. Case entrepreneurs were also disinterested in greater resource commitments in individual markets. Instead, they focused on broadening their involvement across international markets by engaging with as many countries as possible.
One founder cited five reasons – often echoed by other case entrepreneurs – why his company had no plans of increasing its commitment in international markets: management problems, relocation issues, ineffectiveness, high cost, and business risks. He said, “The Thais want my tool room in Thailand. But when you hire Thai staff, they are just going to go around the corner the next day and work for someone else. Then, I’m going to have to go and get some more staff. No, I am not doing that.” He continued:

I can’t expect my people to go and live in Thailand. And I certainly won’t live there. We’ve been asked to open a tool shop in China, but I didn’t want to do that either. I didn’t want to live in China. I don’t mind visiting the place but I don’t plan to live there. We have toyed with the idea of putting a full-time salesperson in Thailand. But it’s different in Thailand; you don’t really want to deal with a salesperson. A salesperson finds it very hard to get through the door, but an owner of a company turning up with New Zealand embassy staff and the New Zealand flag – no problem. In the U.S. we looked at getting sales agents. Bloody expensive, man! By the time you pay their healthcare, this and that, and their condo rent, your costs have soared. Forget it.

Among the case firms, only Trans Build had set up a manufacturing plant abroad – in the U.S. The company not only had the resources, it also saw the value of manufacturing abroad in order to stay close to its customers in North and South America, and reduce shipping and deployment costs. Road Worx had an opportunity to set up a manufacturing plant in China and the Czech Republic, but instead granted production licenses to foreign companies. Explained Road Worx founder Jake Tooley, “It was just outside our reach. We’re not a big company.” Due to resource constraints, Learn Tech also decided to grant a technology license to a local company in South Africa.

However, Fine Widgets and Safe Notes, medium-sized firms with annual sales of over $5 million, had the resources to set up manufacturing plants abroad, if they wanted to; but they did not. Fine Widgets founder Phil Sims said, “We considered opening a production plant in the U.S. But too many companies have closed down. We wouldn’t do it.” He also cited potential difficulties in managing such operations, especially since he had no intention of living outside of New Zealand. Safe Notes owner Shawn MacDonald also dismissed the idea of establishing operations abroad. He said, “No, I don’t think so. The reason is because we are a niche business and cater to a small, specialised market.”
Instead of an evolutionary pattern of increasing international involvement in specific international markets, what emerged among case firms was a pattern of fluctuation – of regular expansion and contraction of commitment in individual markets. For instance, after exporting to Indonesia, Taiwan, Thailand, Laos, Samoa, Italy, and Kuwait, Road Worx has ceased further exports to these countries. Exports were irregular, a common trend among case firms which sold “durable” products. Once a customer bought Road Worx machine, it had no need to buy it again. After exporting to Australia, Malaysia, Japan and the U.K., Fine Widgets also stopped exporting to these countries. In its business, repeat purchases were uncommon because its products were durable. Buyers of Hobby Light and Beam Wear products also only bought occasionally. But these companies could continue to be involved in an international market through their sales intermediaries which continually sold to new customers.

The fluctuating pattern of internationalisation is best exemplified by Team Connect, which after being “born-again”, reverted to its traditional, gradually internationalising ways. After expanding rapidly to Thailand, Singapore, Hong Kong and the Philippines in 1995-1999, and Malaysia, Argentina, and Belgium in 2000-2005, the company exited and de-internationalised from these countries. Even Trans Build, the largest firm in the study, was not immune from fluctuating internationalisation. For instance, after engaging with Japan, the Philippines, and Indonesia, it ceased to further engage with these countries. A challenge case entrepreneurs constantly faced was to perceive and create new international entrepreneurial opportunities. This challenge led Com Apps founder Derrick Lane to ask: “How do I decide which market I want to be in?”

8.6. Market choice and the weakening of psychic distance

In choosing international markets, Johanson and Wiedersheim-Paul (1975) suggested that firms are likely to engage with those which are psychically close, and avoid those which are psychically distant. They also said that although psychic proximity is correlated with geographic proximity, the phenomenon is closely linked to similarities in language,
culture, political systems, level of education, level of industrial development, etc. In line with this theory, we would expect New Zealand firms to initially engage with Australia, a market which is geographically closest to New Zealand, and with which New Zealand shares a lot of similarities.

Table 8.6. Initial and subsequent international markets entered

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Wear</td>
<td>Netherlands</td>
<td>Japan</td>
<td>Korea</td>
<td>China</td>
<td>U.S.</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>China</td>
<td>Japan</td>
<td>U.S.</td>
<td>Germany</td>
<td>U.K.</td>
</tr>
<tr>
<td>Com Apps</td>
<td>Spain</td>
<td>Portugal</td>
<td>U.K.</td>
<td>Japan</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>Singapore</td>
<td>Malaysia</td>
<td>Bhutan</td>
<td>Brunei</td>
<td>Thailand</td>
</tr>
<tr>
<td>Trans Build</td>
<td>American Samoa</td>
<td>Australia</td>
<td>China</td>
<td>Japan</td>
<td>U.S.</td>
</tr>
<tr>
<td>Road Worx</td>
<td>Australia</td>
<td>U.S.</td>
<td>Thailand</td>
<td>Laos</td>
<td>Samoa</td>
</tr>
<tr>
<td>Team Connect</td>
<td>Thailand</td>
<td>Singapore</td>
<td>Hong Kong</td>
<td>Philippines</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>China</td>
<td>Thailand</td>
<td>Australia</td>
<td>Malaysia</td>
<td>Japan</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>Australia</td>
<td>Malaysia</td>
<td>Singapore</td>
<td>U.K.</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>U.K.</td>
<td>Japan</td>
<td>Hong Kong</td>
<td>China</td>
<td>Korea</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>Australia</td>
<td>India</td>
<td>Singapore</td>
<td>U.K.</td>
<td></td>
</tr>
<tr>
<td>Learn Tech</td>
<td>Brazil</td>
<td>Australia</td>
<td>China</td>
<td>S. Africa</td>
<td></td>
</tr>
</tbody>
</table>

Table 8.6, however, shows that psychic distance is a weak explanatory variable. Of the firms, only Road Worx, Advanced Solutions and Wet Mountains initially entered Australia. Instead, Beam Wear, Com Apps and Learn Tech ventured to psychically and geographically distant markets – to the Netherlands, Spain and Brazil, respectively. More telling is that six case firms did not even engage with Australia in their five initial cross-border activities. Of these, five – Com Apps, Safe Notes, Team Connect, Cool Fibres, and Advanced Solutions – had not entered Australia at all. Com Apps and Safe Notes, it should be noted, were in twenty-four and eighteen countries respectively.

Psychic distance is also a weak explanatory variable in the initial internationalisation of five firms (Hobby Light, Safe Notes, Team Connect, Fine Widgets, and Cool Fibres), which ventured into Asia for their first international markets. Although Asia is geographically close to New Zealand, there is little that Asian countries share with New Zealand in terms of language, culture, political systems, level of education and level of industrial development. In fact, among Asian countries, there is so much diversity that there is little that they share in terms of language, culture, political systems, level of education and level of industrial development. Neither can geographic distance account for
Engagement by New Zealand case firms. Most Asian markets, especially China, Korea and Japan, are far from New Zealand.

Arguably, psychic distance is not just about firm to international markets, but founder to international markets. For instance, a New Zealand immigrant entrepreneur from Ireland would feel psychic proximity to Ireland or the U.K. But this, too, was not the case in this study. Learn Teach founder Dick O’Reilly, an Irish, did not operate in Ireland. Neither did Fine Widgets founder Phil Sims, an Englishman, venture to the U.K. Advanced Solutions founder Mike Phung, an immigrant, sought to enter his home country only after having ventured to Malaysia, Singapore, U.K., and Australia. Hobby Light founder John McAllister, a European, internationalised to the U.K. only much later. Psychic distance explains choice of markets weakly. What then accounted for choice of international markets?

If we go back to Chapter 7, we can see that opportunities play a key role in driving internationalisation and the choice of international markets. Choice of international markets was determined not by psychic distance, but by entrepreneurial knowledge of international opportunities through networks or a knowledge of international markets. This is understandable since such knowledge reduced international market uncertainty and facilitated internationalisation. Yet, we also came across entrepreneurs who had no knowledge of international opportunities, but used their imagination to perceive international opportunities.

It would seem logical that if they were to venture to international markets based on their imagination, they would choose those which are psychically close. But this had not been the case (see Table 7.4). Most entrepreneurs had international orientations and aspirations to venture to distant markets, notwithstanding a lack of knowledge of international opportunities. To them, psychic proximity was not a key factor. As we will see in the next chapter, changes in the international environment may have weakened the effects of psychic distance and enabled entrepreneurs to develop not just international but global orientations.
8.7. Geographic scope and the emergence of “small globals”

We could assume that given severe resource constraints (Oviatt & McDougall, 1995; Bell et al., 2001), “liabilities of outsidership” (Johanson & Vahlne, 2009), and “liabilities of foreignness” (Zaheer, 1995), small firms would engage with few international markets. This would especially be the case with small New Zealand firms which are further burdened by geographic distance and isolation from most international markets. Surprisingly, from 2000, half of the firms entered at least fifteen international markets (Table 8.7). In addition, except for Safe Notes, they were also in the three key regions of Asia-Pacific, Europe, and the Americas – Rugman’s (2005) regional triads. If we follow the distinction made by Coviello and colleagues (2011, p. 628) between an “international” firm – one which crosses a single or a few international borders – and a “global” firm – one involved in many countries or continents”, half of the firms would be global firms, or what we might call “small globals”. Of these, four – Beam Wear, Hobby Light Road Worx and Trans Build – were in all regions of the globe. Com Apps was in four regional markets while Safe Notes was in three.

Table 8.7. Geographic scope of case firms (From 2000)

<table>
<thead>
<tr>
<th>Firm name</th>
<th>Asia-Pacific</th>
<th>Europe</th>
<th>Americas</th>
<th>Africa</th>
<th>Middle East</th>
<th>Total</th>
<th>Geographical scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Wear</td>
<td>8</td>
<td>14</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>28</td>
<td>Global</td>
</tr>
<tr>
<td>Hobby Light</td>
<td>5</td>
<td>14</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>24</td>
<td>Global</td>
</tr>
<tr>
<td>Com Apps</td>
<td>6</td>
<td>15</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>24</td>
<td>Global</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>14</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>18</td>
<td>Global</td>
</tr>
<tr>
<td>Trans Build</td>
<td>6</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>17</td>
<td>Global</td>
</tr>
<tr>
<td>Road Worx</td>
<td>8</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>15</td>
<td>Global</td>
</tr>
<tr>
<td>Team Connect</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>International</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>International</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>4</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td>International</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>6</td>
<td>International</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
<td>International</td>
</tr>
<tr>
<td>Learn Tech</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>International</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>54</td>
<td>18</td>
<td>11</td>
<td>9</td>
<td>164</td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td>43.9%</td>
<td>32.9%</td>
<td>11.0%</td>
<td>6.7%</td>
<td>5.5%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
Firm resources cannot alone explain the global scope of firm internationalisation. While global companies Com Apps, Safe Notes, Trans Build and Road Worx had substantial resources, Team Connect and Fine Widgets – which also had substantial resources – engaged with only six foreign markets each. More telling is that of the six global firms, Beam Wear and Hobby Light were micro-enterprises and had less than five employees. The global scale of Beam Wear and Hobby Light is partly explained by their use of sales intermediaries in internationalisation. By engaging dealers and distributors, the two case firms were able to leverage the distribution channels of intermediaries and enter global markets quickly. But a stronger explanation is a fundamental change in the international environment which has enabled the emergence of small globals. We explore this further in the next chapter.

Also noteworthy is that case firms mainly engaged with markets in the Asia-Pacific, as Rugman (2005) would predict. Of the 154 countries the case firms were in, 42.3% were in the Asia-Pacific. This is partly explained by a sampling bias since, as explained in Chapter 3, only New Zealand businesses that engaged with Asia were selected for study. However, sampling bias does not fully explain the strong engagement of New Zealand firms with Asian markets, since a firm could meet the sampling criteria by engaging with one Asian market. On average, case firms were involved with at least six Asian countries. Even the “small” internationals – firms which crossed a few international borders – were in at least three Asian countries, on average.

Europe accounted for 34.7% of foreign markets entered by case firms, while the Americas accounted for only 10.3%. The low incidence of case firm involvement in the American region, particularly the U.S. is possibly surprising. Foreign businesses are typically attracted to large international markets (Johanson & Wiedersheim-Paul, 1975); the U.S. tops the list, and shares a common language. Yet, almost half of the case firms were not in the U.S. Of the six, three were medium-sized firms.

Although the U.S. market is a tempting international destination because of its huge market, it is “a difficult beast to tackle,” said Team Connect GM Shane Storey. Com Apps founder Derrick Lane described the U.S. as a “difficult market” to explain the difficulties
his firm encountered in breaking into the U.S. market. These views resonated among other entrepreneurs who failed to make inroads in the U.S. market. Safe Notes owner Shawn MacDonald explained, “The volumes are too big for our production. And we’re against competitors in the U.S. They’re just too big.” Fine Widgets founder Phil Sims said, “The Americans are really quite patriotic. They would rather give a job to an American unless it’s a big saving.”

Case firms that tried to break into the American market typically had to deal with demanding customer requirements, strong competitors and selective customers. These factors made internationalising to the U.S. difficult.

8.8. Concluding comments

A key finding in this chapter is the rise of New Zealand “small globals” that have rapidly internationalised to multiple markets across the globe, despite severe resource constraints and distance barriers. These small globals have rapidly ventured to distant markets even in the initial stages of internationalisation, reflecting a possible weakening of the effects of psychic distance and a strengthening of an international, even global, orientation among firms. Their emergence raises further questions to stage theories which suggest gradual, incremental internationalisation to psychically close international markets.

Also among the changes in the internationalisation behaviour of firms was their limited involvement in specific international markets, contrary to the establishment chain model. Product firms, in particular, focused on developing their global distribution through international dealers and distributors, instead of establishing sales subsidiaries and/or overseas production facilities as the establishment chain suggests. Service firms also preferred to license their technologies or outsource value chain activities rather than engage more deeply with international markets. As well, instead of a progressive expansion of activities in particular markets as suggested by stage theories, the international engagement of case firms was fluctuating and marked by market expansion and contraction in response to international opportunities.
The rapid internationalisation of firms to multiple and psychically distant international markets across the globe, limited involvement in specific international markets, and fluctuating internationalisation, suggest a fundamental change in internationalisation behaviour among recent internationalisers. The internationalisation behaviour among recent internationalisers contrasts sharply to the internationalisation processes of past internationalisers depicted in stage theories. The current international environment may be enabling the globalisation of small firms and changes in internationalisation behaviour among recent internationalisers. We explore this proposition in the next chapter.
CHAPTER 9

Compressed Internationalisation

The previous chapter identified internationalisation behaviour among recent internationalisers that did not fit the gradual, incremental internationalisation suggested by stage theories. This behaviour included early and accelerated internationalisation, less commitment to specific international markets, internationalisation to more psychically distant markets, broadening of geographic scope of international activities, and rapid internationalisation of “small globals” to multiple markets across the globe, despite severe resource constraints and distance barriers.

Their international engagement also fluctuated, and was marked by market expansion and contraction in response to international opportunities, instead of a progressive expansion of activities in particular markets as suggested by stage theories. Arguably, these “atypical” internationalisation patterns are not isolated, but widespread and indeed increasingly “typical”. They also hint at a possible weakening of the effects of psychic distance and a strengthening of an international, even global, orientation among firms. Because of a vastly different international environment, recent internationalisers may well be internationalising in ways that are qualitatively different from past internationalisers.

To explore this proposition, this chapter takes a macro perspective and examines the effects of the international environment on the internationalisation behaviour of recent internationalisers. The international environment influences the firm and entrepreneur in many ways (Sullivan & Bauerschmidt, 1990; Andersson, 2000; Etemad, 2013a). Advanced technologies, cheap transportation, globalisation, and economic liberalisation are some of the visible manifestations of the new international environment and have often been cited as determinants of accelerated internationalisation (Porter, 1990; Oviatt & McDougall, 1995; Wright & Etemad, 2001; Etemad, 2013a).
However, the implications of the new international environment on internationalisation have not been fully explored. Accelerated internationalisation is one of the consequences of the new international environment, but it is only a manifestation of a deeper, more far-reaching phenomenon affecting cross-border activities, which might be called “compressed internationalisation.” As a result of advanced technologies, cheap transportation, globalisation and economic liberalisation, the internationalisation processes of recent internationalisers have been “compressed”.

Compressed internationalisation involves the compression or shortening of internationalisation processes across distances and geographic markets. It is related to a heightened perception and creation of international opportunities as a consequence of the “new” international environment. Because of compressed internationalisation, not only are recent internationalisers engaging in cross-border activities earlier and faster, they are also internationalising more intensively and involved with more international markets. Their geographic scope of internationalisation is also broader and involves engagement with more distant markets. Crucially, in compressed internationalisation, internationalisation processes and “stages” that previously occurred sequentially now occur simultaneously, creating new opportunities, as well as challenges.

Hence, recent internationalisers in an era of compressed internationalisation are engaging in internationalisation differently from past internationalisers. Recent internationalisers also cannot replicate the internationalisation processes of past internationalisers. Paraphrasing Whittaker and colleagues (2010, p. 439), “The path charted by ‘past internationalisers’ has become all but impassible.” The first section compares the internationalisation processes of past (before 1990) and recent internationalisers (1990 and onwards) to highlight “compressed internationalisation” in recent internationalisers. These differences are then examined in the context of changes in the international environment, marked by advanced technologies, cheap transportation, globalisation and economic liberalisation.

38 The idea of “compressed internationalisation” is inspired by Whittaker et al., (2010, p. 439) who argued that because of “compressed development”, “the path of economic development for would-be developers has changed dramatically since the 1980s (and) the path charted by the ‘late development’ model has become all but impassible.”
The demarcation in the 1990s is also adopted by some scholars (e.g. Ambrosius, 2007) who noted dramatic changes in the international environment during this time. One of the most fundamental changes in the international environment occurred in 1990 with the birth of the World Wide Web (Gillies & Cailliau, 2000). This is also a period of strong technological innovation and advances in worldwide communication and transportation (Oviatt & McDougall, 1994, 1995). Other notable international events – which opened new international opportunities – include the: collapse of the Soviet Union and the establishment of the Commonwealth of Independent States in December 1991, creation of the World Trade Organization (WTO) in 1995, the rise of world population to six billion people in 1999 (up from five billion in 1986 and four billion in 1975), and inclusion of China in the WTO (Ambrosius, 2007). On December 31, 1992, the Single European Market was also formed by virtue of the Treaty of Maastricht, changing Europe into a single European Community (Etemad, 2013a).

In this chapter, we will observe that despite the broad and far-reaching changes in the international environment, most, but not all, recent internationalisers engaged in compressed internationalisation. It will become apparent that changes in the international environment provide only a partial explanation of compressed internationalisation. We explore this subject further in the next chapter by revisiting the entrepreneur’s crucial role in internationalisation, especially the effect of entrepreneurial thinking and decision-making on internationalisation. These two chapters should thus be taken together, as they are complementary.

### 9.1. Compressed internationalisation

In this section, we compare the internationalisation of past and recent internationalisers to highlight “compressed internationalisation” in recent internationalisers. Because the focus of analysis is on the “era” of internationalisation, a firm can both be a past and recent internationaliser and differences in its internationalisation depending on “era” may be
identifiable. However, case firms established after 1990 (half of the case firms) are, by definition, recent internationalisers.

In comparing the internationalisation behaviour of past and recent internationalisers, we look at speed of internationalisation, intensity of international activity, geographic diversification, and choice of markets. We will observe that recent internationalisers are internationalising earlier and faster. They are also internationalising more intensively and are involved with multiple international markets. As well, the geographic scope of their internationalisation is broader and involves engagement with more distant markets. These are manifestations of compressed internationalisation.

**9.1.1. Earlier and faster internationalisation**

Of the six firms established after 1990, four of them were international new ventures and internationalised within four years of establishment. The other two operated internationally within six and seven years respectively (Table 9.1). On the other hand, none of the six firms established prior to 1990 entered international markets early in their life cycles. Instead, these firms behaved like traditional internationalisers as depicted in stage theories, internationalising gradually and incrementally after establishing themselves in the New Zealand market. While three of these firms ventured abroad within six to eight years of establishment, it took more than ten years for the remaining three to venture abroad. Safe Notes, a medium-sized firm established in the 1850s, engaged in cross-border activities only in the 1990s or after more than 100 years of exclusive domestic focus.

The early internationalisation of recent internationalisers suggests a compression of internationalisation processes, resulting in earlier and faster internationalisation. In contrast, past internationalisers internationalised later and gradually, as suggested by stage theories.
Table 9.1. Speed of internationalisation

<table>
<thead>
<tr>
<th>Company name</th>
<th>Year founded</th>
<th>Year at initial internationalisation</th>
<th>Year(s) to internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hobby Light</td>
<td>2007</td>
<td>2007</td>
<td>0 year</td>
</tr>
<tr>
<td>Beam Wear</td>
<td>2006</td>
<td>2007</td>
<td>1 year</td>
</tr>
<tr>
<td>Learn Tech</td>
<td>2004</td>
<td>2007</td>
<td>3 years</td>
</tr>
<tr>
<td>Wet Mountains</td>
<td>2003</td>
<td>2010</td>
<td>7 years</td>
</tr>
<tr>
<td>Com Apps</td>
<td>2000</td>
<td>2004</td>
<td>4 years</td>
</tr>
<tr>
<td>Advanced Solutions</td>
<td>1993</td>
<td>1998</td>
<td>5 years</td>
</tr>
<tr>
<td>Fine Widgets</td>
<td>1986</td>
<td>1994</td>
<td>8 years</td>
</tr>
<tr>
<td>Road Worx</td>
<td>1985</td>
<td>1991</td>
<td>6 years</td>
</tr>
<tr>
<td>Team Connect</td>
<td>1984</td>
<td>1997</td>
<td>13 years</td>
</tr>
<tr>
<td>Trans Build</td>
<td>1972</td>
<td>1979</td>
<td>7 years</td>
</tr>
<tr>
<td>Cool Fibres</td>
<td>1950s</td>
<td>1960s</td>
<td>10 plus years</td>
</tr>
<tr>
<td>Safe Notes</td>
<td>1850s</td>
<td>1990s</td>
<td>130 plus years</td>
</tr>
</tbody>
</table>

9.1.2. Intensive internationalisation

Equally striking among recent internationalisers is their intensive internationalisation, as measured by the number of international markets they entered. Eight firms were in nine or more international markets in the 2000s. Of these, six ventured to fifteen or more international markets. On average, case firms were in 13.7 international markets in the 2000s, although firms established in the 21st century were in 16.8 international markets on average (Table 9.2).

Table 9.2. Average number of international markets entered

<table>
<thead>
<tr>
<th>Year firm was established</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 or after</td>
<td>16.8</td>
</tr>
<tr>
<td>Prior to 2000</td>
<td>11.4</td>
</tr>
</tbody>
</table>

In contrast, internationalisation intensity in 1990-1999 was weak. Past internationalisers ventured to only four international markets on average. These same firms, however, had
ventured to 11.4 international markets on average after 2000, showing a dramatic increase in internationalisation intensity – seven more international markets – during that period. Even more telling is that these firms only ventured to about two foreign markets on average in 1980-1989.

If we look at the internationalisation of individual firms, this change in internationalisation intensity is even clearer. For instance, Safe Notes, established in the 1850s, did not engage in any cross-border activity in 1980-1989, although it was involved in eighteen international markets in 2000-2011, and in six foreign markets in 1990-1999. Cool Fibres, established in the 1950s, was in four international markets in 1980-1989 and in 1990-1999, but was in nine international markets in the 2000s. Road Worx had no international activity in 1980-1989 and was in two foreign markets in 1990-1999. In the 21st century, it had ventured to fifteen foreign markets.

The intensive internationalisation of recent internationalisers, as demonstrated by the number of international markets they entered especially in the 21st century, indicates compressed internationalisation. Recent internationalisers are able to engage with multiple international markets at the same time. On the other hand, past international involvement was gradual and incremental, and involved a slow expansion to international markets.

9.1.3. Distant and global internationalisation

Recent internationalisers are also venturing beyond close, regional markets to more distant markets. Fifty percent of recent internationalisers were in at least four regions of the globe, and in such regions as Europe, the Americas, Africa, and the Middle East (Table 9.3). These internationalisers no longer limited themselves to the Asia-Pacific market which is closest geographically. As a consequence, many of them have internationalised globally. Forty-two percent were in at least three regions, while eight percent were in at least two regions.


<table>
<thead>
<tr>
<th>No. of regions entered</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least four regions</td>
<td>50%</td>
</tr>
<tr>
<td>Three regions</td>
<td>42%</td>
</tr>
<tr>
<td>Two regions</td>
<td>8%</td>
</tr>
<tr>
<td>One region</td>
<td>0%</td>
</tr>
<tr>
<td>No internationalisation</td>
<td>0%</td>
</tr>
</tbody>
</table>

On the other hand, none of the internationalisers in 1990-1999 were in three or more regions of the world. Most were in two regions – Asia and America or Asia and Europe – while a few were just in one region – Asia. Internationalisation in 1980-1989 was even more telling. None of the firms ventured to three or more regions of the world. Thirty-three percent of firms were in two regions, while a majority did not venture to any foreign market.

The internationalisation of recent internationalisers to more distant markets suggests a weakening of psychic distance. It also indicates that the expansion of activities across international markets for recent internationalisers has become compressed. In the past, not only would global internationalisation and expansion to distant markets be gradual, it would also have been unlikely.

9.1.4. Limited and fluctuating internationalisation

Related to the distant and global internationalisation of recent internationalisers was their limited and fluctuating involvement in specific international markets. They engaged with international markets mainly through direct exports or international distributors, and showed little motivation to increase their commitment in specific international markets. They relied on international distributors to sell their products, even in small volumes, instead of establishing a sales subsidiary to increase their international sales or sustain their
international involvement. If international distributors failed to deliver on their sales commitments, recent internationalisers terminated their distributorship agreement and exited the market. Recent internationalisers were more focused on broadening their geographic involvement across more international markets.

The behaviour of recent internationalisers differed from that of past internationalisers which sought to increase their commitment to particular international markets by establishing sales subsidiaries or manufacturing facilities overseas, as depicted in the establishment chain (Johanson & Wiedersheim-Paul, 1975). Past internationalisers were committed to increasing their resource commitments and expanding their involvement in specific international markets. Instead of rapidly engaging with multiple international markets, they internationalised gradually to individual international markets.

9.2. The new international environment

To understand why compressed internationalisation is happening, we examine the international environment for answers. In particular, we look at the effects on internationalisation of advanced technologies, cheap transportation, globalisation, and economic liberalisation, which are some of the visible manifestations of the “new” international environment in the 1990s. Although the sections that follow treat advanced technologies, cheap transportation, globalisation and economic liberalisation separately, they of course interact and reinforce each other. Advanced technologies, cheap transportation, and economic liberalisation drive globalisation (Govindarajan & Gupta, 1999) and might be deemed its integral parts.

9.2.1. Advanced information and communications technologies

Advanced information and communications technologies (ICT) have enabled compressed internationalisation in recent internationalisers in many ways. For one, recent internationalisers had greater knowledge of international markets – even distant ones –
because of the Internet, online media, and global TV news channels. They were also able to acquire detailed information on specific international markets through the Internet, without having to travel abroad. This shortened the process of knowing international markets, including distant ones, and reduced the effects of psychic distance. By reducing the need for foreign travel and resource requirements, advanced ICT also enabled small and young firms to internationalise early and rapidly. In contrast, founders of past internationalisers travelled abroad to be familiar with international markets. Such activities, however, were resource-intensive. Consequently, past internationalisers had to establish themselves locally, build resources before venturing overseas, and limited their foreign travels.

Recent internationalisers also acquired international customers and distributors without travelling abroad. They used the Internet to search for potential foreign customers and distributors. After acquiring key information on company websites, recent internationalisers then engaged with foreign companies by email or Skype. They also sent photos of products and samples, and distributor agreements by email. These activities were fast, cheap, and effective. They compressed the processes of developing relationships with foreign customers and distributors, and obviated the need for foreign networks.

Past internationalisers, on the other hand, relied on international networks, which were limited to a few countries, for internationalisation. Those which were not part of networks waited for foreign customers to initiate the engagement or solicit an order. However, reliance on international networks or customer initiatives delayed and limited internationalisation to a few countries. To search for international opportunities, past internationalisers used international telephone or business directories; but such directories had limited information and were often outdated.

Recent internationalisers also made use of their websites for international marketing and to acquire international customers. Their websites typically had a list of international customers to showcase the international acceptance of their products and enhance their

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39 In the previous chapter, references to “recent” or “past” internationalisers used the firm as unit of analysis. In this section, such references used the entrepreneur as unit of analysis, solely for convenience.
international reputations. Despite being “reactive” to international opportunities, recent internationalisers succeeded in rapidly and broadly developing their international distribution and sales. Websites enabled small firms to engage international marketing rapidly, cheaply and effectively. They also compressed international marketing and the time needed by international customers and distributors to know New Zealand businesses.

9.2.2. Cheap air transportation

Notwithstanding advanced ICT, recent internationalisers travelled abroad to join trade shows or meet with international customers face-to-face. Such travels though were facilitated by cheap air transportation, allowing small firm entrepreneurs to travel to different countries, regardless of distance, inexpensively and reducing costs of dealing with distant markets. In addition, cheap airfares meant that it was often cheaper and simpler to send sales representatives abroad to solicit orders than to hire and manage workers abroad, and set up foreign sales offices. As a consequence, the commitment of recent internationalisers in specific markets was limited. On the other hand, prohibitive international airfares in the past restricted the international activities of past internationalisers, especially those with limited resources. Past internationalisers limited their international travels and favoured closer destinations where airfare was cheaper.

Cheap air transportation also enabled recent internationalisers to inexpensively and rapidly ship their products directly to foreign customers. This ability opened more international opportunities for recent internationalisers as foreign customers realised the advantages of internationally sourcing competitively-priced goods, even for small volume orders. A number of international sales by recent internationalisers (e.g. Hobby Light and Beam Wear) were often in small volumes, which would have been costly and inefficient to ship internationally in the past. Consequently, recent internationalisers broadly diversified their international distribution to generate small-volume sales in multiple international markets, rather than concentrate on a few international markets to generate high-volume sales. In many cases, cheap air transportation also reduced the need for international distributors –
minimising foreign market commitment – since products could be directly shipped to foreign customers.

As well, cheap transportation allowed recent internationalisers to outsource their production to China where production costs were low. Even factoring in air freight costs, the total cost of having goods produced in China was often lower than locally made goods. This enabled recent internationalisers to sell products that were competitively-priced abroad, facilitating international market entry. However, past internationalisers were burdened both by high costs of local production and high shipping costs, making their products too expensive and uncompetitive in international markets. Such costs foreclosed many international opportunities for past internationalisers.

9.2.3. Globalisation

Globalisation – the growing international interconnectedness and interdependency in trade, investment and communications among nations (Hirst & Thompson, 2011) – has had profound effects on the international environment. It has led to a substantial reduction of transportation and communication costs (Stiglitz, 2002) and an increase in cross-border flow of goods, service, capital, and know-how (Govindarajan & Gupta, 1999), and enabled businesses to “reach around the world farther, faster, deeper and cheaper than ever before” (Friedman, 2000, p. 9). Globalisation has also increased choices and access to goods, services, credit and expertise from around the world, and facilitated an awareness of how the lives of people all over the world are increasingly intertwined economically, politically and culturally (Legrain, 2002). He (2002, p. 5) aptly describes the effects of globalisation:

40 Some argue that globalisation is not new. Ellwood (2001, p. 12) said, “Globalization is a new word which describes an old process: the integration of the global economy that began in earnest with the launch of the European colonial era five centuries ago.” Eckes and Zeiler (2003) also pointed out that globalisation has deep roots going back to the early traders and explorers such as Marco Polo and Christopher Columbus. However, in contrast to “Globalization, Act 1” (Adams & Carfagna, 2006, p. 20) or “Globalisation 2.0” (Friedman, 2006, p. 202), today’s globalisation is happening “faster by several orders of magnitude” (Bhagwati, 2004, p. 12). The world marketplace is also now more integrated (Rogowski, Linkins & Tsuji, 2001). According to the World Trade Organization (2012), there has been an exceptional growth in world trade in the last 50 years, with merchandise exports growing 6% per year on average. Total trade was also 22-times its level in 1950.
We drive German cars, listen to Japanese hi-fis, eat French food, drink Colombian coffee, wear Italian clothes, buy Chinese toys, chat on Finnish mobile phones, work on computers made in Taiwan and use American software. Americans work for German car companies, Germans for US investment banks, (and) Britons for South Korean electronics firms.

A key effect of globalisation has been the development of an international orientation in recent internationalisers who increasingly saw other countries as natural markets for international expansion and New Zealand as small and limited. This was especially the case when recent internationalisers failed or refused to generate significant local sales. For instance, Beam Wear founder Simpson Duane launched his innovative product in a New Zealand mall in December 2006, but the launch failed to generate enough customer response. He turned to international markets where his firm found success. Hence, recent internationalisers looked to international markets, instead of focusing on, and establishing themselves in, the New Zealand market, and tended to internationalise early and rapidly. They also did not limit themselves to nearby markets, but ventured to distant markets. This internationalisation behaviour facilitated the emergence of small globals among recent internationalisers. These are the comments of some entrepreneurs:

Dick O’Reilly (Learn Tech): I just knew that I wanted to build a global business right from the start. I knew that we weren’t going to make any money in New Zealand.

Simpson Duane (Beam Wear): We knew we’d never make money out of selling our product in New Zealand. In fact, the only reason you’d want to sell in a country of 4 million people like New Zealand, is to get the demographics in to build your processes and systems. But financially, it’s meaningless. In contrast, you’ve got a market of 300 million in the U.S. and just 4 million in New Zealand. If you can crack the U.S. market, the New Zealand market just doesn’t come into play.

John McAllister (Hobby Light): New Zealand is a tiny country where the average earning is very low and the currency that you are earning is generally not worth anything. The average per capita take-home earning here was half or a third of what it is in Northern Europe. So, why would you pay any attention to New Zealand? There are some businesses, of course, like The Warehouse or some other big business that go for it in New Zealand. But for almost every other kind of business, it would be crazy spending any time selling it product here.”
Past internationalisers, on the other hand, focused on the New Zealand market. They saw the local market as their primary market, and were not naturally attracted to international markets. They sought to establish themselves domestically and ventured abroad only after years of local involvement in reaction to international opportunities. Some firms, such as Safe Notes, even remained exclusively domestic for more than 130 years, as if organisational routine and inertia made it difficult to consider internationalisation, notwithstanding substantial firm resources.

Globalisation also facilitated compressed internationalisation in recent internationalisers by homogenising needs and desires among consumers globally (Levitt, 1982). Such homogenisation led consumers worldwide to want the same things and be receptive to foreign-made goods. An international orientation, without a corresponding international demand for New Zealand products, would have been insufficient for early, rapid, and broad internationalisation in recent internationalisers. Hence, innovative New Zealand products such as solar-powered bracelets and hobby lighting equipment found acceptance abroad.

Globalisation has also led to greater competition, both from local and international firms, in foreign markets. Competitive rivalry was even more intense in lead markets. Safe Notes owner Shawn MacDonald said, “We’re against competitors in the U.S. that are just too big. We normally bump into these half a dozen competitors regularly. We are all chasing the same customers.” Consequently, recent internationalisers gravitated toward distant, less-developed economies where competition was less intense. The engagement by recent internationalisers with distant markets compressed internationalisation and led to the emergence of small globals.

Foreign competitors also converged locally, once the haven of domestic firms, as a result of globalisation (Etemad, 2004b). Globalisation has broken the barriers that traditionally isolated local businesses from international competition (Wright & Etemad, 2001). Some New Zealand firms found it difficult to compete for local sales against foreign businesses and focused on international markets instead, collapsing the period for establishing themselves domestically and compressing internationalisation. Said Com Apps founder
Derrick Lane, “I think there is a mind set in New Zealand that says New Zealand technology can’t be as good as U.S. or European technology.” His company shifted its focus to international markets where its product was well-accepted. Internationalisation to newly-emerging economies was particularly attractive where competition was less fierce and consumer tastes were less discriminating, and in addition, where the “New Zealand Brand” also had strong appeal.

Related to globalisation is the fragmentation of production across countries (see Gereffi, Humphrey & Sturgeon, 2005; Dean et al., 2011). This was evident in recent internationalisers which outsourced their production to foreign firms in order to take advantage of the latter’s unique technologies or efficient production systems which led to lower costs. For instance, Hobby Light outsourced the application of the shiny metallic surface inside its equipment to a Chinese company, since the capability was not available in New Zealand. Such outsourcing was Hobby Light’s first international activity and was crucial in the development of an innovative product that could be marketed abroad. Beam Wear initially produced its specialty bracelets in-house. But after struggling with local production due to its product’s highly-unpredictable demand, the company outsourced production to a Chinese firm. Outsourcing production abroad permitted recent internationalisers to focus on international marketing and expand their international operations broadly and rapidly across the globe.

9.2.4. Economic liberalisation

In recent decades, economic liberalisation or the removal of artificial barriers to the free trade of goods, services, capital, and knowledge has increased (Govindarajan & Gupta, 1999; Stiglitz, 2002), and has had profound effects on world trade and on local economies (Rogowsky et al., 2001). Economic liberalisation was accelerated by the creation in 1995 of the World Trade Organization (WTO) which seeks to ensure an openness of foreign markets to the producers and exporters of its member states and the operation of a fair, consistent and non-discriminatory trading system (WTO, 2012).
One of the major effects of economic liberalisation and the removal or reduction of tariff and non-tariffs barriers has been the easing of international market entry for firms. Past internationalisers dealt with a tariff on imports which burdened them with “deadweight costs” and increased product costs (Peng, 2010, p. 138). Tariffs made imported products more expensive compared to locally-produced ones and uncompetitive in foreign markets, acting as strong disincentives against small firm exports. Only large firms, which had economies of scale and lower product costs, were able to compete against local firms. By removing trade barriers, economic liberalisation has enabled small recent internationalisers to be competitive in foreign markets and encouraged internationalisation.

Under protected markets, international networks were typically necessary to overcome a lack of foreign market knowledge, especially relating to unfamiliarity with local business rules and practices, employment laws, tariffs and duties, foreign currency remittance controls, ownership constraints, rules of origin, etc. Past internationalisers sought to acquire foreign market knowledge by travelling abroad, which was costly and laborious. However, the shift towards free trade meant fewer hidden internationalisation risks resulting from a lack of foreign market knowledge. Hence, in liberalised economies, foreign market knowledge was less indispensable, facilitating international market entry and compressing internationalisation.

More countries (e.g. China, India, and central and eastern European countries) have also shifted to a free-market ideology (Govindarajan & Gupta, 1999), opening new international markets that were previously inaccessible. In fact, many of the countries to which recent internationalisers internationalised, including Kazakhstan, Belarus and Ukraine, did not exist until the 1990s when new states emerged after the collapse of the Soviet Union and the dissolution of Yugoslavia. The rise of new liberalised economies widened the choice of international markets for internationalisation and enabled recent internationalisers to consider distant, newly-emerging markets.

The economic reforms in China and its acceptance to the WTO in 1995 have also impacted firm internationalisation. China is home to almost 20% of the world’s population and continues to experience unprecedented an annual growth rate of 10.4% in 1990-2010 (Lin,
Whereas China’s export share in the world market was a mere 1.3% in 1990, China is now one of the largest exporters of goods in the world with a world market share of 8.4% (Lin, 2011). These make China a favourite destination for foreign firms (Hill, 2007). In fact, three-quarters of the case firms engaged or continued to engage with China. What makes China critical to recent internationalisers is its involvement in the manufacturing of intermediate goods: “parts and components or any other item used as an input in the production of manufactured goods for final consumers” (Sturgeon & Memedovic, 2011, p. 5). China is the world’s leading manufacturer of intermediate goods (Whittaker et al., 2010) and is involved in the “intermediate production” of the products of Hobby Light, Beam Wear, Trans Build and Road Worx.

9.3. Concluding comments

The chapter showed clear differences in internationalisation behaviour between past and recent internationalisers (Table 9.4). Past internationalisers engaged in late and gradual internationalisation, confirming previous studies on traditional internationalisers (see Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). They also internationalised less intensively and entered fewer international markets. Their geographic diversification was also narrow and focused on closer foreign markets, showing the effects of psychic distance. Past internationalisers also internationalised in their regional markets, as predicted by Rugman (2005). In addition, they increased their resource commitments, and showed a sustained involvement, to specific international markets.

On the other hand, recent internationalisers engaged in accelerated internationalisation, i.e. early and fast internationalisation, a strong counterpoint to the gradual, incremental internationalisation suggested by stage theories. However, accelerated internationalisation was but an outcome and part of a more sweeping and fundamentally different phenomenon: compressed internationalisation. In compressed internationalisation, internationalisation processes and “stages” that previously occurred sequentially now occur simultaneously, creating new opportunities, as well as challenges.
Table 9.4. Comparison between past and compressed internationalisation

<table>
<thead>
<tr>
<th>Internationalisation dimensions</th>
<th>Past internationalisation</th>
<th>Compressed internationalisation</th>
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</thead>
<tbody>
<tr>
<td>Speed</td>
<td>Late and gradual</td>
<td>Early and fast</td>
</tr>
<tr>
<td>Age at internationalisation</td>
<td>8.8 years ^41</td>
<td>3.3 years</td>
</tr>
<tr>
<td>Intensity</td>
<td>Weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Number of markets entered</td>
<td>Few</td>
<td>Many</td>
</tr>
<tr>
<td>Geographic scope</td>
<td>Narrow</td>
<td>Broad</td>
</tr>
<tr>
<td>Geographic proximity</td>
<td>Near</td>
<td>Distant</td>
</tr>
<tr>
<td>Psychic distance</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Choice of market</td>
<td>Regional</td>
<td>Global</td>
</tr>
<tr>
<td>Resource commitments</td>
<td>Increasing</td>
<td>Limited</td>
</tr>
<tr>
<td>Involvement</td>
<td>Sustained</td>
<td>Fluctuating</td>
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As a result of compressed internationalisation, recent internationalisers internationalised more intensively across multiple international markets. The geographic scope of their internationalisation was also broader and global, involving an engagement with more distant markets and showing the emergence of small globals. These suggest a weakening of psychic distance. Recent internationalisers also showed less commitment to specific international markets, neither increasing their resource commitments nor expanding their international involvement. They were also uncommitted to sustaining their involvement in specific international markets and exited them freely. Hence, their international involvement was fluctuating and different from that of past internationalisers.

The compressed internationalisation of recent internationalisers is linked to changes in the international environment in the 1990s. The international environment today – grounded in a different historical era and symbolised by advanced technologies, cheap transportation, globalisation, and economic liberalisation – is vastly different from what it was 40 years ago when stage theories emerged. Today’s international environment affected countries, consumers and markets, firms, and entrepreneurs, and was partly responsible for

^41 Safe Notes, which internationalised after more than 130 years – making it an outlier, was excluded in computing the average age at internationalisation.
compressed internationalisation and the changed internationalisation behaviour in recent internationalisers. Recent internationalisers are internationalising differently from past internationalisers because the world and the international environment have changed. Hence, recent internationalisers cannot replicate the internationalisation processes of past internationalisers, and vice-versa.

Because changes in the international environment are broad and far-reaching, we would expect compressed internationalisation in many recent internationalisers. But some recent internationalisers internationalised gradually and incrementally, and ventured to fewer and closer markets – behaving like past internationalisers. Apparently, changes in the international environment only partly explain compressed internationalisation. To better understand why compressed internationalisation is happening (or isn’t happening), we need to examine entrepreneurial thinking. In the final findings chapter, we return to the entrepreneur and explore how entrepreneurial thinking determines firm internationalisation.
Recent internationalisers, as shown in the previous chapter, had generally behaved differently from past internationalisers and engaged in compressed internationalisation. Their distinct behaviour and compressed internationalisation could be traced to changes in the international environment in the 1990s, as reflected by advanced technologies, cheap transportation, globalisation, and economic liberalisation. Because changes in the international environment are broad and far-reaching, we might have expected compressed internationalisation in all recent internationalisers. But this was not the case. Some recent internationalisers had internationalised gradually and incrementally, and ventured to fewer and closer markets – behaving like past internationalisers. Apparently, changes in the international environment only partly explain compressed internationalisation.

In order to explain why some, but not all, recent internationalisers engaged in compressed internationalisation, this chapter re-examines entrepreneurial thinking and decision-making. It proceeds from a subjectivist assumption that individuals do not blindly and automatically react to external events, but inject their own knowledge, expectations, and dreams to them (see Kirzner, 1985). The autonomy of the human mind (Lachmann, 1959) and wilfulness of agents with originative and creative capacity (Kirzner, 1992a), indicate that the international environment may influence, but does not determine, entrepreneurial thinking and decision-making. Consequently, internationalisation may more properly be viewed as the outcome of individual acts of choice (cf. Lachmann, 1973; O’Driscoll & Rizzo, 1996), and the exercise of entrepreneurial thinking and judgment. Hence, internationalisation and entrepreneurship may be said to take place because an entrepreneur, exercising thinking and judgment, has intervened and influenced a particular process or course of events.

Emphasising their importance in small firm internationalisation and entrepreneurship, entrepreneurial thinking and judgment shall be the subject of this chapter. The goal of the
chapter is to elucidate and establish the theoretical foundations of a third type of entrepreneurial thinking which is future-orientated and based on an imagined future: prospection. Although prospection is presented – for emphasis and contrast – as a third and distinct type of entrepreneurial thinking, it is a dimension of effectuation which proceeds from a “generalized end goal or aspiration” (Sarasvathy, 2001a, p. 245). Effectuation’s connection to a “generalized end goal or aspiration” (ibid.) corresponds to prospection’s future orientation and imagined future.42

In the next section, examples will be given of the use of causation, effectuation (Sarasvathy, 2001a), and prospection in two key entrepreneurial decisions in internationalisation: international market entry and choice of international markets. The section will also further examine the use of entrepreneurial thinking in venture creation and product development, issues that were touched on briefly in Chapters 5 and 6. This is followed by a comparison of the processes of effectuation, causation, and prospection. The final section will then extract and discuss the key elements of prospection in order to establish its theoretical foundations, drawing on subjectivist literature and cognitive science.

10.1. Entrepreneurial thinking in internationalisation and venture creation

In this section, entrepreneurial thinking is examined, using examples of three case entrepreneurs who used causation (Learn Tech founder Dick O’Reilly), effectuation (Com Apps founder Derrick Lane) and prospection (Wet Mountains founder Paul Clement) respectively in internationalisation and venture creation. Although these three thinking processes interact and overlap, and each may be used by an entrepreneur in different situations (see also Sarasvathy, 2001a; Moroz & Hindle, 2011), a predominant and stronger thinking process can be made out in the cases. From the cases, key principles of

42 See Chapter 3 for an elaboration.
the three entrepreneurial thinking processes will be derived and elaborated, starting with causal thinking, followed by effectual thinking, and finally prospectual thinking.\textsuperscript{43}

**10.1.1. Causal thinking**

Entrepreneurs who use causal logic are goal-orientated in making strategic decisions. They begin with give goals and focus on choosing between means to achieve that goal (Sarasvathy, 2001a). Causal thinker Dick O’Reilly’s goal was for Learn Tech to be in “fifty countries in five years.” To achieve this goal, he went about choosing between means and identifying the international markets he wanted his firm to enter. He focused on developed markets such as the U.S., U.K., Switzerland, and Japan, where consumers had large disposable incomes and high technology usage. His analysis indicated that consumers in these markets were likely to be interested in a mobile phone application (app) that allowed them to organise their daily activities.

However, his internationalisation efforts were unsuccessful. He said, “We probably didn’t have the right people and our proposition was probably the wrong one for an expensive developed market. They are all expensive developed markets.” After these setbacks, he directed his attention to developing markets instead. This entailed a further search for, and a choice of, means to achieve his goal. A means to enter a developing market, Brazil, emerged when one of his senior managers encountered a former Kiwi colleague who managed a high technology business in Brazil and was in New Zealand on holiday. After a series of meetings, Learn Tech entered into a partnership with the Kiwi expat to establish Learn Tech in Brazil. O’Reilly followed the same causal thinking in entering Australia and China by making a decision to enter these markets and then exploring alternative means to achieve that goal.

From this case, key elements of causal thinking can be induced. Causal thinking is primarily goal-orientated, linear and driven by a cause-and-effect logic (“if A is done, then

\textsuperscript{43} As noted in Chapter 3, while Sarasvathy (2001a) indicates that a particular behaviour may be effectual or causal, she states that effectuation and causation are mainly cognitive processes, a point similarly highlighted by Perry and colleagues (2012).
B or C should follow”). It is also analytical and calculating, and marked by careful planning and deliberation. As a result, causal thinking is slow and deliberate. Causal thinking is also linked to expected gains. For instance, O’Reilly invested resources for internationalisation with the expectation of potential profits. Part of his careful planning was an analysis of markets and competitive activity, hallmarks of causal thinking (Sarasvathy, 2001a). His initial choice of the U.S., U.K., Switzerland, and Japan was driven by his assessment of large disposable incomes and high technology usage among consumers in these developed markets.

As well, causal thinking “frames the future as a continuation of the past” and hence is predictive of the future (Dew et al., 2009, p. 290). Adding to the perceived predictability of the future is the perception of risk as determinate and measurable (Sarasvathy, 2001a). Consequently, to the extent that the future can be predicted, it can be controlled (Sarasvathy, 2001a). Causal thinking also entails choosing between means to achieve a given goal. O’Reilly went about choosing alternative means to achieve his goal of Learn Tech being in fifty countries in five years, searching and identifying potential international markets his firm could enter, and raising needed resources. Goals, however, are not open-ended but circumscribed by available means. Hence, causal thinking “consists of many-to-one mappings” and choosing between many possible effects using a particular set of means (Sarasvathy, 2001a, p. 245).

Causal thinking is also strongly influenced by exogenous factors and the external environment – which act as constraints. Causal thinkers seek to avoid unexpected obstacles which have the effect of impeding the achievement of established goals and prefer choices which have a high likelihood of success. O’Reilly initially chose developed international markets – which he considered likely to bring expected gains – but focused on developing markets instead after he encountered a series of setbacks. His actions were deliberative and used established rules of logic and evidence (cf. Slovic et al., 2005), as well as reason based on “analysis and synthesis, induction and deduction” (cf. Baudin, 1954, p. 492).

Causal thinking also follows “programmed time” (Whittaker et al., 2009, p. 154) or an “objective, mechanistic, linear notion of time” (Chiles et al., 2007, p. 486) where events
and processes unfold sequentially in predictable fashion. Day two follows day one, after 8 am is 9 am – evincing predictability. This contrasts with the subjectivity of time in the prospectual entrepreneur, elaborated shortly, in which entrepreneurial processes, following Lachmann (1986), unfold in “real, historical, or subjective time” rather than like “mechanical clockworks with predictable events and timing” (Chiles et al., 2007, p. 483).

Causal thinking was also manifest when O’Reilly first decided to venture into business. He began by setting a goal to put up his own business developing a mobile phone app. He then went on to systematically examine alternative means to achieve his goal. First, he decided to build his entrepreneurial capabilities by doing an MBA and taking a leave from work. He then sought to validate the existence of the market opportunity by having a survey done among New Zealand consumers and personally doing interviews with mobile phone operators, manufacturers, dealers, and users. He wrote a business plan, sought funding from investors, and located his start-up in the Icehouse to tap into its business incubation expertise and network.

10.1.2. Effectual thinking

Effectual entrepreneurs “begin with three categories of “means”: they know who they are, what they know, and whom they know – their own traits, tastes, and abilities; the knowledge corridors they are in; and the social networks they are a part of” (Sarasvathy, 2001a, p. 250). They use means that are readily available instead of looking for the proper resources to start their ventures (Sarasvathy & Dew, 2011). The act of using these available means also often leads to new means that were not initially visible (cf. Ronstadt, 1988). Unlike causal entrepreneurs who begin with specific goals, effectual entrepreneurs first focus on choosing among possible effects that can be created with their given means, allowing their goals to emerge contingently over time depending on their imaginations, aspirations, and the people they interact with (Sarasvathy, 2008).

44 Citing the “Corridor Principle”, Ronstadt (1988) says that new, intersecting corridors that lead to new venture opportunities often become apparent only after an entrepreneur has started on the path to new venture creation.
Com Apps founder Derrick Lane used effectual thinking in deciding to internationalise and in choosing foreign markets. He considered internationalisation by looking at his given means, including whom he knew, instead of establishing a goal to internationalise and identifying potential international markets to enter, as causal entrepreneurs would. At the time Lane was looking at internationalisation, he had established a connection with a key manager of local Telfone New Zealand as a result of his initial efforts to sell to that company. This manager introduced Lane to executives of Telfone Madrid, a sister company, in Spain. By leveraging these relationships, Com Apps expanded its activities to Spain. This international activity was followed by a sale to Telfone Lisbon in Portugal, a sister company of Telfone Madrid. Com Apps soon acquired its third international customer, a major Japanese telecommunications company, by leveraging its engagement of two Japanese engineers who had approached Lane in order to suggest that his company sell to the Japanese market.

Lane exhibited key elements of effectual thinking. He was means-orientated, focusing on what he knew and whom he knew (Sarasvathy, 2001a). Instead of beginning with specific goals such as a decision to internationalise or an *a priori* choice of international market, he allowed them to emerge contingently in response to events and people he encountered (Sarasvathy, 2008). His goals stemmed from courses of action that could potentially be done given his means – which acted as constraints, but also as opportunities. People he met contingently and his relationships with them, such as with the key managers of Telfone New Zealand, Telfone Madrid, Telfone Lisbon, and the two Japanese engineers, determined his internationalisation decisions.

Like other effectual thinkers, Lane welcomed unexpected contingencies and took serendipity into account in solving problems (Sarasvathy & Berglund, 2010). In effectual entrepreneurship, unexpected contingencies tend to be leveraged as opportunities for creation of novelty, like new firms, products or markets, rather than avoided (Dew et al., 2009). Lane leveraged his serendipitous engagements with Telfone executives and the two Japanese engineers in order to expand his firm’s activities to international markets.
Using effectual logic, he viewed the future as variable and amenable to being shaped creatively by his actions. Hence, to the extent that the future could be controlled, there was no need to predict it (cf. Sarasvathy, 2001a). In allocating resources for internationalisation, instead of focusing on expected returns, Lane focused on what he could afford to lose, part of an effectual logic (Dew et al., 2009). His company only deployed abroad such personnel as were needed or directly paid for by international customers, thus limiting its exposure to possible loss.

In deciding to internationalise, choosing specific international markets, and limiting his firm’s exposure to possible loss, Lane used reason and logic, as opposed to affect and emotions. Sarasvathy and colleagues had pointed to a strong use of the human faculties of reason and logic in effectuation, describing effectuation as: an integral part of human reasoning (Sarasvathy, 2001a, p. 245); “effectual rationality” (Sarasvathy & Berglund, 2010, p. 172); and “effectual logic” (Dew et al., 2009, p. 290). His decisions were also analytical and calculating, and marked by deliberation. As a result, they were also non-spontaneous and slow.

Lane’s effectual reasoning was equally apparent in venture creation. In setting up a business, he began with three given means: who he was, what he knew, and whom he knew. He had a Masters in engineering and extensive experience in software programming language working with high-technology companies. At that time, Lane was working with Dr. Dwight Eagles, a scientist with a doctorate in software programming, at Network Systems. They met Donald Young who had just finished a Masters in programming languages and telecommunications. Lane felt that “there was stuff to be used out of Young’s thesis and we looked at forming a company.” It wasn’t clear to the Com Apps founders then what the product or the technology would ultimately be. Their product idea was broad and vague. But they set up the company anyway and started developing their technology with financial support from Network Systems.

Demonstrating effectual logic, Lane’s goals, constrained by given means, emerged contingently in response to events and people he encountered. He welcomed unexpected contingencies – such as meeting Eagles and Young – and leveraged them to create a new
product. His focus was not on predicting the future, but on seeking to creatively control it through his and his partners’ decisions and actions. In acquiring financial backing from, and working with, his employer NettLabs to build Com Apps, Lane focused on affordable loss. This is evidenced by his decision to continue working with NettLabs and giving up equity in his company in the process, instead of venturing on his own. His decisions and actions were also driven by reason and logic, more than emotions.

### 10.1.3. Prospectual thinking

There are case entrepreneurs who begin the path to entrepreneurship or internationalisation, not by thinking of given goals (causal) or given means (effectual), but by focusing on an imagined future. These are “prospectual” entrepreneurs who engage in *prospection* – “the process of creating an imagined future” (Oyson & Whittaker, 2010a, 2010b, 2010c). An imagined future may consist of future businesses, products, customers, geographic markets, industries, or lifestyles, and may embody what Sarasvathy (2001a, p. 245) described as a “generalised end goal or aspiration” which precedes given goals and means. For prospectual entrepreneurs, their decisions and actions are not determined by *a priori* goals or means.

Wet Mountains founder Paul Clement used prospectual thinking in internationalising to India. At the time he launched his drink in New Zealand in 2002, he was already thinking: “If we get this right, then there is no reason why we can’t send it to India.” The chance of the drink being exported to India was actually slim: the drink had just been introduced in New Zealand and might not even have taken off. Clement also had limited financial resources to attempt such an international activity. He had never set up or run his own business, and did not have any connections or know anyone in India. He had never been to India or even travelled outside of New Zealand. Yet he said, “I have a dream! I always thought it would be a bit of a laugh to send Wet Mountains to India. You know, it sort of becomes something that you need in a way prove to yourself. It’s like, can you actually make this happen?”
Some eight years after the launch of Wet Mountains, Clement still dreamed of sending his drinks to India. By then, Wet Mountains had found acceptance among a niche of New Zealand drinkers and had signed up distributors in Australia. Still, the company had not grown much, with modest sales of a few hundred thousand dollars and limited resources, and had not progressed beyond being a one-man operation. Clement, though, continued to believe in opportunities for Wet Mountains in India, given the size of the Indian drinks market. He said, “India is a huge market. There’s plenty of money that is going to be circulating in that country to support a product like Wet Mountains.” As noted earlier, Clement identified “Mahal”, a chain of hotels in India, got in touch with its Food and Beverage Manager, Emir Chandra, and arranged for some samples to be sent to him. Clement eventually travelled to India to meet him, despite the low likelihood of Wet Mountains being accepted for distribution by the hotel. As it turned out, Chandra initially refused to distribute Clement’s drink. It was only when Clement signed up an Indian distributor to distribute Wet Mountains in Mahal that Chandra agreed to stock the drink.

This case exemplifies some key principles of prospectual thinking. Prospectual thinking begins, not with given goals or means, but with an imagined future. Decisions are based on an expected return in the future (see also Lachmann cited in Vaugh, 1992, p. 262). Prospectual thinking is also not driven or constrained by the entrepreneur’s means, but is driven and bound only by the entrepreneur’s creative imagination. Goals and means evolve and emerge contingently as the imagined future is created and realised. Hence, for the prospectual entrepreneur, the future is neither to be predicted nor controlled, but to be created. The future is dynamic, open-ended, and malleable to the decisions and actions of the entrepreneur.

Unlike causal thinking which emphasises business planning and competitor analysis (Dew et al., 2009), prospectual thinking is highly intuitive and non-deliberative, and not based on analysis, reasoning or evidence. For instance, despite the risks of internationalisation, Clement did not engage in market research to examine potential market demand or competitive activity in entering India. Rather, he based potential market demand of Wet Mountains purely on belief and imagination, and his decision to enter India on his “dream”.
In contrast to the strong use of reason and logic in causation and effectuation (Sarasvathy, 2001a; Dew et al., 2009; Sarasvathy & Berglund, 2010), prospectual thinking is driven more by emotion and belief. Arguably, had Clement relied on reason and logic, he would have veered away from India considering the intense competition in its beverage industry and the presence of large, dominant local businesses. Had he used effectual rationality, he would only have considered India if he was familiar with the Indian market or knew anyone or had potential partners in India. As well, at the time Clement looked at internationalising to India, his company was small, undercapitalised, and internationally-inexperienced.

Clement was aware of the intense competitive activity in the Indian beverage industry. But when asked about potential risks of internationalisation, he said: “Well, what’s the risk? What is the risk? Well what’s the risk? If you’ve got a customer who says, ‘We’ll take the product.’ If you’ve got a distributor who says, ‘We’ll distribute it.’ Unless I’m missing something, what’s the risk?” These statements also reflect the prospectual thinker’s predisposition towards risk. Whereas the causal thinker focuses on expected return and the upside potential, and the effectual thinker looks at affordable loss and limiting downside potential (Sarasvathy, 2001a), the prospectual entrepreneur – captivated by an imagined future – downplays and glosses over risk.

Prospection is also expansive and unbound by a priori goals or means and involves a spontaneous creation and re-creation of an imagined future – which ontologically is continuously emergent and unfolding. Hence, prospection by nature is focused on, and seeks to exploit contingencies which emerge from trial-and-error, improvisation and muddling through, in order to create novelty: new means, new goals, new businesses, new products, new markets, new customers, etc. But whereas effectuation seeks to control the future and causation seeks to predict it, prospection is about creating an imagined future. In creating an imagined future, a prospectual entrepreneur shuns resource investments on the basis of expected returns (causation) or affordable loss (effectuation). Rather, he acts on the basis of expectations of an imagined future – which is personal and subjective, such as the achievement of a dream or to prove oneself, as in the case of Clement.
Prospectual entrepreneurs also view time differently. Unlike causal entrepreneurs who adhere to a linear, mechanistic and sequential notion of time, prospectual entrepreneurs see time as more indeterminate, pliable, and open-ended. The realisation of the imagined future is not anchored on a definite timeline, but is subjectively and fluidly interpreted to parallel the open-endedness of the imagined future. In terms of a set of choices, prospection comprehends many-to-many mappings, i.e. prospectual entrepreneurs continually make choices among many imagined futures, and many emergent goals and means.

In relation to outsiders, prospectual thinkers adopt a contingent approach by focusing on trial-and-error and what works, instead of committing to building partnerships (effectual) or minimising them (causal) (Dew et al., 2009). Experimentation, improvisation and muddling through mark prospectual action in acknowledgement of the highly contingent, emergent, and open-ended nature of the future. Clement had initially hoped to get the Mahal chain of hotels to import his drinks, but this did not eventuate. He improvised by getting an Indian distributor to distribute Wet Mountains to Mahal. The trial-and-error, muddling through and improvisation approach of prospection contrasts sharply to the “unwavering focus on targets” of causation (Dew et al., 2009, p. 290), but reflects its close affinity to effectuation which allows for “imaginative rethinking of possibilities and continual transformations of targets” (ibid.).

Prospectual thinking was also exemplified in the founding of Wet Mountains. Clement was an unlikely founder of a beverage-manufacturing business. He had no knowledge or experience in the making or distribution of beverages, was not a chemist, and had limited resources. While working as marketing consultant for Kumar Pranab, owner of a chain of Indian restaurants, Clement noticed quality problems with the India-imported beer served in Pranab’s restaurants. He said:
One day, on my way to a meeting with Pranab, I thought we can make a better Indian-style beverage here. In Canterbury, we’ve got some of the world’s most pristine artesian waters. We also have hops and barley that are grown in the Canterbury plains. So we had the ingredients right at our doorstep. We could produce a new, exciting interpretation of an Indian-style drink. So at the end of this particular meeting with Pranab, I mentioned the possibility of producing an exciting New Zealand interpretation of an Indian-style beverage in his restaurants. And he said, “Very good idea, but how the hell are we going to do it?” I said, “Leave it to me, Pranab. There is a local craft brewer with some note.” So we saw there was a bit of an opportunity here to create a new drink to go with Indian cuisine spicy food.

I went to a local drink manufacturer. As luck would have it, their head chemist at the time had spent a lot of time living in Southeast Asia and he knew the path that he felt we needed to go down. So, I said, “Right, you guys are confident that you can produce an international award winning drink?” And they said, “Yes.” I told them it had to be a great drink. It definitely had to be great. Later, they gave me the pricing. I quickly phoned Pranab and said the pricing looks like this. He said, “Yeah, we can work with that.” I said, “Right, I think we should take an international approach to this with regards to branding. Who knows we may even export it to India.” I joked. We sort of went from there.

Clement, a prospectual thinker, considered venture creation and the production of a new, exciting interpretation of an Indian-style drink by imagining a future consisting of an imagined business, product, customers, geographic markets, etc., not by thinking first of who he was, what he knew, and whom he knew (cf. Sarasvathy, 2001a). He also did not engage in business planning or competitor analysis, but relied on belief and imagination. Launching the business was based not on reason, evidence or logic, such as an indication that the business could be profitable or he had the means to do it (based on who he was, what he knew and whom he knew) – emblematic of rationality with a clear means-end framework. Rather, his motivation was more emotive: to make a “better Indian-style beverage here (because) we’ve got some of the world’s most pristine waters.” He also focused on imagined gains, and not on expected returns or affordable loss.

His approach to time was indeterminate and open-ended, without clear timelines as to the realisation of the business venture. This reflected an open-endedness of his imagined future. In relation to outsiders, he adopted a contingent approach by focusing on trial-and-error, instead of committing to building partnerships (effectual) or minimising them (causal). He was also prepared to improvise and muddle through in seeking to realise his imagined future.
10.2. Summarising the key principles of prospection

The key principles of prospection can now be summarised. First, prospection is characterised by an emphasis on an imagined future, not on given goals or means. This highlights the contingent and emergent nature of an imagined future which the prospectual entrepreneur seeks to create, instead of to predict or control. Unlike causal thinking which emphasises business planning and competitor analysis, prospectual thinking is highly intuitive and non-deliberative, resulting in decision-making that is fast and spontaneous. This is largely due to the role of emotions and beliefs which drive prospectual thinking.

By nature, prospection is focused on, and seeks to exploit, contingencies which emerge from trial-and-error, improvisation and muddling through, in order to create novelty. In creating an imagined future, a prospectual entrepreneur downplays resource investments on the basis of expected returns (causation) or affordable loss (effectuation). Rather, he acts on the basis of expectations of an imagined future – which is personal and subjective – and glosses over risk. Prospection thus goes beyond financial considerations which frame causal and effectual thinking. Table 10.1 summarises the differences of the three thinking processes.

Prospectual entrepreneurs also view time differently. Unlike causal entrepreneurs who adhere to a linear, mechanistic and sequential notion of time, prospectual entrepreneurs see time as more indeterminate, pliable, and open-ended. In terms of a set of choices, prospection comprehends many-to-many mappings, i.e. prospectual entrepreneurs continually make choices among many imagined futures, and many emergent goals and means.
### Table 10.1. Contrasting causal, effectual, and prospectual thinking

<table>
<thead>
<tr>
<th>Issue</th>
<th>Causal</th>
<th>Effectual</th>
<th>Prospectual</th>
</tr>
</thead>
<tbody>
<tr>
<td>View of the future*</td>
<td>Predictive. Casual logic frames the future as a continuation of the past.</td>
<td>Creative. Effectual logic frames the future as shaped (at least partially) by wilful agents.</td>
<td>Creative. Prospectual thinking frames the future as unknowable but imaginable, and shaped by wilful agents.</td>
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<td></td>
<td>Hence accurate prediction is both necessary and useful.*</td>
<td>Prediction is therefore neither easy nor useful.*</td>
<td>Prediction is therefore not necessary or useful.</td>
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<td></td>
<td>In the casual frame, goals, even when constrained by limited means, determine sub-goals.</td>
<td>In the effectual frame, goals emerge by imagining courses of action based on given means.</td>
<td>In the prospectual frame, goals evolve and emerge contingently as the imagined future is created and realised.</td>
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<tr>
<td></td>
<td>Goals determine actions, including which individuals to bring on board.*</td>
<td>Similarly, who comes on board determines what can be and needs to be done. And not vice versa.*</td>
<td>Who comes on board is determined by what works based on a process of muddling through, experimentation, and improvisation.</td>
</tr>
<tr>
<td>Predisposition toward risk and resources*</td>
<td>Expected return.</td>
<td>Affordable loss.</td>
<td>Aspirations towards an imagined future.</td>
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<td></td>
<td>Causal logic frames the new venture creation problem as one of pursuing the (risk-adjusted) maximum opportunity and raising required resources to do so.</td>
<td>Effectual logic frames the problem as one of pursuing adequately satisfactory opportunities without investing more resources than stakeholders can afford to lose.</td>
<td>Prospectual logic frames decision sets as a way of realising an imagined future.</td>
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<td></td>
<td>The focus here is on the upside potential.*</td>
<td>The focus here is on limiting downside potential.*</td>
<td>The focus is on what gives a sense of personal and subjective satisfaction to the entrepreneur. Hence, risk is downplayed.</td>
</tr>
<tr>
<td>Attitude toward outsiders*</td>
<td>Competitive analysis.</td>
<td>Partnerships.</td>
<td>Contingent partnerships.</td>
</tr>
<tr>
<td></td>
<td>Causal frames promulgate a competitive attitude toward outsiders.</td>
<td>Effectual frames advocate stitching together partnerships to create new markets. Relationships, particular equity partnerships drive the shape and trajectory of the new venture.*</td>
<td>Prospectual frames adopt a contingent approach to potential partnerships by experimenting on what may work.</td>
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<td></td>
<td>Relationships are driven by competitive analyses and the desire to limit dilution of ownership as far as possible.*</td>
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<tr>
<td>Attitude toward unexpected contingencies*</td>
<td>Avoiding.</td>
<td>Leveraging.</td>
<td>Maximising.</td>
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<tr>
<td></td>
<td>Accurate predictions, careful planning and unwavering focus on targets form hallmarks of causal frames.</td>
<td>Eschewing prediction, imaginative rethinking of possibilities and continual transformations of targets characterize effectual frames.</td>
<td>Eschewing linearity and causality, prospectively by nature is focused on, and seeks to exploit contingencies which emerge from trial-and-error, improvisation and muddling through.</td>
</tr>
<tr>
<td><strong>Contingencies, therefore, are seen as obstacles to be avoided.</strong></td>
<td><strong>Contingencies, therefore, are seen as opportunities for novelty creation – and hence to be leveraged.</strong></td>
<td><strong>Contingencies are opportunities to create novelty: new means, new goals, new products, new markets, new customers, etc.</strong></td>
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<tr>
<td><strong>Starting point of decision-making</strong></td>
<td><strong>Effect (goal)</strong></td>
<td><strong>Means</strong></td>
<td></td>
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<tr>
<td><strong>What they want to achieve</strong></td>
<td><strong>Who they are, what they know and whom they know</strong></td>
<td><strong>Who they want to be, where they want to go, what they can imagine and whom they can know</strong></td>
<td></td>
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<tr>
<td><strong>Decision-making selection criteria</strong></td>
<td><strong>Help choose between means to achieve the given effect</strong></td>
<td><strong>Help choose between possible effects that can be created with given means</strong></td>
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<tr>
<td><strong>Selection criteria based on expected return</strong></td>
<td><strong>Selection criteria based on affordable loss or acceptable risk</strong></td>
<td><strong>Selection criteria based on an imagined future</strong></td>
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<tr>
<td><strong>Effect dependent: Choice of means is driven by characteristics of the effect the decision maker wants to create and his or her knowledge of possible means</strong></td>
<td><strong>Actor dependent: Given specific means, choice of effect is driven by characteristics of the actor and his or her ability to discover and use contingencies</strong></td>
<td><strong>Imagination dependent: Realisation of imagined future is driven by new imaginings, dreams and expectations</strong></td>
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<tr>
<td><strong>Competencies employed</strong></td>
<td><strong>Excellent at exploiting knowledge</strong></td>
<td><strong>Excellent at exploiting contingencies (and leveraging limited means)</strong></td>
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<td><strong>Excellent at exploiting imagination</strong></td>
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<tr>
<td><strong>Nature of unknowns</strong></td>
<td><strong>Focus on the predictable aspects of an uncertain future</strong></td>
<td><strong>Focus on the controllable aspects of an unpredictable future</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Focus on the creative aspects of an unknowable but imaginable future</strong></td>
<td></td>
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<tr>
<td><strong>Underlying logic</strong></td>
<td><strong>To the extent we can predict the future, we can control it</strong></td>
<td><strong>To the extent we can control the future, we do not need to predict it</strong></td>
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<tr>
<td><strong>To the extent we can create the future, we do not need to predict or control it</strong></td>
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<tr>
<td><strong>Outcomes</strong></td>
<td><strong>Market share in existent markets through competitive strategies</strong></td>
<td><strong>New markets created through alliances and other cooperative strategies</strong></td>
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<tr>
<td><strong>New markets, businesses, products, etc. created through emergent strategies</strong></td>
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<tr>
<td><strong>Constraints</strong></td>
<td><strong>Effects (goals)</strong></td>
<td><strong>Means</strong></td>
<td></td>
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<tr>
<td><strong>Imagined future</strong></td>
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<td></td>
<td></td>
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<tr>
<td><strong>Notion of time</strong></td>
<td><strong>Linear and sequential</strong></td>
<td><strong>Linear and sequential</strong></td>
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<tr>
<td><strong>Open-ended</strong></td>
<td></td>
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<tr>
<td><strong>Set of choices</strong></td>
<td><strong>Many to one.</strong></td>
<td><strong>One to many.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Choose between many possible effects using a particular set of means</strong></td>
<td><strong>Choose from a set of means to create many possible effects</strong></td>
<td><strong>Choose among many imagined futures using emergent effects and means</strong></td>
<td></td>
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<tr>
<td><strong>Human faculty</strong></td>
<td><strong>Reasoning</strong></td>
<td><strong>Reasoning</strong></td>
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<tr>
<td><strong>Imagination, emotions and belief</strong></td>
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<tr>
<td><strong>Perceptual processes</strong></td>
<td><strong>Analytical and calculating</strong></td>
<td><strong>Analytical and calculating</strong></td>
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<tr>
<td><strong>Intuitive and imaginative</strong></td>
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</tbody>
</table>
NOTE: This table is adapted from Dew and colleagues (2009) and Sarasvathy (2001a). Those marked by “*” and “**” are reproduced verbatim from Dew and colleagues (2009, p. 290) and Sarasvathy (2001a, p. 251) respectively. As earlier said, although prospection is presented – for emphasis and contrast – as a third and distinct type of entrepreneurial thinking, it is a dimension of effectuation which proceeds from a “generalized end goal or aspiration” (Sarasvathy, 2001a, p. 245).

10.3. Prospectual thinking: A theoretical foundation

In this section, prospection – the process of creating an imagined future – is advanced to complement causation and effectuation, which are the current paradigms of entrepreneurial thinking and decision-making. Although prospection, as a type of entrepreneurial thinking appears new, its theoretical underpinnings are not. As elaborated shortly, the intellectual roots of prospection can be traced to Austrian (subjectivist) economics, particularly of Kirzner (1982; 1985; 1992; 1995), Von Mises (1949) and Shackleton (1958; 1970; 1972; 1984), and the American economist Frank Knight whose works show a heavy subjectivist approach (Yu, 2004). The divergence of human expectations, future-orientation, and plans – key elements of prospection and central to subjectivism – will be elaborated in the next section.

In addition, following the exhortation of Gartner and colleagues (1992, p. 26) to “borrow boldly” from other disciplines, this section also draws on cognitive science to develop the theoretical moorings of prospection. Cognitive science – the interdisciplinary study of the human mind and intelligence, and which embraces philosophy, psychology, artificial intelligence, neuroscience, linguistics, and anthropology (Thagard, 2012) – has attracted the attention of entrepreneurship scholars (Mitchell et al., 2002; Baron & Ward, 2004). Said Mitchell and colleagues (2002, p. 93), “Recently, the application of ideas and concepts from cognitive science has gained currency within entrepreneurship research, as evidenced by the growing accumulation of successful studies framed in entrepreneurial cognition terms.”
10.3.1. Subjectivism and prospection

In viewing “entrepreneurship not as responding to external market conditions, but as independently and spontaneously injecting new elements into those conditions, in a manner totally unpredictable from and wholly undetermined by existing circumstances” (Kirzner, 1985, p. 8), subjectivism lays the theoretical foundation for prospection. Prospection frames the unpredictable and emergent future as being creatively shaped by wilful agents seeking to realise an imagined future, consistent with the autonomy of individual choice and freedom of human action and behaviour which are key principles of subjectivism (Kirzner, 1992a; O’Driscoll & Rizzo, 1996). These principles affirm that human action arises from individual choice and not external events (von Mises, 1978; Dugger, 1983). Said Kirzner (1992a, p. 46), human action is “‘uncaused’; it is not determined by circumstances (even by the agent’s own preferences).”

However, autonomy of individual choice and freedom of human action are not absolute and unbridled. While external circumstances themselves do not determine human action, they constrain it (Kirzner, 1992a). Scarcity of means at the disposal of actors also means that human action is bounded (Lachmann, 1971). Institutions also serve as points of reference which guide human action and plans (ibid.; Vaughn, 1992) and provide a structure of legal and informal rules and norms which govern human conduct (Hayek, 1983; Zappia, 1993).

As well, subjectivism allows for “spontaneous innovative activity” (Kirzner, 1985, p. 8), matching the trial-and-error, improvisation and muddling through characters of prospection. It also acknowledges that entrepreneurial choice is “originative and imaginative” (Shackle, 1972, p. 364) and that an entrepreneur injects his own knowledge, expectations, imaginings, and dreams into an existing situation (Kirzner, 1985). Hence, an entrepreneur does not respond automatically to given circumstances (ibid.). This conforms to the radical nature of prospection as “creating” or realising an imagined future driven by new imaginings, dreams, and expectations. Entrepreneurial choice is also closely associated with a human aspiration for a better desired state (von Mises, 1949) and reflects
his dreams, aspirations, imagination, and expectations, as well as his guesses and biases (Kirzner, 1992). Prospection is about creating a better future that is shaped by aspirations towards and belief in an imagined future (Kirzner, 1982). The acknowledgement of “real, historical, or subjective time” rather than “predictable events and timing” by Austrian economics (Chiles et al., 2007, p. 483) also fits the fluidity and subjectivity of time in prospect which parallels the open-endedness of the imagined future.

In the following pages, the subjectivist lineage of prospect is further elaborated. Three key principles of subjectivism: imagining the future, creating an imagined future through human plans, and creation of novelty shall be discussed to elaborate on prospectation.

10.3.1.1. Imagining the future

According to Knight (1921) and Lachmann (1994), all human action occurs amidst uncertainty. Such uncertainty is pervasive and leads to a kaleidic, open-ended world (Kirzner, 1982). Yet, even in a world of uncertainty, “the future is unknowable though not unimaginable” (Lachmann, 1994, p. 221). In order to glimpse the unknown, an individual may form expectations (Lachmann, 1994) and imagine the future (Lachmann, 1969). He acts based on his envisaged future (Kirzner, 1982) and his expectations of imagined experiences yet to happen (Shackle, 1984). Such imagined future constantly changes as the human imagination continually recasts the present moment (Shackle, 1958).

These views encapsulate prospectation: the process of creating an imagined future. To prospect is to imagine what lies ahead (Chiles et al., 2010a) and contemplate potential futures (Chiles et al., 2007), without being tied to the past (Loasby, 2001). It is a mental process, not of estimation or discovery, but of creation using imagination (Littlechild, 1986). Prospection involves the creation of an image of a desire future state, and not merely a reaction to the present or the past (Knight, 1921). It is based on imagining what the future would be like without human intervention and what change will occur by human action (Knight, 1921). As Kirzner (1982, p. 149) said:
Man is motivated to formulate the future as he envisages it, as accurately as possible. It is not a matter of two unfolding tapestries, one the realized future, the second a fantasized series of pictures of what the first might look like. Rather, acting man really does try to construct his picture of the future to correspond to the truth as it will be realized. He really does try to glimpse the future, to peer through the fog. He is thus motivated to bring about correspondence between the envisaged and the realized futures. Man’s purposeful efforts to better his condition are responsible not only for his choices as constructed against a given envisaged future; that purposefulness, is perhaps even more importantly, responsible for the remarkable circumstance that the envisaged future does overlap significantly with the future as it actually unfolds.

Prospection thrives in uncertainty. Without uncertainty, what would be required for decision-making would be capable calculation, and not creative imagination (Kirzner, 1982). If the future were known, there would be little need for choice and action, since man would merely be reacting to stimuli (von Mises, 1949). Hence, future uncertainty is a favourable element by acting as a stimulant and encouraging trial and error (Baudin, 1954).

10.3.1.2. Creating the imagined future

Imagining the future is only one part of prospection. Prospection is the process of creating an imagined future. To create an imagined future, human plans are needed to subsequently guide human action (Lachmann, 1986). Such plans are products of mental processes that are oriented to an imagined future (Lachmann, 1969). Elaborating on human plans, Lachmann (1994, pp. 219-220) said, “The plan of action, its ‘blueprint’ or scheme of intended action… guides the course of action, or that the latter may be ‘explained’ by the former as its ‘cause’. This whole scheme of action exists within the actor’s mind at any moment of time, but finds its external manifestation in an observable course of action that gradually unfolds over time.”

Plans, with their various components and design, bind together the various purposes and means employed (Lachmann, 1971). They form the basis for establishing commitment and a priority amongst various purposes and means, and ensure coherence amongst actions (Parsons, 1998). In fact, means may only be understood in the context of a given plan and
the means they are to serve (Lachmann, 1994). As well, there may be as many plans in man’s mind as there are imagined futures (ibid.). Such plans are often interconnected, with some of the plans serving as foundations for other plans (ibid.)

Furthermore, plans unfold gradually over time and may be revised (Lachmann, 1994). They are always in a flux (Chiles et al., 2007). Circumstances change and unexpected obstacles arise that impede planned courses of action (Lachmann, 1994). Each individual also imagines different futures in each moment and changes his plans according to his imaginative ability (Gloria-Palermo, 1999). The market process, consisting of other human plans and their interactions, often drives these changes (Lachmann, 1976). As an agent encounters other market participants who subjectively imagine the future and bear their own plans that often conflict with his (Lachmann, 1976a), he forms new knowledge and new expectations which cause an incessant revision of plans (Chiles et al., 2007). Imaginative journeys to explore possibilities for action may also lead to a revision of plans (Shackle, 1970). Hence, creating an imagined future consists of a continual interpretation, reinterpretation, and revision of plans and expectations (Chiles et al., 2007).

10.3.1.3. Creation of novelty

In speaking of the creative mind, Wiener (1993, p. 7) said, “Before any new idea can arise in theory and practice, some person or persons must have introduced it in their own minds… The absence of original mind, even though it might not have excluded a certain element of progress in the distant future, may well delay it for fifty years or a century.” The creative mind is involved in the creation and revision of ends, means, and plans (Lachmann, 1990). Its expression often leads to novelty as man acts on his imagined future (Kirzner, 1982), triggering a chain of events (Shackle, 1972).

From individuals’ imagined futures arise new ideas, new resources, new markets, new opportunities, and new products in a repeating cycle of creation (Chiles et al., 2010a; 2010b). Such cycle leads to the construction of novel elements (Perky, 1910) which are then recombined in new and unpredicted ways (Dahl et al., 2001) to create further novelty
(Chiles et al., 2010b). This recombinative and creative process, anchored on an amorphous and fluid imagination, is especially powerful since it can yield true novelty in a manner quite similar to a chemical reaction (ibid.).

10.3.2. Cognitive science and prospection

In the previous section, the theoretical foundations of prospection were developed using subjectivist principles. Three key elements of prospection were discussed: 1) imagining the future; 2) creating the imagined future; and 3) creation of novelty. In this section, we draw on cognitive science to further develop the notion of “imagining the future”, one of prospection’s key elements. We will first examine the unique human capacity to look forward in time and imagine the future. We then consider emotions and the affect heuristic in prospection. Finally, we look at the fast and spontaneous nature of prospectual thinking.

10.3.2.1. Looking forward in time and imagining the future

Gilbert (2007, p. 1) first used prospection to refer to “the act of looking forward in time or considering the future.” He and Wilson (2007) later added that prospection refers to the human ability to pre-experience the future by using imagination. Although this view of prospection touches only on one element of “prospection”, i.e. imagining the future (as developed in this chapter), it is important because it uses science and psychology to describe the ability of individuals to imagine the future. Gilbert (2007) asserts that humans are the only animals that think about and imagine the future. He (2007, pp. 4-5) said, “The greatest achievement of the human brain is its ability to imagine objects and episodes that do not exist in the realm of the real, and it is this ability that allows us to think about the future. As one philosopher noted, the human brain is an ‘anticipation machine’, and ‘making future’ is the most important thing it does.”

In speaking of man’s ability to think about the future, Gilbert (2007, p. 5) clarifies that this is not about anticipating “the immediate, local, personal future”, an ability that even
chimpanzees and the ordinary food-burying squirrel have. Rather, man’s unique ability to think about the future is the ability to think about tomorrow and to escape the present by imagining the future (Gilbert, 2007). Man is also able to imagine different futures and choose the best one. He (2007, p. 23) explained, “We are the apes that learned to look forward because doing so enables us to shop among the many fates that might befall us and select the best one.” Prospection is not based on calculating utilities with mathematical precision, but on taking provisional steps and determining what works (ibid.). This ability to imagine the future and project one’s self forward in time enables man to learn from mistakes without actually making them (ibid.).

Science has shown that it is the brain’s frontal lobe that allows man to imagine the future (Gilbert, 2006). Without the frontal lobe, man would be trapped in the present and without capacity to imagine tomorrow (ibid.). The prefrontal cortex, in particular, is responsible for man’s ability to extend his self through time (Wheeler et al., 1997).

Imagining the future is actually quite prevalent and widespread. In one study, when people were asked to report on which they think about the most – whether the past, present or future – they claimed that future thoughts are predominant (Jason et al., 1989). Another study found that twelve percent of an average person’s daily thoughts concern the future (Klinger & Cox, 1987; Klinger, 1994). Thinking about the future is quite natural, occupying the human mind regularly and unbidden (Gilbert, 2007). Related to the human ability to imagine the future is the ability to experience the future in advance by imagination (Gilbert & Wilson, 2007, p. 1351-1352). They explained, “Humans can predict the hedonic consequences of events they’ve never experienced by simulating those events in their minds… Simulations allow people to ‘preview’ events and to ‘prefeel’ the pleasures and pains those events will produce.”

Gilbert (2007) calls the primal ability of animals to anticipate what will most likely happen to them next in their immediate, local, personal future as “nexting”.

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10.3.2.2. Emotions and the affect heuristic in prospection

As discussed earlier, prospectual thinking is driven more by emotion and belief, in contrast to the reliance on reason and logic of causation and effectuation. We saw this in Clement’s decision to enter India based on his “dream”. In thinking of producing Wet Mountains, his motivation was also emotive: to make a “better Indian-style beverage here (because) we’ve got some of the world’s most pristine waters.” The goal of this section is to cite cognitive science to show the role of emotions in prospection and decision-making.

The role of emotions in human decision-making is well-established (Bechara, Damasio & Damasio, 2000; Loewenstein et al., 2001; Greene & Haidt, 2002; Sanfey et al., 2003; Bechara, 2004; De Martino et al., 2006; Kahneman, 2011), and is hardly knew. Epstein (1994) observed that people think differently when they are emotionally aroused, than when they are unemotional and unexcited. Emotions transform the way people think (ibid.). Emotions also influence individuals in another way. Emotions are often used as an affect heuristic in which experienced feelings and emotions are used as information in the decision process (Slovic et al., 2005).

Slovic and colleagues (2005, p. S35) defined affect as “the specific quality of goodness or badness (a) experienced as a feeling state (with or without consciousness) and (b) demarcating a positive or negative quality of a stimulus.” Using an affect heuristic, people make decisions based on what they like and dislike, with scant deliberation or reasoning (Kahneman, 2011). In fact, even normal decision making may be more emotional and less reasoned than otherwise thought (Greene & Haidt, 2002).

The affect heuristic is driven by an emotional system (Slovic et al., 2002; Gabaix & Laibson, 2003) in which extra emotional information is built into the decision process by individuals (De Martino et al., 2006, p. 687). People are especially prone to use heuristics, or efficient rules of thumb, such as an affect heuristic, instead of precise mathematical calculations under conditions of uncertainty (De Martino et al., 2006). At the very least, affect and reason interact in decision-making (Finucane, Peters & Slovic, 2003, p. 327). To
Zajonc (1980, p. 154), however, all thinking is affective. “We do not just see ‘a house’: We see a handsome house, an ugly house, or a pretentious house” (p. 154). He (p. 155) said:

We sometimes delude ourselves that we proceed in a rational manner and weigh all the pros and cons of the various alternatives. But this is probably seldom the actual case. Quite often ‘I decided in favour of X’ is no more than ‘I liked X’. We buy the cars we ‘like,’ choose the jobs and houses we find ‘attractive,’ and then justify these choices by various reasons.

The affect heuristics plays a role in prospection because imagining the future typically leads to positive feelings of anticipation (Loewenstein, 1987; Caplin & Leahy, 2001; Tirole, 2002). Positive anticipatory feelings arise because in an imagined future, people often see themselves succeeding rather than failing (Singer, 1981; Klinger, 1990). Hence, prospection can be pleasurable (Gilbert, 2006).

Having anticipatory feelings of pleasure about an imagined future is often associated with an optimism bias, wherein people expect their futures to be better than the present (Brickman, Coates & Janoff-Bulman, 1978; Chang et al., 2001; Stiegelis et al., 2003). People especially tend to be unrealistically optimistic when stakes are high (Thaler & Sunstein, 2008). Such over-optimism is not easy to eliminate (Gilbert, 2007), but is not necessarily a bad thing. Optimism, even the one bordering on delusion, may especially be beneficial for entrepreneurs as it gives them confidence in a potential future success, and lifts moods and morale (Kahneman, 2011).

10.4. Concluding comments

This chapter has provided an explanation as to why some but not all recent internationalisers engaged in compressed internationalisation. It has shown that despite the broad and far-reaching changes in the international environment, their effects on the discovery, creation, evaluation and exploitation of international opportunities are not direct, but are mediated by entrepreneurial thinking and decision-making. Entrepreneurs think, and make autonomous choices and wilful decisions using knowledge, reason,
analysis, imagination, dreams, and expectations amidst and in spite of changes in the international environment. Entrepreneurial thinking and decision-making also moderate the effects of firm resources, capabilities, and networks on entrepreneurship and internationalisation.

Differences in entrepreneurial thinking and decision-making lead to differences in internationalisation and entrepreneurship behaviour. Three key elements are considered in entrepreneurial thinking and decision-making: goals, means, and imagined future (Fig. 9.1). These elements interact and are the starting points of entrepreneurial thinking and decision-making. Depending on the starting point and what may be most salient in entrepreneurial thinking and decision-making, three distinct thinking processes may be identifiable.

In addition to causal (starts with given goals) and effectual (starts with given means) thinking (Sarasvathy, 2001a), a third type of entrepreneurial thinking which is a dimension of effectuation, was identified: prospection or the process of creating an imagined future. Prospection is characterised by an emphasis on an imagined future, not with given goals or means, highlighting the contingent and emergent nature of the future which the prospectual entrepreneur seeks to create, instead of to predict or control. Unlike causal thinking which
emphasises business planning and competitor analysis, prospectual thinking is highly intuitive and non-deliberative, and driven by emotions and belief.

It is worth emphasising that causation, effectuation or prospection is not inherently weaker or superior to the other. Each has its own strengths and weaknesses. More importantly, while an entrepreneur may use a particular thinking process predominantly, he may use other thinking styles – which interact and overlap – in different situations. Hence, an entrepreneur may, for instance, begin by using prospectual thinking (such as in imagining internationalising to India) and then use causal thinking or effectual thinking. Figure 9.2 illustrates the interdependency of the three thinking processes. On the other hand, an entrepreneur may initially use effectual thinking and then prospectual thinking to creatively imagine the future. An entrepreneurial ability to seamlessly make use of prospectual, causal and effectual thinking could lead to more opportunities for entrepreneurship and internationalisation.

![Figure 10.2. Interdependency of prospectual, causal and effectual thinking](image)

In the final chapter, the aims and findings of this thesis are reviewed, and its limitations and implications are identified. A model of entrepreneurship in small firm internationalisation is also proposed which captures the centrality of the entrepreneur in entrepreneurship and small firm internationalisation. The model will show that entrepreneurial thinking mediates between the international environment and the perception, creation, evaluation, and exploitation of opportunities internationally. As well,
entrepreneurial thinking moderates the effects of firm resources, capabilities, and networks in the perception, creation, evaluation, and exploitation of opportunities internationally.
CHAPTER 11

Conclusions, Limitations, and Implications

This thesis sought to better understand the internationalisation of small New Zealand firms, which, in addition to the typical liabilities of foreignness (Zaheer, 1995) and outsidership (Johanson & Vahlne, 2009), were burdened by limited resources, distance constraints, and geographic isolation. The research aim was meant to redress the focus of international business (IB) research on the study of large and established multinational enterprises (Bloodgood et al., 1996; McDougall & Oviatt, 1997; Rialp & Rialp, 2001; Acs et al., 2003). While these studies have made major contributions to the understanding of internationalisation processes, they have been shown to have limited explanatory power, especially concerning small firms (Cannon & Willis, 1981; Reid 1984; Turnbull, 1987; McDougall & Oviatt 2000).

Instead of focusing solely on the small firm, however, this thesis also looked at the role of the entrepreneur in internationalisation, particularly the subjective dimensions of entrepreneurial opportunity discovery, creation, evaluation, and exploitation, and entrepreneurial thinking. Such an approach addresses a second shortcoming of internationalisation theories and perspectives, which have failed to fully account for the role of the entrepreneur in internationalisation (Acs et al., 2003) and when they do consider the entrepreneur, have focused on objective entrepreneurial attributes.

To achieve its goals, the thesis focused on the “entrepreneurship” in “international entrepreneurship”, on the assumption that internationalisation cannot be fully understood by looking only at the internationalising firm and international market entry. Important entrepreneurial processes in internationalisation, i.e. the entrepreneurial discovery, evaluation, creation, and exploitation of opportunities, and entrepreneurial thinking, needed to be examined as well.
To get a close look at the entrepreneurial processes in internationalisation, and have a vivid sense of the entrepreneurship in international entrepreneurship, Chapter 5 narrated the stories of how six entrepreneurs discovered, evaluated, created, and exploited opportunities: 1) to create future goods and services, and 2) to enter international markets. These stories illuminated how business ideas and opportunities emerged, and how entrepreneurs acquired resources and dealt with uncertainty and challenges. They also provided a glimpse of entrepreneurial thinking and judgment.

Chapter 6 examined the discovery, creation, evaluation, and exploitation of opportunities to create future goods and services. The chapter showed that when entrepreneurs initially perceived opportunities, such opportunities were potential, and not capable of being exploited. They were also different from subsequently created products, indicating a creative transformation of the potential opportunity into an entrepreneurial opportunity: a concrete opportunity to create specific products or services that provided value to customers. Prior knowledge and creative imagination, as well as entrepreneurial action, were crucial to this creative process.

Chapter 7 focused on the “entrepreneurship” in international entrepreneurship, and examined how entrepreneurs discovered, evaluated, and created opportunities for international market entry. Without these entrepreneurial processes, there would have been no opportunity for international market entry to be exploited and hence no internationalisation. A key finding was that while most entrepreneurs relied on their knowledge of international markets and international opportunities to perceive international opportunities, entrepreneurs of international new ventures did not. The latter typically did not attract the interest of international customers and distributors, and were not part of networks that could provide information on international opportunities. Instead, these entrepreneurs depended on serendipity or their imagination to perceive international opportunities. Notably, their international orientation and commitment to enter international markets from the beginning facilitated their perception of international opportunities. The chapter also showed that the discovery of an international opportunity was only an initial step to internationalisation. The discovered opportunity had to be
creatively transformed into an *entrepreneurial* opportunity through entrepreneurial cognition and action, before it could be exploited internationally.

Chapter 8 examined small firm internationalisation and the exploitation of opportunities internationally, using an international value chain approach. Four of the case firms internationalised early in their organisational life cycles and were international new ventures (INV). This by itself was not noteworthy, since INVs have appeared in the 1990s with increasing regularity (Rennie, 1993; Oviatt & McDougall, 1994; Knight & Cavusgil, 1996). But the speed by which some case firms engaged with multiple international markets, notwithstanding their newness and limited resources, was striking, with two firms expanding their involvement to twenty-four countries within five years of their establishment. The chapter also observed the rise of New Zealand “small globals” in recent internationalisers, which rapidly internationalised to multiple markets across the globe despite severe resource constraints and distance barriers. Case firms also typically limited their involvement in specific international markets, and demonstrated fluctuating internationalisation, contrary to stage theories. These indicate a fundamental change in internationalisation behaviour among recent internationalisers, contrasting sharply to the internationalisation processes of past internationalisers depicted in stage theories.

Chapter 9 compared the internationalisation behaviour of past and recent internationalisers, and took a macro perspective by examining the effect of the international environment on internationalisation behaviour. Past internationalisers engaged in late and gradual internationalisation, and entered fewer international markets. Their geographic diversification was also narrow and focused on closer foreign markets. Past internationalisers also showed increased resource commitments to specific international markets. On the other hand, recent internationalisers engaged in “compressed internationalisation”, which involved the overlap and simultaneous occurrence of internationalisation processes and “stages”, unlike in the past when internationalisation processes and “stages” occurred sequentially.

Compressed internationalisation was manifested by accelerated internationalisation, intensive internationalisation to more international markets, a broader and global
geographic expansion of international activities, and the emergence of small globals. Recent internationalisers also showed a fluctuating international involvement and less commitment to specific international markets. Changes in the current international environment, as manifested by advanced technologies, cheap transportation, globalisation, and economic liberalisation, were identified as enabling compressed internationalisation in recent internationalisers. Because such changes are broad and far-reaching, we would have expected compressed internationalisation in all recent internationalisers. But this had not been the case, with some recent internationalisers behaving like past internationalisers.

Chapter 10 revisited the entrepreneur and examined entrepreneurial thinking to determine its effect on internationalisation, particularly compressed internationalisation. The chapter sought to understand why compressed internationalisation was happening (or wasn’t happening), and showed that entrepreneurial thinking mediated between the effects of advanced technologies, cheap transportation, globalisation and economic liberalisation, and the discovery, creation, evaluation and exploitation of entrepreneurial opportunities. Hence, although changes in the current international environment were broad and far-reaching, they did not operate independently of entrepreneurial thinking and judgment. The chapter identified three types of entrepreneurial thinking that influenced entrepreneurship and internationalisation. In addition to causal and effectual thinking which had previously been identified by Sarasvathy (2001a), the chapter identified a third type of entrepreneurial thinking: prospection, a dimension of effectuation which proceeds from a “generalized end goal or aspiration” (Sarasvathy, 2001a, p. 245). Prospection is characterised by an emphasis on an imagined future, not with given goals or means, highlighting the contingent and emergent nature of the future which the prospectual entrepreneur seeks to create, instead of to predict or control. Causation, effectuation, and prospection interact and operate interdependently.

11.1. A model of entrepreneurship in small firm internationalisation

From the findings, a model of entrepreneurship in small firm internationalisation (Figure 11.1) which holistically shows the interaction of the entrepreneur, firm and international
environment in entrepreneurship and small firm internationalisation can be developed. The model shows entrepreneurship as *sine qua non* to small firm internationalisation. As well, although firm resources, capabilities, and networks are important to entrepreneurship and internationalisation, their influence is moderated by entrepreneurial thinking, which in turn determines entrepreneurial judgment and action. The model also shows that advanced technologies, cheap transportation, globalisation and economic liberalisation – which lead to compressed internationalisation – do not influence entrepreneurship and internationalisation directly, but are mediated by entrepreneurial thinking.

In sum, the model recognises the central role played by the entrepreneur in small firm internationalisation and puts the entrepreneur squarely at the heart of small firm internationalisation. It emphasises the importance of entrepreneurial thinking in entrepreneurship, as well as entrepreneurship in small firm internationalisation. Entrepreneurship and small firm internationalisation should thus be viewed ultimately as outcomes of entrepreneurial thinking and judgment. While the international environment may influence entrepreneurial thinking and decision-making, it does not determine them.

Such a view highlights subjectivist assumptions that the human mind is autonomous (Lachmann, 1959) and individuals are wilful agents with originative and creative capacity (Kirzner, 1992a) and who inject their own knowledge, expectations, and dreams into existing situations (Kirzner, 1985). Consequently, all economic and social phenomena, and market outcomes, may more properly be viewed as the outcome of individual acts of choice (Lachmann, 1973; O’Driscoll & Rizzo, 1996). However, autonomy of individual choice and freedom of human action are not absolute and unbridled. While external circumstances themselves do not determine human action, they constrain it (Kirzner, 1992a). Scarcity of means at the disposal of actors also means that human action is bounded (Lachmann, 1971). Institutions also serve as points of reference which guide human action and plans (ibid.; Vaughn, 1992) and provide a structure of legal and informal rules and norms which govern human conduct (Hayek, 1983; Zappia, 1993).
11.2. Limitations

This study reported compressed internationalisation among recent internationalisers, as manifested by earlier and faster internationalisation, and engagement with more international markets. However, although compressed internationalisation might, for instance, enable some firms to engage in early internationalisation, it may not necessarily be wise to do so. Early internationalisation can prevent a firm from building capabilities and resources, which are crucial for long-term firm performance. Hence, some case firms which ventured early into international markets sometimes vacillated when they encountered major difficulties in international markets and exited quickly. As well,
compressed internationalisation has enabled “small globals” to engage with more international markets worldwide. But such engagement is typically “superficial”, involving irregular exports and small international sales volumes. Instead of a focus on maximising sales revenues and profits in international markets, there is sometimes a preoccupation with the number of international markets entered.

A longitudinal case study, as opposed to the cross-sectional nature of this study, would also enable a closer examination of entrepreneurial thinking and decision-making, and how the three entrepreneurial thinking processes (causal, effectual, and prospectual) may shift and overlap depending on the particular opportunities and challenges faced by a firm. Relatedly, the findings on prospection are preliminary. The focus of this thesis on internationalisation behaviour and entrepreneurship in small firm internationalisation constrained an intensive exploration of entrepreneurial thinking. It might be that other subjectivist research methodologies suggested by Endres and Woods (2007), such as Csikszentmihalyi’s (1996) multistage process of examining the subjectivist aspects of creativity, life stories (Rae, 2000) and Kelly’s (1955) personal construct theory, and think-aloud protocols used by Sarasvathy (2001a) may better illuminate prospection and entrepreneurial thinking.

As well, while the use of twelve cases in this research could lead to a plausible, well-grounded and generalisable theory (Eisenhardt & Graebner, 2007), especially following Eisenhardt (1989) who argued that a cross-case analysis involving four to ten case studies can provide a good basis for analytical generalisation, further restricting the selection criteria towards a more homogeneous sample of firms with more similar firm ages, industries, or sizes, would allow a more robust cross-case analysis.

Arguably, the unique and cumulative conditions of a small New Zealand market, geographic isolation, and distance from international markets may influence New Zealand firms to behave differently. Hence, generalisation of this research to internationalising firms in other countries may be problematic. A comparative study of internationalisation behaviour of firms from different countries may address this limitation.
10.3. Implications

This thesis has implications for business practitioners, policy-makers and research. These implications are discussed below.

10.3.1. Implications for business practitioners

The emergence of small globals or firms which broadly expanded to multiple international markets across the world, despite severe resource constraints, should encourage entrepreneurs to consider internationalisation. The current international environment, marked by advanced technologies, cheap transportation, globalisation, and economic liberalisation, is especially conducive to and enabling of internationalisation – even compressed internationalisation – of small firms. Firm smallness and limited resources are apparently less delimiting of internationalisation than in the past.

The use of the Internet, company websites, email, Skype, and social media are especially critical to inexpensive and effective international marketing, and the perception and creation of international opportunities. Such advanced technologies also greatly level the playing field between small and large firms in international markets. In addition, advanced technologies enable small firms to consider early internationalisation, without having to establish themselves locally to build up firm resources and capabilities. In fact, firms may potentially be better off developing their resources and capabilities abroad, rather than locally as in the past.

Entrepreneurs may also consider distant, emerging economies where there is less competitive intensity, consumer tastes are less discriminating, and a New Zealand brand may have special appeal. Entry to distant markets will be eased by advanced technologies, cheap transportation, globalisation, and economic liberalisation. An international orientation will also likely facilitate the perception, creation, and exploitation of international opportunities.
In discovering international opportunities, entrepreneurs need not rely on knowledge of international markets or international opportunities. Instead, there must be an openness to the serendipitous discovery of international opportunities, and the exploitation of chance events for internationalisation. Entrepreneurial imagination, more than knowledge, may also be crucial in perceiving international opportunities.

Furthermore, a key finding of this thesis is the use of prospectual thinking in some entrepreneurs. As a way of thinking, prospectual thinking can be learned, developed, and used. Prospectual thinking may facilitate internationalisation by allowing an entrepreneur to focus expansively on an imagined future, rather than be limited by given means or goals. Prospectual thinking may also enable an entrepreneur to welcome the uncertainty attendant to internationalisation and exploit contingencies through trial-and-error, improvisation and muddling through.

There is a need for caution though in looking at the importance of internationalisation. Internationalisation may not directly and necessarily translate to improved firm performance and sustainability. Quite the reverse may be true, as in the case of Team Connect which suffered huge financial losses from internationalisation. Small firms are particularly vulnerable to financial reversals and may suffer disproportionately from internationalisation failures.

Furthermore, internationalisation that piggy-backs and relies on international distributors to handle sales and marketing in specific international markets may deprive a firm of an opportunity to build its international marketing capabilities. International market performance may have less to do with a unique product, but more about how effective international distributors are. Such limited international market commitment may also deprive a firm of an opportunity to maximise international sales opportunities, and lead to fluctuating internationalisation that is more a consequence of a limited or ambivalent commitment to specific international markets. Building foreign market presence and loyalty often take time. A readiness to de-internationalise when expectations are not met may not be an effective strategy.
An argument might also be made against the broad geographic diversification shown by many recent internationalisers. Expanding to multiple international markets may reflect weakness instead of strength, as an internationalising firms struggles with an overextension of resources and a lack of focus. An internationalising firm may be better off building sales and market presence in a few, key international markets, rather than having a broadly dispersed international presence with minimal or negligible sales.

10.3.2. Implications for policy-makers

The active involvement of small firms in international markets, observed in this thesis and in other studies (cf. Chandra et al., 2009; Schweizer, 2011), may spur policy-makers to explore ways of encouraging small firms to engage in cross-border activities. Small internationalising firms contribute to job creation (Robson & Gallagher, 1994) and economic growth and development (Minniti & Levesque, 2010), and engage in innovative activities (Acs et al., 1997) that strengthen a nation’s capabilities.

As well, although advanced technologies have lessened resource needs, capital constraints continue to delimit international involvement of small firms. Severe resource constraints remain a major obstacle to international expansion. Providing access to soft loans, government subsidies and incentives, government sponsored foreign trade delegations, and technical support would greatly facilitate firm international expansion. Many case entrepreneurs reported benefitting from such government assistance.

Case entrepreneurs also reported a lack of skills for engaging in international marketing. Hence, policy-makers may consider developing and sponsoring training programmes to enhance international marketing capabilities of entrepreneurs. In this regard, policy-makers may also facilitate the engagement in international marketing by entrepreneurs through government subsidies and financial assistance. The expected economic returns of facilitating firm internationalisation justify such government assistance.
10.3.3. Implications for research

There are a number of research areas that can be further explored on the basis of this research. One of those is the link between internationalisation and firm performance and financial returns. This was beyond the scope of this research. For instance, it needs to be established if a broad geographic involvement results in higher profitability, firm growth, and firm stability in the long-term. There were indications that broad internationalisation, perhaps as a diversification strategy, enhanced the survival and growth of firms (e.g. Hobby Light, Beam, and Safe Notes). However, some firms, such as Team Connect and Cool Fibres, suffered losses as a result of such internationalisation. These indicate that the study of firm internationalisation, to be complete and holistic, should account not just for international market entry and development, but also the management, operational, and marketing strategies that are employed internationally.

A longitudinal case study, as opposed to the cross-sectional nature of this study, would also enable firm performance to be tracked more clearly and accurately over time, and minimise survivorship bias. Such a longitudinal study would also allow a close examination of firm and entrepreneurial behaviour through time, in a manner that reduces the bias of retrospective narratives.

It is also worth exploring whether international market entry strategies, including the internationalisation of particular value chains, influence and constrain the international market development strategies that are subsequently employed by a firm. This would suggest that instead of international market entry strategies as the starting point for an internationalisation decision, an entrepreneur may be better off thinking ahead and prospectually, i.e. creating an imagined future, about the kind of international involvement that is desirable. Rondstadt’s (1988) corridor principle can be used to support the analogy that while some opportunities may emerge only when an entrepreneur enters a venture corridor that yet leads to intersecting corridors, some opportunities may also be foreclosed by the choice of a venture corridor. Having entered a specific corridor and made a
commitment of resources, it becomes difficult to turn back. There is, in other words, an opportunity cost to decision-making.

In addition, this thesis has shown that international market involvement of firms fluctuates and involves varying levels of expansion and contraction, in contrast to the progressive extension of international operations reported by other studies (e.g. Johanson & Wiedersheim-Paul, 1975; Welch & Luostarinen, 1999). A firm, at varying periods in its life, may exhibit not only gradual (traditional) and rapid (born-again) internationalisation, but also regressive internationalisation marked by foreign market divestment and withdrawal. It is easy to surmise that regressive internationalisation is a response to adverse foreign market performance. However, this conclusion might be simplistic. Some firms show greater international resilience or inclination than others to weather and ride out difficulties in international markets. This is perhaps influenced by an entrepreneur's international orientation, which was reported earlier. However, international resilience and international orientation, as embodied in the entrepreneur, may fluctuate and are evolutionary in response both to entrepreneurial learning and international market conditions. These are subjects that bear further research.

Relatively, internationalisation has been depicted as an evolutionary process of international expansion and development (see Johanson & Vahlne, 1977; 1990, 1992; Jones, 2001). Such depiction carries normative assumptions of internationalisation as a linear unfolding. However, internationalisation may be more strongly linked to an internationalisation approach of trial and error, even muddling-through, as described in Chapter 10. This approach influences international commitment and involvement via international resilience and international orientation. In other words, the willingness of a firm to ride out reversals in foreign markets may be a consequence of whether its approach to internationalisation is one of trial-and-error or linear and progressively evolutionary. This is an area of research that may also be worth pursuing.

Chapters 8 and 9 also observed low international market commitments by most firms, including those with more resources, even after some passage of time. Indirect internationalisation through international distributors and dealers provides only a partial
answer, as many firms showed an unwillingness to engage in direct internationalisation despite having the capability and resources to do so. As discussed in the two preceding paragraphs, low international market commitments may be driven by entrepreneurial learning and international orientation, as well as an trial-and-error approach to internationalisation. However, the international behaviour and pattern of low international market commitments may actually represent a new internationalisation paradigm, as opposed to the stepwise expansion into international markets reported in the past (see Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). It is possible to surmise that this new paradigm is a consequence of the new international environment elaborated in Chapter 9. The recent international behaviour and pattern of low international market commitments signal the need for further research.

A comparison of the internationalisation behaviour and performance of high-technology versus low-technology firms was not explored in this research, but may be a rich area of research. Other researchers (see Jolly et al., 1992; Oviatt & McDougall, 1994; Bell, 1995; Jones, 1999) have shown that high-technology firms are actively involved in international markets and that these types of firms are more likely to internationalise. This thesis, however, observed many low-technology firms also actively involved in international markets.

Finally, the preliminary finding of a third type of entrepreneurial thinking – prospection – that contrasts sharply from causal and effectual thinking, should hopefully spur further research in this area. This thesis has shown the advantages of prospectual thinking in entrepreneurship and internationalisation, which is an argument for more research in entrepreneurial thinking. Further research should certainly consider other subjectivist research methodologies suggested by Endres and Woods (2007), such as Csikszentmihalyi’s (1996) multistage process of examining the subjectivist aspects of creativity, life stories (Rae, 2000) and Kelly’s (1955) personal construct theory, as well as the think-aloud protocols used by Sarasvathy (2001a).
APPENDIX 1

NZ Business Engagement with Asia: Case Protocol for SME Businesses

Company name:
HQ address:
Industry:

1st interview
Date, place:
Respondent name, position, contact info:
Interviewer(s):

2nd and subsequent interviews
Date, place:
Respondent name, position, contact info:
Interviewer(s):

PART A:
Company Information
Information about the company (information will be compiled from secondary sources where possible, and modified after interview where necessary)

(History of company, business fields, sales and profit composition, employees, ownership, identify, trends of these over time)

46 Summary only of the interview protocol used by the New Zealand Asia Institute.
PART B:

1. **You and your business**
   1.1. Personal background and founding of business/opportunity
   1.2. The business and its markets at founding, and over time
   1.3. Internationalisation history

2. **Early engagement with Asia**
   2.1. Engaging with Asia – beginnings and development
   2.2. Interaction with customers, distributors, etc.
   2.3. Knowledge, competencies, and relationship building
   2.4. Opportunities and challenges

PART C:

3. **Current engagement with Asia**
   3.1. Overall and country strategies
   3.2. Capability development
   3.3. Business environments
   3.4. People in the business, where, and what backgrounds

4. **Future engagement with Asia**
   4.1. Opportunities and challenges

5. **Statistics**
   Sales by country, region; sourcing, value added in Asia; sales growth; investment; employment figures
APPENDIX 2

Case Summaries

Vignettes of six of the case companies were given in Chapter 5 for the sake of expositional clarity and simplicity, to illustrate the range of international entrepreneurship experiences. Very short summaries of the remaining six are given in this Appendix. In some respects they are unique, of course, while in others there is some overlap with the cases presented in Chapter 5.

A. Team Connect

Shawn Adams established Team Connect in 1984 as a loyalty program business for the New Zealand automotive industry. For thirteen years, Adams focused his business exclusively on the New Zealand market. In 1997, with the help of global energy company Sea Power, he set up operations in Thailand, Singapore, Hong Kong, and the Philippines. This expansion coincided with his company’s shift from a paper-based to a computerised, online system. In 2001, Adams hired managers to help push his internationalisation agenda. Supported by Sea Power still, Team Connect went through a five-year period of rapid international growth, breaking into Brazil, Argentina, Belgium, Poland, UAE, Qatar, Bahrain, Jordan, Lebanon, Egypt, and Oman. But managing these international operations, while being heavily committed in New Zealand, and especially after its partnership with Sea Power ended, proved difficult. Team Connect eventually closed all its international operations, including those in Asia. In 2009, Team Connect explored new opportunities in Asia and set up a regional marketing office in Malaysia. This move was successful and led to the establishment of operations in Indonesia and India that same year.
B. Road Worx

Road Worx founder Jake Tooley had been using road repair equipment on his farm which constantly broke down. After some modification and improvisation, the equipment became durable and reliable. By chance, someone suggested that Tooley might be able to commercially exploit his equipment. It was towards this end that Tooley, who did not have a workshop, set out to build his “demonstrator” at a bus depot. In 1991 he received orders for his equipment after displaying it in various parts of New Zealand. His brother-in-law later pointed to possible sales opportunities in Australia. He went there to sell the equipment himself and sold more than a hundred of them. The success of Road Worx in Australia slowly attracted international buyers from the UK, Mexico, USA, South Africa, Europe, and Asia. However, Tooley mainly reacts to international opportunities and relies on his company’s international reputation to bring in international queries and requests from international distributors to represent it abroad. Today, all his sales come from abroad and are largely through his network of international distributors. His operations in New Zealand are for manufacturing.

C. Trans Build

In 1972 Kirk Seagal, an engineer, acquired Trans Build, a general engineering company, that did regular maintenance work for a nationwide transport company. Due to an emergency, the transport company asked Trans Build to quickly build a goods-handling equipment for one of its distribution centres. Despite doing it for the first time, Seagal’s company was successful in building the equipment. This success led to further purchase orders from the transport company. In 1974, while continuing to engage in general engineering work, Trans Build took over a contract from a company that was having problems completing a project to build goods-handling equipment. More local opportunities came for Trans Build in 1975 when it won a contract to build goods-handling equipment at several facilities established by the New Zealand government. In 1976, Trans Build broke into the overseas market after winning a contract to build goods-handling equipment for a company in American Samoa. Seagal had learned about the project
through a local customer. In 1977, Trans Build explored opportunities in Australia and won a number of contracts in that country. It also worked on some one-off contracts in China in 1978 based on referrals from companies that it had dealt with previously. The year after, Seagal searched for opportunities in the U.S. and opened an office there. After securing several manufacturing contracts in the U.S., Trans Build established a manufacturing facility in Texas to gain a stronger foothold in the American market. To pursue more international opportunities, Trans Build set up an international marketing team in 2008 which led to exports to China and Africa, among others.

D. Fine Widgets

Phil Sims and Mitch Vaughn, both young engineers, had been working in 1986 for a small instruments manufacturer, which paid them per project instead of by the hour. Because they were not getting paid regularly, Sims and Vaughn thought of getting into business for themselves using their engineering knowledge and instruments-making experience. After securing a loan from a bank, they established Fine Widgets, bought some machines, rented a small factory, and knocked on customers’ doors to solicit sales. In time they were able to acquire several customers and build their business on the basis of their reliability, enthusiasm, and willingness to put in long hours. In 1998, Sims and Vaughn made their first international sales after a Chinese-Kiwi acquaintance asked them to quote for a manufacturer in China, which they secured. They continued to supply this manufacturer and other Chinese customers until 1999 when the instrument-making industry boomed in China as a result of the transfer of sovereignty over Hong Kong to China in 1997. In 2000, the Fine Widgets founders secured a Thai export contract at a trade show in Thailand. They increased their Thai export sales by acquiring more customers at trade shows and through customer visits. The founders also invested in a salesperson in Australia and built a customer base in that country. Concerns about difficulties in managing a Thai salesperson discouraged them from increasing their involvement in Thailand. Referrals allowed Fine Widgets to acquire one-off contracts in Malaysia. As Fine Widgets grew, it imported more equipment from Japan and Germany. Fine Widgets also started to export to the U.S. and the U.K. in the early part of 2000 by joining trade shows and visiting potential customers.
E. Safe Notes

For close to 150 years since its founding in the 1850s, Safe Notes, a specialty publishing company, had dealt exclusively with New Zealand customers. This changed in the 1990s when the company gained access to the international customers of a printing equipment manufacturer that was closing down. Safe Notes served the publishing requirements of these customers in Singapore, Malaysia, Bhutan, Brunei, Thailand, and Taiwan. Safe Notes, however, ran into cash flow problems in 2001 and went into receivership. After emerging from receivership in 2003, the company hired Shawn MacDonald to strengthen its relationships with international customers. In 2005, the owners of Safe Notes, who wanted to retire, offered to sell the company to MacDonald. Interested in running his own business and seeing a potential to grow the international side of the business, MacDonald bought the company. He regularly joined international trade shows to meet with current and potential customers, with whom he would then communicate regularly by email. Through these activities and referrals, Safe Notes acquired new customers in South Africa, Botswana, Namibia, China, and the Pacific Islands, such as in Fiji, Samoa, and Papua New Guinea. Safe Notes, however, has failed to make any inroads in Europe, Canada, and the U.S. where competition from large players is strong and potential customers typically require production volumes that exceed its capacity.

F. Cool Fibres

Jeff Harper came to New Zealand in the 1950s to buy fibre for shipment to his British employer, who would then sell it to customers in the U.K. Eight years later, Harper decided to be in business for himself. He set up Cool Fibres to export fibre to some of his previous employer’s customers who agreed to trade with him instead. In the 1960s, Cool Fibres also started exporting to a Japanese company that had come to know of the company. In the 1970s, to expand sales opportunities and improve profit margins, Harper invested in manufacturing machines for specialty fibres. With the knowledge that most
garment manufacturers were based in Hong Kong, Harper travelled to Hong Kong and made cold-calls on potential customers. He secured an export contract from one of the major garment manufacturers on one of his customer visits. In the 1980s, Cool Fibres’ exports grew through customer referrals. Harper increased Cool Fibres’ manufacturing capacity by importing more machines from China and building up his workforce to eighty. He was also approached by a Chinese company with an offer, which he accepted, to enter into a 15-year joint venture to manufacture his products in China. At this point, Harper turned over the management of Cool Fibres to his son, Joseph. In the later part of 2000, with strong competition from Chinese companies, Cool Fibres’ lost many of its customers to Chinese competitors, and had to retrench its workforce and sell most of its equipment. By 2010, with isolated customer-initiated exports, Cool Fibres was struggling to survive.
APPENDIX 3

International Value Chain Maps

A. Beam Wear international value chain map (Year 1= 2006)

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Key: I – Inbound logistics; E – Exports and outbound logistics; M – Marketing and sales

B. Learn Tech international value chain map (Year 1= 2004)

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Key: O – Operations; M – Marketing; S – Service; A – Auxiliary activities; T – Technology license
C. Wet Mountains international value chain map (Year 1= 2003)

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D. Com Apps international value chain map (Year 1= 2000)

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Key: I – Imports; O – Operations; E – Direct exports; M – Marketing; S – Service; A – Support


E. Advanced Solutions international value chain map (Year 1= 1993)

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Key: E – Exports; O – Operations; A – Auxiliary activities
### F. Fine Widgets international value chain map (Year 1= 1986)

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Key: E – Exports and outbound logistics; I – Inbound logistics

### G. Road Worx international value chain map (Year 1= 1985)

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Key: I – Inbound logistics; D – Exports via distributor; P – Production license; M – Marketing and sales
### H. Cool Fibres international value chain map (Year 1= 1950s)

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Key: E – Exports and outbound logistics; I – Inbound logistics; O – Operations and manufacturing

### I. Safe Notes international value chain map (Year 1= 1850s)

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Key: E – Exports and outbound logistics; M – Marketing and sales; I – Inbound logistics;
REFERENCES


Entrepreneurship Conference, McGill University, Montreal, Canada (17-20 September 2010).


