A Network based Approach for the Understanding of International New Ventures Market Selection

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Abstract

Important changes in the internationalization arena have occurred, during the last few years, such as the emergence of the so-called international new ventures (INV). There is a lack of a unified theoretical framework aimed at explaining this process as well as the entry modes and timing strategies. Traditionally, literature divides the international market selection (IMS) process in two categories, systematic and non-systematic. Andersen and Buvik (2002) introduce the concept of relational IMS, based on the business relational level. This research project divides the relational IMS in systematic and non-systematic and it examines the extension to which these methods are being used in practice by the INV. In the relational non-systematic, firms can, for example, respond to opportunities created by a third party or respond to an order from an international buyer. In the relational systematic way, firms begin by selecting a group of possible partners. Then, they try to get the most information about them. This knowledge can be obtained from multiple sources, such as the personal relationships of the entrepreneur or the network organizational links established by the firm. Based on the network notions, this study analyzes three cases of INV and their way of selecting markets. So, it attempts to extend the knowledge in two ways, considering a new framework (subdividing the relational way in two) and its application to the INV.

Keywords: internationalisation, international new ventures, market entry, entrepreneurship, networks

1. Introduction

During the past few years, the competitive and organizational behaviour of small and medium-sized companies has changed dramatically. Important changes in the internationalization arena have occurred such as the emergence of the so-called international new ventures (INV), i.e., firms that are internationalized almost from their creation. Although researchers have focused their attention on this phenomenon (e.g., Oviatt and McDougall, 1994, 1997; Zahra et al., 2000), there is no unified theoretical framework aimed at explaining this process or the entry modes and timing strategies.

Companies face two major issues when they decide to internationalize: where and how. In other words, on the one hand, they must select the market where they intend to go and, on the other hand, they must select the way of entry and operating in it (Bradley, 1995; Andersen, 1997). Identifying the "right" market for internationalization is very important because the target market selected can be the major determinant of success or failure, especially in the early stages of internationalization (Papadopoulos, 1988). Traditionally, literature divides the selection process into two categories, systematic and non-systematic. If firms adopt a systematic approach, they follow a formalized decision process, using statistical methods and diverse data to evaluate the attractiveness of potential markets. Some firms use external partners while others try by themselves to analyze macroeconomic and environmental data. However, several studies (e.g., Kobrin, 1979; Kobrin et al., 1980; Cavusgil and Godiwalla, 1982; Cavusgil, 1985) contend that most firms select the markets in a non-systematic way, as many entrepreneurs have a limited capacity to process all the information, or even because they adopt an opportunistic way to internationalize (Bradley, 1995). This process of international market selection is known as the unsystematic approach. For example, when firms internationalize in an incremental way, gradually increasing the psychological distance, entrepreneurs want to make the smallest possible change, without even asking themselves what the best solution might be.

These two ways of market selection consider customers as faceless and not active entities. Nevertheless, Andersen and Buvik (2002) have studied a number of cases where the initiative to internationalize begins with the international buyer or the interaction process. In this regard, they consider three possible ways of selecting the markets: systematic, unsystematic and relational. In contrast with the traditional forms, where firms choose the destination country for internationalization, Andersen and Buvik (2002) consider that this choice emerges from the business relational level.

This research project aims to fill a gap in the literature on business internationalization, to propose another approach to IMS (International Market Selection) and to examine the extent to which these methods are being used in practice by the INVs. How does an INV select its markets? Four options are considered: the two traditional ways and a subdivision of the relational form into a systematic and unsystematic way. In the latter, firms can, for example, respond to opportunities created by a third party or respond to an order from an international buyer. In the relational systematic way, firms begin by selecting a group of possible partners. Then, they try to get the most information about them. This knowledge can be obtained from multiple sources, such as the personal relationships of the entrepreneur or the network organizational links established by the firm. Based on the network notions, this study analyzes five international new ventures and their way of selecting markets. So, it attempts to extend the knowledge in two ways, considering a new framework (subdividing the relational way in two) and its application to the INV.

We will develop our arguments as follows: in the next section, we present the more accepted internationalization theories and our proposed framework; then we describe three cases we selected; finally, in the last section we will discuss the limitations of our theorizing and the boundary conditions of the proposed model, before we conclude by describing the theoretical and practical implications of the proposed model.

2. Theoretical Background

Several theories on international expansion provide the theoretical background that contributes to an understanding of the internationalization of firms. Here we will analyze in more detail the Uppsala model, the network approach and the international entrepreneurship approach. The former was previously commonly accepted and the latter is more up-to-date and closer to the INV phenomenon.

2.1 Stages Model

For years the stages model dominated all other approaches towards explaining internationalization. This model is based on organizing learning processes. It is the need to acquire experiential knowledge that leads the firm to take small, incremental steps to open new markets (Johanson and Vahlne, 1977).

As market knowledge increases, the internationalizing firm ventures from geographically and/or psychically close countries to successively more distant ones.

Psychic distance is a dominant concept in this model; it is defined as "factors, such as differences in language, cultures and business practices that prevent and disturb the flow of information between the firm and the market" (Arenius, 2005, p. 115). So, as distance increases, the more problematic information flows become. Only through experiential learning can firms overcome the psychic distance, but learning takes time, so they need time to go from nearby markets to gradually more psychically distant markets and to increase commitment.

Thus, according to this model, the key factor for international market selection is psychic distance. In conclusion, we can say that in the Stages Model, international market selection is traditionally unsystematic. Here, firms choose the market, not the partner, and they do not study the circumstances of each of the possible markets. Firms select the market because it is psychically near.

Unfortunately, this model cannot explain the internationalization of INVs, which go abroad very quickly and very far away. Johanson and Vahlne (2003) accepted this challenge and follow the proposition of other authors to integrate the network and stages models.

2.2 Network Approach

According to the network approach, not all the exchange relations can be explained by the market. These relations evolve in a more complex, dynamic and less structured manner. The focus of firm behaviour is neither the firm nor the didactic relations. The focus of firm behaviour is the context of a network of interorganizational interaction. Network is used here as a business network defined as a set of connected relationships between actors controlling business activities (Forsgren and Johanson, 1992, p. 5): the tie between the actors can be direct or indirect. These network relationships influence initial market entry and mode of entry (Coviello and Martin, 1999). In this context, the firm doesn't choose a partner; it selects a partner from the interorganizational network. "Firms' ties provide channels for sharing knowledge as well as the motivation to do so." (Sharma and Blomstermo, 2003, p. 744).

Thus, the internationalization characteristics of both the firm and its context influence the process. Johanson and Mattsson (1988) divided companies into four groups depending on their environment's internationalization, as set out in Figure 1.

Figure 1 – Internationalization and the network model

		Market degree of internationalization (the production net) Low	High
Firm degree of internationalization	Low	Early Starter	Late Starter
	High	Lonely International	International among others

In our context (INVs) only two are important: the early starter and the late starter. The early starter has little knowledge of foreign markets and it cannot use relationships in the home country to gain it (Hintu et al., 2002; Hadley and Wilson, 2003; Johanson and Mattson, 1988). If a firm is a late starter, its suppliers, customers and competitors are internationalized, so it has a number of indirect relations with foreign networks even if it is purely domestic. Its relationships in the home market may drive it to enter foreign markets. The closest markets, however, might be difficult to enter (as the competitors have more knowledge and because it is hard to break into an existing network), so the company might start its internationalization by entering more distant countries (Chetty and Blankenburg Holm, 2000).

The other two, lonely international and international among others are not important for our study because they are already international.

The early starter

"Firms have few and rather unimportant relationships with firms abroad. The same holds for other firms in the production net" (Johanson and Mattsson, 1988, p. 298). Firms, in this situation, have little information about internationalization and they can't use their relationships to gain this knowledge because they don't have it either.

Starting with big investment is a strategy reserved for firms which are well established in the domestic market, which is normally not the case of INVs. So, they will begin their internationalization in nearby markets using agents rather than subsidiaries. Here, the needs for knowledge are fewer, the needs for demand adjustments are fewer and they can utilize the position already established by the agents in the foreign market (reducing the need for their own investment and risk taking).

The internationalization process of an Early Starter in the network approach isn't very different from the internationalization view of the Stages Model. However the international market selection in the latter is absolutely unsystematic and in the former it is only unsystematic because the firm doesn't have a relationship that can help it.

However, the network approach allows that "initiatives in the early internationalization of the firm are often taken by counterparts – that is, distributors or users in the foreign market." (Johanson and Mattsson, 1988, p. 299), so, here it has a relational [unsystematic] process.

Late Starter

"If suppliers, customers and competitors of the firm are international, even the purely domestic firm has a number of indirect relations with foreign networks. Relationships in the domestic market may be driving forces to enter foreign markets" (Johanson and Mattsson, 1988, p. 302)

The internationalization process of INVs is driven by the knowledge supplied by their network ties, which are specific and non-imitable and have three important consequences in international market selection: (1) the information that is available to the firm, (2) its timing and (3) referrals (Burt, 1997). So, the same information is not available to all the firms at the same time. This will influence the internationalization process of the firm: it will select a partner from the known opportunities and which has good referrals. INVs "seem not to collect information on institutional factors and government rules and regulations", "to select and enter foreign markets, they evaluate each proposition individually and enter into alliances and cooperative ventures to serve foreign markets" (Sharma and Blomstermo, 2003, p. 747). Case study research has shown that the development and termination of network relationships can explain the internationalization patterns of many firms, especially with regard to market selection and entry mode (Axelsson & Johanson, 1992; Coviello & Munro, 1997; Johanson and Vahlne, 1992). In Bell (1995), the market selection of software firms was more influenced by domestic client followership, sectoral targeting, and industry trends than by the psychic distance of the market. International opportunities are presented by network members (Chetty and Blakenburg Holm, 2000; Coviello and Munro, 1995, 1997), networks convey information and experiential learning can be replaced by network learning (Chetty and Blakenburg Holm, 2000).

So, according to the network approach, international market selection is relational and can be systematic (if the firm strategically conducts the process) or unsystematic when the firm is discovered by the partner or by a third party.

2.3 The International Entrepreneurship Perspective

There is some evidence in the literature to show that internationalization is more strongly affected by the characteristics of the entrepreneur than other variables such as firm size and age (Axinn, 1988; Reuber and Fischer, 1997; Ellis, 2000).

The concept of entrepreneurship has been studied with different notions. According to Knight (1921), entrepreneurship mainly means coping with market and technological uncertainties and being able to take risks in order to do so. Schumpeter (1934) considers that the entrepreneurial function plays a central role in economic development; it can introduce new combinations of products, processes, organization and/or distribution channels when facing the needs of markets. It is essentially a process of creative destruction. From the standpoint of Kizner (1997), the central point is the opportunity that arises because of the incompleteness of market information that leads to arbitrage activity. Hayek (1945) emphasizes even further the entrepreneur's ability to constitute social order unintentionally through tacit-knowledge but necessary myopic acts. Here we will use a notion that opportunity exploitation and opportunity creation are basic entrepreneurial activities. We will use a notion of entrepreneurship in "which both alertness to existing profit opportunities and deliberate actions to create new opportunities play central roles" (Jantunen et al., 2005, p. 224).

This is quite important because, as Penrose (1959) argues, the firm's potential (in terms of taking advantage of productive opportunities and expansion) is limited by the ability to recognize opportunities and by the ambition to take actions based upon them. The ability to respond to them is limited by the available "entrepreneurial services".

Therefore, we can argue that internationalization as a process of creation and/or exploitation of opportunities is limited by the ability to recognize those opportunities, the ambition to take actions based upon them and the ability to respond to them. We can argue that internationalization is limited by "entrepreneurial services". In that vein, we will use the Zahra and George (2002, p. 261) definition of international entrepreneurship as "the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in pursuit of competitive advantage" and the entrepreneur is defined as an individual who carries out entrepreneurial acts.

It was found that two sets of managerial factors, namely objective (educational background, experience and foreign country exposure of decision maker) and subjective (perceptions, attitudes and behaviour of decision-maker) were the most cited characteristics in the literature. We will include one objective characteristic (international influence) and one subjective characteristic (entrepreneurial type). We will cross these characteristics to create a conceptual framework.

The impact of management's international experience has, in particular, a strong effect upon SMEs (Hutchinson and Quinn, 2006) both at the initial decision to expand and the continuation of the strategy into international markets (Aaby and Slater, 1989; Madsen and Servais, 1997; Nakos et al., 1998). In the same way, the international experience of management has a strong effect upon INVs' international decisions, particularly on international market selection. It has also been argued that the networks formed by the firm's management are not only a potential catalyst for international expansion, but also a source of extended knowledge (Merrilees et al., 1998; Coviello and McAuley, 1999), which may have a strong effect on the direction of internationalization.

Andersson (2000) distinguishes three types of entrepreneurs and "the different types of entrepreneurs will choose different strategies for their companies" (p. 80). Consequently, different strategies imply different internationalization decisions. The technical entrepreneur deals with technical innovations, such as new products, parts of products, or new production technology. The marketing entrepreneur is concerned with new markets and new marketing methods (such as new distribution methods). The structure entrepreneur acts in mature industries and his strategy is implemented at the corporate level.

Technical Entrepreneur

According to Andersson (2000), the technical entrepreneur is more interested in technology. "When he discusses strategy, the most important activities are product development and production". (Andersson, 2002, p. 96). Internationalization is not the main concern of the technical entrepreneur. Nevertheless, he can react to a request from abroad with exports or with a licensing agreement. New products can be divulged abroad through the international network. International activities do not require as many resources as fully owned subsidiaries. "The industry structure for markets with new products is mainly emergent or growing, and which markets are entered depends on which countries are making the inquiries." (p. 80). The technical entrepreneur has an international pull strategy.

"A technical entrepreneur's firm has a slower and more incremental internationalization pattern, which is in line with the stage theory of internationalization" (Andersson, 2002, p. 100).

Marketing Entrepreneur

"The marketing entrepreneur has found a need in the market and has an idea of how to fill this demand" (Andersson, 2000, p. 80), so the market is always emergent or growing. He is proactive and innovative in the internationalization process. He is willing to choose modes of entry that make it possible to penetrate markets quickly, like new international ventures or other establishment modes. Personal preferences and networks may be very important when he actively chooses the markets, "his decision, however, does not come from a rational analysis but is more a reflection of how he interprets the situation" (idem, p. 83). The marketing entrepreneur has a push strategy.

"The marketing entrepreneur's firm (…) has a more rapid international growth, which is initiated by the entrepreneur" (Andersson, 2002, p. 1000).

Structure Entrepreneur

The structure entrepreneur's strategy is implemented at the corporate level and does not intervene in operational matters. By combining organizations, new business ideas can be developed. "From this perspective, internationalization is not a separate strategic goal but a consequence of the overall strategy (Andersson, 2000, p. 81). The strategist's goal is not to find a niche within the existing industry space but to create new space that is uniquely suited to the company's own strengths, space that is off the map (Hamel and Prahalad, 1989, p. 73). Markets are chosen in accordance with the competitive situation. "Markets where there are no attractive acquisitions or merger prospects are not entered" (Andersson, 2002, p. 97), "he is trying to restructure companies and industries" (idem).

"The structure entrepreneurs' actions are dependent on the other players in the industry and can be characterized as oligopolistic reactions" (Andersson, 2002, p. 1000).

3. Conceptual Framework for Analysis

For a long time the stage theory was well accepted in the internationalization process, but this model is inadequate in explaining the rapid and almost from inception internationalization process of INVs; it cannot explain, for example, how and why a firm selects a very psychically distant market. Despite that, the stages model of internationalization is very interesting: it provides the concepts of international experience which we transfer to the entrepreneurs. However, they don't act in an isolated way: the firm and the networks play a very important role. In a modern network economy, it may be inadequate to assume that the firm is acting autonomously in the market; it can't choose what to do without interaction with the other agents. Linking the firm's degree of internationalization with the network's degree of internationalization and the entrepreneur profile we have, in our study, a more eclectic approach.

Current theories can help us understand parts of the firm's international behaviour. However, the problem with these theories and models is their focus on the generalization that suits "all" firms. In our opinion, a better approach is to find crossed categories and create intermediate concepts and theories. So, our framework recognizes the limitations of the stages theory, it assumes the network approach as the principal basis approach and it introduces some elements from the entrepreneurship theory. This results in a framework that integrates multiple theories of internationalization and international market selection in a complementary manner.

Considering Figure 1, it is only important for us when the degree of internationalization of the firm is low (Figure 2).

Figure 2 - Internationalization of firms with low degree of internationalization

		Market degree of internationalization (the production net)	
		Low	High
Firm degree of internationalization	Low	Early Starter	Late Starter

For a better understanding of the internationalization process, we must cross these categories with the different types of entrepreneur (Figure 3).

Figure 3 – Crossed-categories of internationalization

		Type of firm in the network approach	
		Early Starter	Late Starter
Type of entrepreneur	Technical	EST	LST
	Marketing	ESM	LSM
	Structure	ESS	LSS

In this figure we have six sub-categories of firms:

- Early Starter with Technical Entrepreneur (EST),
- Early Starter with Marketing Entrepreneur (ESM),
- Early Starter with Structure Entrepreneur (ESS),
- Late Starter with Technical Entrepreneur (LST),
- Late Starter with Marketing Entrepreneur (LMT), and
- Late Starter with Structure Entrepreneur (LSS).

Each of these categories can be subdivided into internationally influenced entrepreneur and domestic entrepreneur.

Early Starter with Technical Entrepreneur (EST)

According to Johanson and Mattsson (1988, p. 298) the early starter "has few and rather unimportant relationships with firms abroad. The same holds for other firms in the production net". Therefore, firms have little knowledge of foreign markets and they can use their relationships to improve it. The authors argue that the firm's internationalization can occur in two ways:

1 – The strategy found in empirical studies - internationalization begins in nearby markets using agents.

2 – Initiatives in the early internationalization of the firm are taken by a counterpart.

The former is proactive and the latter is reactive.

According to Andersson (2000, 2002) the main goal of the technical entrepreneur is not internationalization, "a request from abroad can lead to exports or a licensing agreement".

Crossing these two points of view, we can conclude that when EST firms internationalize, they respond to other requests, exporting with agents or a licensing agreement. Its export activities do not require as many resources as fully owned subsidiaries.

If the entrepreneur has social relationships abroad, he/she can bring about a very rapid process and this firm can be an International New Venture. Connections and contacts are viewed as potential future contractors, agents, intermediates and clients. The spread of information about new ideas typically comes through bridge ties that link separate people (Granovetter 1973; Ellis, 2000), so potential partners can get to know about the firm's products in this way.

Otherwise, if the entrepreneur is a domestic one, he does not have international relationships and it will be a much-delayed process, so this firm is probably not an International New Venture.

Therefore, the internationalization process, in this scenario, is completely influenced by the social ties linking the initiating decision-maker (buyer or third party) with the entrepreneur. International market selection, when internationalization occurs, is absolutely relational.

Early Starter with Marketing Entrepreneur (ESM)

This situation is both quite similar and quite different from the situation of the EST. Like this kind of firm, the ESM has a low degree of both internationalization and network, but the type of entrepreneur is very different. This entrepreneur is completely interested in the internationalization process and he/she is very proactive.

If the entrepreneur is domestic (without international knowledge and without international contacts), the process will be similar to that of the traditional one. Firms will begin in nearby markets with low commitment. As the volume sold abroad increases, knowledge about foreign markets also increases. Furthermore, companies increase their commitment abroad, and they will go further away and to a more diverse number of countries. This is the process described by the Uppsala model. This staged development of a firm's internationalization can be rapid, because time and space have shrunk. Transactions costs of multinational interchange have been reduced by the increase in speed, quality, and efficiency of international communication and transportation (Porter, 1990). In this situation, the international market selection is probably traditional and because the firm is proactive, they will look for more information about the markets and the selection will be more systematic.

If the entrepreneur is international, he/she has international knowledge, he/she has international contacts, he/she has a psychological proximity with some markets. All these points completely change the scenario of internationalization. This firm has neither international contacts nor international knowledge (low degree of internationalization), its networks have neither international contacts nor international knowledge, but the firm does not need to make an incremental process to increase them and to establish contacts: the entrepreneur has them. The firm will follow the entrepreneur's perceptions and knowledge; it will begin internationalization in the psychologically nearby market. However, this psychic distance is different, it is not between countries, it is between the market and the entrepreneur. If the entrepreneur has studied in country A, he/she feels near country A, he/she knows how they live, what they prefer, who is who there. Axinn (1988, p. 64) has observed the decision-maker who is a migrant or who has experienced prior foreign work experience: he is able to draw upon "his or her personal contacts in foreign markets to facilitate the firm's entry into exporting". Thus, internationalization may not begin in the first stage, or rather, firms may skip stages of international development that have been observed in the past. Somehow, the entrepreneur's previous international experience compensates for the lack of experience of the international new venture (Cooper and Dunkerberg, 1986; Kuemmerle, 2002, Evangelista, 2005).

Early Starter with Structure Entrepreneur (ESS)

In this case, the entrepreneur's greatest concern is not internationalization: here it is not important if he/she is or is not international. The entrepreneur's main objective is in restructuring the company and the industry: neither of them is international so the restructure does not cause internationalization. In this scenario, the firm will probably not be an International New Venture.

Late Starter with Technical Entrepreneur (LST)

When the entrepreneur is technical, the initiatives to begin internationalization are taken by a counterpart. Here we have a firm whose network has a high degree of internationalization, the information flows in the network in such a way that buyers easily get to know about a new product. When a firm introduces valuable innovative goods or services, it signals the existence of its special knowledge to outsiders. Even if the firm is completely domestic, it has indirect international ties. The information on new ideas and products typically flows through these ties linking separated people.

If the entrepreneur is internationally influenced, he/she has some social ties. If those ties are not redundant with the organizational ties, the paths will be complementary, and the firm will probably have more requests.

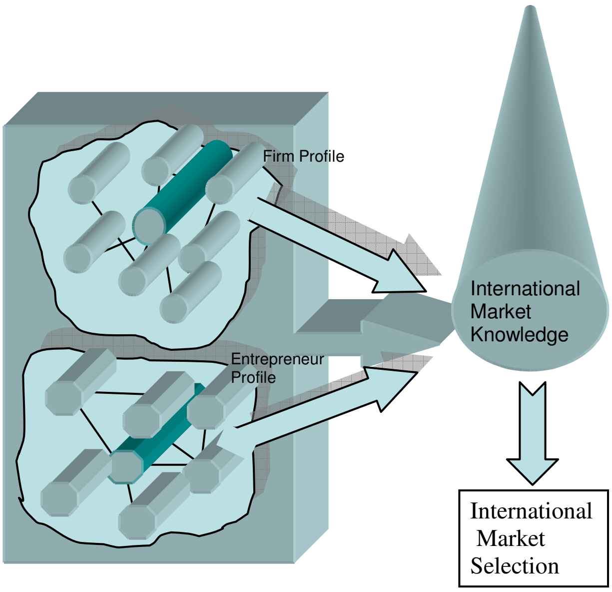
Late Starter with Marketing Entrepreneur (LSM)

LSM enterprises have a low degree of internationalization but their network has a high degree and they also have a proactive entrepreneur. This kind of entrepreneur looks for new markets and new channels, he/she looks for new opportunities. Foreign market opportunities are seen to be communicated to the firm via its relationships with network partners (Johanson and Mattsson, 1988; Blakenburg, 1995). Therefore, in this case networks are a central source of competitiveness. Relationships in the domestic market may be driving forces to enter foreign markets. Thus, it is not necessary to go step-by-step from the nearby to more distant markets, "the extension pattern will be partly explained by the international character of indirect relations and the existence of entry opportunities" (Johanson and Mattsson, 1988, p. 302).

Moreover, if the entrepreneur is international, "the knowledge gained through personal ties has a privileged character since this information is commonly not available to others." (Scholl, 2006, p.22). Additionally, it has been observed that external social ties can provide information on market trends and customers needs and helps to develop and maintain this relation (Chetty and Campbell-Hunt, 2000). So, in this case the international market selection will be relational systematic, it will be very proactive and creative in its selection.

Late Starter with Structure Entrepreneur

In this case, the entrepreneur's greatest concern is not internationalization. The entrepreneur's main objective is in restructuring the company and the industry inasmuch as, since it is internationally integrated, the restructure may cause internationalization. Markets without attractiveness are not entered, the international market selection will be strategic, it will be traditional systematic, based on very rational criteria.



Model 1 – International Market Selection

Our framework recognizes the limitations of the stages theory, it assumes international entrepreneurship as the principal basis approach and it integrates basic elements from the network approach. This results in a framework that integrates multiple theories of internationalization and international market selection modes in a complementary manner.

For a long time the stage theory was well accepted in the internationalization process, but this model is inadequate to explain the internationalization process of INVs. It can't explain, for example, how and why a firm selects a very psychically distant market. Despite that, the stages model of internationalization is very interesting. It plays the key role in the international knowledge that we adopt. The firm, the networks and the entrepreneur play a very important role in assessing that knowledge.

In a modern network economy, it may be inadequate to assume that the firm is acting autonomously in the market; it can't choose what to do without interaction with the other agents. Linking the firm's degree of internationalization with the network's degree of internationalization and the entrepreneur profile we have, in our study, a more eclectic approach.

The conceptual framework is based on the idea that the entrepreneur profile influences the firm's evolution, which evolves as a part of a network. Together they influence international market selection.

4. Research Question and Methodology

The only partial International Market Selection currently available, the inconsistencies in widely cited theories and the inconsistencies between theories and empirical analysis define the research question. The question addressed is "How do international new ventures select their foreign markets?"

The study followed a case-oriented approach, which involves an in-depth analysis of a small number of situations to develop a holistic description as the end result. Eisenhardt's (1995) design calls for a sample between four and ten cases, a range supported by Remeny et al. (1998). For this work, some ten firms were sequentially approached and the entrepreneur interviewed, until six were selected. A purposive sampling technique was employed to select the firms originally approached and finally selected. The cases were chosen to span different sizes, different industries and different ways of internationalization. The only conditions applied were that firms be registered in Portugal and be independent from any multinational and they must be involved in international business from their sixth year or less. Brush (1995) and Zahra, Ireland and Hitt (2000) define new ventures as companies six years old or younger.

We adopt the latter definition for "new", so INVs are companies that internationalize in their first six years. They must be Portuguese because in this study we must visit the firm more than once, so it is important that they are not very far away. Some small firms enter foreign markets as sub-contractors. Many sub-contracting exporting firms do not actively initially select their foreign markets because the decision is made by the partner firm obtaining the contract (Westhead et al., 2002). This case is not of interest to our analysis. All our selected cases are non sub-contractor exporters. We then interview each firm and analyze its *history* trying to find some theoretical difference between them. Finally, we keep only four firms because we had some theoretical saturation: no new or relevant data seemed to emerge regarding the other cases, so they were excluded. The firms have the characteristics shown in Table 4.

Table 1 – Firms' characteristics

	Sector	Network Approach category	Entrepreneur Type	Entrepreneur Influence
Firm A	Cork	Late Starter	Structure	Domestic
Firm B	Software	Late Starter	Technique	Int. Influenced
Firm C	Pharmaceutical	Late Starter	Marketing	Int. Influenced
Firm D	Sanitary Ware	Late Starter	Marketing	Domestic

According to the framework, each firm represents one of the three different defined types of entrepreneurs; however all four cases can be considered late starters. As Johanson and Mattsson (1988) said, nowadays it is very difficult for some sectors not to be internationally integrated. Interviews were conducted by one of the authors with the entrepreneurs in each firm, with collaborators and with partners. Interviews were unstructured, although a protocol was employed to ensure the same themes were covered with each firm. Interviews were recorded and later transcribed onto hard copy for analysis. In addition, relevant documentation, such as newspaper reports, internet sites and brochures were studied in the expectation of eliciting further evidence of the IMS processes employed by the firm.

The choice of a typical case-oriented approach was subordinate to two reasons. To the best of our knowledge, however, there are no published studies answering how INVs select their international markets, so little was known about the kind of phenomena studied. We do not use pure grounded theory because we use some basic concepts from the Uppsala model, the network approach and the international entrepreneurship theory. The second reason for the choice of this methodology stemmed from its explanatory character, so in accordance with Yin

(1989), case studies are the most appropriate for a research question formulated in terms of "How".

Research Findings

Based on the interviews and within the framework, several categories were created. First, we distinguished the traditional international market selection (selecting by countries) from the relational one (selecting by partners). The former was divided into systematic and non-systematic. And the latter was subdivided into: firm initiative, partner initiative, a third party initiative and two other categories named meeting at fairs, congresses and the like and international promotion. To understand the origin of the knowledge grounded base we create eight nodes: learning with internationalisation, selecting information, organizational networks, previous job, lived abroad, studied abroad, worked with foreigners and informal links. From our analysis we construct two matrixes (see Tables 5 and 6) with the results.

Table 2 – International Market Selection and kind of influence

	Domestic	Internationally influenced
Traditional Int. Market Selection		
Non-Systematic	1	0
Systematic	27	4
Relational Selection		
Fairs, Congresses and the like	2	16
Third party initiative	0	7
Partner initiative	2	4
Firm initiative	0	6
International Promotion	1	0

If we concentrate our analysis on the international influence of the entrepreneur, it is not surprising that firms with domestic entrepreneurs prefer traditional international market selection, since, apparently, they do not have international links. But, according to Johanson and Mattson (1988) they can use the sector links to internationalize, rather than using their own knowledge. Firms select the international market traditionally in a systematic way; they use entrepreneurs' knowledge to help in the options. The owners have accumulated a lot of informal education, experience and international knowledge (see table 3) that compensate for the firm's newness; they have already made the firm's way.

Table 3 – Origin of knowledge and kind of influence

	Internationally influenced	Domestic
Select Information	3	1
Learning with internationalization	5	5
Organizational networks	7	5
Previous job	2	20
Lived abroad	8	0
Studied abroad	1	0
Worked with foreigners	3	0
Informal links	5	1

As predicted, firms with internationally influenced entrepreneurs prefer relational international market selection. Since entrepreneurs already had international links, they used them. They were aware that networking is very important. The owners of these firms had accumulated informal international contacts (see table 3) that compensate for the firm's newness; they had already done the firm's networking. Because the firm is a late starter, there is a lot of organizational connection where the information flows, but to use it, they must be in the network, they must be known. So, initially, they use their informal links, but to continue their internationalization process they also use a lot of organizational networks. So, in this case, the key is the relations, not the kind of relations - they are complementary.

Table 4 – International Market selection and kind of entrepreneur

	Technical	Marketing	Structure
Traditional Int. Market Selection			
Non-Systematic	0	1	0
Systematic	1	3	27
Relational Selection			
Fairs, Congresses and the like	3	14	1
Third party initiative	0	7	0
Partner initiative	4	1	1
Firm initiative	3	3	0
International Promotion	0	1	0

Table 5 – Origin of knowledge and kind of entrepreneur

	Technical	Marketing	Structure
Select Information	2	2	0
Organizational networks	5	4	3
Previous job	1	2	19
Lived abroad	4	4	0
Studied abroad	1	0	0
Worked with foreigners	2	1	0
Informal links	4	2	0

Now, we concentrate our analysis on the entrepreneur type and it is not surprising that firms with structure entrepreneurs prefer traditional international market selection. To be a structure entrepreneur they must have knowledge of the sector before the firm's creation. If the entrepreneurs want to change the sector, they must already know the sector and the market very well. The founders have extensive experience in another firm and they know a lot about the sector, about the world market and about production (see table 5). If they want to transform the sector, they must know what almost all the world market needs and all the gaps. From the start, they have selected the markets in a very logical way. The sector is very internationally integrated so that the firm does not go to the nearest market first; it goes to the furthest market, because there is less competition there. The firm selects the international market traditionally in a systematic way; it uses the entrepreneurs' knowledge to help in the options.

As predicted, technical entrepreneurs prefer relational international market selection: the initiatives to begin internationalization are taken by a counterpart. They don't have knowledge of the sector in the world, but because they offer an innovative product and because the sector is integrated, the information about it flows through the ties linking separated people, the potential buyers know them. So, the first international market selection was relational not systematic, it was the counterpart who took the initiative, so it was relational systematic using the social networks very well.

Firms with a marketing entrepreneur prefer relational international market selection. The entrepreneur teams were constructed in a very rational way; they are a sum of knowledge. This kind of firm is very proactive: almost from the start they go to specialized fairs, they publish articles in specialized journals, they try to know more about possible partners, and they do international promotion. Although international market selection is mixed, they have some goal countries, they are very active in establishing networks and use these established networks.

Table 6 – International Market Selection and entrepreneur profile

	Dom Str. Case A	Int Tech Case B	Int Marketing case C	Dom Marketing Case D
Traditional int. market Selection				
Non-Systematic	0	0	0	1
Systematic	27	1	3	0
Relational Selection				
Fairs, Congresses and the like	1	3	13	1
Third party initiative	0	0	7	0
Partner initiative	1	4	0	1
Firm initiative	0	3	3	0
International Promotion	0	0	0	1

Table 7 – Origin of knowledge and entrepreneur profile

	Dom Str Case A	Int Tech Case B	Int marketin g Case C	Dom marketin g Case D
Select Information	0	2	1	1
Organizational networks	3	5	2	2
Previous job	19	1	1	1
Lived abroad	0	4	4	0
Studied abroad	0	1	0	0
Worked with foreigners	0	2	1	0
Informal links	0	4	1	1

- Firm A is a late starter with domestic structure entrepreneur. All the founders in the management team have extensive experience in the biggest cork firm in the world, all together they know a lot about the sector, about the world market and about production, but they have never lived or studied outside Portugal. In an interview, a senior entrepreneur said he wanted to change the sector, which was almost a monopoly, and he mentioned that the sector is entirely internationally integrated. All the founders in the management team have extensive experience in the biggest cork firm in the world: together, they all know a lot about the sector, about the world market and about production. According to them, they created an "au fur et à mesure" firm to make the difference and they wanted to transform a monopoly into an oligopoly. They know what almost all the world market needs and all the gaps. From the start, they have selected the markets in a very logical way. The sector is very internationally integrated so that the firm does not go to the nearest market first; it goes to the furthest market, because there is less competition there. Looking at table 1, we conclude that firms with domestic entrepreneurs prefer traditional international market selection and looking at table 3 we conclude that firms with structure entrepreneurs prefer the same. So, in case A, we predict that a firm uses traditional international market selection. According to table 5, this firm selects the international market traditionally in a systematic way, and (according to table 7) it uses the entrepreneurs' knowledge to help in the options. The owners of this firm have accumulated a lot of informal education, experience and international knowledge that compensate for the newness of the firm; they have already made the firm's way. Very interesting in this case is that being in an integrated sector doesn't help the firm; it means that the firm needs to go further away because in the near markets there is much more competition.

- Firm B is a late starter with technical internationally influenced entrepreneurs. All the team members have already participated in international projects and they have many informal international links. The entrepreneurs were doing a PhD when they decided to create a firm. The very first buyer had the initiative, and invited them to work with him. Because they were contacted by a very important buyer, they believed they could make some difference. All of them had participated in international projects, so they selected the goal partners and they all used their social links to assess the firms.

As predicted, when the entrepreneur is a technical one and when the entrepreneur is internationally influenced, the initiatives to begin internationalization are taken by a counterpart. This is because they offer an innovative product and because the sector is integrated, the information about it flows through the ties linking separated people. So, the first international market selection is relational not systematic, it is the counterpart who takes the initiative, so it is relational systematic using the social networks very well. At the very beginning, they use their informal links, but to continue their internationalization process they also use organizational networks. So, the key is relations, not the kind of relations – they are complementary.

- Firm C is a late starter firm with internationally influenced marketing entrepreneur. One element of the management team did his/her PhD in the United States. Another member of the team has worked in a big multinational in Portugal and has lived and worked in Germany. The entrepreneur team was constructed in a very rational way; they are a sum of knowledge. This firm is very proactive: almost from the start it has gone to specialized fairs, it publishes articles in specialized journals and it tries to know more about possible partners. It looks for information on the Internet, asks partners and uses social and organizational links to find out what it needs. As predicted, when firms have internationally influenced entrepreneurs and when firms have marketing entrepreneurs they prefer relational international market selection.

- Firm D is a late starter firm with a marketing domestic entrepreneur. According to our analysis, firms with a marketing entrepreneur prefer relational international market selection and firms with a domestic entrepreneur prefer traditional international market selection, so what happens when a firm has a marketing domestic management team, as in case D? This entrepreneur team was constructed in a very rational way; they are a sum of knowledge, but none has international experience. They are very proactive and try all the ways. Almost from the start, the firm has gone to specialized fairs (where they try to meet people) and it has produced a multilingual catalogue and developed a site on the internet to do international promotion. They are not very strong in terms of their country knowledge or in their international links, their rationality uses both. So, international market selection is mixed, it has some goal countries but at the same time its international market selection has been relational.

It is very interesting to note that all the entrepreneurs said that when the firm was created it was to be international, they had very defined criteria and they knew very well where they wanted to go.

No firm selects international markets in a traditional non-systematic way and only when the firm does not have international links does it use the traditional way.

So, to answer the question "How do INVs select their international market?" we must say it depends. No single factor seems fundamental, they seem complementary. Firms need knowledge and contacts and they depend on the entrepreneur's(s') profile and on the firm profile.

5. Conclusions and Implications

Using a conceptual framework strongly influenced by the network approach and international entrepreneurship literature increases our understanding of the international market selection of INVs. Although it focuses only on the early stage of the international new venture, i.e., its entry into the first international markets, it is not restricted to specific aspects as defined by the previously mentioned models.

The network model does not include individual characteristics of the entrepreneurs and their profile, so it cannot be used for a complete discussion of the issues. On the other hand, the entrepreneur does not act in an isolated manner; the firm and the networks play a very important role. Linking the firm's degree of internationalization to the network's degree of internationalization and the entrepreneur profile we have, in our opinion, a more realistic approach. Our focus is not to create an approach that we can generalize to all. Because different types of entrepreneurs influence international behaviour in different directions (Andersson, 2000) and because firms can be in different situations in terms of internationalization networks, we cross the network approach with concepts from international entrepreneurship and we create four possible middle-categories. No category is equal to another in international market selection. We must analyze the specific characteristics of each one to understand its process. "Knowledge is at the core of received wisdom on internationalization" (Prashantham, 2005).

International market selection constitutes a strategic option and knowledge is a vital source of very important criteria. International expansion is subject to uncertainty and risks because of the difficulty of enforcing contracts across borders, information asymmetry, geographical distance and cultural diversity. In all means of international market selection, international knowledge is very important, but the sources of knowledge are different. In the traditional non-systematic approach (like in the Uppsala model), the main source is the firm itself, through its experience of foreign operations. However, because international new ventures are new, they do not possess this essential international knowledge. It can, however, be accessed indirectly: it can be accessed through the organizational network (network approach) or it can be accessed through personal ties, experience and contacts (international entrepreneurship). Firms can expand from domestic to international markets through existing personal or organizational relationships that offer contacts and help to develop new partners and positions in new markets.

Entrepreneurs of International New Ventures can benefit from a better understanding of the impact of their profile, of organizational networks and personal ties on international market development. Given that their future opportunities emanate largely from networks (organizational and personal), more attention should be paid as to how and with whom these relationships are established. Their existing networks, as well as their ability to establish new relationships, should be managed as a strategic source of competitiveness. The interrelationships among a set of firms and individuals may strongly influence the options available, the options known and the options chosen.

This study is also relevant for governments that want to stimulate internationalization: when they look at potential international firms, they may analyze the firm and its networks and they cannot forget to analyze the entrepreneur and her/his profile. This study has only late starter firms, which reflects the present reality of INVs. Nowadays, with many markets internationalizing, fewer new ventures can escape confrontations with foreign competition (Drucker, 1991; Ohmae, 1990; Porter, 1986, 1990), so nowadays, fewer new ventures can be early starter. Further research is needed to integrate more entrepreneur characteristics and the next international market selection. We argue that there is no single explanation that fits all, no single one can explain all the internationalization processes but all are necessary to understand the internationalization process in some circumstances. Our framework focuses on the network approach crossed with international entrepreneurship. However, we believe the Uppsala Models are valid in some scenarios (Early Starter with technical entrepreneur). Psychic distance, as normally defined and operationalized, is not an important factor in the INV international market selection process, at least in initial market entry. In fact, it seems that the best markets lie in the opposite direction. So, we believe the holistic framework proposed is more flexible and more in accordance with the new context, with new technologies and with a more global time and space.

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