Hunter Centre for Entrepreneurship

DE-INTERNATIONALISATION OF SMALL HIGH TECHNOLOGY FIRMS: AN INTERNATIONAL ENTREPRENEURSHIP PERSPECTIVE

ROMEO V. TURCAN

This Thesis is submitted in accordance with the requirements for the Degree of Doctor of Philosophy.

University of Strathclyde

Glasgow, 2006

DECLARATION

Signed Romeo Turcan

Date 02.05.2006

ACKNOWLEDGEMENTS

First and foremost I am indebted to my supervisor, Prof. Sara Carter for her invaluable insights and awe-inspiring support throughout this study. I must admit I was very lucky back in 2001 when Prof. Carter agreed to supervise me. Since then, she has not allowed me to miss a single deadline, and spurred on. Truly, Prof. Carter was there for me in good and bad times.

I am also indebted to my second supervisor, Dr. Marian Jones, from the University of Glasgow, with whom I co-authored my first conference paper. Her initial advice and further guidance became the foundation for my subsequent publication endeavours.

I would like to extend thanks to the panellists of (i) the Doctoral Symposiums at Academy of International Business conferences, namely Professors Frank McDonald, Hafiz Mirza, David Crick, Keith Brouthers, Sue Bridgewater and Simon Harris, and (ii) the Doctoral Consortium at the Babson-Kauffmann Entrepreneurship Research Conference, namely Professors Shaker Zahra and Harry Sapienza, who provided useful comments and suggestions at the beginning of my PhD. My special thanks go to Professor Per Davidsson for providing valuable comments regarding the maturity scale.

This study would not have existed without the participation of entrepreneurs and their stakeholders, namely their investors, liquidators, strategy advisors, policy makers, and business correspondents. My sincere thanks go to all of them for their cooperation and patience in answering, sometimes very sensitive, questions.

I would also like to acknowledge my gratitude to the Department of Marketing, and the Hunter Centre for Entrepreneurship at the University of Strathclyde, and the Carnegie Trust for their financial support.

Many thanks also go to my fellow PhD students from the Department of Marketing, and the Hunter Centre for Entrepreneurship who did not allow my journey to become lonesome, and whose friendship became part of the process; specially Marina Biniari, Paushali Ghosh, and Thandiwe Phiri. I wish also to thank Catherine Currie from the Hunter Centre for Entrepreneurship who read drafts of the analysis and provided thoughtful comments and advice, and who proof-read the final draft of the thesis. Naturally, I am solely responsible for any mistakes and errors that remain.

Finally, but most importantly, I am very grateful to my whole family for their extraordinary support, patience, and understanding.

DEDICATION

IN MEMORY OF MY BROTHER, DR RUSLAN V. TURCAN

You have had success in life if you have lived decently, laughed frequently, and loved a lot; won the respect of clever men and the love of children; filled out your place and accomplished your tasks; if you have left the world a better place than you found it, perhaps in the form of an improved strain of poppy, a perfect poem, or a saved soul; if you always appreciated the beauty of nature and also said so; if you saw the best in other people and always did your best.

Robert Louis Stevenson

ABSTRACT

This study explores the process of de-internationalisation in small high-technology firms. The key research questions are how and why these firms de-internationalise. Being positioned at the intersection of entrepreneurship and international business research paths, the study expressly investigates whether de-internationalisation could be viewed as (i) an entrepreneurial activity; and/or (ii) an integral part of a small high-technology firms' growth process.

Driven by the nature of the research questions, a multiple-case study methodology was adopted for the purpose of theory building. Five firms were selected and located on the basis of theoretical and snow-ball sampling strategies. To explore companies' critical events and episodes, the method of critical incident technique was employed. In total, 24 semi-structured in-depth interviews were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data. Data pertinent to each case was coded in an iterative manner, working back and forth between theory, emerging patterns and data. Within- and cross-case analyses were employed to analyse the data. The method of constructing typologies by reduction was employed extensively to advance middle-range theories.

The study contributes to (i) international business research by developing a process model of de-internationalisation and defining its constructs; (ii) entrepreneurship research by redefining the entrepreneurial orientation construct and developing a set of propositions to test the proposed definition; and (iii) international entrepreneurship research by providing a unifying definition of born globals, and delineating the research domain of international entrepreneurship research. Apart from developing these middle-range theories, the study also puts forward a formal theory of new venture survivability that postulates that the closer the new business venture is to the hype, the higher the likelihood of failure. Future research is warranted to either confirm or refute the proposed middle-range and formal theories. Implications for practitioners and policy makers are also discussed.

Key words: de-internationalisation, international entrepreneurship, small firms, high technology, software, theory building.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

Well begun is half done.

Aristotle, 300 BC

1 SETTING THE SCENE

1.1 WHY DE-INTERNATIONALISATION

Throughout the mid - and late-1990s, the research stream on international entrepreneurship became an important area of scholarly inquiry that increasingly had its own mark (see Wright and Ricks, 1994). Within a relatively short period of time, international entrepreneurship research has grown to an identifiable and perhaps even intermediately rich stream in some dimensions (Coviello and Jones, 2004). This stream operates at the intersection of two paths of research, those of entrepreneurship and international business (McDougall and Oviatt, 2000). Such a young scholarly domain is not without shortcomings. According to McDougall and Oviatt (2000: 904), international entrepreneurship still lacks a unifying and clear theoretical and methodological direction. Zahra and George (2002) argue that the bulk of extant international entrepreneurship research has focused primarily on studying the internationalisation of new ventures, thus ignoring the fact that entrepreneurial activities are an ongoing process over time. As regards methodological issues, international entrepreneurship research has been criticized inter alia by the use of inconsistent definitions and measures as far as firm's age is concerned (Coviello and Jones, 2004).

To the above limitations, one may add the existence of a sampling bias in international entrepreneurship research. The international entrepreneurship research to date, to a certain extent, mirrors that of entrepreneurship (Davidsson and Wiklund, 2001; Davidsson, 2003b) and cross-border[1] research (Buckley and Chapman, 1996; Benito and Welch, 1997) in that it focuses only on positive business growth and does not study companies that have failed or have chosen to withdraw from their international activity (Zahra and George, 2002; Coviello and Jones, 2004). The problem here is simply that most firms do not experience growth (Penrose, 1959; Storey, 1994; OECD, 1997; 1998; 2001; Burns, 2001; Dun & Bradstreet Inc., 2003).

For example, in Scotland, the Business a.m. newspaper[2] tracked the evolution of nineteen 'Next Generation' entrepreneurs who were involved in various high-technology start-ups. In just over one year, nine out of the nineteen original 'Next Generation' entrepreneurs have seen their firms go bust or put up for sale, representing a 47% drop-out rate (Business a.m., 2001). Across Europe, during 2002, business failures jumped 9%; the UK and Germany providing the lion's share of the figures (Dun & Bradstreet Inc., 2003).

As Coviello and Jones (2004: 493) conclude, "...international entrepreneurship researchers have focused on collecting 'obtainable' rather than 'important' data". That is, the researchers concentrate on growth and development, not de-internationalisation and failure. In this regard, this approach to research resembles the study of factors that lead to success at gambling on race horses, in which one studies only people who have won money (received net gain), and

[1] Hereafter, 'international business' and 'cross-border' are used interchangeably. Cross-border research path encompasses in-ward and out-ward activities, as well as internationalisation and de-internationalisation.

[2] Ironically, 'business a.m.' newspaper, launched in Scotland in 2000 by Swedish media company Bonier AB, completely de-internationalised and ceased to trade in 2002.

concludes that gambling is profitable: the more you bet, the higher your gains; the more unlikely winners you bet on, the more you win (Davidsson, 2005a). Researchers risk misrepresenting the nature of the research field by studying only successful and surviving firms. For example, researchers risk presenting these firms' behaviour as success factors when in fact they may easily be the factors that increase the risk of failure (Davidsson, 2003b; 2005a).

De-internationalisation appears to be one of those areas that are important but not convenient to research. And the literature supports this assertion. To date, the research on de-internationalisation is far less common (Benito and Welch, 1997; Pauwels and Matthyssens, 1999; Matthyssens and Pauwels, 2000; Crick, 2004) due to the seemingly negative and undesirable features associated with this phenomenon (Benito and Welch, 1997), e.g. because human nature has a tendency to suppress admission of failure (Clarke and Gall, 1987). But it may also be a practical concern regarding difficulty in getting longitudinal data (Benito, 1997), or researching perceived 'failures'.

However, the managers' decisions to either reduce the international engagement or leave the foreign market completely should not, *a priori*, be viewed as a failure (Pauwels and Matthyssens, 1999; Crick, 2004). This issue may become important when determining the trade support that might be required by and available to managers (Crick, 2004). Trade support might be needed to encourage withdrawal from foreign operations rather than to avoid it so for example allowing the firm to maximize domestic market opportunities.

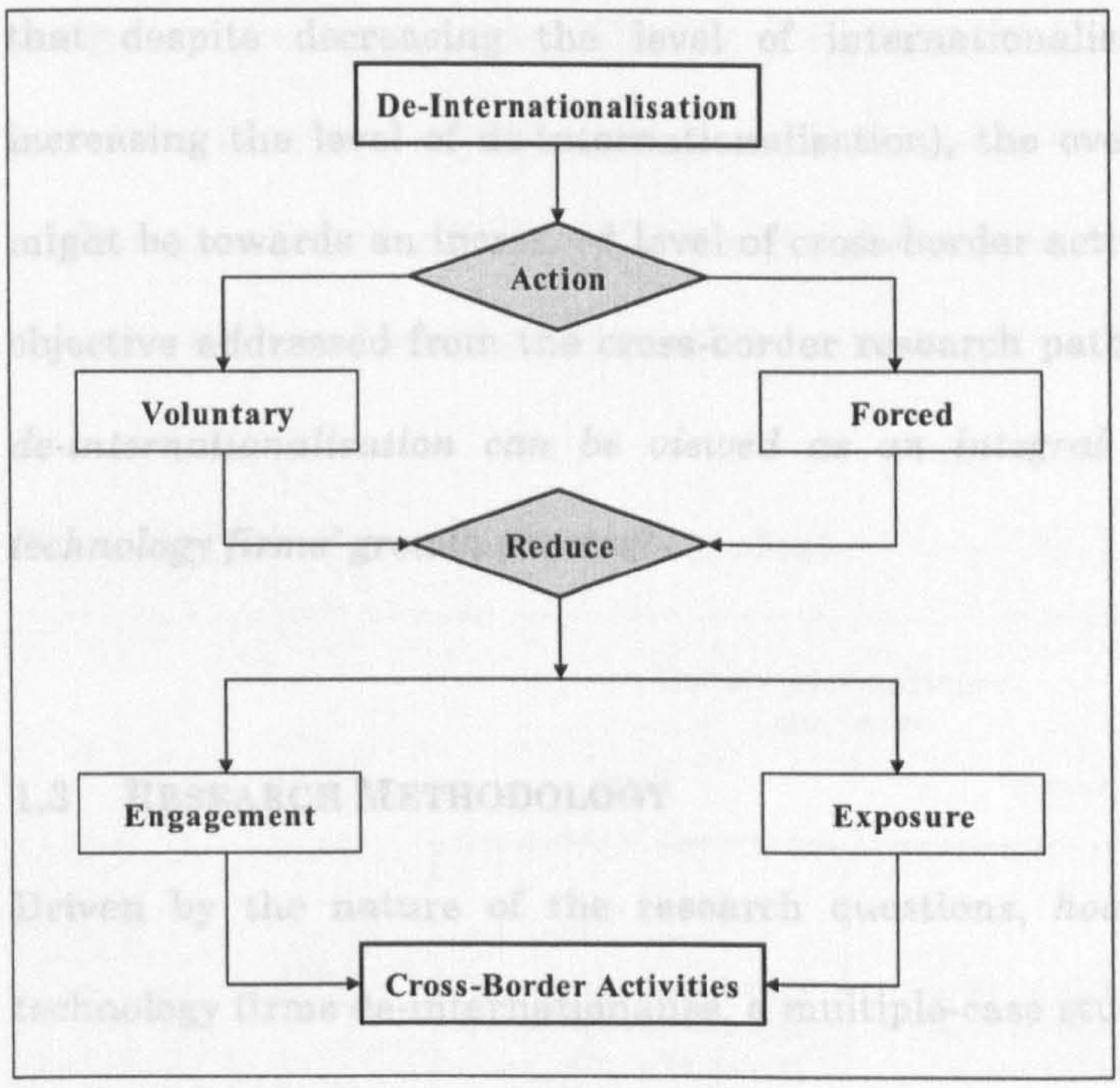
Thus, investigating the underlying drivers of *why* and *how* small firms might reduce or even withdraw from their international engagement may lead to a better and more holistic understanding of the internationalisation process of the small firm (Pauwels and Matthyssens, 1999). The questions then that most need to be addressed by entrepreneurs, policy makers and scholars are: 'to what extent is the chosen mode continuing to deliver returns and positive performance, and if less than optimal, what change would better effect attainment of projected targets' (Turcan, 2003a: 217).

1.2 Research Aim and Objectives

The aim of the research is to explore the process of de-internationalisation in small high-technology firms. The key research questions are *how* and *why* small high-technology firms de-internationalise. The starting point in addressing the research aim is the definition of de-internationalisation by Benito and Welch (1997: 9) as 'any voluntary or forced actions that reduce a firm's engagement in or exposure to current cross-border activities'. More specifically, after deconstructing the above definition, there have been identified two constructs: '*action*' and '*reduction*', on which the present research is found (Figure 1).

Benito and Welch (1997) derived their definition of de-internationalisation from two major streams of literature that are used to explain divestment activities of multinational enterprises: industrial organisation and strategic management. The question then becomes whether it is possible to explain by the same *actions* the process of de-internationalisation in small high-technology firms. That is, are these *actions* entrepreneurial, or else, provided that firms cannot de-internationalise (effect) without having internationalised (cause) (Turcan, 2003a)? Thus, from the entrepreneurship research path perspective the present research is trying to explore *whether de-internationalisation can be viewed as an entrepreneurial activity?*

Figure 1. Definition of de-internationalisation



Source: derived from Benito and Welch (1997)

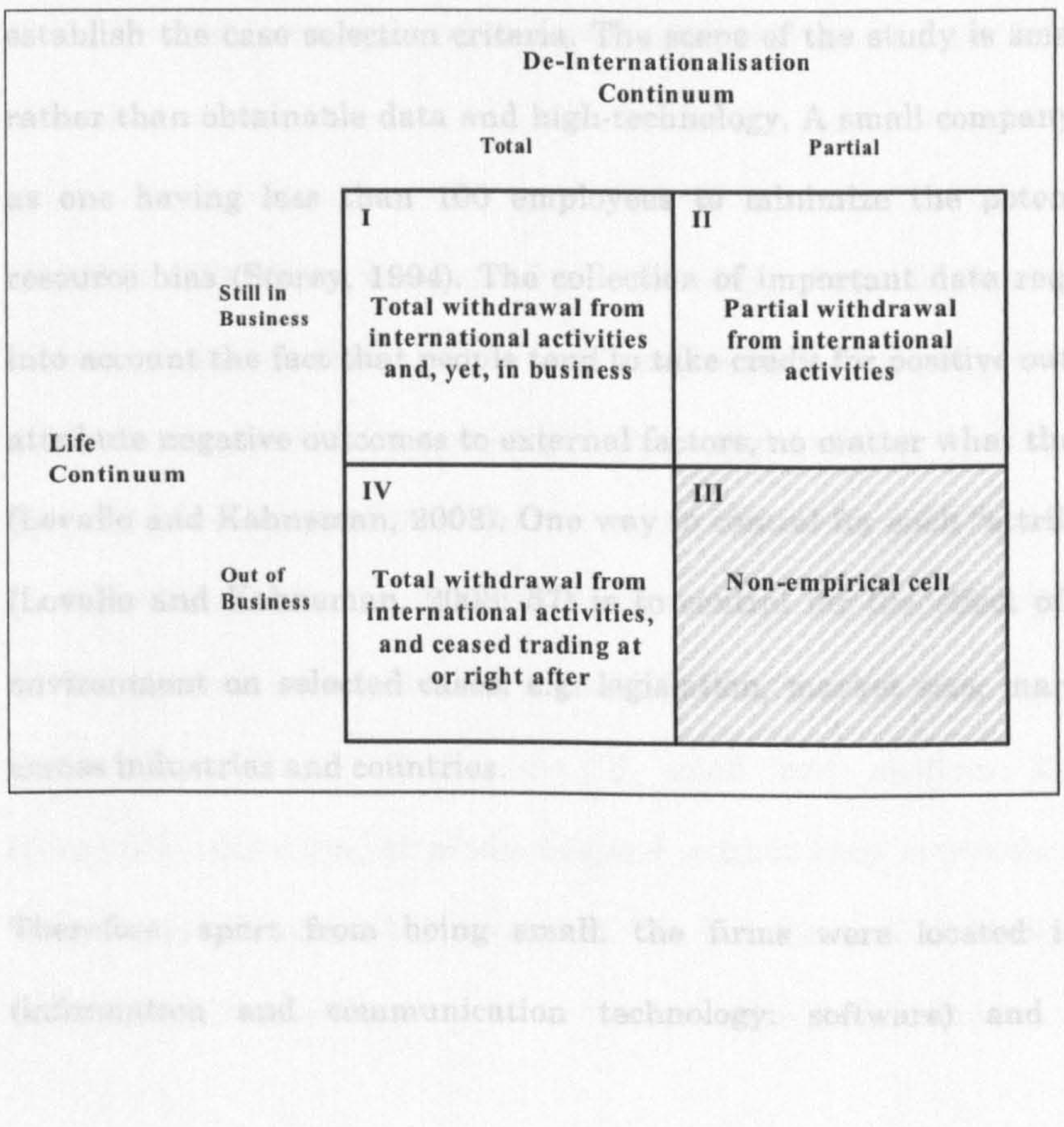
The second construct, *reduction*, implies negative and undesirable features associated with the de-internationalisation phenomenon. That is, de-internationalisation is seen as a failure, as opposed to internationalisation efforts of the firm, which are seen as growth. This leads to the perception of de-internationalisation as being undesirable. However, by de-internationalising, the firms may in fact be correcting an error previously made, e.g. having internationalised. There is some evidence, albeit exploratory and anecdotal, that indicates that de-internationalisation may have the reverse effect. As one exploratory study showed, when a company that was born global de-internationalised and gradually focused on serving domestic markets only, it grew at a very rapid pace (Turcan and Jones, 2002). Hence, it might be argued that despite decreasing the level of internationalisation (or alternatively increasing the level of de-internationalisation), the overall growth of the firm might be towards an increased level of cross-border activity. Thus, the research objective addressed from the cross-border research path perspective is *whether de-internationalisation can be viewed as an integral part of a small high-technology firms' growth process*?

1.3 RESEARCH METHODOLOGY

Driven by the nature of the research questions, *how* and *why* small high-technology firms de-internationalise, a multiple-case study strategy was adopted for the purpose of theory building. The primary concern during this stage was to design the methodology in such a way so that the research quality was maximised. In addition, a further challenge was added by focusing on *important* rather than *obtainable* data (Davidsson and Wiklund, 2001; Coviello and Jones, 2004) in order to mitigate the sampling bias. Five iterative steps were identified to guide the design of the research methodology: (i) theoretical sampling; (ii) developing sampling criteria; (iii) determining data collection methods; (iv) snowball sampling; and (v) triangulation.

The first two of these iterative steps are the key to the theory-building process as they account for both research quality and sampling balance. As a rule, researchers will search for cases that predict similar results (a literal replication) or predict contrasting results but for predictable reasons (a theoretical replication) (Eisenhardt, 1989b; Yin, 2003). The technique of constructing typologies by reduction (Glaser, 1978) was employed to develop the categories of selected cases. That is, a typology of de-internationalisation was generated by cross-tabulating the polar dimensions, derived from the literature, of de-internationalisation continuum (total vs. partial) and life continuum (in business vs. out of business) (Figure 2).

Figure 2. De-internationalisation typology



Firms positioned in Quadrant I have withdrawn from international markets and focused entirely on domestic markets. Firms in Quadrant II have remained internationally active, but have partially de-internationalised. Firms in Quadrant III logically can not exist, or as Glaser (1978) argues, this is a non-empirical cell. That is, if a firm is out of business, then this will represent an extreme case of total de-internationalisation and market withdrawal. In other words, a firm that partially de-internationalises is assumed to be still in business. Firms in Quadrant IV represent a state of total de-internationalisation, the only difference from firms in Quadrant I being that they would have ceased trading at or shortly after de-internationalisation.

The scope of the research and the typology of de-internationalisation helped establish the case selection criteria. The scope of the study is small, important rather than obtainable data and high-technology. A small company was defined as one having less than 100 employees to minimize the potential effect of resource bias (Storey, 1994). The collection of important data required to take into account the fact that people tend to take credit for positive outcomes and to attribute negative outcomes to external factors, no matter what their true cause (Lovallo and Kahneman, 2003). One way to control for such "attribution errors" (Lovallo and Kahneman, 2003: 57) is to control for the effect of the external environment on selected cases, e.g. legislation, market size, market structure across industries and countries.

Therefore, apart from being small, the firms were located in one sector (information and communication technology: software) and one country

(Scotland), and observed over the same period of time (1999-2001). Information and communication technology (ICT) in general (OECD, 2001; Bassanini and Scarpetta, 2002; Lembke, 2003; OECD, 2004; Vijselaar and Albers, 2004), and software industry in particular (www.bea.doc.gov; www.cspp.org; www.scottishdevelopmentinternational.com), play a pivotal role in transforming the economy by boosting more rapid growth and productivity gains.

According to the US Bureau of Economic Analysis, software has become one of the major contributors to the increase in real GDP, as well as government spending – two positive indicators for software growth (www.bea.doc.gov). Whereas in Scotland, for example, Scottish Development International (www.scottishdevelopmentinternational.com) regards software as a critical part of the Scottish economy and promotes Scotland as a centre of excellence for software design.

The 1999 – 2001 time period is of great interest because in those days – several Internet years ago (Pilat, 2003) – one could witness a rapid growth of software industry, whose overall revenue growth peaked in 2000, then rapidly declined over the following year with the bursting of the dot.com bubble, and afterward remained essentially flat until 2003 (www.cibcwm.com). As the US set the pace for this growth as a country characterised by being highly receptive to new technologies (Moore, 1995), non-US small and medium high-technology companies were trying to productize and market their new technologies in the US immediately after their inception. The behaviour of all involved went from one extreme to another, i.e. from overoptimistic to pessimism. As argued by

Coltman *et al.* (2001: 58), just as the hype of the late 1990s was clearly overblown, the pessimism of 2001 is an overreaction.

To the above selection criteria, eligibility for an interview was based on potential respondents being the ones who made and implemented de-internationalisation decisions. An ideal situation was when the interviewee was both the founding entrepreneur and the de-internationalisation decision maker.

The next step was to determine the methods of data collection. By and large, case studies hold memorable lessons about how organisational processes systematically produce unanticipated outcomes that deviate from formal designed goals and normative standards (Vaughan, 1999). For example, a firm may experience an episode (Kutschker *et al.*, 1997) of de-internationalisation as a result of a critical incident (Bell *et al.*, 2001; 2003). To explore these kinds of episodes and critical events, the method of critical incident technique seemed sensible. In-depth interviews were chosen as the most appropriate method for the collection of recalled data (Flanagan, 1954; Chell, 1998).

The final step was to locate the cases and their stakeholders. This challenge was amplified by the need (i) to select an appropriate respondent within an organisation who was knowledgeable about the phenomenon and willing to discuss it, and (ii) to ensure reliability of the data obtained. To achieve the above, the iteration between snow-ball sampling (Patton, 2002) and data triangulation (Denzin, 1970a) was adopted. As all cases were selected from within one location, indeed initially the chain of recommended informants diverged, but after some time it converged as a few names were mentioned repeatedly.

As supported by various scholars (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003), it was decided to limit the sampling process at five firms. These were selected on the basis of a mixed purposeful sampling strategy, which made use of theoretical and snow-ball sampling. Data triangulation methodology has been used to gather different types of data in order to compare and cross-check the consistency of information. The information about de-internationalisation was collected from three data sources: (i) secondary sources; (ii) in-depth interviews with companies' directors; and (iii) in-depth interviews with companies' stakeholders.

In total, twenty-four interviews, including follow-ups, were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data. The stakeholders included: a venture capitalist, a liquidator, a strategy management advisor, a business correspondent, and policy makers. The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission, and transcribed verbatim immediately after. The interviews were semi-structured in the form of guided conversations. The follow-up questions were derived from the preliminary analyses of data gathered during the first round of interviews, and aimed to gain further clarification, understanding, and explanations of particular areas of interest.

Once the interviews were transcribed, they were transferred to QSR NVivo programme that handles qualitative data analysis research projects. The interview transcripts and secondary data pertinent to each case were coded in an iterative manner, working back and forth between theory, emerging patterns and data. A temporal bracketing strategy (Langley, 1999) and within- and cross-case analysis (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003) were employed to analyse the data.

Within-case analysis was the basis for developing early constructs surrounding the process of de-internationalisation. The exploration and description of each case was centred around 'critical events' (Flanagan, 1954; Chell, 1998) and started from the inception of the company. A time line of critical events (Miles and Huberman, 1994), an international path, and a time line of revenue and employment (actual and projected) were generated for each case. Quotes from interviews were used extensively to illustrate the events, incidents, process and issues that had, to various degrees, an impact on the entrepreneurs' decisions to de-internationalise.

Cross-case analysis focused on the constructs that emerged as a result of the analysis of within-case data. They included *tacit conflict*, *withstanding gestalt*, *cocoon*, and *hype*. The method of constructing typologies by reduction and subtraction (Glaser, 1978) was employed extensively to advance middle-range theories.

1.4 THESIS OUTLINE

Following this introduction, chapter 2 aims to position the current research within a much broader context of the small firm growth. At the same time, it will provide a brief account of the rapid growth of the information and communication technology, including the software industry and of the dot.com crash in the early 2000. The author's epistemological stance will conclude this chapter.

Chapter 3 aims to further the understanding of cross-border activities of small firms by exploring the nature of the de-internationalisation processes in small firms, and explore whether de-internationalisation can be viewed as an integral part of small firm's growth. To do this, literatures from several disciplinary areas were brought together, including de-literature on de-investing, de-franchising, and de-exporting. A conceptual framework of a small firms' withdrawal process from an international business perspective was proposed.

The aim of chapter 4 was to explore the links between de-internationalisation and entrepreneurship literatures. To achieve this, firstly the typology of entrepreneurship was explored by grasping the contribution from various disciplinary areas like economics, sociology, psychology, and strategic management. The attention, then, turned to the evaluation of the extant state of the entrepreneurship field. Finally, continued entrepreneurship in the growing firm was analysed by defining entrepreneurship and by synthesising the theories of growth of the firms. The chapter 4 concludes by positioning de-internationalisation within the entrepreneurship research.

The aim of chapter 5 was to further position de-internationalisation within the international entrepreneurship paradigm. The existing international entrepreneurship literature was reviewed and assessed, with specific attention paid to the cross-fertilization of theoretical foundations of cross-border and entrepreneurship research paths. Directions and challenges to the development of the international entrepreneurship field conclude the chapter.

The literature review enabled the development of initial interdisciplinary constructs that guided the design of the research methodology, and served as first free codes in the initial stages of the data analysis. As theory-building research, such as this one, relies on a few general constructs (Miles and Huberman, 1994), a priori specification of constructs is an important step in shaping the initial design of theory-building research, regardless of the fact that no construct is guaranteed a place in the resultant theory (Eisenhardt, 1989b).

Chapter 6 describes the research methodology. It aims at selecting an appropriate research strategy in order to explore the de-internationalisation phenomenon in small high-technology firms. First the aim and objectives of the research were presented, followed by the discussion of the conceptual framework as well as of the domain of the international entrepreneurship research. The identified domain of the international entrepreneurship research guided the discourse over which philosophical paradigms may best accommodate the key constructs of the defined domain of the international entrepreneurship research. The choice of research strategy concludes the chapter.

The within-case data analysis follows immediately after in chapter 7. At this stage of the theory-building process, each case company was explored and described in detail. According to Dubin (1969), the very essence of description is to name the properties of things, and the more adequate the description; the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building. For confidentiality reasons, interviewees' and companies' names were disguised throughout the thesis.

The initial within-case analysis served as the basis for developing early constructs surrounding the process of de-internationalisation. It was the cross-case analysis however that produced the middle-range theory of the process of de-internationalisation. The purpose of chapter 8 was thus to present the process theory of de-internationalisation that emerged as a result of cross-data analysis and explore the relationship between de-internationalisation and small high-technology firms' growth? First, the chapter defined the building blocks of the theory and the concepts each building block consists of. Each building block was then discussed in detail being grounded in the field data. It is hoped that the emergent theory will offer a holistic view of firm de-internationalisation process, starting from international expansion through to the decisions to de-internationalise.

Chapter 9 explores the process of de-internationalisation from the entrepreneurship perspective in an attempt to explore the relationship between de-internationalisation and entrepreneurship. The discussion was centred around the process of emergence of an international venture idea as a central construct of the proposed research domain of international entrepreneurship. Specifically the focus was on two interrelated processes of the entrepreneurship research path: discovery and exploitation of a new venture idea.

Chapter 10 concludes the thesis, discussing the theoretical contribution to entrepreneurship, cross-border, and international entrepreneurship research fields. It will also discuss the limitations of the present study and provide recommendations for future research.

Universal human problem: once we have arrived at a solution – and in the process of getting there, have paid a fairly high price in terms of anxiety and expectation – our investment in this solution becomes so great that we may prefer to distort reality to fit our solution rather than sacrifice the solution.

Watzlawick (1977)

2 POSITIONING THE RESEARCH

2.1 INTRODUCTION

The aim of this chapter is to position the current research within a broad context of the small firm growth. At the same time, this chapter aims at providing a brief account of the rapid growth of the information and communication technology (ICT), including the software industry and of the dot.com crash in the early 2000. The author's epistemological stance will conclude this chapter.

2.2 ARRIVAL OF NEW ECONOMY

In the period from the mid-1990s to 2000 – several Internet years ago (Pilat, 2003) – a widespread belief was emerging that the world was in the grips of an e-business revolution (Gordon, 2000; Coltman *et al.*, 2001). The Internet and e-business were in the centre of attention of many (e.g., Aldrich, 1999; Downes and Mui, 1999), including the popular press. The Wall Street Journal, for example, maintained that '[w]hen it comes to technology, even the most bearish analysts agree the microchip and Internet are changing almost everything in the economy' (Ip, 2000).

The acceleration in rate of technical advance in ICT became synonymous with new economy (Gordon, 2000; Van Reenen, 2001; Pilat, 2003; Rusek, 2004). Many features of the new economy are based on the importance of information as a commodity very different from the standard goods and services of the old economy (Van Reenen, 2001). Table 1 below offers some key features of this economy.

Table 1. Key features of the new economy

Feature	**Definition**
Digital revolution	Prevalence of information and communication technologies, especially computers
Human capital	Rapid growth of education and training
Innovation	R&D, know-how, brands and other forms of intangible capital more important than fixed capital
Mobility/globalisation	Capital (financial, fixed and highly skilled) very mobile across national borders
Entrepreneurial capacity	Start-ups and new entrants as key drivers of growth
Clusters	Geographical concentration of high-tech firms
Inequality	Increasing wage dispersion and volatility of income, 'winner takes all' in labour and product markets
Public/Private	A blurring of the divisions between the public and private sectors

Source: Van Reenen (2001: 309)

However, as Van Reenen (2001) further acknowledges, many of these features are not fundamentally driven by new technology. The essence of the new economy, Rusek (2004) argues, is entrepreneurship through individual creativity, innovation, and risk taking. An entrepreneurial economy based on innovation and risk taking is inherently more risky compared to the old economy based on the extension of known and what is already known (Rusek, 2004: 68).

The future prospects, sometimes even exaggerated (OECD, 2001), of a technology, an innovation, a market, or a product gave birth to several myths regarding the new economy, including the business cycle is dead or business decisions could ignore old rules about the marketplace (Bassanini and Scarpetta, 2002; Pilat, 2003). Many believed that the Internet would have major impact on global business by 2001 (Booz-Allen & Hamilton, 1999). Visionary predictions of the e-business, like brands will die, prices will fall, and middlemen will die were driving the valuation of virtual firms to the level of an Internet Bubble (Coltman *et al.*, 2001) that burst in 2000.

A recent OECD report demonstrated that after the burst of the dot.com bubble a slowdown in the economy of the United States has instilled a sense of realism into the debate [over the role of new economy], as well as putting an end to some exuberant economic behaviour (OECD, 2001). In this report, the OECD urges to resist hype when talking about new technologies, as there is always a risk of exaggerating their potential.

However, just because an idea is oversold does not mean there is not a grain of truth in it. The same OECD (2001) report concluded that ICT was an important technology that had the potential to contribute to more rapid growth and productivity gains in OECD economies in the years to come. Moreover, it regards 'ICT as transforming economic activity, as the steam engine, railways and electricity' OECD (2001: 27).[3]

ICT in general (OECD, 2001; Bassanini and Scarpetta, 2002; Lembke, 2003; OECD, 2004; Vijselaar and Albers, 2004), and software industry in particular (www.bea.doc.gov; www.cspp.org; www.scottishdevelopmentinternational.com), played and continue to play a pivotal role in transforming the economy by boosting more rapid growth and productivity gains. According to the recent OECD information technology outlook (OECD, 2004), the ICT sector is increasing its trend share of economic activity: it contributed close to 10% of OECD business GDP in 2001, up from 8% in 1995; it employed over 17 million people – over 6% of business employment – with 4% annual growth.

As regards the software industry, according to the US Bureau of Economic Analysis, software has become one of the major contributors to the increase in real GDP, as well as government spending – two positive indicators for software growth (www.bea.doc.gov). In Scotland, for example, Scottish Development International (www.scottishdevelopmentinternational.com) regards software as a critical part of the Scottish economy and promotes Scotland as a centre of excellence for software design.

[3] Gordon (2000) contests this view arguing that to measure up, the ICT has to equal the great inventions that constitute what has been called the Second Industrial Revolution in affecting productivity and the quality of life. Coltman *et al.* (2001: 80) further maintain that social requirements govern technology (not the other way around) and current efforts to "virtualize" business have not been pervasive or process oriented enough to warrant the term revolution.

Mid-1990s are considered as a starting point of the new economy characterised by acceleration in the rate of price decline in computer hardware, software, and telephone services, the corollary of an acceleration of the exponential growth rate of computer power and telecommunications capability, and the wildfire speed of development of the Internet (Gordon, 2000: 50).

As the US set the pace for this growth as a country characterised by being highly receptive to new technologies (Moore, 1995), non-US small and medium high-technology companies were trying to productize and market their new technologies in the US immediately after their inception. The behaviour of all involved went from one extreme to another, i.e. from overoptimistic to pessimism. As argued by Coltman *et al.* (2001: 58), just as the hype of the late 1990s was clearly overblown, the pessimism of 2001 is an overreaction.

For the present research, the 1999 – 2001 time period is of greater interest because in those days one could witness a hyper growth of ICT (Coltman *et al.*, 2001), including software industry, whose overall revenue growth peaked in 2000, then rapidly declined over the following year with the bursting of the dot.com bubble, and afterward remained essentially flat until 2003 (www.cibcwm.com).

2.3 THEORY OF FIRM GROWTH

The burst of the dot.com bubble demonstrated once more that businesses built around high-tech product innovations are dramatically unstable (Slywotzky and Wise 2002). It also supported earlier assertions that stable growth continues to be both very rare and poorly understood (Storey, 1994; Vinnell and Hamilton, 1999), and that substantial growth is seemingly a rather exceptional process (Stanworth and Curran, 1976; Storey, 2002; Carter *et al.*, 2004). At the same time, within the context of growth, while business failure represents a significant outcome of entrepreneurial activity, it remains yet an underdeveloped area of research (Cope *et al.*, 2004; Davidsson, 2005b).

All in all, a paradox that challenges both researchers and practitioners is that small firms both grow and do not grow (Johannisson, 2000). Many firms do not grow for a variety of reasons: un-enterprising direction, inefficient management, insufficient capital-raising ability, and lack of adaptability to changing circumstances, poor judgment leading to frequent and costly mistakes, or simply bad luck due to circumstances beyond their control (Penrose, 1959).

Moreover, as Carter *et al.* (2004) recently found, with years in business, growth objectives of small firms decrease incrementally, while ambitions for closure, sale, succession or remaining the same size increase incrementally. In this regard, Vinnell and Hamilton (1999: 15) argue that 'the difficulty of ensuring that sufficient forces conducive to growth remain aligned through time is why small firm growth is fundamentally idiosyncratic and unstable'.

The main body of small business development literature has adopted the life-cycle or stages of development framework to explain the growth process of firms (see Table 2 below).[4] This framework suggests a biological life-like progression of

[4] For review of life cycle models see e.g. Sexton and Bowman-Upton (1991) and Quinn and Cameron (1983).

the organisation through various life cycle stages over time (Van de Ven, 1992; Covin and Slevin, 1997).[5]

Table 2. Firm growth models

Author(s)	Date	Growth model
McGuire	1963	traditional small firm → planning for growth → take-off → mass production → management
Downs	1967	struggle for autonomy → rapid growth → deceleration
Lippitt and Schmidt	1967	birth → youth → maturity
Steinmetz	1969	direct supervision → supervised supervisor → indirect control → divisional organization
Greiner	1972	creativity → direction → delegation → coordination → collaboration
Lyden	1975	environmental adaptation → resource acquisition → goal attainment → pattern maintenance
Stanworth and Curran	1976	artisan → classical entrepreneur → manager
Katz and Kahn	1978	primitive system → stable organization → elaboration of structure
Adizes	1979	courtship → infant organization → adolescent organization → go-go organization → prime organization → maturity
Cooper	1979	start-up → early growth → later growth
Churchill and Lewis	1983	existence → survival → success → take-off → resource maturity
Quinn and Cameron	1983	entrepreneurial → collectivity → formalization and control → elaboration of structure
Scott and Bruce	1987	inception → survival → growth → expansion → maturity
Kazanjian	1988	conception & development → commercialization → growth → stability
Mount et al.	1993	owner operated → owner managed → emergent functional management

Source: derived from literature.

[5] Stanworth and Curran (1976) argue that the assumption that natural and social phenomena belong to the same category of entities for purposes of theorising and explanation is fundamentally mistaken. They maintain that the crucial difference stems from the fact that social phenomena *understand* their own behaviour and can act *purposefully* while natural phenomena have neither of these properties (p. 100).

However, the growth stage models have been criticized for their linearity, and unpredictability of triggering events. That is, not all firms go through the same stages of growth (Sexton and Bowman-Upton, 1991; Quinn and Cameron, 1983); a fact recognised even by some of the stage growth models' authors (e.g., Kazanjian, 1988; Mount *et al.*, 1993).

For example, Mount et al. (1993: 111) were careful to emphasize that 'the framework recognises that not all small enterprises pass through all five phases; there are firms that start in a more evolved phase, and there are many that remain within a particular phase, either by design or by virtue of barriers to further development'. As Storey (1994) concludes, stage models describe, rather than predict the process of growth. In this respect Lippitt and Schmidt (1967) argue that the criteria for determining the stage of development of an organisation are found in the manner of coping with organisational crises.

As far as triggering events are concerned, Bygrave (1989b) argues that the event is more triggered than triggering, i.e. to find its cause there is a need to understand the changes in the antecedent variables that triggered the event. In this respect, stage models (e.g. Lippitt and Schmidt, 1967; Greiner, 1972; Churchill and Lewis, 1983; Scott and Bruce, 1987; Mount *et al.*, 1993) delineate many of the managerial crises that must be resolved in order to successfully transition to subsequent growth stages; be these cash crisis (Mudambi and

Treichel, 2005), saturated markets or innovation slow down (Slywotzky and Wise, 2002).[6]

To deal with the above dilemma, Covin and Slevin (1997), and Arbaugh and Camp (2000) proposed firm growth models with a specific focus on growth transitions rather than on stages as the key to understanding the formation and growth of new and established businesses. Covin and Slevin (1997), for example argue that the mismanagement of transitions is a pervasive and root cause of many, perhaps most, organizational failures and conclude that entrepreneurial transitions are one of the most important themes for future entrepreneurship studies.

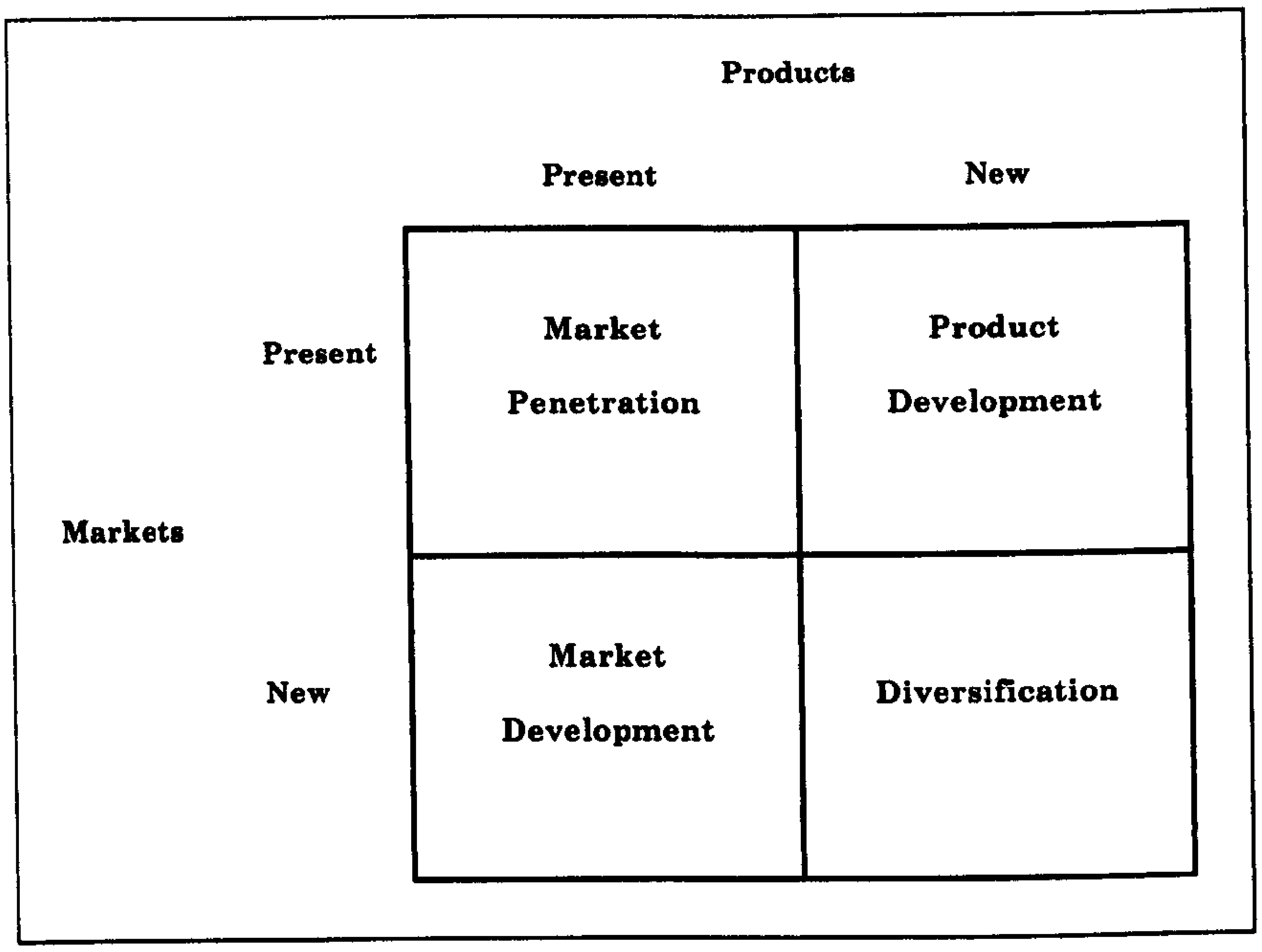
For the growth transitions to be successful, the entrepreneur must assemble and deploy (heterogeneous) resources in order to reduce the tension that builds within the gestalt as a consequence of growth (Covin and Slevin, 1997). For the purpose of the present study, de-internationalisation process could be seen as a transition from one gestalt to another that requires entrepreneurs to make quantum changes to the organisational system quickly in light of ever-new growth opportunities.

These transitions could be explored by employing Ansoff's product/market vector matrix that plots four generic strategies for growing a business via existing or new products, in existing or new markets (Figure 3). These are: (i) market penetration; (ii) market development; (iii) product development; and (iv)

[6] It must be emphasised that although the business may fail at any time it is most likely to happen at one of the crisis points (Scott and Bruce, 1987: 47).

diversification. According to Ansoff (1958), the diversification strategy stands apart from the other three as it requires new skills, new techniques, and new facilities. As a result, Ansoff concludes, diversification almost invariably leads to physical and organisational changes in the structure of the business which represent a distinct break with past business experience (1958: 394).

Figure 3. Ansoff's growth vector matrix



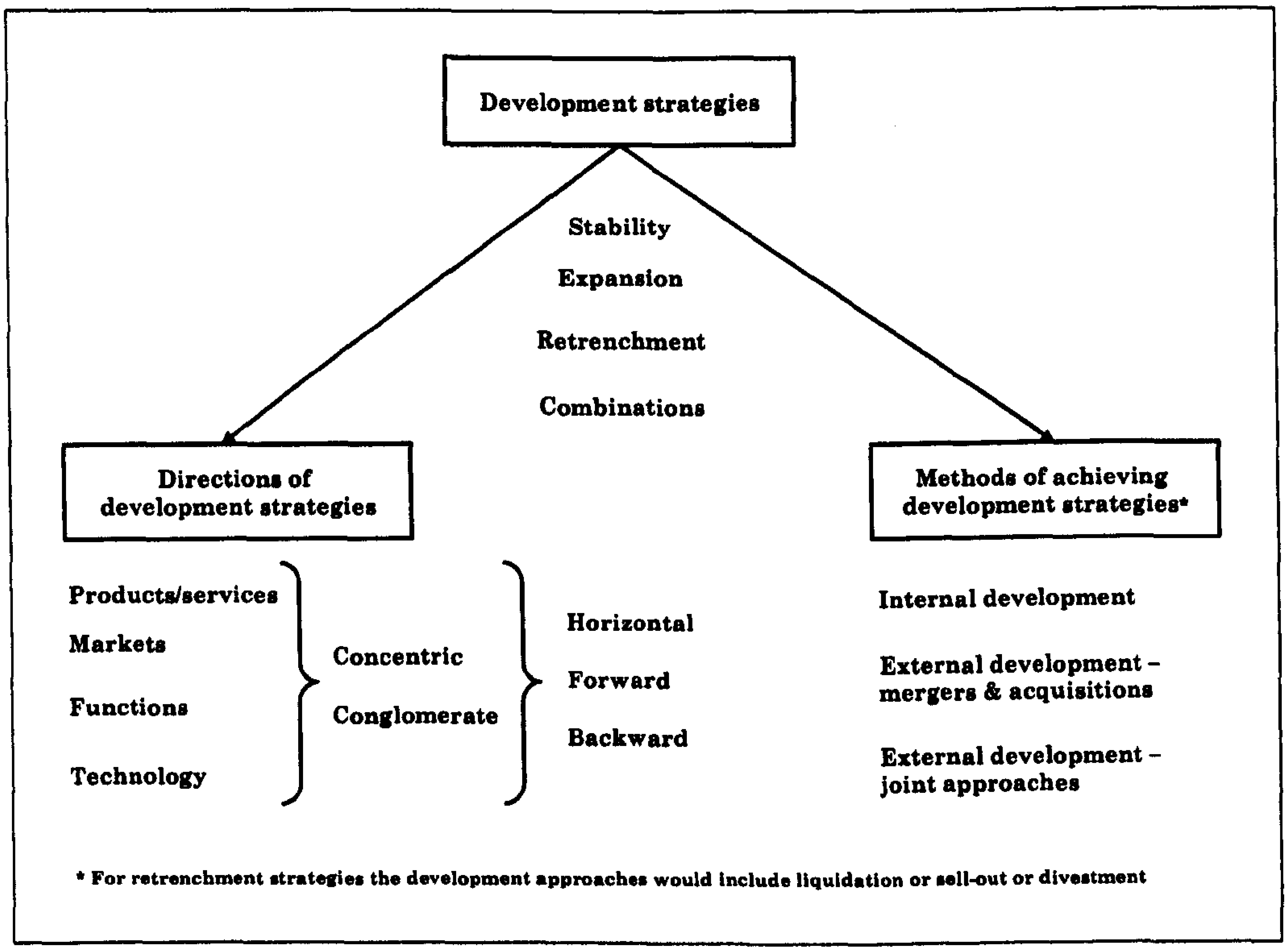
Source: adapted from Ansoff (1958: 394)

In the international business literature, the stage model of internationalisation, known as the Uppsala model, has also been widely criticized (for a comprehensive review see Andersen, 1993; Andersen, 1997), and widely challenged (e.g. Sullivan and Bauerschmidt, 1990; Bell, 1995; Bell *et al.*, 2001; Jones 2001; Lamb and Liesch, 2002; Bell *et al.*, 2003). It suggests that each stage involves an increased commitment to international activities and that the process of internationalisation is the consequence of the acquisition of experiential knowledge, in particular, market specific knowledge. Firms' commitment to internationalisation increases as they learn more about the foreign markets (Johanson and Vahlne, 1977; Cavusgil, 1984).

The major limitation of the stage approach to internationalisation is in its use of linear models to try to explain complex, dynamic, interactive and frequently non-linear behaviour (Bell, 1995). In addition, the stage approach does not include co-operative modes of entry and the reduction of foreign commitment (Andersen, 1997). At the same time, internationalisation, from the stage perspective, can be viewed as a barrier to de-internationalisation. According to Benito and Welch (1997), the probability of withdrawal from international operations declines as the commitment to these operations increases.

Young *et al.* (1989) suggest four development strategies that offer a holistic view of the cross-border activity of the firm (Figure 4). These are: (i) *stability*, i.e. remaining in the same business with a similar level of effort, implying the pursuit of existing objectives and incremental improvement of performance; (ii) *expansion*, i.e. growth into new business areas, with the aim of increasing sales, profits or market share at a higher rate than competitors; (iii) *retrenchment*, i.e. withdrawing from some parts or all of the business, with the objective of creating a smaller organisation, a leaner management structure and a more efficient production and marketing; and (iv) *combinations* of the above, simultaneously or sequentially, mainly relevant to large, divisionalised companies. As Young *et al.* argue, within this framework, market strategies represent only one of a variety of options open to the company (1989: 8). For the present research, it is important to note that this approach to the development of international strategies allows for simultaneous and sequential growth patterns that include for example sell-out and divestment strategies.

Figure 4. Development strategies of the firm



Source: Young *et al.* (1989: 7)

Recently, addressing the above criticism of the stage approach to internationalisation, Bell *et al.*, (2003) suggested an integrative model of small firm internationalisation that recognises that the process of internationalisation is neither linear nor unidirectional. Bell *et al.*, (2003) suggest using the term 'state' rather than 'stage' of internationalisation to reflect the potential for forward and backward momentum. In addition, their model supports Kutschker and Baurle's (1997) view that firms may experience 'epochs' of internationalisation, followed by periods of consolidation or retrenchment, or they may be involved in 'episodes' that lead to rapid international expansion or de-internationalisation. This model acknowledges that the cross-border activities of a firm can be and must be investigated holistically by understanding the hows and whys of both inward and outward internationalisation and de-internationalisation decisions and processes.

2.4 PHILOSOPHICAL STANCE

As in any research, it is pivotal to state the author's epistemological stance up front. First, the author sides with Popper (1960) rather than with Kuhn (1962) on the evolution of paradigms and theory building. That is, science proceeds by conjecture and refutation (Popper, 1960), rather than paradigm[7] shift (Kuhn, 1962).

Second, the author's line of argument is that in order to advance a paradigm the researchers shall study asymmetrical boundaries of that paradigm. As present research is concerned with theory development at the intersection of cross-border and entrepreneurship research paths, which bring to international entrepreneurship field conflicting constructs, it is maintained that the radical

[7] Paradigms are defined as tightly coupled ideologies, ontologies, epistemologies, and methodologies that guide modes of organizational analysis (Burrell and Morgan, 1979).

humanist paradigm (Burrell and Morgan, 1979) may best capture theory building efforts in this kind of research.

According to Burrell and Morgan (1979), the radical humanist paradigm is at the intersection of the subjective nature of science and the radical change nature of society. Subjectivity presumes contextually bound and fluid social constructions, whereas radical change assumes conflict and power asymmetries. As argued by Gioia and Pitre (1990: 589), radical humanist paradigm is similar to that of interpretivist in that it also focuses on *how* a particular social reality is constructed and maintained. Gioia and Pitre further maintain that the radical humanist paradigm focuses on why social reality is so constructed and asks whose interests are served by the construction and sublimation to the deep-structure level.

Third, as to the debate between objectivity and subjectivity, the view of Lincoln and Guba (2000) is considered whereby '... objectivity is a chimera: a methodological creature that never existed, save in the imaginations of those who believe that knowing can be separated from the knower' (p. 181). With regard to validity, it is acknowledged the importance of obtaining corroborating evidence from multiple measures and observations, each of which may possess different types of error (Trochim, 2004), and thus of using *triangulation* (Denzin, 1970) or *crystallisation* (Richardson, 1997) research strategies.

And finally, Powell's (2003) view is maintained that we may never achieve an entirely consistent empirical system, but we can at least learn the most important epistemological lesson: 'what we can not think, that we can not think: we can not therefore *say* what we can not think' (Wittgenstein, 1922: 151); i.e. of what we can not know, we must remain silent.

2.5 CONCLUSION

This chapter aimed at providing a brief account of the rapid growth of the information and communication technology (ICT) industry, positioning the present research within a broader context of the small firm growth, and stating the author's epistemological viewpoint.

According to OECD (2001) report, ICT had become an important technology with high potential to contribute to more rapid growth and productivity gains in the years to come. For the present research, the 1999 – 2001 time period is of greater interest because in those days one could witness a hyper growth of ICT (Coltman *et al.*, 2001), including software industry, whose overall revenue growth peaked in 2000, that rapidly declined over the following year with the bursting of the dot.com bubble, and then remained essentially flat until 2003 (www.cibcwm.com).

Despite the extensive critiques (e.g. Sexton and Bowman-Upton, 1991; Quinn and Cameron, 1983; Storey, 1994), to date, life-cycle stages have been the most widely used framework for studying growth process at both population and firm levels (Arbaugh and Camp, 2000). This framework suggests a biological life-like progression of the organisation through various life cycle stages over time (Van de Ven, 1992; Covin and Slevin, 1997). Chiefly stage models, including the stage models of internationalisation, have been criticized for their linearity, and unpredictability of triggering events.

In the cross-border literature, addressing the criticism of the stage approach to internationalisation, Bell *et al.*, (2003) suggested an integrative model of small firm internationalisation that acknowledges that the cross-border activities of a firm can be and must be investigated holistically by understanding the hows and whys of both inward and outward internationalisation and de-internationalisation decisions and processes.

As to the author's philosophical stance, Popper's (1960) rather than Kuhn's (1962) view on the evolution of paradigms and theory building is maintained, that is, science proceeds by conjecture and refutation, rather than paradigm shift. Moreover, as present research is concerned with theory development at the intersection of cross-border and entrepreneurship research paths, which bring to international entrepreneurship field conflicting constructs, it is further maintained that the radical humanist paradigm (Burrell and Morgan, 1979) may best capture theory building efforts in this kind of research.

The minute you establish an organisation, it starts to decay.

Ross Johnson, CEO, RJR Nabisco
(in Burrough and Helyar, 1990)

3 CROSS-BORDER PERSPECTIVE ON DE-INTERNATIONALISATION[8]

3.1 INTRODUCTION

The last decade of the twentieth century has contributed most to the body of knowledge about the internationalisation of small firms. During that period, the focus was primarily on the growth – or positive development – of international business operations (Benito and Welch, 1997). The problem with the growth of the firm, however, is simply that most firms do not experience growth (Penrose, 1959; Storey, 1994; OECD, 1997; 1998; 2001; Burns, 2001; Dun & Bradstreet Inc., 2003). This is particularly true not so much at the initial internationalisation stage, when firms start exporting, but at the next stage of real international commitment, for example, when making an international investment (Yip *et al.*, 2000). In such situations, entrepreneurs, trying to manage the portfolio of their firms proactively (Douglas and Craig, 1996), may decide to reduce firms' international engagement or leave the foreign market completely (Pauwels and Matthyssens, 1999).

To date, the research on the withdrawal of small firms' from cross-border activities (totally or partially) is far less common (Benito and Welch, 1997;

[8] This chapter was the foundation of two papers: one presented at the AIB conference, the UK Chapter – Turcan and Jones (2002), and the other was published as a chapter in AIB series of selected conference papers – Turcan (2003a).

Pauwels and Matthyssens, 1999; Matthyssens and Pauwels, 2000; Crick, 2004). This chapter aims to further the understanding of cross-border activities of small firms by exploring the nature of the de-internationalisation processes in small firms. To do this, literature from several disciplinary areas will be brought together and a conceptual framework of a small firms' withdrawal process will be developed.

3.2 A PERSPECTIVE ON INTERNATIONALISATION

3.2.1 Processes of Internationalisation

Two theoretical approaches dominate contemporary research on the internationalisation of small firms (for a comprehensive review see Coviello and McAuley, 1999). They are (i) the stage approach initiated by Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977), Cavusgil (1980), and (ii) the network approach advanced by Johanson and Vahlne (1990), Johanson and Mattsson (1988 and 1992).

Known also as the Uppsala model, the stage approach suggests that each stage of internationalisation involves an increased commitment to international activities and that the process of internationalisation is the consequence of the acquisition of experiential knowledge, in particular, market specific knowledge. Firms' commitment to internationalisation increases as they learn more about the foreign markets (Johanson and Vahlne, 1977; Cavusgil, 1984). The stage approach, however, was widely criticized (for a comprehensive review see Andersen, 1993; Andersen, 1997), and widely challenged in the literature (e.g. Sullivan and Bauerschmidt, 1990; Bell, 1995; Bell *et al.*, 2001; Jones 2001; Lamb and Liesch, 2002; Bell *et al.*, 2003). The major limitation of the stage approach is in its use of linear models to try to explain complex, dynamic, interactive and frequently non-linear behaviour (Bell, 1995). In addition, the stage approach does not include co-operative modes of entry and the reduction of foreign commitment (Andersen, 1997). At the same time, internationalisation, from the stage perspective, can be viewed as a barrier to de-internationalisation. According to Benito and Welch (1997), the probability of withdrawal from international operations declines as the commitment to these operations increases.

At the same time the network approach has received a lot of attention and recognition in the process of explaining the internationalisation of small firms (recent examples include Anderson *et al.*, 1994; Coviello and Munro, 1995; Coviello, 1996; Elg and Johansson, 1996; Coviello and Munro, 1997; Tikkanen, 1998; Coviello and Martin, 1999; Dennis, 2000). The network approach is based on theories of social exchange and resource dependency, and focuses on firm behaviour in the context of a network of inter-organisational and interpersonal relationships (Axelsson and Easton, 1992). It has been suggested that success in new foreign market development is rooted in relationships in current markets, whether these be domestic or foreign, rather than in the identification and analysis of foreign market characteristics and the development of a tailored market strategy (Johanson and Mattsson, 1988). Also the network approach provides for reciprocity between inward and outward activities (Crick and Jones, 2000), and recognizes the importance of the networking role on inward international activities as part of the growing research on networks and internationalisation (Johanson and Mattsson, 1988; Johanson and Vahlne, 1990). The firms' propensity to influence their exchange conditions and form new linkages while terminating others (Elg and Johansson, 1996) might explain the process of reduction of international involvement. The biggest criticism of the network approach comes from its failure to adequately address concepts such as efficiency and effectiveness (Jones and Coviello, 2002).

3.2.2 Patterns of Internationalisation

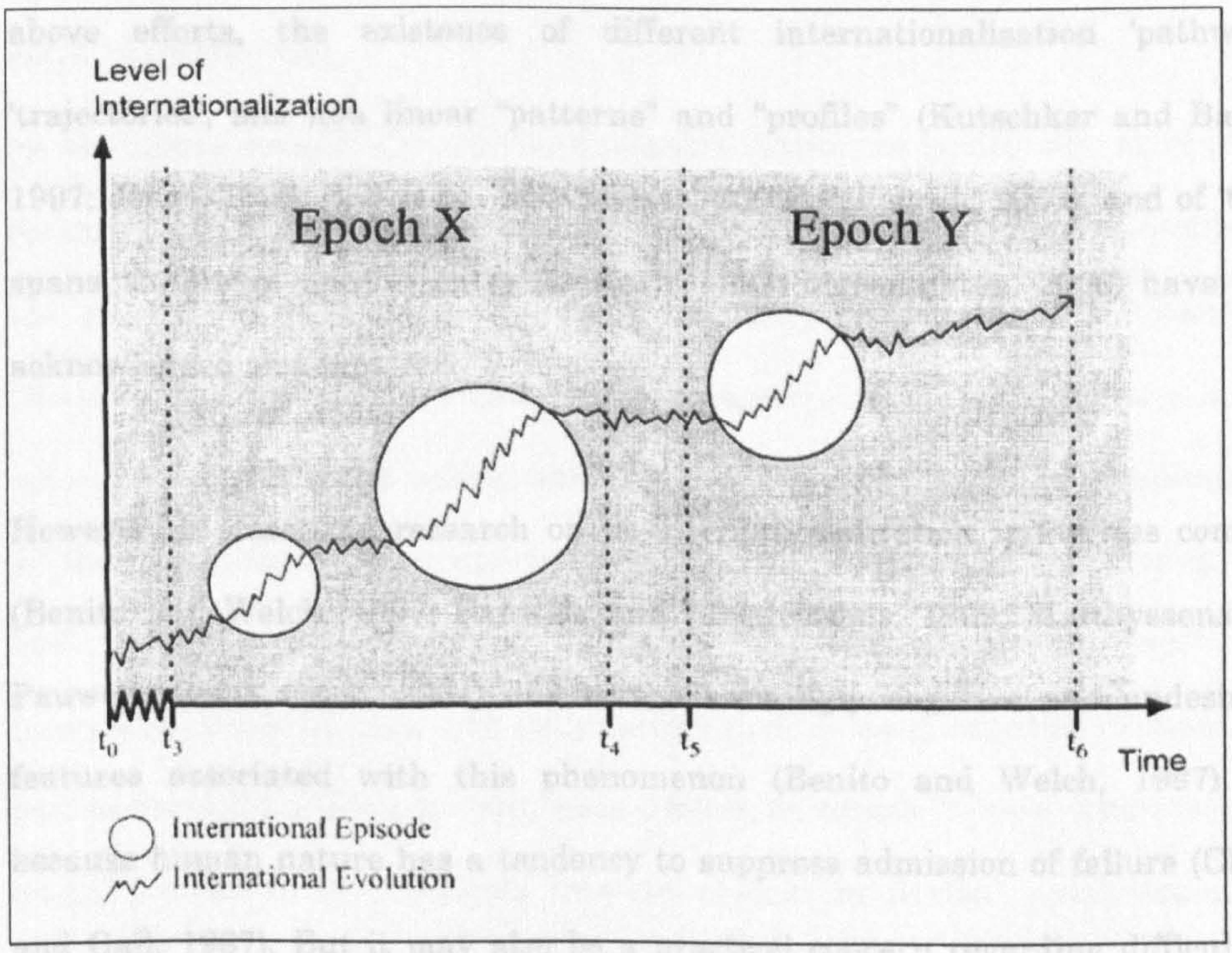
The empirical literature on internationalisation has tended to focus on the outward rather than inward patterns, while inward-outward patterns of internationalisation have received limited coverage (Korhonen *et al.*, 1996). As a result, a holistic approach towards internationalisation of small (high technology) firms has been called for (e.g. Jones, 1999; Fletcher, 2001; Jones, 2001; Bell *et al.*, 2003), where both inward and outward patterns of internationalisation are emphasized and described (recent examples include Welch and Luostarinen, 1993; Oviatt and McDougall, 1994; Bell, 1995; Korhonen *et al.*, 1996; Jones, 1999; Crick and Jones, 2000; Jones, 2001).

The issue of inward-outward activities is crucial not only from an academic point of view, but also from a policy making stand point. As government organisations tend to encourage only outward operations (mainly exports that contribute positively to the balance of payments), and to some extent inward investment (which makes a positive contribution to the local economy), many inward activities by foreign firms may be overlooked as internationalisation opportunities for domestic enterprises. In their study Korhonen *et al.*, (1996) found that for a majority of Finnish SMEs the inward operations were their first internationalisation stage, whereas the outward operations played a secondary role. Crick and Jones (2000) criticize the view of internationalisation of small firms evident in the provision of trade assistance programs and suggest that international expansion strategies other than pure exporting may better represent internationalisation processes.

From the point of view of withdrawing from international activity, an understanding of inward-outward patterns of internationalisation is pivotal. It allows the interrelation and integration of (such) decisions and (such) processes that identify a firm's individual pattern(s) of internationalisation (Jones, 1999). In this context, the next section will bring together relevant strands of literature from several disciplinary areas in order to discuss and analyze the phenomena of de-internationalisation.

To date, most of the literature on the internationalisation of firms has focused on the growth –or positive development – of international business operations (Benito and Welch, 1997). The problem with the growth of the firm, however, is simply that most firms do not experience growth (Penrose, 1959; Storey, 1994; OECD, 1997; 1998; 2001; Burns, 2001; Dun & Bradstreet Inc., 2003). As argued earlier, this is particularly true not so much at the initial internationalisation stage, when firms start exporting, but at the next stage of real international commitment, for example, when making an international investment (Yip *et al.*, 2000). In an attempt to explain and understand how and why companies might decrease their international commitment, it has been suggested that firms experience international 'evolution' followed by international 'episodes' for example of consolidation or retrenchment, that may lead to rapid international expansion or de-internationalisation, and that international 'epochs', which are characterized by a specific pattern and an underlying idea which dominates the stream of international activities for a certain period, comprise both international 'evolution' and international 'episodes' (Kutschker *et al.*, 1997) (see Figure 5).

Figure 5. International fingerprint of a firm



Source: Kutschker *et al.* (1997: 107)

The above international fingerprint of a firm (Kutschker and Baurle, 1997) clearly (i) shows that a firm might increase (or decrease) its level of international economic involvement or inward-outward connection (Macharzina and Engelhard, 1991), (ii) assumes that for some minor decreases in the level of internationalisation, the overall development of this firm is towards an increased level of internationalisation (Kutschker *et al.*, 1997), and (iii) leads to the idea of the internationalisation process as a cause-and-effect chain, in which changes in the stages of internationalisation will gradually facilitate a reaction to momentary events (Hurmerinta-Peltomaki, 2003: 225). In addition to the above efforts, the existence of different internationalisation 'pathways', 'trajectories', and non linear "patterns" and "profiles" (Kutschker and Baurle, 1997; Jones, 1999; Bell *et al.*, 2001; Jones, 2001; *Bell et al.*, 2003), and of 'time-spans' to foreign market entry (Oesterle 1997; McNaughton, 2000) have been acknowledged and explored.

However, to date, the research on de-internationalisation is far less common (Benito and Welch, 1997; Pauwels and Matthyssens, 1999; Matthyssens and Pauwels, 2000; Crick, 2004) due to the seemingly negative and undesirable features associated with this phenomenon (Benito and Welch, 1997), e.g. because human nature has a tendency to suppress admission of failure (Clarke and Gall, 1987). But it may also be a practical concern regarding difficulty in getting longitudinal data (Benito, 1997). Contrary to that, the managers' decisions to either reduce the international engagement or leave the foreign market completely should not, *a priori*, be viewed as a failure (Pauwels and Matthyssens, 1999; Crick, 2004). This issue may become important when determining the trade support that might be required by and available to managers (Crick, 2004). Trade support might be needed to encourage withdrawal from foreign operations rather than to avoid it so for example allowing the firm to maximize domestic market opportunities. Thus, investigating the underlying drivers of why and how small firms might reduce or even withdraw from their international engagement may lead to a better understanding of a more holistic internationalisation process of the small firm (Pauwels and Matthyssens, 1999).

3.2.3 Conclusion

As the above review of internationalisation literature points out, most of the research to date on internationalisation, especially of small firms, has focused on the growth –or positive development – of international business operations. However, the research on de-internationalisation is far less common due to seemingly negative and undesirable features associated with this phenomenon. At the same time, existing approaches to internationalisation, them being stage and network, that dominate the theoretical discourse on small firm internationalisation, can not fully accommodate de-internationalisation and post-de-internationalisation processes. Hence, in search for new constructs that might provide further insights into de-internationalisation phenomenon, the next section will review the existing de-internationalisation literature.

3.3 A PERSPECTIVE ON DE-INTERNATIONALISATION

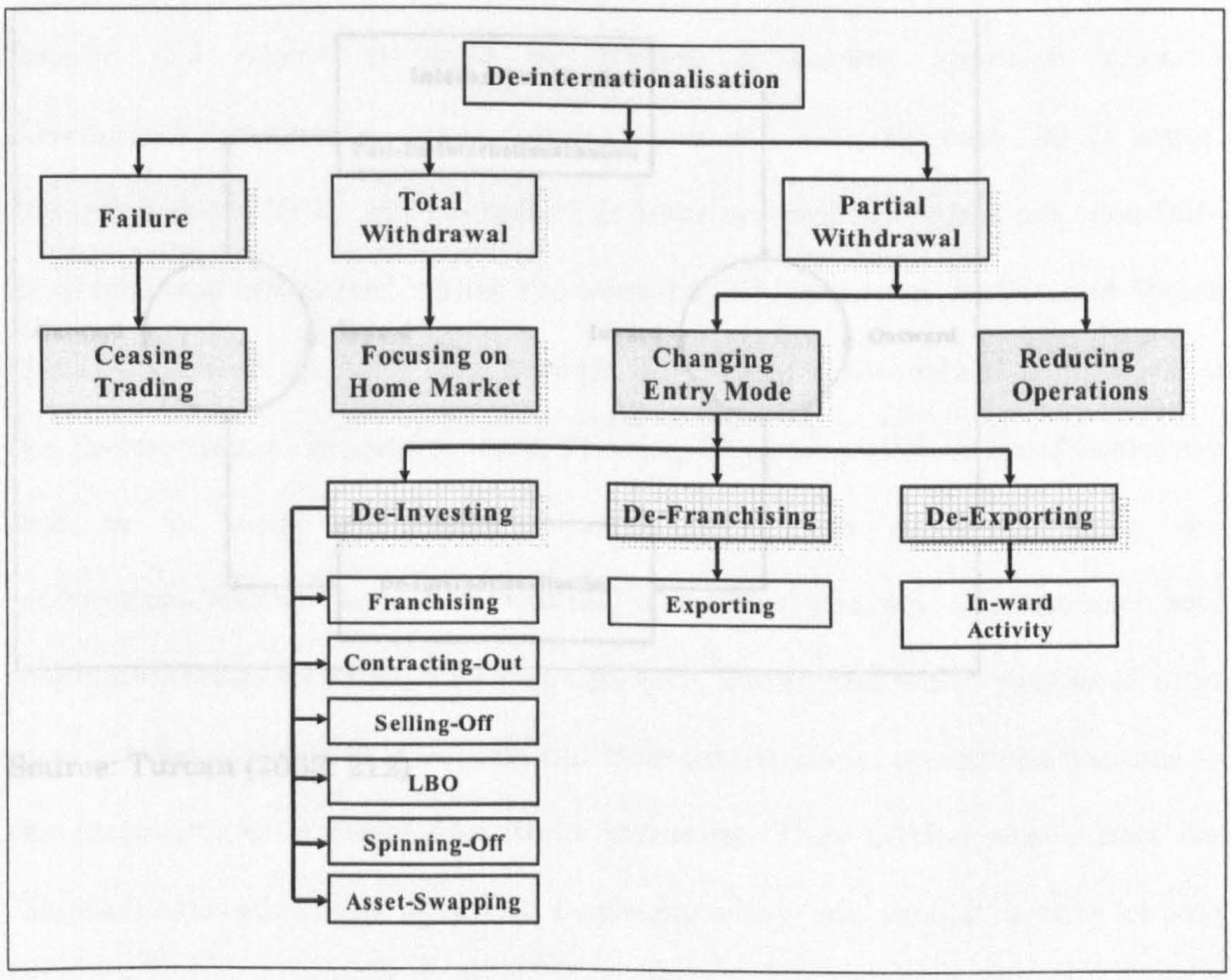
3.3.1 De-internationalisation Defined

Welch and Luostarinen (1988: 37) introduced the term 'de-internationalisation' arguing that 'once a firm has embarked on the process [of internationalisation], there is no inevitability about its continuance'. Benito and Welch (1997) made one of the first attempts to define de-internationalisation. They defined it as '... any voluntary or forced ***actions*** that ***reduce*** a company's engagement in or exposure to current cross-border activities' (p.9; emphasis added). The above definition acknowledges that the cross-border activities of a firm can be (and must be) investigated holistically by understanding the hows and whys of both (inward-outward) internationalisation and (inward-outward) de-internationalisation decisions and processes.

However, the constructs emphasized above require further investigation in order to improve our understanding of the de-internationalisation phenomenon. For example, when a company changes the foreign market servicing mode from investment to franchising (Alexander and Quinn, 2002) – partial de-internationalisation, or from exporting to focusing on serving the local market only (Turcan and Jones, 2002) – full de-internationalisation, the company's engagement in and exposure to the current cross-border activities might ***increase*** (e.g. Hadjikhani, 1997). As such, it might be argued (see also Kutschker *et al.*, 1997; Hurmerinta-Peltomaki, 2003), that despite decreasing the level of internationalisation, as represented by type of entry mode, the overall growth of the firm will be towards an increased level of cross-border activity.

Hence, de-internationalisation can take the form of either completely or partially withdrawing from a foreign market (Figure 6). In the latter scenario, a firm can either reduce foreign operations in that market, or switch to entry modes that entail a lesser commitment of resources (see also Benito and Welch, 1997; Fletcher, 2001).

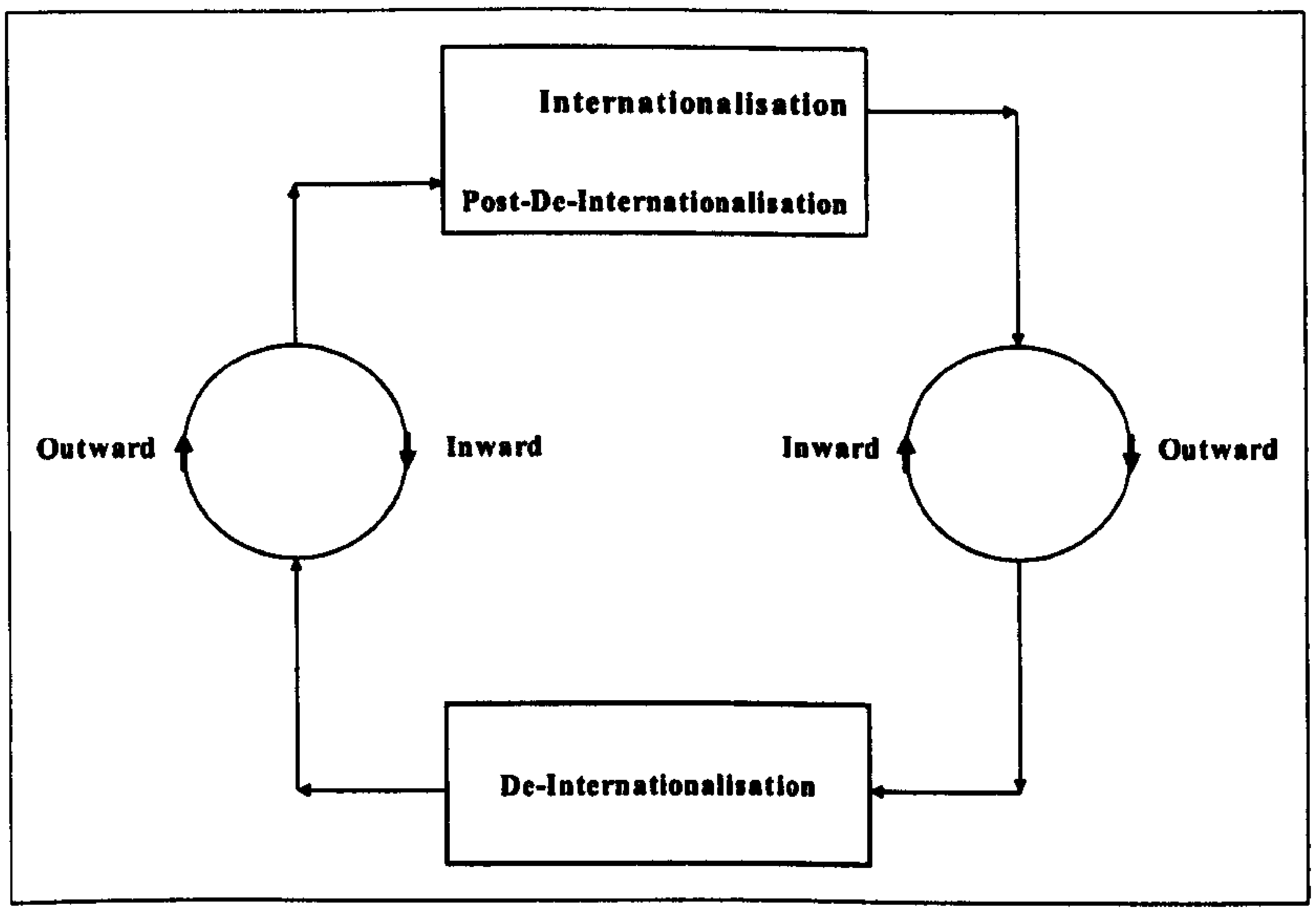
Figure 6. Modes of de-internationalisation



Source: derived from the literature

As regards the exit modes, a firm may decide to de-invest, de-franchise, or de-export. De-investment can be achieved through franchising, contracting-out, selling-out, leverage buy-out, spin-off, or asset-swap (Coyne and Wright, 1986). From franchising a firm may switch, for example, to exporting; and from exporting to inward-activities, importing, licensing-in, R&D contracting, etc (Jones, 1999; 2001).

Figure 7. Model of cross border activity



Source: Turcan (2003: 212)

It has been argued elsewhere (e.g. Boddewyn, 1985; Casson, 1986) that it is possible to see for example divestment of international operations as the reverse of the investment process. Or as Benito and Welch (1997) question whether these forces [that move a firm forward internationally over time] operate in reverse, perpetuating a withdrawal process. Thus, the process of cross-border activity of the firm can be defined as a cause-effect relationship between internationalisation and de-internationalisation, whereby a firm can not de-internationalise (the effect) without having internationalised (cause) (Turcan, 2003). If this statement is true, the cross-border activity paradigm (see Figure 7) evolves, whereby the firm de-internationalises in the same way as it has internationalised by demonstrating the same but reverse behaviour.

3.3.2 De-internationalisation Conceptualized

Despite the recent attempts to develop a holistic approach towards internationalisation (e.g. Jones, 1999; Bell *et al.*, 2001; Fletcher, 2001; Jones, 2001; Bell *et al.*, 2003), the concept of de-internationalisation has not been fully developed and integrated within the cross-border literature. Benito and Welch (1997) undertook the first step towards developing a conceptual framework of the de-internationalisation process, drawing from several streams of literature that to a lesser or greater extent have been concerned with de-internationalisation issues, for example, economics, strategic management, and internationalisation-management perspective. Benito and Welch suggested inter alia that the probability of withdrawal from international operations declines as the commitment to these operations increases. They further argue that de-internationalisation, like advanced internationalisation, should be seen as part of the broader perspective of the overall [cross border] strategy of a firm. However, Benito and Welch conclude that 'it [will take] us a limited distance in terms of providing an appropriate conceptual setting for de-internationalisation moves and in seeking to explain them' (1997: 19). They opted for further research that would follow de-internationalisation moves by a number of firms through an extended period of time and internationalisation stages in order to clarify the circumstances and influences on decisions to withdraw.

Although not explicitly stated, the theoretical framework considered by Benito and Welch (1997) replicates the theoretical framework used to explain corporate divestment activities of multinational enterprises (see e.g. Chow and Hamilton, 1993); thus making it difficult to apply it to small firms. Nevertheless, a review of existing de-literature, i.e. de-investment, de-franchising, de-exporting is pivotal to the overall understanding of the de-internationalisation process and the development of specific constructs that might be applicable to the small firm de-internationalisation process. Thus, de-literature is reviewed next.

3.3.2.1 De-Investment

Divestment (de-investment) usually is defined as an adjustment process through which the firm attains its optimal level of diversification (Haynes *et al.*, 2000) by selling part of its assets, or product lines, subsidiaries, or divisions for cash or securities or some combination thereof (Weston, 1989), or closing its facilities (Casson, 1996; Mata and Portugal, 2000). Hence, divestment is viewed as the end result of strategic decisions regarding: (i) reallocation or concentration of productive resources at a national, regional, or global level; (ii) change of foreign market servicing mode, e.g. from local production to export; or (iii) complete withdrawal from a host country (Benito, 1997). Contrary to the above strategic reasoning to withdraw from a foreign market, companies can be also <u>forced</u> to withdraw due to nationalization, expropriation, or confiscation actions of local governments (e.g. Akhter and Choudhry, 1993).

In addition, it is important to distinguish between divestment of ownership and divestment of control (Casson, 1986; Coyne and Wright, 1986). That is, divestment is identified with any reduction in ownership of a subsidiary which effects a significant or total reduction in control (Casson, 1986). In this respect, (see e.g. Coyne and Wright, 1986: 3), divestment for example through franchising (Hoskisson *et al.*, 1994; Baroncelli and Manaresi, 1997; Alexander and Quinn, 2002); selling-off (Haynes *et al.*, 2003; Hennart *et al.*, 2002); or leverage buy-out (Easterwood *et al.*, 1989; Seth and Easterwood, 1993; Peel, 1995; Easterwood, 1998) will result in various types of ownership severance.

Furthermore, Casson (1986) distinguishes between two types of divestments: equilibrium adjustment divestment and error correction divestment. In the former process, the firm moves from an initial equilibrium capital structure to a new equilibrium capital structure as a response to changes in its environment. In the latter process, the divestment represents the correction of a previous error, for example an error of omission if the company should have divested earlier but failed to do so, or an error of commission if the company should not have divested earlier but did so. As argued by Staw and Ross (1987), good management includes knowing when to pull the plug.

From a cross-border perspective de-internationalisation is perceived as a negative and undesirable phenomenon (Benito and Welch, 1997). The above differentiation between two types of divestments (de-internationalisation decisions) uncovers the fallacy of such an argument. That is, in an equilibrium adjustment divestment, a firm will achieve a high level of profit through the efficient use of resources and the effective exploitation of market power. In an error correction divestment, the original error itself, i.e. the investment, if anything, should represent a failure.

Primarily divestment is conceptualised on the basis of two streams of literature: industrial organisation and strategic management (for a review see Chow and Hamilton, 1993; Benito, 1997). Industrial organisation literature views the decision to exit from an operation, inter alia, as a function of impediments to exit (Siegfried and Evans, 1994). The existence of specific assets that have limited alternative use outside of a particular business (Porter, 1976) constitutes an important impediment to market exit (Caves and Porter, 1976; Nargundkar *et al.*, 1996; Karakaya, 2000). Both tangible and intangible assets can operate as exit barriers; including the management attitudes towards divestment decisions (Caves and Porter, 1976).

The strategic management literature approaches divestment from the product life-cycle perspective (Harrigan, 1980; Harrigan and Porter, 1983), and the product portfolio perspective (Porter, 1987) with the main theme being strategic change and strategic fit (Kelly and Amburgey, 1991; Johnson, 1996; Zajac *et al.*, 2000). From a product life-cycle perspective, when selecting a strategy in declining industries managers need to match the remaining opportunities in their industry with their companies' positions (Harrigan and Porter, 1983). Harrigan and Porter proposed four strategic options for a company in decline, namely (i) to take a leadership position in the industry; (ii) to occupy a niche market; (iii) to harvest; or (iv) to divest quickly. The product portfolio approach suggests that a firm needs to focus on core businesses that are in an attractive industry, have the potential to achieve sustainable competitive advantage, have important interrelationships with other business units, and provide skills or activities that represent a base from which to diversify (Porter, 1987). Recent studies of the determinants of corporate divestment (Haynes *et al.*, 2000; 2003) indicate that divestment is systematically related to leverage, corporate governance, strategy, and – to a limited extent – structural market characteristics.

Hence, despite the large amount of empirical research on divestment (e.g. Tsetsekos and Gombola, 1992; Hoskisson *et al.*, 1994; Meznar *et al.*, 1998; Chang and Singh, 1999; Haynes *et al.*, 2000; Mata and Portugal, 2000; Shin, 2000; Tegarden *et al.*, 2000; Hennart *et al.*, 2002), the focus of the research has been on product and business exits, rather than on exits from international markets (Matthyssens and Pauwels, 2000). For example, Hamilton and Chow (1993) in their investigation of managers' motives to divest found that the typical divestment has been carried out (as ranked according to their relative importance in divesting firms) to (i) discard undesired/unprofitable units; (ii) focus on core activities; (iii) meet corporate liquidity requirements; (iv) get good price offered for unit(s) divested; (v) shift resources into units with greater growth or opportunity. Whereas the decision to withdraw from own production in favour of importing was ranked 23rd (out of 30 withdrawal options).

Several recent articles attempt to minimize this gap by looking at changes in the foreign market entry modes as a result of divestment decisions of multinational enterprises (Wheeler *et al.*, 1996; Baroncelli and Manaresi, 1997; Alexander and Quinn, 2002). For example, Wheeler *et al.* (1996) studied the structural dynamics of the distribution of foreign-produced machine tools in the UK, and suggested, inter alia, cyclical influences on intermediary choice in importing whereby a firm may switch for example from sales subsidiary to independent agent/distributor. Alexander and Quinn (2002) focused on decisions, processes, effects and response phases of the divestment process in the retail industry. They found that divestment had an impact on subsequent market entry mode, i.e. initially the firms established subsidiaries through a high control mode of entry (joint ventures and acquisitions), then they switched to partnerships, concessions, and franchising as the favoured market entry mode that may be at times a response to failure or limited success within the international environment and the retailer's inability to use organic growth.

As argued by Baroncelli and Manaresi (1997), the fundamental advantage of franchising as a form of divestment lies in the nature of franchising itself when compared with hierarchical organisations, where a formal and strict control is continuously exercised on the new activity. As such, the de-internationalisation process (in this case from a foreign direct investment entry mode to franchising) may be viewed as a (strategic) change in a firm's gestalt that has failed to support the initial international development of the firm.

Thus, it may be inferred from the above that i) the focus of the extant divestment research is on product and business exits, rather than on exits from international markets or entry mode switching, thus, ii) making it difficult, or even impossible, to make any inferences about how and why small firms might withdraw from a foreign market or change its foreign market serving mode.

3.3.2.2 De-Franchising

Franchising (for review of the literature see Elango and Fried, 1997; for review of franchising as a foreign market entry mode see e.g., Fladmoe-Lindquist, 1996; Shane, 1996; Burton *et al.*, 2000; Petersen and Welch, 2000), as an intermediate contractual alternative to foreign market entry (Root, 1992) is perceived as a low cost, low risk entry strategy that allows the smaller internationalising firm to develop new and arm-length markets more quickly and on a larger scale than might otherwise be possible (Young *et al.*, 1989). Consequently, this positive perception prejudiced the contemporary franchise discourse that has been, in contrast to small firm literature (e.g. Story, 1994), replete with the message of low risk and high success rates (e.g. Shane, 1996; Lafontaine and Shaw, 1998; Stanworth *et al.*, 1998).

In their study of franchise vs. conventional small business failure rates in the US and UK, Stanworth *et al.* (1998) found not only close similarities between the two, but that franchising is actually more risky than conventional small business activity. Bates (1998) examining the survival patters among franchise and non-franchise small firms concludes that those new and small franchisees are more likely to discontinue operations than independent start-ups.

Lafontaine and Shaw (1998), arriving at the same conclusion, argue that franchising is no longer a panacea for entrepreneurs. Overall, the international aspects of franchising in particular have not received the needed academic or managerial attention (Falbe and Welsh, 1998), and especially, there have been no systematic studies of franchisors exit, be it a departure, i.e. when a franchisor simply decides not to franchise any more, but otherwise remains in business, or failure (Lafontaine and Shaw, 1998).

Several recent studies are trying to minimize the above gap (e.g. Frazer, 2001a; 2001b). By and large, franchising is conceptualized from either agency (Eisenhardt, 1989a) or resource-based view perspectives (Wernerfelt, 1984; Barney, 1991). The former approach to franchising is primarily concerned with the alignment of desires and goals of the franchisor and franchisee, and with difficultness or expensiveness to monitor the franchisee's activities. The latter approach is concerned with the existence of resources (e.g. of brand name capital), or the lack thereof (e.g. financial and managerial capital). Carney and Gedajlovic (1991) argue that a more accurate portrayal of franchising is obtained by incorporating elements from both theories, rather than regarding them as competing. Frazer (2001a; 2001b) investigated the possible causes of disruption to franchise operations from the agency theory point of view. Specifically, she points out that increased communication problems in the later stage of the franchise life cycle lead to disputes and ultimately to the discontinuance of franchise operations, that is to close the franchised outlet, to take it over, or to sell it out to an independent operation external to the franchise.

One might conclude similar to Frazer (2001a; 2001b) that the research on withdrawal from franchise operations is at a very embryonic stage and future research should aim to explore the process of and the motives behind the decisions to discontinue franchising.

3.3.2.3 De-Exporting

The de-exporting literature is also in embryonic stage of development. Several recent studies are trying to minimize the gap that exists in cross-border literature (e.g. Pauwels and Matthyssens, 1999; Matthyssens and Pauwels, 2000; Crick, 2004). Pauwels and Matthyssens (1999: 10) defined de-exporting or export withdrawal as a firm's strategic decision to remove a product/market combination from its international portfolio. They conceptualised de-exporting based on three constructs derived from export marketing, international business, organisation evolution, and strategic change literature: market commitment, strategic fit, and strategic flexibility.

Based on exploratory comparative case studies, Pauwels and Matthyssens (1999) performed a retrospective strategy process study of export withdrawals, focusing primarily on internal and external drivers and moderators of an export withdrawal, and cognitive and behavioural processes in the decision-making and implementation processes (see also Matthyssens and Pauwels, 2000). In an attempt to build middle-range theory of export withdrawal, three withdrawal decision-making processes were uncovered: (i) the escalation of commitment that is an inhibitor of change process driven primarily by endogenous factors; (ii) the creation of strategic flexibility, that is an accelerator of change process driven by exogenous factors; and (iii) a confrontation between the above two processes, a dialectical process.

From a public policy point of view, Crick (2004) argues that firms, which withdrew from exporting, do not form a homogeneous group. In addition, he suggests differentiating between disinterested firms and disappointed firms. The former are those that exported in the past but are not currently engaged in exporting and do not plan to export in the future. The latter are the ones that exported in the past but are not currently engaged in exporting, but plan on doing so in the future. Hence, such categorization of firms that discontinued exporting will allow policy makers to develop assistance tailored to specific needs of each group. Understanding *why* firms might withdraw from international activities is important, however so is the process of *how*.

As regards future research, de-exporting scholars (Pauwels and Matthyssens, 1999; Matthyssens and Pauwels, 2000; Crick, 2004) argue that a longitudinal perspective on the de-internationalisation process is necessary in order to integrate cumulative decision making and learning, and to determine the factors and ways of rejuvenating the internationalisation activity. Furthermore, it is important to analyse the de-internationalisation process in the context of other foreign market entry modes in order to increase its external validity and identify additional moderating variables.

3.3.3 Conclusion

As can be seen from the above review, a theoretical understanding of the process of de-internationalisation, especially within small firms, is in its infancy. The question of how to apply the existing research to the study of the de-internationalisation process in small firms now arises. The next section discusses this issue and presents a conceptual model of de-internationalisation in small firms from a cross-border perspective.

3.4 DE-INTERNATIONALISATION: A CROSS-BORDER PERSPECTIVE

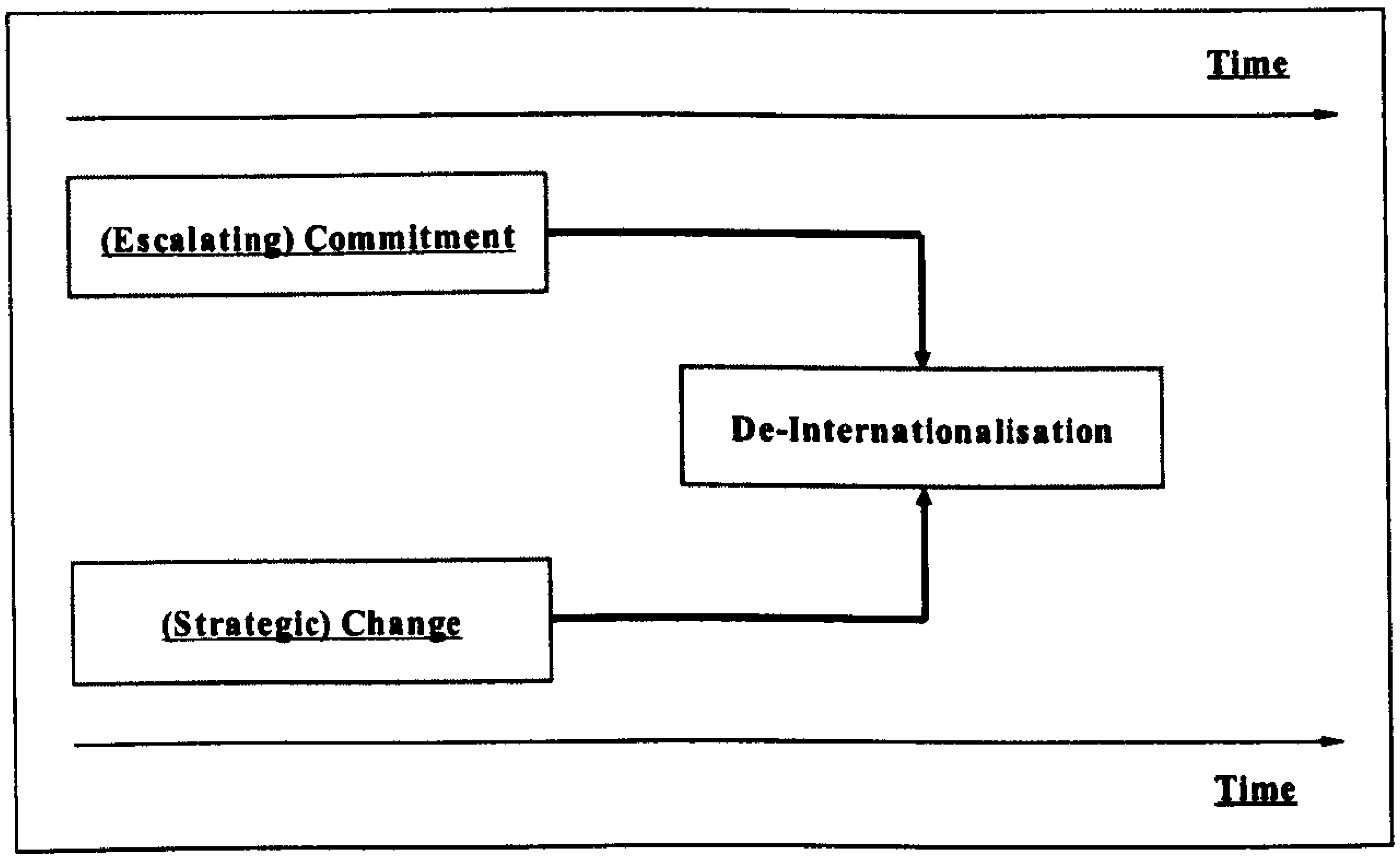
3.4.1 Emerging constructs

While the research to date on de-internationalisation has focused on large corporations, the following issues that emerged from the review of de-literature might help to develop the core constructs of small firms de-internationalisation. First, as the review of de-literature points out, de-internationalisation can be seen as a transition from one gestalt (e.g. franchising) to another (exporting) that requires entrepreneurs to make quantum changes to the organisational system quickly. Unfortunately, the content and duration of necessary changes to elements of the organisational system are variables that seem to be poorly understood by many entrepreneurs in young and rapidly growing firms. That is, these entrepreneurs are often at a loss regarding which elements of the organisational system to change, or how to change them, or how rapidly to change them (Slevin and Covin, 1997). Thus, an insight into *change* literature might provide an answer as to how change agents go about altering the organisational systems.

Second, in light of new growth opportunities – an equilibrium adjustment de-internationalisation – firms will achieve a high level of profit through the efficient use of resources and the effective exploitation of market power. In light of lack of clarity over the ends and means for example – an error correction de-internationalisation – the original error itself (e.g. internationalisation), if anything, would represent a failure, and would have to be corrected. As such, de-internationalisation process may be viewed as a (strategic) change in a firm's gestalt that has failed to support the initial international development of the firm. However, entrepreneurs may adhere to the existing course of action, e.g. internationalisation, even in the face of negative information concerning its viability, which in turn escalates commitment to the failing course of action. An insight into the *escalating commitment* literature may also contribute to the understanding of the de-internationalisation phenomenon.

And third, as change is embedded in time (Ford and Ford, 1995), it is time that makes it possible to consider phenomena which are of crucial importance to the firm's cross-border strategy, i.e. timing, duration, chronological sequence and velocity of different cross border moves (Kutschker and Baurle, 1997). Seen as a source of competitive advantage (Slevin and Covin, 1997; Welge and Holtbrugge, 1999), however 'time in organisational research is somewhat akin to the weather: everyone talks about it, but little is done about it' (Bird and West III, 1997: 6). Since time and resources are not independent of one another (Becker, 1965) the review of *time* literature could provide further additional insights into the what, how, and why of the de-internationalisation phenomenon. Thus, three constructs have been identified from the review of de-literature which could shed some light on de-internationalisation phenomenon and which will be discussed in depth in the following sections. These constructs are (i) (strategic) change, (ii) (escalating) commitment, and (iii) time (see Figure 8).

Figure 8. Small firms' context of de-internationalisation



Source: Turcan (2003a: 214)

3.4.2 (Strategic) Change

Planning for adversity is well worth the effort (Porter, 1976); so decision-making processes not only need to allow for the possibility of failure, but also need to facilitate withdrawal where appropriate (e.g. Drummond, 1995; Crick, 2004); However, as de-internationalisation literature shows, strategic change options like divestiture, diversification or replacement of the manager available to large corporations (Porter, 1976; Harrigan and Porter, 1983; Staw and Ross, 1987; Brockner, 1992; Hoskisson *et al.*, 1994; Nargundkar *et al.*, 1996; Benito, 1997;

Benito and Welch, 1997; Pauwels and Matthyssens, 1999; Haynes *et al.*, 2000; Mata and Portugal, 2000) are not generally available to small firms; so an alternative look is required as to how and why small organisations change. Hence, explaining and exploring how and why organisations change, by borrowing concepts, metaphors, and theories from organisational change literature, including strategic change literature, could shed some light on the de-internationalisation phenomenon itself.

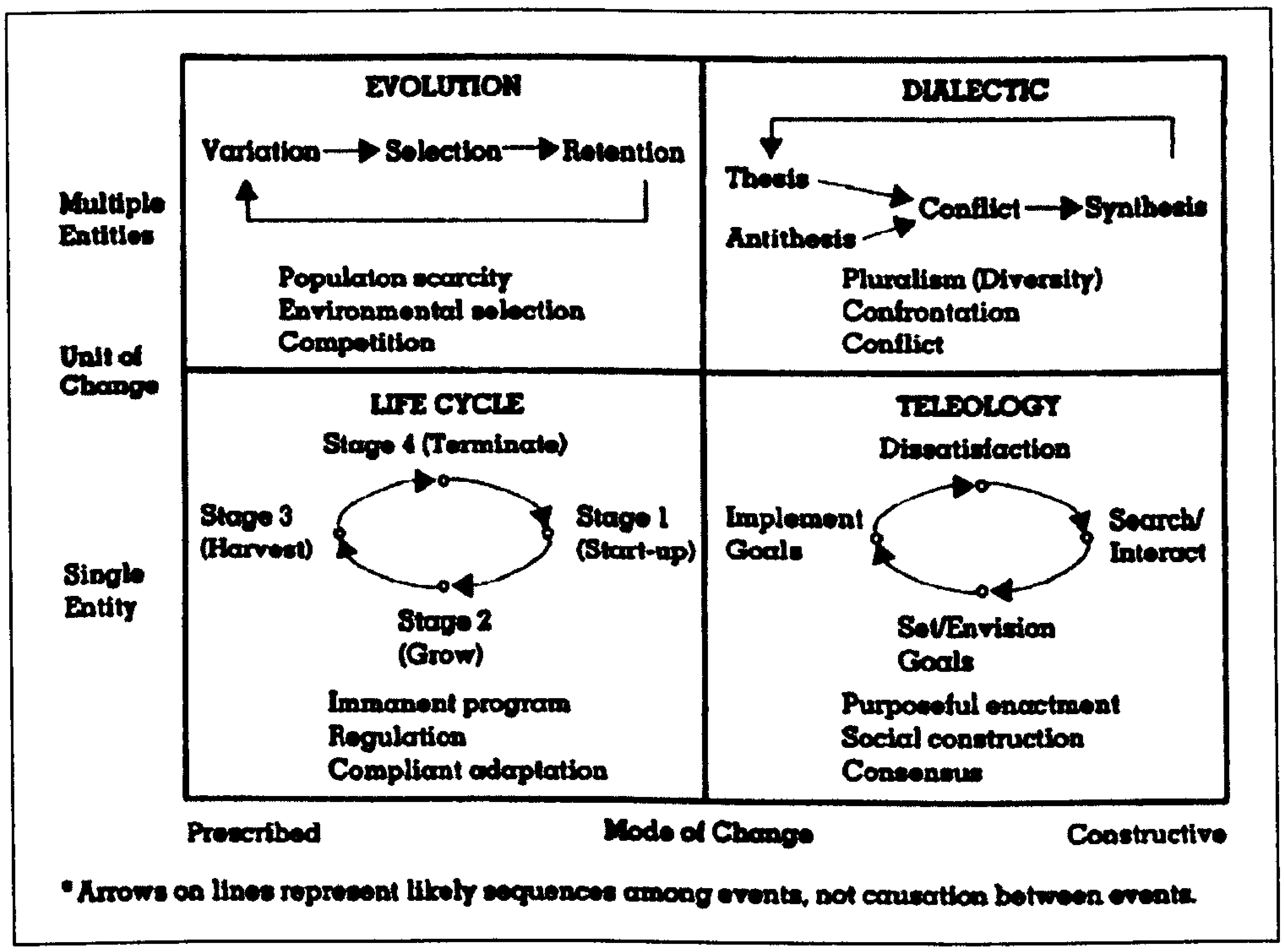
Van de Ven and Poole (1995) conducted an interdisciplinary literature review (incl. e.g. sociology, biology, physical sciences) to identify alternative theories to explain processes of change, and found that most of theories could be grouped into four basic schools of thought, i.e. life-cycle, evolution, dialectic, and teleology theories. According to *life-cycle theory*, change is imminent, i.e. the developing entity has within it an underlying form, logic, programme, or code that regulates the process of change and moves the entity from a given point of departure toward a subsequent end that is prefigured in the present state. Each stage of development is seen as necessary precursor of succeeding stages. According to *teleology theory*, that relies on the philosophical doctrine where purpose or goal is the final cause for guiding movement of an entity, the development of an organisation proceeds towards a goal or an end state. It is assumed that the entity is purposeful and adaptive; by itself or in interaction with others, the entity constructs an envisioned end state, takes action to reach it, and monitors the progress. *Dialectical theory* begins with Hegelian assumption that an organisation exists in a pluralistic world of colliding events, forces, or contradictory values that compete with each other for domination and control.

Hence, it requires two or more entities that embody these oppositions to confront and engage one another in conflict, i.e. stability and change are explained by reference to the balance of power between opposing entities. According to *evolution theory*, as in biological evolution, change is explained as a recurrent, cumulative, and probabilistic progression of variation, selection, and retention of organisational entities. Hence, one can specify the actuarial probabilities of the changing demographic characteristics of the population of entities inhabiting a niche; although one can not predict which entity will survive or fail.

On the basis of the above identified theories, Van de Ven and Poole (1995: 520) further developed a typology of change process theories (see Figure 9 below), in which (i) a process is viewed as a different cycle of change events, (ii) which is governed by a different "motor" or generating mechanism that (iii) operates on a different unit of analysis, and (iv) represents a different mode of change. On the basis of this meta-theoretical scheme, it can be inferred that dialectic and teleology theories of change processes are best suited to help researchers explore and explain the process of de-internationalisation from an international entrepreneurship perspective (as will be explained below).

That is, as defined by Van de Ven and Poole, *a prescribed mode* of change channels the development of entities in a pre-specified direction, typically of maintaining and incrementally adapting their forms in a stable, predictable way; whereas *a constructive mode* of change generates unprecedented, novel forms that, in retrospect, often are discontinuous and unpredictable departures from the past. Hence, a constructive mode of change is a process emergent in nature that can produce new action routines that may (or may not) create an original (re)formulation of the entity (Van de Ven and Poole, 1995), or as Davidsson (2005b) calls it new offers, new competitors, or new market entries. To the above, can also be added the life-cycle theory due to its immanent motor of change, which very seldom generates frame-breaking changes or mutations (Van de Ven and Poole, 1995), thus limiting the newness. As regards the evolution theory, it can only predict the changing demographic characteristics of a population without being able to predict the destiny of a specific entity, that is, who will survive, grow, or fail; thus making it impossible to explain the de-internationalisation process.

Figure 9. Process theories of organisational development and change



Source: Van de Ven and Poole (1995: 520)

There are however few limitations that need to be considered when applying teleological and dialectical theories. That is, as argued by Van de Ven and Poole (1995), it is impossible to specify what development trajectory an organisational entity will follow; at best a possible list of paths can be suggested on the basis of norms of decision or action rationality. Another challenge is that the above discussed 'ideal type theories' (Van de Ven and Poole, 1995) just identify and describe generic motors of change. However, in order to explain an organisational change that is of a more complex behaviour, it is necessary to combine these motors to create, in effect, hybrid (strategic) change theories (Mintzberg and Westley, 1992; Van de Ven and Poole, 1995; Rajagopalan and Spreitzer, 1997).

For example, as argued by Rajagopalan and Spreitzer (1997), the strategic change (literature), which can be classified into two schools of thought: the content school and the process school (Pettigrew, 1985), is best grounded in a multi-lens framework, which draws upon the perspective of three distinct theoretical lenses: rational, learning, and cognitive lenses. The rational lens perspective captures the theoretical models implicit in the content school. The focus of which is on antecedents and outcomes of strategic change, whereas the learning and cognitive lens perspectives capture the theoretical models primarily in the process school of strategic change, where the major concerns are why and how there are often gaps between the formulation and implementation of strategic change (Pettigrew, 1992).

According to the rational lens perspective, strategic change is a sequential, planned search for optimal solutions to well-defined problems on the basis of previously defined goals and objectives (e.g. Ansoff, 1965; Mintzberg, 1990). One of the limitations, from a theoretical perspective is that the rational lens treats the role of managerial actions and cognitions as a "black-box" (Rajagopalan and Spreitzer, 1997). Learning and cognitive perspectives provide complimentary views on strategic change by opening that "black-box". According to the learning perspective, managers effect change through a series of relatively small steps designed to probe the environment and organisation (Rajagopalan and Spreitzer, 1997); these learning steps may result in a change that is either continuous, evolutionary, incremental, or discontinuous, revolutionary, or transformational (e.g. Meyer *et al.*, 1990). A key assumption in the cognitive lens perspective is that the environment can not be objectively determined; instead it is enacted by managers and represented through cognitions (Johnson, 1990) defined as the extensive use of individual heuristics and beliefs that impact decision-making (Alvarez and Busenitz, 2001). However, both lenses have one common limitation. That is, when applying learning or cognitive lenses to the strategic change process, it is difficult to assess cause-effect relationships; as according to the former, managerial actions are treated as both the means and the end, whereas according to the latter, it is difficult to distinguish cognitions and actions from strategic changes (Rajagopalan and Spreitzer, 1997).

The above discussed theoretical lenses can be used in explaining the process of de-internationalisation, specifically when de-internationalisation is not viewed as a failure, but rather as a correction of an error Casson (1986) (of previous internationalisation efforts). For example, the consequences of hostile environments or inefficient management practices could be reversed by a turnaround strategy that is typically accomplished through a two stage process, i.e. *retrenchment* and *recovery* (Pearce II and Robbins, 1993). For a turnaround strategy to be effective in reversing decline, it has to address the declining firm's core problems, which could be either operational (not efficient), or strategic (weak strategic position relative to competitors) (Barker III and Duhaime, 1997).

The first stage, *retrenchment*, represents a set of senior management initiatives undertaken at the operational level to reverse declining financial performance and achieve cost and asset reductions (DeDee and Vorhies, 1998; Michael and Robbins, 1998). In other words, retrenchment is seen as an efficiency recovery strategy that entails actions designed to "do basically the same things on a smaller, more efficient scale" (Pearce II and Robbins, 1994). Cost retrenchment is accomplished through cross-boarder reductions in administrative overheads, inventory, material costs, marketing and selling expenses (Robbins and Pearce II, 1993). Asset retrenchment could be achieved by reducing property, plant, and equipment, work-in-progress inventories, receivables, and raw material in inventories. By and large, cost and asset factors most commonly used for retrenchment are those most procurable in factor markets containing little or no asset specificity such as advertising and sales-related areas (DeDee and Vorhies, 1998; Michael and Robbins, 1998). It is interesting to note, however, that a great proportion of small firms did not retrench given their financial distress (see Robbins and Pearce II, 1993; Michael and Robbins, 1998). This finding supports the assertion made in the next section that managers tend to escalate their commitment to an existing course of action even in the face of negative information concerning its viability.

The second stage, a recovery or a return-to-growth stage, involves reformulation of a firm's products, services, markets, or principal technologies in ways that represent a new or radically altered competitive posture (Moore, 1987; Whitney, 1987; cited in Pearce II and Robbins, 1994). Pearce II and Robbins (1993) argue that the option of post-retrenchment strategies may range from efficiency to entrepreneurial in orientation. Hence, it is these entrepreneurial components[9] of the recovery strategy that may provide a fruitful cross-fertilisation between strategic change and (international) entrepreneurship literature. As found by Barker III and Duhaime (1997), (see underlined areas in Table 3 below), management entrepreneurial actions identified as a change in strategy for firms attempting turnaround were for example in establishing new internal ventures or start-ups (37%), contracting, expanding or simultaneously contracting or expanding the scope of the corporation's foreign operations (50%), introducing completely new products or services (68%).

Overall, the level of strategic change during a turnaround varies with both whether firms need strategic change to recover, and with their capacity to

[9] It is important to mention here that not only entrepreneurial recovery strategies may contribute to the advancement of (international) entrepreneurship field; the study of how firms retrenchment relates to discovery and exploitation of new venture ideas is also an important research question for entrepreneurship as a scholarly domain (Davidsson, 2003a). Thus, it is when retrenchment, e.g. contracting for components, subassemblies and products that were previously manufactures by the firm (Barker III and Duhaime, 1997), leads to discovery and exploitation of new venture ideas, e.g. new price/value relation (see position 6 in Table 3), it can contribute to the advancement of (international) entrepreneurship field. Otherwise, when retrenchment (or efficient recovery orientation) is identified empirically as a stand-alone tactical response to decline in financial performance rather than just a part of the overall turnaround process (DeDee and Vorhies, 1998), it does not constitute entrepreneurship, and adds little to the advancement of entrepreneurship field.

implement such change (Barker III and Duhaime, 1997). Hence, successful planning of a turnaround is critically dependent on the manager's ability to correctly diagnose the cause of the decline (O'Neill, 1986), and the willingness of top managers to enact required strategic re-orientation. On the other hand, as argued by Reisner (2002), incremental improvements should not be mistaken for strategic transformation; as operational success can blind the manager to the need to reinvent the business strategically.

Table 3. Entrepreneurial components of the recovery strategy

Corporate-level management actions (domain-changing actions)

A. Acquiring firms or units of other firms competing outside historical lines of business (34%)
B. Acquiring firms or units of other firms competing within historical lines of business (45%)
C. Divesting organizational units intact (e.g., selling them as going entities) (61%)
D. Harvesting or liquidating the assets of units not divested (55%)
E. Establishing of new internal ventures or start-ups (37%)
<u>F. Entering into joint ventures outside traditional lines of business (18%)</u>
<u>G. Contracting, expanding, or simultaneously contracting and expanding the scope of the corporation's *domestic* operations (39%)</u>
<u>H. Contracting, expanding, or simultaneously contracting and expanding the scope of the corporation's *foreign* operations (50%)</u>
<u>I. Changing priorities among the corporation's traditional set of businesses (79%)</u>

Business-level management actions (changes in competitive decisions at the product-market level)

Marketing changes

1. Eliminating entire product or service lines from continuing businesses (61%)
2. Eliminating particular products or services from within the remaining lines (63%)
3. <u>Introducing completely new products or services (outside those created by acquisitions or joint ventures) (68%)</u>
4. <u>Expanding marketing efforts to new segments of customers, eliminating certain segments of customers, or both (68%)</u>
5. <u>Increasing the *average* prices of the company's products *in conjunction with increasing* customer service and sales-related expenditures (8%)</u>
6. <u>Increasing the *average* prices of the company's products *in conjunction with decreasing* customer service and sales-related expenditures (3%)</u>
7. Expanding the average scope of product distribution to a greater number of outlets (39%)

Source: Barker III and Duhaime (1997: 25); underlining added

Alternatively, decisions to de-internationalise might be viewed in the context of change in the business networks, especially in the dyadic networks (for example Anderson *et al.*, 1994; Halinen *et al.*, 1999). For example, Halinen *et al.* (1999) emphasized the central role of business-relationship dyads for understanding the mechanism of network change and, for the purpose of understanding dyadic network dynamics, introduced the term 'critical event' as an incident that triggers radical change in a business dyad and/or network. According to them, the start of a radical change depends on the actions and intentions of dyadic partners. Thus there will be a need to develop a longitudinal approach in order to fully understand and anticipate the change in the [dyadic] network (see for example Welch and Welch, 1996) – that is, actions and intentions, that will help understand the de-internationalisation process of small firms.

Another challenge to study organisational change comes from the study of new venture emergence. As argued by Nicholls-Nixon *et al.* (2000), in new ventures changes along dimensions of strategy are less about moving to a new steady state or redirecting an existing strategy as they are about forming and executing a strategy in an effort to reach a steady state for the first time. They proposed a concept of strategic experimentation as the organising framework for explaining why and how new ventures undertake change along dimensions of strategy. This framework builds on the learning and cognitive lens perspective where strategic change is viewed as an iterative process, i.e. it involves purposive actions, which are undertaken in a series of small steps, aimed at probing environment and the organisation (Rajagopalan and Spreitzer, 1997). That is, strategic experimentation differs from the concept of strategic change in that it is not predicted on the assumption that these actions involve realignment of an existing strategy; rather, the emphasis is on creating a coherent competitive approach for the first time (Nicholls-Nixon *et al.*, 2000). Another challenge that arises along with the above mentioned one is methodological in nature, i.e. how long does the experimentation last. Nicholls-Nixon *et al.* (2000) chose companies that survived over a 3 year period; why not 5 or 6 years. Furthermore, as also noted by the authors, the above sampling criteria may lead to another limitation in that it is difficult to judge causality between experimentation and performance. The above challenges are in the line with Pettigrew *et al.*'s (2001) argument that the field of organisational change is far from mature in understanding the dynamics and effects of time, process, discontinuity, and context.

However, entrepreneurs may adhere to the existing course of action, for example, internationalisation, even in the face of negative information concerning its viability; thus escalating commitment to the failing course of action. The next section will provide an insight into the literature on escalating commitment.

3.4.3 (Escalating) Commitment

When motivation to change comes from feeling threatened, entrepreneurs usually respond not just aggressively, but also rigidly. That is, they focus on defending the existing business model (as opposed to creating a new one); they commit resources in large sums (rather than in staged investments); and they tighten the existing organisational authority (instead of giving the new venture autonomy) (Gilbert and Bower, 2002). This phenomenon is referred to as escalating commitment or escalation that is being defined as a situation in which costs are incurred, negative feedback is perceived, and where there is an opportunity to withdraw or to persists, but the consequences of withdrawal or persistence are uncertain (Staw and Ross, 1978). As put by Brockner (1992), escalation situations include repeated decision making in the face of negative feedback about prior resource allocations, uncertainty surrounding the likelihood of goal attainment, and choice about whether to continue.

Escalating commitment has been attributed to four sets of forces that come into play over time (for review see e.g. Staw and Ross, 1987; Ross and Staw, 1993; Drummond, 1994): (i) project, (ii) psychological, (iii) social, and (iv) organisational. *Project factors* concern the objective aspects of a project, such as its closing costs, its salvage value, the causes of setbacks to its completion, and the economic merits of pursuing or dropping it. As compared to the above objective factors, *psychological factors* that influence the way information about courses of action is gathered, interpreted, and acted upon are less obvious to entrepreneurs. These are reinforcement traps (e.g. difficulties in withdrawing from a previously rewarded activity), information biasing (tendencies to skew data in the direction of pre-existing beliefs), and self-justification (interpreting bad news about a project as a personal failure). To the above, the entrepreneurs may persist also because they do not want to expose their mistakes to others, persistence then becomes a matter of face saving. *Social factors* include desires to justify losing projects to potentially hostile audiences, cultural norms favouring consistent, or strong leadership, and job insecurity. The last factor, *organisational*, as argued by Staw and Ross (1987), is the simplest element impeding withdrawal from losing projects. It includes for example such variables as the level of political support for a project within an organisation, and the extent of the project's institutionalization within the organisation.

As regards the weight of each factor upon the escalation process, Ross and Staw (1993) argue that psychological and social factors are important at the beginning and middle phases of the escalation episode, and do not appear influential at the final stage. Project variables in turn are an important force for commitment at both the earliest and latest stages of the episode; whereas the organisational factors play an important role in escalating during the final stage of the project. Drummond (1994) argues however that escalation is basically cyclical in nature, revolving around structural and social pressures; whereas psychological and project factors play a secondary role in escalating the commitment. Later Drummond (1998) observed that the link between rationality and chaos in escalating situations actually highlights the limitations of linear thinking originally suggested by Staw and Ross (1987). She argues that the relationship between 'cause' and 'effect' is not invariably straightforward.

Three long-established theories have been invoked to explain the phenomenon of escalation: (i) self-justification theory, (ii) prospect theory, and (iii) agency theory (for review see Brockner, 1992). *Self-justification theory* posits that under conditions of high personal responsibility and negative information, individuals tend to escalate their commitment to a failing course of action in an effort to justify their prior resource allocation decisions (Staw and Fox, 1977). Justification may be directed internally and externally. When justification is considered primarily as an intra-individual process, individuals are posited to attend to events and to act in ways to protect their self-image. When faced with an external threat or evaluation, individuals may be motivated to prove to others that they were not wrong in earlier decisions and the force for external justification could be even stronger than the protection of self-esteem (Staw, 1981; see also Bobocel and Meyer, 1994; Ruchala *et al.*, 1996).

Prospect theory explains individuals' risk-taking propensities under conditions of uncertainty (Kahneman and Tversky, 1979). It maintains that individuals tend to exhibit risk-seeking behaviour when faced with a decision alternative in the domain of losses (when the failure of the original decision results in negative movement away from the expected outcome), and risk-averse behaviour when faced with a decision in the domain of gains (when there is a positive movement away, or greater than, the expected original outcome). In an escalation dilemma prospect theory assumes that individuals believe to be in the domain of losses (negative movement from the initial reference point) (Brockner, 1992). In other words, the manner in which a decision is framed systematically affects the choice of decision. Thus, when a decision outcome is described as a loss (negative framing), managers are more willing to take risks to avoid that particular loss outcome than when exactly the same outcome is described in terms of a gain (positive framing) (Sharp and Salter, 1997; see also Rutledge, 1995).

Agency theory concerns the relationship between someone who delegates work (the principal) and another individual (the agent) who performs that work (Eisenhardt, 1989a). It is based on the assumption that there might be a divergence of goals between the manager (agent) and the firm's owner (principal). The conditions that are necessary for this divergence in an escalation context are: (i) incentive to shirk, i.e. the manager's reward for continuing (escalating) the project is greater than that for discontinuing it; and (ii) information asymmetry, where the manager has more information than the owner, so that the owner is not fully aware of the state of the project (Salter and Sharp, 2001). Hence, if escalating a losing project is in a manager's (agent's) self-interest and if s/he has private information regarding the outcomes of the escalation decision that the firm owner (the principal) does not have, then the manager will rationally escalate the firm's commitment to the decision, even if this is not in the firm's best interest (Sharp and Salter, 1997; see also Kirby and Davis, 1998).

Despite some evidence (see Keil, 1995), which indicates that self-justification theory has more explanatory power than prospect and agency theories, the extant empirical work on escalation behaviour (e.g. Sharp and Salter, 1997; Geiger *et al.*, 1998; Greer and Stephens, 2001) supports the earlier assertion of Brockner (1992) that researchers should invoke several theoretical perspectives in order to explain the escalation phenomenon more completely. From a cross-border perspective in general, and an internationalisation effort in particular, the above theories could be applied to explicate the continuous resource allocation to a chosen course of action, for example internationalisation, even when there is no certainty that additional investments will be sufficient to bring about goal attainment. Indeed, it is the uncertainty surrounding goal attainment that prompts decision makers to view their allocated resources simultaneously as either investments or expenses (Brockner, 1992). All in all, such critical events in a decision making process will represent nothing else but an opportunity to persist or to withdraw (to de-escalate).

The relationship between escalation and de-escalation (for review of de-escalation literature see Montealegre and Keil, 2000) is basically one of opposites (Bowen, 1987; Staw and Ross, 1987; Drummond, 1995). Hence, withdrawal mostly occurs in conditions opposite to those favouring persistence, when either: (i) commitment to a course of action does not exist, regardless of the interpretation of the quality of feedback; or (ii) the enactment of feedback is unequivocal and negative, and therefore sufficiently convincing that to continue in a course of action would be "throwing good money after bad" regardless of the decision-maker's commitment to that strategy (Bowen, 1987: 61). Drummond (1995) corroborated Bowen's model and extended it by arguing that escalation is a function of commitment and that perceived power with information is an important component of that power. She argues that withdrawal is *most probable* under conditions of low commitment and high perceived power to enact withdrawal, and is *possible but less likely* under high commitment and high perceived power (Drummond, 1995: 278). Montealegre and Keil (2000) developed a model that depicts de-escalation as a dynamic process that is simultaneously constrained by actions in the antecedent episode, yet capable of constructing new patterns of commitment to alternative courses of action. Hence, the basic theoretical constructs of the model are the triggering events that are measured by observations of incidents. These triggering events are (i) problem recognition; (ii) re-examination of prior course action; (iii) search for alternative course of action; and (iv) implementing an exit strategy.

Simonson and Staw (1992) were among the first to test several de-escalation techniques derived from two theoretical mechanisms relating to escalation behaviour: self-justification and decision vigilance. These techniques are: (i) thorough decision making – instructing decision makers to prepare a detailed outline of the advantages and disadvantages of each action alternative prior to reaching a decision; (ii) minimum goal setting – instructing decision makers to outline minimum target levels which if not achieved will lead to a change in policy; (iii) threat reduction – reducing concerns about both self- and external justification; (iv) self-diagnosticity – informing decision makers that their decisions are reliable indicators of their abilities; (v) accountability for decision process – informing decision makers that their decisions will be evaluated on the basis of the effectiveness of their decision process; and (vi) accountability for decision outcome – informing decision makers that they will be evaluated on the effectiveness of their initial investment decisions. Not all the above de-escalation techniques proved to reduce the escalating commitment. The findings of their research strongly suggest that by setting specific minimum target levels, emphasising the decision process rather than simply focusing on decision outcomes, and making decision makers less fearful of the consequences of failure, the desire to save a course of action at almost any cost may be diminished. As put by Drummond (1995) decision-making mechanisms not only need to allow for the possibility of failure, they must be designed to facilitate withdrawal where appropriate.

From the perspective of the small firm, it is the founding entrepreneur that makes a unique contribution to the firm's development (Hill and Wright, 2001), and it is entrepreneurial commitment, determination, vision, energy, tolerance of risk and ambition, that makes the entrepreneurial process happen in these firms (Hill and McGowan, 1999). Hence, the entrepreneur could be viewed as being highly committed and having high perceived power, thus making the withdrawal less possible. Therefore, there will be a challenge for researchers to study both tacit and explicit decisions made by entrepreneurs to de-internationalise, in order to identify and estimate the salience of the factors which finally prompt withdrawal (Drummond, 1995).

Another difficult task is how to operationalise and measure the commitment in a dynamic way – a task that remains a challenge (Pauwels and Matthyssens, 1999). In addition, there will be a need to define and operationalise the perceived failing course of action[10] and to account for cognitive bias in investigating the de-internationalisation decision process (Watson and Everett, 1993; 1999; Das and Teng, 1999). Only by conducting contextually based research can observers fully understand how organisations are drawn into losing courses of action and how they may be able to extricate themselves from these predicaments (Ross and Staw, 1993).

[10] For example, in the USA the buy out of a small firm by a large corporation is often viewed as an exit strategy (Westphal, 1999), whereas in Germany a merger with another company is always perceived as failure (Achtenhagen, 2002).

Of the above challenges, the most compelling are the requirements to link context with action and the concomitant need to expose processes and mechanisms of change through temporal analysis. The next section will discuss the importance of time in theory building, designing conceptual frameworks and research methodologies.

3.4.4 Time

Although all phenomena exist in and through time, researchers often ignore, treat implicitly, or treat explicitly but in an inadequate manner the dimensions of time (George and Jones, 2000; see also Macharzina and Engelhard, 1991; Butler, 1995; Pettigrew *et al.*, 2001). Even seen as a source of competitive advantage (Slevin and Covin, 1997; Welge and Holtbrugge, 1999), 'time in organisational research is somewhat akin to the weather: everyone talks about it, but little is done about it' (Bird and West III, 1997: 6). For the past decade or so, concepts of time have spurred a lot of debates across various organisational research fields, for example in (i) in entrepreneurship (ETP special issue, winter 1997); (ii) international business (Macharzina and Engelhard, 1991; Kutschker and Baurle, 1997; Kutschker *et al.*, 1997; Oesterle, 1997; Welge and Holtbrugge, 1999); (iii) international entrepreneurship (Hurmerinta-Peltomaki, 2003; Jones and Coviello, 2002); (iv) strategy research (Das and Teng, 2001; Farjoun, 2002); and (v) management studies (AMR special issue, October 2001), to name a few.

The key argument in the literature is that time can and should play a much more important and significant role in theory and theory building because time directly impacts the what, how, and why elements of a theory (see for example Ancona and Chong, 1996; George and Jones, 2000). According to George and Jones (2000), the "what" of theory is concerned with the creation and definition of the constructs that are thought to be necessary to adequately understand some phenomenon. The "how" of theory building is concerned with specifying the nature of the relationships between constructs in the theory, and often their causal ordering (Whetten, 1989). The "why" of theory building is concerned with explaining why constructs should be related to each other in the ways proposed by the theory, i.e. why proposed causal relations are likely to exist (Whetten, 1989).

While most theory still involves fairly simple relationships of the X-causes-Y variety, with X and Y representing substantive variables other than time, Mitchell and James (2001) suggest that there are five major ways in which theory informs method with respect to time: (i) *time lag* between X and Y: how long after X occurs does Y occur?; (ii) *durations* of X and Y: not all variables occur instantaneously; (iii) *rate of change*: X and Y may change over time; (iv) *dynamic relationships*: where X and Y both change – the rate of change for both variables should be known, as well as how the X,Y relationship changes; and (v) *reciprocal causation*: when X causes Y and Y causes X – an understanding of two sets of lags, durations, and possibly rates is required. However, as Mitchell and James (2001) further argue, time can enter into theories in much more complex ways than those described above (see for example Butler, 1995; Kutschker and Baurle, 1997; Ancona *et al.*, 2001; Farjoun, 2002; Hurmerinta-Peltomaki, 2003).

In this respect, Mosakowski and Earley (2000: 796) introduce five distinct dimensions of time that bring complexity into temporal studies of organisations : (i) *nature of time*, i.e. is it real or epiphenomenal; (ii) *experience of time*, i.e. is it objective or subjective; (iii) *flow of time*, i.e. is it perceived as novel (it advances with novelty and little repetition of events), cyclical (it advances cyclically with repetitive events), or punctuated (it advances irregularly with repetitive events punctuate by novel ones); (iv) *structure of time*, i.e. is it perceived as discrete (consist of discrete temporal units of measurable and equal duration), continuous (that can not be broken into units but can be identified with events), or epochal (discrete temporal units, the length of which is perceived to vary depending on subjective experience); (v) *referent point of time*, i.e. when time perceptions are anchored with a referent point in the past, present, or future.

On the basis of the aforementioned variables that are commonly used to conceptualize the time, researchers developed various clusters of time in order to make links with institutional, organisational, decision making and learning factors (see for example Butler, 1995; Kutschker *et al.*, 1997; Huy, 2001). For example, Butler (1995) identified four clusters of time: clock, organic, strategic and spasmodic (Table 4).

(i) *Clock time* is time where the past is assumed to be carried forward into the future and where future events can be well predicted from codified knowledge about the past. For this time to be experienced there has to be congruence of views over possible futures. (ii) *Organic time* is a natural growth whereby ideas and actions develop through consensus building and congruence over possible futures, but where the present is connected to the past by means of heterogeneous and relatively uncodified knowledge. (iii) *Strategic time* is dependent upon the actions of other people whose views of possible futures are not congruent with ours and who have the power to affect our futures, but when the past is codified into a homogeneous set of rules. (iv) *Spasmodic time* is when the past is heterogeneously codified and when participants find it difficult to agree over the future.

Table 4. Clusters of time experience

Timeframe	Clock	Organic	Strategic	Spasmodic
Present Experience:				
Linearity, regularity, pace	High	Medium	Medium	Low
Novelty, concurrence, movability	Low	Medium	Medium	High
Past:				
Codification of knowledge	Homogeneous	Homogeneous	Homogeneous	Homogeneous
Memory	Long	Long	Short	Short/Long
Future:				
Congruence of visions	High	High	Low	Low
Horizon	Long	Long	Short	Short

Source: Butler (1995: 932).

When applying the above defined clusters to the decision making process, Butler (1995) suggests that clock time relates to the situation when there is congruence over ends and clarity over means and decision making by *computation* is called for. When there is a lack of congruence but clarity over means, decision making by *bargaining* and *politics* is called for, and the related timeframe will be strategic time. Organic time relates to the situation when there is congruence with lack of clarity, and thus *judgmental* decision making is called for. Spasmodic time relates to the situation when there is a lack of congruence over the future and lack of clarity over means, and when decision-making can be expected to follow an *inspirational* pattern.

As it can be noticed, the above four modes of decision making are defined by two basic dimensions of decision making (see e.g., Hayes, 1985). First, is the extent of agreement amongst decision makers over the desired ends to be attained (e.g. vision, or entrepreneurial orientation). Second, is the degree of clarity over the means to reach those ends (e.g. perception of resource availability). These effects of timeframes on decision making-processes might play an important role in the advancement of de-internationalisation theory. For example, at the time that the de-internationalisation decision was taken, the question becomes what triggered this event? Was it the result of incongruence over the ends (maybe the overall internationalisation efforts were questioned), or was it the result of over/underestimating the availability of resources (either at the beginning of internationalisation activity or when there was already a real international commitment).

By answering these questions, a contribution could be made for example to the resource-based view theory as to how past, present, and future, or how temporal personality, a characteristic way in which an actor perceives, interprets, uses, allocates, or otherwise interacts with time (Ancona *et al.*, 2001) contribute to the sustainability of economic rents and the creation of dynamic capabilities (for debate on this issue see for example Barney, 1986; Mosakowski, 1998).

Hence, fundamental to the entrepreneurs' experience of time in the present is the knowledge he/she has of the past and how he/she uses this knowledge to envisage the future (Butler, 1995). How the present is determined depends roughly on the entrepreneurs' subjective perceptions and experiences, even if there is objectivity[11] behind it (e.g. Chapman, 1982), paying special attention to decision-makers' personal and social idiosyncrasies (Macharzina and Engelhard, 1991) in order to get insights into how and why small firms might de-internationalise. Accordingly, attention must be paid to the way a phenomenon is created subjectively, out of a person's ongoing temporal experience and constructs must be defined so as to reflect the dimensions of time, i.e. (i) codes and memories; (ii) congruence and horizons; and (iii) present experience (Butler, 1995). Like a fingerprint, a temporal personality is unique for each actor (Ancona *et al.*, 2001).

For example, given that risk is embedded in time, Das and Teng (1997; 2001) propose a temporal framework of strategic risk behaviour in which two temporal dimensions are integrated with risk propensity and perceived decision context. The first temporal dimension is concerned with risk horizons, as in short-range and long-range horizons; and the second temporal dimension relates to individual future orientations of the top managers, as in near-future and distant-future orientations. Applying this temporal framework to de-internationalisation decisions, it can be argued that de-internationalisation

[11] As Halinen *et al.* (1999) argue they (environmental forces) are always transmitted within the network through individual relationships; or as Macharzina and Engelhard (1991) point out internationalizing firms adjust to their environments through their decision-makers.

decisions could be the effect of emergence of different temporal risk referents, e.g. time intervals deviate from existing temporal risk referents (Ancona *et al.*, 2001). When this happens, more cognitive resources will be devoted to perceiving and evaluating time (Blount and Janicik, 2001).

When an organisational intervention (e.g. de-internationalisation) is introduced as a response to the emergence of new temporal referents, one of the key questions is when one might expect changes in outcomes to occur and what kinds of internal pacing and cycles allow for maximum entrainment to external ones (Ancona *et al.*, 2001). Hence, the basic question is to understand when de-internationalisation might occur? Also, if one is predicting a pattern of events that occur in some order (e.g. when a firm might increase or decrease its level of international economic involvement or inward-outward connection), a theory must inform the researcher about start time (Mitchell and James, 2001). For example, de-internationalisation may take some amount of time to unfold, and the shape of that unfolding (e.g., linear, cyclical) may vary; also the biggest problem is the issue of when de-internationalisation should be measured; as the time periods selected to measure de-internationalisation will determine what can be learned (Ancona *et al.*, 2001). Knowing when and how frequently to measure requires the theoretician to address issues of intra-individual change, inter-individual change, and contextual change (Willett and Sayer, 1994).

Hence, the researchers have to provide ample time for the effect to take place. In this respect, Ancona *et al.* (2001) suggest the following assumptions in conducting organisational research, i.e. researchers (i) can develop theories about time lags; (ii) cannot do point estimates – that is, predict exactly when changes in outcomes will occur, and (iii) can develop tools that will permit some dynamic forecasting and understanding of the lags.

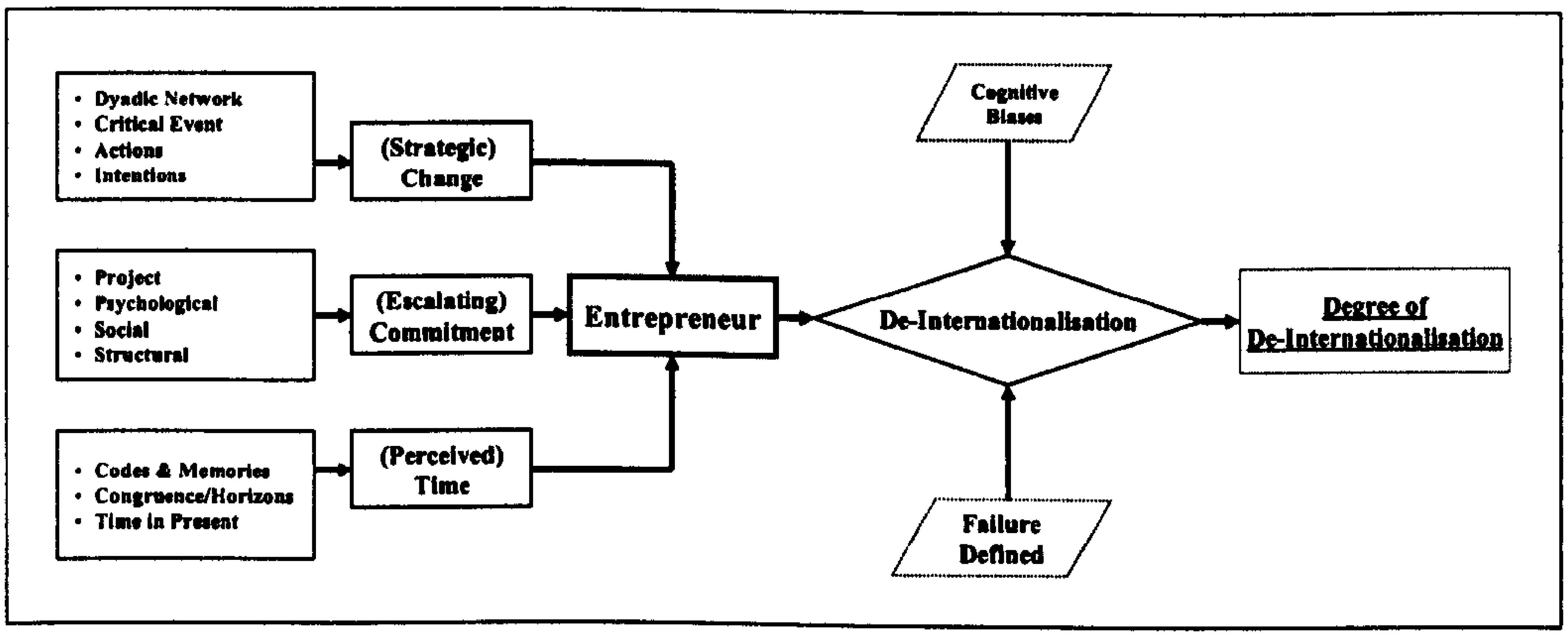
3.4.5 De-internationalisation: A Conceptual Model

As argued by Mackenzie (2000: 113), there are four basic ideas behind any organisational process. First, all processes involve events. Second, a process involves a time-dependent sequence of these events. Third, any organisational process involves five distinct components: (i) the entities (usually people) involved in performing the process, (ii) the elements used to describe the steps or stages in a process, (iii) the relationship between each pair of these elements, (iv) the links to other processes, and (v) the resources and their characteristics-in-use involved with elements. Forth, the outcome of a process is determined by the process itself. Further, Mackenzie argues that the organisation of components (ii), (iii), and (iv) form a process framework, and defines a process as a time-dependent sequence of events governed by a process framework. Based on the previous sections' discourse, this section will attempt to develop a conceptual framework of the de-internationalisation process from a cross-border perspective around the following elements that emerged: (i) change, (ii) escalating commitment, and (iii) time (see Figure 10).

As the review of literature on change suggests, the de-internationalisation process in small firms may be best viewed as a constructive mode of change that generates unprecedented, novel forms, which, in retrospect, often are discontinuous and unpredictable departures from the past (Van de Ven and

Poole, 1995). That is, de-internationalisation may be viewed as emerging in nature and creating an original (re)formulation of the entity, or as Davidsson (2005b) calls it new offers, new competitors, or new market entries.

Figure 10. Conceptual framework of de-internationalisation process



Source: Turcan (2003: 216)

As a change generating mechanism, the firms' propensity to influence their exchange conditions and form new linkages while terminating others (Elg and Johansson, 1996) might explain the process of de-internationalisation. Hence, decisions to de-internationalise might be viewed in the context of change in the business networks, especially in the dyadic networks (see for example Anderson *et al.*, 1994; Halinen *et al.*, 1999). As argued by Halinen *et al.*, (1999), it is a 'critical event' that triggers radical change in a business dyad and/or network, and the start of a radical change depends on the actions and intentions of dyadic partners (see Figure 10).

Regarding internationalisation as a barrier to de-internationalisation, Benito and Welch (1997) argue that the probability of withdrawal from international operations declines as the commitment to these operations increases. Escalation situations include repeated decision making in the face of negative feedback about prior resource allocations, uncertainty surrounding the likelihood of goal attainment, and choice about whether to continue (Brockner, 1992). Escalating commitment has been attributed to four sets of forces that come into play over time: (i) project, (ii) psychological, (iii) social, and (iv) organisational (Ross and Staw, 1993; Drummond, 1994).

As regards, de-escalation, Drummond (1995) argues that withdrawal (e.g. de-internationalisation) is most probable under conditions of low commitment and high perceived power to enact withdrawal. However, from the perspective of the small firm, it is the founding entrepreneur that makes a unique contribution to the firm's development (Hill and Wright, 2001), and it is entrepreneurial commitment, determination, vision, energy, tolerance of risk and ambition, that makes the entrepreneurial process happen in these firms (Hill and McGowan, 1999). Hence, the entrepreneur could be viewed as being highly committed and having high perceived power, thus making the withdrawal less possible. Therefore, there will be a challenge to study both tacit and explicit decisions made by entrepreneurs to de-internationalise, in order to identify and estimate the salience of the project, psychological, social, and organisational factors which finally prompt withdrawal (see Figure 10). Another difficult task is how to operationalise and measure the commitment in a dynamic way – a task that remains a challenge (Pauwels and Matthyssens, 1999).

As the review of the time literature suggests, time is the most complex and least embodied phenomenon in international business and entrepreneurship research. The complexity is generated by the fact that time directly impacts the what, how, and why elements of a theory (e.g., Ancona and Chong, 1996; George and Jones, 2000). Specifically, there are five distinct dimensions of time that bring complexity into temporal studies of organisations: (i) nature of time; (ii) experience of time; (iii) flow of time; (iv) structure of time; and (v) referent point of time (Mosakowski and Earley, 2000). That is, like a fingerprint, a temporal personality is unique for each actor (Ancona *et al.*, 2001) and every phenomenon.

For example, as discussed earlier, at the time that the de-internationalisation decision was taken, the question becomes, what triggered this event? Was it a result of incongruence over the ends (maybe the overall internationalisation efforts are questioned). Or, was it a result of over/underestimating the availability of means (either at the beginning of internationalisation activity or when there was already a real international commitment)? Hence, fundamental to understanding the entrepreneurs' experience of time in the present is the knowledge they have of the past and how they use this knowledge to envision the future. That is, attention must be paid to the way de-internationalisation phenomenon is created subjectively, out of entrepreneur's ongoing temporal experience, via their (i) codes and memories of the past; (ii) congruence and horizons of the future; and (iii) present experience (Butler, 1995) (see Figure 10).

As a consequence of organisational change, entrepreneurs must assemble and deploy (heterogeneous) resources in order to quickly reduce the tension that builds within the gestalt (Covin and Slevin, 1997). On top of that, organisational change will require that entrepreneurs make timely adjustments to their mental models that both facilitate and limit attention to and encoding of salient information about changes in organisational environments (Barr *et al.*, 1992). A key assumption of this cognitive lens perspective on the organisational change is that the environment can not be objectively determined. Instead, it is enacted by managers and represented through cognitions (Johnson, 1990) defined as the extensive use of individual heuristics and beliefs that impact decision-making (Alvarez and Busenitz, 2001). As argued by Busenitz and Barney (1997), under conditions of environmental uncertainty and complexity, without the use of biases and heuristics, many entrepreneurial decisions would never be made.

Specifically, it is pivotal to understand how an entrepreneur's perception of resource availability affects the perception of overlooked international opportunities (see for example Brown and Kirchhoff, 1997; Manolova *et al.*, 2002). The importance of this relationship comes to the fore when it is acknowledged that opportunities initially identified are often not the ones that subsequently are being pursued (Sjolander and Magnusson, 2002); or when entrepreneurs are susceptible to the escalation of commitment (Baron, 1998); or when entrepreneurs' intentions change (Krueger, 2000). It is suggested that the proposed framework shall account for cognitive biases and heuristics in investigating the de-internationalisation decision process (see Figure 10).

As divestment is one form of de-internationalisation, one can paraphrase Casson (1986) by saying that there are two types of de-internationalisation: equilibrium adjustment de-internationalisation and error correction de-internationalisation. In the former process, the firm moves from an initial equilibrium capital structure to a new equilibrium capital structure as a response to changes in its environment. In the latter process, de-internationalisation represents the correction of a previous error, i.e. an error of omission if the company should have divested earlier but failed to do so, or an error of commission if the company should not have divested earlier but did so.

However, as the research to date shows (see for example Benito and Welch, 1997; Pauwels and Matthyssens, 1999; Matthyssens and Pauwels, 2000; Crick, 2004), the de-internationalisation phenomenon is perceived as a failure probably due to seemingly negative and undesirable features associated with this phenomenon (Clarke and Gall, 1987; Benito and Welch, 1997). At the same time, it is crucial to acknowledge that the perception of failure varies across cultures (Westphal, 1999; Achtenhagen, 2002), and legal environments (see for example Watson and Everett, 1993; 1999). Hence, there will be a need to define and operationalise the perceived failing course of action in order to moderate the effect of cultures and various legal environments on the perception of failure (see Figure 10).

As regards the degree of de-internationalisation, one of the key questions is when one might expect changes in outcomes to occur and what kinds of internal pacing and cycles allow for maximum entrainment to external ones (Ancona *et* *al.*, 2001)? Hence, the basic question is to understand when de-internationalisation might occur? Also, if one is predicting a pattern of events that occur in some order (e.g., when a firm might increase or decrease its level of international economic involvement or inward-outward connection), a theory must inform the researcher about start time (Mitchell and James, 2001), e.g. de-internationalisation may take some amount of time to unfold, and the shape of that unfolding (e.g., linear, cyclical) may vary. Also, the biggest problem is the issue of when de-internationalisation should be measured; as the time periods selected to measure de-internationalisation will determine what can be learned (Ancona *et al.*, 2001).

3.5 CONCLUSION

This chapter aimed to further the understanding of cross-border activities of small firms by exploring the nature of the de-internationalisation processes in small firms. The review of internationalisation literature points out that most of the research to date on internationalisation, especially of small firms, has focused on the growth –or positive development – of international business operations. The research on de-internationalisation is far less common due to seemingly negative and undesirable features associated with this phenomenon. The existing approaches to internationalisation, them being stage and network, that dominate the theoretical discourse on small firm internationalisation, can not fully accommodate de-internationalisation and post-de-internationalisation processes.

Moreover, while extant cross-border literature has emphasized the role of domestic and foreign country factors on the initial choice of foreign market entry mode, less is documented on the effect of changes in the external environment, or indeed internal changes within the firm on the continuance of internationalisation beyond selected foreign market entry decisions. Perhaps the questions that most need to be addressed by firms, policy makers, and researchers is: "To what extent is this mode of operation continuing to deliver returns and positive performance, and if less than optimal, what change would better effect attainment of projected targets?"

The review of existing de-literature (de-investing, de-franchising, and de-exporting) revealed that a theoretical understanding of the process of de-internationalisation, especially within small firms, is in its infancy. While the research to date on de-internationalisation has focused on large corporations, there could identified three constructs that formed the basis of the conceptual framework of de-internationalisation process of the small firm, and that would be used as initial open codes in the data collection and analysis phase of the research.

These constructs are: (i) change in dyadic networks, that could be triggered by a critical event, and depends on the actions and intentions of dyadic partners; (ii) escalating commitment of entrepreneurs which is influenced by project, psychological, social and structural factors; and (iii) time that is experienced in the present by entrepreneurs by relating themselves to codes and memories (past), and congruence and horizons (future). The importance of the proposed conceptual framework to study the de-internationalisation process is twofold. It may help to develop a better theoretical understanding of small-firm internationalisation. And, if there is a better understanding of the factors that are likely to influence de-internationalisation and post-de-internationalisation decisions, this will help policy-makers develop more inclusive trade-support strategies.

The difference between a warrior and an ordinary person is that the warrior sees everything as a challenge while an ordinary person sees everything as a blessing or a curse.

Sun Tzu, 400 BC

4 ENTREPRENEURSHIP PERSPECTIVE ON DE-INTERNATIONALISATION[12]

4.1 INTRODUCTION

As the primary aim of the thesis is to uncover the de-internationalisation phenomenon, the purpose of this chapter is to explore whether de-internationalisation can be viewed as an entrepreneurial activity. To achieve the above, the typology of entrepreneurship is explored based on Stevenson and Jarillo (1990) and Shane and Venkataraman (2001) research frameworks. The discussion then takes up the question of whether entrepreneurship could be viewed as growth and whether growth could be a reflection of entrepreneurship (Davidsson *et al.*, 2001). The chapter will conclude by positioning de-internationalisation within entrepreneurship paradigm.

4.2 A PERSPECTIVE ON ENTREPRENEURSHIP

Various strands of literature from several disciplinary areas have contributed to the growing field of entrepreneurship. These include economics (Hebert and Link, 1982), sociology (Reynolds, 1991), psychology (Miner, 1997), anthropology (Stewart, 1991), and strategic management (Sandberg, 1992). However, Sexton's

[12] This chapter was the foundation of one paper presented at the AIB conference, the UK Chapter: Turcan (2003b).

(1988: 5) question whether '... the field of entrepreneurship [is] growing, or [it is] just getting bigger?' is still valid today (Bruyat and Julien, 2001; Low, 2001).

To cope with the above, several attempts have been made to streamline the study of entrepreneurship. For example, Stevenson and Jarillo (1990: 18) suggested dividing the plethora of studies on entrepreneurship into three main categories, i.e. *what* happens when entrepreneurs act; *why* they act; and *how* they act. Ten years later, Shane and Venkataraman (2000: 218) argued that there are three sets of research questions of paramount importance in the inquiry into entrepreneurship phenomenon: (i) *why*, *when*, and *how* opportunities for creation of goods and services come into existence; (ii) *why*, *when*, and *how* some people and not others discover and exploit these opportunities; and (iii) *why*, *when*, and *how* different modes of action are used to exploit entrepreneurial opportunities [emphasis added]. At first glance it could be noticed that above mentioned frameworks carry out the same social science interface: (i) economics; (ii) sociology and psychology; and (iii) the theory of the growth of the firm each of which will be discussed in details in the following sections.

4.2.1 Economic Perspective

From the first set of questions posed by Stevenson and Jarillo (1990) and Shane and Venkataraman (2000) it could be inferred that the focus of enquiry is on the relationship between the economic system and the entrepreneur, or as Stevenson and Jarillo (1990) suggested it is the net *effect upon the general economic system* [original emphasis] of the actions of the entrepreneur that matters here, and the role he or she plays in the development of the market system. Four main approaches have been identified by Casson (1990b) in order to understand entrepreneurship in economic theory. These are:

- the entrepreneur as a bearer of risk (Cantillon, 1755; Knight, 1921)
- the entrepreneur as an innovator (Schumpeter, 1934)
- the entrepreneur as an intermediary in a dynamic market process (Kirzner, 1979; 1982; 1997a; 1997b)
- the entrepreneur as a judgmental decision maker (Casson, 1982)

The next sections will discuss these four strands of thinking in greater detail and provide a synthesis with regards to the relevance of these approaches to the present study.

4.2.1.1 Entrepreneur as Risk Bearer

One of the first attempts to define the economic role of the entrepreneur can be traced back to the eighteenth century. Cantillon (1755) was among the first economists to define the entrepreneur as a middleman who conducts his enterprise at an uncertainty (pp. 49-65), i.e. bearing the risk of buying at a certain price and reselling, wholesale or retail, at an uncertain price (pp. 51-67). All other inhabitants who live on fixed incomes, Cantillon identified as hired people or dependants. Cantillon's approach to entrepreneurship is based on the assumption of a changing and dynamic environment that, being unpredictable, introduces elements of risk and uncertainty (Casson, 1990b).

Knight (1921) furthered Cantillon approach by differentiating between risk and uncertainty arguing that entrepreneurship activities 'differ in respect to the kind of amount of knowledge and judgment requires for their successful direction' (p. 269). Thus the entrepreneurs are 'acting, competing, on the basis of what they *think* of the *future*' (p. 273). As compared to Cantillon, Knight differentiated between risk and uncertainty that eventually operated as grounds of the future. Risk, according to Knight, relates to recurrent situations in which, by repeated observation, it is possible to estimate the relative frequencies with which different outcomes will arise (Casson, 1990b). However, as Knight further argued, 'the existence [of enterprise] in the world is a direct result of the fact of uncertainty' (p. 271); '[w]ith uncertainty absent, man's energies are devoted altogether to doing things; ... [w]ith uncertainty present ... the primary problem or function is deciding what to do and how to do it' (p. 268). As per Casson's (1990b) interpretation, it is not the measurable risk but the immeasurable uncertainty that constitutes the basis for pure profit.

As can be noticed from the above discussion, both Cantillon (1755) and Knight (1921) focused upon the economic role of the entrepreneur, rather than the individual who performs such a role. Furthermore, for both Cantillon and Knight the term *entrepreneur* meant basically *businessman* who could be seen as the protagonist of economic activity in general (Stevenson and Jarillo, 1990).

4.2.1.2 Entrepreneur as Innovator

A paradigm shift in economic thinking about entrepreneurship was put forward by Schumpeter in 1934. He argued (1934: 74) that entrepreneurship (or innovation), as a process of 'carrying out of new combinations', whereby entrepreneurs are 'individuals whose function is to carry these [new combinations] out', is the fundamental phenomenon of economic development.

He based his theory of economic development on the assumption that the economic system conforms to 'the circular flow or the tendency towards equilibrium' (1934: 82). Thus, in order for the development to occur, the circular flow shall be broken. So, entrepreneurship could be perceived as the means by which the economic system is thrown into temporary disequilibrium, until it gradually settles down into a new, higher-order equilibrium (Birkinshaw, 2000). Schumpeter (1942) hypothesized that entrepreneurs use innovations, through creative destruction, to determine the market structure. He (1934) envisioned a wide range of creative destruction activities to be undertaken by the entrepreneur: (i) the introduction of a new (quality of a) good or a new method of production; (ii) the opening of a new market; (iii) the conquest of a new source of supply; and (iv) the new organisation of any industry. Thus it could be concluded that a Schumpeterian entrepreneur is a person who brings about revolutionary change to his or her industry (Birkinshaw, 2000).

Yet, having in mind the aim of the present study, it appears that Schumpeter's debate on the third pair of opposites, i.e. 'the opposition of two types of conduct ... mere managers and entrepreneurs' (1934: 83) could shed light on some of the forthcoming concerns of the present study. Firstly, Schumpeter (1934: 65) delegates to the manager the function of coping with spontaneous and discontinuous changes in consumers' tastes that might appear in the channel of the circular flow, whereas, as mentioned earlier, assigns to the entrepreneur the innovative function of the creative destruction of the economic system. Secondly, admitting that entrepreneurs' behaviour is a special problem, Schumpeter indirectly asks *when entrepreneurship ends*, arguing that 'it is just as rare for anyone always to remain an entrepreneur throughout the decades of his active life as it is for a businessman never to have a moment in which he is an entrepreneur, to however modest a degree' (1934: 78). Thirdly, Schumpeter uses bounded rationality as an explanatory tool in his theory arguing that '... the assumption that conduct is prompt and rational is in all cases a fiction. But it proves to be sufficiently near to reality, if things have time to hammer logic into men' (1934: 80). Fourthly, and finally, the debate raises the question of *modus operandi* of these two. In this respect Schumpeter (1934: 85) argues that 'carrying out a new plan and acting according to a customary one are things as different as making a road and walking along it'. From this it could be inferred that there are no limitations for how large firms may grow, but might be the limitations for how fast firms may grow. Further he continues that 'thorough preparatory work, and special knowledge, breadth of intellectual understanding talent for logical analysis may under certain circumstances be sources of failure'. As it will be shown later on in the paper, the above mentioned debates are still valid today.

4.2.1.3 Entrepreneur as Market Intermediary

Much of the criticism of Schumpeterian theory of economic development came from the Austrian school of economics that can be seen as an alternative to the dominant general equilibrium thinking of neoclassical economics (Birkinshaw, 2000). A key element in Austrian thinking is the repudiation of objectivity in social science (Casson, 1990b). Thus, Austrian scholars argue that 'an equilibrium world is one without scope for entrepreneurial discovery and creativity: the course of market events is foreordained by the data of the market situation' (Kirzner, 1997b: 35), or as Kirzner argues elsewhere (1997a: 69) '[i]n equilibrium there is no scope for pure profit: there is simply nothing for the entrepreneur to do'. Kirzner's theory of entrepreneurial discovery is based on the assumption that the economic system is in an everlasting disequilibrium due to the existence of imperfect knowledge that generates errors (opportunities) at level of the individual and price divergence at the level of the market (Kirzner, 1982: 152). Thus the function of the entrepreneur as an intermediary in a dynamic market process (Casson, 1990b) is to bridge the gaps in mutual knowledge, gaps that would otherwise permit prices to diverge with complete freedom (Kirzner, 1979; 1982; 1997a), and ultimately to equilibrate the economic system. In other words, 'instead of seeing entrepreneurship as jerking the [economic] system out of equilibrium, we must see it as fulfilling the tendencies within the system *toward* equilibrium' (Kirzner, 1979: 119). Should equilibrium ever be reached, the market process would cease, and so would competition and entrepreneurship (Birkinshaw, 2000).

Based on the above, Kirzner (1997a: 72) defines entrepreneurship as an attitude of receptiveness to available (but hitherto overlooked) opportunities, as it is these opportunities that allow entrepreneurs to enjoy (even temporarily) the prospect of monopoly profits (Casson, 1990b). Here, the discovery of the overlooked opportunities and the pursuit of the latter, as also argued by Knight (1921), depend on the entrepreneur's vision of the future and his or her motivation to '*bring about* correspondence between the envisaged and the realized futures' (Kirzner, 1982: 149). In Kirzner's view, the successful entrepreneur is the one that shall posses those qualities of vision, boldness, determination, and creativity (1982: 155).

As contrasted with the Schumpeterian theory of economic development that is based on the positivist paradigm, Kirzner's theory of entrepreneurial discovery is based on the realist paradigm, the ontology of which assumes that there is a 'real' world out there to discover even if it is only imperfectly and probabilistically apprehensible (Godfrey and Hill, 1995). Furthermore, as can be noticed, Schumpeter's entrepreneur is a revolutionary person, whereas Kirzner's entrepreneur is an evolutionary one who also contributes to the development of the economic system.

What both Schumpeter and Kirzner have in common is their view of the managers' and entrepreneurs' role in the system. As Kirzner argues, 'escaping from current errors is one thing; grappling with the uncertainty of the future is another' (1982: 151). Kirzner also shares Schumpeter's view of bounded rationality as an explanatory tool arguing that '... the totality of human action can not, even in principle, be explained on the basis of rationality' (1982: 143). And finally, from the level of analysis point of view, both Kirzner and Schumpeter deal with the economic system as a whole, and the role of the firm in that system (Birkinshaw, 2000).

4.2.1.4 Entrepreneur as Judgmental Decision Maker

As argued by Casson (1990b), one of the most unsatisfactory aspects of entrepreneurial theory is its failure to distinguish properly between the entrepreneur and the firm. None of the above discussed theories addresses head-on the question what exactly the individual entrepreneur does (Casson, 1990a). To fill this gap, Casson (1982) came up with a theory whereby the entrepreneur is defined as someone who specializes in applying judgment to problem solving. He distinguishes between three types of problem according to the role of means and ends within them (1990a): (i) ethical problems that are concerned with ends; (ii) technical problems that are confined to the realm of means; and (iii) efficiency problems that focus on the relation of means to ends. The discovery of these problems that are essentially subjective in nature is due to the different norms that people have. When a problem can not be solved by purely rational means, it must be solved by judgement. Judgement, as Casson (1990a: 50) argues, '... is not irrational – rather it is *a*rational, but quite reasonable nonetheless'. While good judgement is extremely valuable, bad judgement can have disastrous consequences, therefore the quality of an individual's synthetic judgement depends upon the entrepreneur's character (1990a: 57). In this respect Casson argues that self-confidence, breadth of experience, and flexibility of thoughts are essential to make quality decisions.

Casson in his theory regarded entrepreneurship as a general phenomenon which simply manifests itself more commonly in some contexts than in others (1990a) thus enlarging the scope of the entrepreneurship beyond merely entrepreneurial opportunities. That is, allowing for larger set of all opportunities for profit, particularly opportunities to enhance the efficiency of existing goods, services, raw materials, and organizing methods (Shane and Venkataraman, 2000). Although Schumpeter (1934) and Kirzner (1997) emphasised the importance of the discovery of new means-ends relationships, Casson's (1982) standpoint raises the question (which is still valid today) whether there is entrepreneurship after that discovery, or whether it is possible to integrate entrepreneurship and strategic management to create firm wealth (Ireland *et al.*, 2001). There are also similarities of Casson's theory with theories previously discussed in that that the entrepreneur is the one who is busy with opportunity perception as well as risk-bearer, and who acts on the basis of bounded rationality, as it is an '... individual's 'bounded rationality' that generates economies of simplification through the decomposition of a problem' (Casson, 1990a).

4.2.2 Sociological and Psychological Perspective

The second approach to understanding entrepreneurship as a route of economic improvement is by understanding those who provide it (Stevenson and Jarillo, 1990); in other words, by understanding why some people and not the others discover particular entrepreneurial opportunities. Despite Gartner's (1988: 26) warning that asking who is the entrepreneur is the wrong question, (re)search for typologies and taxonomies of *the* entrepreneur has continued to date (e.g., Bygrave and Hofer, 1991; Chell *et al.*, 1991; Reynolds, 1991; Krueger and Brazeal, 1994; Miner, 1997; Baron, 1998; Baron, 2000; Thornton, 1999; Bygrave and Minniti, 2000; Krueger, 2000; Krueger *et al.*, 2000). On the way, there have been established two generic levels of inquiry into the grounds of experiential entrepreneurial behaviour, sociological and psychological perspectives that will be discussed in the following sections.

4.2.2.1 Sociological Perspectives

The distinctive contributions of the sociological enterprise reflect the emphasis on the interdependence of the various sectors and institutions in the society and how these relationships change with shifts in the social actors (Reynolds, 1991). Thus, sociological theories tend to see entrepreneurship as a phenomenon deeply embedded in societies and cultures. It focuses on the influence of, and the mutual interplay among, non-economic factors, such as cultural norms and beliefs, class relations and collective action, state intervention and control, organisational structures, bounded solidarity and trust, deviant behaviour and marginality status, and motivations for achievement (Martinelli, 1994). That is, identifying social contexts that affect individual behaviour is a major focus of the sociological enterprise (Reynolds, 1991).

Primarily there have emerged two issues that actually stimulated the inquiry into the *petite bourgeoisie*[13], namely the inquiry into (i) the processes of class formation and its power; and (ii) the stubborn, almost incomprehensible persistence of the [petit bourgeois] stratum in all industrial capitalistic societies (Bechhofer and Elliott, 1986). The sociologically most relevant, classical interpretations of entrepreneurship, which have fostered contemporary research by economic sociologists, are those of Marx, Weber and Schumpeter (Martinelli, 1994).

Although there is no distinct analysis of entrepreneurship in Marx' Capital, he assigned the (entrepreneurial) role to the petite bourgeoisie, which was

[13] From the sociological perspective the entrepreneur is used interchangeably e.g. with petite bourgeoisie, entrepreneurial middle class, peasant farmers, artisans (Scase and Goffee, 1986).

'sandwiched' between the bourgeoisie and the proletariat (see e.g. Scase and Goffee, 1986; Reynolds, 1991; Martinelli, 1994; for comprehensive review). Marx predicted that the development of the capitalist mode of production and the emergence of the division of labour would make large centralised firms more efficient than small or new firms and that the core economic organisations will be large – very large (Reynolds, 1991). Ultimately this would lead to the dissolution of the entrepreneurial middle class as in such a situation no entrepreneurial talent would be required.

From the sociological perspective, Schumpeter's (1934) analysis of the relationship between the entrepreneurial function and the bourgeois class is of interest here. He sees the entrepreneur as a bold leader, willing to break through a wide array of ordinary constraints; willing to forgo social criticism that always arises when new and innovative behaviour is regarded as deviant and dangerous. At the same time he argued that being an entrepreneur is not a profession and that an entrepreneur does not form a social class (1934: 78). Furthermore, Schumpeter predicted (1942) a progressive decay of the entrepreneurial function by virtue of the routinization of innovation in large organisations, which would render the entrepreneurial function superfluous and undermine the base for continuous bourgeois dominance (Martinelli, 1994).

In spite of both Marx's and Schumpeter's prophesies that the entrepreneur would disappear, there has been no contraction, but instead, an increase in the petite bourgeoisie. This feat was possible regardless of the paradox in the ideology of the petite bourgeoisie whereby the very elements which contributed to individual failure, i.e. independence, insistence on autonomy and determination to go on dealing in fairly traditional ways, made for its persistence as a stratum (Bechhofer and Elliott, 1986).

In an attempt to explain the above, Weber analysed the phenomena of profit making and free wage labour in terms of cultural and motivational significance (see e.g., Martinelli, 1994; Swedberg, 2000; for comprehensive review). Weber (1988) considered the Protestant ethic as only one, though a key one, of the factors that contributed to the rise of rationalism in Western civilisation (Martinelli, 1994) and developed a positive attitude towards moneymaking and work, something that facilitated the more general change in attitude towards entrepreneurship (Swedberg, 2000).

Contemporary inquiry into sociological conceptions of entrepreneurship has continued to focus on issues of deviance and marginality status in attempting to answer both questions of what the social characteristics of entrepreneurs are and which contextual conditions produce them (Martinelli, 1994). In this respect, Reynolds (1991) identified four features of an entrepreneur's social context: (i) *life course stage context*, that assumes that most societies have developed stable and widespread expectations regarding the appropriate stage for major life events (O'Rand and Krecker, 1990; Tiessen, 1997); (ii) *social networks and embeddedness context*, that emphasises the notion of multiple reference groups in multi-faceted advanced societies (Granovetter, 1994; Powell and Smith-Doerr, 1994; Burt, 2000; Jack and Anderson, 2002); (iii) *ethnic identification context*, that identifies ethnic minorities that occupy a middle-man role in societies with bifurcated status structures (Light and Karageorgis, 1994; Granovetter, 2000; Waldinger *et al.*, 2000); and (iv) *organisational population/industry life course stage*, that proposes that the sources of entrepreneurs will vary depending upon the stage of the population/industry life course (Romanelli, 1991).

As identified in the previous chapter, social networks are of most interest as they, as a form of social capital, may be the final arbiter of competitive success (Burt, 2000). However, at this point it is pertinent to acknowledge that networks do not predict attitudes or behaviours directly. They predict similarity between attitudes and behaviours (Burt, 2000). Thus bearing in mind the focus of this thesis, i.e. de-internationalisation, it would be relevant to find out what type of relationship there is between strong ties and/or weak ties (Granovetter, 1982) and de-internationalisation.

4.2.2.2 Psychological Perspective

There are two distinct, although interrelated, levels of enquiry within psychological theories that attempt to shed light onto the entrepreneurial behaviour, namely personality trait theories and cognitive process theories. The point generally made by trait researchers is that entrepreneurs often depart from established norms of behaviour, they are different and therefore worthy of particular interest. Cognitive process theories on the other hand suggest that some persons chose to become entrepreneurs not because they posses specific traits, but because they tend to think about many situations somewhat differently than other persons (Delmar, 2000). In what follows the two will be contrasted.

4.2.2.2.1 Personal Trait Theories

Trait theory assumes that people not only behave in the same way in the same (or similar) situations, but they should behave similarly across a range of situations (Chell *et al.*, 1991). Thus, in the study of entrepreneurial behaviour from a personality traits approach perspective, an entrepreneur is seen as having a set of personality traits and characteristics (Gartner, 1988) that are distinct from those of non-entrepreneurs. The tendency is to believe that a successful entrepreneur is a result of a special set of personal abilities and characteristics (Delmar, 2000). By and large, the research into entrepreneurial traits and characteristics has generated three personality dimensions: (i) need for achievement; (ii) (internal) locus of control; and (iii) risk taking propensity (for review see Brockhaus, 1982; Gartner, 1988; Chell *et al.*, 1991; Miner, 1997; Delmar, 2000).

Need for achievement is the need suggested to be (the most) important for entrepreneurial motivation (McClelland, 1961; McClelland and Winter, 1969). Individuals will be motivated towards action in situations when (i) there is a possibility to take personal responsibility for decisions; (ii) there is moderate risk-taking as a function of skill; and (iii) there is rapid feedback on performance. Despite a number of entrepreneurial trait studies that were persistent in trying to identify the characteristics that motivate individuals to initiate new ventures and achieve success (e.g. Carland *et al.*, 1984; McClelland, 1987; Carland *et al.*, 1988; Solomon and Winslow, 1988; Winslow and Solomon, 1989; Johnson, 1990; Woo *et al.*, 1991), there are enduring doubts as to whether need for achievement is a strong predictor of an individual's tendency to start a business (Hull *et al.*, 1980; Brockhaus, 1982; Brockhaus and Horwitz, 1986; Gartner, 1988; Chell *et al.*, 1991). For example it is argued that motivations for becoming an entrepreneur are characterised as a mixture of push/pull situational factors that may not be associated with the need for achievement (Brockhaus, 1980a; Scheinberg and MacMillan, 1988; Krueger, 1993). Other criticism comes from the cultural bias (Chell *et al.*, 1991) embedded in McClelland theory, e.g. stigma attached to business failure is not evident in the US (McClelland and Burnham, 1995; Westphal, 1999); whereas the reverse is true for Europe (Storey, 1994; Achtenhagen, 2002).

Locus of control theory suggests that an individual perceives the outcome of an event as being within or beyond his or her personal control and understanding (Rotter, 1966). People with an internal locus of control are inclined to believe that they can influence the reality through their own ability, efforts, or skills. Those with external locus of control believe that forces outside their control determine the outcomes. Therefore, conceptually it is conceived that an internal locus of control will be positively associated with entrepreneurial intentions. However, to date, the empirical research has found a low to moderate positive correlation between internal locus of control and entrepreneurs, and a weak tendency towards explaining better performance (see for review Brockhas, 1982; Brockhaus and Horwitz, 1986; Chell *et al.*, 1991; Mueller and Thomas, 2000).

Consequently, Delmar (2000) argues that locus of control as a concept should not be included in future empirical research on entrepreneurial behaviour.

Risk-taking or risk-bearing of the economic system, according to economic theories (see section 2.2.1), plays one of the most important roles in explaining entrepreneurial behaviour. Considerable research has been undertaken in pursuit of the above notion (McClelland, 1961; Brockhaus, 1980b; Sexton and Bowman, 1983; Peacock, 1986; Masters and Meier, 1988; Palich and Bagby, 1995; Das and Teng, 1997; Simon *et al.*, 2000). However, the role of risk-taking remains inconclusive as contradictory evidence emerged at the same time. For example, no significant difference has been found between entrepreneurs and others when measuring risk propensity (Brockhaus, 1982; Brockhaus and Horwitz, 1986; Begley and Boyd, 1987; Chell *et al.*, 1991; Delmar, 2000). Also it has been argued that risk-taking is extremely dependent on either a perception of the situation (Mellers *et al.*, 1998) or the perception by decision-makers of themselves as experts in the field (Heath and Tversky, 1991). Although Brockhaus and Horwitz (1986) argue that risk-taking propensity is not an accurate way of distinguishing entrepreneurs, for the purpose of the present research, Kahneman and Tversky's (1979) prospect theory of decision making under risk is of greater interest. De-internationalisation as a beyond-initial-venture-formation decision could be viewed as (i) a perceived possibility of failure whether the venture is or going to be unsuccessful, or (ii) a likelihood of missing out on a (strategic) opportunity. Hence, as Davidsson (1989) argues, it may be hypothesized from the prospect theory viewpoint that in such a "troublesome situation" – as subjectively perceived – an individual will be prepared to take any considerable risks in entrepreneurial endeavours.

4.2.2.2.2 Cognitive Theories

As can be inferred from the above, efforts to answer the "why" question[14] in terms of personal traits have been largely unsuccessful and generally yielded weak and inconsistent findings (Gartner, 1988; Bygrave, 1989a). As Gartner (1988: 21) evoked '[t]he personality characteristics of the entrepreneur are ancillary to the entrepreneur's behaviours. Research on the entrepreneur should focus on what the entrepreneur does and not who the entrepreneur is'. As further suggested by Davidsson (2003b), entrepreneurship is *not* about being born as the right staff; it is about a study of the ways in which entrepreneurs and others think, i.e. how they attempt to make sense out of the complex world around them (e.g. Gatewood *et al.*, 1995) as opportunities are very much in the eye of the beholder (Krueger, 2000). As a result, researchers have adopted cognitive approach to the study of the entrepreneurship (Krueger and Brazeal, 1994; Palich and Bagby, 1995; Baron, 1998; Baron, 2000; Krueger, 2000; Simon *et al.*, 2000; Mitchell *et al.*, 2002). Unlike personal traits, cognitive processes can be changed (Palich and Bagby, 1995). Thus, this perspective suggests that valuable insights into 'why' questions may be obtained through careful comparison of the cognitive processes of entrepreneurs and other persons (Baron, 1998).

[14] *Why* some people and not others discover and exploit opportunities (Shane and Venkataraman, 2000).

Different cognitive models and concepts have enhanced overall understanding of entrepreneurial behaviour (Gaglio and Katz, 2001). These not only take into account personal characteristics of the entrepreneurs, but also situational variables and personal backgrounds (see Delmar, 2000 for comprehensive review). The common denominator of these models is the search for control – a concept of central importance for explaining entrepreneurial behaviour. Yet, two models have evolved to dominate the current enquiry into entrepreneurial behaviour, i.e. Ajzen's (1991) theory of planned behaviour, and Shapero's (1982) model of the entrepreneurial event.

In Ajzen's theory of planned behaviour there are three key attitudes that predict (entrepreneurial) intentions: (i) *attitude toward the act*, which subsumes perceptions of likely intrinsic and extrinsic personal outcomes; (ii) *social norms*, which subsumes the perceived extra personal influences on the decision maker; and (iii) *perceived behavioural control*, which subsumes personal perceptions of the behaviour's feasibility. In Shapero's model of the entrepreneurial event, intentions to start a business derive from (i) *perceptions of desirability*, defined as the personal attractiveness of starting a business; (ii) *perceptions of feasibility*, defined as the degree to which one feels personally capable of starting a business; and (iii) *propensity to act* upon opportunities. Krueger *et al.* (2000) tested both intention-based models in terms of their ability to predict entrepreneurial intentions and found strong statistical support for both models. Perceived behavioural control, as a function of perceived self-efficacy, was found to have the strongest influence on entrepreneurial intentions in both models (2000: 423). Inter alia, they argued that these intentions models can be applied to other decisions rather than starting a business such as the decision to grow or exit a business. Also these models may allow to track how changing perceptions alter the opportunities (or lack thereof) perceived by entrepreneurs over time.

Of specific interest to the present study is the concept of perceived self-efficacy, defined as perceived ability to execute target behaviour (Ajzen, 1987). The interest is twofold. From one side, the highly self-efficacious attribute setbacks as "learning experiences", not as personal "failure" (Bandura, 1986 as cited in Krueger *et al.*, 2000). Thus it may be speculated that in a "troublesome situation" a highly self-efficacious entrepreneur will be inclined to take de-internationalisation decisions and maybe later on become "born-again global" (Bell *et al.*, 2001). From the other side, self-efficacy has the tendency to form a pattern of positive or negative circle. That is, success breeds success and failure breeds failure (Delmar, 2000). This again (see also previous section 4.2.2.2.1) raises the issue of the effect of stigma of failure on the overall entrepreneurial climate in a country. It might be hypothesised that a low level of self-efficacy will be positively related to the stigma of failure.

4.2.3 Management Perspective

This section will deal with the remaining question posed by Stevenson and Jarillo (1990) and Shane and Venkataraman (2001), which is the 'how' of entrepreneurship. The importance of 'how' questions to the study of entrepreneurship is twofold. It allows us to study not only the ways new means-ends are brought together at the start-up, but also to study the phenomenon of 'continued entrepreneurship' (Davidsson, 1991); 'entrepreneurial orientation'

(Lumpkin and Dess, 1996); 'entrepreneurial strategic posture' (Covin and Slevin, 1989) well beyond start-up. Thus, apart from the question of *how to succeed as an entrepreneur*, there should be a question of *how to sustain entrepreneurial posture over time*, despite severe obstacles (Low and MacMillan, 1988). Two areas of research into 'how' questions can be identified: (i) studies that try to find predictors of success of new ventures; and (ii) studies concerned with different life cycles through which new ventures pass and the problems entrepreneurs face as their firms mature (Stevenson and Jarillo, 1990).

4.2.3.1 New Venture Success Predictors

Research examining predictors of new firm performance is clearly of interest to entrepreneurs and to those who provide advice and funds for their ventures (Cooper, 1993). In this milieu, the emphasis shifted away from the *content* towards the *process* of entrepreneurship, towards entrepreneurial management concept (Stevenson and Jarillo, 1990: 18). This concept reflects the organisational processes, methods, and styles that firms use to act entrepreneurially, i.e. the *entrepreneurial orientation*, a corollary concept that emerged primarily from the strategic management literature (Lumpkin and Dess, 1996) in which the importance of entrepreneurship has been widely acknowledged (Chandler, 1962; Miles and Snow, 1978; Schendel and Hofer, 1979). For example Schendel and Hofer (1979) saw the essence of entrepreneurship in the actions of strategic managers, whereas Miles and Snow (1978) regarded the entrepreneurial problem as a fundamental issue faced by all firms.

Researchers have been trying to develop models of new venture performance on the basis of contingency theory which suggests that congruence or fit among key variables, such as environment, structure, and strategy, is critical for obtaining optimal performance (e.g. Keats and Bracker, 1988; Miller, 1998; Covin and Slevin, 1991; Naman and Slevin, 1993; Carter *et al.*, 1994; Chandler and Hanks, 1994; Covin and Slevin, 1997). Consequently, key contingencies have been identified that were associated with the entrepreneurship-performance relationship (for review of this relationship prior to 1996 see e.g. Lumpkin and Dess, 1996; Zahra, 1996): (i) *external environment* (Venkataraman and Vande Ven, 1998; Lumpkin and Dess, 2001); (ii) *organisational structure* (Koberg *et al.*, 1996; Harris and Jackson, 1999); (iii) *strategy content* (McDougal and Oviatt, 1996; Pearce II and Michael, 1997; Bantel, 1998; Barringer and Greening, 1998; Shepherd *et al.*, 2000); (iv) *strategy-making process* (Nicholls-Nixon *et al.*, 2000; Kisfalvi, 2002); *firm resources* (Carter *et al.*, 1997; Honig, 1998; Lichtenstein and Brush, 2001); *top management (team) characteristics* (Mullins, 1996; West III and Meyer, 1998).

The above myriad of studies has one common denominator, wealth creation – that is at the heart of both entrepreneurship and strategic management (Hitt and Ireland, 2000). Meta-theorist proponents argue that in order to create the most value, entrepreneurial firms apart from identifying and exploiting entrepreneurial opportunities need to act strategically (Hitt *et al.*, 2001). Hence, entrepreneurship promotes the search for competitive advantages through product, process, and market innovation, whereas strategic management calls for firms to establish and exploit competitive advantages within a particular environmental context (Ireland *et al.*, 2001). As mentioned above the key questions asked at the intersection of entrepreneurship and strategic management are: what makes a firm entrepreneurial? What is the difference between entrepreneurship and effective strategic management? When does a firm cease to be entrepreneurial? Even without total integration of theoretical approaches, however momentum is building for substantially more cross-fertilization between the fields (Drucker, 1985; Sandberg, 1992; Hitt *et al.*, 2002).

4.2.3.2 Life Cycles Issues

Sandberg (1992) suggested two basic distinctions drawn from strategic management theories in contemplating entrepreneurship: independent and corporate entrepreneurship. Within the realm of independent entrepreneurship strategic management has in mind almost exclusively new ventures rather than the established small businesses. Within the realm of corporate entrepreneurship, strategic management distinguishes between types that create new organisations and types that do not. The first grouping includes what is commonly known as corporate venturing, intrapreneurship. The second grouping includes strategic change undertaken to renew an organisation or to innovate within the framework of existing businesses. Hence, it is the strategic change that is of great importance to the present study of de-internationalisation phenomenon as managing change in an entrepreneurial firm is the ultimate challenge (Beckhard and Harris, 1977), as the entrepreneurial firm expands and grows, different set of issues and dilemmas emerges for the entrepreneur to grapple with (Greiner, 1972) or as Slywotzky and Wise (2002) call them – growth crisis.

It has been argued that growth leads to increased complexity and uncertainty (Covin and Slevin, 1997; Arbaugh and Camp, 2000) and requires a redefinition of type and state of elements in the organisational gestalt (Covin and Slevin, 1997). How entrepreneurs manage growth transitions, i.e. from one gestalt to another, is as critical as the ability to manage growth is vital to a firm's continued success (Sexton and Bowman-Upton, 1991). Hence, in the light of recent materialization of the research drawing from a resource-based perspective (Gregoire *et al.*, 2001), as such, the resource-based perspective may provide the first true foundational framework from which to understand entrepreneurship in the process of growth transitions (Arbaugh and Camp, 2000). Before the resource-based theory is discussed, a synthesis of alternative views on the firm growth will be examined in the following section.

4.2.3.2.1 Theories of Growth: A Synthesis

In their review, Gibb and Davies (1990) identified four broad approaches applied to the study of the growth process in small and medium enterprises: (i) personality dominated; (ii) organisation development; (iii) business management; and (iv) sectoral and broader market led approaches. As the first approach has been discussed in section 4.2.2, and as the third approach will be a part of resource-based view discussion in section 4.2.3.2.2 below, the focus of this section will be on the second and fourth approaches.

Central to *sectoral and broader (e.g. regional and national) market led approaches* that have been inspired by economists is the conflict between macro and microeconomics that has been generated, inter alia, by the role of entrepreneurship in wealth creation and distribution. Macroeconomics, having its foundations in the characteristics of rationality, perfectly competitive markets, and economies of scale, appears to make no contribution to entrepreneurship theory or practice – instead it ignores it; however, theoretically and mathematically rigorous critiques of neoclassical theory put forward by microeconomics have not yet generated an alternative fundamental macroeconomic theory (Kirchhoff, 1991). Particular attention at this level has been paid to numerous studies of high-technology companies (Gibb and Davies, 1990). And this is not surprising as the flourishing phenomena of high-technology companies intensified the above conflict by being seen as positive-feedbacks of increasing returns phenomena rather than negative-feedbacks of diminishing returns (Arthur, 1996).

At this (sectoral, regional, and national) level the population and not the individual firm is the unit of analysis. One of the most frequently used approaches to the study of populations at this level has been the population–ecology theory of birth, survival, and death of organisations (Hannan and Freeman, 1977). However, its probabilistic predictive power for populations has never been proven (Bygrave, 1993). Besides, the population–ecology theory treats organisations as black boxes, closed to inspection of their inner workings (Bygrave and Hofer, 1991), whereas what is going on in the box is crucial to the present research of new economic activities.

Despite the extensive critiques (e.g. Sexton and Bowman-Upton, 1991; Storey, 1994), to date, *life-cycle stages*[15] have been the most widely used framework for studying growth transitions (Arbaugh and Camp, 2000) at both population and firm levels. Chiefly stage models (including to a certain extent the stage models of internationalisation) have been criticized for their linearity, and unpredictability of triggering events.

Instead, having argued that entrepreneurship is a dynamic, discontinuous change of state, Bygrave (1989b) and Stevenson and Harmeling (1990) proposed applying a metaphor of chaos theory that occurs in some nonlinear models when a tiny change in the initial conditions produces a big, unexpected change in the final outcome. For example Bygrave (1989b: 28) argues that 'chaos contains a very important message, i.e. nonlinear systems, such as those we might expect to find in entrepreneurship, are potentially fraught with problems if we try to make [linear] predictions about their future behaviour'. All in all, theories are tools - not truths - and they may have to be discarded on the way towards understanding the concept of entrepreneurial organisation in society (Stevenson and Harmeling, 1990). Hence, chaos theory may not be able to provide entrepreneurship researchers with a mathematical theory for entrepreneurship, but it may be more relevant than linear models of analysis (Bygrave, 1993).

As far as triggering events are concerned, Bygrave (1989b) argues that the event is more triggered than triggering, i.e. to find its cause there is a need to

[15] For review of life cycle models see e.g. Sexton and Bowman-Upton (1991) and Quinn and Cameron (1983).

understand the changes in the antecedent variables that triggered the event. In this respect, stage models (e.g. Churchill and Lewis, 1983; Mount *et al.*, 1993) delineate many of the managerial 'crises' that must be resolved in order to successfully transition to subsequent growth stages. To deal with the above dilemma, Covin and Slevin (1997), and Arbaugh and Camp (2000) proposed firm growth models with a specific focus on growth transitions rather than on stages as the key to understanding the formation and growth of new and established businesses. They argued that entrepreneurial transitions are one of the most important themes for future entrepreneurship studies.

For the growth transitions to be successful, the entrepreneur must assemble and deploy (heterogeneous) resources in order to reduce the tension that builds within the gestalt as a consequence of growth (Covin and Slevin, 1997). In this respect the de-internationalisation process can be seen as a transition from one gestalt to another that requires entrepreneurs to make quantum changes to the organisational system quickly in light of ever-new growth opportunities (Slevin and Covin, 1997). Spender and Grant (1996) argue that the above process of effective modification of a firm's gestalt in light of new growth opportunities is a new and expanding area of resource-based view that to date has not had adequate attention.

4.2.3.2.2 Resource-Based View

Implicit to the strategic management approach to the study of firm growth are the statements about the ability of the firm to plan its development both operationally and strategically (Gibb and Davies, 1990). Being the "crown jewel" of strategic management for the last three decades of 20th century (Kor and Mahoney, 2000:119), the resource-based view has provided extensively valuable conceptual foundations to the strategic management research literature (Mahoney and Pandian, 1992). Six types of domains have been identified in which the integration between strategic management and entrepreneurship occurs naturally (Hitt and Ireland, 2000): (i) innovation; (ii) organisational networks; (iii) internationalisation; (iv) organisational learning; (v) top management teams and governance; and (vi) growth, flexibility, and change and research methods. Other disciplines have also benefited from applying the resource-based view, like for example, organisational economics paradigm, industrial organisation research, international business research (Mahoney and Pandian, 1992; Kor and Mahoney, 2000; Barney *et al.*, 2001; Peng, 2001).

The resource-based view holds that all firms are comprised of heterogeneous bundles of resources and it is these firms' heterogeneous, and not homogeneous, bundles of resources that contribute to a firms' competitive advantage (Penrose, 1959; Barney, 1991). Fundamentally, it is the resources of the firm which limit the choice of markets it may enter, and the levels of profits it may expect (Wernerfelt, 1989). Key resource constraints include: (i) shortage of labour or physical inputs; (ii) shortage of finance; (iii) lack of suitable investment opportunities; and (iv) lack of sufficient managerial capacity (Mahoney and Pandian, 1992). Although resource ownership and the efficient use of resources tend to be the driving forces of organisational activity within the resource-based view, these driving forces may only be appropriate for large firms and not small, growing firms (Brown and Kirchhoff, 1997).

Indeed, only the second half of the last decade of the 20th century marked the consolidation of the resource-based perspective within the entrepreneurship paradigm (Gregoire *et al.*, 2001). This consolidation could be explained from one standpoint by the beginning of research maturity in the management paradigms (e.g. Hitt and Ireland, 2000). But from another standpoint, it might have materialised as a result of an alternative insight into Penrose's theory of firm growth.

Prior to the discussion of resource constraints, Penrose (1959: 5) stated that '[i]n order to focus attention on the crucial role of a firm's inherited resources, the environment is treated as an 'image' in the entrepreneur's mind of the possibilities and restrictions with which he is confronted, for it is, after all, such an 'image' that in fact determines a man's behaviour'. Later she argued that firms are governed by productive opportunities and that these opportunities will be restricted to the extent to which the entrepreneurs identify and pursue them (Penrose, 1959: 32).

Indeed, heterogeneity is a common attribute of both resource-based and entrepreneurship theory – although resource-based logic has tended to focus on heterogeneity of resources while the entrepreneurship paradigm has tended to focus on heterogeneity in beliefs about the value of resources (Alvarez and Busenitz, 2001). Alvarez and Busenitz (2001) argue that this conflict between the two theories could be resolved if the beliefs themselves about the resource [availability and access] are recognized as resources. Recently, Brown and

Kirchhoff (1997) studied the effects of resource availability and entrepreneurial orientation on firm growth. They established that *perceived environmental munificence*, i.e. the extent to which critical resources exist in the environment, and *resource acquisition self-efficacy*, i.e. perception about a person's ability to gather the required resources, positively influence entrepreneurial orientation that in turn has a positive impact on the small firm growth. Inter alia, Brown and Kirchhoff (1997) argue that if the resource acquisition self-efficacy measure can be shown to influence entrepreneurial orientation and be positively associated with the perceived opportunity set, then individuals can be taught skills to raise their level of self-efficacy. As will be shown in the following sections, the development of the conceptual model of de-internationalisation phenomenon might be contingent, inter alia, on the above alternative view of resources and entrepreneurial orientation within small growing firm.

4.2.4 Conclusion

This section aimed at developing the typology of entrepreneurship by bringing together the contributions from various disciplinary areas, i.e. economics, sociology and psychology, and strategic management. From the above review of various perspectives of entrepreneurship there can be witnessed a consensus as far as the focus of the entrepreneurship research is concerned. That is, from the economics point of view, general equilibrium theory remains incapable of adapting to a reality that evidenced the role of entrepreneurship in wealth creation and distribution (Kirchhoff, 1991). As the conflict between macro and micro economics is far from being resolved, the equilibrium versus disequilibrium debate is seen as the yin and yang of thought, in which entrepreneurship, if anything, is seen more as some kind of a non-equilibrium phenomenon (Sarasvathy, 1999).

From socio-psychological perspective, the emphasis shifted towards the examination of behaviour (Ucbasaran *et al.*, 2001) with a specific focus on entrepreneurial cognition, the way entrepreneurs think and the individual decision-making processes or heuristics adopted by entrepreneurs (Busenitz and Barney, 1997; Baron, 1998). From the management perspective, researchers started studying entrepreneurship beyond the end of the creation stage of the organisation (e.g. Casson, 1982; Covin and Slevin, 1989) and a call for research on continued entrepreneurship has been put forward (Davidsson, 1991).

4.3 ADVANCES IN ENTREPRENEURSHIP RESEARCH

Agreement on the content of a field of knowledge – including its theories, methods, beliefs of causality, and standards – is important in the development of the field through its paradigms (Kuhn, 1962). Entrepreneurship paradigm that has been described as a "potpourri" (Low, 2001: 21) that borrows its methods and theories from other sciences needs to have such an agreement. This section aims to review the advances in entrepreneurship research, primarily by trying to answer the following two questions, (i) 'is the field of entrepreneurship growing, or is it just getting bigger?' (Sexton, 1988: 5), and (ii) 'is there an elephant in entrepreneurship?' (Gartner, 2001: 28)[16].

[16] Gartner (2001) compares the efforts of theory building in entrepreneurship with the "Blind Men and the Elephant" story in which six blind men touch different parts of the elephant and come away with different descriptions of an elephant's characteristics.

4.3.1 Is Entrepreneurship Growing or Getting Bigger

Table 5 presents the quotes taken from various leading entrepreneurship scholars who have written about the advancement of theory building in the entrepreneurship field. The excerpts are arranged in chronological order to capture the status of change of the field during the past decade or two. The ultimate objective is to determine whether there is a consensus about the state of the field, and if there is, what it is.

Table 5. State of entrepreneurship theory building to date

Author(s)	Date	Quotes about the evolution of entrepreneurship research
Low and MacMillan	1988: 141	[I]t seems likely that the desire for common definitions and a clearly defined area of inquiry will remain unfulfilled in the foreseeable future.
Bygrave	1989a: 21	Entrepreneurship is a process of becoming rather than a state of being. A paradigm in the pre-theory stage is like a jigsaw puzzle with a framework but with most of the pieces missing. The entrepreneurship paradigm has yet to develop distinctive methods and theories of its own.
Gibb and Davies	1990: 26	The production of comprehensive theory of small and medium enterprise development in the near future is unlikely.
Bygrave and Hofer	1991: 13	[Entrepreneurship] lacks a substantial theoretical foundation. In fact, it is extremely difficult to develop even "useful" entrepreneurship models.
Kirchhoff	1991: 109	[T]he absence of a widely held theory of entrepreneurship constrains not only economics but also all of the disciplines that extend their interests into the entrepreneurship arena.
Gartner *et al.*	1992: 27	The garden of entrepreneurial theories is ready for a variety of seeds from many different disciplines and perspectives.
MacMillan and Katz	1992: 8	It is becoming increasingly apparent that we need a cohesive theory of entrepreneurship... Until we have this theory, we will continue to face significant, perhaps insurmountable, problems in many areas of entrepreneurial studies.
Sandberg	1992: 78	If the boundaries of strategic management are permeable, those of entrepreneurship are downright porous. The prospects for developing a theory of entrepreneurship seem brighter than might have been imagined a mere decade ago.
Amit *et al.*	1993: 815	[It] may be too ambitions to expect a complete and robust theory due to the interdisciplinary nature of entrepreneurship.
Bull and Willard	1993: 184	Despite the number of published papers that might be considered related to the theory of entrepreneurship, no generally accepted theory of entrepreneurship has emerged.

Author(s)	Date	Quotes about the evolution of entrepreneurship research
Cooper	1993: 241	Previous research has been hampered by inadequate theoretical frameworks and, in some cases, by inappropriate methods of analysis.
Aldrich and Baker	1997: 398	Judging from normal science standards, entrepreneurship research is still in a very early stage. If no single powerful paradigm exists, then there is even less evidence for multiple coherent points of view.
Brazeal and Herbert	1999: 29	The study of entrepreneurship is still in its infancy. In retrospect, we may have contributed to more confusion in, than convergence toward, a unified theory of entrepreneurship.
Hitt and Ireland	2000: 46	Entrepreneurship [field is] relatively young compared with [its] counterparts in management and business.
Shane and Venkataraman	2000: 217	To date, the phenomenon of entrepreneurship has lacked a conceptual framework... [It] has become a broad label under which a hodgepodge of research is housed... [It does not] constitute rather a unique conceptual domain
Aldrich and Martinez	2001: 53	Last twelve years have been marked by an exploration of different dimensions, variables, issues that an integrated study of entrepreneurship should consider. The main task set by Low and MacMillan (1988), integration, is still unfulfilled.
Gartner	2001:28	I am not sure that the entrepreneurship field has reached some sense of theoretical clarity during the past decade. Theory development in entrepreneurship research will require a willingness to discuss and debate our conscious and unconscious assumptions.
Low	2001: 17	Entrepreneurship is in its adolescence. It is a phenomenon that *should* be investigated from multiple disciplines and perspectives. Accordingly, there is no need for a theory of entrepreneurship.
Koppl and Minniti	2003: 81	We are getting more pieces of the puzzle, but no picture is emerging. The great weakness of entrepreneurial studies is the lack of a common theoretical framework.

As Table 5 reveals there are two distinct issues of concern among entrepreneurship scholars, (i) the age of the paradigm; and (ii) its core. By and large, in both issues there appears to be a consensus among the scholars. In the former, almost unanimously, the scholars regard the entrepreneurship paradigm as being *still* in its infancy. As regard the latter issue, there is also an agreement on the view that as of today there is no unified theory of entrepreneurship.

When there is no consensus on a paradigm, or at least on the main research object of the field, researchers tend to speak after one another, rather than to one another, and knowledge can not be accumulated (Greenfield and Strickon, 1986; cited in Bruyat and Julien, 2000). And this is not surprising since Low (2001) in his search for trends in the entrepreneurship literature during 1987-88 and 1998-99 needed a 120-cell matrix to classify a total of 131 articles. Whereas Dery and Toulouse (1996) in their empirical study of 237 articles published in the Journal of Business Venturing between 1986 and 1993 observed that more than half of the references were books and, inter alia, that the [entrepreneurship] field seemed in some way to resist the frequent calls for unity launched by some of its more influential members. This is not surprising either, as within the substance continuum, the scholars disagree on whether there is a need or not for a (unified) theory of entrepreneurship on the whole; with gravitation towards the yes-but-difficult-to-achieve end of the continuum. Although Low (2001) argues that entrepreneurship paradigm is in its adolescence, it can be inferred from the above 'global' consensus that the entrepreneurship paradigm is *still* in its infancy, and its (unified) theory has *yet* to be developed.

4.3.2 Is There an Elephant?

When trying to understand why it has not been possible *yet* to advance theory building in the entrepreneurship field, the first argument that is brought to the fore is the lack of an agreed definition of entrepreneurship and a concern over what entrepreneurship constitutes as a field of study (Gartner, 1990). Although

Bygrave and Hofer (1991) advocated that '[g]ood science has to begin with good definition', entrepreneurship is still studied as the blind men in the Hindu tribe studied the elephant (Brazeal and Herbert, 1999; Gartner, 2001). It is this lack of consensus that has impeded progress for researchers toward building an entrepreneurship theory (Lumpkin and Dess, 1996).

However, the lack of an agreed definition may not be the grand impediment of entrepreneurship theory development. According to Koppl and Minniti (2003), the great weakness of entrepreneurial studies is the lack of a common theoretical framework. Moreover, according to Ogbor (2000), it is the effect of ideological control over the conventional entrepreneurial discourses that impedes the entrepreneurship theory development. Arguing that an important instrument for explaining, advocating or justifying social order is ideology, Ogbor, following a postmodernist philosophy[17], deconstructed entrepreneurial discourse and observed, inter alia, that ideology had a pervasive influence on the methods of inquiry by imposing the positivist paradigm (2000: 622). Therefore, almost certainly the researchers will have to have a willingness to discuss and debate conscious and unconscious assumptions (Gartner, 2001) in order to advance entrepreneurship theory development. It may be necessary even to question some of them.

Yet, as shown above, there can be witnessed a consensus as far as the focus of entrepreneurship research is concerned. From an economics point of view,

[17] Although not explicitly defined, Ogbor (2000) followed an *epistemological* approach that suggests that the world is constituted by our shared language and that we can only 'know the world' through the particular forms of discourse our language creates (Welge and Holtbrugge, 1999).

entrepreneurship is seen more as a non-equilibrium phenomenon (Sarasvathy, 1999). From a socio-psychological perspective, emphasis has shifted towards the examination of entrepreneurial cognition (Ucbasaran *et al.*, 2001). From a management perspective, a call for research on continued entrepreneurship has been put forward (Davidsson, 1991). To the above, there also could be witnessed essential progress in conceptual development of the field (e.g. Shane and Venkataraman, 2000; Davidsson, 2003a; 2005b).

The above convergence was supported to a certain extent by Gregoire *et al.*'s (2001) findings. In their analysis of 13,593 references cited in the 752 papers published in the Frontiers of Entrepreneurship Research Proceedings between 1981 and 1999, they observed five converging axes that have been attracting entrepreneurship scholars over time: (i) personal characteristics of the entrepreneur; (ii) factors affecting new venture performance; (iii) venture capitalist's practices and their impact on entrepreneurship; (iv) the influence of social networks; and (v) research drawing from a resource-based perspective – the latter axis being depicted in the period between 1996 and 1999. Within international entrepreneurship field (McDougal and Oviatt, 2000) the research based on resource-based view is still in its infancy (Peng, 2001).

This funnelling process at least has allowed the entrepreneurship paradigm to have developed various models of small firm growth (e.g. Bygrave, 1989b; Covin and Slevin, 1991; Davidsson, 1991; Naffziger *et al.*, 1994; to name a few). Also, apart from conceptualisation efforts, some progress has been made related to the identification of level(s) of analysis (Davidsson and Wiklund, 2000; 2001).

Recently, in his efforts to define the domain of entrepreneurship research, Davidsson (2003a: 343) proposed the following delineation of entrepreneurship as a scholarly domain: starting from assumptions of uncertainty and heterogeneity, the scholarly domain of entrepreneurship encompasses the processes of (real or induced, and completed as well as terminated) emergence of new business ventures, across organisational contexts. This entails the study of the origin and characteristics of venture ideas as well as their contextual fit; of behaviours in the interrelated processes of discovery and exploitation of such ideas, and of how the ideas and behaviours link to different types of direct and indirect antecedents and outcomes on different level of analysis. Thus, through such funnelling of entrepreneurship research, it might be possible at the end of a day to see the 'elephant'.

4.3.3 Conclusion

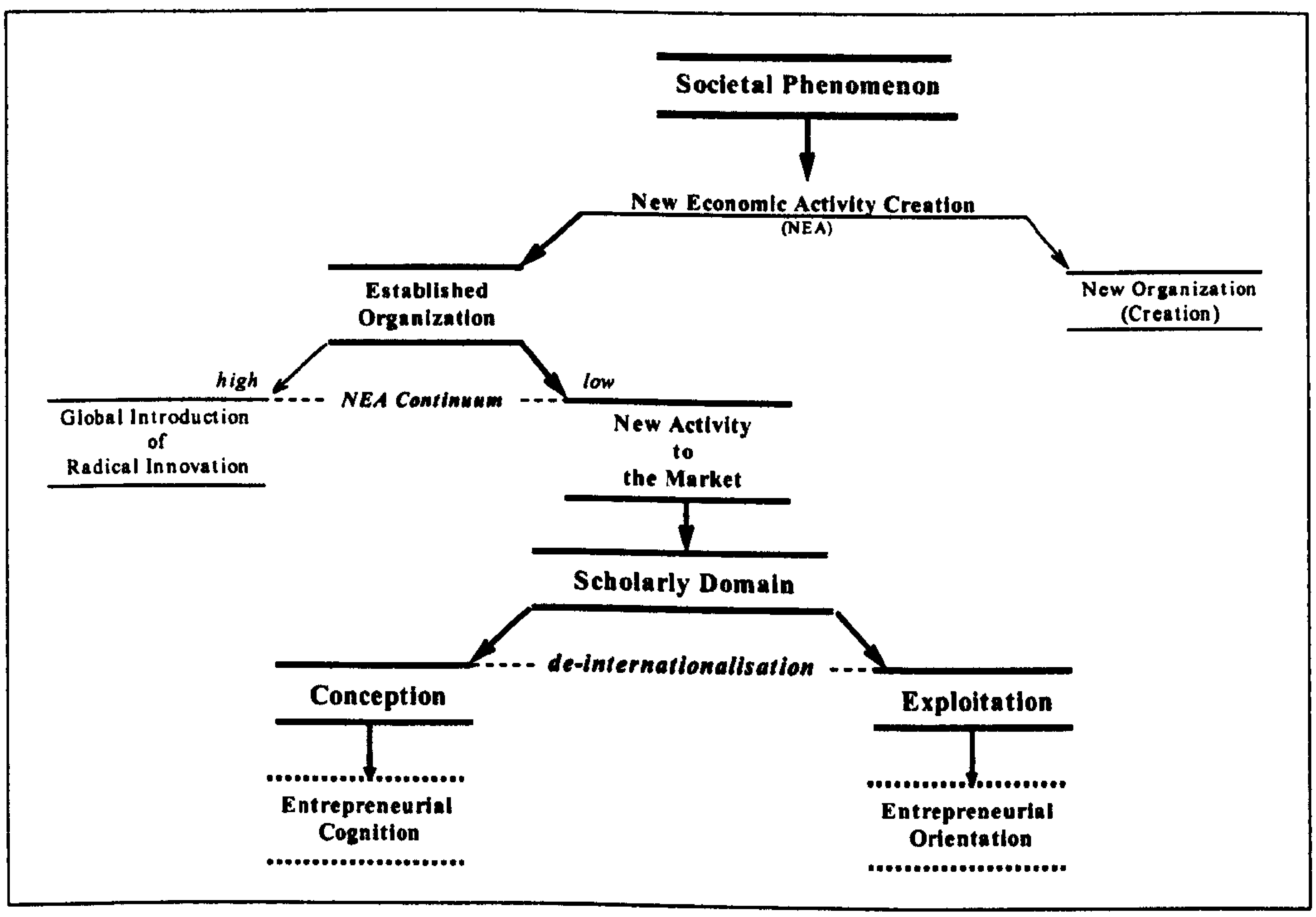
The aim of this section was to grasp the extant state of the field of entrepreneurship. Two enduring questions were put forward in the above attempt: (i) whether the entrepreneurship field is developing (Sexton, 1988), and (ii) whether there is a definitional consensus (Gartner, 2001). It can be inferred from the section findings that the entrepreneurship paradigm is *still* in its infancy, and its unified theory has *yet* to be developed. This was due, inter alia, to the lack of consensus over the definition of entrepreneurship (Lumpkin and Dess, 1996); lack of a common theoretical framework (Koppl and Minniti, 2003); and an effect of ideological control over the conventional entrepreneurial discourse (Ogbor, 2000), i.e. imposing the positivist paradigm. Entrepreneurship is a process of becoming rather than a state of being, therefore, at the beginnings of a paradigm, inspired inductive logic applied to exploratory, empirical research may be more useful than deductive reasoning from theory (Bygrave, 1989a). In light of the above, the researchers have been asked to discuss and debate their conscious and unconscious assumptions (Gartner, 2001).

4.4 DE-INTERNATIONALISATION: AN ENTREPRENEURSHIP PERSPECTIVE

As may well be noticed, the above discussion avoided taking a stance on a specific definition of entrepreneurship. However, when it comes to uncovering the contribution of entrepreneurship to the growth process of the firm and vice versa, it is pivotal to define entrepreneurship in order to stay within the defined boundaries of the field (Gartner, 2001) and thus avoid re-invention of the worst versions of wheels that are already in operation in other fields (Davidsson *et al.*, 2001). The chief aim of this section is to define entrepreneurship and to position de-internationalisation within entrepreneurship paradigm.

Yet, a good definition is pivotal to the growth of the entrepreneurship field (Bygrave and Hofer, 1991). Gartner (1988: 26) postulated that 'entrepreneurship ends when the creation of the organisation ends'. In other words entrepreneurship has been defined as the creation of new organisations. As argued by Davidsson (2003a) this definition does not leave any room for including growth in the concept of entrepreneurship. Having analysed alternative contemporary discourse on the meaning of 'entrepreneurship' (e.g. Stevenson and Gumpert, 1985; Low and MacMillan, 1988; Stevenson and Jarillo, 1990; Shane and Venkataraman, 2000), Davidsson (2003a) suggests delineating entrepreneurship as a societal phenomenon on the basis of Austrian economics which view entrepreneurship as competitive behaviours that drive the market process (Kirzner, 1997a); more specifically, as the creation of new economic activity (Figure 11). According to this view, an opportunity to introduce a new economic activity can be pursued either within an existing organisation or by starting up a new one. As argued in the previous chapter, a firm can not de-internationalise without having internationalised. Therefore, the phenomenon of de-internationalisation could be only observed in established organisations.

Figure 11. Definition of entrepreneurship: an evolution



Source: derived from literature

Considering the new economic activity, Davidsson *et al.* (2001) suggested that as a minimum, a new or established firm introduces what internally is a new activity and what appears at the same time as a new imitator in a market. At the high end of the new economic activity continuum, there will be the global introduction of radical innovation (Schumpeter, 1934). Again, as discussed in the previous chapter, de-internationalisation is primarily perceived as a failure (Benito and Welch, 1997), and at best it can be viewed as a correction of an error (Casson, 1986). Therefore, it might be assumed that it is less probable to observe the de-internationalisation phenomenon at the high end of the new economic activity continuum, e.g. in case of a global introduction of radical innovation.

The central concept of entrepreneurship as a scholarly domain is opportunity (Shane and Venkataraman, 2000). That is, how overlooked opportunities come into existence and how they are pursued (Kirzner, 1997a). However, as argued by Davidsson (2003a), there are two major problems with the opportunity concept. The first problem is that the term 'opportunity' that is known to be profitable is fundamentally opposed to acknowledging uncertainty as an inescapable aspect of the environment of the emerging activity. The second problem of 'opportunity' is the question whether opportunities objectively exist or if the actor creates them, i.e. it clashes with heterogeneity assumption of entrepreneurship research as scholarly domain. Davidsson (2003a) suggests that the entrepreneurial discovery process starts with the conception of a venture idea rather than of an opportunity, and that the venture idea shall be the focal unit of interest in entrepreneurship research. For the purpose of the present research, de-internationalisation could emerge as a result of the initial conception and further exploitation of a venture idea (Figure 11). Cognitive theories could be employed to explain how venture ideas are conceived (Busenitz and Barney, 1997; Alvarez and Busenitz, 2001), whereas entrepreneurial orientation will describe how these new venture ideas are undertaken (Lumpkin and Dess, 1996).

4.5 CONCLUSION

The review of the entrepreneurship literature provided greater contextualization of the study. The aim of the present chapter was to position de-internationalisation within the entrepreneurship literature. To achieve the above aim, firstly the typology of entrepreneurship was explored by grasping the contribution from various disciplinary areas like economics, socio-psychology, and strategic management. Then, attention turned to the evaluation of the extant state of the entrepreneurship field. Finally, continued entrepreneurship in the growing firm was analysed by defining entrepreneurship.

From the discourse exposed in this chapter, it can be concluded that the entrepreneurship paradigm is *still* in its infancy, and its unified theory has *yet* to be developed. Yet, there can be witnessed a consensus as far as the focus of the entrepreneurship research is concerned. From an economics point of view, entrepreneurship is seen more as a non-equilibrium phenomenon. From a socio-psychological perspective, the emphasis shifted towards the examination of entrepreneurial cognition. From a strategic management perspective, a call for a research on continued entrepreneurship has been put forward.

It was also ascertained that de-internationalisation could be conceptualised as a new economic activity at the low end of the new economic activity spectrum when established firms introduce what internally is a new activity and appears at the same time as a new imitator in a market through organic growth (Davidsson *et al.*, 2001). For the purpose of the present research, de-internationalisation could emerge as a result of the conception and further exploitation of a new venture idea. In this case it might be argued that de-internationalisation could be regarded as an entrepreneurial activity and thus could constitute a legitimate area of interest within entrepreneurship research. New venture idea as a research construct would be used in the open coding at the start of the data collection and analysis phase of the research.

Player: **How much to play?**
Croupier: **Three billion.**
Player: **Who'll be playing?**
Croupier: **We won't know until they show up.**
Player: **What are the rules?**
Croupier: **Those will emerge as the game unfolds.**
Player: **What are my odds of winning?**
Croupier: **We can't say. *Do you still want to play?***

Arthur (1996)

5 INTERNATIONAL ENTREPRENEURSHIP PERSPECTIVE ON DE-INTERNATIONALISATION[18]

5.1 INTRODUCTION

In the previous chapter, the de-internationalisation phenomenon was positioned within cross-border and entrepreneurship research paths as a legitimate area of research. The aim of this chapter is to further position de-internationalisation within the international entrepreneurship paradigm. Throughout the mid - and late-1990s, the research stream on international entrepreneurship became an important area of scholarly inquiry that increasingly had its own mark (see Wright and Ricks, 1994). Within a relatively short period of time, international entrepreneurship research has grown to an identifiable and perhaps even intermediately rich stream in some dimensions (Coviello and Jones, 2004). This stream operates at the intersection of two paths of research, those of entrepreneurship and international business (McDougall and Oviatt, 2000).

[18] This chapter was the foundation of two papers presented at BKERC and McGill conference on international entrepreneurship: Turcan *et al.* (2004) and Turcan and Mäkelä (2004).

As a body of literature develops, it is occasionally useful to stop, consider cumulative contributions of research, and identify new directions and challenges for the future (Low and MacMillan, 1988). This kind of a milestone is certainly beneficial for a young discipline such as international entrepreneurship.

Thus, this chapter will review extant empirical work on international entrepreneurship by focusing on its theoretical foundations. The chapter proceeds with a review of the internationalisation research path. Attention will then turn to the emerging thrusts within entrepreneurship research. Next, the findings from the above review will be synthesized. Future directions and challenges to the development of the international entrepreneurship field will conclude the chapter.

5.2 A PERSPECTIVE ON INTERNATIONAL ENTREPRENEURSHIP

The two starting points of the review were: firstly, the definition of international entrepreneurship defined by McDougall and Oviatt (2000) as 'a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organisations', and secondly, this chapter builds on recent reviews of methodological issues in international entrepreneurship (Coviello and Jones, 2004) and on the current status of international entrepreneurship research (Zahra and George, 2002). A total of 36 articles[19] were included in the present review (see Table 6).

[19] The present review is concerned only with entrepreneurial behaviour across international borders, and excludes the research comparing domestic entrepreneurial behaviour in multiple countries.

Table 6. List of reviewed empirical papers on international entrepreneurship

Entrepreneurial behaviour crossing international boundaries	
Andersson (2000)	Litvak (1990)
Autio *et al.* (2000)	Lu and Beamish (2001)
Bell *et al.* (2001)	Manolova *et al.* (2002)
Bloodgood *et al.* (1996)	McAuley (1999)
Boter and Holmquist (1996)	McDougall (1989)
Burgel and Murray (2000)	McNaughton (2000)
Coviello and Munro (1995)	Moen and Servais (2002)
Crick and Jones (2000)	Preece *et al.* (1998)
Crick *et al.* (2001)	Reuber and Fischer (1997)
Fillis (2002)	Reuber and Fischer (2002)
Fontes and Coombs (1997)	Rhee (2002)
Francis and Collins-Dodd (2000)	Shrader *et al.* (2000)
Glas *et al.* (1999)	Shrader (2001)
Harveston *et al.* (2000)	Vatne (1995)
Ibeh and Young (2001)	Westhead *et al.* (2001)
Jolly *et al.* (1992)	Yeoh (2000)
Jones (1999)	Yli-Renko *et al.* (2002)
Jones (2001)	Zahra *et al.* (1997)

Source: Coviello and Jones (2004: 502)

5.2.1 Cross-Border Research Path

Theoretical views that have emerged within the cross-border research path can be grouped into two categories, namely *behavioural theory-based view* and *economics-based view*. Within both of these, three schools of thought were identified respectively: (i) international new venture, stage, and network approaches, and (ii) transaction cost, international production, and resource-based theories. Behavioural theory-based view is reviewed first followed by the discussion of economics-based view.

5.2.1.1 Behavioural Theory-Based View

5.2.1.1.1 International New Venture Approach

Oviatt and McDougall (1994, pp. 49) defined international new venture '... as a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.' Having witnessed the existence of these firms that demonstrate early and rapid internationalisation, the attention of the researchers turned to the need of developing a theoretical framework to understand and explain that phenomenon (McDougal *et al.*, 1994; Oviatt and McDougall, 1994; Knight and Cavusgil, 1996; Madsen and Servais, 1997).

For example, Oviatt and McDougall (1994) based their theoretical framework of multinational new ventures on transaction cost, international production, and resource based theories. Madsen and Servais (1997), drawing on stage and network approaches, and McDougal *et al.* (1994), drawing on the resource-based view, argue that an entrepreneur's human and social capital are the key factors underlying new venture internationalisation. While the above theories will be discussed later in the paper, the focus of this section alternatively will be on the findings related to the importance of temporal dimension (e.g. Kutscher and Baurle, 1997; Kutschker *et al.*, 1997; Oesterle, 1997; Jones and Coviello, 2002) and inward and outward internationalisation of value chain activities (Korhonen *et al.*, 1996; Oviatt and McDougall, 1997; Jones, 1999) to the international growth of a new venture. As argued elsewhere (Turcan, 2003a), temporal dimension and inward and outward activities are essential to understanding the phenomenon of de-internationalisation that is a missing link in the cross-border research.

Although all phenomena exist in and through time, researchers often ignore, treat implicitly, or treat explicitly but in an inadequate manner, the duration and rates of time (George and Jones, 2000). Furthermore, as one of the most important (boundary) assumptions in theory building (Andersen, 1993), time is seldom positioned as the central construct (Jones and Coviello, 2002), and therefore should play a much more significant role in this process (George and Jones, 2000; Hurmerinta-Peltomaki, 2003). Because, it is *time* that makes it possible to consider phenomena that are of crucial importance to small firm's cross-border activity, i.e. timing, duration, chronological sequence and velocity of different cross-border moves (Kutschker and Baurle, 1997).

As identified by Coviello and Jones (2004), the bulk of international entrepreneurship research is static; it does not incorporate time-dependent variables or time, and therefore makes it difficult to reveal the process over time. Overall, international entrepreneurship research has not sufficiently distinguished between two closely related but distinct issues: (i) time-span, i.e. the time that elapsed between the founding of a firm and commencing of its first international operation and (ii) time-rate, i.e. the rate of a firm's subsequent international growth (Autio *et al.*, 2000).

Addressing early criticism of the lack of studies (with exception Lindqvist, 1997) that explain in detail the relation between the time-span a firm needs or can afford to enter foreign markets and the availability of competitive advantages (e.g. Oesterle, 1997), McNaughton (2000) studied the influence of firm, market, product, and management characteristics on the time-span to foreign market entry. Although implicitly, Reuber and Fischer (1997) examined the impact of management experience on the time-span (delay) in obtaining foreign sales after the start-up. Whereas, Coviello and Munro (1995) assert that time-span to the acquisition of necessary/lacking resources is crucial to the international success of a small firm. Here it should be stressed that it is not the resource itself that is important, but the timing of its acquisition, thus bringing into fore the importance of studying failed firms or the ones that withdrew from international activity along the way.

As regards the time-rate, Autio *et al.* (2000) and Yli-Renko *et al.* (2002) studied international growth of small high technology firms over four year time period in order to understand primarily the influence of social capital and knowledge intensity on firm's performance. Lu and Beamish (2001) compiled 12-year panel of data to explore the effects of internationalisation (entry mode) strategy on the performance of small and medium enterprises. Whereas Westhead *et al.* (2001) studied the internationalisation process of small firms over a seven year period to understand the change patterns in their exporting behaviour.

As the review findings indicate, international entrepreneurship studies could be easily projected on the positive direction *of* time. However, in order to allow for reverse behaviour (e.g. de-internationalisation) to happen, it is necessary to project the firm growth also on the direction *in* time, i.e. regard firm's cross-border activity as a cyclical phenomenon (Hurmerinta-Peltomaki, 2003). When the importance of direction in time is acknowledged, the narrow scope of the extant international entrepreneurship research comes into fore. That is, all international entrepreneurship studies, without exception, designed their research on the basis of firms that were successful despite the fact that during their research they encountered evidence of firms that either failed or withdrew along the way. For example, in Westhead *et al.*'s (2001) longitudinal sample, approximately 12 percent failed and of the remaining sample, 74 percent were found to be non-exporters.

Another drawback of regarding cross-border activity as a straight forward line is the impossibility of explaining and exploring the inward internationalisation process of a firm's value chain activities – an issue that is crucial not only from an academic point of view, but also from a policy-making standpoint. As government organisations tend to encourage only outward operations, and to some extent inward investment, many inward activities by foreign firms may be overlooked as internationalisation opportunities for domestic enterprises. Crick and Jones (2000) put forward criticism in relation to policymakers' current approach to categorizing internationalisation of small firms in the provision of trade assistance programs and suggest that international expansion strategies other than pure exporting may better represent such processes. As traditional empirical literature on internationalisation (e.g. Korhonen *et al.*, 1996), international entrepreneurship research also tends to focus on the outward rather than inward patterns of activity paying little or no attention to the importance of inward-outward activities. With few exceptions (e.g., Jones, 1999;

2001) international entrepreneurship research explored small high technology firms' patterns of international development through their establishment of cross-border activity in key value chains. One of the assumptions Jones's research was based upon was that types of cross-border activities will reflect the nature of a firm's business, its resources, growth needs, and goals, thus calling for a unique and holistic process of cross-border activity to each firm.

5.2.1.1.2 Stage Approach

The stage approach to internationalisation dominates contemporary research on the internationalisation of small firms (for a comprehensive review, see Coviello and McAuley, 1999). Within this school, the emphasis is on export internationalisation models. According to Andersen (1993) these models have fallen into one of two categories: (i) Upsala internationalisation model, initiated by Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977), and (ii) innovation internationalisation model, initiated by Bilkey and Tesar (1977) and Wiedersheim-Paul *et al.* (1978). According to Upsala internationalisation model, incremental (through sequence of stages) learning at the firm level is the main factor explaining a firm's international behaviour. Whereas innovation internationalisation model to a greater extent treats the individual learning as an important aspect in understanding firm's international behaviour. From practical view point, Andersen (1993) further suggests that these models are similar with the main difference being in the number of stages and in the description of each stage (for review see Leonidou and Katsikeas, 1996), hereto referred as stage approach to internationalisation or stage models.

It suggests that each stage involves an increased commitment to international activities and that the process of internationalisation is the consequence of the acquisition of experiential knowledge, in particular, market specific knowledge, and of uncertainty associated with the decision to internationalise (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Commitment increases as firms learn more and therefore become less uncertain about foreign markets (Johanson and Vahlne, 1977; Cavusgil, 1984). Although stage approach has received a great deal of support within internationalisation literature (e.g. Gankema *et al.*, 2000; Eriksson *et al.*, 2000; Yip *et al.*, 2000), it has been widely criticized (for comprehensive review see Andersen, 1993; 1997), challenged (e.g. Turnbull, 1987; Sullivan and Bauerschmidt, 1990; Bell, 1995; Korhonen *et al.*, 1996; Wheeler *et al.*, 1996), and revised (e.g. Johanson and Vahlne, 1990; Lamb and Liesch, 2002). The major limitation of the stage approach is that it lacks explanatory power in relation to '[w]hy or how the process takes place or how to predict the movement from one stage to the next' (Andersen, 1993: 227). That is, it relies on the use of linear models in trying to explain complex, dynamic, interactive and frequently non-linear behaviour (Bell, 1995). Hence phasing out the possibility of explaining and understanding de-internationalisation process, that is the focus of the present study, and any subsequent resurrection of internationalisation process.

Recently, a unique challenge to stage models has come from within international entrepreneurship literature which has focused predominantly on ventures that have demonstrated early and rapid internationalisation (McDougal *et al.*, 1994; Oviatt and McDougal, 1994; Knight and Cavusgil, 1996; Madsen and Servais, 1997). One of the key questions addressed is how some small and medium enterprises can rapidly succeed abroad without going through different stages as suggested by stage models (Peng, 2001). Overall, present review findings suggest that the stage approach is less valid in explaining instant internationalisation of new, especially high technology, ventures (e.g. Boter and Holmquist, 1996; Jones, 1999; Burgel and Murray, 2000; Harveston *et al.*, 2000; Bell *et al.*, 2001).

However, regardless of the above challenges, several studies actually applied the stage approach to explain the internationalisation process of born-globals. For example, low-tech manufacturing firms (Boter and Holmquist, 1996) in mature trade sectors (Crick *et al.*, 2001) tend to adopt an incremental stepwise approach to internationalisation. Whereas, Glas *et al.* (1999) found that firms in transition economies need time to establish their market presence in their own country, before extending their operations into foreign markets. Bloodgood *et al.* (1996) argued that out of five theories mentioned by McDougal *et al.* (1994), stage approach includes elements most useful to a theory of international new ventures. That is, the higher the market knowledge of the founding entrepreneur, the easier (resource) commitment decisions are taken concerning entering international markets (Madsen and Servais, 1997).

Furthermore, attempts have been made even to merge the stage approach with the international new venture approach to explain the internationalisation process of new high-technology firms. Building on knowledge-based theory, Autio *et al.* (2000) and Yli-Renko *et al.* (2002) viewed the stage approach and the international new venture approach to internationalisation as complementary, rather than contradictory. This was possible due to the complimentary roles that knowledge plays in both approaches to facilitate international growth. That is, the experiential market specific knowledge, as emphasized in stage approach, plays the key role in the process of resource commitment to foreign markets. Whereas, the entrepreneurial knowledge and knowledge-intensity of firm's core resources, as emphasized in new venture internationalisation (Oviatt and McDougal, 1997), are the keys to proactive identification of international opportunities and their proactive pursuit. Specifically, the focus in these two studies was on the effect of knowledge-intensity, defined '... as the extent to which a firm depends on the knowledge inherent in its activities and outputs as a source of competitive advantage' (Autio *et al.*, 2000: 913), and foreign market knowledge, defined as '... the extent to which a firm possesses information and experiential knowledge about its international operating environment' (Yli-Renko *et al.*, 2002: 283) on the international growth.

As predicted, Autio *et al.* (2000) found that the earlier in their development that firms ventured into international competition and the greater their knowledge intensity, the more rapidly they grew internationally. Yli-Renko *et al.* (2002) found support for the key propositions of both the stage approach and the international new venture approach. That is, positive relationships were found between foreign market knowledge and international growth, on the one hand, and between knowledge intensity and international growth, on the other. As argued by Yli-Renko *et al.* (2002) these findings could contribute to the development of a richer theory of internationalisation, one that explicitly addresses both the regulating and enabling roles of knowledge.

5.2.1.1.3 Network Approach

In their continuous efforts to further develop the internationalisation stage model, Johanson and Vahlne (1990) supported the idea that personal relationships and networks are important, especially in turbulent, high-technology industries. The network approach is based on theories of social exchange and resource dependency, and focuses on firm behaviour in the context of a network of inter-organisational and interpersonal relationships (Axelsson and Easton, 1992). Embeddedness, connectivity, and reciprocity form the key conceptual underpinnings of the network approach (Powell and Smith-Doerr, 1994). The basic assumption is that the individual firm is dependent on resources controlled by the other firms (Johanson and Mattsson, 1988).

In terms of internationalisation, Johanson and Mattsson (1988) suggest that success in new foreign market development is rooted in firm relationships in current markets, whether these are domestic or foreign, rather than in the identification and analysis of foreign market characteristics and the development of a tailored market strategy. Hence, according to Johanson and Mattsson's network model, the firm internationalises by establishing and developing positions in the (foreign) network through international extension, penetration, and international integration (1988: 309). In its turn, the position in the network that may eventually both empower and constrain action (Powell and Smith-Doerr, 1994) is dependent on the degree of internationalisation of both the market and the firm.

All in all, the network approach is viewed as an emerging framework (for review see e.g. Coviello and McAuley, 1999) that can offer an alternative view of the internationalisation processes of firms (Axelsson and Easton, 1992), and a valuable approach when analysing international new ventures (Madsen and Servais, 1997). It has received a lot of attention and recognition both in internationalisation literature to explain the international growth of small firms (recent examples include Anderson *et al.*, 1994; Coviello and Munro, 1995; Coviello, 1996; Elg and Johansson, 1996; Tikkanen, 1998; Coviello and Martin, 1999; Chetty and Blankenburg Holm, 2000; Crick and Jones, 2000), and strategic management literature to explain the overall growth of the firm (e.g. Welch and Welch, 1996; Jarillo, 1988; Gulati *et al.*, 2000; Hite and Hesterly, 2001; Slywotzky and Wise, 2002). As compared to the stage approach, the network approach provides for reciprocity between inward and outward activities (Crick and Jones, 2000), and recognizes the importance of the networking role on inward international activities as part of the growing research on networks and internationalisation (Johanson and Mattsson, 1988; Johanson and Vahlne, 1990). One of the major drawbacks of the network approach is viewed as being its failure to adequately address concepts such as efficiency and effectiveness (Jones and Coveillo, 2002).

In international entrepreneurship literature, the network approach, as in traditional internationalisation literature, offers a valuable approach when applied to explain the internationalisation behaviour of new ventures. From an international entrepreneurship perspective, where new small high-technology ventures compete right from their inception in highly internationalised markets/networks, it can be argued based on Johanson and Mattsson's (1988) framework, that international new ventures' position in these networks is dependent chiefly on the degree of internationalisation of the firm, and as a result, on the entrepreneurs' networks that are regarded as the key to the international success of the new venture. Several research findings from international entrepreneurship literature support the above propositions.

For example, Vatne (1995) suggested that entrepreneurial embeddedness in social networks influence a firm's ability to identify and acquire external resources needed to internationalise successfully. Therefore a vibrant and dynamic network around the firm is an important factor to develop and maintain firm's competitiveness. Reuber and Fischer (1997) developed and successfully tested a model whereby internationally experienced management teams are more likely to have in place foreign business networks and a greater propensity to develop strategic partners. Westhead *et al.* (2001) found that businesses with older principal founders with denser contact networks are significantly likely to be exporters at a later date. Furthermore, it was found that social capital positively influenced and facilitated the acquisition and creation of knowledge (see also Yli-Renko *et al.*, 2001) which was regarded as a key resource driving the international growth of new technology-based firms.

Moreover, it was found that foreign market selection and entry modes (Fontes and Coombs, 1997; Jones, 1999; 2001) emanate from opportunities created through network contacts, rather than solely from the strategic decision of managers in the firm (Coviello and Munro, 1995). Jones (1999) even questions whether internationalisation should be a strategy in itself for small firm development. This is based on the notion that being embedded in the industrial system of networks (of suppliers, customers, competitors, etc), small firms are constrained by the rules dictated by these networks (Boter and Holmquist, 1996; Francis and Collins-Dodd, 2000). Thus, entrepreneurs' networks, as well as their ability to establish new network relationships, should be managed as a key competitive capability (Coviello and Munro, 1995).

From the above findings it can be concluded that the network approach is a valid framework for the study of the internationalisation of new small high-technology firms. By and large, higher level of embeddedness facilitates internationalisation of new ventures and is associated with higher international growth. However, it is not clear to what extent such embeddedness, which also constrains actions and dictates the rules, provides a continuous competitive advantage.

5.2.1.2 Economics-Based View

5.2.1.2.1 Transaction Cost Theory

The transaction cost theory, also known as internalization theory, resulted from the dissatisfaction of theorists with perfect competition theory, which could not explain the existence of the firms on the assumption that the direction of resources (efficiency) is dependent directly on price mechanisms. Coase (1937) was among the first to ask "... why is there any organisation? ... why co-ordination is the work of the price mechanism in one case and of the entrepreneur in another" (pp. 38-39). According to Coase (1937), it is the cost of market transactions that makes it profitable to establish a firm. In other words, firms exist to minimize the cost of making transactions through either hierarchical governance structures, i.e. within the boundaries of the firm, or through market governance structures, i.e. in the open market (Williamson, 1975).

According to Williamson (1975), who furthered the development of transaction cost theory, the choice of the governance structure is a function of transaction efficiency that in turn is influenced by people's opportunistic behaviour, and bounded rationality, and the firm's assets specificity. Buckley and Casson (1976; 1998) further advanced the internalization concept to explain the existence of multinational enterprises. They envisaged the firm as an internalized bundle of resources which can be allocated between firm's value chain, and between national markets. Transaction cost (Williamson, 1975) and internalization (Buckley and Casson, 1976) perspectives are both concerned with the minimization of the transaction costs and the conditions underlying market failure. The primary difference between the two is that the focus of transaction cost theory is on more micro-level transaction characteristics, such as asset specificity, while that of internalization is on the market for know-how (Madhok, 1997).

Essentially concerned with the governance of contractual relations (Williamson, 1994), transaction cost theory approaches the entry mode question with the following promise: a low level of ownership is preferable until proven otherwise (Anderson and Gatignon, 1986). That is, the nature of relationships determines whether the export agent strategy is towards the pure market (direct exporting) or pure hierarchy (foreign direct investment) ends of the transaction cost theory continuum (Zacharakis, 1998). Hence, the efficiency of an entry mode depends on four constructs that determine the optimal degree of control: (i) *transaction-specific assets*, i.e. investments (tangible and intangible); (ii) *external uncertainty*, i.e. external environment unpredictability; (iii) *internal uncertainty*, i.e. entrant's inability to determine its agents' performance by observing output measures; and (iv) *free-riding potential*, i.e. agents' ability to receive benefits without bearing the associated costs (Anderson and Gatignon, 1986).

Williamson's (1975) transaction cost theory has been criticized as being "wrong and even dangerous" for corporate managers because of the assumptions and logic on which it has been grounded (Ghoshal and Moran, 1996: 13). Ghoshal and Moran (1996) argue that Williamson's transaction cost theory is likely to encourage the very behaviour that it takes for granted and seeks so hard to control. Further, the transaction cost theory, is viewed to be primarily concerned with exploitation, but not with the enhancement or development of capabilities (Madhok, 1997). Furthermore, having focused chiefly on internalization and asset specificity advantages, Buckley and Casson's (1976) internalization theory has been criticized for the insufficient acknowledgment of location advantages in firms' internationalisation efforts – an advantage that later was integrated in the theory of international production (Dunning, 1980).

The present review of international entrepreneurship empirical research identified, as expected (e.g. Coviello and McAuley, 1999), only two articles that, to different extents, applied transaction cost theory to explain small (high-technology) firm internationalisation (Vatne, 1995; Burgel and Murray, 2000). Only one study (Shrader, 2001) solely applied transaction cost theory as the basis of and focus for its empirical investigation of internationalisation of multinational enterprises.

Vatne (1995) used transaction cost logic to explain the use of external resources by small and medium enterprises in their international efforts by emphasizing on the importance of individual dialogue, mutual trust, and openness to the development of innovative, long-lasting, and profitable interfirm relationships. As argued by Williamson (1994), transaction cost economics and embeddedness reasoning are evidently complimentary in many respects, and as concluded by Vatne (1995), trust is important and so is proximity.

Burgel and Murray (2000) employed transaction cost theory to explain the choice among small firms between direct exporting and exporting through intermediaries. They found, inter alia, that transactions involving products that incorporated more innovative technology (and therefore embodied a higher degree of tacit knowledge) had a higher chance of being dealt with through collaborative arrangements rather than being exported. This finding contradicts with the transaction cost reasoning that states that tacit knowledge is difficult and costly to transfer to external partners, i.e. firms should avoid collaborations in such situations. This line of argument was supported by Shrader (2001) who employed transaction cost theory to explore factors moderating the relationship between collaboration and performance among large firms, and found that firms with high R&D intensity who collaborated had lower performance than those who used internalized transfers. At the same time, Kuemmerle (2002) suggests that in the early stage of a (large) international venture, cross-border activities that augment the venture's knowledge base are more prevalent than cross-border activities, which exploit the venture's knowledge base. Whereas, Knight (2000; 2001) found no significant linkage between technology acquisition and international performance of small and medium sized firms. Thus, from a small venture point of view, especially those with high technology knowledge base, cross-border activities that exploit the venture's knowledge base might prevail over those that augment its knowledge – a question worthwhile investigating. However, all the above discourse raises the question whether transaction cost theory, if employed to explain the internationalisation efforts of small firms, works in the same but opposite direction as to the explanation of internationalisation of multinational enterprises.

5.2.1.2.2 International Production Theory

As previously mentioned, Dunning (1980; 1988) combined location specific factors together with ownership and internalization factors in an eclectic paradigm of international production, known also as the OLI paradigm, to explain the foreign direct investment of multinational enterprises (e.g. Agarwal and Ramaswami, 1992; Tse *et al.*, 1997). According to the OLI paradigm, the extent, characteristics and pattern of a firm's international production is determined by a combination of three factors: (i) ownership specific advantages, which might be either tangible or intangible assets; (ii) location advantages, which are country-specific factors related to the market under consideration available to all firms in that particular market; and (iii) internalization advantages, which are concerned with the costs of choosing a hierarchical mode of governance over an external mode.

For more than two decades, the OLI paradigm has remained the dominant analytical framework for accommodating a variety of operationally testable economic theories of the determinants of foreign direct investments and the foreign activities of multinational enterprises (Johanson and Vahlne, 1990; Dunning, 2000). As argued by Brouthers *et al.* (1999), Dunning's eclectic paradigm is both descriptive and normative in predicting the best performing international entry mode. The eclectic paradigm has been criticised (for review see e.g. Itaki, 1991; Andersen, 1997) for being static in nature (Young *et al.*, 1989), for focusing less on the internationalisation process (Johanson and Mattsson, 1987; Melin, 1992), and for assuming rational decision-making (Johanson and Vahlne, 1990). Having been based on complementary and sometimes overlapping theories, the detailed eclectic paradigm could be tautological (Itaki, 1991). All in all, it seems that the propositions/hypothesis in studies using the transaction cost theory are more specific and theoretically well-grounded than studies based on the eclectic paradigm (Andersen, 1997). Recently, to address some of the criticism, the eclectic paradigm has been updated by dynamizing and widening its application (Dunning 1995; 2000; 2001).

Having been designed to explain the foreign direct investment of multinational enterprises, and despite recent attempts to use it in examining the foreign market entry modes of small firms (e.g. Brouthers *et al.*, 1996; Nakos and Brouthers, 2002)[20], the eclectic paradigm has limited application in contemporary research to explain the internationalisation of small firms (Coviello and McAuley, 1999). Primarily, foreign direct investment studies were actually designed to compare the explanatory value of foreign direct investment theoretical base with the stage approach and/or network approach (e.g. Berra *et al.*, 1995; Zafarullah *et al.*, 1998).

The present review of international entrepreneurship literature reveals the same pattern as far as the application of eclectic paradigm is concerned to explain small firm internationalisation. For example, McAuley (1999) in his study of instant internationalisation of small low-tech firms, argued, on the basis of the above criticisms of the international production theory that the contribution of this theory to explaining the behaviour of small firms is limited severely. Lu and Beamish (2001) compared the effects of exporting and foreign direct investment strategies on small firms' performance. Non presence of the eclectic paradigm within international entrepreneurship literature could be explained by the assumptions the eclectic paradigm is built upon, which are

[20] Although Brouthers *et al* (1996) and Nacos and Brouthers (2002) studied small firms' foreign entry modes from eclectic paradigm perspective, these studies do not provide sufficient information to assess selection sample criteria used to identify small firms.

whether there is an economic man who has access to perfect information and who will make rational decisions.

5.2.1.2.3 Resource-Based View

The findings clearly show that the resource-based view has one of the biggest impacts on the emergence of international entrepreneurship research. Taking into account that all of the above discussed internationalisation perspectives have either explicit or implicit roots in the resource-based view (see Table 7), it can be inferred that the resource-based view is **the** main contributor to the development of the international entrepreneurship field. Furthermore, this specific contribution of the resource-based view to the international entrepreneurship field corresponds to the overall consolidation of resource-based theory within entrepreneurship research (for review see Gregoire *et al.*, 2001).

Table 7. Impact of the resource-based view on international entrepreneurship

Stage Approach	**Network Approach**	**Transaction Cost Theory (TCT)**	**OLI Theory**	**International New Venture Approach**
Experiential Market Specific Knowledge	Embeddedness, Connectivity, and Reciprocity as Tacit Socially Complex Assets	Idiosyncratic Assets as an Important Source of Market Failure	TCT, plus Idiosyncratic Assets as an Important Source of Heterogeneity	Human and Social Capital as Firm's Unique Competences
(Johanson and Vahlne, 1977)	(Axelsson and Easton, 1992) (Johanson and Mattsson, 1988)	(Williamson, 1975)	(Dunning, 1980)	(McDougall *et al.*, 1994)

Source: derived from literature

As previously discussed (see section 4.2.3.2.2), the resource-based view is based on the assumptions that in order for a firm to sustain its competitive advantage its resources must be heterogeneous and immobile (Barney, 1991). However, these two assumptions are necessary but not sufficient for a firm to sustain its competitive advantage. According to Barney (1991: 105), in order for a firm to sustain its competitive advantage, its resources must be: (i) valuable; (ii) rare; (iii) imperfectly imitable; and (iv) non-substitutable. The above framework will now be explored from a cross-border and entrepreneurship perspectives, as it provides a useful insight into the pattern of the research in the international entrepreneurship field.

As suggested by Barney (1991), valuable resources exploit opportunities and/or neutralize threats in a firm's environment. Hence, from a cross-border activity perspective, these valuable resources enable the firm to improve the efficiency and the effectiveness of its international operations. From an entrepreneurship perspective, these valuable resources make the identification and the pursuit of overlooked opportunities possible. That is, the entrepreneur's cognition and orientation become an important source of heterogeneity and immobility.

In addition, Barney (1991) argues that firm's resources must be rare among a firm's current and potential competition. As long as the number of firms that possesses a particular valuable resource is less than the number of firms needed to generate perfect competition dynamics in an industry, that resource has the potential of generating a competitive advantage. From an international entrepreneurship perspective this 'rareness counting approach' might be irrelevant, e.g. when small *high-technology* (rare) firms enter international *niche* (monopolistic or oligopolistic) markets right from their inception. Alternatively, the *newness* of new economic activity created and/or of new value generated could be the indicator of the existence of rare resources.

However, as further reasoned by Barney (1991), valuable and rare resources can only be sources of sustained competitive advantage if firms that do not posses these resources cannot obtain these resources that are imperfectly imitable. He suggested that firm resources can be imperfectly imitable for one or a combination of three reasons: (i) unique historical condition; (ii) causal ambiguity; and (iii) social complexity.

A unique firm history is recognized as an important determinant of firm performance and competitive advantage, as social complexity is. However, as also argued in section 5.3 below, it is important to distinguish between young, adolescent, and mature firms. In young firms, the only experience they have as a source of sustained competitive advantage is the individual's (entrepreneur) human and social capital.

Barney (1991: 109) contends that 'in order for causal ambiguity to be a source of sustained competitive advantage, *all* competing firms must have an imperfect understanding of the link between the resources controlled by a firm and a firm's competitive advantages'. From an international entrepreneurship perspective that is concerned with the creation of a new international economic activity, entrepreneurial biases and heuristics used in the identification of overlooked (new) international opportunities, and the perception of resource availability that actually triggers the pursuit of those opportunities can be regarded as the sources of causal ambiguity, and ultimately, as a source of sustained competitive advantage.

Lastly, for a firm resource to be a source of sustained competitive advantage there must be no strategically equivalent valuable resources that are themselves either not rare or imitable (Barney, 1991). The above mentioned entrepreneur's human and social capital, entrepreneurial cognition and orientation, the newness of new international economic activity created and/or of new value generated they all could be regarded as the sources of non-substitutability that ultimately supply the genetics of firm heterogeneity (Mahoney and Pandian, 1992).

Thus, based on the above discourse, the extant international entrepreneurship research could be divided into two major resource-based themes: (i) the entrepreneur's human and social capital, and (ii) the entrepreneur's cognition and orientation. This section will focus on the former theme, as the latter will be discussed in section 5.2.2.

Overall the findings suggest a positive relationship between an entrepreneur's human and social capital and internationalisation of new ventures. For example, there was found a positive and significant relationship between entrepreneur's international work experience and the degree of new venture internationalisation (Bloodgood *et al.*, 1996; Reuber and Fischer, 1997; Burgel and Murray, 2000; Harveston *et al.*, 2000; Westhead *et al.*, 2001; Manolova *et al.*, 2002). As argued by Reuber and Fischer (1997) the higher international experience of the top management team, the earlier the small company ventured into foreign market. Furthermore, foreign market knowledge (Yli-Renko *et al.*, 2002) acquired through a greater information search (Yeoh, 2000) also had a positive impact on international growth of small firms. However, general human capital did not significantly predict the subsequent propensity to internationalise (Westhead *et al.*, 2001) and eventually did not differentiate between internationalised and non-internationalised firms (Manolova *et al.*, 2002).

An entrepreneur's social capital has a greater impact on early firm internationalisation (e.g. Litvak, 1990; Coviello and Munro, 1995; Vatne, 1995; Boter and Holmquist, 1996; Fontes and Coombs, 1997; Jones, 1999; McAuley, 1999; Jones, 2001; Westhead *et al.*, 2001; Yli-Renko *et al.*, 2002). Arguably most importantly, it is perceived as a key source of (international) opportunities (e.g. Coviello and Munro, 1995; McAuley, 1999). At the same time it provides new small (low- and high-technology) firms with necessary resources that are of vital importance to their existence. For example, social capital has a significant impact on the development of the knowledge base of small high-technology firms (Yli-Renko *et al.*, 2002), and on early internationalisation decisions even of small low-tech firms (McAuley, 1999). Broadly speaking, value chain activities are one of the main reasons why small firms get involved in networking (Vatne, 1995), i.e. in in-ward and out-ward activities (Jones, 1999; 2001). Viewing early small firm internationalisation as a holistic process, Jones (1999; 2001) questions whether internationalisation should be a strategy in itself for small firm development, and contends that it is not so much the individual type of cross-border link that is important, but the contribution it makes, alone or in conjunction with other modes of activity, to the business as a whole.

With regards to the other resources, it was found for example that greater knowledge intensity (Autio *et al.*, 2000; Burgel and Murray, 2000), the pursuit of differentiation (Bloodgood *et al.*, 1996), and the imitability of resources (Autio *et al.*, 2000) are all strongly and positively associated with a higher degree of internationalisation and faster international growth. As is the active search for and acquisition of the information (Yeoh, 2000). On the other hand, the impact of a firm's size and age on the internationalisation process is not clear. For example, in one study, firm size (Bloodgood *et al.*, 1996; Preece *et al.*, 1998) and age (Preece *et al.*, 1998) were found to be positively associated with a firm's internationalisation, whereas in another, a negative association was found (Reuber and Fischer, 1997). As argued by Autio *et al.* (2000), the earlier in their development that firms venture into international competition, the more rapidly they grow internationally.

Apart from the traditional view of the importance of a firm's (heterogeneous and immobile) resources on the internationalisation process, there emerged a complementary view that focuses on the heterogeneity of beliefs in the value of resources (e.g. Brown and Kirchhoff, 1997; Alvarez and Busenitz, 2001). As argued by Sullivan and Bauerschmidt (1990), internationalisation is a strategic decision that must fit well with both the cognitive and resource aspects of the company. Thus, a small firm's internationalisation process could be regarded as a function of entrepreneurial cognition (Manolova *et al.*, 2000), and entrepreneurial orientation. These two intangible resources actually form the entrepreneurship path of international entrepreneurship paradigm and will be discussed in the following section.

5.2.2 Entrepreneurship Research Path

Two distinct, although interrelated, perspectives have emerged within the entrepreneurship path that are trying to shed light on the international entrepreneurial behaviour of firms; these are the entrepreneurial cognition and the entrepreneurial orientation perspectives (Krueger *et al.*, 2000; Lumpkin and Dess, 2001). The following sections will detail the findings related to the above mentioned perspectives.

5.2.2.1 Entrepreneurial Cognition

In the context of an entrepreneurship paradigm, entrepreneurial cognition has been defined as the extensive use of individual heuristics and beliefs that impact decision-making (Alvarez and Busenitz, 2001). As argued by Busenitz and Barney (1997), under conditions of environmental uncertainty and complexity, without the use of biases and heuristics many entrepreneurial decisions would never be made. Hence, central to the entrepreneurial cognition research is the need to understand how entrepreneurs identify overlooked opportunities and make decisions to pursue them. Specifically, for example, what biases and heuristics may lower the risk perception or may inhibit the decision-making process of starting a new venture? In this respect, Krueger and Brazeal (1994) argue that entrepreneurial potential requires potential entrepreneurs.

Overall, the extant entrepreneurship research found that entrepreneurs behave differently from non-entrepreneurs and managers in large organisations. For example, Palich and Bagby (1995) found that entrepreneurs did not perceive themselves as being any more positively predisposed to taking risks than non-entrepreneurs. However, entrepreneurs tended to categorise business scenarios as having more strengths, opportunities, and more potential for gain than did non-entrepreneurs, i.e. entrepreneurs are more likely to see business world through "rose-coloured glasses". Busenitz and Barney (1997) examined differences between entrepreneurs and managers in large organisations with respect to two biases and heuristics, i.e. overconfidence (overestimating the probability of being right), and representativeness (the tendency to overgeneralise from a few characteristics or observations). They found that entrepreneurs do behave substantially differently from managers in large organisations by being more susceptible to use decision-making biases and heuristics than managers in large organisations.

Simon *et al.* (2000) studied how overconfidence (failure to know the limits of one's knowledge), illusion of control (when individuals overemphasize the extent to which their skills can increase performance in situations where chance plays a large part and skills are not necessarily the deciding factor), and the law of small numbers (when an individual uses a limited number of information inputs to draw firm conclusions) affect entrepreneur's decisions to start a new venture.

Their key finding is that entrepreneurs start new ventures because they do not actually perceive the risks involved, and not because they knowingly accept high levels of risks. Studying the impact of counterfactual thinking, i.e. "what if..." scenario, on venture formation, Baron (2000) found that entrepreneurs were significantly less likely than other groups to engage in counterfactual thinking and experienced significantly less regret over past events, which contributed to their decisions to start new ventures. Arguing that intentions are the best predictor of planned behaviour, Krueger *et al.* (2000) tested Ajzen's (1991) model of planned behaviour and Shapero's (1982) model of the entrepreneurial event and found that perceived behavioural control, as a function of perceived self-efficacy, has the strongest influence on entrepreneurial intentions in both models. Interests, attitudes, and preferences therefore reflect the emotional value of the cognitive representations of reality (Delmar, 2000).

As regards the extant international entrepreneurship research, the importance of the entrepreneurial cognition process to firm internationalisation is also acknowledged (e.g. McAuley, 1999; Autio *et al.*, 2000; Crick and Jones, 2000). For example, McAuley (1999) argues that self-perception of the entrepreneur about his or her business attitude is one of the key attributes that influences an entrepreneur's decision to internationalise instantly. Autio *et al.* (2000) studied, inter alia, the cognitive impediments to learning and introduced the concept of "learning advantages of newness". They suggest that as firms get older, they develop learning impediments that hamper their ability to successfully grow in new environments, while the relative flexibility of newer firms allows them to rapidly learn the competences necessary to pursue continued growth in foreign markets. Crick and Jones (2000) in their study of the internationalisation of small high-technology firms allowed for the perceptions of costs, risks, and potential of entry modes and foreign markets to be accounted for. It is interesting to notice however that none of the studies directly investigate how entrepreneurs' biases and heuristics are used to identify international opportunities and make decisions in the pursuit of those opportunities; instead, international opportunities are regarded as being given. This might be explained by the fact that international entrepreneurship researchers regard internationalisation as an already existing entrepreneurial potential, i.e. as an entrepreneurial strategy (e.g. Jones, 1999; Andersson, 2000; Lu and Beamish, 2001).

Thus, as compared to the above traditional entrepreneurship research, the focus of extant international entrepreneurship research is primarily on the entrepreneurs' perceptions. As argued by Jones and Coviello (2002), it is more relevant to understand the value placed by the entrepreneurs on internationalisation, and their perceptions regarding internationalisation risk, cost, profit, growth potential and complexity. In this respect, Manolova *et al.* (2002) found that environmental perceptions are consistent differentiators with respect to internationalisation, and suggest that environmental perceptions are strong candidates for a general predictor of internationalisation. Whereas Preece *et al.* (1998) found that the availability of resources (financial, opportunity re-cognition, employees, and environmental scanning) necessary to pursue internationalisation has an important impact on both foreign market intensity and diversity. The above findings correspond to the extant traditional entrepreneurship research, which found that the perception of resource availability, defined as perception of munificence and resource acquisition self-efficacy, has a positive influence on entrepreneurial orientation, which in turn, has a positive impact on small firm growth (Brown and Kirchhoff, 1997).

Following Sullivan and Bauerschmidt's (1990) suggestion, further research needs to be conducted into how an entrepreneur's perception of the resource availability affects the perception of overlooked international opportunities. The importance of this relationship comes to the fore when it is acknowledged that opportunities initially identified are often not the ones that are subsequently pursued (Sjolander and Magnusson, 2001); or when entrepreneurs are susceptible to the escalation of commitment (Baron, 1998) e.g. to the failing course of action; or when entrepreneurs' intentions change (Krueger, 2000).

5.2.2.2 Entrepreneurial Orientation

In an attempt to answer the question 'how do entrepreneurs act' (Stevenson and Jarillo, 1990; Shane and Venkataraman, 2001), entrepreneurship researchers predominately based their studies on Gartner's (1988) definition of entrepreneurship, which postulates that entrepreneurship ends when the creation of the organisation ends. However, there should be a question of 'how to sustain entrepreneurial posture over time', i.e. to study the phenomenon of 'continued entrepreneurship' (Davidsson, 1991); 'entrepreneurial strategic posture' (Covin and Slevin, 1989); or entrepreneurial orientation (Lumpkin and Dess, 1996) well beyond new venture creation.

Covin and Slevin (1989) suggest that entrepreneurial orientation is characterized by (i) innovation, i.e. a basic willingness to depart from existing technologies or practices and venture beyond the current state of the art; (ii) proactiveness, i.e. how the firm relates to market opportunities in the process of new entry; and (iii) risk taking, i.e. the degree to which managers are willing to make large and risky resource commitments. Lumpkin and Dess (1996), arguing that entrepreneurial orientation is a process that reflects methods, practices, and decision-making styles managers use to act entrepreneurially, extended entrepreneurial orientation dimensions to include (iv) autonomy, i.e. the freedom to act independently, to make key decisions, and to proceed, and (v) competitive aggressiveness, i.e. how firms respond to trends and demands that already exist in the marketplace. Hence, the above five entrepreneurial orientation constructs form a contingency framework that allows researchers to investigate the relationship between entrepreneurial orientation and firm performance.

The latter dimension, i.e. competitive aggressiveness, is very important for the present study. As argued by Lumpkin and Dess (2001), from the resource-based point of view, the creation of resources represents *proactiveness*, whereas the defence of existing resources is achieved by *competitive aggressiveness*. This distinction between the two will allow researchers in continued entrepreneurship to capture through the competitive aggressiveness dimension what Davidsson *et al.* (2001) call an 'admittedly less-than-perfect' measure of the 'amount' of entrepreneurship that a particular instance of new economic activity represents, e.g. an organic growth in volume. The present study will include the autonomy dimension in the research sampling criteria in order to avoid potential resource and decision-making bias.

The ultimate interest of entrepreneurship researchers in entrepreneurial orientation is its influence on the performance of the firm. All in all, entrepreneurship researchers suggest that firm-level entrepreneurial orientation leads to improved firm performance (e.g. Covin and Slevin, 1991; Lumpkin and Dess, 1996; Lyon *et al.*, 2000), and the extant empirical evidence supports the above proposition (e.g. Zahra, 1986; Covin and Slevin, 1989; 1990; Naman and Slevin, 1993; Zahra and Covin, 1995; Brown and Kirchhoff, 1997; Zahra and Garvis, 2000; Brown *et al.*, 2001; Lumpkin and Dess, 2001). Although there is a unison agreement on the positive relationship between entrepreneurial orientation and firm performance, empirical findings suggest some contradictory views as far as the moderating effect of the environment is concerned. For example, Covin and Slevin (1989) found that higher levels of entrepreneurial orientation in dynamic and hostile environments are associated with higher performance, while lower levels of entrepreneurial orientation in stable and benign environments are also associated with higher performance. However, Brown and Kirchhoff (1997) did not find the existence of a moderating effect of the environment on entrepreneurial orientation and firm growth.

The extant international entrepreneurship research also acknowledges the importance of entrepreneurial orientation to firm's international performance. For example, Ibeh and Young (2001) applied three entrepreneurial orientation dimensions: (i) innovativeness, (ii) proactiveness, and (iii) risk propensity, to explain the difference between high and low export-entrepreneurial firms. They found that high export-entrepreneurial firms are typically more innovative in developing exporting, less averse to exporting risks, and have more proactive motivations for exporting. Francis and Collins-Dodd (2000) studied the impact of proactive and conservative orientation dimensions on a firm's export performance. Their findings suggest that stronger proactive orientation is associated with, whereas greater use of conservative orientation is detrimental to, a firm's export success. In general, proactiveness, in the form of product differentiation (Bloodgood *et al.*, 1996); managers' geocentric mindsets (Harveston *et al.*, 2000); management's attitude toward internationalisation (Preece *et al.*, 1998)[21], all seem to be strongly associated with greater internationalisation.

Furthermore, Yeoh (2000) found that entrepreneurial orientation is positively related to the intensity of the information search and is also associated with the use of personal information sources and quasi-government sources in the firms' international efforts. Knight (2000; 2001), arguing that entrepreneurial orientation is rooted in a firm's basic culture, found that firms with a strong entrepreneurial orientation appear to be more inclined to leverage marketing strategies for entering new product markets and coping with more complex environments.

[21] Careful considerations should be given to this finding as for example one of sample selection criteria used by Preece *et al.* (1998) was that selected firms had to have *potential* to compete in global markets.

5.3 THEORETICAL FOUNDATIONS OF INTERNATIONAL ENTREPRENEURSHIP

5.3.1 A synthesis

With regard to theoretical foundations of the international entrepreneurship field, it can be noticed from the above review that the conceptualization of international entrepreneurship is dominated by the theoretical approaches of the international business field. This tendency might be explained by the following. The first, and probably the most important factor, is that there is little or no co-operation between scholars who have their primary focus on only the international business field or on the entrepreneurship field. For example, the majority of international entrepreneurship papers view international opportunities as being given and internationalisation per se as an already existing entrepreneurial potential (see, e.g. Jones, 1999; Andersson, 2000, Lu and Beamish, 2001).

Second, as the focus of international entrepreneurship research is geared towards studying rapid internationalisation of new ventures (Zahra and George, 2002; Coviello and Jones, 2004), international entrepreneurship research is predominately associated with the 'born-global' (international new venture) phenomenon, thus ignoring the fact that entrepreneurial activities represent an ongoing process that unfolds over time (Zahra and George, 2002). This narrow-in-scope relationship is also evident in the newly founded Journal of International Entrepreneurship. For example, Young *et al.* (2003: 32) associate international entrepreneurship with international new ventures; Johanson and Vahlne (2003: 84) with born-globals. Third, none of the reviewed papers (with one exception: Andersson, 2000) made an attempt to define entrepreneurship and its domain of research. As a result, none of the papers actually conceptualized international entrepreneurship as the intersection of cross-border and entrepreneurship research paths.

Based on the above findings, it can be argued, similarly to Davidsson (2003a), that knowledge about international entrepreneurship is best developed if deep familiarity with the phenomenon is combined with disciplinary knowledge and standards, with both entrepreneurship and cross-border phenomena. This could be achieved when researchers, who focus more or less exclusively on international entrepreneurship and researchers, who occasionally apply their knowledge to international entrepreneurship, learn more about theory bases and methods from both cross-border and entrepreneurship research streams before going about their research process.

Relating to the diffusion of the resource-based view to the field of international entrepreneurship, it emerged that implicitly, the ideas that are founded on a resource-based logic have been the largest contributors to the emergence of international entrepreneurship research. Indeed, it would be more precise to argue that it is the firm resources and competitive advantage concepts of the resource-based view (Barney, 1991) that actually played a pivotal part in the materialization of international entrepreneurship research. At the aggregate level, the importance of social capital (e.g., Fontes and Coombs, 1997; McAuley, 1999; Jones, 2001), human capital (e.g., Harveston *et al.*, 2000; Shrader *et al.*, 2000; Fillis, 2002), various physical resources (Litvak, 1990; Bloodgood *et al.*, 1996; Rhee, 2002), as well as industry structure and strategic positioning to firms' international diversity and intensity (e.g., McDougall, 1989; Andersson, 2000; Crick and Jones, 2000) has been widely acknowledged. Although to a lesser extent, the importance of entrepreneurial cognition and orientation to firms' international expansion has been acknowledged as well (Jolly *et al.*, 1992; Zahra *et al.*, 1997; Francis and Collins-Dodd, 2000; Manolova *et al.*, 2002; Moen and Servais, 2002). However, comparatively little attention has been given to the third concept of the resource-based view: sustained competitive advantage.

The non-explicit and partial diffusion of the resource-based view to the international entrepreneurship domain might be due to the following reasons. First, as international entrepreneurship research to date is chiefly influenced by scholars who have their primary focus on international business research, the role of the resource-based view in regard to international entrepreneurship has been influenced by a very well established position of the resource-based view in strategic management (Kor and Mahoney, 2000), international business (Peng, 2001), and other disciplines (Barney *et al.*, 2001). Consequently, the existence of convergence of the resource-based view and entrepreneurship research has not received much attention. For example, Gregoire *et al.* (2001) analyzed 13,593 references cited in the 752 papers published in the Frontiers of Entrepreneurship Research Proceedings of the Babson Entrepreneurship Conference – between 1981 and 1999. They observed that in the period between 1996 and 1999, there was a convergence in the entrepreneurship research drawing from a resource-based perspective.

Second, international entrepreneurship researchers have yet to overcome the existing conflict between the resource-based view that tends to focus on heterogeneity of resources and entrepreneurship that tends to focus on heterogeneity in beliefs about the value of resources (Alvarez and Busenitz, 2001). Alvarez and Busenitz (2001) suggest that this conflict between the two approaches could be resolved if the beliefs themselves about the value of resources are recognized as resources, thus considering heterogeneity as a common attribute of both the resource-based view and entrepreneurship. In this respect, Brown and Kirchhoff (1997) studied the effects of resource availability and entrepreneurial orientation on firm growth. They contended that perceived environmental munificence, defined as the extent to which critical resources exist in the environment, and resource acquisition self-efficacy, defined as perception about a person's ability to gather the required resources, positively influence entrepreneurial orientation that in turn has a positive impact on the small firm growth.

Recently, examining the differences in personal factors between internationalised and non-internationalised small firms, from an international entrepreneurship perspective, Manolova *et al.* (2002) found that environmental perceptions are consistent differentiators with respect to internationalisation, and suggested that environmental perceptions are important general predictors of internationalisation. It might be argued therefore that cross-border activity can be best viewed as a function of entrepreneurial cognition and entrepreneurial orientation. Thus, for international entrepreneurship researchers, this convergence of the resource-based view with entrepreneurship theories provides an opportunity to advance international entrepreneurship research by studying questions such as how do entrepreneurs' perceptions of resource availability affect (i) the development of international entrepreneurial dynamic capabilities over time, (ii) the creation of new resource configurations, and (iii) the sustainability of competitive advantage.

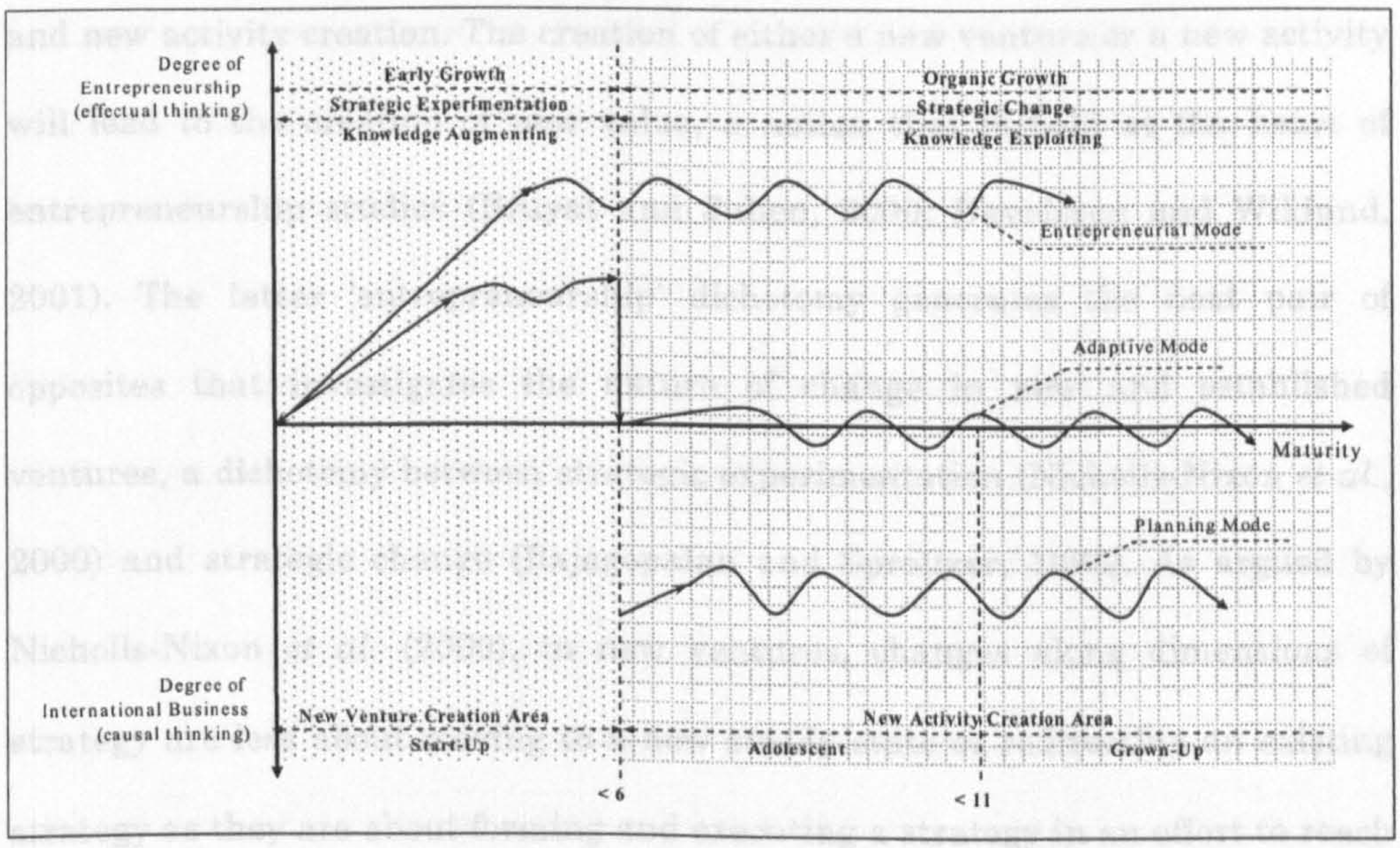
Third, existing international entrepreneurship research has focused primarily on studying the internationalisation of new ventures thus ignoring the fact that entrepreneurial activities are an ongoing process over time (Zahra and George, 2002). It is also characterized by the use of inconsistent definitions and measures as far as a firm's age is concerned (Coviello and Jones, 2004). Hence, there is no clear consensus over what a new venture is, how it behaves and changes over time, what its key indicators are, how old is old, whether there is continued entrepreneurship beyond start-up, etc. Both conceptual and empirical studies should be encouraged in order to resolve the definitional ambiguity of firm age (Oviatt and McDougall, 1994), and develop related typologies of new venture creation (Gartner, 1985). It is expected that the development of a maturity scale will help researchers to develop representative sampling criteria and provide results that allow for generalization[22].

[22] For example, the maturity scale would help avoid such situations as in Fontes and Coombs (1997: 17): '... the empirical research is based on interviews ... with 26 [New Technology-Based Firms] and 5 young technology-based subsidiaries... [New Technology-Based Firms] were defined as: *young independent firms involved in the development and/or diffusion of new technologies*. Thus, the firms studied satisfied the following criteria – newness: between one and fifteen years old...' Or, as for example, in Burgel and Murray (2000: 43, 54): 'Our strongest predictor of the chosen foreign entry mode [of start-up companies in high technology industries] was existing, domestic sales mode of the firm'; '... we define a high-tech start-up that is not older than ten years...'.

5.3.2 Development of a Maturity scale

Prior to starting the discourse on firm maturity, it is pivotal to state explicitly the assumptions of the argument. It is suggested that international entrepreneurship researchers should not be concerned with when start-up occurs (Oviatt and McDougall, 1994), but how long it lasts. Thus, instead of regarding start-up as a point in time, the following discussion will regard start-up as a process in time. For the purpose of this study, the discourse will be between start-up firms and adolescent firms. Figure 12 below presents the eclectic view of start-up and adolescence processes over time, which will be discussed below.

Figure 12. Maturity scale



Source: constructs derived from literature

As illustrated in Figure 12, the maturity scale is based on various temporal indicators of relative maturity derived from various streams of literature. The first building block addresses the issue of when entrepreneurship ends, that is, a dichotomy between continued entrepreneurship (Davidsson, 1991; Lumpkin and Dess, 1996) and continued management (Sandberg, 1992; Hitt and Ireland, 2000). Related to the above are the following dichotomies which look into the decision-making process between (i) an entrepreneurial mode and a planning mode of making strategic decisions (Mintzberg, 1973), and (ii) between an effectual thinker and a causal thinker (Sarasvathy, 2001). Recently Davidsson *et al.* (2001), participating in a continuous debate over the domain of entrepreneurship, suggested defining entrepreneurship as the creation of new economic activity, and introduced a dichotomy between new venture creation and new activity creation. The creation of either a new venture or a new activity will lead to the creation of new value, a notion that is held at the heart of entrepreneurship studies (Bruyat and Julien, 2000; Davidsson and Wiklund, 2001). The latter 'entrepreneurship' dichotomy generates the next pair of opposites that investigates the nature of change in new and established ventures, a dichotomy between strategic experimentation (Nicholls-Nixon *et al.*, 2000) and strategic change (Rajagopalan and Spreitzer, 1996). As argued by Nicholls-Nixon *et al.* (2000), in new ventures, changes along dimensions of strategy are less about moving to a new steady state or redirecting an existing strategy as they are about forming and executing a strategy in an effort to reach a steady state for the first time.

The inquiry into the contribution of growth to the overall understanding of entrepreneurial processes engenders dichotomies between early growth and organic growth in new and established firms (Davidsson *et al.*, 2001), and between knowledge augmenting and knowledge exploitation in new and established ventures, respectively (Kuemmerle, 2002). The debate in the cross-border literature over the temporal nature of the international process creates a synergy between a direction of time and direction in time (Hurmerinta-Peltomaki, 2003). As regards the time frame, one of the typical definitions contends that firms less than six years old are viewed as start-ups, and firms of six to ten years of age – as adolescent firms (Zahra and Kirchhoff, 2001; Jones and Coviello, 2002). And this is consistent with a recent call by McDougall *et al.* (2003) to relax Oviatt and McDougall's (1994) original theoretical definition of international new ventures. McDougall *et al.* (2003: 69) defined an international new venture as a firm that began receiving revenues from international business activities while being not more than 6 years old.

Based on the above synthesis of temporal indicators of relative maturity, the start-up process may be defined as *the emergence of a new venture whereby early growth is achieved through strategic experimentation and knowledge augmentation applying entrepreneurial mode to strategic decision-making.* The start-up process ends where strategic experimentation ends. The process of adolescence may be viewed as the creation of new economic activity through organic growth and strategic change trying to exploit the acquired knowledge, by applying a planning mode to strategic decision-making. In both processes, the entrepreneur must assemble and deploy resources in order to reduce the tension that builds within a firm's business model as a consequence of emergence.

One can make no claim that the proposed indicators of relative maturity are comprehensive, and further conceptual and empirical research are to be conducted to assess this framework and its underlying ideas. Predictions can be falsified by assessing deviations between real forms and ideal types (Huy, 2001). Ideal types allow holistic consideration of multiple synergies constructs, as well as development of falsifiable theories. They also greatly simplify the complex reality.

Hence, these indicators of relative maturity might be considered as ideal types of behaviour. As researchers of a relatively young academic field, international entrepreneurship scholars must address these kinds of issues in the formative phases of the new field. This will promote the potential for reaching a convergence of efforts in the future of international entrepreneurship studies.

5.3.3 Domain of International Entrepreneurship Research

The key question addressed in this section is whether McDougall and Oviatt's (2000) definition of international entrepreneurship, currently adopted by many top papers (see for example Zahra and George, 2002; Coviello and Jones, 2004), provides a holistic view of the international entrepreneurship phenomenon, and whether it incorporates recent developments in both entrepreneurship and international business research fields well? To rephrase Gartner's (1993) view, it is the choice of terms that are used to define international entrepreneurship that will set the boundaries of how one thinks about and studies international entrepreneurship.

McDougall and Oviatt (2000) defined international entrepreneurship as a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organisations. As is evident, there are three key issues that form the above definition: (i) entrepreneurial orientation – made of risk taking, innovativeness, and proactiveness dimensions; (ii) the cross-border construct that encompasses both inward and outward activities, as well as both internationalisation and de-internationalisation processes; and (iii) the creation of value in organisations.

In terms of entrepreneurial orientation dimensions, McDougall and Oviatt's definition does not include competitive aggressiveness. From the entrepreneurship research stream perspective, it might be argued that the inclusion of competitive aggressiveness in McDougall and Oviatt's definition is equally important as it will allow researchers of continued international entrepreneurship to capture through competitive aggressiveness dimensions for example what Davidsson *et al.* (2001) call a less-than-perfect measure of the amount of entrepreneurship that a particular instance of new economic activity represents, e.g. organic international growth in volume.

Furthermore, McDougall and Oviatt's definition does not emphasize the importance of the nature of cognitive factors for international entrepreneurship, e.g. the notion of discovery of international venture ideas. Several definitions of international entrepreneurship recently suggested by various authors are trying to address this issue. For example, Zahra and George (2002), arguing that international entrepreneurship is at the intersection of entrepreneurship and internationalisation paths, defined 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. Dimitratos and Plakoyiannaki (2003) defined international entrepreneurship as an organisation-wide process which is embedded in the organisational culture of the firm and which seeks through the exploitation of opportunities in the international marketplace to generate value.

As it can be noticed, there are also three key constructs that make the core of Zahra and George's and Dimitratos and Plakoyiannaki's definitions: (i) entrepreneurial cognition; (ii) internationalisation; and (iii) value creation (in Zahra and George's definition value creation is implicitly contained in the pursuit of competitive advantage construct). Overall, these definitions could be regarded more as complimentary rather than alternative to McDougall and Oviatt's. For example, Zahra and George's (2002) definition emphasizes the importance of entrepreneurial cognition and of creating, acquiring, and leveraging resources; Dimitratos and Plakoyiannaki's (2003) definition acknowledges the importance of exploiting opportunities, but it does not explicitly state the importance of opportunity discovery. However, as regards the cross-border activity construct, both definitions exclude the process of de-internationalisation as part of the cross-border phenomenon (Benito and Welch, 1997; Turcan, 2003a) and thus a necessary dimension of international entrepreneurship research. As regards value creation, it might be argued from an entrepreneurship perspective (Bruyat and Julien, 2000; Davidsson and Wiklund, 2001) that the creation of new value should be at the heart of international entrepreneurship research.

Based on the above discourse, an enhanced definition of international entrepreneurship is proposed as *a process of discovering and exploiting international venture ideas that are intended to create new values in organisations and in the marketplace*. The benefits of applying this definition are manifold. First, the proposed definition acknowledges that international entrepreneurship is a process, thus allows the problem of emergence to be studied. For example, it acknowledges that international venture ideas initially discovered are often not the ones that are subsequently being exploited (Sjolander and Magnusson, 2001), that entrepreneurs' intentions might change (Krueger, 2000), or that entrepreneurs might be susceptible to the escalation of commitment (Baron, 1998) for example to the failing course of action.

Second, the process of discovery captures the entrepreneurial process of cognition, thus recognizing heterogeneity as one of the cornerstones of entrepreneurship research. The process of discovery refers to the initial conception and future development of a venture idea (Davidsson, 2003a). For example, it acknowledges that entrepreneurs are heterogeneous (Barney *et al.*, 2001) and that they have heterogeneous beliefs about the value and availability of resources.

Third, the process of exploitation acknowledges the ultimate interest of entrepreneurship researchers in entrepreneurial orientation (Lumpkin and Dess, 1996) as important factors to the performance of the firm (Brown and Kirchhoff, 1997; Lyon *et al.*, 2000; Lumpkin and Dess, 2001), and it refers to the decision to act upon a venture idea, and the behaviours that are undertaken to achieve its realization (Davidsson, 2003a).

Fourth, the international (but not internationalisation) construct captures both inward and outward patterns (Korhonen *et al.*, 1996), as well as internationalisation and de-internationalisation processes (Benito and Welch, 1997; Turcan, 2003a) of a cross-border phenomenon.

Fifth, although McDougall and Oviatt's definition of international entrepreneurship does not include the opportunity concept, it is suggested using the term "venture idea" instead of "opportunity" in the proposed definition. According to Davidsson (2003a) there are two major problems with the opportunity concept. The first problem is that the term 'opportunity' that is known to be profitable is fundamentally opposed to acknowledging uncertainty as an inescapable aspect of the environment of the emerging activity. The second problem of the opportunity concept is the question whether opportunities objectively exist or if the actor creates them, i.e. it clashes with a heterogeneity assumption of entrepreneurship research as a scholarly domain. Davidsson (2003a) defined a venture idea as a creation of individual minds. Whether these reflect opportunities or not can only be known afterward and only when the outcomes were successful. That is, the term 'venture idea' will account for phenomena usually perceived as negative, e.g. de-internationalisation.

Finally, as the creation of new value is seen at the heart of entrepreneurship studies (Bruyat and Julien, 2000; Davidsson and Wiklund, 2001), it might be argued that the same then naturally should be true for international entrepreneurship. For example, entirely new markets or an activity that is new to an existing market, or an independent start-up, or an internal new venture might emerge (Davidsson, 2003a; 2005a). At the same time, as the above discussed constructs (e.g. discovery and exploitation) demarcate the scholarly domain of entrepreneurship, the new value construct defines entrepreneurship as a societal phenomenon which consists of the competitive behaviours that drive the market processes towards more effective and efficient use of resources (Davidsson, 2003a).

As it may be noticed, the central construct in the proposed domain of international entrepreneurship research is the *international venture idea.* Therefore, central to exploring and understanding international entrepreneurship is to understand how international venture ideas come into existence, and how they relate, if at all, to the existence of (international) opportunities. The next chapter will discuss the ontological and epistemological assumptions of knowledge creation with the aim of identifying a paradigm that will best capture the process of discovering and exploiting new international venture ideas, and that eventually will help researchers design respective research methodologies.

5.4 CONCLUSION

The aim of this chapter is to further position de-internationalisation within the international entrepreneurship paradigm. Specifically the aim was to review and assess the existing international entrepreneurship research, paying specific attention to the cross-fertilization of theoretical foundations of cross-border and entrepreneurship research paths. The review suggests that international entrepreneurship research is overshadowed by the theoretical approaches of the field of international business. The lack of integration of entrepreneurship theories in international entrepreneurship research lends support to the existence of a theoretical bias in international entrepreneurship.

This tendency might be explained by the facts that (i) there is little or no co-operation between scholars who have their primary focus on either the international business field only or on the entrepreneurship field only; (ii) international entrepreneurship predominantly has been associated with the 'born-global' phenomenon; and (iii) there has been little or no attempts by international entrepreneurship researchers to define entrepreneurship and its domain of research. None of the reviewed papers actually conceptualized international entrepreneurship as the intersection of cross-border and entrepreneurship research paths.

As the intersection of international entrepreneurship is currently defined by McDougal and Oviatt (2000), it might be inferred that the actual interaction between entrepreneurship and international business takes place at one specific level, e.g. at the entrepreneur level, entry mode level, or cooperative alliance level, and that at this level, the unit of analysis, e.g. the entrepreneur, demonstrates both entrepreneurship and international business behaviours.

However, when different levels of analysis are taken into consideration, tensions, oppositions, and contradictions between explanations of entrepreneurship and international business behaviours come into light. For example, how international strategic decisions are being made, e.g. in an entrepreneurial mode or planning mode, or adaptive mode; where these decisions are being made, e.g. at entrepreneur level, or at firm level; what level is more entrepreneurially or internationally oriented than the other, and to what extent.

The iteration between *localing* (Poole and Van de Ven, 1989) and *temporaling* (Glaser, 1978), and conceptual synthesising led to the creation of a maturity scale to help researchers develop representative sampling criteria and provide results that allow for generalization. Based on the above synthesis of temporal indicators of relative maturity, the start-up process was defined as *the emergence of a new venture whereby early growth is achieved through strategic experimentation and knowledge augmentation applying entrepreneurial mode to strategic decision-making.* The start-up process ends where strategic experimentation ends.

In the small firm growth literature, despite the extensive critiques (e.g. Sexton and Bowman-Upton, 1991; Quinn and Cameron, 1983; Storey, 1994), to date, life-cycle stages have been the most widely used framework for studying growth process at both population and firm levels (Arbaugh and Camp, 2000). However, stage models, including the stage models of internationalisation, have been criticized for their linearity, and unpredictability of triggering events. Covin and Slevin (1997) argue that growth 'transitions' rather growth 'stages' are the key to understanding the formation and growth of new and established businesses. For the purpose of the present study, the process of de-internationalisation could be seen as a transition from one gestalt to another that requires entrepreneurs to make quantum changes to the organisational system quickly in light of ever-new growth opportunities.

The review of internationalisation literature points out that most of the research to date on internationalisation, especially of small firms, has focused on the growth –or positive development – of international business operations. The research on de-internationalisation is far less common due to seemingly negative and undesirable features associated with this phenomenon. The existing approaches to internationalisation, them being stage and network, that dominate the theoretical discourse on small firm internationalisation, can not fully accommodate de-internationalisation and post-de-internationalisation processes.

The review of existing de-literature (de-investing, de-franchising, and de-exporting) revealed that a theoretical understanding of the process of de-internationalisation, especially within small firms, is in its infancy. While the research to date on de-internationalisation has focused on large corporations, there were identified three constructs that formed the basis of the conceptual framework of de-internationalisation process of the small firm. These are: (i) change in dyadic networks, that could be triggered by a critical event, and depends on the actions and intentions of dyadic partners; (ii) escalating commitment of entrepreneurs which is influenced by project, psychological, social and structural factors; and (iii) time that is experienced in the present by entrepreneurs by relating themselves to codes and memories (past), and congruence and horizons (future).

In the cross-border literature, addressing the criticism of the stage approach to internationalisation, Bell et al., (2003) suggested an integrative model of small firm cross-border activity that acknowledges that international activities of a firm can be and must be investigated holistically by understanding the hows and whys of both inward and outward internationalisation and de-internationalisation decisions and processes.

The review of the entrepreneurship literature provided greater contextualization of the study. From entrepreneurship perspective, de-internationalisation could be conceptualised as a new economic activity at the low end of the new economic activity spectrum when established firms introduce what internally is a new activity and appears at the same time as a new imitator in a market through organic growth (Davidsson *et al.*, 2001). For the purpose of the present research, de-internationalisation could emerge as a result of the conception and further exploitation of a new venture idea. In this case it might be argued that de-internationalisation could be regarded as an entrepreneurial activity and thus could constitute a legitimate area of interest within entrepreneurship research.

The identified indicators of relative maturity (e.g., strategic experimentation, knowledge augmentation) from international entrepreneurship literature, as well as the constructs derived from the entrepreneurship (e.g., new venture idea) and international business (e.g., escalating commitment, change in dyadic networks) literature, guided the design of the research methodology, and served as first free codes in the initial stages of data analysis.

We need not get carried away about 'reality' or 'truth': an alien using the same telescope might hear music and call the moon a fugue in B-flat.

Powell (2003)

6 RESEARCH METHODOLOGY

6.1 INTRODUCTION

The review of international entrepreneurship, entrepreneurship, and cross-border literature is presented in previous chapters. The key challenge to the understanding of the de-internationalisation phenomenon is that traditional entrepreneurship research (Davidsson and Wiklund, 2001), cross-border research (Benito and Welch, 1997), and international entrepreneurship research (Coviello and Jones, 2004; Zahra and George, 2002) suffer from selection bias. That is, they are dominated by studies based on samples of firms that exhibit growth (positive development), thus making it difficult, even impossible, to learn about companies that failed or chose to withdraw from their international activity along the way. An exploratory, theory-building research strategy might contribute to filling in these gaps.

The aim of this chapter is thus to select an appropriate research methodology to explore the de-internationalisation phenomenon. Driven by the nature of the research questions, a multiple-case study strategy was adopted. A total of five case companies were selected on the basis of a mixed purposeful sampling strategy, which made use of theoretical and snow-ball sampling. Data triangulation methodology has been used to gather different types of data in order to compare and cross-check the consistency of information. The information about de-internationalisation was collected from three data sources: (i) secondary sources; (ii) in-depth interviews with companies' directors; and (iii) in-depth interviews with companies' stakeholders.

Twenty-four interviews, including follow-ups, were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data. The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission, and transcribed verbatim immediately after. The interviews were semi-structured in the form of guided conversations. The follow-up questions were derived from the preliminary analyses of data gathered during the first round of interviews, aimed to gain further clarification, understanding, and explanations of particular areas of interest. A temporal bracketing strategy (Langley, 1999) and within- and cross-case analysis (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003) were employed to analyse the data.

The aim and objectives of the research methodology will be presented next, followed by a discussion of the conceptual framework and the domain of international entrepreneurship research. The identified domain of international entrepreneurship research will guide the discourse over which philosophical paradigms may best accommodate the key constructs of the defined domain of international entrepreneurship research. The choice of research strategy will conclude the chapter.

6.2 RESEARCH AIM AND OBJECTIVES

The aim of the research is to explore the process of de-internationalisation in small high-technology firms; the key research questions thus being *how* and *why* small high-technology firms de-internationalise. The starting point in addressing the research aim has been the definition of de-internationalisation by Benito and Welch (1997) as 'any voluntary or forced actions that reduce a firm's engagement in or exposure to current cross-border activities'. More specifically, after deconstructing the above definition, two constructs have been identified (see Figure 1): '*action*' and '*reduction*', on which the present research was found as discussed in the next section.

Benito and Welch (1997) derived their definition of de-internationalisation from two major streams of literature that are used to explain divestment activities of multinational enterprises: industrial organisation and strategic management. The question then becomes whether it is possible to explain by the same *actions* the process of de-internationalisation in small high-technology firms. That is, are these *actions* entrepreneurial, or else, provided that firms cannot de-internationalise (effect) without having internationalised (cause) (Turcan, 2003a)? Thus, from the entrepreneurship research path perspective the present research is trying to explore *whether de-internationalisation can be viewed as an entrepreneurial activity?*

The second construct, *reduction*, implies negative and undesirable features associated with the de-internationalisation phenomenon. That is, de-internationalisation is seen as a failure, as opposed to internationalisation efforts of the firm, which are seen as growth. This leads to the perception of de-internationalisation as being undesirable. However, by de-internationalising, the firms may in fact be correcting an error previously made, e.g. having internationalised. There is some evidence, albeit exploratory and anecdotal, that indicates that de-internationalisation may have the reverse effect. As one exploratory study showed, when a company that was born global de-internationalised and gradually focused on serving domestic markets only, it grew at a very rapid pace (Turcan and Jones, 2002). Hence, it might be argued that despite decreasing the level of internationalisation (or alternatively increasing the level of de-internationalisation), the overall growth of the firm might be towards an increased level of cross-border activity. Thus, the research objective addressed from the cross-border research path perspective is *whether de-internationalisation can be viewed as an integral part of a small high-technology firms' growth process*?

6.3 RESEARCH PHILOSOPHY

6.3.1 In Search of Truth

It is true (what is truth?) that it is not possible to do an unflawed study (McGrath, 1982). Any chosen research method will have inherent flaws, and the choice of that method will limit the conclusions that can be drawn (Scandura and Williams, 2000). Before opening the discourse over which philosophical paradigm to choose that subsequently influences the selection of research methodology and methods, it is pivotal to state right at the beginning of this section what this discourse is **not** aiming to look at.

First, no attempt is undertaken to find the ultimate truth or reality the existence of which is perpetually in dispute (Powell, 2001). No one can afford waiting for philosophers to settle the matter (Trochim, 2004). And, second, there is no intension to enter the '... enervating tribal objective vs. subjective dispute' (Powell, 2003: 288). As Mach (1959: 368) put it 'imagine the position scientists would be in if they had to refute all the philosophical systems one by one'. Rather, it is maintained herein that the choice of a paradigm[23] to investigate a particular phenomenon is guided by the domain of research of that phenomenon.

At the same time, before the discussion about the philosophical paradigms starts, it is pivotal to state the author's epistemological stance. First starting point is that in order to advance a paradigm/theory the researchers shall study asymmetrical boundaries of that paradigm. As present research is concerned with theory development at the intersection of cross-border and entrepreneurship research paths, which as discussed in previous chapters bring to international entrepreneurship field conflicting constructs, it is further maintained that the radical humanist paradigm (Burrell and Morgan, 1979) may best capture theory building efforts in this kind of research. According to Burrell and Morgan (1979), the radical humanist paradigm is at the intersection of the subjective nature of science and the radical change nature of society. Subjectivity presumes contextually bound and fluid social constructions, whereas radical change assumes conflict and power asymmetries. As argued by

[23] Paradigms are defined as tightly coupled ideologies, ontologies, epistemologies, and methodologies that guide modes of organisational analysis (Burrell and Morgan, 1979). As regards the evolution of paradigms, the present research supports Popper's (1960) idea of conjecture and refutation, rather than Kuhn's (1962) idea of a paradigm shift.

Gioia and Pitre (1990: 589), radical humanist paradigm is similar to that of interpretivist in that it also focuses on *how* a particular social reality is constructed and maintained. Gioia and Pitre further maintain that the radical humanist paradigm focuses on why social reality is so constructed and asks whose interests are served by the construction and sublimation to the deep-structure level.

Second, as to the debate between objectivity and subjectivity, the view of Lincoln and Guba (2000) is considered whereby '... objectivity is a chimera: a methodological creature that never existed, save in the imaginations of those who believe that knowing can be separated from the knower' (p. 181). As regards the question of how one arrives at the knowledge of cause and effect, Hume (1772) argues that the knowledge of this [cause and effect] relation is not, in any instance, attained by reasonings *a priori*, but arises entirely from experience. As Kant (1787) further argued, this knowledge is empirical which has its sources *a posteriori*. With regard to validity, it is acknowledged the importance of obtaining corroborating evidence from multiple measures and observations, each of which may possess different types of error (Trochim, 2004), and thus of using *triangulation* (Denzin, 1970) or *crystallisation* (Richardson, 1997) research strategies.

And finally, Powell's (2003) view is maintained that we may never achieve an entirely consistent empirical system, but we can at least learn the most important epistemological lesson: 'what we can not think, that we can not think:

we can not therefore *say* what we can not think' (Wittgenstein, 1922: 151); i.e. of what we can not know, we must remain silent.

6.3.2 Research Paradigms

As suggested in the previous chapter, the discourse over the choice of a paradigm is centred around the domain of international entrepreneurship research, the central construct of which is the *international venture idea*. That is, in order to explore and understand the de-internationalisation phenomenon from an international entrepreneurship perspective the researchers will have to understand how international venture ideas come into existence, and how they relate, if at all, to the existence of (international) opportunities. The question of '*how international venture ideas come into existence*' will be addressed first from the positivist paradigm, then from the constructivist paradigm, and finally from the critical realist paradigm[24].

6.3.2.1 Positivist Paradigm

In its broad sense, positivism is a rejection of metaphysics (Trochim, 2004). The key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection, and intuition (Guba and Lincoln, 1994; Easterby-Smith *et al.*, 2001). As it is based on the assumption

[24] Although the existence of several other philosophical paradigms is acknowledged, e.g. realism, critical theory, participatory, feminism, post-modernism paradigms, to name just a few (see for example Ackroyd and Fleetwood, 2000; Lincoln and Guba, 2000; Benton and Craib, 2001), for the purpose of the present research, only three paradigms, i.e. positivism, constructivism, and critical realism will be analyzed against the identified research domain as the ones that are widely used for example in entrepreneurship, international business, international entrepreneurship, small business and strategy discourse (Coviello and McAuley, 1999; Harris, 2000; Ogbor, 2000; Mir and Watson, 2001; Grant and Perren, 2002; Davidsson, 2003a; Coviello and Jones, 2004).

that reality is external and objective, positivism is then primarily concerned with epistemology, a general set of assumptions about the best ways of inquiring into the nature of the world (Easterby-Smith *et al.*, 2001), rather than with ontology, the theory of what exists in the world (Benton and Craib, 2001).

The above ontological and epistemological assumptions help delineate the boundaries of positivist inquiry. According to Easterby-Smith *et al.* (2001), in a positivist view of the world, the data and its analysis are *value-free* and do not change because they are being observed, i.e. are *independent*. The world is deterministic in that it is governed by cause and effect laws, *causality*, and that the truth (or falsity) is demonstrated by designing and testing *hypothesis* through *deductive* reasoning. Easterby-Smith *et al.* (2001) further argue that the hypotheses need to be *operationalised* in a way which enables facts to be measured quantitatively, and that the problems as a whole are better understood if they are *reduced* into the simplest possible elements. The key to validity, i.e. to *generalization*, is the selection of samples of sufficient size, from which inferences may be drawn about the wider population. Such regularities can most easily be identified by making comparisons of variations across samples, i.e. via *cross-sectional analysis*.

The positivist paradigm has dominated both entrepreneurship research (Ogbor, 2000) and cross-border research (Coviello and McAuley, 1999). Not surprisingly, the same trend has been recently witnessed in international entrepreneurship research as well (Coviello and Jones, 2004). Such a positivistic methodology with its comprehensive supply of quantitative data is, according to Schumpeter

(1947), inadequate in understanding the entrepreneurial phenomenon. Moreover, as Ogbor (2000) argues, positivism has become an ideology that controls the concept of entrepreneurship by sustaining not only prevailing societal biases, but also serving as a tapestry for unexamined and contradictory assumptions and knowledge about the reality of entrepreneurs. As a result, '[E]ntrepreneurship, its manifestation and contexts are dehumanized and frozen into abstract and other mathematical concepts having no relevance to the reality of the subject other than to serve as a source of nourishment for the theoretical and methodological replication of the status quo' (Ogbor, 2000: 622).

On the subject of what Davidsson (2003a) calls the second problem of the opportunity concept, i.e. whether opportunities objectively exist or if the actor creates them, the positivist paradigm clashes with the *heterogeneity* assumption of the entrepreneurship research as a scholarly domain. That is, although, according to the positivist perspective, opportunities exist 'out there' as individual, 'ready-to-use' entities, the universe of perceptible and profitable opportunity is not the same for all individuals or organisations, and therefore they will come up with different venture ideas and different exploitation strategies (Davidsson, 2003a). With regard to international entrepreneurship research the central construct of which is the *international venture idea,* it might be argued that the positivist paradigm may not be the appropriate paradigm to study the venture ideas that are the creations of individuals' minds.

6.3.2.2 Constructivist Paradigm

As the term 'idea' is generally defined as the content of conscious thought (Kemerling, 2002), it might be well argued that the constructivist paradigm is the appropriate one to make an enquiry about the reality of entrepreneurs. The constructivist paradigm has been developed by philosophers largely in reaction to the application of positivism to the social sciences (Easterby-Smith *et al.*, 2001). The ontology of this paradigm holds that truth is a particular belief system held in a particular context (Healy and Perry, 2000), and embraces the concept of multiple realities and accepts that each individual entrepreneur constructs his or her own reality according to how he or she interprets and perceives the world (Hill and Wright, 2001). Its epistemological assumptions are non-positivist, i.e. rules and principles do not exist independently of our theorising about them (Mir and Watson, 2000). Realities appear as multiple realities which are socially and experientially based intangible mental constructions of individual persons (Guba and Lincoln, 1994). The truth or reality is determined by people rather than by objective and external factors. One should therefore try to understand and explain why people have different experiences, rather than search for external causes and fundamental laws to explain their behaviour (Easterby-Smith *et al.*, 2001).

On the basis of the above ontological and epistemological discussion, several fundamental assumptions could be identified that distinguish the constructivist paradigm. According to Mir and Watson (2000), the constructivist view is that *knowledge is theory-driven*, i.e. a researcher always approaches a problem with a preconceived notion (a default theory) about the nature of the problem, but as long as the researchers are transparent about their a priori theoretical position, the process of research is not impeded. The *separation of the researcher (subject) and the phenomena under investigation (object) is not feasible*, i.e. the philosophical positions held by researchers determine their findings. As Easterby-Smith *et al.* (2001) argue the concepts in the constructivist paradigm should incorporate a stakeholder perspective. Or as Lincoln and Denzin (2000: 1052) put it: '*nothing is value-free*'. Further, as Easterby-Smith *et al.* (2001) suggest, progress in research is made through gathering rich data from which ideas are *induced*. As compared to the positivist paradigm, which is concerned with statistical generalization, the constructivist paradigm is concerned with *theoretical abstraction*. As regards *sampling*, it requires a small numbers of cases chosen for specific reasons.

With regard to entrepreneurship research, the constructivist paradigm holds that opportunities are very much in the eye of the beholder (Krueger, 2000), and thus it is not meaningful to talk about these opportunities separate from their actors (Davidsson, 2003a). However, as argued by Hunt (1991) from the business research perspective, the constructivist paradigm is not suitable for this type of research because it excludes concerns about the important, and clearly "real", economic, and technological dimensions of business. That is, opportunities exist as uncountable in the form of technological possibilities, knowledge, and unfulfilled human needs backed with purchasing power. Because of differences in knowledge, skills, motivations and other dispositions, individuals (and firms) differ from one another as regards what venture ideas they can and will pursue and as regards what external opportunity they can profitably exploit and how

(Davidsson, 2003a). For the purpose of the present research, it might be argued then that it is impossible to separate venture ideas from opportunities that exist 'out there' independently of particular actors. Hence, another philosophical paradigm is required that will take into account the objective existence of opportunities and subjective creation of (international) venture ideas.

6.3.2.3 Critical Realist Paradigm

Critical realism, which owes its popularity to the pioneering work of Bhaskar (1975), represents a substantial epistemological departure from mainstream realism (Mir and Watson, 2001). It takes from the term 'realism' a clear recognition of the existence of an external world, independent of, and often defying, our desires of it and attempts to understand and change it. However, as the adjective 'critical' might suggest, critical realists tend to share the social realists' commitment to changing unsatisfactory or progressive realities (Benton and Craib, 2001). The ontology of critical realism suggests that there is a 'real' reality out there, but only imperfectly and probabilistically apprehendable (Lincoln and Guba, 2000).

These factors give the critical realist ontology a sophistication lacking in the two other competing paradigms previously discussed. According to Ackroyd and Fleetwood (2000: 12), '[i]t overcomes the weakness associated with positivism in the sense that it rejects, as most unlikely state of affairs, the existence of constant conjunctions of events or laws in the social world. [At the same time, t]he critical realist ontology also overcomes the weaknesses associated with [constructivism], in the sense that while it retains a commitment to the socially constructed nature of the social world, it refuses to take the next, unwarranted step and conclude that the social world is *merely* socially constructed.'

On the basis of the above ontological discourse, it might be argued that, epistemologically, critical realists believe that the goal of science is to hold steadfastly to the goal of getting it right about truth or reality, even though this goal may never be achieved (Trochim, 2004). According to Ackroyd and Fleetwood (2000), because of the openness of socio-economic systems (Bhaskar, 1975) and the transfactual nature of the causal mechanisms, consequences or outcomes can not be deducted or predicted; but the causal mechanisms that govern this human action can be illuminated and explained – explanation supplants deduction, prediction, solution, determination, calculation and logical consistency as the goals of theorising. Hence, critical realists insist that theories, observations and methods are all fallible, and that verification and falsification are never conclusive, especially in social sciences (Benton and Crab, 2001; Kwan and Tsang, 2001). As being 'fallibilist', critical realists emphasize the importance of multiple measures and observations, each of which may possess different types of errors, and the need to use triangulation across these multiple errorful sources to try to get a better understanding of what is happening in reality (Trochim, 2004).

Based on the above discussion, it might be inferred that the critical realist paradigm is the appropriate philosophical paradigm to base the research methodology on as it acknowledges the coexistence of opportunities as individual, ready-to-use entities and venture ideas as the creations of individuals' minds, thus solving both problems of opportunity concept as defined by Davidsson (2003a). With regards to the first problem, which is *an opportunity is known to be profitable*, critical realist researchers would agree that venture ideas are specific, but changeable and more or less elaborate entities that are acted upon, and that whether these reflect opportunity or not can only be known afterwards and – paradoxically – only when the outcomes are successful. As regards the second problem of opportunity concept, which is *whether opportunities objectively exist or if the actor creates them*, critical realist researchers would agree that because of differences in knowledge, skills, motivations and other dispositions, individuals and firms will differ from one another as regards what venture ideas they can and will pursue and as regards what external opportunity they can profitably exploit and how (Davidsson, 2003a).

As a critical realists' goal is to get it right about reality (Trochim, 2004), it is important to identify the appropriate epistemology in relation to the chosen paradigm before the actual research methodology is designed. For the critical realist researcher the perception of reality (e.g. an opportunity) is a window on to that reality through which a picture of that reality can be triangulated with other perceptions (Perry *et al.*, 1999). At the same time within the critical realist paradigm the world can be distinguished as having the three domains of reality: (i) mechanisms, (ii) events, and (ii) experiences (Bhaskar, 1975). It is the aim of the researcher to discover observable and non-observable perceptions and mechanisms that underline events and experiences (Tsoukas, 1989). As Ackroyd and Fleetwood (2000: 13) put it: [t]he task of explanation ... is to penetrate behind the surface of experiences and perceptions and to account for what occurs in terms of an understanding of connections at the level of structures'.

To achieve the above, the interpretivist epistemology might be appropriate as it considers entrepreneurs as sense-making subjects, rather than objects of study (Elliott and Wattanasuwan, 1998), and aims to show how realities (mechanisms, events, and experiences) are socially produced and maintained through norms, rites, rituals and everyday activities (Hackley, 2001). In other words, as Schwandt (2000: 193) suggests, via the interpretivist epistemology, it is possible to understand the subjective meaning of action (grasping the actor's desires, beliefs, and so on), yet without sacrificing the objectivity of knowledge.

By employing the critical realist paradigm, the researcher understands the need to minimise the distance between the researcher and the entrepreneur (Hill and Wright, 2001), to make use of a methodology that allows the gathering of data in the customer's "natural habitat", rather than in the somewhat artificial environment of the survey or the laboratory experiment (Wyner, 2001), and would involve numerous data sources to provide a fuller picture of the phenomenon under study (Trochim, 2004). One of the research methodologies that can satisfy the above criteria posed by the critical realist paradigm is the case-based research methodology (Bonoma, 1985; Guba and Lincoln, 1994; Perry, 1998; Easton, 2000; Healy and Perry, 2000; Dobson, 2001). Moreover, as the primary aim of the research is to generate a deep understanding of *how* and *why* small high-technology de-internationalise, for example, to capture nuances of events and experiences, details of the context of de-internationalisation decisions, and to understand the forces underlying de-internationalisation phenomenon, the use of a theory-building method is believed to be most appropriate for the present research.

6.3.3 Case Study as Research Strategy

As it may be noticed from the above discussion, the choice of the case study as a research strategy (Eisenhardt, 1989b; Yin, 2003) has been shaped by several key indicators. First, 'it is [a] the nature of questions being asked about [b] a contemporary set of events, [c] over which the investigator has little or no control' (Yin, 2003: 9). Yin (2003) regards this situation as a distinct advantage of the case study over other research strategies. That is, the study explores (a) 'how' and 'why' (b) small high-technology firms de-internationalise (c) in the context of 'open' systems (Bhaskar, 1975).

Second set of indicators relates to the scope of a case study in that 'a case study is [d] an empirical inquiry that investigates [b] a contemporary phenomenon within [e] its real-life context, especially when [f] the boundaries between phenomenon and context are not clearly evident' (Yin, 2003: 13). That is, the ontological raison d'être suggests (d) critical realism as the appropriate philosophical paradigm to explore (b) the de-internationalisation phenomenon as it acknowledges the coexistence of (international) opportunities as individual, ready-to-use entities and venture ideas as the creations of individuals' minds. At the same time, the critical realist paradigm requires that the author (e) minimises the distance between himself and the entrepreneur and thus gathers data in the entrepreneur's (f) "natural habitat". Furthermore, the epistemological raison d'être puts forward (d) interpretivism as the appropriate epistemology in relation to the critical realist paradigm that makes it possible to understand the subjective meaning of actions yet without sacrificing the objectivity of knowledge.

Third set of indicators relates to the data collection and data analysis strategies. That is, 'the case study copes with the technically distinctive situation in which [g] there will be many more variables of interest than data points, and as one result [h] relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result [i] benefits from the prior development of theoretical propositions to guide data collection and analysis' (Yin, 2003: 13). As the primary aim of the study is [a] to build theory and not to test theory, it will rely on purposeful sampling logic rather than on statistical sampling logic (Patton, 2002).

Based on the above sampling approach, as well as taking into account the complexity and volume of the data, [g] a number between 4 and 10 cases is suggested to be necessary or sufficient (Eisenhardt, 1989b; Yin, 2003). As the primary goal of the critical realist paradigm is to get it right about truth or reality, [h] collecting corroborating evidence from multiple data sources is critical to the present study. Finally, the conceptual framework and the domain of international entrepreneurship research identified several [i] key constructs that will help to shape the initial design of theory-building research (Eisenhardt, 1989b).

6.3.4 Conclusion

In this first part of the methodology discourse the rationale of selecting case study as the research strategy was presented. The reasoning process was based on the research aim and objectives, and the review of ontological and epistemological assumptions of several philosophical paradigms. It was concluded that the underlying principles of the case study as a research strategy matched the findings derived from the conceptual framework and the domain of international entrepreneurship research, as well as the requirements of knowledge existence and creation derived from the critical realist paradigm. In the second part of the methodology discourse that immediately follows, the cornerstones of a case study methodology will be analysed, namely (i) theory building; (ii) sampling logic; (iii) data collection methods; and (iv) data analysis techniques. The actual research design of the present study will conclude the chapter.

6.4 CORNERSTONES OF CASE STUDY RESEARCH

6.4.1 Theory Building

In theory-building research like this one, in which the theory emerges at the end, not beginning, of it (Eisenhardt, 1989b), it is important to understand the issues related to the process of theory construction. That is, as a first step, the building blocks of theory development will be discussed. Second, the types of theories will be introduced. Third, strategies of theory building will be analysed next. And finally, a set of guidelines for assessment of this type of research will be discussed.

A complete theory must contain four essential elements (Dubin, 1969). The first element is *what*: what factors (variables, constructs) logically should be considered as part of the explanation of the social or individual phenomena of interest? According to Whetten, there are two criteria for judging the extent to which the 'right' factors have been included: *comprehensiveness* (are all relevant factors included?) and *parsimony*[25] (should some factors be deleted because they add little additional value to our understanding?). The second element is *how*: how the identified factors are related? By answering this question the researcher adds order to the conceptualization by explicitly delineating patterns, and typically introduces causality. The third element relates to *why*: what the underlying psychological, economic, or social dynamics are that justify the selection of factors and the proposed causal relationships? Whetten (1989) argues that during the theory-development process, logic replaces data as the basis for evaluation, and in order to avoid vacuous discussions, propositions should be well grounded in the *whys*, as well as the *hows* and the *whats*. The last, but not least, building block relates to *who*, *where*, *when*: these are temporal and contextual factors, which set the boundaries of generalizability, and as such constitute the range of the theory.

Next in the process of theory building is to identify the types of theories recognised in social theorising. By and large, two distinct types of social theory may be singled out, i.e. grand (or general) social systems theory and middle-

[25] This principle of parsimony that came to be known as Ockham's Razor was postulated by English philosopher William of Ockham. According to Ockham, it is pointless to do with more what can be done with less (Kemerling, 2002).

range theory (Merton, 1968; Denzin, 1970; Weick, 1979).[26] According to Merton (1968), grand theory serves as a master conceptual scheme that will explain all the observed uniformities of social behaviour, social organisation, and social change; middle-range theories are theories that lie between the minor but necessary hypothesis that evolve in abundance during day-to-day research and the all-inclusive systematic efforts to develop a grand theory.[27]

The inevitable tradeoffs in theory-building inquiry, however, make it impossible to generate grand theory. One version of these tradeoffs is found in Thorngate's postulate of commensurate complexity (Thorngate, 1976; cited in Weick, 1979). This postulate states that it is impossible for a scientific explanation to be simultaneously *general*, *accurate*, and *simple*. In trying to accommodate all three of these aims, none have been realized vigorously; much of organisational research is uninformative and pedestrian partly because researchers have tried to make it general *and* accurate *and* simple (Weick, 1979: 41).

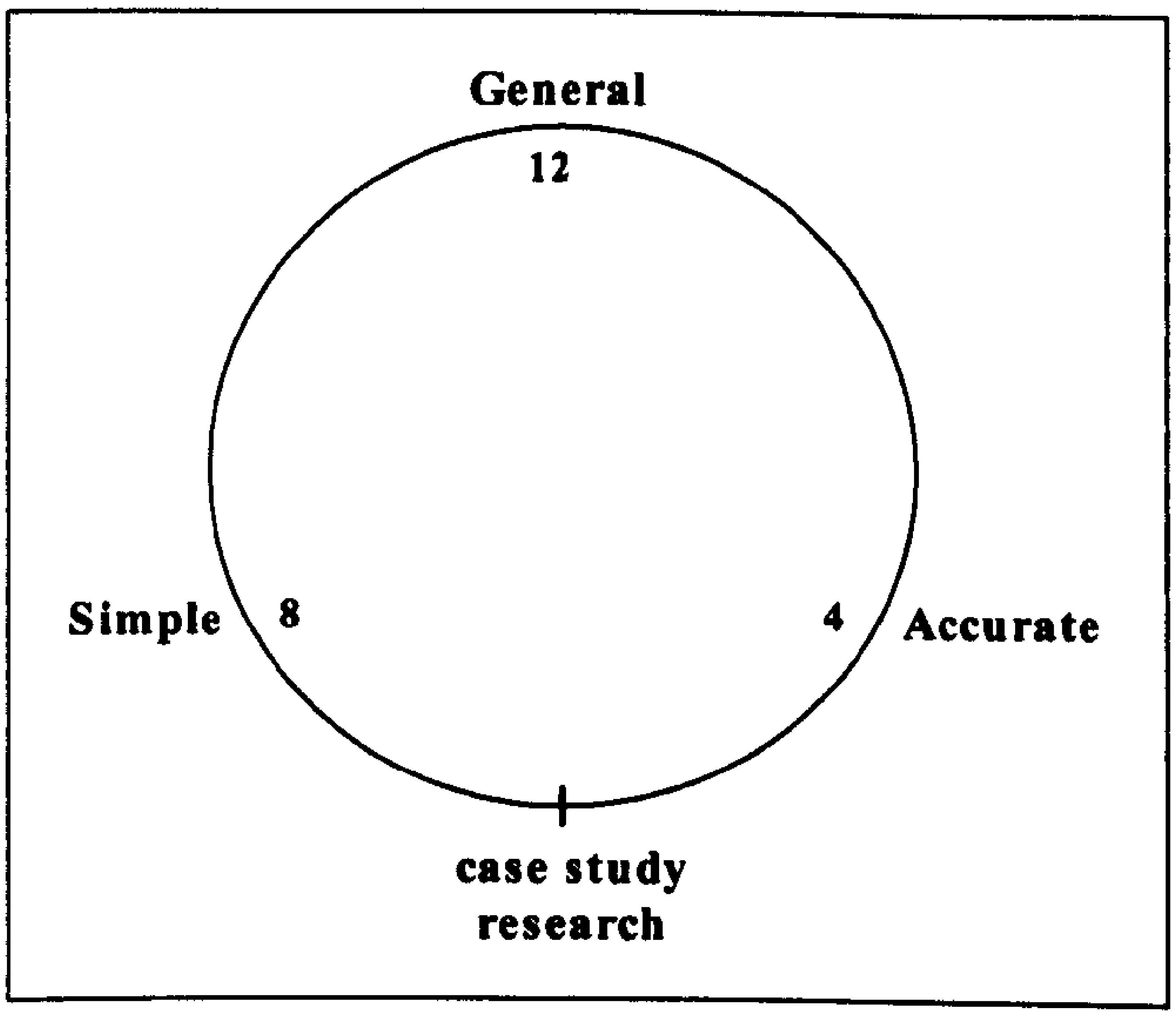
Weick (1979; 1980) examined the nuances of the above assertion by representing its three components in terms of three positions on a clock face with *general* represented at twelve o'clock, *accurate* at four o'clock, and *simple* at eight o'clock (see Figure 13). With the aid of this representation, he argues that any movement of an explanation away from twelve o'clock is a movement toward middle range theory. Viewed in this way, middle-range theories will be criticized

[26] Although Denzin (1970: 68) introduces four types of social theory, i.e. (i) grand social systems theory, (ii) middle-range theory, (iii) substantive theory; and (iv) formal theory, he, later in the text, refers to the latter two as middle-range theories.

[27] For extensive review and perspectives of middle-range theory in organisational research, see also Pinder and Moore (1980).

either because they are excessively complex (the researcher has moved away from the twelve o'clock in a clockwise direction) or because they are inaccurate as explanations of specific problems (an indictment that is produced by counter clockwise movement away from twelve o'clock). Weick (1979) positions case study research at *six o'clock*, a position that renders generality of secondary importance (Figure 13). He advocates that researchers in this area of enquiry must proliferate simultaneously their theoretical degrees of freedom as well as their observations (1979: 38).

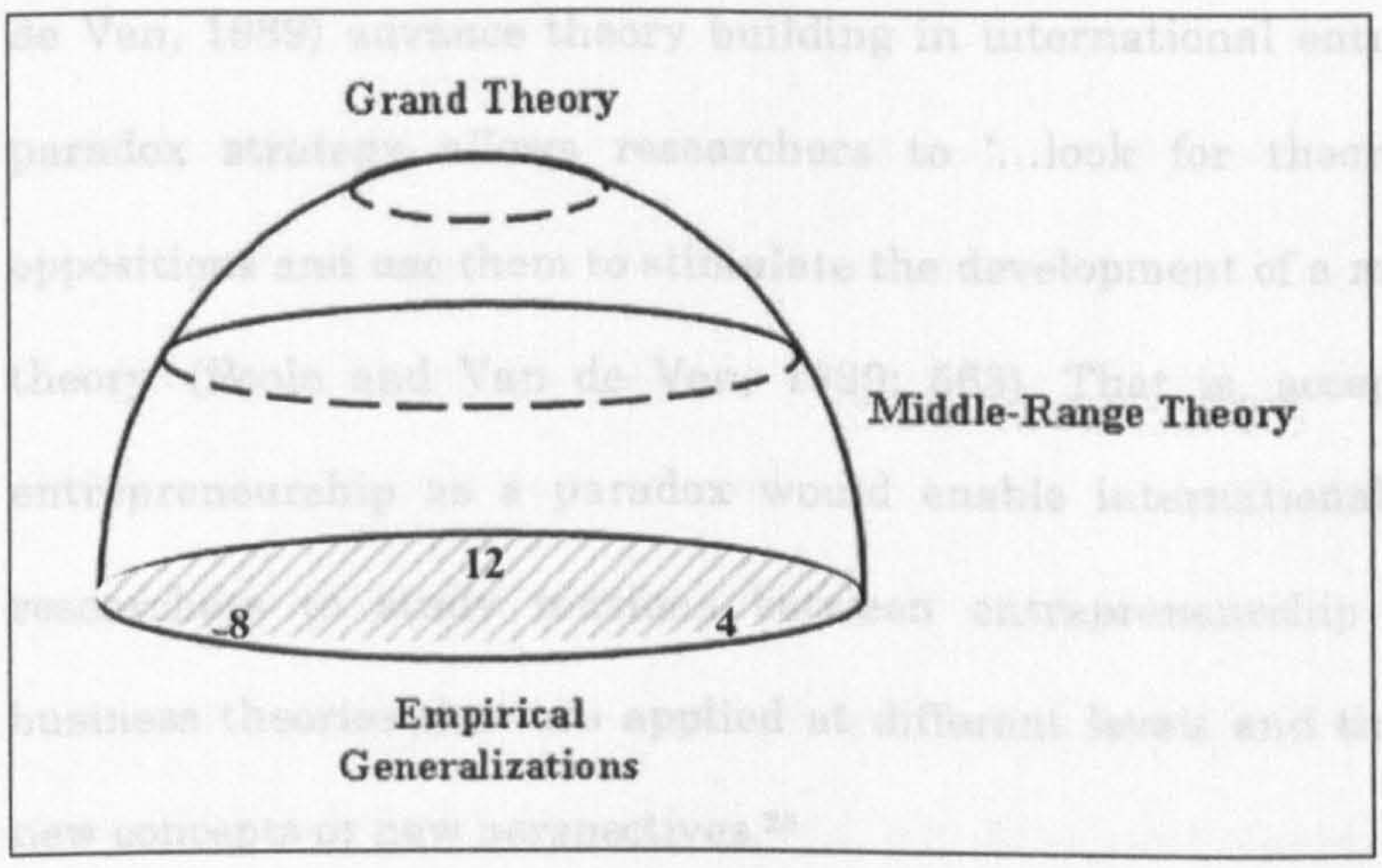
Figure 13. Two-dimensional view of postulate of commensurate complexity



Source: Weick (1979: 36)

Later, Weick (1980) modified the two-dimensional character of the clock-face and made it three-dimensional (see Figure 14). Viewed in this manner, empirical generalizations consist of explanations that have either relatively pure generality, accuracy, or simplicity, or compromise any two of these characteristics while ignoring the third. As researchers move in the third dimension, however, it becomes increasingly possible to accommodate all three characteristics in an explanation. Partial accommodation comprises middle-range theory and grand theory involves explanations that fully accommodates all three (Weick, 1980: 400; see also Weick, 1999). By and large, to look for theories of the middle-range is to prefigure problems in such a way that the number of opportunities to discover solutions is increased without becoming infinite (Weick, 1989).

Figure 14. Three-dimensional view of postulate of commensurate complexity



Source: Weick (1980: 399)

Numerous advantages of middle-range theorising can be identified. According to Merton (1968), the primary benefits of this approach are: (i) its ability to transcend pure description and single empirical observations; (ii) its ability to draw upon divergent units of analysis, perspectives and even disciplines in order to formulate new theory; (iii) its recognition that basic knowledge must be obtained before complex theoretical questions can be answered; and (iv) its flexibility in that it allows researchers to seek generalizability without totally endorsing the belief that a single, unified social science is achievable.

Thus far, building blocks of theory development and the types of theories have been identified. The next step in the process of theory building is to consider strategies of theory construction. Since the intersection of cross-border and entrepreneurship research paths brings to international entrepreneurship field conflicting constructs, it is suggested to employ paradox strategy (Poole and Van de Ven, 1989) advance theory building in international entrepreneurship. The paradox strategy allows researchers to '...look for theoretical tensions or oppositions and use them to stimulate the development of a more comprehensive theory' (Poole and Van de Ven, 1989: 563). That is, accepting international entrepreneurship as a paradox would enable international entrepreneurship researchers to study tensions between entrepreneurship and international business theories that are applied at different levels and times, and introduce new concepts or new perspectives.[28]

Poole and Van de Ven (1989) suggest four methods for working with the paradox strategy: (i) opposition; (ii) spatial separation; (iii) temporal separation; and (iv) synthesis. The opposition requires the researchers to accept the paradox and use

[28] The maturity scale (Figure 10) might be considered a good starting point whereby tensions and oppositions between entrepreneurship and international business are identified and used to build international entrepreneurship theory.

it constructively. This first response to solve a paradox would be a real challenge for international entrepreneurship scholars because as of today international entrepreneurship research is overshadowed by the theoretical approaches of the international business field and thus there is little or no co-operation between scholars who have their primary focus on only the international business field or on the entrepreneurship field (Turcan *et al.*, 2004). The harmony in knowledge creation could be achieved when researchers who focus their research more or less exclusively on international entrepreneurship and researchers who occasionally apply their knowledge to international entrepreneurship learn more about theory bases and methods from both cross-border and entrepreneurship research streams before going about their research process.

Spatial separation requires international entrepreneurship researchers to clarify levels of reference and the connections among them. As the intersection of international entrepreneurship is currently defined by McDougal and Oviatt (2000), it might be inferred that the actual interaction between entrepreneurship and IB takes place at one specific level, e.g. at the entrepreneur level, the entry mode level, or the cooperative alliance level, and that at this level, the unit of analysis, e.g. the entrepreneur, demonstrates both entrepreneurship and international business behaviours. However, when different levels of analysis are taken into consideration, tensions, oppositions, and contradictions between explanations of entrepreneurship and international business behaviours come into light. For example, how international strategic decisions are being made, e.g. in an entrepreneurial mode or planning mode, or adaptive mode; where these decisions are being made, e.g. at entrepreneur level, or at firm level; what level is more entrepreneurially or internationally oriented than the other, and to what extent. The key question thus is to what extent the entrepreneurship and/or international business is carried at different levels of analysis at the same time and how one level intersection interacts with another intersection at the other level.

Temporal separation takes into account the role of time, i.e. one horn of the paradox is assumed to hold during one time period and the other during a different time period (Poole and Van de Ven, 1989). For example, what the controlling word in the term 'international entrepreneurship' is during the process of new venture creation or new activity creation. Synthesis implies that new concepts and perspectives to resolve the paradox are introduced. As argued by Poole and Van de Ven (1989) these new perspectives may oversimplify some issues or ignore the problems that originally gave rise to previous positions. These risks are the price theorists pay for theoretical advances.

Last, but not least is the element of theory-building related to the quality of theories advanced by researchers (for review, see Eisenhardt, 1989b; Weick, 1989; Whetten, 1989). Whetten (1989) proposed several criteria to judge what a legitimate, value-added contribution to theory development is. He suggests that usually it is not enough for researchers to simply add or subtract factors (*Whats*) from an existing model; they must identify how the value of proposed change affects the accepted relationships between the variables (*Hows*). That is, relationships, not lists, are the domain of theory. *Why* is the most fruitful, but also the most difficult avenue of theory development. It commonly involves borrowing a perspective from other fields, which encourages altering metaphors and gestalts in ways that challenge the underlying rationales supporting accepting theories.

Eisenhardt (1989b) further argues that a strong theory-building study yields good theory that is parsimonious, testable, and logically coherent. Second, the assessment of theory-building research also depends upon empirical issues: strength of method and the evidence grounding the theory; a strong theory-building study has a good, although not necessarily perfect fit with the data. And finally, she argues that strong theory-building research should result in new insights. Thus, a strong theory-building study presents new, perhaps frame-breaking, insights.

6.4.2 Sampling Strategy

A qualitative inquiry such as the present study relies on purposeful sampling rather than statistical sampling techniques (Creswell, 1998; Patton, 2002). What would be 'bias' in statistical sampling, and therefore a weakness, becomes intended focus in qualitative sampling, and therefore a strength (Patton, 2002). Overall, as Patton (2002: 230) further argues, '[t]he logic and power of purposeful sampling lie in selecting *information-rich cases* for study in depth'. There are several different strategies for purposefully selecting information-rich cases: (i) maximum variation; (ii) homogeneous; (iii) critical case; (iv) theory based; (v) confirming and disconfirming cases; (vi) snowball or chain; (vii) extreme or deviant case; (viii) typical case; (ix) intensity; (x) politically important cases; (xi) random purposeful; (xii) stratified purposeful; (xiii) criterion; (xiv) opportunistic; (xv) combination or mixed; and (xvi) convenience (Miles and Huberman, 1994).

As the present research is concerned with theory development, theoretical sampling is a pivotal part of the development of formal theory (Charmaz, 2000). The researcher samples incidents, slices of life, time periods, or people on the basis of their potential manifestation or representation of important theoretical constructs. The sample becomes by definition and selection, representative of the phenomenon of interest (Patton, 2002). The goal of theoretical sampling is to choose cases which are likely to predict similar results (a literal replication) or predict contrasting results but for predictable reasons (a theoretical replication) (Eisenhardt, 1989b; Yin, 2003). Along with theoretical sampling, as no sampling frame is available which contained lists of small high-technology firms that have had de-internationalised, snowball sampling will be employed to locate information-rich cases by asking a number of people who else to talk with about de-internationalisation. The chain of recommended informants would typically diverge initially as many possible sources are recommended, and then converge as a few key names get mentioned over and over (Patton, 2002). Thus, mixed purposeful sampling will be employed to identify information-rich cases.

The above replication logic is employed in the multiple-case design where every case should serve a specific purpose within the overall scope of the enquiry (Yin, 2003). With regard to the number of cases, Eisenhardt (1989b) argues that a number between 4 and 10 cases usually works well. That is, with fewer than 4 cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing. With more than 10 cases however, it quickly becomes difficult to cope with the complexity and volume of data. Yin (2003) supports this approach suggesting that 2 to 3 cases would be literal replications; whereas 4 to 6 cases might be designed to pursue two different patterns of theoretical replications. Thus, it might be argued on the basis of the above discourse, that the present research represents a *multiple-case study* that would be designed on the basis of the *theoretical sampling strategy*.

6.4.3 Critical Incident Technique

The next issue to be addressed in the case study design is to determine methods of data collection. By and large, case studies hold memorable lessons about how organisational processes systematically produce unanticipated outcomes that deviate from formal design goals and normative standards (Vaughan, 1999). As discussed in previous chapters, de-internationalisation may be conceptualized as an incident or an event whereby a firm either moves from an initial gestalt to a new equilibrium gestalt as a response to changes in its environment, or corrects previous errors, e.g. of early internationalisation, or of internationalisation as such. To explore this kind of event, the method of critical incident technique seems most appropriate.

The traditional critical incident technique has its origins in the research undertaken by Flanagan (1954). On the assumption of a positivist approach to social science, he defined incident as any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act. To be critical, Flanagan argues that an incident must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effects. From the above, Flanagan concludes that critical incident technique as '... a procedure for gathering certain important facts concerning behaviour in defined situations' (1954: 335). Critical incident technique has been used in organisational studies (see e.g., Butler, 1991) as well as in entrepreneurial studies (see e.g., Chell and Pittaway, 1998; Kaulio, 2003; Harrison and Mason, 2004). Of a special interest is Kaulio's investigation of transitory stage new venture face in their earliest stages of existence: when initial conditions changeover to a process of evolution.

The definition of critical incident technique has somewhat changed over the years to take into account changes in assumptions about ontology, methodology, and human nature. Taking into account the above changes, Chell (1998: 56) defined critical incident technique as a qualitative interview procedure that facilitates the investigation of significant occurrences (events, incidents, processes or issues) identified by respondent, the way they are managed, and the outcomes in terms of perceived effects. The objective is to gain an understanding of the incident from the perspective of the individual, taking into account cognitive, affective, and behavioural elements. For an incident to be critical, the requirement is that it deviates significantly, either positively or negatively from what is normal or expected (Edvardsson, 1992). As it may be noticed, Chell's definition of critical incident technique assumes the principles of interpretivist epistemology that allows considering the entrepreneur as sensemaking subjects, rather than objects of study (Elliott and Wattanasuwan, 1998), and aims to show how realities (mechanisms, events, and experiences) are socially produced and maintained through norms, rites, rituals and everyday activities (Hackley, 2001).

Data collection regarding critical incidents can be done in many ways, i.e. individual interview, focus groups, and direct or participatory observation (Edvardsson, 1992). The most appropriate (Flanagan, 1954) and preferred (Andersson and Nilsson, 1965; Edvardsson, 1992; Chell, 1998) method for the collection of recalled data however is individual interview due to the depth and richness of data collected. This preference is in agreement with case study research whereby, most commonly, open-ended interviews are used to collect data (Eisenhardt, 1989b; Yin, 2003). According to Yin (2003), these interviews will appear to be guided conversations rather than structured queries (see also Fontana and Frey 2000; Patton, 2002).

The depth and especially the richness of data are not easily acquired, and therefore careful preparation is required for the interview itself. There could be identified several distinguishable aspects of the critical incident technique method: (i) indicate to the interviewee the authority on which the interview is being held; (ii) make a statement about the purpose of the study; (iii) explain why the interviewee has been chosen to comment; (iv) convince the interviewee of the anonymity of the data; (v) the main question should state that an incident or actual behaviour is desired; (vi) allow the interviewee to do most of the talking and avoid asking leading questions; (vii) control the interview, by probing the incidents and clarifying one's understanding; (viii) ask follow-up questions to ensure that a comprehensive and detailed account has been given; (ix) conclude the interview; and (x) take care of ethical issues (Chell, 1998; Flanagan, 1954). These and other issues (see also Patton, 2002: 408; Yin, 2003: 68) will be covered in the case study protocol that according to Yin (2003) is desirable under all circumstances, but is essential in a multiple-case study.

6.4.4 Triangulation

Triangulation that closely pertains to the data collection phase (Eisenhardt, 1989b; Yin, 2003) is an important tool in qualitative research (Huberman and Miles, 1994). Triangulation refers to the combination of multiple methods, empirical materials, observers or perspectives in a single study (Denzin, 1970). The use of triangulation is an attempt to obtain a deeper understanding of the studied phenomenon and may add rigor and breadth (Denzin and Lincoln, 1994), corroborate the same fact of phenomenon (Yin, 2003), overcome the intrinsic bias that comes from single collection method (Denzin, 1970; Patton, 2002), and eventually, provide stronger substantiation of constructs and hypotheses (Eisenhardt, 1989b). Hence, apart from personal interviews, the information will be corroborated by data collected from multiple data sources.

6.4.5 Data Analysis

An important feature of qualitative research is that there is significant overlap between the data collection and analysis phases (Glaser and Strauss, 1967; Eisenhardt, 1989b). Analysing data is the heart of building theory from case studies, but is both the most difficult and the least codified part of the process

(Eisenhardt, 1989b). There are two distinguishable methods of data analysis in case study research: within-case analysis, and cross-case analysis (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003). Within-case analysis typically involves detailed case study write-ups for each site. These write-ups are used for exploring and describing, and/or explaining and predicting purposes (Miles and Huberman, 1994). The overall aim is to become intimately familiar with each case as a stand-alone entity. This process allows the unique patterns of each case to emerge before researchers push to generalize patterns across cases (Eisenhardt, 1989b).

The idea behind cross-case analysis is to force researchers to go beyond initial impressions, especially through the use of structured and diverse lenses on the data (Eisenhardt, 1989b). Eisenhardt further argues that this analysis improves the likelihood of accurate and reliable theory, i.e. a theory with a close fit with the data. Also, cross-case analysis enhances the probability that researchers will capture the novel findings which may exist in the data. Miles and Huberman (1994) suggest using cross-case analysis for exploring and describing, and/or ordering and explaining purposes.

Patterns that emerge from within-case analysis are compared to each other, i.e. literal and theoretical replication across cases (Eisenhardt, 1989b; Yin, 2003). The major challenge during this stage of data analysis is to identify the appropriate strategy for coping with rich qualitative data. Literatures illustrating a variety of data analysis strategies abound. As regards coding for example, the work by Glaser (1978) and Strauss and Corbin (1998) are viewed as a recommendable set of instructions that can ensure a systematic analysis and thus bring about increased credibility to qualitative research. Miles and Huberman's (1994) sourcebook remains an excellent reference to learn about displays for analyzing within- and cross-case data, as well as about various tactics for generating meaning out of qualitative data (Hindle, 2004).

Langley (1999) put forward a number of generic strategies for the analysis of qualitative data, looking at the consequences of these strategies for emerging theories. These are: (i) narrative; (ii) quantification; (iii) alternate templates; (iv) grounded; (v) visual mapping; (vi) temporal bracketing; and (vii) synthetic strategies. After reviewing these strategies (for strengths and weaknesses of each strategy, see Langley, 1999: 696), it emerged that temporal bracketing strategy suits most the aim and the scope of the present research. Temporal bracketing strategy allows the researchers to decompose data into successive adjacent periods and thus enables the explicit examination of how actions of one period lead to changes in the context that will affect action in subsequent periods (Langley, 1999). With this strategy, a shapeless mass of process data is transformed into a series of more discrete but connected blocks. Langley further argues that this sensemaking strategy fits well with a nonlinear dynamic perspective on organisational processes, and it can quite easily handle eclectic data that includes events, variables, interpretations, and interactions.

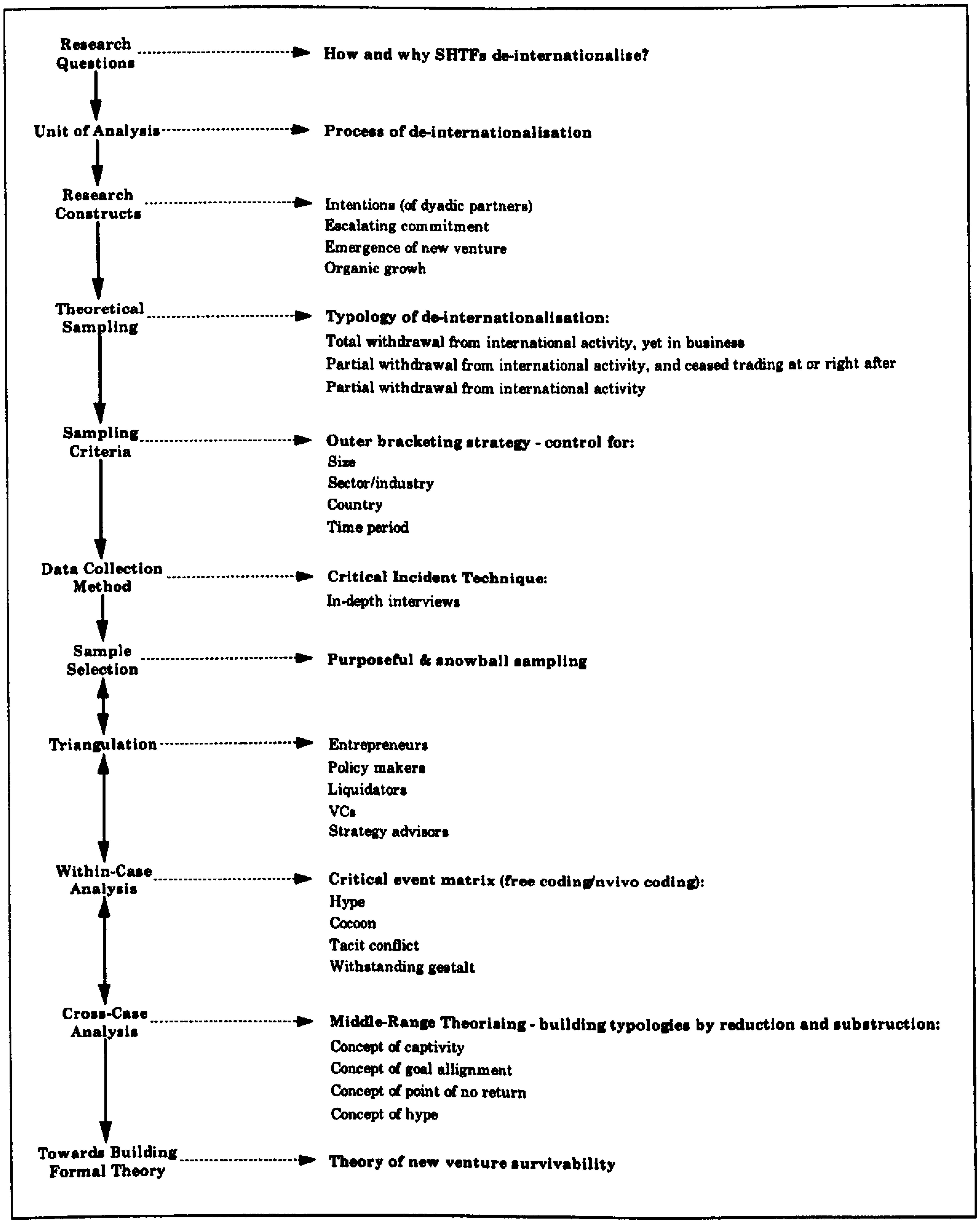
Langley (1999: 704) however cautions that such temporal decomposition can create certain distortions. For example, there is no a priori guarantee that discontinuities will naturally synchronize themselves to produce unequivocal periods. Thus, overall, *accuracy* is likely to be moderate to high, depending on the appropriateness of the temporal decomposition and the robustness of the analysis to different periodizations. Conceptualizations emerging from the process are unlikely to be very *simple*, although they stand a better chance of dealing with fundamental process drivers than those produced by certain other strategies. Assuming that they have been derived inductively, they will also have moderate *generality*, until tested on more data.

6.5 CONSTITUENTS OF PRESENT MULTIPLE-CASE STUDY RESEARCH

6.5.1 Research Questions

An initial definition of the research question, in at least broad terms, is important in building theory from case studies (Eisenhardt, 1989b). Key research questions of the present study are *how* and *why* small high-technology firms de-internationalise (the research methodology flowchart is presented in Figure 15 below). That is, being conceptualized at the intersection of entrepreneurship and cross-border research paths that form the basis of international entrepreneurship, the present study aims to uncover the de-internationalisation process in these firms. From an entrepreneurship perspective, the research explores *whether de-internationalisation can be viewed as an entrepreneurial activity?* The question addressed from a cross-border perspective is *whether de-internationalisation can be viewed as an integral part of a small high-technology firms' growth process?*

Figure 15. Research methodology flowchart



6.5.2 Unit of Analysis

According to Yin (2003), the main unit of analysis is at the level being addressed by the main study questions. As the main research question is concerned with the process of de-internationalisation, then it might be inferred that the process of de-internationalisation will be the unit of analysis. With regard to the time boundaries of the case, the inception of the firm will demarcate the beginning of the case; whereas firm's status as of the day of the first interview will demarcate the end of the case. However, as Yin alerts, the choice of the unit of analysis, as with other facets of the research design, can be revisited as a result of discoveries arising during data collection.

6.5.3 Research Constructs

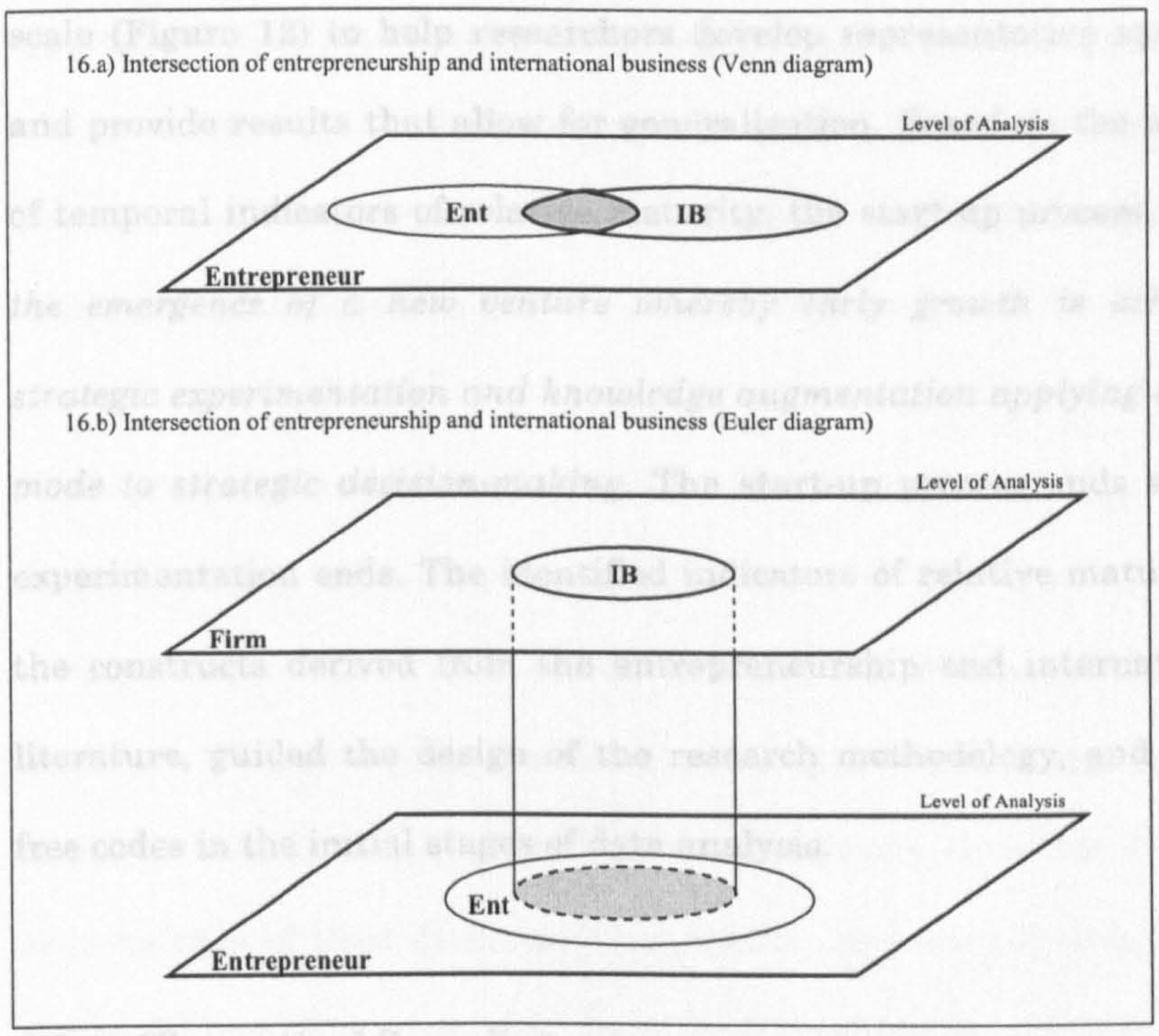
The 'how' and 'why' questions, however, do not point out what the researcher should study (Yin, 2003). Yin advises that studies in which a topic is the subject of exploration have a legitimate reason for not having any propositions. Although the present study is exploratory, a priori specification of constructs is an important step in shaping the initial design of theory-building research, regardless of the fact that no construct is guaranteed a place in the resultant theory (Eisenhardt, 1989b; see also Miles and Huberman, 1994). Several constructs have been identified from the review of the literature to guide the exploration of the de-internationalisation phenomenon.

The review of existing de-literature (de-investing, de-franchising, and de-exporting) revealed that a theoretical understanding of the process of de-internationalisation, especially within small firms, is in its infancy. At the same time, the review of de-literature identified three constructs that eventually formed the basis of the conceptual framework of de-internationalisation process of the small firm (Figure 10): intentions and actions of dyadic partners, escalating commitment; critical events, and the time horizons of entrepreneurs.

The review of the entrepreneurship literature provided greater contextualization of the study. This review highlighted that the de-internationalisation process may be regarded as a new activity at the low end of the new economic activity spectrum (Figure 11): when established firms introduce what internally is a new activity and appears at the same time as a new imitator in a market through organic growth (Davidsson *et al.*, 2001). In addition to the above, the findings also revealed that there is no clear consensus in the entrepreneurship literature over what a new venture is, how it behaves and changes over time, what its key indicators are, how old is old, and whether there is a continued entrepreneurship beyond start-up.

The review of international entrepreneurship literature tried to understand *where* and *when* the actual intersection, if there is one, between entrepreneurship and international business takes place. As the intersection of international entrepreneurship is currently defined by McDougal and Oviatt (2000), it might be inferred that the actual interaction between entrepreneurship and international business takes place at one specific level, e.g. at the entrepreneur level, entry mode level, or cooperative alliance level, and that at this level, the unit of analysis, e.g. the entrepreneur, demonstrates both entrepreneurship and international business behaviours (Figure 16.a).

Figure 16. Intersection of entrepreneurship and international business



However, when different levels of analysis are taken into consideration, tensions, oppositions, and contradictions between explanations of entrepreneurship and international business behaviours come into light. For example, how international strategic decisions are being made, e.g. in an entrepreneurial mode or planning mode, or adaptive mode; where these decisions are being made, e.g. at entrepreneur level, or at firm level; what level is more entrepreneurially or internationally oriented than the other, and to what extent. As Figure 16.b shows, the intersection becomes more complex.

This iteration between *localing* (Poole and Van de Ven, 1989) and *temporaling* (Glaser, 1978), and conceptual synthesising led to the creation of a maturity scale (Figure 12) to help researchers develop representative sampling criteria and provide results that allow for generalization. Based on the above synthesis of temporal indicators of relative maturity, the start-up process was defined as *the emergence of a new venture whereby early growth is achieved through strategic experimentation and knowledge augmentation applying entrepreneurial mode to strategic decision-making.* The start-up process ends where strategic experimentation ends. The identified indicators of relative maturity, as well as the constructs derived from the entrepreneurship and international business literature, guided the design of the research methodology, and served as first free codes in the initial stages of data analysis.

6.5.4 Theoretical Sampling

The goal of theoretical sampling is to choose cases which are likely to predict similar results (a literal replication) or predict contrasting results but for predictable reasons (a theoretical replication) (Eisenhardt, 1989b; Yin, 2003). Several challenges are identified herein. First is to choose cases that not only are polar types, but also literately replicate the constructs that emerged as a result of conceptualisation of research phenomenon from international business and entrepreneurship perspectives. At least two dimensions might be used to develop the categories of selected cases. For example, the first dimension would represent the life continuum of firms, e.g. success vs. failure; still in business vs. out of business. The other dimension might be related to the unit of analysis and represent its continuum by using appropriate coding families (Glaser, 1978), e.g.

total vs. partial; dependent vs. independent. The method of constructing typologies by reduction (Glaser, 1978) was employed in order to develop a typology of de-internationalisation. That is, a typology of de-internationalisation was generated by cross-tabulating the polar dimensions, derived from the literature, of de-internationalisation continuum (total vs. partial) and life continuum (in business vs. out of business) (Figure 2).

Firms positioned in Quadrant I have withdrawn from international markets and focused entirely on domestic markets. Firms in Quadrant II have remained internationally active, but have partially de-internationalised. Firms in Quadrant III logically can not exist, or as Glaser (1978) argues, this is a non-empirical cell. That is, if a firm is out of business, then this will represent an extreme case of total de-internationalisation and market withdrawal. In other words, a firm that partially de-internationalises is assumed to be still in business. Firms in Quadrant IV represent a state of total de-internationalisation, the only difference from firms in Quadrant I being that they would have ceased trading at or shortly after de-internationalisation.

The conceptualization of *de-internationalisation* was based on two constructs derived from Benito and Welch (1997) definition of de-internationalisation, namely 'engagement' and 'exposure'. That is, the companies selected for the study had to demonstrate that they reduced their (i) engagement in cross-border activity (e.g. when the ration of international sales to total sales has decreased), and or (ii) exposure to current cross-border activities (e.g. switching from higher risk, control, and commitment entry mode (joint venture) to lower one (exporting). Similar research design has been used in a number of previous internationalisation and de-internationalisation studies (see e.g., Barringer and Greening, 1998; Crick and Jones, 2000; Crick, 2004; Pauwels and Matthyssens, 2004).

6.5.5 Sampling criteria

The scope of the research and the typology of de-internationalisation helped establish the case selection criteria. The scope of the study is *small, important rather than obtainable data*, and *high technology*. A small company was defined as one having less than 100 employees to minimize the potential effect of resource bias (Storey, 1994).

The collection of important rather than obtainable data required to take into account the fact that people tend to take credit for positive outcomes and to attribute negative outcomes to external factors, no matter what their true cause (Lovallo and Kahneman, 2003). One way to control for such 'attribution errors' (Lovallo and Kahneman, 2003: 57) is to control for the effect of the external environment on selected cases, e.g. legislation, market size, market structure across industries and countries. This sampling strategy is termed here as *outer bracketing*. Hence, its primary aim is to reduce 'attribution errors' (Lovallo and Kahneman, 2003: 57). According to Lovallo and Kahneman (2003), the typical pattern of such attribution errors is for people to take credit for positive outcomes and to attribute negative outcomes to external factors, no matter what their true cause. As such, *outer bracketing* is pivotal when collecting important but inconvenient data as people not only are reluctant to talk about perceived "negative growth", e.g. failures, de-internationalisation, but also tend to misattribute the causes of these events.

Therefore, apart from being small, the firms would be located in one sector (*software*) and one country (*Scotland*), and observed over the same period of time (*1999-2001*). Information and communication technology (ICT) in general (OECD, 2001; Bassanini and Scarpetta, 2002; European Competitiveness Report, 2002; Lembke, 2003; OECD, 2004; Vijselaar and Albers, 2004), and software industry in particular (www.scottishdevelopmentinternational.com; www.cspp.org; www.bea.doc.gov), play a pivotal role in transforming the economy by boosting more rapid growth and productivity gains.

As argued by OECD (2001: 27), 'ICT is transforming economic activity, as the steam engine, railways and electricity'.[29] According to the recent OECD information technology outlook (OECD, 2004), the ICT sector is increasing its trend share of economic activity: it contributed close to 10% of OECD business GDP in 2001, up from 8% in 1995; it employed over 17 million people – over 6% of business employment – with 4% annual growth.

As regards the software industry, according to the US Bureau of Economic Analysis, software has become one of the major contributors to the increase in real GDP, as well as government spending – two positive indicators for software growth (www.bea.doc.gov). In Scotland for example, Scottish Development

[29] Gordon (2000) though contests this view arguing that to measure up, the ICT had to equal the great inventions that constitute what has been called the Second Industrial Revolution in affecting productivity and the quality of life.

International (www.scottishdevelopmentinternational.com) regards software as a critical part of the Scottish economy and promotes Scotland as a centre of excellence for software design. Recently, Scotland has been named "European Region of the Future 2004/05" by the Financial Times' influential fDi magazine (www.fdimagazine.com).

The 1999 – 2001 time period is of great interest because in those days – several Internet years ago (Pilat, 2003) – one could witness a rapid growth of software industry, whose overall revenue growth peaked in 2000, that rapidly declined over the following year with the bursting of the dot.com bubble, and then remained essentially flat until 2003 (www.cibcwm.com). As the US set the pace for this growth as a country characterised by being highly receptive to new technologies (Moore, 1995), non-US small and medium high-technology companies were trying to productize and market their new technologies in the US immediately after their inception. The behaviour of all involved went from one extreme to another, i.e. from overoptimistic to pessimism. As argued by Coltman *et al.* (2001: 58), just as the hype of the late 1990s was clearly overblown, the pessimism of 2001 is also an overreaction.

To the above selection criteria, eligibility for an interview was based on potential respondents being the ones who made and implemented de-internationalisation decisions. An ideal situation was when the interviewee was both the founding entrepreneur and the de-internationalisation decision maker.

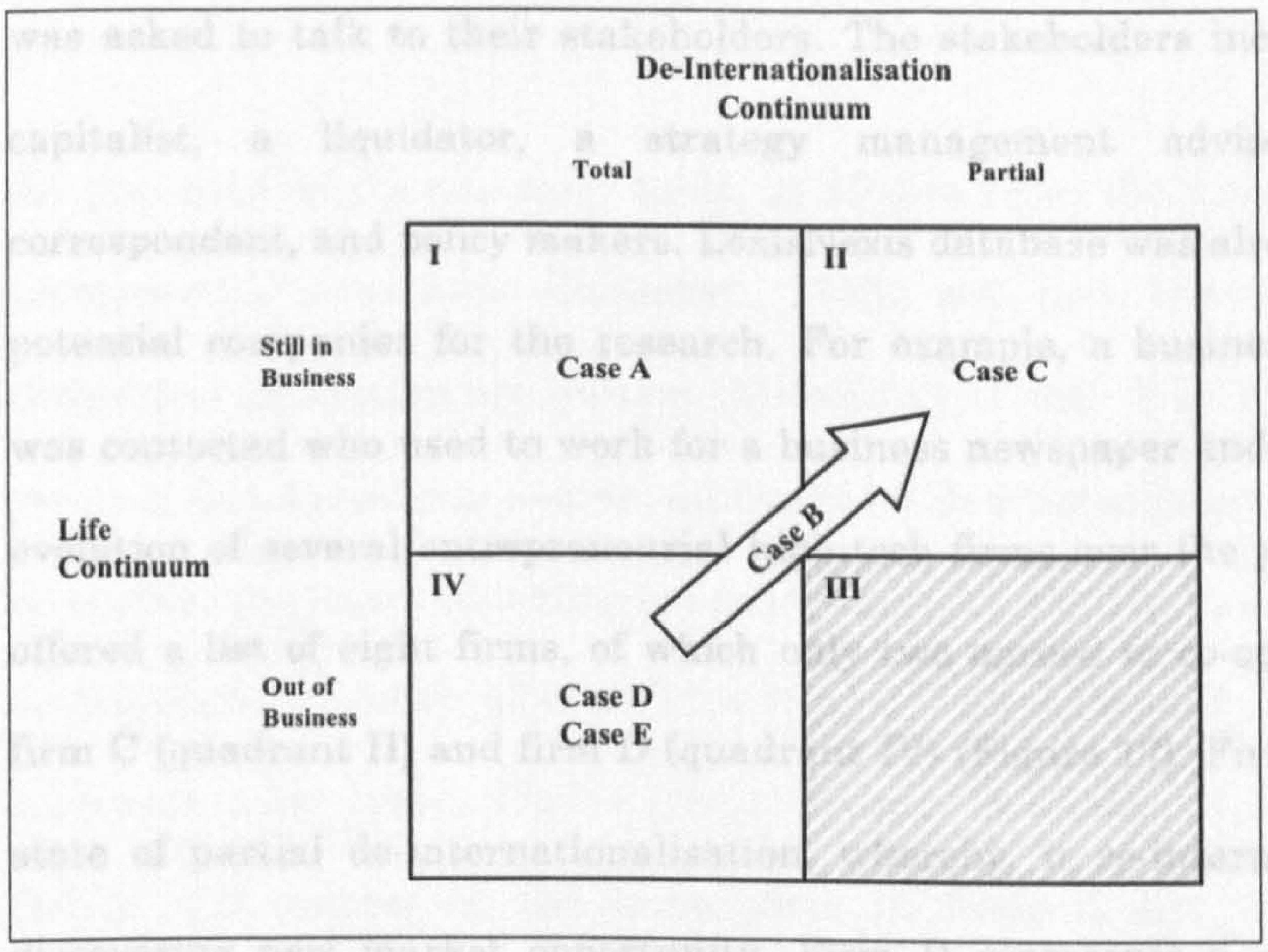
6.5.6 Snow ball sampling

The next step was to locate the cases and their stakeholders. This challenge was amplified by the need (i) to select an appropriate respondent within an organisation who was knowledgeable about the phenomenon and willing to discuss it, and (ii) to ensure reliability of the data obtained. To achieve the above, the strategy of snow-ball sampling (Patton, 2002) was adopted. As all cases were selected from within one location, indeed initially the chain of recommended informants diverged, but after some time it converged as a few names were mentioned repeatedly.

The starting point of the snow-ball sampling process was firms A and B (Figure 17), which previously were purposefully selected from a larger sample that had been withdrawn from Scottish Enterprise Membership Directories, and were part of a longitudinal study (Turcan, 2000). Two interviews were conducted in summer of 2000 with the firms' managing directors as respondents who were directly involved in the decision-making process regarding both increasing and decreasing the level of international activities of the firm. Subsequent research took place in autumn 2001 (Turcan and Jones, 2002) by following up the activities of the two firms originally studied in summer 2000. However, only the director of firm A was interviewed and was able to fully account for the international process in the intervening period and the decisions that had been made.

In fall 2003, when the field work started, the director of firm A was approached and asked to take part in the present study as well. He kindly agreed and assured reasonable access to the company. At that point in time, Firm A had totally de-internationalised and was focused on serving local, the UK market only. That is, Case A (quadrant I) represents a state of total de-internationalisation, whereby, after a rapid internationalisation, it withdrew from international activities and focused entirely on the domestic market and grew at a very fast rate.

Figure 17. Sample cases



Meanwhile, a search on the Internet was undertaken in an attempt to find the directors of firm B to invite them to participate in the study. Interestingly enough, when they were located, it was ascertained that firm B went into liquidation, survived by buying back their intellectual property from the liquidator, and started over again under a different name. Both directors kindly accepted to take part in the study and assured reasonable access to the company. Firm B is represented in the sampling matrix (Figure 17) as an arrow that shows how it rejuvenated as a phoenix from its ashes (from quadrant IV to quadrant II). That is, firm B represents a 'Phoenix' type of company that successfully resurrected itself after it de-internationalised and went out of business.

At the interviews with the lead entrepreneurs of firms A and B, their support was sought to identify potential companies for the study, and their permission was asked to talk to their stakeholders. The stakeholders included: a venture capitalist, a liquidator, a strategy management advisor, a business correspondent, and policy makers. LexisNexis database was also used to identify potential companies for the research. For example, a business correspondent was contacted who used to work for a business newspaper and who tracked the evolution of several entrepreneurial high-tech firms over the years. She kindly offered a list of eight firms, of which only two agreed to co-operate. These are firm C (quadrant II) and firm D (quadrant IV) (Figure 17). Firm C represents a state of partial de-internationalisation, whereby, it re-internationalised after discovering new market opportunity. Firm D represents a state of total de-internationalisation, whereby, after a very rapid internationalisation, it ceased trading. Firm E (quadrant IV) was suggested by a liquidator who was interviewed in connection with firm B. Firm E, as firm D, also represents a state of rapid internationalisation that led to failure.

Initially the chain of recommended informants diverged, but after some time it converged as a few names were mentioned over and over. An excerpt from the correspondence illustrates the above effect of snow-ball sampling (Table 8). As supported by various scholars (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003), it was decided to stop the sampling process at five firms (Table 9).

Table 8. Excerpt from sampling correspondence

E-mail to:
"Romeo: You might want to drop an email to Gordon ... at .... Regards, David"
"David: Well done for spotting the connection. Romeo was in here talking to me on Monday! Have a good weekend. Best regards, Gordon"

As presented in the summary table, in all five cases the process of interest is transparently observable (Pettigrew, 1995), and both literal replication and theoretical replication are present (Eisenhardt, 1989b; Yin, 2000).[30] That is, in terms of de-internationalisation, all five cases de-internationalised to one degree or another (de-internationalisation continuum, Figure 17). In terms of success of de-internationalisation efforts, firms A and C together, and D and E together represent polar types. Firm B, as a Phoenix company, represents a case of failure and success at the same time. In firms A and C, the process of entrepreneurial de-internationalisation is observable.

[30] From the point of view of the researcher, the fact that half of the firms studied had ceased to exist as small independent firms was disappointing. However, drawing on Storey's estimates of small firm survival after three years (Storey, 1994), it is not surprising and highlights the challenge of continuity faced by longitudinal research design on small firms.

Table 9. Summary of case companies, as of December 2004

Case company	Area of activity	Founded (year)	Mode of foundation	Internationalisation gap (years)†	Number of employees (at its peak)	De-internationalised (year)	Degree of de-internationalisation
A	B2B platforms for financial service industry	1996	Management buy-out	0	60	1999	Total withdrawal from international activities, and yet, in business
B	Tools to estimate project costs	1992	Start-up	4	12	2001	Phoenix company
C	Tools to simulate and test smart-cards	1985	Start-up	2	130	2000	Partial withdrawal from international activities
D	Platform to integrate mobile workforce data to the HQ	2000	Start-up	0	105	2002	Total withdrawal from international activities, but ceased trading at de-internationalisation
E	Data warehouse to convert data into information	1998	Spin-out	1	40	2001	Total withdrawal from international activities, but ceased trading after de-internationalisation

† The reference point to calculate the internationalisation gap is the emergence of the international venture idea, and not the year of foundation.

6.5.7 Data collection and triangulation

Data triangulation methodology has been used to gather different types of data in order to compare and cross-check the consistency of information. The information about de-internationalisation was collected from three data sources (Figure 18): (i) secondary sources; (ii) in-depth interviews with companies' directors; and (iii) in-depth interviews with companies' stakeholders. Twenty-four interviews (Table 10), including follow-ups, were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data.

Figure 18. Data triangulation

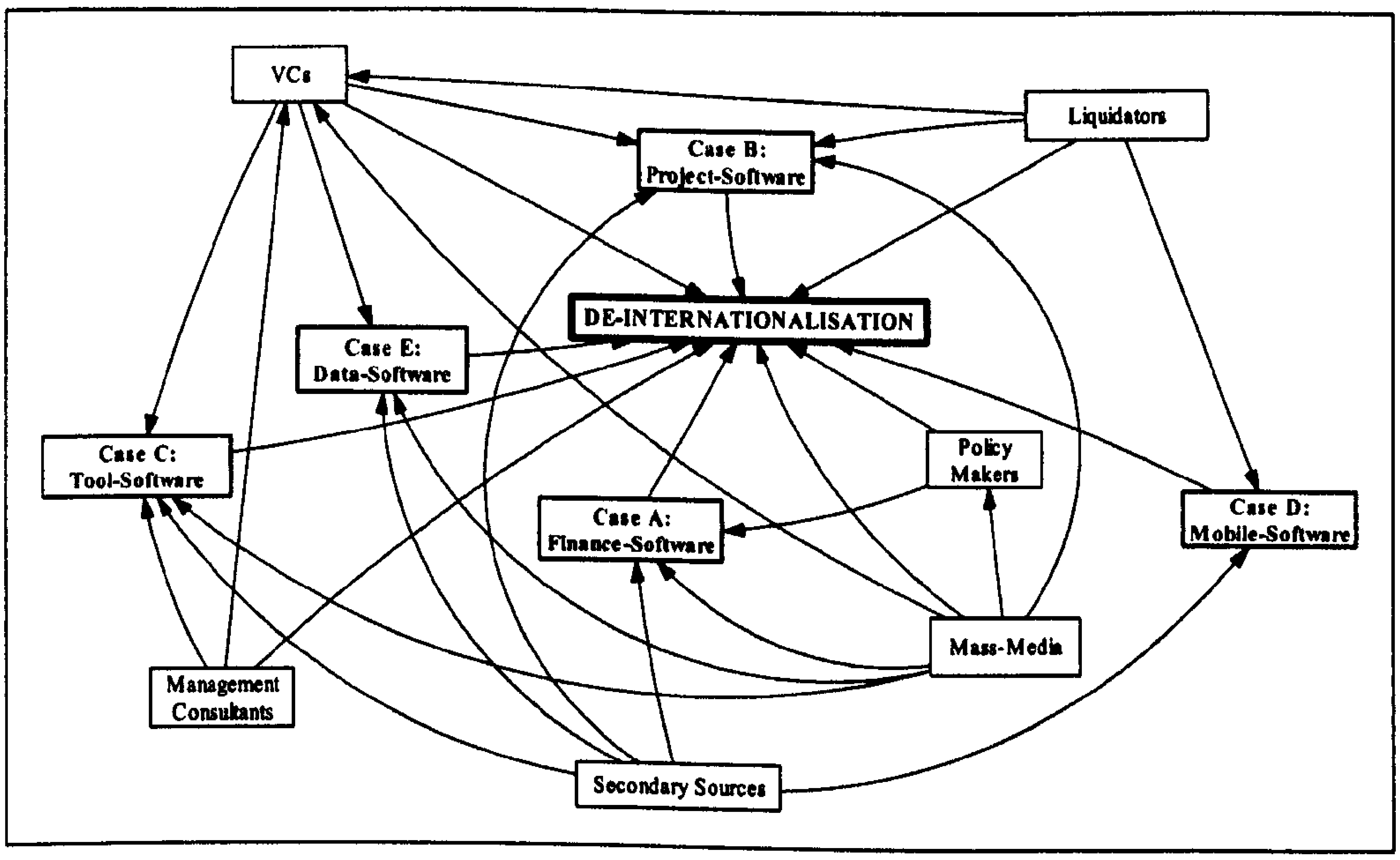


Table 10. Phases of data collection

Phase	Interviewees†
Phase 1 Summer of 2000	Leader of Internationalisation Team, Scottish Enterprise Leader of Software Team, Scottish Enterprise Marketing Director of Case A CEO of Case B
Phase 2 Autumn of 2001	Marketing Director of Case A Case B went into liquidation Leader of Software Team, Scottish Enterprise Leader of Globalization Team, Scottish Enterprise
Phase 3 Beginning of 2004	Business Correspondent Leader of Software Team, Scottish Enterprise Liquidator CEO of Case B Venture Capitalist Marketing Director of Case A CEO of Case C CEO of Case D CEO of Case A CEO of Case E Prof. Neil Hood
Phase 4 End of 2004	CEO of Case A CEO of Case B Prof. Colin Mason Business Strategy Consultant Liquidator CEO of Case E

† Interviewees are listed in the order they were interviewed

6.5.7.1 Secondary sources

The use of secondary data was seen to satisfy four key aims. First was to detect potential cases on the bases of selection criteria; second, to learn as much as possible about a company and its history prior to the actual interview with its director; third, to compare and cross-check written and published evidence with what interview respondents reported; and forth, to identify potential stakeholders who could corroborate the consistency of information reported by interviewees.

With the exception of Cases A and B, secondary data was the first point of learning about the cases. Databases were created for each case to organize and document data collected. As the research unfolded, primary data was added to the databases as well. Prior to in-depth interviews with entrepreneurs, and their stakeholders, the databases had consisted of:

(i) A data file about the history of a company downloaded from LexisNexis database. It also included, inter alia, interviews with, and opinions provided by industry experts, company's investors, and policy makers. At the same time, the data file helped select the cases for the research on the basis of identified selection criteria;

(ii) Case study notes that represented the analysis of company's data file, e.g. evolution of a company. They were in the form of (a) a graphical time-line representation of company history; (b) a narrative; and (c) a table (see Chapter 7);

(iii) Critical-event notes that tracked and described de-internationalisation events. The same three forms were used as in (ii) above, the scope being however, the incident of de-internationalisation (see Chapter 7);

(iv) Case study documents, primarily downloaded from companies' websites, were used to learn, inter alia, about companies' technology, products, culture, and strategy.

6.5.7.2 Primary sources: interviews with company directors

'The purpose of qualitative interviewing is to capture how those being interviewed view their world, to learn *their* terminology and judgments, and to capture the complexities of *their* individual perceptions and experiences' (Patton, 2002: 348). Critical incident technique served as the basis for the design of the interview process (Chell, 1998; Flanagan, 1954). Two interviews per case were conducted with entrepreneurs who made and implemented decisions to de-internationalise. Prior to interviews, the first point of contact was either by phone or e-mail. Following critical incident technique method guidelines (see also Fontana and Frey, 2000), the introductory correspondence informed potential respondents about (i) myself as a researcher; (ii) the purpose of the study; (iii) desirability to focus on the incident of de-internationalisation; and (iv) anonymity of data. The reason to why the interviewee has been chosen to comment on de-internationalisation event was implicit in the fact that the correspondence was directly with the interviewee, as derived from the preliminary analysis of secondary data. An example of such correspondence is presented in Table 11 below.

Table 11. First point of contact correspondence: an example

Dear Mr. ...,

This is in reference to my discussion with Mr. ... regarding my research project (please see below).

Let me introduce myself. Currently I am a doctoral researcher at the Hunter Centre for Entrepreneurship at the University of Strathclyde, and my research is exploring the process of de-internationalisation in small to medium hi-tech firms.

At this point in my research, de-internationalisation is defined as any actions undertaken by a firm that would reduce its engagement in or exposure to its current international activities. For example, a company may decide that exporting from home is much better option rather than having an office in the export market; or the company identified new promising opportunities in the home market and decided to commit more of its resources to the exploitation of this opportunity rather than to continue committing its resources to its international activity at the same pace.

I would like to arrange a meeting to discuss the above event and other issues of interest in greater details at a time most convenient to you. Please find below my contact details.

Look forward to hearing from you.

With best regards,

Romeo

The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission, and transcribed verbatim immediately after. The interviews were semi-structured in the form of guided conversations. Critical incident technique method guidelines were followed. Namely, (i) the interviewee was allowed to do most of the talking; (ii) leading questions were avoided; and (iii) open ended questions, followed by appropriately worded probing questions, were employed.

To ensure some comparativeness between the responses, and allow sufficient control over the interview to ensure that the research objectives were met, an interview guide was designed (see Table 12). The interview was divided into three parts: (i) introduction; (ii) main body; and (iii) conclusion. In the introduction (a) the interviewee was thanked for their participation in the research; (b) general introduction to the study was given; (c) the focus of the research, i.e. de-internationalisation event, was re-stated; (d) confidential treatment of data was discussed; and (e) permission to record the interview was obtained.

The main body of the interview guide consisted of a tentative list of questions designed to explore and explain the desired incident. The following generic approach was adapted during the interviews. To build the rapport, the interview started with an open-ended question: 'if you do not mind, shall we start from the very beginning when it all started in 1996'? The respondents were shown the life-time diagram of the company to guide their answer, and, at the same time, to validate it.

Table 12. Interview guide

I. INTRODUCTION

To introduce:

- The project
- Research questions
- Research scope, i.e. de-internationalisation event
- Interview structure
- Ethical issues, i.e. confidentiality and permission to record

II. MAIN BODY

Do you mind if we start from when it all started in [date of the start-up]:

- Use the time-line diagram/validate it
- How did you arrive to this idea and why?
- What did you like to see happen?

Your first international experience:

- What made you to go international?
- If I were with you during that period, what experiences would I observe you having?
- In your view, what is the most successful international achievement?

De-internationalisation event:

- When in your opinion, did de-internationalisation started?
- What were the first signs of de-internationalisation?
- If I followed you through that period, what experience would I observe you having?

Post-de-internationalisation:

- What would you do differently to reverse the pace?
- What lessons could be learned from this experience?

III. CONCLUSION

In your view, what should I have asked you that I did not think to ask?

Ethical issues:

- Re-assure confidentiality of data

What happens after interview:

- Interview will be transcribed and analysed
- Transcribed interview will be sent back to you for further comments; comments, etc
- Follow-up interviews will be sought to gain further clarification, understanding, and explanations of particular areas of interest

Thanks a lot for your time and useful insights

The respondents were then asked to reflect on the actual incident of de-internationalisation; probing questions were also used to understand deeply the actual event and the adjacent periods. This part of the interview concluded by asking the respondents to add what in their view was important but was not addressed in the interview. At the end of interviews, the respondents were thanked for their time and useful insights, reassured about the confidentiality of the data, and advised on what would happen after the interviews, including the 'getting back' (Buchanan *et al.*, 1988) option of returning for further follow-up research was negotiated. The follow-up questions were derived from the preliminary analyses of data gathered during the first round of interviews, and were aimed at gaining further clarification, understanding, and explanation of particular areas of interest.

6.5.7.3 Primary sources: interviews with company stakeholders

The aim of interviewing companies' stakeholders was threefold. First, to corroborate data derived from the interviews with entrepreneurs. Second, to capture their own experience and understanding in relation to de-internationalisation events, including their attitudes towards failed companies. And third, to request their help in identifying potential companies for the study. Chiefly, companies' stakeholders were represented by their investors, liquidators, and policy makers.

The interviews with stakeholders took place during the same period when the first round of interviews with entrepreneurs took place. The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission and transcribed verbatim. The same approach and principles to design the interview guide with entrepreneurs were used to design the interview guide with stakeholders, including the negotiation of the getting back option of returning for further follow-up research.

The only difference was in the context of the main body of the interview. It started by asking the respondents to reflect on their experience with and attitudes towards such incidents as de-internationalisation and failure. Then specific questions regarding a case or cases of particular interest were asked to be clarified, understood or explained. In conclusion of this part, the respondents were asked whether they could and would identify several companies, which would take part in the present study.

6.5.8 Data analysis

Once the interviews were transcribed, they were transferred to QSR NVivo programme that handles qualitative data analysis research projects. The interview transcripts and secondary data pertinent to each case were coded in an iterative manner, working back and forth between theory, emerging patterns and data. A temporal bracketing strategy (Langley, 1999) and within- and cross-case analysis (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003) were employed to analyse the data.

Within-case analysis was the basis for developing early constructs surrounding the process of de-internationalisation. The 'de-internationalisation project' in NVivo was structured around a matrix format that represents the list of events for each case (Miles and Huberman, 1994). According to Miles and Huberman (1994), this approach to within-data analysis allows a good look at what led to what, when and why (Miles and Huberman, 1994). The content of the 'event listing' matrix emerged after the initial 'free coding' or open coding (Glaser, 1978) for each case was completed, and each case was explored and described in detail using the event listing matrix (Table 13).

Table 13. Event listing matrix

Phases / Level	Company Inception	Emergence of International Business Idea	Expansion	@ Point of No return	Beyond Unthinkable
Entrepreneur					
Firm					
Home market					
International market					

The matrix mapped the historical chronological flow of *critical events* in the course of de-internationalisation process starting from the *inception* of a new venture or new business idea, and finishing *beyond unthinkable*, a hindsight reflection of entrepreneurs' de-internationalisation experiences. A total of five distinct time periods emerged while free coding the data; these were (i) inception, (ii) emergence of new business idea, (iii) expansion, (iv) at a critical juncture, and (v) beyond unthinkable. A set of categories that deals with the locale of events (Miles and Huberman, 1994) was defined for different types of events: entrepreneur level, firm level, home market level, and international level.

The exploration and description of each case was centred around 'critical events' (Chell, 1998; Flanagan, 1954) and started from the inception of the company. A time line of critical events (Miles and Huberman, 1994), an international path, and a time line of revenue and employment (actual and projected) were generated for each case. Quotes from interviews were used extensively to illustrate the events, incidents, process and issues that had, to various degrees, an impact on the entrepreneurs' decisions to de-internationalise. For confidentiality reasons, interviewees' and companies' names are disguised throughout the thesis.

Cross-case analysis focused on the constructs that emerged as a result of the analysis of within-case data. They included: *tacit conflict*, *withstanding gestalt*, *cocoon*, and *hype*. The method of constructing typologies by reduction and subtraction (Glaser, 1978) was employed extensively to advance middle-range theories.

6.6 CONCLUSION

The aim of this Chapter was to select an appropriate research methodology to explore the de-internationalisation phenomenon. Driven by the nature of the research questions, a multiple-case study strategy was adopted. A total of five case companies were selected on the basis of a mixed purposeful sampling strategy, which made use of theoretical and snow-ball sampling. Data triangulation methodology has been used to gather different types of data in order to compare and cross-check the consistency of information. The information about de-internationalisation was collected from three data sources:

(i) secondary sources; (ii) in-depth interviews with companies' directors; and (iii) in-depth interviews with companies' stakeholders.

Twenty-four interviews, including follow-ups, were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data. The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission, and transcribed verbatim immediately after. The interviews were semi-structured in the form of guided conversations. The follow-up questions were derived from the preliminary analyses of data gathered during the first round of interviews, aimed to gain further clarification, understanding, and explanations of particular areas of interest. A temporal bracketing strategy (Langley, 1999) and within- and cross-case analysis (Eisenhardt, 1989b; Miles and Huberman, 1994; Yin, 2003) were employed to analyse the data. The next chapter will present the analysis of within-case data.

Failures are more finely etched in our minds than triumphs, and success is an elusive, if not mythic, goal in our demanding society.

Hugh Drummond

7 EXPLORING AND DESCRIBING THE CASES

7.1 INTRODUCTION

The previous chapter discussed the methodology that was undertaken in order to identify the sample of firms for the research, and to collect and analyze the data. A total of five firms were selected (Figure 17) on the basis of a mixed purposeful sampling strategy, which made use of theoretical and snow-ball sampling. Case A (quadrant I) represents a state of total de-internationalisation, whereby, after rapid internationalisation, it withdrew from international activities and focused entirely on the domestic market and grew at a very fast rate. Cases D and E (quadrant IV) also represent a state of total de-internationalisation, however, after a very rapid internationalisation, they ceased trading. Case C (quadrant II) represents a state of partial de-internationalisation, whereby, it re-internationalised after discovering new market opportunity. Case B represents a 'Phoenix' type of company that successfully resurrected itself after it de-internationalised.

At this stage of the theory-building process, each case company will be explored and described in detail. According to Dubin (1969), the very essence of description is to name the properties of things, and the more adequate the description, the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building. The case companies are presented in alphabetical order. For confidentiality reasons, interviewees' and companies' names are disguised throughout the thesis.

7.2 CASE A: FINANCE-SOFTWARE

Finance-Software is a software company that develops business to business integration platforms, primarily for the financial services industry. These platforms allow the effective and efficient management of industry standard message formats. Finance-Software was founded in 1996 (Table 14) as a consulting company after a management buy-out of a research software unit of a foreign multinational company. With the help of the parent company that had no equity stake in the newly formed company, four senior members of staff from the parent company put up money for the buy-out. Key motivation to initiate the buy-out, as reported by the company director, was that:

> *'During the 5 year period of working with [the parent company] we had a number of approaches from external organisations to see if we could do some work for them and at that time the answer was no because we were entirely an internal unit for [the parent company]. And this suggested to me that it would be some opportunities to work outside the parent organisation.'*

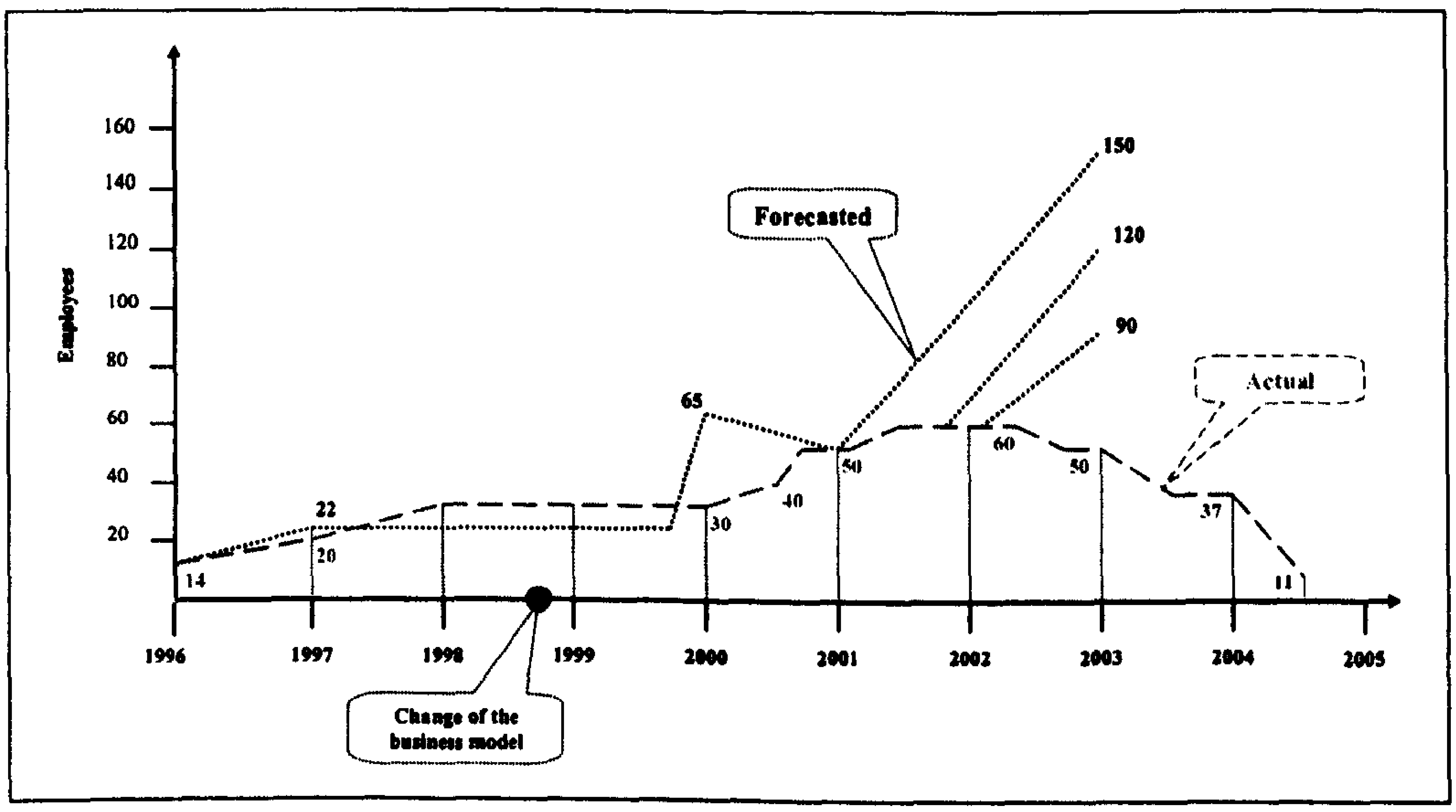
At the same time, there were a couple of things that worked out in their favour at that point. Firstly, the parent organisation was trying to reduce staffing levels in its overseas R&D unit, and secondly the R&D unit was building a new manufacturing system that was essential to the parent organisation in terms of launching a new product.

Table 14. Time line of critical events of Finance-Software

Year	Critical events			
1996	Management buy-out of an R&D lab of multinational company			
	Internationalized instantly (USA, Brazil, Europe)			
1998			Realized they were operating without any focus; had incurred losses	Decided to focus on new, emerging technology
			Identified the need to diversify and deliver tangible product	Trained staff in that new technology
				Re-engineered the work for its parent company in this new technology
1999	Decided to focus 100% on domestic financial services sector	Became authorized [new technology] development centre		
		Partnered with IBM to enter the financial services market		
2000	End of Y2K problem: companies started buying new technology	IT market in the US started to collapse		
2001	Opened 3 offices throughout UK	IT market started worsening in the UK	Launched 1st version of the product	
				Announced as fasted growing company of the year
2002	Was still bullish about its growth		Forced to cut one sixth of staff	
2003			Discovered that the product is 'at least 12 months to soon to the market'	Decided to 'cocoon'
			Downsizing continued	Retained the IP and key personnel
				Waits for the market to pick up

As the marketing director put it '*...it was a classic win-win situation*': from the parent company point of view, all 14 employees of the R&D unit were employed by Finance-Software, and the continuity of the development of the new manufacturing system was guaranteed. In addition, from a Finance-Software point of view, a 5 year contract with the parent company was guaranteed that had to be tapered off from 100% in the first year, to 20% in the fifth. At its peak by 2002, Finance-Software employed 60 people (Figure 19), and achieved approximately £5 million in revenue (Figure 20).

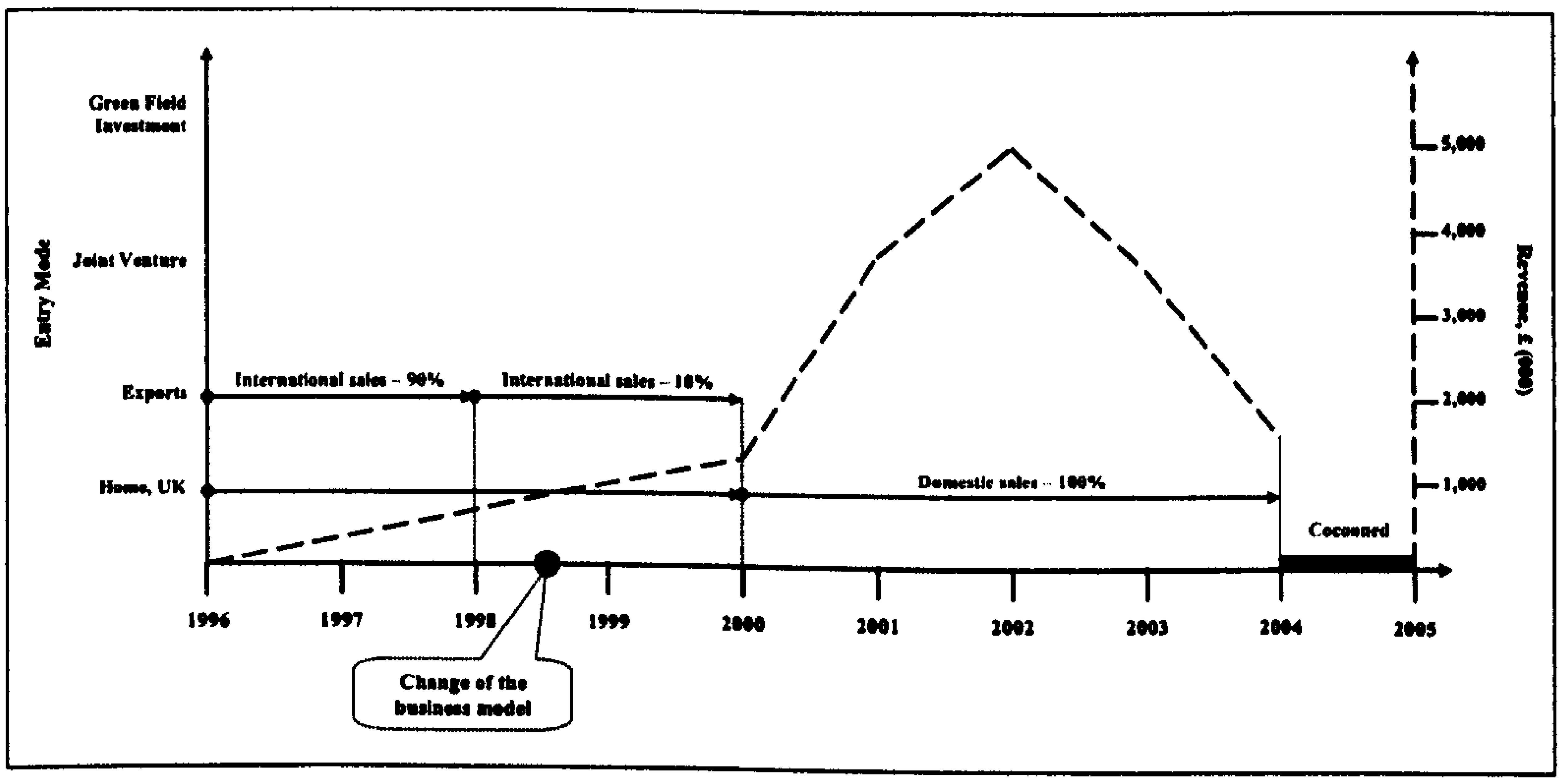
Figure 19. Time line of employment (actual & predicted) of Finance-Software



The above '*win-win*' [the buy-out] situation gave Finance-Software a good starting point; it provided them with a guaranteed revenue stream. It allowed Finance-Software to internationalise almost instantly (Figure 20) and deliver software development projects to the parent company' customer base located primarily in the US and Brazil. Up to 90% of its revenue was coming from international sales (Figure 20). First sales outside the parent company as an independent company were in the UK with two multinationals as an extension of their R&D units, and subsequently Finance-Software partnered with these enterprises' software development groups. When asked to comment on these partnerships, the marketing director said that:

> *'These big players were trying to mitigate their risk by partnering down the value chain; they were giving us entire new projects. The repeat business with them gave us a lot of visibility and networking opportunities in the market.'*

Figure 20. International path of Finance-Software



In 1997, Finance-Software also went to Germany trying to sell its software consulting services. However, this venture was not successful. When asked why, the marketing director said that '...*it was a blind entry that helped us understand that services do not travel*'; the company director further mentioned that '*...when it comes to the product, the product opportunity is more realistic if you are trying to do something internationally. We learned there was no way we could sell services internationally*'.

Having enjoyed for the first couple of years these easy-come contracts, the co-founders realized in 1998, when these contracts were about to end, that (i) the opportunity they identified back in 1996 was not in demand at all; (ii) as a result they were incurring losses; (iii) they were operating without any focus; and (iv) there was a need to explore new market opportunities in order to stay in business. '*It was difficult to find a balance between sell and deliver. We were in the markets without knowing why we were there*' – the marketing director reported. The company director added that:

> *'We thought we would be delivering tailor-made software solutions to other large enterprises like we did to our parent company... What we found out was that our proposition had to be a little bit more targeted than that. We could not really build a business on the back of those contracts.'*

This situation Finance-Software found itself in turned out to be the turning point in its future growth. The founding entrepreneurs always had a vision to enter the enterprise space; but at the same time, they also knew that they needed '*...a bit of track record and credibility; ... a classic unique selling point; ... to be the first, the biggest, and the best*'. To achieve the above, they decided to switch from a service to a product oriented company, and immediately started the search for opportunities. The transition to a new business model required the founding entrepreneurs to make two fundamental decisions. Firstly, which particular technology to concentrate on. And secondly, which vertical market to focus on.

With regard to the technical decision, the founding entrepreneurs adopted '*a bottom-up development strategy*' that '*...tended to look at number of seeds of ideas at the basis of the pyramid and see how they stitched together at the top to form that core proposition*' – according to the marketing director. In a meeting, their employees were told that being '*...one of those software service companies is not enough. We need to be different*'. And the technical staff said that they wanted to work with a newly emerging technology that was a programming language and a platform at the same time; the staff saw this technology '*...as a next big technical thing, and...anti-Microsoft*'. However, they could not provide a specific answer to the directors' question: '*who is going to use this new technology*?' Their answer was: '*everybody will use it!*'

Interestingly, that new technology was eventually adopted by Finance-Software. There were several events that made that happen. Not long before the staff meeting, one of the co-founders was in New-York. One day, before a meeting, he was 'filling in some time' and went into a technical bookshop. That bookshop was filled with lots and lots of books on that technology. As the company director recalls:

> '*...when the staff said that they felt that this new technology was a place to go, I told myself that I'd already seen this sign in the US. That is, [this technology] was something that could really happen; no guarantees it was going to happen, but it made sense.*'

The other event was that, as one of the co-founders said, '*...the staff was so insistent*'. This made the transition to the new technology very easy. The next event was that in the computing press that published a ranked list of job adverts this technology was moving quite rapidly from the bottom to the top of the list. Finally, and probably the most important event was that Finance-Software had the capability to start R&D efforts and implement them in practice. This capability to invest in this '*new start-up*' was due to '*the big cash injection*' that was coming from the 5 year contract signed with the parent company back in 1996, and the strong relationship Finance-Software maintained with its parent company over the years. That is, the continuous revenue stream allowed Finance-Software to take several engineers away from the provision of services, which at that point in time were highly paid, and assign them to this new technology; mainly to re-engineer the work their were doing for the parent company in this new technology.

Having that product as proof of Finance-Software's expertise in and commitment to this new technology, the co-founders pitched to the developer of this new technology who remained impressed by the quality of the work done and eventually recognised Finance-Software as one of their 100 [technology] development centres in the world, and number one [technology] development centre in the home market. As the company director commented:

> *'It was not something that you got by subscription ...you had to earn it, to show that you really are the expert. And we were up against much, much larger companies, but because we had this application which was a real great example application of what this new technology could do we got that badge – we had then the classic USP.'*

This new point of differentiation as authorised [technology] development centre changed the perceptions about the company. It made Finance-Software look bigger than it actually was as people would expect early adopters of new technology to be large organisations. However, only half of the problem was solved. The question '*who is going to by this new technology*' still remained unanswered.

Therefore the other task was to identify another vertical market that might adopt the new technology. The question was to find out '*what is on our door step*' – as one of the co-founders put it. They looked around and identified the financial sector as a potential market that eventually might adopt the new technology. At the time, in the company, these two paths: technological and financial service, were running in parallel. As the company director said:

> *'We did believe that the new technology would eventually become adopted in enterprise arena, and we would deal with big companies. Also we had faith that these two paths would converge at some point. But you could not tell when. In retrospect, they actually did at the beginning of 2000.'*

The convergence of these two paths was possible due to UK regulations that were forcing financial service organisations to adopt E-and Internet based solutions for their businesses in order to manage industry standard message formats (e.g. customer access to data; distribution of financial products, etc.). As the marketing director commented on this opportunity:

> *'There are two ways to make a donkey move: either to flutter a carrot in front of it or hit it with a stick from behind. We found that the stick worked.'*

The pursuit of the financial service opportunity was more difficult than of the technological one. As the company director stated, '*...it took us a wee time to make that decision because none of us came from that background; no one knew anything about banks and insurance companies*'. They all had to learn about the peculiarities of the financial sector. Understanding of financial services became also part of the selection criteria for new employees. A non-executive director was brought in with extensive business experience in and knowledge about the financial sector.

Probably the most important decision to make towards the successful realisation of this financial opportunity was to decide with whom to partner with from the enterprise space. Finance-Software approached several large organisations, including Sun, Oracle, IBM, and even Microsoft. What the co-founders found out was that '*...these guys do not want to work with you unless you are kind of totally committed to their cause; they do not like if you talk to their competitors*'. Finally, the co-founders decided to partner with IBM as they had become the major adopter of that new technology, and already had a strong foothold in the financial services market.

As a result of that change in the business model, Finance-Software focused exclusively on the domestic financial service market that by 2001 became its core market (Figure 20), and it became the leading e-commerce provider in that market; forecasting about 300% growth in revenue by year 2001. Finance-Software grew organically from 30 employees in 1998 to 60 in 2001 (Figure 19); and the revenue target was almost achieved, i.e. it increased by approximately

260% by 2002 (Figure 20). In April 2001 Finance-Software expanded its operations throughout the country by opening 3 offices and forecasting further increase in the number of employees up to 150 by 2003, and by midsummer of 2001, it launched its new product for the financial service market. When asked about re-internationalisation plans, the marketing director said that:

> *'It is not wise to go internationally without building capability locally. It is like in football. If you do not perform at home, it is unlikely you will perform well in European championships.'*

Nevertheless, throughout these years internationalisation opportunities were being explored very aggressively. In 2000 Finance-Software formed an alliance with two UK companies from the financial sector to enter the Indian market that had '*many greenfield opportunities*'; and in 2001, having launched the new product, Finance-Software was aiming to enter both the US and European markets. In 2002 Finance-Software remained bullish with regard to its growth projections.

Late in 2003 however things started to deteriorate as the financial industry was slow in adopting their product, and in 2003 Finance-Software reported an after tax loss of approximately £ 600,000. At the beginning of 2004 only 11 members of its staff remained with the company (Figure 19). What the co-founders found out was that their product was '*...at least 12 months too early*'. They decided not to keep the company going as a service company that would not generate enough money and eventually would cease trading. Instead, the co-founders decided to cocoon[31], i.e. to reduce costs of the company to the point where they can keep the company going forever; and doing that they own their intellectual property. As the company director concluded:

> *'The trick now is how we make sure that in 12 months time we are still in the position where we can sell our product; how we keep things going for these 12 months, so that if there is a point in this period when people do switch on to this kind of purchase, then [Finance Software] is ready to make most of that. And this is where we are right now, and trying to work out how best to do that.'*

Key critical events of Case A are presented below:

- The business opportunity that allowed Finance-Software to internationalise turned out to be unreal
- The founders identified the need to diversify and deliver a tangible product, rather than service
- A new, niche market in the home country was identified and new technology adapted
- As big players were demanding exclusive partnership, Finance-Software had to partner with only one large player in the chosen vertical market;
- The IT market in the US was collapsing;
- The founders realised that they were at least 12 months to soon to the market and decided to 'cocoon'.

7.3 CASE B: PROJECT-SOFTWARE

Project-Software is a software company that produces estimation tools to predict costs and timescale of information technology projects customised for various managerial and engineering levels. It was founded as a consulting company in

[31] The examples of constructs which emerged during the within-case data analysis will be underlined throughout chapter 7.

1992 (Table 15) by two entrepreneurs who initially worked as independent consultants through recruitment agencies. Key motivations to start the company, according to the company CEO, were that '*...the technology had a real future, which it turned out to have – it is universal today across the software companies*', and '*...the desire to do larger projects, and to have our own customer base*'. Project-Software started operating primarily in the home market (although they provided their services in Italy on the basis of a one-off contract with the United Nations) (Figure 21), with the focus on object technology, client software, skills transfer, project mentoring, and training. The company's resources at that time were primarily formed of personnel with reach experience in R&D leading edge technology, and product-built-in know-how.

At its peak, in 1999, Project-Software employed 8 full-time and 2 part-time employees. Throughout its life time, Project-Software won five prestigious awards offered by the Government aimed at encouraging innovation. By 1995, the founding entrepreneurs realised the necessity to diversify and deliver to the market tangible products in the form of software. This change in the business model was driven by both '*technical*' and '*non-technical*' motivations as reported by the company CEO:

Table 15. Time line of critical events of Project-Software

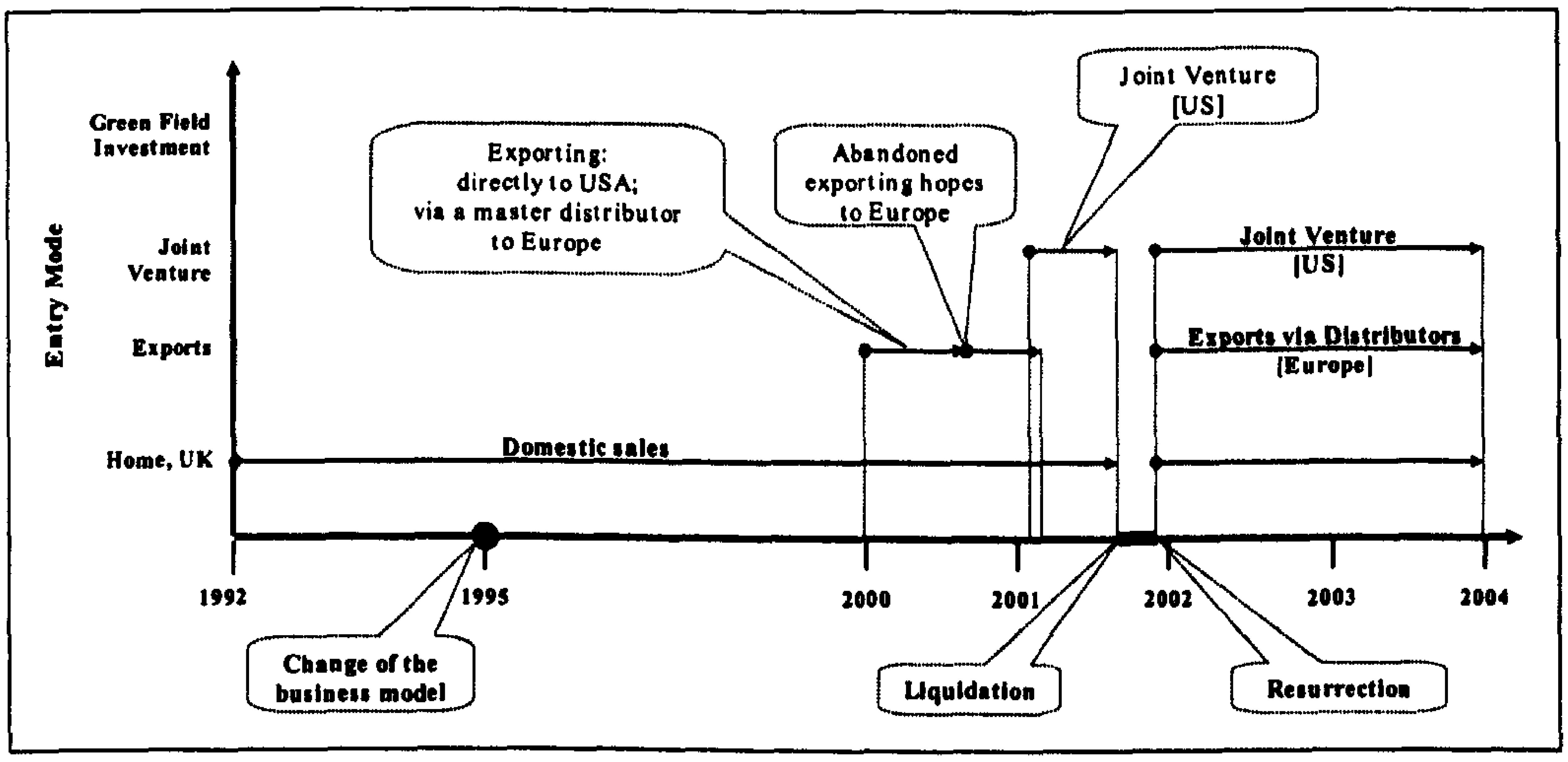
Year	Critical events			
1992		Started-up as a consulting company		
1994				Identified new market opportunity to diversify and deliver tangible product
1995	Started R&D activities			
1997			Launched 1st version of the product via a deal with OEM	
1998	Deal with OEM failed	Pitched to VCs to raise funds to market the product		Changed the business plan as per VCs request
1999	Received 1st round of funding		Had to agree with VCs on entering the European market: 'tacit conflict'	Initiated international expansion into Europe and the US
	Hired a marketing non-exec from the OEM they had deal with			Established a relationship with a master distributor to enter European market
2000	Started exporting the product to the US and Europe	IT market in the US started to collapse	Received 2nd round of funding	Marketing non-exec stepped down
		Continued exporting efforts and making trips to the US	Continued exporting efforts and making trips to the US	Continued exporting efforts and making trips to the US
			Abandoned hopes for Europe as no sales were realized	VCs appointed their own non-exec specializing in crisis management
2001	Signed in the US a joint-venture deal with a UK MNE that had a large US customer base	Presented to VCs the plan to 'cocoon'	Bank reconsidered its position and offered new terms and conditions	Resurrected: registered as new company
	Developed a 'dramatic plan to improve things' to be presented to VCs	The plan to 'cocoon' was accepted by all but one investor, the bank of the company	Decided that 'the game was over'	Bought over the IP from the liquidator, re-employed senior software engineer
	Were introduced to a liquidator in case the 'dramatic' plan is not backed up by VCs	Approached the liquidator to surrender	Was liquidated	Re-branded the software, launched its 1st version
				Re-internationalised

'The technical motivation for the product was very much due to our own practical experience and recognition that there was nothing on the market that focused on that area. ...we were moving from one company to the next, and being certainly involved in the technical side of the projects, however it was often the project mangers who were really struggling with the impact of the technology: they were not sure how to measure the progress of the project, to what extent, how long should it take, etc. ...we recognised that there were no automated mechanisms that would address all the above issues, and thought it would be really nice to have a product that did all this.'

'The non-technical motivation was due to personal desire to have more of family life as well. ...most of the investment in this new technology was being made by the companies based down-south, in London. So, we were typically working away from home; it was like having dual life: we would have our mid-week life on the plane Monday morning, coming back on Friday evening, spending home the weekend, and then go there again on Monday. Both of us had young families and we just felt that in a longer term we did not want to be doing this forever.'

Research and development activities commenced in 1995 and in July 1997 the first version of the product was launched via an original equipment manufacturer deal (OEM) (Table 15). '*We established more of a real company... Now we've got our unique selling point*' said the CEO of the company. However, this OEM deal was short-lived. The OEM partner, who was selling Project-Software' product under their own brand-name, got into trouble and was acquired by an US company. Project-Software managed to gain control of the product, re-brand it, and started its own sales. The above two events, i.e. change in the business model and change in the dyadic relationship, had strong catalytic effect on subsequent performance of the company. The transition from consulting to product oriented business required to redefine the type and state of elements in the organisational gestalt.

Figure 21. International path of Project-Software



Specifically, the founding entrepreneurs had to hire full-time staff, and establish an office. At the same time, they lacked experience in selling products, both domestically and internationally, and lacked funding to support its further growth. As the company CEO remarked:

> *'The models were quite different. Although we had experience in selling our consulting services, backed up by our technical credibility, selling a product was a completely different thing. And we did not have any background in that; ...we were aware that we were lacking experience in that side of the business.'*

To a certain extent, the OEM deal compensated for the lack of resources, being mainly experience in selling a product and finance. However, after the OEM deal failed, Project-Software turned to other routes to acquire necessary resources. Firstly, they looked for a non-executive with extensive background in selling and marketing software products worldwide. The marketing director of their OEM partner was available and eventually was hired as a non-executive. Secondly, they decided to raise venture capital funding. Founding entrepreneurs pitched to VCs in 1998 and received their first seed capital of £600,000 in June 1999, and second capital of £150,000 in July 2000 (Table 15).

Raising venture capital also had a strong catalytic effect on eventual company performance. Specifically, the dyadic relationship with investors grew into a <u>tacit conflict</u> – a situation in which entrepreneurs were under pressure to accept a deal they were not comfortable with. That is, the original pitch of the company '*...was to stay in the UK, get sufficient knowledge of the sales process, and then go to US*''. The investors however had different plans, as the company CEO recalls:

> '*...at the very first meeting the investors said this was a daft strategy, the vast majority of IT sales are in the US, and you should be in the US straight away. Change your plan. So, we changed the plan, otherwise we would not have got the investment. We remember feeling in a bit of a Catch 22 situation.*'

In the modified business plan the priorities were given to entering the US and European markets simultaneously, and at a later stage – the global markets. The UK, home market was given a low priority. Interestingly, the idea to enter the US market came from the VCs, whereas the idea to enter the European market came from the company non-executive and was backed up by VCs. The founding entrepreneurs were in agreement with the US strategy, but were against entering the European market. As the CEO of the company explained:

'We were very much driven into exporting; we felt it was sensible to go to the US, because that was such a big share of the market, and got us a lot of exposure; but we did not think it was sensible to go to Europe so early.'

When asked what their key arguments against Europe were, the CEO of the company identified several "feelings" about this incident. Firstly, she said that

'We were essentially creating a new market. We realised that it would take a period of time to educate the market and try to get exposure for the product. In this respect, the US tends to lead the way in picking up new technologies, whereas Europe tends to be more conservative'.

Secondly, as the technology was new to the market, the CEO continued:

'Our feeling was that we would then spend awful a lot of time and effort managing the relationships with the distributors and bringing them up to speed with the technology and giving them all the information'.

The importance of building and maintaining good relationships with distributors, investing time and money into building these relationships were highly valued:

'It is of vital importance to be at the forefront of their [distributors] mind, to encourage them to share with you their marketing plans, to share their customer base' – reported the CEO.

The company non-executive, however, proposed, and he was backed by VCs, to establish a relationship with a master distributor in order to avoid all that work. In hindsight, as the company CEO remarked:

'It did not really work. And we did spend significant time and effort in working individually with the distributors, which in a short time that we had did not realise itself in any sales'.

The other arguments against entering the European market were '*...the vast array of differences in cultures in Europe, so the communications with potential customers would be harder*', and the fact that the identified master distributor '*contained individuals who were friends or well known to our non-executive. We felt in a way that it was too friendly; we felt there was no independence there, and the decisions were made for the wrong reasons*'. Commenting on this decision to comply with the modified business plan, the CEO said:

> *'I do not think we could have taken a different route without major conflict. ...At that time you have to remember that both of us were completely new to this. And although, our gut-feel and instinct were telling us it was not right, it was very hard for us to justify'.*

This tacit-conflict incident led to increased tensions in the relationship between the founding entrepreneurs and VCs. When asked to describe this situation when you are in conflict with your investors, the CEO stated:

> *'Incredibly frustrated, stressful. It gives you a sense that you've lost control of something that you used to view as yours. Stifled really...When we took our investment we lost [our] agility. I think [the investors] are stifling the growth of companies, rather than helping them to grow'.*

Nevertheless, by the end of 1999, Project-Software had plans to sell over 300 units of its product through European distributors next year, creating over £400,000 in revenue. At the same time, Project-Software was also ready to take its product to the US in 2000. During 2000, Project-Software did not get any sales from Europe and towards the end of the year they '*abandoned hopes for Europe*'. As one of the co-founders said:

> '*We kind of accepted that it was unlikely that at this stage there would be any sales [from Europe] and therefore we kind of put it on the backburner and focused on the US and the UK*'.

Their earlier experience in the US was '*positive, quite motivating*'. The positive feedback and suggestions received from the US companies allowed Project-Software to '*take the product in slightly different direction. It helped to shape new versions of the product and it helped to feel there was a real market need*'. The initial trips to the US during the first half of 2000 resulted in several good deals. However, as one of the co-founders stated: '*...what we found difficult to do was to turn that enthusiasm for the technology into concrete sales*'.

The early successful experience in US was '*short lived*' as, not long after they internationalised, the IT market in the US started to collapse, and all the web companies that were their primary market started to disappear. Project-Software started reporting losses from the international sales: in 2000 the share of international sales went down from 30% in 1999 to 0%. As emphasised by the CEO: '*Our market just vanished under our feet ...and yet we continued to make business trips to the US*'. When asked why, she continued:

> '*...desperation perhaps. We were becoming increasingly desperate to get sales from there; and we were under a lot of pressure as we were not meeting the sales targets*'.

The above incidents illustrate the commitment of entrepreneurs and/or investors to the failing course of action in light of perceived negative feedback. When asked why they did not de-internationalise when a lot of negative feedback was received throughout the year 2000 (e.g. vanishing market; unrealised sales; etc), the CEO explained that:

> *'When you are intimately involved in the crisis as it unfolds maybe you are not as aware as when you step back from it, and you analyse it now, years later'. ...gut feel was that we should have pulled back... we should have realised what was happening sooner, and stopped that activity and focused back on the UK during that period'.*

At the end of 2000, their marketing and sales non-executive stepped down, and VCs brought in their own non-executive who was a specialist in crisis management and with whom the co-founders *'really gelled with'*:

> *'...he was the first non-exec who really actually was trying to understand what we were trying to sell, and the intrinsic value of the product is; rather than just looking at numbers'* – the company CEO reported.

Project-Software continued its venture to the US and in February 2001, the managing director signed a joint-venture agreement with a UK based software-tools company that had a strong customer base in US, and that assumed integrating the companies' products and selling the integrated product to this customer base.

One month later, however, in March 2001, the founding entrepreneurs, backed by new non-executive who '*...helped them to step back and see the big picture*', presented to their investors '*a really dramatic proposal to improve* *things*'. It assumed to keep a very small subset of the company, to let a number of people go, and just continue with a small number of people. The company CEO said that '*the intention really was just to* <u>*cocoon*</u> *ourselves to get through that period*'. In light of the above radical plan, the late-signed joint-venture seems to have a dual purpose. It would demonstrate the investors that a market potential for the product still exists, and that the team is continuously committed to international operations. The CEO's comments are that '*it may help us in our efforts to persuade the investors to stand by us, let us trade and give some money*'.

At the same time, despite the plan to cocoon, the founding entrepreneurs, at the advice of their new non-executive, looked into a scenario to liquidate the company if the investors would not back up the cocoon plan. As part of this scenario, the entrepreneurs were introduced to a liquidator to discuss the liquidation scenario.

Eventually, all the investors backed up their proposal to 'cocoon' but one, their bank, who thought that Project-Software '*was too risky*' said they were going to withdraw the overdraft facility. The co-founders went back to the liquidator and informed the liquidator that '*...in this situation when the bank does not accept the proposed way forward, there is no other choice other than to liquidate the company*'. The liquidator knew a very senior person in the bank and approached that person to query the decision to withdraw the overdraft. This senior person re-examined the case and came back with a resolution saying that the bank was prepared not to withdraw the overdraft provided the company guarantees it will be successful, and nothing worse will happen. Meantime, however, the co-founders made their mind and decided that '*the game was over*':

> '*We made the decision to voluntary liquidate the company, which was really stressful time and felt like the end of our world. However, the day before the liquidation the twin towers collapsed and put everything into perspective – closing the company was not the end of the world!*' – the CEO of Project-Software reported.

Project-Software officially ceased trading on September 12th 2001 (see Figure 21). At the time of the liquidation, it employed 10 people (including the two co-founders) – all were made redundant on 12th September 2001. The most valuable gestalt that was left was the tacit knowledge about the product that rested with the co-founders and the senior software engineer, the intellectual property, and the customer base. Immediately after the liquidation, in October 2001, the co-founders formed a new separate company Project-Limited, and chose to only re-employ the senior software engineer with intimate knowledge of the product. They submitted a proposal to the liquidator to acquire the rights to their former software product. The danger at that stage was that their partner with whom they entered in a joint-venture in February 2001 could have come forward and bought the intellectual property. Fortunately, this did not happen. In this respect, the CEO said that:

> '*It was our personal relationships with our partner that made it possible to avoid the acquisition of the IP. They even gave us a blessing; they wrote a letter of support to the liquidator, and other interested parties, in which they insured that the joint-venture will remain intact if IP owners acquire back their IP.*

The transaction was finalised on 27th November 2001. The software was purchased with an up-front fee and on-going royalty for a two-year period. Project-Limited re-branded the software and launched its first release in December 2001. It retained strong relationships with its joint-venture partner and immediately after the 'resurrection' internationalised again. An example of recent sales (in 2004) is a deal with a large US defence company. As of today, according to an American software magazine, Project-Limited is one of the leaders (top second) in the project software market.

Key critical events of Case B are presented below:

- The founders identified new business opportunity to diversify and deliver a horizontal product; a hybrid-led business model was thought of;
- To raise venture capital, the founders had to re-write the business plan in order to comply with VCs requirements, i.e. to internationalise instantly rather than incrementally, and to adopt a product-led rather than hybrid-led business model;
- Despite the fact that the IT market in the US was collapsing, Project-Software continued its exporting efforts;
- Together with newly appointed non-executive, the founders presented a plan to 'cocoon' to VCs, who rejected it; the company was liquated as a result;
- The founders resurrected the company by buying over the IP from the liquidator and re-employing the senior software engineer.

7.4 CASE C: TOOL-SOFTWARE

Tool-Software is a software company that provides tools for diagnosis, simulation, and testing of smart-cards for the smart card industry: mainly for chip and card manufacturers, network operators, and financial institutions. It was founded in 1985 (Table 16) as a service company by an entrepreneurial family to provide software engineering for embedded computer systems in the mobile telecommunication sector. Until 1991, the client base was made up of mainly one large telecom customer. The growth was entirely out of the organic development: '*you win a project, see the opportunity, and you are growing*'. The late 1980s, as described by the CEO, were quite difficult times for Tool-Software during which the key thrust was to survive:

> *'We spent the late 80s going through a recession with my own business being in real, real troubles. All you had to do was to go out and talk to people, and survive. These are the fundamentals when you are a small business. There was no capital behind it, everything was organic ...you eat from what you earn'.*

In 1991, as a result of co-founders networking capability, Tool-Software won a project from a large organisation to develop a smart-card test application. Smart-cards were something new for the company, therefore they had to '*...go and find out more about them*'. After the project was over, Tool-Software was left with the software they developed for their large customer. This is when one of the co-founders saw the opportunity to transform the company into a product oriented one: '*we decided to do something with [that software]: for example to develop it further as a tool*'. One year later, with that idea in mind, the co-founders approached one of the largest telecom players and showed them the software.

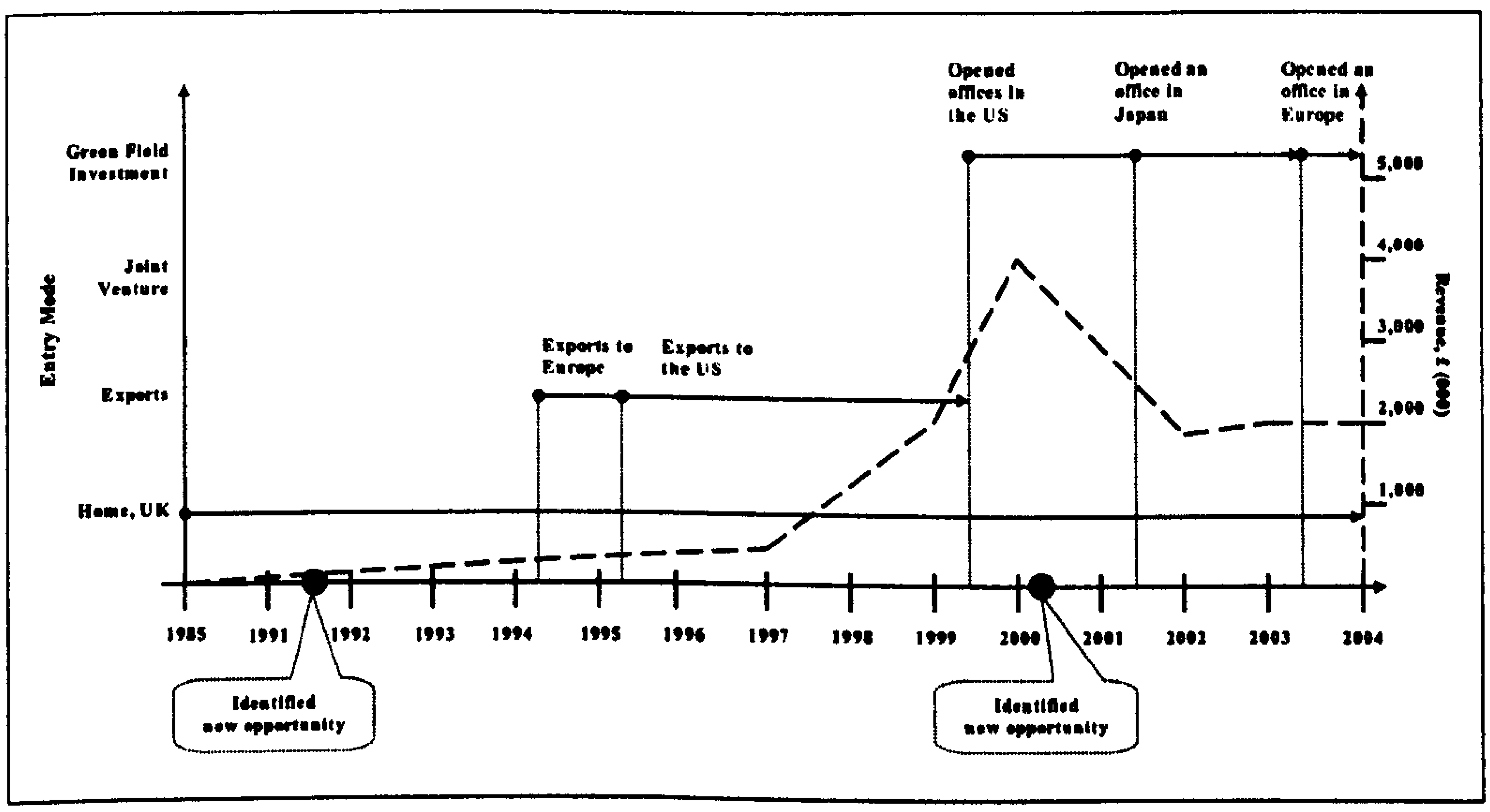
Table 16. Time line of critical events of Tool-Software

Year	Critical events			
1985		Started-up as a service-based company		
1991			Won a project to develop a smart-card test application	
			Decided to develop that application into a tool	
1992		Reached a "gentlemen's agreement" with a large telecom operator to develop a test tool for mobile phones smart-cards		
1993	Released its first version of the tool		Launched 1st version of the product via a deal with OEM	
	Took its first version of the tool to Europe			
1994		Tried to raise venture capital, but with no success		
1995	Smart-card technology started being adopted globally		Took its products to the US	Moved to profitability
1999		Opened its first overseas office in the US		Won a strategic contract with one of the largest software player in the world
2000	Recession of the IT market	That large software player withdrew from the smart-card market, and from that strategic partnership	The opportunity that was identified was not realizing	Laid-off half of its staff, and restructured its overseas offices
	Grew out of the tool market			Decided to focus back on 2G tools and services business to generate tactical revenue
	Spotted new opportunity to develop a 3G smart-card platform for telecom and finance sectors			
	Received its first round of funding to develop the platform			
2001	Received its second round of funding	Opened its second overseas office: Japan		
2002				Received its third round of funding
2003	Had ~ 220 customers in 33 countries			Released the platform

As a result, on the basis of a 'gentlemen's agreement', Tool-Software developed for that telecom player a tool to test the smart-cards that are fitted in the mobile phones. Interestingly enough, the telecom player paid for the development costs, but the intellectual property rested with Tool-Software. Based on that intellectual property, Tool-Software developed the first version of its product in 1993 and immediately after decided to take it to Europe (Figure 22):

> *'The issues for us were that, yes, we could see where the market opportunities were, but there were about less than 10 in the UK; but in Europe there were dozens; in the world, perceptively, many, many more'* – the company CEO reported.

Figure 22. International path of Tool-Software



In 1994, when the situation was desperate, the co-founders *'did dip their toes in the [financial] waters'*, i.e. applied for funding but with no success:

'It was a hopeless case. I couldn't see how to build a business case to get cash in. So I figured we just had to do it on our own, growing the company slowly and making it profitable' – the company CEO reported.

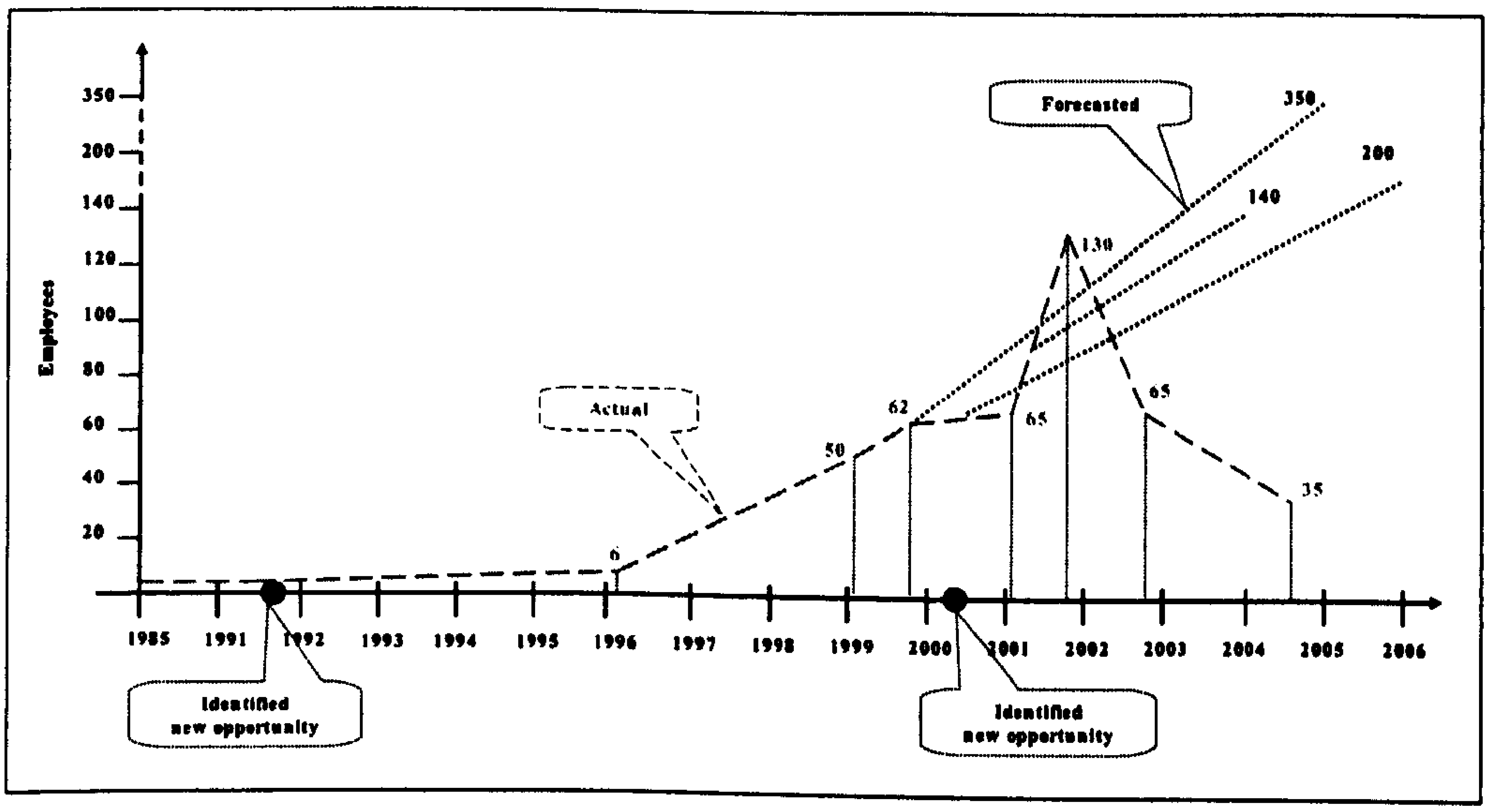
Nevertheless, Tool-Software moved to profitability in 1995 (Figure 22) when the opportunity actually started to become real due to a global adoption of smart-card technology by telecom operators. First mover advantage played to their benefit:

'We were in the market way ahead of most people and had products ready. We did all the hard work and went through the pain ahead of the market. When it took off initially, we were there with the product, and nobody else could come up with anything that could compete' – the CEO explained.

Within four years it witnessed a very rapid growth in terms of sales and number of employees (Figures 22 and 23) and became a world-wide leader in a very fast growing, niche market – smart-card technology. The sales from the US constituted approximately one third of the company's sales, and the number of employees grew from 6 in 1996 to more than 60 by 2001.

In 1995, Tool-Software took its product to the US with the vision to increase its international engagement in the US and other overseas markets by opening overseas offices. In this respect, the co-founders' philosophy was to '*internationalise and localize*'. In 1999 Tool-Software opened its first international office in San Jose, and in 2001 in several other US cities and Tokyo (Table 16). In late 1999, Tool-Software won a million dollar strategic contract with one of the largest player in the software industry to develop smart-card technology for second generation mobile phones. This relationship did not last long as it was scrapped in early 2000 by that player, and was described by the CEO as a bad one: '*we had a lot of good customers, apart from [this player] who were bunch of bandits ...seriously bad company*'. However, this event probably contributed to the success of raising the first round of funding by Tool-Software in early 2000. Tool-Software did not have much experience in raising capital, and the backing by that player was '*...regarded by traditional VCs as a very high recommendation*' – reported one of the industry analysts.

Figure 23. Time line of employment (actual & predicted) of Tool-Software



At the same time, in early 2000, Tool-Software witnessed a huge drop in its tool sales (Figure 22): '*2000 was turning into a disaster*'. The CEO explained this downturn by the recession that started in 2000, and amplified in 2001. One of their advisors, however, mentioned that '*as [Tool-Software] was operating primarily in the telecom industry, it just grew out of the market. If you bought one smart-card test tool, why buy another one*'. The above events were critical in initiating the search for new opportunities and business ideas. As the company CEO explained:

> *'The recession was very, very sharp double-edge sword. It cut us deep in many, many ways, but definitely it sliced the other way as well by creating very significant opportunities for that type of a [horizontal] strategy'.*

As a result, in March 2000, Tool-Software secured its first round of funding to develop a platform that would allow it create smart-card products for telecom and finance sectors. Specifically, the "bet" was on *'rapid growth in mobile communications and a move to wireless application protocol and third-generation mobile (3G) technology'*. A subsidiary of Tool-Software was created in order *'to differentiate the tool business from the platform business'*. The trial stage of the platform was due in the third quarter of 2000 and the launch of it was planned in early 2001. In January 2001, Tool-Software received its second round of funding to further support the platform development. It was valued at ~ £30 million and opportunities to float were considered.

However, as it turned out in late 2001, the hype[32] for the mobile phone as a payment device had not been realized: '*...perhaps because the telecoms companies were a little over-enthusiastic in their expectations of 3G phones. And because the "customer pull" for 3G had not been yet fully understood*'[33] – as the company CEO explained. Tool-Software responded to the above downturn in its tool and platform businesses with a cost-reduction restructuring programme

[32] The construct 'hype' emerged at the interview with the liquidator of Mobile-Software. Hype, as an ultimate thrust of a young technology business, is to create large expectations about its sales and profit levels.

[33] In fact, 3G mobile phone services were *finally* launched only at the end of 2004 (Fuller, 2004).

whereby the home-based operations were sacrificed in favour of the international ones. As a result, half of their staff was laid-off (Figure 23), and offices in Japan and the US were restructured but not closed. As the company CEO stated:

> *'That was deliberate ...that was me holding the line there. Some people prefer to pull all back to base and start to manage things. ...these were strategic operations for us, and you do not cut them unless you really have to do it'.*

Plus the decision was taken to concentrate back on generating revenue from its technology for '*more mundane, 2G phones*', which provided an '*always on*' internet services. Apart from having a capability to move back to the established technology to generate revenue, Tool-Software also had services capability that also contributed to the generation of '*tactical revenue*':

> *'We structured the business model to product development, but we also continuously built the service capability, which was meant to be project oriented at developing sort of tactical revenue really'* – as the CEO explained.

In 2001 and 2002, Tool-Software received its second and third round of funding respectively, and eventually released its platform in 2003. By 2003, 80% of its revenue from the tool business was coming from overseas as most of its approximately 220 customers were located in 33 countries. Looking back and commenting on the overall evolution of the company, the CEO summarised that '*...probably we should have been more conservative*'. Key critical events of Case C are presented below:

- Having won a project to develop an application, the founders decided to develop it further into a tool;

- The founders tried to raise venture capital, but with no success;
- The technology the tool was meant to test started being adopted globally; this allowed Tool-Software to internationalise;
- As Tool-Software grew out of the tool market, it restructured its overseas operations, and focused back on service business to generate tactical revenue;
- The founders identified a new business opportunity to develop a horizontal platform, and were successful in raising VC.

7.5 CASE D: MOBILE-SOFTWARE

Mobile-Software was set up with initial funding from four co-founders in the middle of 2000 (Table 17) to develop an off-the-shelf platform for industrial and enterprise sectors. This platform would allow the mobile workforce of a multinational company (e.g., sales people, maintenance staff) to have access to programmes held on their company's central computer [back-end system] via different types of hand-held devices, like mobile phones, laptops. This market opportunity was spotted by one of the co-founders at the beginning of 2000, and then tested on a number of professional contacts, advisers and customers:

> *'We generated huge amount of interest and received a very positive feedback. We suddenly realised that there might be a business here: a business in creating some kind of platform that links [had-held devices with back-end system] together much more efficiently'* – the CEO explained.

Mobile-Software internationalised right from the inception (Figure 24) as '*... the opportunities were in the international markets. It would not have worked if we focused on the domestic market*' – the company CEO reported. At the same time, as Mobile-Software was aiming to enter the enterprise business and target '*early* *technology adopters*', the co-founders '*felt that the company had to be perceived to be at least European and not UK player*'.

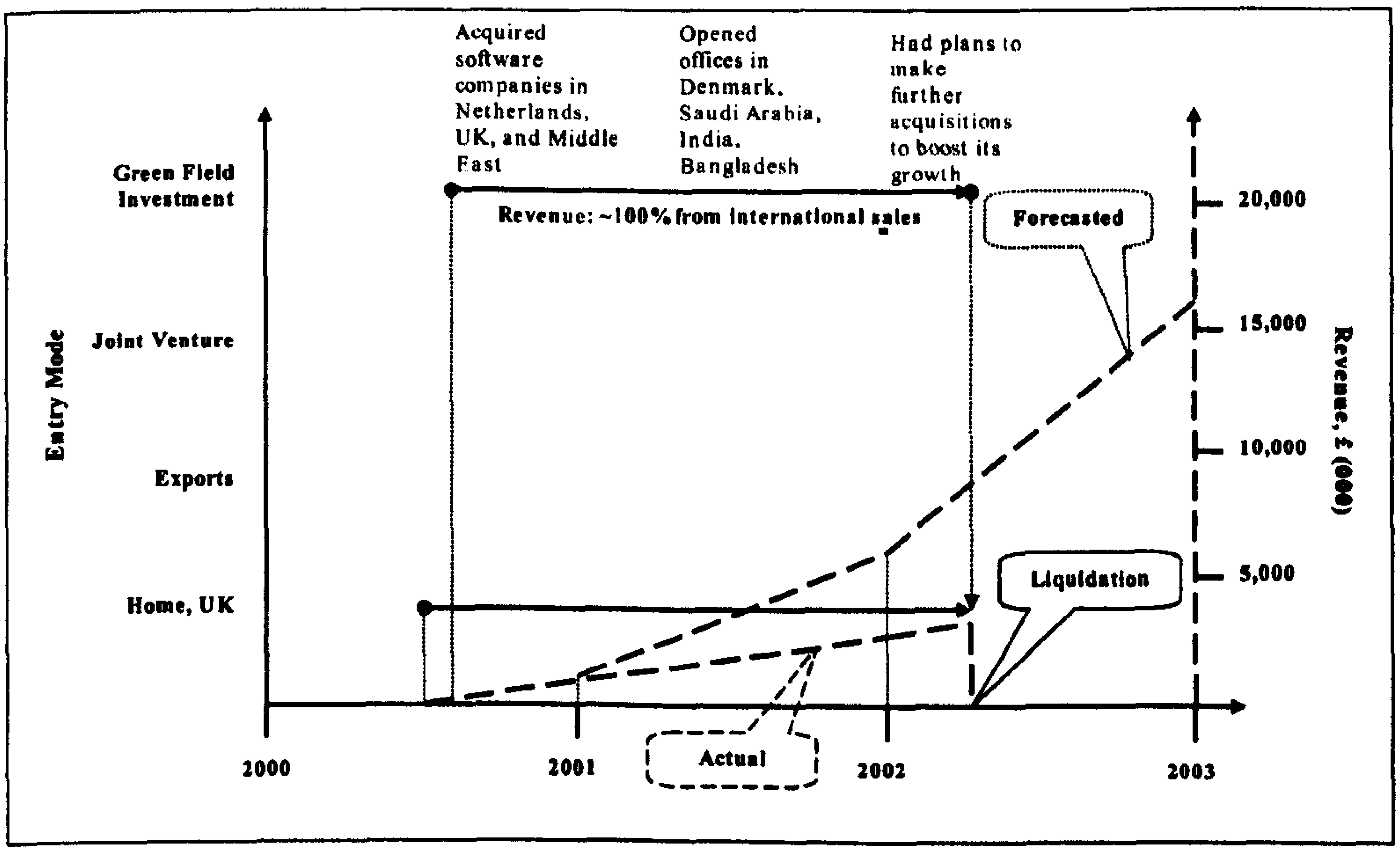
Table 17. Time line of critical events of Mobile-Software

Year	Critical events			
2000	Market opportunity identified	IT market in the US started to collapse	Started-up	Started the fund raising process
			Internationalized instantly via acquisitions (Europe, UK, Midle East)	Hyped' the business plan to 'buy the investors into'
				Turned for help to a leading market research firm and to one of the big four firms
2001	Opened offices in Europe, Middle East, and Far East	Secured first round of funding: got 1/3 less than 'hyped'		Were behind its planned revenues and with the development of the platform
		Held the board meeting with new investors to re-evaluate the business plan: no changes were made		Held next board meeting and decided to raise another £9 million
		IT market started to worsen in the UK		
2002	One of the investors was taken over and withdrew from this portfolio			
	Another investor pulled out as well			
	Could not find anotber investors			
	Ceased trading			

Hence, it opted for high control and high risk international entry mode strategy, i.e. via acquisitions. This strategy was on co-founders' agenda right from the very beginning:

'We decided on the acquisition strategy when we started the company, i.e. to buy small software vendors, capture their customer base, and replace their legacy technology with our new platform. That was our basic concept of the company. We had already in mind three acquisitions and we planned more' – the company CEO reported.

Figure 24. International path of Mobile-Software



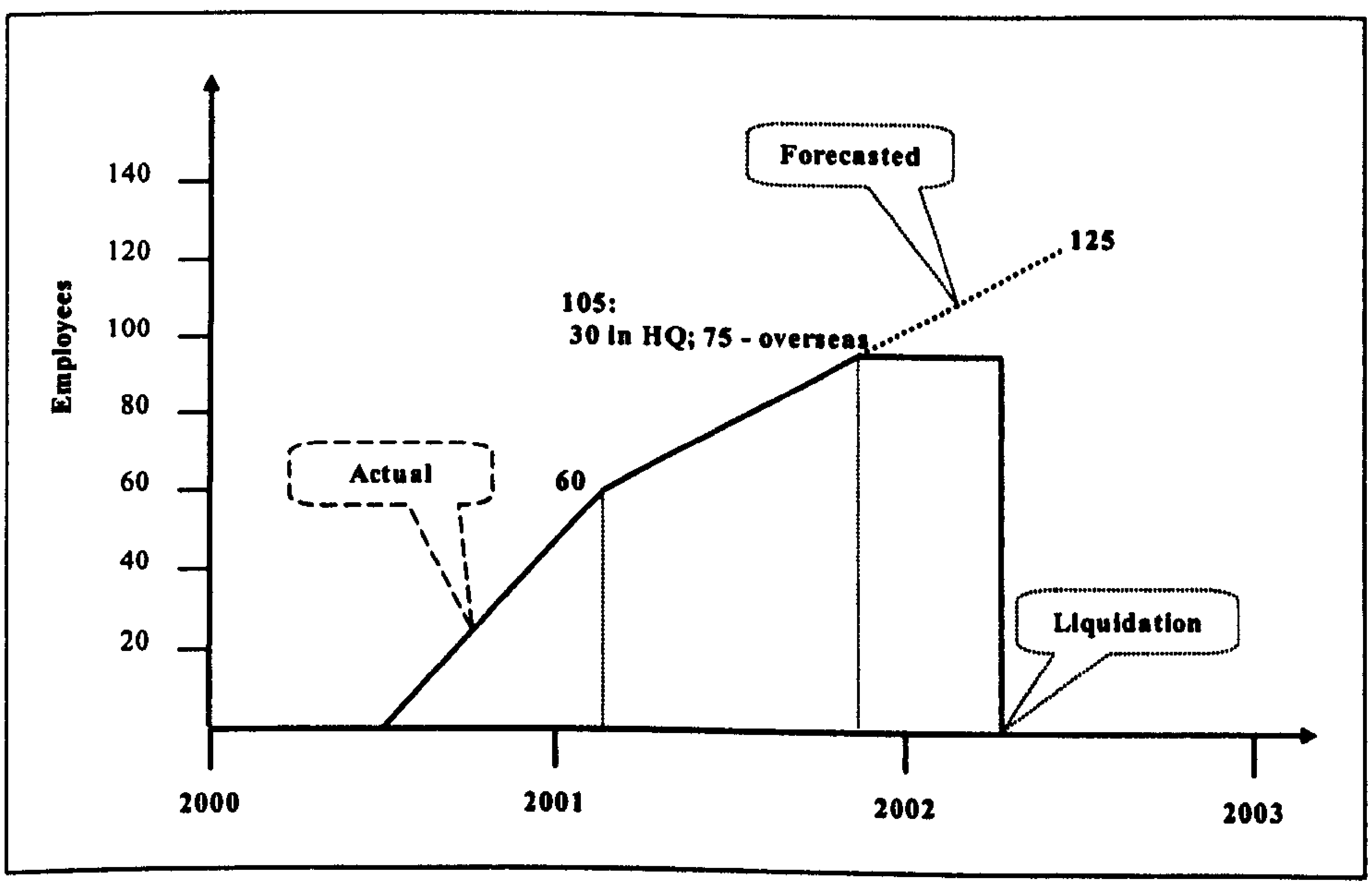
When asked about the alternative business model, the company CEO said that:

'It was a trade-off' We could've developed relationships with somebody like Microsoft, but what that would've meant was that if we succeeded, we would've been just swallowed up, or kicked in one side. ...we could not have grown the business to the extent that we wanted to independently'.

As a result of this strategy, Mobile-Software *'grew very quickly'*. Three software providers were acquired within a period of 6 months in the UK, Netherlands, and Dubai (Figure 24). At the beginning of 2001, Mobile-Software started opening overseas offices in Denmark, Saudi Arabia, India and Bangladesh; it also had plans to open offices in Germany and France. Most of its revenue was coming from its international sales. Mobile-Software expected at the beginning of 2001 to have a turnover of £6 million by 2002, rising to more than £15 million in 2003 and to approximately £60 million over the next five years (Figure 24).

Within the same period, Mobile-Software already employed 60 people; at its peak, at the end of 2001, the number of employees increased to more than 100, with 30 employees in its headquarter and 75 in six countries (Figure 25). At the beginning of 2002, Mobile-Software had plans to double the workforce in its headquarter by 2003.

Figure 25. Time line of employment (actual & predicted) of Mobile-Software



The acquisition strategy adopted by Mobile-Software had a strong catalytic effect on the company's evolution. Firstly, by acquiring small software vendors' customer base and products, Mobile-Software was able to deploy vendors' existing products, thus ensuring a continuous stream of revenue while building the platform. Secondly, the original staffing was done through those acquisitions. However, this strategy also brought up several issues that required from Mobile-Software to invest additional resources in order to reduce the tension that was building within the gestalt as a consequence of those acquisitions. That is, as existing development and sales capabilities in acquired companies '*were not good enough*', Mobile-Software had to invest a lot or resources in enhancing and bringing them up to speed. At the same time, Mobile-Software retained the owner-managers of acquired companies who '*...could not work together as they had quite different views as to how to solve the technology problems*'. The above tensions resulted eventually in significant delays in the design and the development of the platform.

The next critical event in the life of Mobile-Software was raising venture capital to support the expansion of its sales and marketing operations, the construction of new headquarter, and most importantly the design and the development of the platform. The fund raising process started about three months after the start-up, in October 2000. At that point in time, however, the IT market in the US had been collapsing very fast and started to worsen in the UK. Naturally, under those circumstances, the investors were looking for very high returns. As a result, the co-founders hyped the business plan accordingly. That is, they asked for fewer funds than it was required to carry out the 'ambitious' business plan as originally developed. As the CEO put it:

> *'We had to construct the business plan so that it would give these guys the rates of return to buy them into. So, we had to construct something that would say that we could do it for £9 million, although we needed £18 million'.*

At the same time, by raising less money than they originally intended, the founders aimed at retaining an acceptable level of equity in the business, hence control. However, that hype was not enough as it was taking *'longer than anticipated'* to secure the funding. The co-founders then turned for help to a leading market research organisation and to one of "big four" finance players who at the time were still bullish (despite the general slump in the mobile telecoms and software sectors in the US and in the UK), respectively, about the Mobile-Software's market in particular and the IT market in general. That is, the former estimated the capital worth of the Mobile-Software's market at about £5 billion; whereas the latter announced that the domestic IT market is *'alive and kicking'*. Finally, in May of 2001 Mobile-Software secured its first round of funding in the amount of £6 million: £3 million less than actually hyped, which were due in ten months time and were subject to satisfactory progress.

The other critical event took place immediately following the funding closure. A board meeting was held with new investors to discuss '*...whether the ambitious plans should be cut in line with the reduced funds*'. The board decided, however, that '*...the plan should be executed as stated in the business plan*'. Hence, this, and the above event, as well as the general downturn in the IT market, made the original predictions about the revenue, as well as about the time to the market with the platform, impossible to achieve.

By the end of 2001, it was clear that Mobile-Software was '*...a little bit behind its revenues, and there was a delay in developing the platform*'. At the board meeting in December 2001 it was decided to go to the market for another £9 million. In order to demonstrate their proof of commitment to invest £3 million out of £9, Mobile-Software's investors put the first million of their £3 million into a bank account at the end of January 2002.

Mobile-Software failed however to secure '*an eleventh-hour cash injection*'. In early February, two weeks before the balance funding was due, at the board meeting one of the investors reversed its decision to provide second-round of funding as it was being taken over – it was a hostile takeover by another investment house that withdrew all hi-tech projects from its portfolio. The other investor that was a daughter of the investor that was taken-over decided that they could not go any further without the backing from their major shareholder and withdrew as well. The third, the remaining investor found this situation very risky for themselves and decided that they would not go alone. Therefore, there was a need to raise very quickly the amount of funds required. However, that attempt was unsuccessful. The situation they found themselves in was described by the company CEO as follows: '*The investors were just frightened rabbits in the headlights*'. There was no time to look for any other options, and the co-founders had no alternative option but to put the company into administration. Mobile-Software ceased trading in March 2002.

Key critical events of Case D are presented below:

- The founders identified new business opportunity to develop a horizontal product, and decided to internationalise instantly via acquisitions;
- The IT market in the US was collapsing;
- The founders 'hyped' the business plan to 'buy the investors into';
- The founders received only one third of what was 'hyped';
- The founders could not persuade VCs to change the business plan accordingly;
- Two investors withdrew from the investment portfolio;
- Mobile-Software ceased trading as the founders failed to find other investors.

7.6 CASE E: DATA-SOFTWARE

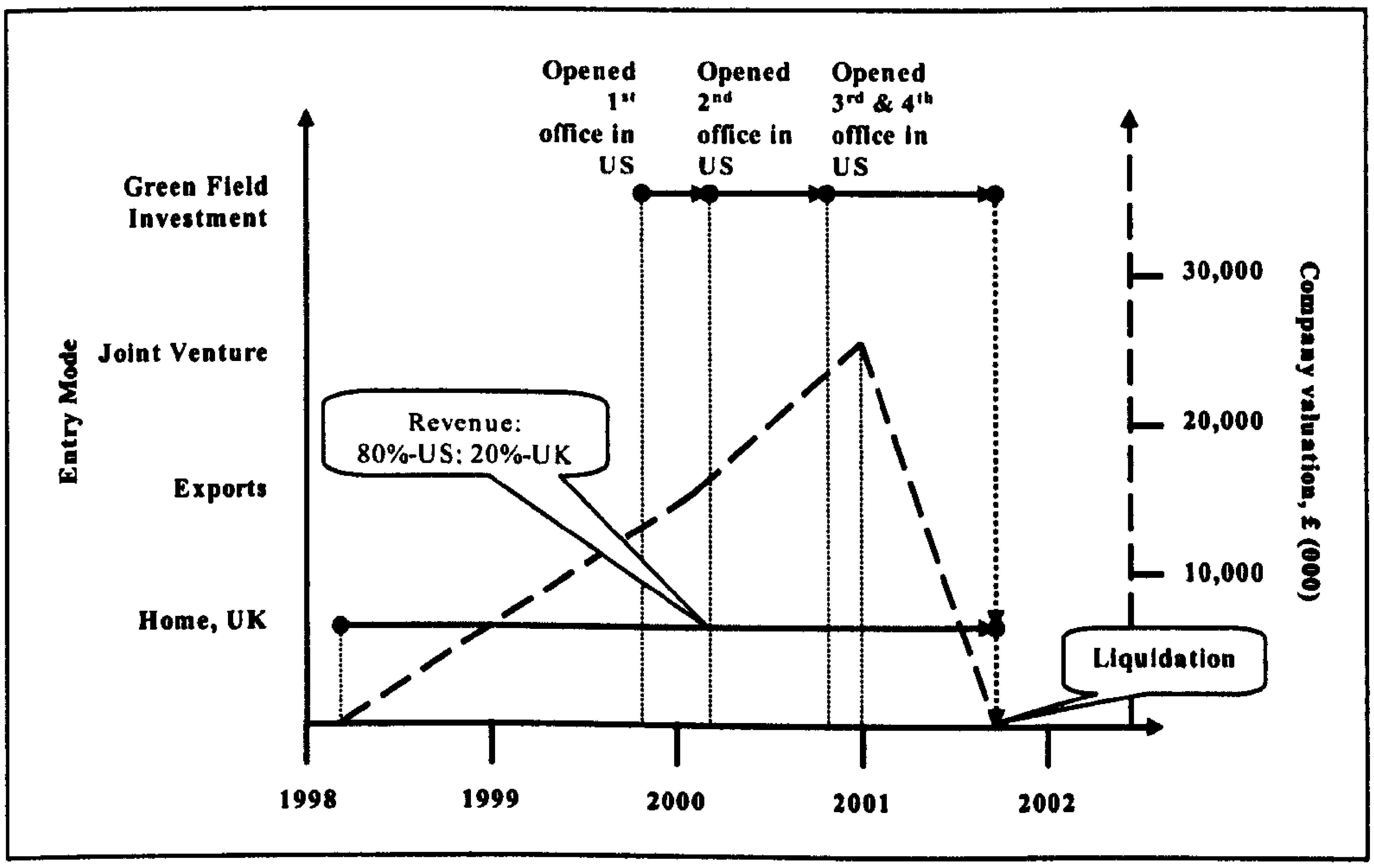
Data-Software was founded in 1998 (Table 18) to develop data warehouse software that would allow businesses to extract data from their operational systems and convert it into business specific information. Backed by VCs in a multi-million pound deal, Data-Software was set-up by three entrepreneurs who bought-out from a larger software company the intellectual property and a small R&D team. The intellectual property the co-founders bought-out was developed through successful consulting services they rendered directly to a number of multinational companies while working for the parent company. Data-Software started as a service business having several working projects in hand that gave them some revenue to start with. The '*...ambition however was to create a product based business from the IP, and get a high growth*' – reported the company CEO.

Table 18. Time line of critical events of Data-Software

Year	Critical events			
1998	VC backed management buy-out of an IP and small R&D team from a large software company		Failed to secure a strategic partnership with one of the leading companies in the field	
	Used 1st round of funding to prove the technology and the market			
	Started exploring different routes to the US market			
1999		Achieved brake through in product development	Secured a strategic partnership with one of the largest software companies	Opened its first overseas sales office in the US close to its strategic partner
		Failed to secure strategic partnership with another market leader in business intelligence		
2000	Received its 2nd round of funding to build sales infrastructures in the US	IT market in the US started to collapse	The strategic partner announced market development plans that overlapped with DS's	Adhered to the strategy of fast, out-and-out growth
	Opened its 2nd sales office in the US	Refuted several offers from trade buyers	Spooked by that event, started thinking and talking as to what to do	Opened another two sales offices in the US
				Re-branded the company to align it to the product
2001	Decision was reached to focus on profitability rather than on out-and-out growth	IT market started to worsen in the UK	New CEO could not attract new funding	
	It was also decided to withdraw from the US, focus on applications rather than products, and on direct selling		Ceased trading	
	Lead entrepreneur stepped down; VCs brought in new CEO to effect new strategy			

As soon as the first version of the product[34] was released in the middle of 2000, Data-Software focused on selling the product rather than the service. At its pick by the end of 2000, Data-Software was valued at £25 million (Figure 26), and employed 40 people (Figure 27).

Figure 26. International path of Data-Software

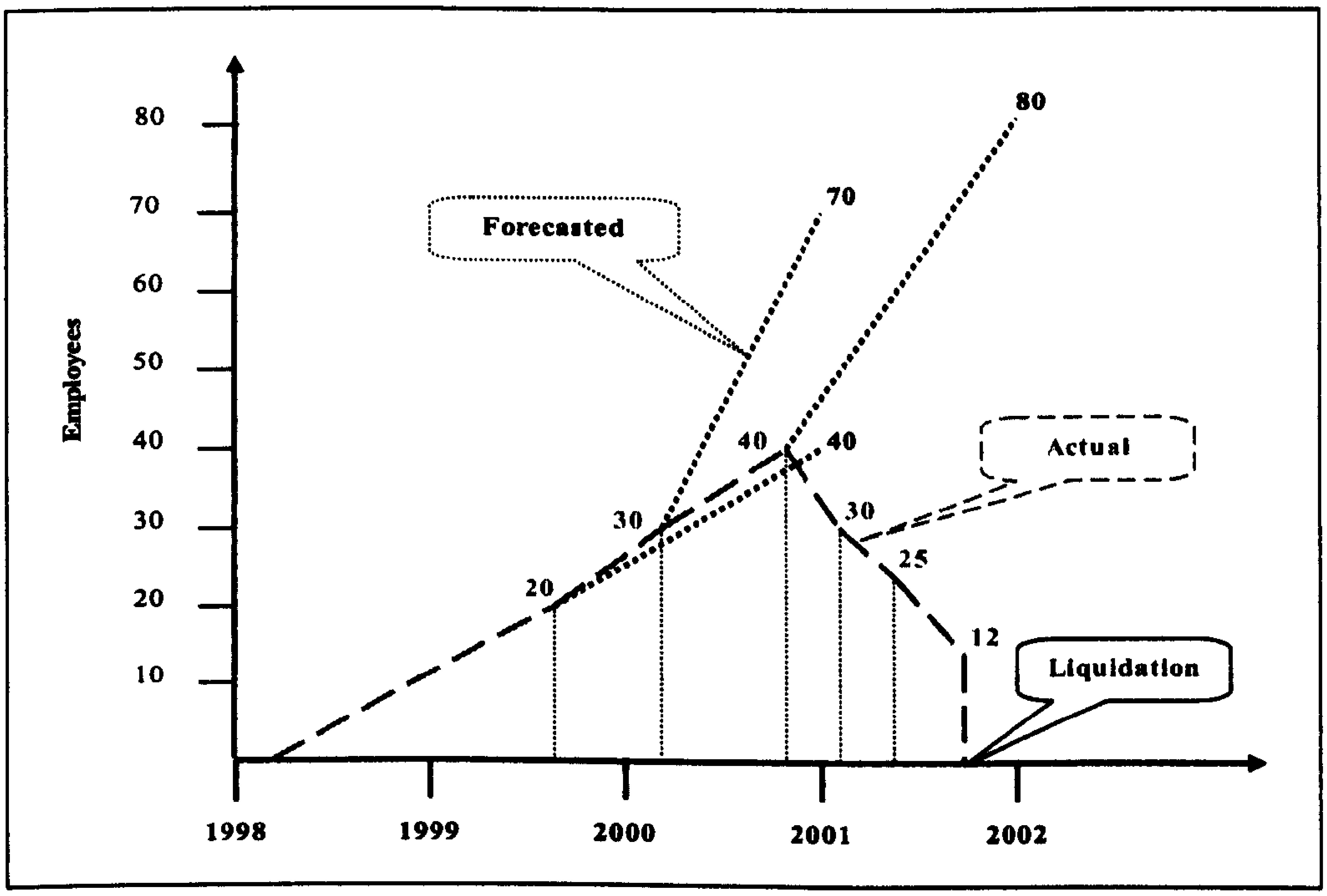


The first round of funding was used to prove the technology and the market, and to acquire marketing and sales expertise the company was primarily lacking. With regard to "where to sell", the US market was considered as *'the primary market for [Data-Software]'s technology'*. Firstly because many of the sales made prior to the start-up were through the US companies. And secondly, because the

[34] The management team was advised to position the product as the second version for '*...there are certain expectations in the US as to what the version one will do and what the version two will do, and therefore we needed to market the product in order to be consistent with that*' – the CEO of Data-Software reported.

US market usually leads the adoption of new technologies as it has '*...that entrepreneurial opening*' and its '*...doors are always open to new things*'. As one of the co-founders concluded that '*the international dimension was forced upon us from the very beginning*'.

Figure 27. Time line of employment (actual & predicted) of Data-Software



At the same time, right after the start-up, the other challenge was to '*...explore different routes to the market*' and to decide on the business model to employ in order to achieve the '*high growth*'. The decision over the business model was driven by two key questions, which were "how to sell" and "whom to sell" the product to. At first, the answers to these questions were the obvious ones as prior to the start-up the target market for the data intelligence solutions was the enterprise space where the large companies, *'early adopters'* were. Hence, the co-founders approached one of the leading software companies that was targeting that enterprise space to discus the prospects of a partnership. To their disappointment, the co-founders did not get any *'traction'* with that enterprise. As the CEO of the company reported:

> *'[This enterprise] was very difficult to partner with. They eat their children. They are completely self-focused. They want to do everything in the market place by themselves. It was dangerous place to go – if you told them about the companies you were working with, they would send a salesman into those companies to try to take away the business from you. It was brutal'.*

Data-Software went quite a lot down the road with another market leader in the business intelligence. In fact the company CEO '*...shook hands with the CEO of that enterprise on the deal, but he subsequently backed out*'. All these attempts were directed towards finding a 'partner' who would help Data-Software in its efforts to 'break into' the US market. As for the home market, Data-Software was already selling directly to large enterprises. After several *'failed'* attempts to partner with large enterprises in order to sell directly to early-adopters, Data-Software started exploring another market niche, i.e. *'second-tier'* companies that come behind the biggest in the technology adoption cycle.

It happened that one of the largest software companies entered at that time the data-base market '*...in much more serious way*'. It came along with the aim to launch '*...a partner programme – a framework with a box with nobody in it*'. Data-Software's product fitted well in that *'empty box'* and got *'immediate traction'* with that enterprise. As the CEO of the company explained:

'We tried all different things to get traction in the US... and the partnership with [that large software company] really did take off in a big way. It helped us put marketing funds and programmes together; it helped us in recruiting a lot of resellers in the US to take our technology and use it to build solutions for companies across the States. So, we went from selling directly to selling indirectly'.

The instant Data-Software secured that multimillion strategic partnership, it immediately internationalised. Data-Software opened its first overseas sales office in the US in late 1999 (Figure 26) close to its strategic partner to support the mutual efforts in '*...recruiting more dealers and train them to sell Data-Software's solutions*'. Concurrently, Data-Software was finalising its second round of funding aimed at '*...developing global sales operations*'. Data-Software raised its second round of funding at the beginning of 2000 (Table 18) to facilitate global expansion, initially in the US and then in Europe. As the CEO clarified:

'Once we've achieved early break through, and done market proving, then we got more money from VCs to build the big team and to really go after the opportunity... to build the infrastructure in the US'.

Immediately after, Data-Software opened its second sales office in the US. By and large the financial backing by VCs and the strategic partnership allowed Data-Software to grow very fast. The valuation of the company increased to £25 million by the end of 2000 (Figure 26) and it was expected to capitalise at £180 million in the next three years. It actually attracted several offers from trade buyers, but the co-founders '*...refuted them preferring to pursue the goal of achieving market leadership as an independent company*'. During 2000, Data-Software doubled its workforce to 40 employees as compared to 1999, and had plans to recruit another 30, primarily for its operations in US (Figure 27). At the beginning of 2000, approximately 80% of its revenue was coming from its software products sold in the US (towards the end of the year, the weight of international sales dropped to 70%). The co-founders even re-branded the company as '*...it takes a lot of money to build two brands, so it's just a question of being focused, because we're a single product company*' – the CEO reported.

All together, however, the above events had also adverse effects on Data-Software's '*high growth*' aspirations. As regards the relationships with VCs, '*...the pressure was to invest the money that VCs put in the bank*'. As the CEO elucidated:

> *'In order to raise money you have to make commitments of what you would need to achieve. And in order to do that we had to use the money in the way that we said that we would. That leads to pressure to do things, rather not to do things. Sometimes the right thing is to wait. But when you made commitment, it is very difficult to turn it around'.*

As a result, under this pressure, and this was regardless of the fact that the IT market in the US started to collapse during the first half of 2000 and companies stopped buying the technology, the co-founders continued to pursue '*out-and-out growth strategy*' as '*...we need to develop the company as fast as we planned*' – the CEO reported at the end of 2000. That is, at the end of 2000 two more sales offices were opened in the US; the company was continuing to recruit and expected to double its workforce over the next year (Figure 27); it was expecting to increase the number of its dealers from 50 to 300 by the end of 2001; and it had started to make inroads into Europe.

The strategic partnership did not live up to expectations, as, by the middle of 2000, Data-Software's strategic partner, in its efforts to further the development of its data-base market, '*...started talking about including its own functionality in that "empty box"*'. That is, what Data-Software's strategic partner announced overlapped with what Data-Software had been producing. As the company CEO re-called:

> *'This event affected us most. We realised that we left our destiny outside of our own hands, and ...that led to the exposure. I guess we never really recovered after that. We could not get everybody again, all the investors and the management, to agree on the next straight path. In hindsight, that strategic partnership was a strategic error'.*

These intentions of Data-Software's strategic partner '*spooked certain people*', and led to a lot of thinking and talking with regard to which route to take. The CEO was of the opinion that the company should continue down the same path of selling the product, but switch to direct selling, because:

> *'It will take some time for that large software company to catch up with our product, and it will always be possible to have a higher value version of the product and compete with them even if they enter the market as intended'.*

However, the investors were of the opinion that the company shall move to sell applications and also focus on direct selling. Eventually the VCs' decision to focus on direct selling of applications was adopted in January of 2001. As the CEO explained:

> *'The decision was taken to focus on a direction towards profitability rather than out-and-out growth, which was the strategy that we had been on'.*

To the above, decisions also were taken to pull out of the US and focus on the UK market by creating an application in a retail niche. In March 2001, the lead entrepreneur stepped down as VCs brought in new CEO to take the company down the decided route. It became clear however that Data-Software can not survive without additional funding as it was unprofitable all the way. By that time, the IT market started to worsen in the UK as well, and this made even harder for additional funds to come by. The new CEO failed to save the company either through a refinancing or sale, and Data-Software was put up for voluntary liquidation. In fall of 2001, Data-Software ceased trading.

Key critical events of Case E are presented below:

- The founders identified new business opportunity to develop a horizontal product; the start-up to pursue this opportunity was backed by VCs;
- Instant internationalisation to the US followed immediately after;
- Data-Software secured a strategic partnership with one of the largest software companies;
- Despite the fact that the IT market in the US was collapsing, Data-Software adhered to the strategy of fast, out-and-out growth;
- The strategic partner announced market development plans similar to Data-Software's; this announcement spooked VCs who decided to withdraw from the US and focus on applications rather than product development;
- Not long after the lead entrepreneur stepped down, Data-Software ceased trading.

7.7 CONCLUSION

In this chapter, each case company was explored and described in detail. According to Dubin (1969), the very essence of description is to name the properties of things; the more adequate the description, the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building. Table 19 below compares the cases along the strategic tensions that occurred at the inception of new international venture idea, and at de-internationalisation.

Table 19. Summary table: comparing the cases

19.a) Strategic tensions at the inception of international business idea

		Case A	Case B	Case C	Case D	Case E
Business model	Product-led				√	√
	Hybrid-led	√	√	√		
Growth path	Organic	√	√	√		
	Acquisition				√	√
Market segmentation	Vertical	√		√		
	Horizontal		√		√	√
Sales	Direct	√		√	√	
	Indirect		√			√

19.b) Strategic tensions at de-internationalisation

		Case A	Case B	Case C	Case D	Case E
Business model	Product-led		√		√	√
	Hybrid-led	√		√		
Growth path	Organic	√		√		
	Acquisition		√		√	√
Market segmentation	Vertical	√				
	Horizontal		√	√	√	√
Sales	Direct		√	√	√	
	Indirect	√				√

It can be noticed that companies (cases A, B, and C) that pursued the international business idea via organic growth preferred to build their businesses around a hybrid business model; whereas companies that acquired venture capital (cases D and E) focused their operations around a product business model. After their initial internationalisation efforts failed, Case B turned to VCs for help and once the funds were acquired, under the pressure from VCs, Case B restructured their business model to product-led. As at the moment of de-internationalisation only two companies were in business (cases A and C) it could be inferred that in the long run the hybrid-led business model is a more viable option to pursue.

The data further suggest that the most attractive market penetration strategy is to target several vertical markets at the same time by building a horizontal platform. On the other hand, it also points out that it is the riskiest strategy to pursue right from the inception. That is, the development of a horizontal product requires entrepreneurs to acquire specific knowledge and experience from different vertical markets. It also requires a lot of capital to actually develop the product. As was in the situation of cases D and E who tried to develop and market a horizontal platform right from the start up of their ventures. Interestingly to note is the fact that companies that were growing organically (cases A and C) adopted an incremental approach to market development, i.e. targeting first a niche market and then developing the product for other markets as well.

Although companies opt for direct sales to their customers, this strategy is not always possible to pursue as big players demand exclusive partnerships, and therefore small companies had to decide which one to partner with. Moreover, the data also suggests that companies which target vertical niche markets and supply their products directly to the customers in these markets may find themselves in the situation where they outgrow their market (cases A and C).

This initial within-case analysis was the basis for developing early constructs surrounding the process of de-internationalisation. It was the cross-case analysis however that produced the working theoretical framework of the process of de-internationalisation. The next chapter will present the process theory of de-internationalisation that emerged as a result of analysis of cross-case data.

At the critical moment, the leader of an army acts like one who has climbed up a height and then kicks away the ladder behind him. He carries his men deep into hostile territory before he shows his hand.

Sun Tzu, 400 BC

8 DE-INTERNATIONALISATION AND CROSS-BORDER RESEARCH PATH

8.1 INTRODUCTION

In the previous chapter, each case was explored and described in detail using event listing matrix (Table 13) that allowed an examination of company events and their underlying factors (Miles and Huberman, 1994). The initial within-case analysis was the basis for developing early constructs surrounding the process of de-internationalisation, for example *tacit conflict*, *withstanding gestalt*, *cocoon*, and *hype*. It was the cross-case analysis however that produced the working framework of the process of de-internationalisation.

The purpose of this chapter is to present the process theory of de-internationalisation that emerged as a result of data analysis and explore whether de-internationalisation could be viewed as an integral part of small high-technology firms' growth process? First, the chapter will define the building blocks of the theory and the concepts each building block consists of. Each building block, grounded in the field data, will be then discussed in detail.

8.2 EMERGENT PROCESS MODEL OF DE-INTERNATIONALISATION

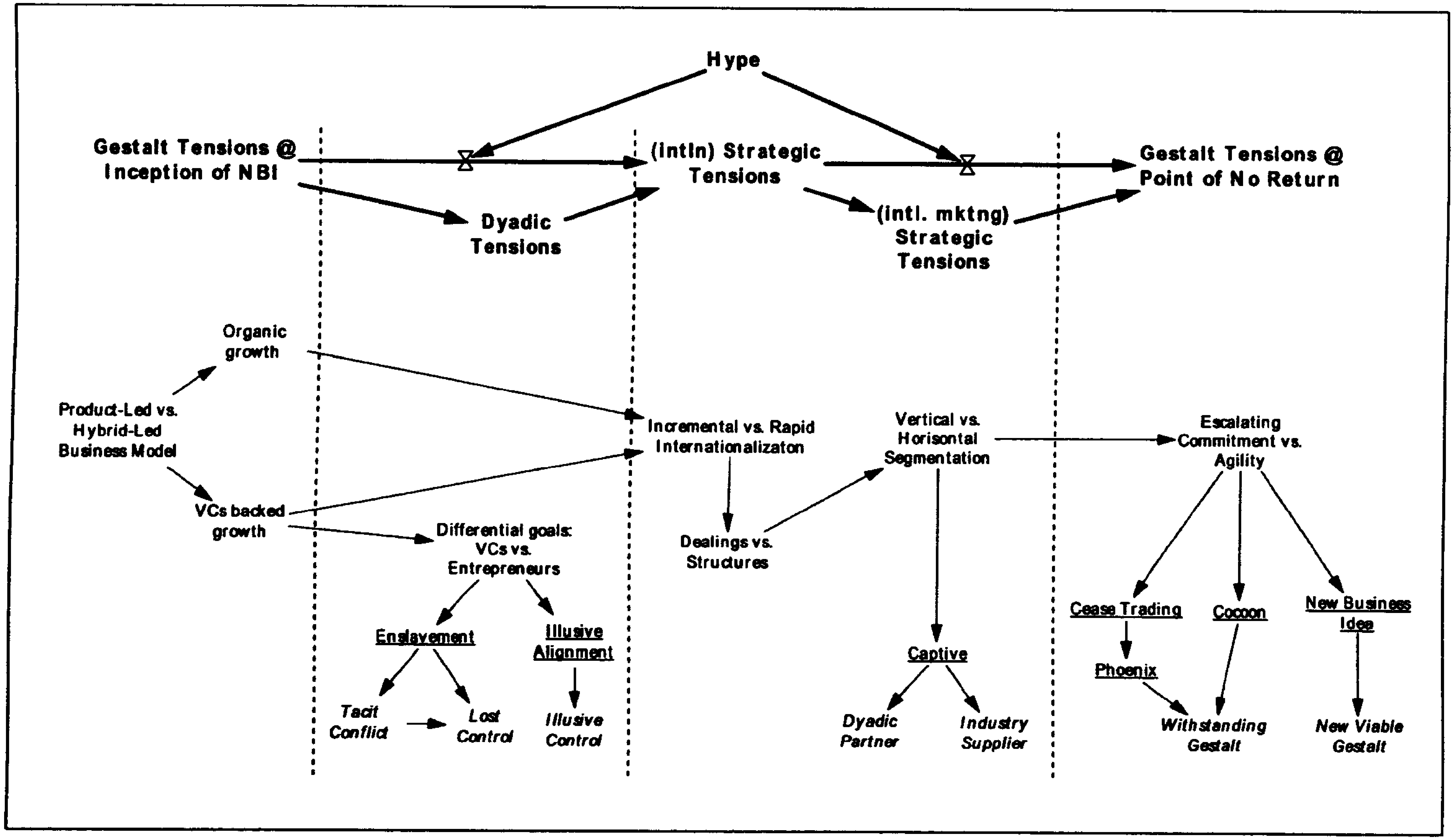
Figure 28 depicts the process model of de-internationalisation that emerged from the cross-case data analysis. Grounded in data, the model offers a holistic view of firm de-internationalisation process starting from international expansion through to the decisions to de-internationalise. Five building blocks formed the basis of the emergent process model of de-internationalisation. These are (i) *gestalt tensions at inception of new business idea*; (ii) *dyadic tensions*; (iii) *(internationalisation and international marketing) strategic tensions*; (iv) *gestalt tensions at the point of no return; and (v) hype*. Each of the five theoretical building blocks and the linkages among them are discussed below.

8.3 GESTALT TENSIONS @ INCEPTION OF NEW BUSINESS IDEA

As argued elsewhere (Turcan, 2003a), the process of cross-border activity of the firm could be defined as a cause-effect relationship between internationalisation and de-internationalisation, whereby a firm can not de-internationalise (the effect) without having internationalised (cause) (Figure 7). The understanding of the process of internationalisation is therefore pivotal to the understanding of the process of de-internationalisation. As all selected cases represent born globals[35], the transition between identifying business opportunities and firms' first steps towards internationalisation represents a critical juncture in a firms' life cycle.

[35] Here born globals are defined as 'firms that internationalise right after either their inception or the inception of new venture idea'. For detail discussion on this topic, please refer to chapter 9.

Figure 28. Emergent process theory of de-internationalisation



A case dynamics matrix (Miles and Huberman, 1994) was adopted in order to display the consequential processes and outcomes of this transition (Table 20). The *critical event* column refers to events that were critical in initiating the process of emergence of new business venture or new business idea. The following columns capture (i) the underlying assumptions about the above new economic activities; (ii) what strains emerged as a result of pursuing these activities; (iii) how entrepreneurs coped with these demands; and iv) what new tensions surfaced as a result.

Table 20. Case dynamics matrix: a template

Cases	Critical event	Underlying issues	Strains, difficulties created	How coped with	Type of resulting tensions: corollaries
Case A					
Case B					
Case C					
Case D					
Case E					

It has emerged that internationalisation was possible only after entrepreneurs adopted 'product-led' rather than 'service-led' business models. The underlying assumptions behind these decisions are the uncertainty and limited scope for growth, which entrepreneurs have to or eventually will have to live with in service-led organisations. Two entrepreneurs admitted with regard to uncertainty:

'We were a service based organisation, like it or not. We were doing a lot of outsource development, which meant that you do not really build a sustainable value into your business. So when you start January first next year, you start from scratch; you do not have a number of contracts that are related to maintenance or whatever ...it was very much a wish for us to look at annuity based revenue opportunities' – the marketing director of Finance-Software;

'I spent the late 80s going through a recession with my own business being in real, real troubles. And all you have to do is to go out and talk to people, and survive. That is the fundamental when you are a small, service business with no capital behind: everything is organic. You eat from what you earn. And that is it' – CEO of Tool-Software.

The scope for growth is determined, inter alia, by the pace at which a service-led firm will grow out of this market. Next steps (or maybe before reaching that saturation point) would be to expand overseas. However, the key issue is that service-led businesses are difficult to expand. Simply put by one of the co-founders of Finance-Software after an unsuccessful attempt to penetrate the German market: *'Services do not travel'*. The same view emerged from the discussion with the VC:

'Service-based businesses have difficulties to internationalise...just turn it another way: why would you go abroad in the first instance. I've seen IT-integrators who expanded to London: fair enough - London is a good, lucrative market. And, they started saying that they want to open an office in California. And you just think: why? Just because it is exciting and sexy to work in California! You have minor technology and your people are not that much down than them... They will do that for a year or two and after they realise how difficult it is, they will retrench' – the venture capitalist.

The data also reveals that entrepreneurs understand that services and products require different business models, and that the transition from a service-led business model to a product-led business model produces tensions in the organisational gestalt. An organisational gestalt consists of mutually supportive organisational system elements combined with appropriate resources and behavioural patterns (Covin and Slevin, 1997; Slevin and Covin, 1997). Differences in the cost structures, levels of margins, marketing and sales, market positioning, and administration are the chief sources of these tensions. As several entrepreneurs explained:

> *'At this point we felt that there was a need to establish more of a real company: to hire full-time development staff; to establish an office. ...Selling services however is completely different pitch from selling the product. Services tended to be low volume, very high value contracts, over one year, or six months; but the product would be sold at a much lower price, therefore we had to be selling at a higher volume'* – CEO of Project-Software;
>
> *'We always recognised that software is an area where if you can get the right software product then you can get serious amounts of money out of it. Because unlike manufacturing a product, there is no manufacturing costs; there is initial development cost, but once you have developed the product then the profit margin you get out of selling that price of software is very high'* – CEO of Finance-Software.

These tensions that build within the organisational gestalt have to be alleviated quickly by assembling and deploying appropriate resources in order to support the initial international development of the firm. Entrepreneurs have at their disposal two generic growth paths to make this happen, i.e. either through organic growth or acquisition growth[36]. As the data analysis further suggests these paths are business model dependent. Since both entrepreneurs and VCs agree that services are difficult to internationalise, it follows that a firm's growth path is contingent on product-led business model and hybrid business model; in the latter both service and product business models co-exist. Entrepreneurs' views on what business model to adopt may differ as presented below:

> *'As we were diversifying we felt that there were opportunities for cross selling between our consulting clients, i.e. to sell our product to those clients. At the same time we felt the need to keep those businesses separately, because they are quite different in nature'* – CEO of Project-Software;

> *'Our move was very much to become a product focused business. The plan was to continue to make revenue from service, take some of our guys out of that kind of revenue earning, which was an investment in our part, and keep them, as an investment, working on the product'* – CEO of Finance-Software;

> *'We started of as a service business. We had a working project in hand that we finished. That gave us some revenue to start with. Really the goal was to switch to product revenue. As soon as we developed the first version of the product, we focused on selling the product rather than the service'* – CEO of Data-Software;

> *'We structured our business to product development. We also built a service capability, which generated cash and was meant to be project oriented at developing sort of tactical revenue really'* – CEO Tool-Software.

However, the views of VCs on the issue are quite straight forward:

---

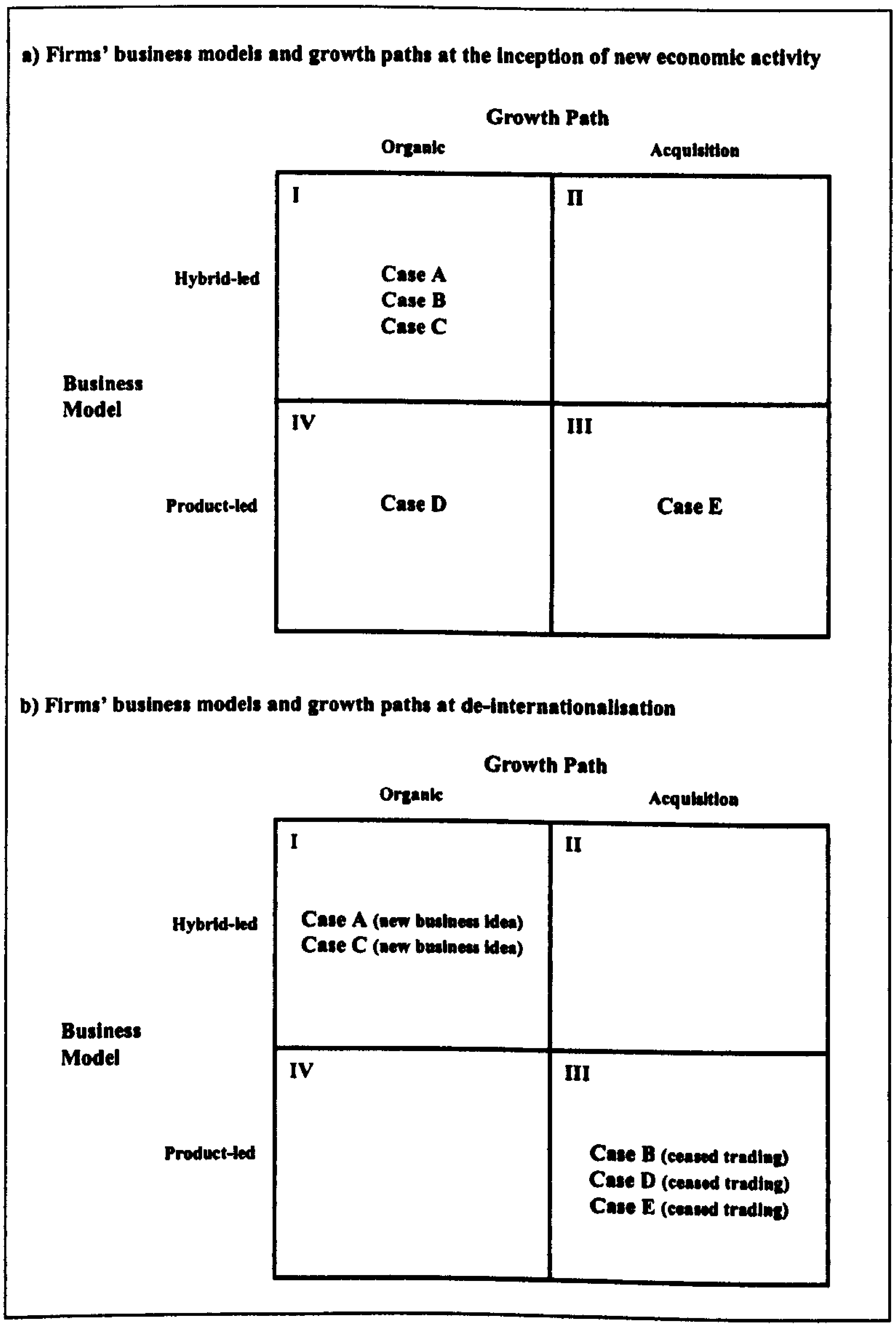
[36] Here, *organic growth* refers to the situation when entrepreneurs i) invest their own money to establish a new venture or ii) re-invest their profits to start a new business idea. *Acquisition growth* refers to the situation when entrepreneurs use external resources to finance these new economic activities via equity or debt.

'Businesses that we normally back are businesses, which need to sell internationally. We will not, as a rule, back a business if it is not addressing the world market. So, all of our businesses predictably would at least need to be exporting' – the venture capitalist.

That is, entrepreneurs who aim to adopt the hybrid business model in order to develop the product might pursue this goal via organic growth. Entrepreneurs who aim to adopt product-led business model right after the inception of the new economic activity have a higher chance of attracting venture capital. These variables, however, might control each other in a loop. Entrepreneurs may change their original intentions of adopting a hybrid business model in order to pursue the product development under VCs' pressure and adopt product-led business model instead. Consequently, this vicious relationship may well be the source for disagreements between the entrepreneurs' and the VCs' agendas.

The data further suggests that firms which adopt hybrid business models have a higher chance of surviving. Figure 29 below shows the strategic intent at the inception of new economic activities and the actual strategy at the time of de-internationalisation. Cases A, B, and C, having identified new business opportunities, pursued these opportunities by adopting a hybrid business model, i.e. continued providing services, and at the same time invested their own profits into the product development. Cases D and E, having raised initial capital, pursued the identified opportunities by focusing on a product-led business model. At the point of de-internationalisation, Case A and C were still pursuing hybrid business model strategy and were growing organically. Case B, having adopted a product-led business model, together with Cases D and E could not cope with internal and external pressures and ceased trading. The following section will discuss the effects of these changes in the business models and the growth paths on the cross-border efforts of the firms.

Figure 29. Evolution of organisational gestalt



8.4 DYADIC TENSIONS

Regardless of what business model and growth path a firm adopts in its efforts to develop and market its product, it faces three key questions with regards to internationalisation: (i) how fast to internationalise, (ii) what entry mode to adopt, and (iii) what market to target. These questions induce new types of tension in the organisational gestalt: strategic tensions. However, VC backed firms, before addressing these strategic tensions, have to alleviate another type of tension that is the result of receiving venture capital: dyadic tensions. Specifically, these tensions materialize as the result of differences in the entrepreneurs' and the VCs' goals. Entrepreneurs want to achieve profitability via long-term growth, whereas VCs' goals are to exit quickly via out-and-out growth. The dilemma thus is whether to focus on profitability or out-and-out growth. As several interviewees explained:

> *'VCs' nature is that they need an exit point. This is how they make their money – only on the exits. Therefore it is not good to them to have a management team that wants to build a perfect company over 20 years'* – the liquidator;
>
> *'VCs are another big factor in what happens to Scottish companies. They want their reward as quick as possible. VCs have a reputation of being greedy, and very short term oriented. They are very difficult to come by'* – the business correspondent;
>
> *'VCs want out as fast as they can. The minute they buy your share, their only concern is whom they are going to sell their shares to. Short-term profit is not a priority item. It does not matter at all. These are the dippiest, darkest secrets of the VC world'* – the business strategy consultant.

The data further suggests that the VCs agenda is driven by the life cycle of their investment portfolio and the success rate of this portfolio. As Prof. Colin Mason, one of the leading scholars in the field of venture capital, and one VC explained respectively:

'Typically VCs will raise ten year fund. They have three years to invest the money, and sometimes by year seven they would be looking to get the returns. By year ten, they exited from all the portfolios, and returned funds to their investors. Taking this investing cycle means there is a pressure to get the money out of the door earlier on, and then there is only a fixed amount of time before VCs would look for the exit, from four to seven years, and after that VCs would want to exit. That imposes pressure on investing businesses to conform to that sort of cycle' – Prof. Mason;

'We have a target to invest from 15 to 20 million pounds a year. ...The success rate on average is three out of ten are absolute stars: you give the business plan, and they completely deliver that. Then, we would see one or two out of ten would go bust; and the balance is somewhere in the middle' – the venture capitalist.

As venture capital comes in, it pushes the growth forward, and it starts to climb the value curve. The ideal time for VCs to exit is when the internal rate of return that measures the investment retirement is at its highest value; usually within three or five years after the investment was made. It follows therefore that within a maximum of three to five years from an investment, VCs will look to exit. According to one business strategy consultant, however, '*...the strongest company is the one which forms the best relationships with its investors*'. In the same vein, Bygrave and Timmons (1986) argue that the ongoing cooperative relationship between entrepreneurs and VCs is more important to the performance of ventures than the provision of venture capital itself. Cable and Shane (1997) ten years later demonstrated that the cooperation between entrepreneurs and VCs is a necessary (though not sufficient) condition for the successful post-investment performance of VC backed start-ups. Therefore, aligning the goals of entrepreneurs to VCs' goals, and vice versa, may be the first step towards building those strong mutual relationships.

The method of constructing typologies by reduction (Glaser, 1978) was employed to understand the concept of goal alignment. Grounded in data, Figure 30 below presents the types of goal alignment that were generated by cross-tabulating entrepreneurs' agenda and VCs' agenda. Four types of alignment emerged: (i) life changing opportunity (quadrant I); (ii) enslavement (quadrant II); (iii) no marriage (quadrant III); and (iv) illusive alignment (IV).

The ideal situation for VCs and entrepreneurs is when their agendas are aligned (quadrant I, Figure 30). Interestingly enough, this alignment is unidirectional, i.e. it is geared towards the VCs' agenda of a quick exit. As one liquidator, having attended a VC conference, explained:

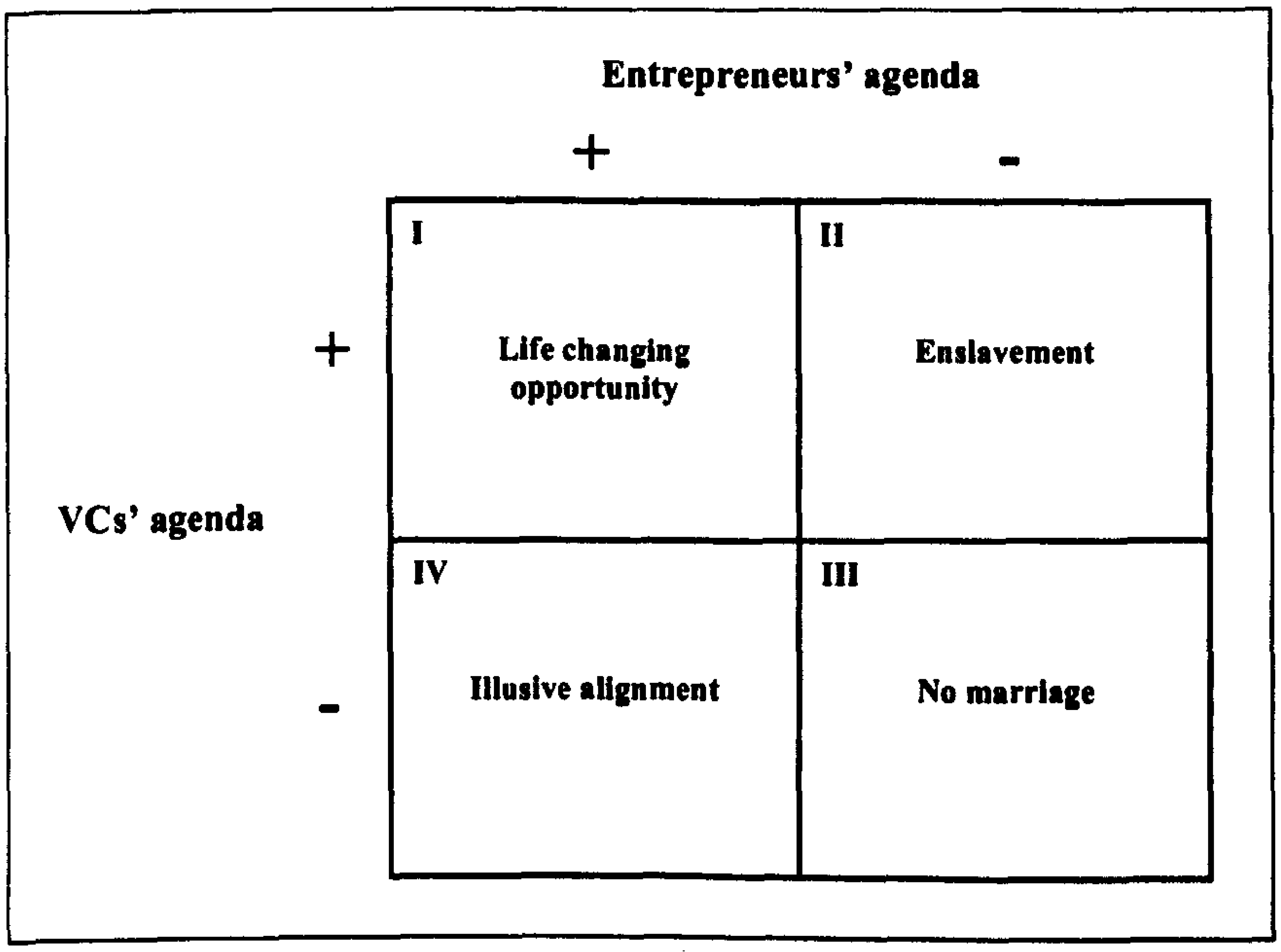
> *'This is quite an interesting perspective when VCs want management's objectives aligned in terms of exits. It is critical to them that the management team has a life changing opportunity for themselves, because VCs absolutely have to go in and to go out. That is something that VCs currently think about. But I believe this tension will always be there – human nature'* – the liquidator.

These days, when according to one VC '*...the number of deals are low, and doing deals becomes harder*', it is even more crucial to create that <u>life changing opportunity</u> attitude so that management teams share VCs' desire for exit. As expected, however, some entrepreneurs just do not want to sell their company.

And if, as a result, no compromise is reached, then there will be no marriage between the two (quadrant III, Figure 30). As one VC explained:

> *'When companies are coming to us with a wrong model, we may question them, query them, they may change it. But if they have different view from ours, we probably will not invest'* – the venture capitalist.

Figure 30. Dyadic tensions: the concept of goal alignment



These two types of goal alignment pose interesting questions for future research. For example, the importance of creating a life changing opportunity culture could be assessed by the value of the exit. That is, what would be the effect of the alignment of entrepreneurs' objectives in terms of exit at the initial round of funding on the value of the exit? Or, what would be the value of exit when the entrepreneurs' objectives converge gradually with VCs' objectives during their marriage? One would expect that higher value at exit would be achieved in those firms that had the entrepreneurs' objectives aligned in terms of exit right at the initial round of funding.

When entrepreneurs and VCs do not arrive at a consensus and as a result there is no marriage (quadrant III, Figure 30), researchers may delve into the effects of denials of funds. That is, what happens to the firms that were denied funding to pursue the identified new economic activities? Will they pursue other avenues for funding, give up and grow organically or fail? For example, Tool-Software was unsuccessful in raising capital just two years after a new business opportunity was identified, and continued to pursue the organic growth path. Crucial in this process of pursing other avenues for funding is the stigma associated with failure to secure first round of funding. The issue of stigma of failure becomes even more acute in countries like Scotland, in which all the sample firms started their activities, where the VCs' community and the advisors' community are very small, and susceptible to collusion. As several interviewees explained:

> *'The financing world tends to be pretty small: so probably everybody will know each other. And maybe they are sitting on several boards together. You can imagine it can be difficult to keep the information secret in that kind of scenario. So, there might be collusion. Whether it is kind of deliberate collusion, or just it is a kind of small world where the information goes out – I do not know. It would not strike me as being impossible to happen, but I have not seen any research that would have looked at that kind of issue. But I can see that happening, deliberately, or less deliberately, shall we say'* – Prof. Mason;
>
> *'In Scotland I know for sure that if chartered accounting firms advise a business plan, they will only expect the business to be funded by VCs*

around the corner. Very cosy relationship' – the business strategy consultant;

'There might be an element truth of colluding. There is a club of people out there who will work together for their own interest, and not necessarily for the best benefit of the company. The advisor will take the deal to his favourite VC, because he knows how things work there' – the CEO of Finance-Software;

'The whole investment community in Scotland is very small, everybody knows everybody, not very much competition, ... it is very tricky really: the investors are very closely related to the advisors, and they I believe tend not to get you a good deal' – CEO of Project-Software.

The data analysis further suggests that entrepreneurs however are kept in the dark with regard to the VCs' true agenda (quadrant II and IV, Figure 30). The difference between quadrant II and IV is that in quadrant IV, VCs do not have to even insist on their objective of out-and-out growth as entrepreneurs unknowingly and maybe reflexively, for example, driven by *hype*, "share" VCs' desire for out-and-out growth. According to the CEO of Data-Software:

'There was no question of not going ahead as fast as we possibly could. We made commitments of what we need to achieve. And in order to do that, we had to use the money in the way that we said that we would. That leads to pressure to do things, rather not to do things. Sometimes the right thing is to wait. But when you made commitment, it is very difficult to turn it around' – the CEO of Data-Software.

When asked about the possible effect of VCs desire of quick exit on the performance of the company, the CEO of Data-Software was surprised to hear that VCs might even have this agenda:

'Do VCs want to exit quickly? I do not think that is true. We did not have any VC that was pressurising for a short-term exit. They wanted us to grab the opportunity and maximise the value of the investment. Maybe some naïve entrepreneurs who are new comers to the game may believe in this' – the CEO of Data-Software.

Interestingly though, two years after the start-up, he mentioned with regard to exit: *'I expect to float the company at the right time. But I am in no rush'.* It is not clear however, whether he had this vision at the initial round of funding, or if it emerged two years after as a result of successful out-and-out growth. In this situation of illusive alignment of goals (quadrant IV, Figure 30), for VCs it is easier to mitigate the effect of getting an investment, which is when entrepreneurs 'lose control' having actually retained the majority of the shares, via illusive control, by making entrepreneurs believe they are in control of the situation as long as they unknowingly and reflexively advocate VCs' agenda. As several interviewees noted:

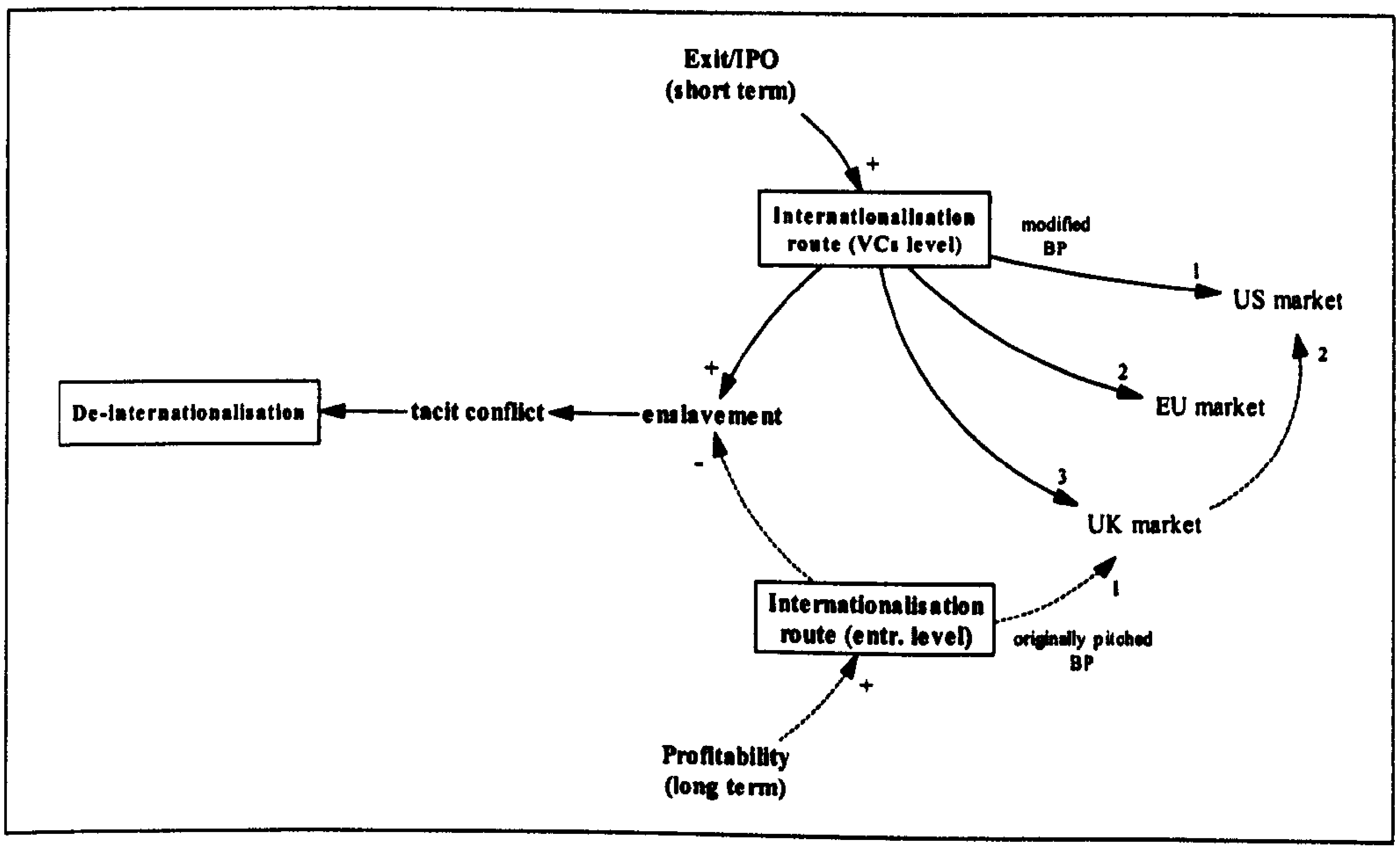
'The day entrepreneurs get venture capital, they lose control, because VCs are using shareholders agreement/contract that goes outside share earnings to have rights to do things and to stop things firmly in the house. They have rights to positive and negative control, i.e. to do anything serious they have to do in spite of the board' – the business strategy consultant;

'There is a side effect of taking VC money. In my experience VCs do want control. They want to exert control over the things that are not working. Typically VCs will invest in the business and the management team that is there. By and large they will leave it alone, if it works' – the liquidator.

Entrepreneurs find themselves enslaved (quadrant II, Figure 30) when they are trying to sell to the VCs their own vision of growth, but VCs disagree and impose their own growth strategy (Figure 31). As the CEO of Project-Software explained:

> *'Our original pitch was to stay in the UK, get sufficient knowledge of the sales process, and then go to the US. At the very first meeting with our investors they said that this was a daft strategy; the vast majority of the IT sales is in the US, therefore you should be in the US straight away. Change your plan. So, we changed the plan, otherwise we would not get the investment'* – the CEO of Project-Software.

Figure 31. Tacit conflict: the effect of dyadic tensions



To the above differences, the marketing non-executive director, whom Project-Software hired, insisted on selling the product into Europe via a master distributor – a strategy that was never supported by the co-founders, but that was eventually adopted by them to avoid the conflict with the investors. The CEO of Project-Software clarified the situation:

'Ok, ultimately we felt it was sensible to go to the US, but we felt it was not sensible at all to go to Europe so early. VCs, unfortunately, sided very much with our non-executive's suggestions. I remember us feeling an intense pressure to agree to do this, although our personal intuition was that this was wrong thing to do. ...It is very hard to stand up and say no, that is not sensible, we are going to do the opposite. Because, then you are in conflict with your investors' – the CEO of Project-Software.

For entrepreneurs this is a catch-22 situation: they can not or do not want to say 'no' as they for example i) are desperate to get funding in order to develop and/or market their product, or ii) lack sufficient knowledge and experience to argue their case, or iii) are trying to avoid the situation when they could be blamed for the firm's failure when things go wrong. As the CEO of Project-Software explained:

'I remember feeling in a bit of a catch-22 situation in that if we did not carry the strategy through, it could backfire and looked like it was our fault and we did not achieve the sales that we hoped we would. And of course we could then have had a difficult argument to make because it would be hard to justify that our decision was right when every one else felt it was wrong' – the CEO of Project-Software.

By saying 'yes' to something they do not agree with, i.e. by <u>enslavement</u> (quadrant II), they force themselves into a <u>tacit conflict</u> situation, which entrepreneurs have to live with for the remainder of their marriage with VCs. As the CEO of Project-Software noted:

'We felt incredibly frustrated, stressful. [This conflict] gives you a sense that you've lost control of something that you used to view as yours. We lost control of the pace, as the investors dictated the pace of the growth... I think

they were stifling the growth of our company, rather than helping it grow' – the CEO of Project-Software.

If a consensus is not found to alleviate these dyadic tensions as quickly as possible, dissatisfaction with the deal will continue amplifying, and will inevitably lead to a divorce. In the case of internationalised firms, the enslavement may lead to de-internationalisation (Figure 31). All the above identified dyadic tensions, along with gestalt tensions at critical juncture, lead to strategic tensions (Figure 28) which will be discussed next.

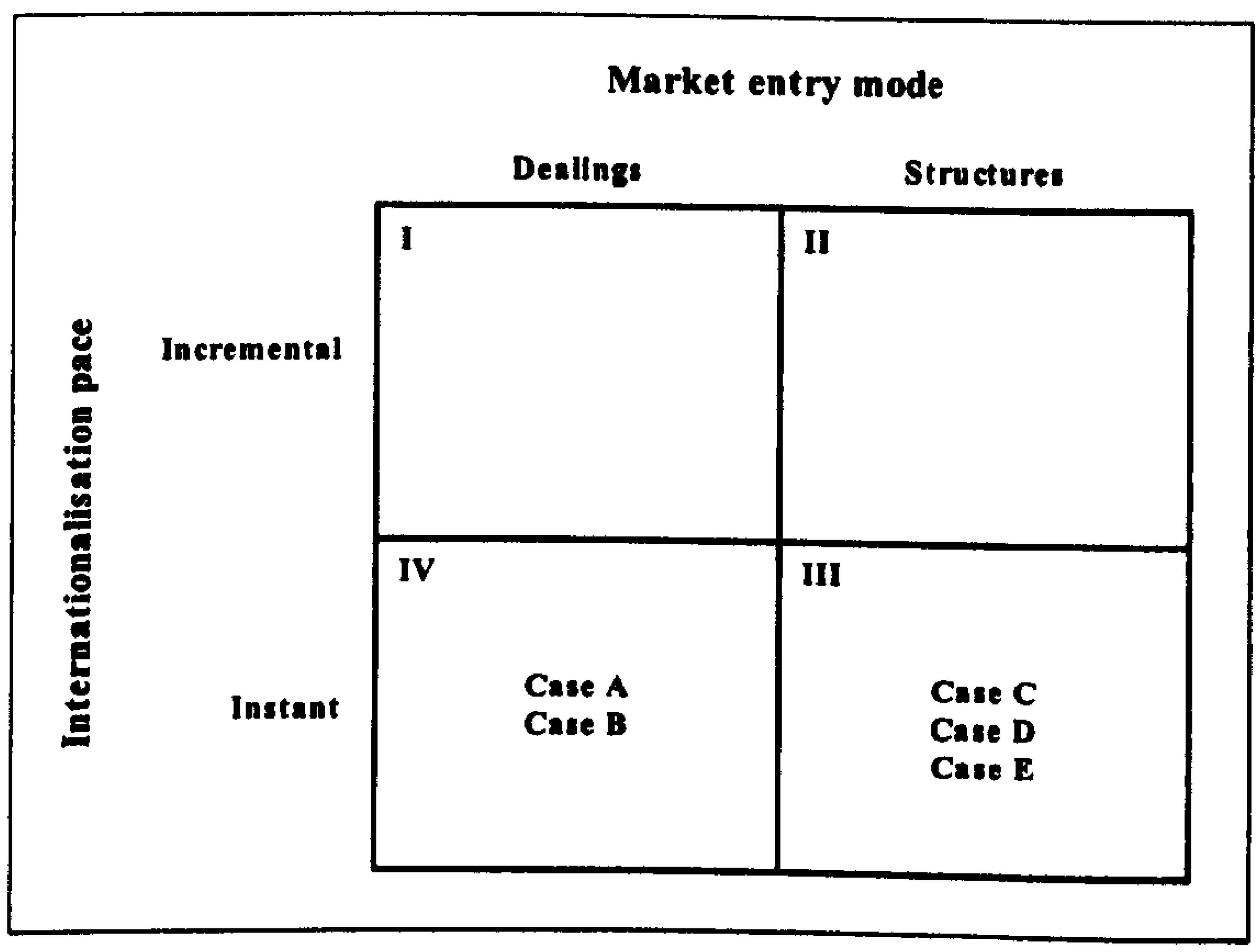
8.5 STRATEGIC TENSIONS

As firms decide what business models and growth paths to adopt in their efforts to develop their products, they also face two generic questions with regards to internationalisation: (i) how fast to internationalise, and (ii) what entry mode to adopt? These questions induce new type of tensions in the organisational gestalt: (internationalisation) strategic tensions (Figure 28). In the first question the dilemma is whether to internationalise incrementally or instantly (born-global) (Figure 32). In the second, it is whether to enter the foreign market via dealings or structures.

As briefly mentioned in the previous section, only co-founders of Project-Software opted for piecemeal internationalisation of their product (Figure 30). Before taking the product to the US market, they aimed to establish its credibility first by selling it into the UK market via existing service-led infrastructure. At the same time, close proximity to their customers would have allowed Project-Software to cost-effectively provide customer support. As the CEO of Project-Software explained:

"It was necessary to establish credibility for the product in a location where we can cost-effectively support it. Our idea of staying in the UK initially was probably less risky in that we had the infrastructure to properly support customers in the UK. We also had the services side of the business so we could actually go and do consulting and possibly training to back up the product. All these actually would have made those customers feel that they were getting the real value of the product' – the CEO of Project-Software.

Figure 32. Internationalisation strategic tensions



However, due to lack of experience in selling and marketing a product both domestically and internationally, in raising capital and, in general, in dealing with VCs, the co-founders of Project-Software could not stand up to their investors, who opted for early internationalisation, and subsequently defend their own agenda. As the CEO of Project-Software stated:

> *'At that time both of us were completely new to all this. And although, our gut-feel and instinct was telling us that [instant internationalisation] was not right, it was very hard for us to justify'* – the CEO of Project-Software.

VCs' preference for instant internationalisation, as discussed in the previous section as well, is chiefly driven by their agenda of quick exit. As VCs want to sell the company in three, maximum five years time, they will push for an out-and-out growth in order *'to occupy as much foreign territory as possible'* as one business strategy consultant explained:

> *'Short-term profits do not matter much to VCs. The potential for profits though matters a lot: [VCs] cannot sell a business that cannot make a profit down the line. Therefore they want big future markets. But these kinds of markets are not domestic'* – the business strategy consultant.

Entrepreneurs also view the large growth and profit-creating potential of international markets as the main driver for instant internationalisation. As two entrepreneurs explained:

> *'The decision to internationalise was actually the natural one. The major issue for us was where the market opportunities were. We could identify less than ten in the UK, but in Europe there were dozens, and in the world, perceptively, many, many more'* – the CEO of Tool-Software;
>
> *'The whole basis for the company was that there was an opportunity in the international market place. It would have not worked, if we had focused on the domestic market'* – the CEO of Mobile-Software.

In addition to the growth- and profit-creating potential of a foreign target market, the data also points to receptiveness to new technology, which might be culturally driven, as another crucial factor to the process of making early internationalisation decisions. Receptiveness to new technology refers to the attitudes of international target markets towards the adoption and assimilation of new technologies. As a small high-technology firm is trying to productize and market a new technology, its immediate target market is going to be early adopters of that technology (Rogers, 1983; Moore, 1995). One might expect to find a large number of early adopters of technology in countries with high degree of new technology receptivity, in the US for example. As several entrepreneurs noted:

> *'Typically the US leads the uptake of new technology, and the new technology is getting used there first. The UK typically is not far behind, but Europe tends to be more conservative in picking up new technologies. So, there was that angle that our product was targeted at new technology and that technology was used quite widely in US and in UK, probably less so in Europe'* – the CEO of Project-Software;

> *'The way of thinking behind the business in the US is different. You have that entrepreneurial opening in the US; the doors are open to new things. Whereas in the UK we will wait until everybody has worked all the issues through and figured out what are all the possible errors that can be made and then we will do it when there is no risk. If we waited for British based companies to catch on for this, someone else would have won that market. Therefore, we really had to face up to having US as an early market for us to break into'* – the CEO of Data-Software;

> *'It is interesting how different markets even across Europe behave. Scandinavians are sceptical, but if you can persuade them, they will adopt new technology quite early. French and Germans are very conservative.*

Usually Benelux is a quite good place to start' – the CEO of Mobile-Software.

Next step in small high-technology firms' internationalisation efforts is to decide what entry mode to adopt in order to best serve their international target markets. Two generic entry modes have emerged: dealings and structures. Dealings refer to cross-border in–ward and out–ward purchasing and sales cycles of a product. Structures are offices and employees overseas. The data suggests that the purchasing behaviour of the target market and the novelty of the product are the key factors that make entrepreneurs start developing international infrastructures right from the inception rather than just exporting their products. As regards the purchasing behaviour, local companies prefer dealing with local companies. This posture forces internationalising companies to localize, e.g. build an international infrastructure rather than just export. The novelty of the product demands from internationalising companies to facilitate the learning process of new technology by their target market and to provide efficient and effective support for their new products on-site. As several interviewees explained:

> *'It's a basic understanding that if you're going to make it in the US, you really have to be there. It really occurred: when we said to them that we were thinking of setting up in the US, the fact of the matter was that their perception immediately changed. A lot of perceived problems disappeared. It is fundamental to internationalise and localise'* – the CEO of Tool-Software;

> *'The US companies prefer to buy from the US companies. If a US company has a product, which maybe it was not there originally, but it is there now, and which appears similar to the one from the UK, the US companies will prefer the local product'* – the venture capitalist;

'In order to enter the enterprise business, we had to be perceived as a European and not as a UK player. Therefore, we designed the company that way from day one' – the CEO of Mobile-Software;

'Our attempt to enter Germany as we see it today was a blind entry. We understand now that in order to have presence in Germany we need to either partner with a German firm or open an office and employ German staff" – the CEO of Finance-Software;

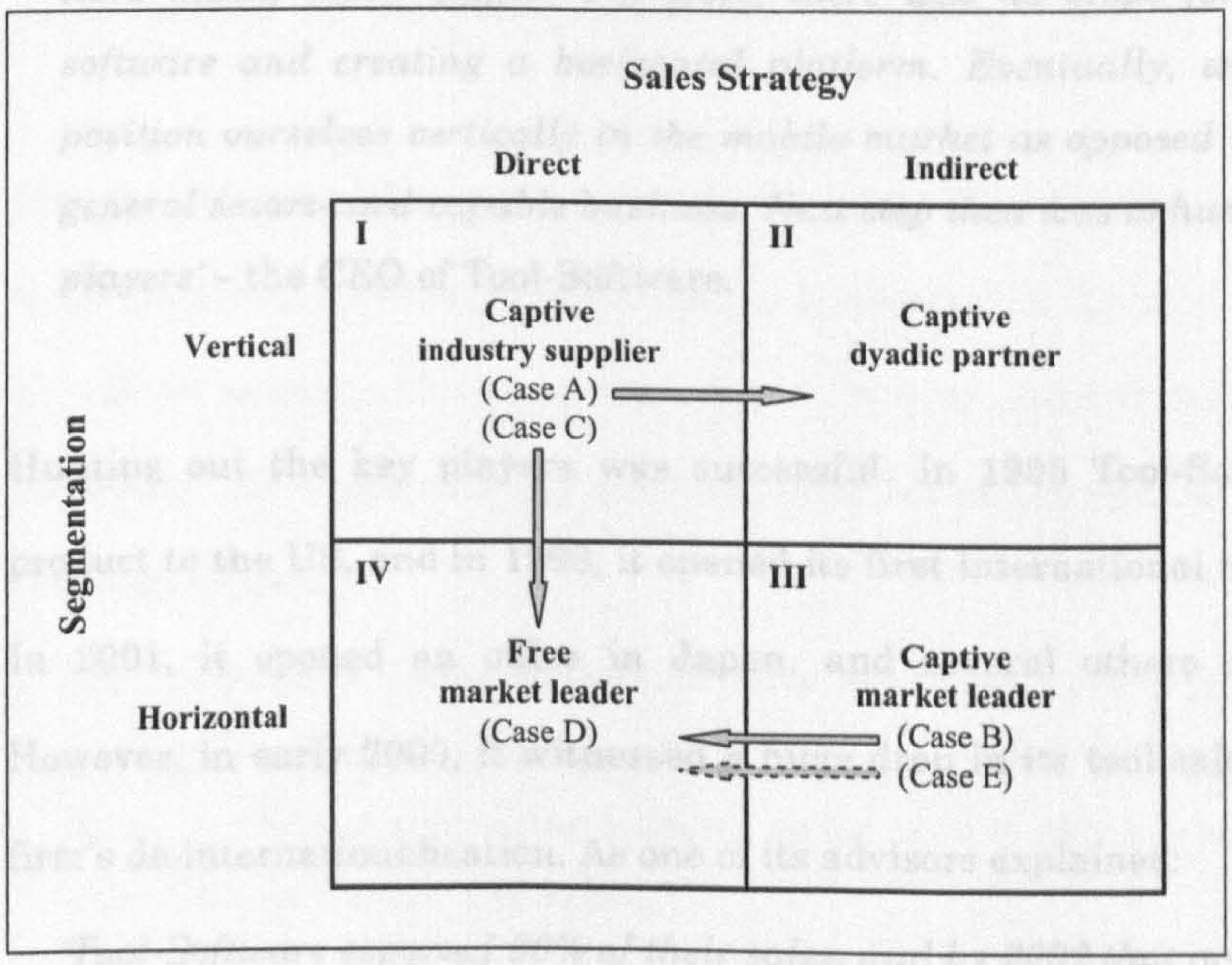
'It was quite an earlier stage in the market for this type of product, and we realised that it would be a period of time to educate the market and try to get exposure for the product. However, we were very much driven into exporting, which is a much more tricky proposition because you are very much outreach from your customers; it is much, much harder to support them and make them feel comfortable with the product' – the CEO of Project-Software.

It follows that internationalising firms will have to disguise in order to look like local companies, and embed deeply into the local market. To do that, entrepreneurs will have to deploy a completely different organisational gestalt in order to defend and strengthen their firms' market position. As one business strategy consultant explained:

'Entrepreneurs shall build around their occupied territory strong fences, which will allow them to secure the business at any market demands. It is vital therefore to understand what the right [international marketing] mix is in order to build these fences' – the business strategy consultant.

The data points to market segmentation and sales strategy as another two factors that spark (international marketing) strategic tensions. With market segmentation, the dilemma is how to position the firms' products: as vertical or horizontal products. With regards to the sales strategy, the issue is whether to sell the product directly or indirectly. Employing the method of constructing typologies by reduction (Glaser, 1978), a concept of captivity has emerged. Generically, captivity refers to the situation when (i) firms have no practicable alternative but to sell their products via a single enterprise player, or (ii) there is a limited number of customers in the identified niche market. Three types of captivity emerged by cross-tabulating market segmentation and sales strategy decisions (Figure 33): (i) captive industry supplier (quadrant I); (ii) captive dyadic partner (quadrant II); and (iii) captive market leader (quadrant III). When the above-identified prerequisites of captivity disappear, companies may become (iv) market leaders or be among them (quadrant IV).

Figure 33. Captivity typology



The data suggests that companies which target vertical niche markets and supply their products directly to the customers in these markets (quadrant I, Figure 33) may find themselves in the situation where they outgrow their market. Tool-Software is a case in point (quadrant I). When co-founders of Tool-Software saw the opportunity to transform the company into a product-led business, they had to decide, inter alia, how to position their product: vertically or horizontally. Severe competition across the horizontal smart-card market prevented Tool-Software to develop a horizontal product. Instead, the decision was reached to target the telecom market only for the time being. As the lead entrepreneur explained:

> *'We recognised that we could not compete in the market place [with our product] that we were creating because other players were coming in, which were much, much bigger. Therefore, there was no scope for taking this software and creating a horizontal platform. Eventually, we decided to position ourselves vertically in the mobile market as opposed to being in a general smart-card capable business. Next step then was to hunt out the key players'* – the CEO of Tool-Software.

Hunting out the key players was successful. In 1995 Tool-Software took its product to the US, and in 1996, it opened its first international office in the US. In 2001, it opened an office in Japan, and several others across the US. However, in early 2000, it witnessed a huge drop in its tool sales, which led to firm's de-internationalisation. As one of its advisors explained:

> *'Tool-Software exported 90% of their sales, and by 2002 that activity seemed to have died, and they were trying to create a new business fundamentally in the UK. The reason they went backwards was that the market for their test equipment went away. Once [major telecom players] bought one, why*

buy another one. Tool-Software just grew out of the market' – the business strategy consultant.

The recession that started in 2000, and amplified in 2001, contributed to the acceleration of this downturn. The above events though were critical to the initiation of the search for new opportunities, which in turn were critical to the firm's survival. As the lead entrepreneur noted: *'after a bit of hiding, and surviving, [Tool-Software] came back'*. New opportunities for developing a horizontal product were identified, and ultimately pursued. In 2000, Tool-Software secured its first round of funding to develop its platform. In 2001 and 2002, Tool-Software received its second and third round of funding, and released the platform in 2003. It became the market leader (quadrant IV, Figure 33) with approximately 220 customers located in 33 countries.

Finance-Software also started selling their services directly to its customer's major international branches (quadrant I, Figure 33). As this service contract was about to end in five years time, the co-founders tried to take these services elsewhere, but soon found out that they were not in demand. As the CEO of the company explained:

> *'We did begin to recognise that we could not really build a business on the back of those kinds of contracts. We concluded that we do not have any future in the manufacturing systems, so we have to choose another vertical'* – the CEO of Finance-Software.

Eventually, having identified new business opportunities in another vertical, a financial market, which happened to be located in the domestic market, Finance-Software de-internationalised and focused entirely on that vertical market. Meantime, Finance-Software became an earlier adopter of a new technology. That was a strategic move that made them '*...stand out from the crowd*' – according to one of the co-founders. As Tool-Software, Finance-Software started hunting out major big players from the enterprise space in order to build long term relationships with them. They soon found out that these big players demand exclusive partnerships, and therefore had to decide which one to partner with. The decision was reached to partner with one enterprise player who happened to be an earlier adopter of the same technology and have a large presence in the financial markets. As a result, Finance-Software started developing a product that would be integrated in the frames provided by their solely strategic partner to the financial customers (quadrant II, Figure 33). As the company CEO noted:

> *'We tried to form our bonds with [several big enterprise players]. At some point we realised that these guys do not want to work with you unless you are totally committed to their cause. They do not like if you talk to their competitors. Hence, we had to make a decision: whom we are going to go with; whom we want totally and utterly to be associated with'* – the CEO of Finance-Software.

The entrepreneurs of the remaining three firms, who were aiming to develop horizontal products, also had the same dilemma type of decision making: to partner with one large enterprise player and sell indirectly (quadrant III, Figure 33) or to sell directly (quadrant IV, Figure 33). They also discovered that large enterprise players demand exclusive partnerships. Moreover, their experience, at times quite a painful one, in these partnerships showed that being dependent exclusively on one strategic partner is a very risky proposition. The data point out that the likelihood of being acquired, or being driven out of business, for example as a result of failure or acquisition of the strategic partner, may make entrepreneurs avoid partnering with large players in the future. For example, co-founders of Project-Software trying to balance the lack of product marketing and sales experience and expertise entered a deal with an OEM. Under this deal, the OEM would incorporate Project-Software's product into its own and market it to its customers (quadrant III). However, this deal was short-lived as the OEM was acquired by an American company. Project-Software however managed to take back the control of their product and started selling it directly to their customers (quadrant IV, Figure 33). As the CEO of the company explained:

> *'We had a deal with an OEM to sell our product. Essentially they branded our product as their own. One year after, [our strategic partner] got into trouble and was purchased by an US company. We extracted from that relationship, took back the control of the product, and started our own sales'* – the CEO of the Project-Software.

Co-founders of Data-Software, having rich experience in selling services to large enterprise companies prior to the start-up, thought that partnering with them in marketing a product would be easy as well. As it turned down, that was not the case. These large enterprise players did not even want to partner. As the CEO noted:

> *'We were exploring different routes to market. We were continuing to look for direct deals in the UK. To internationalise, we approached [one large enterprise player] and found out that they were very difficult company to partner with. They were completely self-focused. Actually it was a very dangerous place to go. They eat their children'* – the CEO of Data-Software.

Despite these fears and several unsuccessful attempts to partner with large enterprise players, Data-Software eventually partnered with one of the largest software players in the world who was pursuing at that time an aggressive strategy of entering the enterprise space. Under the deal, Data-Software's product would be incorporated into a platform of its strategic partner and thus be marketed to a large number of solutions providers who were licensed to sell its strategic partner's products (quadrant III, Figure 33). As the CEO of explained:

> *'The relationship with [our strategic partner] gave us a real opportunity to get their backing to recruit all those dealers. So we went from selling directly to selling indirectly to mid-market companies. In hindsight this was a mistake; it was a strategic error. We left our destiny outside of our own hands. I would not do that again'* – the CEO of Data-Software.

This deal was short-lived as well. Its strategic partner announced that it would soon start developing its own product, which overlapped substantially with the product of Data-Software and thus eventually would replace it. This intention created panic, disagreements, and scepticism among co-founders and VCs about the future of the product. The only consensus that existed at that time in the company between co-founders and VCs was that if Data-Software continues with the same strategy (quadrant III, Figure 33), then its strategic partner will take away its business at the end. The lead entrepreneur and VCs disagreed on what strategy to adopt as soon as this partnership was terminated. The lead entrepreneur argued for the continuation of horizontal product development and selling it directly to their customers (quadrant IV, Figure 33). Although VCs stood for direct sales as well, they preferred to focus on one vertical market (quadrant I, Figure 33), which happened to be in the UK. The lead entrepreneur stepped down and a new chief executive, brought in by VCs, withdrew completely from the US. Soon after Data-Software de-internationalised, it ceased trading. Interestingly, at the time of interviewing, Data-Software's strategic-partner had not yet brought to fruition its intentions.

Co-founders of Mobile-Software, on the basis of their experience and of others, decided from the outset not to go down the route of partnering with a large enterprise player and selling its product indirectly (quadrant III, Figure 33). Instead, they opted for marketing its horizontal product directly to potential customers (quadrant IV, Figure 33). As the CEO explained:

> *'I think we could've done more to develop relationships with somebody like [one of the largest software players in the world], but what that would've meant was that if we succeeded, we would've been just swallowed up, or kicked in one side. So, we could not have grown the business to the extent that we wanted to independently. It was a trade off"* – the CEO of Mobile-Software.

The data suggests that being in quadrants III or IV (Figure 33) are the most desired positions to be in. On the other hand, it also points out that it is the riskiest strategy to pursue right from the inception. That is, the development of a horizontal product requires entrepreneurs to acquire specific knowledge and experience from different vertical markets. It also requires a lot of capital to actually develop the product. In the case of Mobile-Software, its co-founders decided to achieve all the above through an acquisition strategy. In less than one year, they acquired several software companies and established a presence in eight countries worldwide. At the same time, they raised their first round funding, and immediately after started looking for second round in order to support the development of the product. However, co-founders had problems integrating the acquired companies, were behind the revenue and product development schedules, had no money left to run the business, and eventually were not successful in raising second round funding. As a result, in less than two years after its inception, Mobile-Software ceased trading. As the CEO of Mobile-Software explained:

> *'What we tried to build was too ambitious, too complicated. We were trying to solve too many problems at once. Moreover, the problems we were trying to solve were big and expensive. I think we could have made a smaller promise, deliver that, and add more value to it as we moved along'* – the CEO of Mobile-Software.

In general, as argued by Cusumano (2004), the development, right from the inception, of a horizontal product (quadrants III and IV, Figure 33) rather than the development of a niche vertical solution (quadrants I and II, Figure 33) is a common trap that entrepreneurs fall into and is difficult to get out from.

8.6 GESTALT TENSIONS @ POINT OF NO RETURN

As shown in previous sections, small high-technology firms go through several critical events in their efforts to internationalise, and constantly are in 'tensions' extinguishing mode (Figure 28). Entrepreneurs are trying to ease the tensions in the organisational gestalt as a result of a change in the business model and growth path. To internationalise, small high-technology firms have to develop a product as services do not travel. Opting to attract venture capital, entrepreneurs are to deal with dyadic tensions that are the result of differences in entrepreneurs' and VCs' goals and measures of success. Dilemmas occur in decision making when entrepreneurs are required to determine the pace, the entry mode, and the international marketing mix of the international strategy of the company. The data analysis further points to instant internationalisation via structures as the most desirable strategy, which is driven chiefly by the technology adoption cycle and target market buying behaviour. However, the pursuit of instant internationalisation via structures may result in the loss of a firm's agility, which in turn may hinder the process of de-internationalisation and lead to failure. As one liquidator observed:

> *'In my experiences I've seen a lot of SMEs that would jump into international structures quickly. Sometimes, these costs are not flexible; these are dead costs you can not get rid of in order to get out very quickly. It is fair to say that the international infrastructure that they built can bring them down completely, just because they can not get out of it easily'* – the liquidator.

The questions that most need to be addressed by entrepreneurs therefore are: 'to what extent is the chosen [organisational gestalt] continuing to deliver returns and positive performance, and if less than optimal, what change would better effect attainment of projected targets' (Turcan, 2003a: 217). As regards the organisational gestalt, it might be its behavioural, and not the resource component that has greater impact on the firm's performance during a crisis situation. The data analysis points to *agility* and *escalation of commitment* as two major behavioural factors that discriminate between success and failure, and suggests an inverse relationship between them[37].

Agility was a recurrent pattern throughout the data analysis. Table 21 summarises stakeholders' views of this construct. Grounded in data, agility is about flexible decision making and a flexible cost base structure that allow decision makers (entrepreneurs and VCs) to scale up and more importantly to scale down according to the activity level that the firm is experiencing. In general, planning for adversity is well worth the effort (Porter, 1976). That is, decision-making processes not only need to allow for the possibility of failure, but also need to facilitate withdrawal where appropriate (Drummond, 1995).

Table 21. Agility defined

Interviewee	Agility defined
Co-founder, Finance-Software	*...ability to grow and shrink; ...have a flexible structure; have control of the business, always being able to define what we wanted to do.*
Co-founder, Project-Software	*...ability to make decisions very rapidly; ...ability to change directions as necessary; ...not having large overheads, and hierarchies.*
Co-founder, Tool-Software	*...being ready to adapt and change; ...being ready to act and take hard decisions; ...when you can take a bit of hiding, surviving, and coming back.*
Co-founder, Data-Software	*...ability to change directions quickly, and bring everybody with you.*
Strategy consultant	*Agility has to be at every level of the business.*
Liquidator	*...ability to scale up or more importantly to scale down quickly; ...keep the cost base flexible; ...being free to make decisions, not having to consult with VCs.*

[37] This is consistent with Benito and Welch (1997: 17) who conceptualised that the probability of withdrawal from international operations declines as the commitment to these operations increases, i.e. as internationalization unfolds.

The question however is how *autonomous* entrepreneurs are in their decision making process. The data analysis suggests that in VC backed firms the scope of agility will lie within the scope of *commitment* made by entrepreneurs before the investors, as according to a business strategy consultant, '*more often than not VCs are not agile*'. It also points to the degree of *goal alignment* that would determine the extent of agility.

For example, the co-founders of Project-Software, who were in *tacit conflict* with their investors (who imposed a lot of decisions upon them, and with which co-founders did not agree), had the perception that they not only lost control of the company and their agility in decision making, but also that '*VCs were stifling the growth of the company, rather than helping it to grow*'. It all started when VCs conditioned their participation in the venture by asking the co-founders to change their business plan that, as one of the co-founders put it, '*... did not look ambitious enough*'. Continuous commitments of resources to that ambitious plan during the downturn in the IT market, as well as the cumbersome decision making process, had the same effect on co-founders' perceptions of VCs' and their role to the company performance. As the CEO of Project-Software recalled:

> *'Our sales projections were too ambitious... otherwise we would not get the investment in the first place. When our sales stopped, we were still making trips to the US, which... was mad. ...we took the investment we lost control of the company and our ability to proactively track the reality of the situation and make quick decisions. The decisions we had to make had run passed various people and convince them that this was the right one. Sometimes it is useful to justify things, but we felt we were not as responsive*

> *as we had been prior to that, and as we are now'* – the CEO of Project-Software.

In the case of Data-Software, although there was an *elusive alignment* of co-founders' and VCs' goals, it did not prevent the VCs letting the lead entrepreneur go, when he suggested a growth path, which was different from the VCs' one. As he explained:

> *'The VCs did let us manage the company. No complaints about that whatsoever. They supported the company. The chairman's job was to make sure that we delivered to VCs our promises, and VCs had a confidence in the chairman. We developed and changed the plans... you learn as you go. VCs always said yes, until we suggested going down a different route... they brought in another CEO'* – the CEO of Data-Software.

Failure to scale down leads to escalating situations that are the effects of repeated decision making in the face of negative feedback about prior resource allocations, uncertainty, surrounding the likelihood of goal attainment, and choice about whether to continue (Brockner, 1992). Staw and Ross (1987) identified four factors that encourage decision makers to escalate their commitment and become locked into losing courses of action, namely project, psychological, social and structural factors (for review of these factors please refer to Chapter 3, section 3.4.3). According to one liquidator, psychological factors are the major reasons for failure; specifically, *'one way street'* factor (re-enforcement traps or entrapment) and *'problem denial'* factor (information biasing). In the former situation, according to Drummond (2004: 487), the longer a person persists with a specific line of activity, the more difficult it becomes to change direction even though it may be economically wise. In the latter, according to Staw and Ross (1987), in face of negative information, entrepreneurs may ignore it and exploit only that information that supports the positive outlook. Reflecting on these reasons for failure, the liquidator stated:

> *'It is a bit like a monkey putting its hand into a jar to grab the peanuts and then being unable to get it back out from that jar... it is a one way street. That is, [entrepreneurs and VCs] sink a lot of money into actually building [international infrastructures] and find it difficult psychologically to actually crawl back, because they spent a number of years convincing people of this bright future for their business'* – the liquidator;

> *'Human nature being what it is: keep on driving, keep on driving... management tends to deny the problem until it is at the very extreme stage; and I'm getting there usually after it has got badly wrong. The thought "let's try to get out of here" does not occur to the management'* – the liquidator.

Interestingly enough, the entrepreneurs who had VC backing exhibited this kind of behaviour. Despite the fact that in the second half of 2000 the IT market in the US started to collapse and that the same started happening in the UK one year later, the entrepreneurs got trapped in, what in hindsight was to become, a failing course of action and kept committing resources. For example, co-founders of Project-Software, being in *tacit conflict* with their investors, and pursuing a *free market leader* strategy, continued investing organisational resources trying to boost sales in the diminishing US market in order to meet the projected targets. Co-founders of Data-Software having their growth strategy *aligned* to VCs' strategy, i.e. to develop the company as fast as possible (albeit without being aware of VCs' ultimate exit objectives) continued this strategy and opened another two overseas offices, and were making plans to double the workforce over the next year. As co-founders of these firms stated:

'When in 2000 things started to go wrong in the US, our sales stopped, but we were still making trips, because we invested a lot of money to go there, and time and effort... We were becoming increasingly desperate to get sales from there, and we were under a lot of pressure as we were not meeting the sales targets' – the CEO of Project-Software;

'To raise money we had to make commitments of what we would need to achieve. Once we got the money we had to use them in the way we said we would. That leads to pressure to do things, rather than not to do things... the pressure was to invest to build the company as fast as we planned. Sometimes the right thing is to wait. But when you made commitment, it is very difficult to turn it around' – the CEO of Data-Software.

As regards information biasing (*problem denial*), the entrepreneurs were trying to ignore the negative feedback that was emanating from internal and external environments and to look for facts and/or opportunities that would slant the projected targets. For example, due to the downturn in the US IT market in late 2000, Mobile-Software was experiencing difficulties in attracting venture capital. To overcome this problem, Mobile-Software turned to one of the big four finance players to lead the first round of funding, and who "happened" to be at the time still bullish about the IT market. In late 2001, when things were getting even worse, co-founders of Mobile-Software, trying to raise the second round of funding, hired a leading market research organisation to comment on their market proposition, and who *hyped* that the market is emerging and is worth more that $5 billion. As the CEO explained:

'Recognising the difficult and worsening state of the capital markets, we decided that the appointment of one of the "big four" finance players to assist us with our fund-raising, and the engagement of a leading market research organisation, to comment on our proposition and positioning in

the emerging market, would greatly improve our chances of success' – the CEO of Mobile-Software.

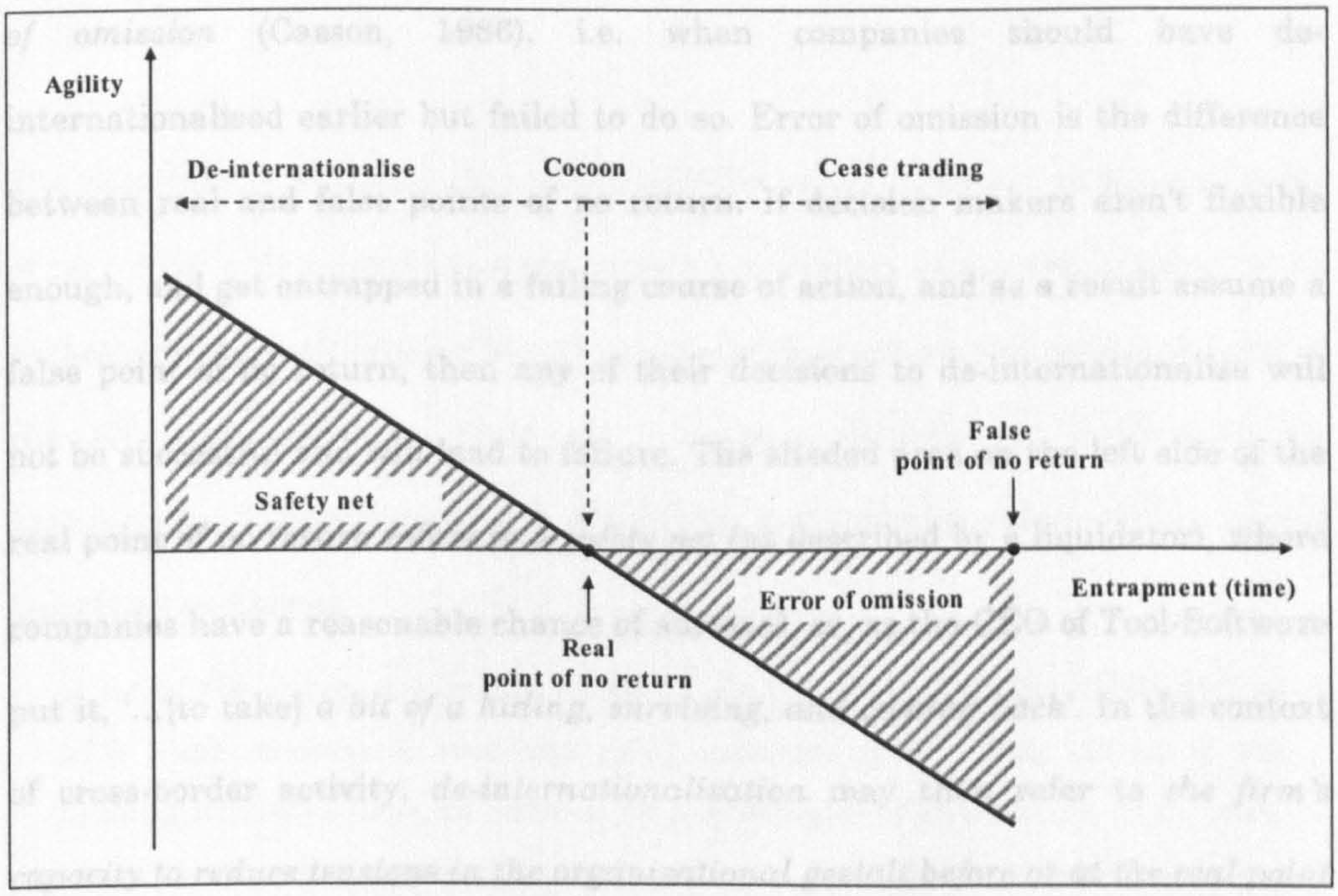
Co-founders of Project-Software found themselves more or less in a similar situation. Despite the fact that *'their market was vanishing under their feet'* – as the company CEO recalls – they signed, in the early 2001 in the US, a joint-venture agreement with a large UK organisation that had a considerable presence in the US IT market. The reason for this deal was to convince the investors that still there is a huge market potential for the product so that investors would not withdraw from the deal and allow the co-founders to implement dramatic measures to save the company. As the company CEO noted:

> *'At that time, we were trying to persuade our investors to stand by us, and perhaps give us a little bit more funding or at least more time to take quite dramatic measures to improve things. So making these efforts in looking for opportunities that may have been good for us, helped in that argument that they should continue to let us trade, so I guess we went ahead for that reason'* – the CEO of Project-Software.

If decision makers eventually do recognise that the existing organisational gestalt is less than optimal, and decide to stop committing further organisational resources, the question then becomes at what point *too little is not too late*. As argued by Staw and Ross (1987), good management consists of knowing when to pull the plug. The term point of no return emerged as a result of iteration between data, emerging theory and literature (Figure 34). It belongs to the cutting point family of codes, which '...are very important in the theory generation, since they indicate where the difference occurs which has differential effects' (Glaser, 1978: 76). For example, as observed by Drummond

(2004: 487), small businesses '...not only end up 'drifting idly towards eternity', but they can reach a point of 'no return', where they have become so run down as to be almost financially worthless'.

Figure 34. Concept of point of no return



It is important however to distinguish between two types of points of no return: real and false (Figure 34). *Real* point of no return refers to the point in the life of the firm beyond which the existing organisational gestalt will be insufficient to support the transition to a new viable gestalt. *False* point of no return refers to an illusionary real point of no return that is the result of the process of illusion and self-deception. Shaded areas on both sides of the real point of no return represent the entrapment situations decision makers find themselves in.

According to entrapment theorists (Becker, 1960; Rubin and Brockner, 1975; cited in Drummond, 2004), entrapment refers to situations where people become bound to a suboptimal line of activity through the passage of time itself.

The shaded area on the right side of the real point of no return refers to an *error of omission* (Casson, 1986), i.e. when companies should have de-internationalised earlier but failed to do so. Error of omission is the difference between real and false points of no return. If decision makers aren't flexible enough, and get entrapped in a failing course of action, and as a result assume a false point of no return, then any of their decisions to de-internationalise will not be successful and will lead to failure. The shaded area on the left side of the real point of no return refers to a *safety net* (as described by a liquidator), where companies have a reasonable chance of survival, or, as the CEO of Tool-Software put it, '...[to take] *a bit of a hiding, surviving, and coming back*'. In the context of cross-border activity, *de-internationalisation* may then refer to *the firm's capacity to reduce tensions in the organisational gestalt before or at the real point of no return.*

The data suggests that when in the area of the real point of no return, the appropriate strategy for small firms would be to *cocoon* (Figure 34), i.e. '*...to go into hibernation, survive the worst of the winter, close down the essential organs, and keep alive, so that when the spring comes you can open up again*' – as the CEO of Project-Software described their international withdrawal strategy. Not the metaphor itself, but its stages were used by the other co-founders of

Finance-Software and Tool-Software to describe the international withdrawal paths in their companies respectively:

> *'We made the decision to reduce the costs of the company down to the point where we can keep the company going forever, and in doing that we own the IP'* – the CEO of Finance-Software;
>
> *'We took a bit of a hiding, surviving, and coming back'* – the CEO of Tool-Software.

The data further suggests that to successfully cocoon before or at the real point of no return a firm would require having a minimum safety net, referred to as *withstanding gestalt* (Figure 34). The withstanding gestalt will consist at least of the following resources (that are necessary, though not sufficient): co-founder(s)/lead entrepreneur, the IP/product, and customer relationships. As one liquidator explained:

> *'A lot of the values are in the heads of the people and in the relationships with their customers, and you can't separate them. This means if the existing directors have an interest in acquiring that technology, quite often they are best placed to pay the best price for it. What this does is that you get a good price for the technology, but the customer base is also served, going forward, and they then are much more likely to pay the debts that are due to the insolvent business'* – the liquidator.

It is interesting to note, that this resource configuration resembles to a certain extent the resource configuration that is found at the beginning of the process of emergence of a new business idea. It follows that the presence of co-founders, and not only of the IP, is crucial at this, late, stage in the company's life. In the same vein, Cusumano (2004) argues that it is important to maintain passion and knowledge of founders and provide them with a meaningful role in the company. For example, Project-Software was still in the safety net zone, although quite close to their real point of no return, when VCs brought in a new non-executive thanks to whom it was possible to stop the escalation of commitment and initiate the process of de-internationalisation. As the CEO of Project-Software explained:

> *'We were intimately involved in the crisis, and caught in a day to day fire fighting. It was actually hard to sit back and see things clearly. I think that is the point where a good non-exec would be extremely helpful, and what actually happened – the VCs brought in a new non-exec. It was his idea of downsizing: to keep the bare minimum such that the company did not go under, and to survive the worst of the economic situation such that when hopefully the economy starts to improve the company would be able to open and grow again'* - the CEO of Project-Software.

When Project-Software totally de-internationalised, and soon after liquidated, its withstanding gestalt consisted of the tacit knowledge about the product that rested with the co-founders and the senior software engineer, the IP, the customer base, and a strategic partner. The danger at that stage however was that their partner, with whom they entered a joint-venture just before presenting the *cocoon* strategy to their VCs, could have come forward and bought the IP. Fortunately, this did not happen thanks to their personal relationships with their partner. In one month, Project-Software arose from ashes: the co-founders bought back their IP from the liquidator, re-branded the product, got in touch with all their customers, and started all over again.

In early 2001, Data-Software also was in the safety net zone when its board of directors finally realised that the company could no longer focus on out-and-out growth; instead the decision was taken to stop committing resources to this strategy, and focus rather on profitability. As the lead entrepreneur explained:

> *'With the general state of the markets and the economy, our board decided that we needed to focus on a direction towards profitability rather than out-and-out growth, which was the strategy that we had been on until then... It was prudent to make adjustments to our cost profile, to adjust the burn profile in order to reach the profitability goal earlier'* – the CEO of Data-Software.

As in the case of Project-Software, co-founders of Data-Software and their investors agreed on the strategy. However, they could not agree on the implementation side of it. The stumbling-block was their strategic partner, one of the largest software companies, who had announced earlier that they would develop, on their own, a similar product. The co-founders suggested a continued focus on product development, but a switch to direct selling, as the lead entrepreneur recalled:

> *'I would have focused on the higher value added product that [our strategic partner] would not develop; and in order to deal with economic external factors, pull out, retract, maybe trying to keep foot in US on a smaller basis, because this is where the lead market is for that technology'* – the CEO of Data-Software.

The investors, however, '*...spooked by the intentions of the strategic partner*' – as the lead entrepreneur described the situation, disagreed and decided to pull completely out of the US and focus on applications instead. The lead entrepreneur left and a new CEO was brought in to implement the VCs' survival strategy. That is, when Data-Software de-internationalised, the lead entrepreneur was not part of the withstanding gestalt. The new CEO failed, however, to save the company either through a refinancing or sale, and Data-Software was put up for voluntary liquidation. In autumn of 2001, Data-Software ceased trading. Had the passion and knowledge of the lead entrepreneur been preserved, things might have been different as their then strategic partner had not fulfilled its hyped intentions.

8.7 HYPE

The data analysis suggests that the cross-border activity of the firm is moderated by *hype* (Figure 28). Hype is referred to exaggerated expectations about future sales and profits. As recent OECD findings also demonstrate, the boom in the information and communication technology investment over the past decade was accompanied by hype (OECD, 2001). In such environment, one of the most pressing challenges facing people trying to predict future trends is to determine whether a hyped innovation[38] truly has the potential to transform an industry (Christensen and Anthony, 2004).

When forecasting the outcomes of high risk projects, decision makers all too easily fall victim to planning fallacy, i.e. when managers make decisions based on delusional optimism rather than on a rational weighting of gains, losses, and probabilities (Lovallo and Kahneman, 2004). The data further suggests that despite its capacity to generate VCs' money, hype may also be one of the reasons for failure. As the liquidator and the venture capitalist explained respectively:

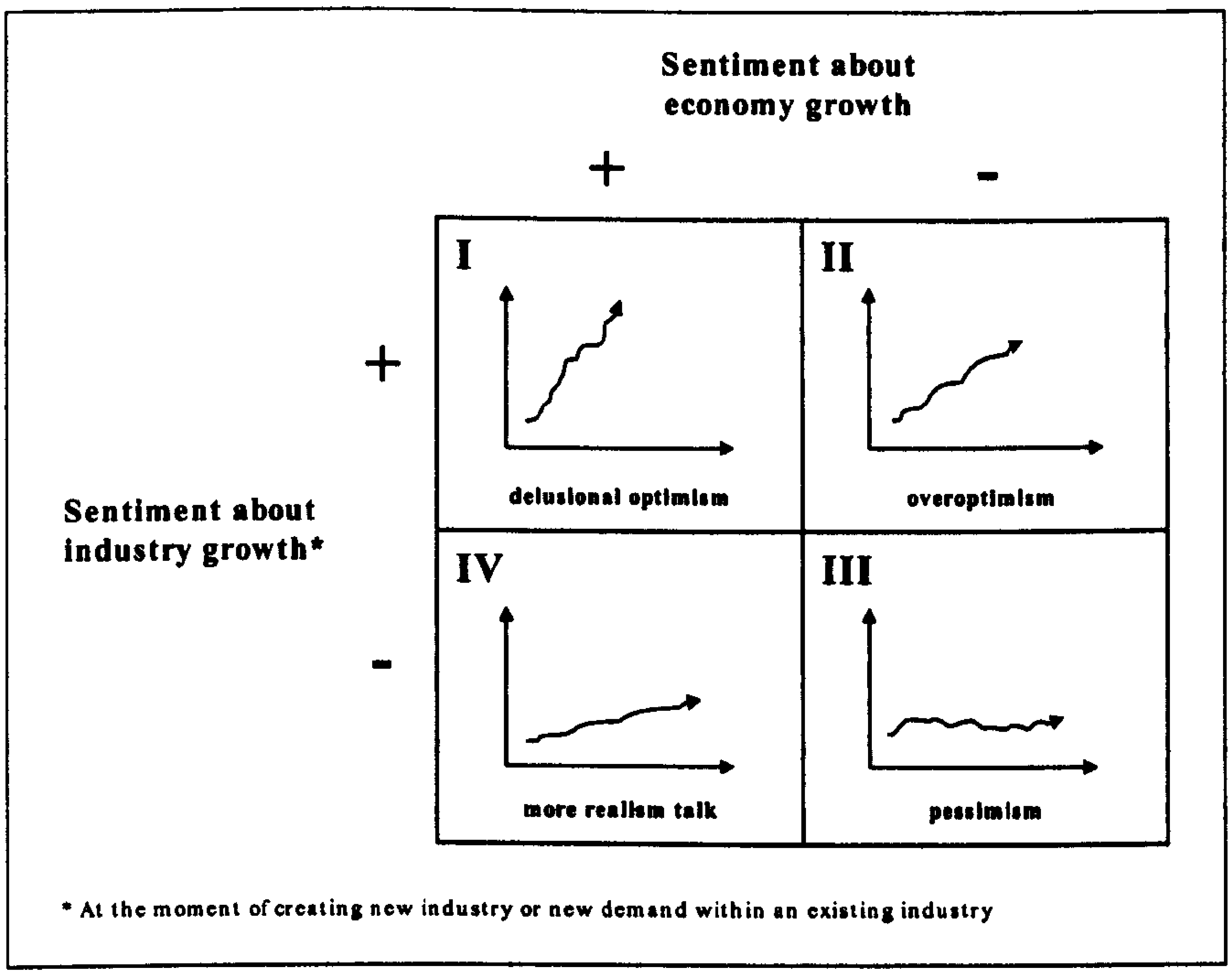
[38] For a comprehensive review of *revolution, evolution, or hype in e-business* see Colton *et al* (2001). For structural shifts in OECD economies during late 90s, beginning of 2000, see the OECD report 'The New Economy: Beyond the Hype' (OECD, 2001).

'When I look at forecasts in the business plan that were used to get the initial funding I can say straight away: this is absolutely ridiculous; there is no way the company could grow at that pace. The whole thrust of a young technology business is to hype, if you like, to create large expectations about sales, and profit levels' – the liquidator;

'Businesses that we typically backed are businesses which need to sell internationally. It turned out that the world market is a lot slower than entrepreneurs forecasted, and their ventures' revenue base does not support more than one location. So, we might have made an assumption that the revenue will grow such that we could open two or three offices and than in a year to break even, but because the market was smaller, we were growing slowly. In the end, that strategy did not work, and entrepreneurs had to close offices' – the venture capitalist.

Figure 35 below presents the concept of hype that has emerged from this study. It tabulates the sentiment of the competitive (industry growth) and remote (economic growth) environments about the future. The growth outlook in each environment is labelled as '+' (positive signals) and '-' (negative signals). It is assumed that signals from the competitive environment will have a stronger effect on firms' behaviour/forecasts (represented as wavy lines in each quadrant). The other assumption of this figure is that the overall outcome arises as a result of the interaction between individuals and the changes in behaviour which they induce in one another (Ormerod, 1998). According to Ormerod, positive feedback that generally rules the real world of the economy and society will lead to trends being reinforced rather than reversed. When negative feedback predominates, any differences between firms' behaviour tend to be smoothed away.

Figure 35. Concept of hype



When the overall sentiment of the environmental context, within which the firm is embedded, about the future is positive (quadrants I and II, Figure 35), entrepreneurs, being influenced by other people's positive behaviour, will tend to hype, or be overoptimistic about the outcomes of their ventures. Entrepreneurs will find it financially advantageous, and often unavoidable, to fall in with the ideas of the market, even though they themselves are better instructed (Keynes, 1936; cited in Ormerod, 1998). This self-reinforcing mechanism that creates hype, also leads to the creation of fashion. The data further suggests that these two variables control each other in a loop. As one strategy management advisor noted:

'Hype is important as it creates fashion. At the same time, hype is driven by fashion. If you like, they are the two sides of the same coin. Hype releases

the investment decisions, because it reduces the pain of failure, whereas human psychology of failure is ameliorated by fashion' – the strategy management advisor.

According to Keynes (1936), worldly wisdom teaches that it is far better for reputation to fail conventionally than to succeed unconventionally. In the same vein, the strategy management advisor observed that there are high emotional and professional costs associated with being the odd one out:

'It is not nearly so bad being killed on the first day of the Somme with twenty thousand other people than it is being killed on your own in no man's land because you went out and stood up. The former is a glorious failure; the second is just an idiot thing to do. What happens in a hype driven market, people are making decisions because everybody else is doing it. The hype and fashion protect you from being one man odd out. If you feel in your heart and gut that this is all rubbish, but you still do it, because it is fashionable and hyped' – the strategy management advisor.

Decision-makers' overoptimism can be traced both to cognitive biases and to organisational pressures (Lovallo and Kahneman, 2004). According to Lovallo and Kahneman (2004), the most prevalent of cognitive biases is anchoring. This is when, for example, the initial business plan accentuates the positive, and the subsequent analysis will be skewed towards overoptimism. Under organisational pressures, when forecasts are critical in attracting funding, decision makers have big incentives to accentuate the positive and downplay the negative in laying out prospective outcomes. Lovallo and Kahneman further argue that this raises the odds that the projects chosen for investment will be those with the most overoptimistic forecasts – and hence the highest probability of disappointment. As the liquidator explained:

'It is the hype that generates VCs' money. When the things are not progressing quite as quickly as they wanted, in my experience, there tends not to be a lot of realism talk; there tends to be even more hype. Because usually what's happening is that suddenly they need more money than they thought. And the last thing they are going to do is to actually talk the situation down, and hype it a bit further' – the liquidator.

The data clearly shows that all interviewed companies hyped (anchored) their forecasts under organisational pressures (see Chapter 7). For example, co-founders of Mobile-Software hyped the business plan to promise the investors very high returns. They asked for fewer funds than they would realistically need to carry out their ambitious plans; eventually they got even less. Such overoptimism backfired: the company ceased trading. Money they raised was not enough to see them through the product development phase, and at the same time, the second round of investment failed to materialise. As the company CEO explained:

'We had to construct the business plan so that it would give VCs the rates of return to buy them into. So, we had to construct something that would say that we could do it for £9 million, although we needed £18 million. In the end we received £6 million only...and all this backfired. At the board meeting we raised the issue whether our ambitious plans should be cut in line with the reduced funds, to which investors said that the plan should be executed as stated in the business plan' – the CEO of Mobile-Software.

Project-Software provides another example. VCs turned away co-founders' business plan on the grounds that what the co-founders proposed was '*...not what everybody was doing, i.e. it was a daft strategy to stay in the UK when everybody else was in the US*' – as recalled by the company CEO. In order to get funding, the co-founders had to put more optimism into the business plan which was then hyped further by their advisors whose fee was dependent on the success of the deal. In the end, this optimism backfired: forecasted sales were not being realised and the company eventually ceased trading. As the CEO explained:

> *'Our initial business plan was more realistic. The revised one was a bit ambitious, not to say the least, was the reality of it. But you have to pitch in that fashion in order to secure any investment at all. You have to be very positive about what you can do. Admittedly, you should not exaggerate, but you should not underplay either. And the projections you have to put in place in order to get investment, especially back in those days, were expected to be quite ambitious'* – the CEO of Project-Software.

In contrast to the above, an overall negative sentiment of the environment about the future (quadrant III, Figure 35) would lead to the opposite effect, i.e. to scepticism or pessimism. As the venture capitalist observed:

> *'The big issue when you invest is to make sure that the markets the company is going into are going to be big as you intend them to be. There were a lot of analysts in telecom, optical industries, etc. who thought that the markets would be huge, but they were not. As a result, a lot of scepticism formed'* – the venture capitalist.

However, the market may overreact to these negative signals. For example, as Coltman *et al.* (2001) found, as the hyperbole of the 90s was clearly overblown; the pessimism of 2001 was an overreaction. Lovallo and Kahneman (2003) argue that there needs to be a balance between optimism and realism – between goals and forecasts, as the adjustment for optimism will often be substantial, particularly in highly uncertain situations where predictions are unreliable. A recent OECD report showed that a slowdown in the economy of the United States has instilled a sense of realism into the debate, as well as putting an end to some exuberant economic behaviour (OECD, 2001). In the report, the OECD urges to resist hype when talking about new technologies, as there is always a risk of exaggerating their potential. Or as several interviewees put it: *'you have to be realistically positive'*. One might expect more realism talk when the sentiments about the future that emanate from competitive or remote environments have opposite signals (quadrant IV, Figure 35). As the venture capitalist and the liquidator explained respectively:

> *'If you go back three years now, the market was extremely bullish, and investors were willing to take very large risks, and also had an inflated idea of what companies might be worth. The big thing that we've been working on quite hard to improve for the last five years I guess is to get real views on the size and trends of the markets'* – the venture capitalist;
>
> *'People were expecting to see growth at an unrealistic level. Nowadays there is less hype than it was historically... There is more realism in the market. VCs take much more realistic line on the likely growth prospects of a company. Although, I am sure hype will return at some point'* – the liquidator.

The data also points to external and internal pressures as factors which lead to hyping behaviour in both business and investment communities. Derived from literature, for the purpose of the present research, hype is divided into two types: hyperbole (Coltman *et al.*, 2001) and vapourware (Levy, 1997; Bayus *et al.*, 2001; Haan, 2003; Gerlach, 2004). Hyperbole refers to a signal emanating from either competitive or remote environments about exaggerated future prospects of a technology, an innovation, a market, or a product. For example, Coltman *et al.* (2001) looked at visionary predictions of the e-business, like brands will die, prices will fall, and middlemen will die. The futuristic predictions that affected the interviewed companies were driven by prospects of the introduction of 3G mobile phones, adoption of smart cards, internet banking and data mining, to name a few: for instance, bank branches will disappear, third generation mobile phones will replace home computers, etc. For example:

> *'What was common to all our solutions was that people were using the Internet more and more in Finance as the way of communicating more cost-effectively with the customers. At that point there was even an idea to get rid of all branches; it will be all internet banking. But we found out that branch network was still an important part. So we were looking at where the common features of the systems we had built for insurers and some banks so that we can build a product round that. ...it happened that our product was too immature at that point'* – the CEO of Finance-Software.

Vapourware is a signal emanated by companies to the market and refers to a false announcement of a new product in an attempt to deter entry (Levy, 1997; Haan, 2003). In the US vapourware even became an antitrust concern (for review see Levy, 1997). The vapourware construct emerged as a recurrent theme throughout the analysis of cross-case data, and it was originated by one and the same company, which happened to be one of the biggest software companies in the world[39]. Four companies from the sample suffered to various degrees from this vapourware. The entrepreneurs who had experienced the vapourware stemmed from this large organisation described it as being just a "*marketing hype*", "*lot of clouds*", "*spooking*" and "*bandits*":

[39] As this finding might be of interest to policy makers, the name of this large software company may be revealed in the thesis only if Chapter 7, where all cases are presented, is removed for confidentiality reasons.

'For a moment we thought maybe we could work with [this company] to the extent that [it] tends to go so far up in the enterprise. But it did not work, because [it] could not do the big systems. They just did not have the technology. Subsequently they introduced a technology called [...], which meant to be kind of whole enterprise wide technology ...marketing hype really' – the CEO of Finance-Software;

'One of the things you learn about the technology markets is that the big [enterprise] players spin awfully a lot about what is possible, and raise customer expectations. However, they consistently failed to deliver, and the markets became very sceptical. As a result, it became very difficult for someone who could actually deliver, to come along and penetrate the major market share. These companies put a lot of clouds, smoke, and actually prevent small businesses getting into the markets most of the time' – the CEO of Mobile-Software;

'One of the big factor that led to a decision to [de-internationalise] was that [our strategic partner], continuing the development of the market place, started talking about the sorts of things that we were doing in their database product. This would have overlapped with what we did, and clearly would have killed the company. This intention spooked a lot of people, and the perception by some was that that was going to happen sooner than later. In the company we held the impression that if we continue with the same strategy, then [our partner] will take away our business at the end. It actually turned out that they still have not included that functionality and have not released the database they were talking about back in 2000. These companies announce a lot of products they intend to develop which they never do, and they do this only to influence the market' – the CEO of Data-Software;

'Our trouble started in early 2000 with couple of events... with [our strategic partner] leaving who scrapped the smart card market and owed us money. We had a lot of good customers, apart from this company, who were bunch of bandits; seriously bad company' – the CEO of Tool-Software.

The data analysis suggests that the proximity to the hype reflects the degree of imbeddedness of the firm within its environmental context. At the level of middle-range theorising about de-internationalisation, it might be argued that the closer the new venture is to the hype, the harder it is to de-internationalise. As the future rarely turns out as expected (Christensen and Anthony, 2004), the entrepreneurs of new ventures will be more sensitive than entrepreneurs in more mature firms to give bad news back to their investors, and therefore will not talk the situation down, but will hype it further. As the liquidator noted:

> *'More mature businesses are further away from hype. Entrepreneurs of these businesses have got used to the idea of satisfying banks and shareholders over longer time frame. They've had more time to take strategic decisions about the growth of their business internationally. They had more measured period; they have not had this very high octane kind of life for the first two or three years. Hence, they will be less sensitive to give bad news back to their investors'* – the liquidator.

Furthermore, the closer the company to the hype, the higher the gap between real and false points of no return (see Figure 34). Decisions makers with an overoptimistic sentiment about the future, i.e. they are closer to hype, would assume a false point of no return. This relationship between these two constructs – point of no return and hype – may contribute to the development of a grand theory of new venture survivability. That is, the closer the new venture is to the hype, the higher the likelihood of failure.

8.8 CONCLUSION

In this chapter, the emergent process model of de-internationalisation was presented. Grounded in data, the model offers a holistic view of firm de-internationalisation process starting from international expansion through to the decisions to de-internationalise. In the context of cross-border activity, the term '*de-internationalisation*' refers to *the firm's capacity to reduce tensions in the organisational gestalt before or at the real point of no return.*

An *organisational gestalt* consists of mutually supportive organisational system elements combined with appropriate resources and behavioural patterns. The term *real point of no return* refers to the point in the life of the firm beyond which the existing gestalt will be insufficient to support the transition to a new viable gestalt.

The process of de-internationalisation is moderated by *hype* that refers to *the overall sentiment of the environmental context, within which the firm is embedded, about the future.* The proximity to the hype reflects the degree of imbeddedness of the firm within its environmental context. At the level of middle-range theorising about de-internationalisation, it is argued that the closer the new venture is to the hype, the harder it is to de-internationalise. This middle-range theorising contributes to the development of a grand theory of new venture survivability – the closer the new venture is to the hype, the higher the likelihood of failure.

To secure ourselves against defeat lies in our own hands, but the opportunity of defeating the enemy is provided by the enemy itself.

Sun Tzu, 400 BC

9 DE-INTERNATIONALISATION AND ENTREPRENEURSHIP RESEARCH PATH

9.1 INTRODUCTION

In the previous chapter, the process of de-internationalisation was explored from the perspective of cross-border research. The research question was to explore whether de-internationalisation could be viewed an integral part of small high-technology firms' growth process? Grounded in data, the middle-range theory of de-internationalisation was proposed. It was suggested that de-internationalisation be defined as the firm's capacity to reduce tensions in the organisational gestalt before or at the point of no return. It was also argued that de-internationalisation is moderated by hype. That is, the closer the new venture is to the hype, the harder it is to de-internationalise.

The purpose of this chapter is to explore the process of de-internationalisation from the entrepreneurship perspective in an attempt to answer the second research question: whether de-internationalisation could be viewed as an entrepreneurial activity. The discussion will be centred on two distinct, although interrelated, perspectives of the entrepreneurship research path: discovery and exploitation of a venture idea.

9.2 NEW VENTURE IDEA DISCOVERY

9.2.1 What is pursued?

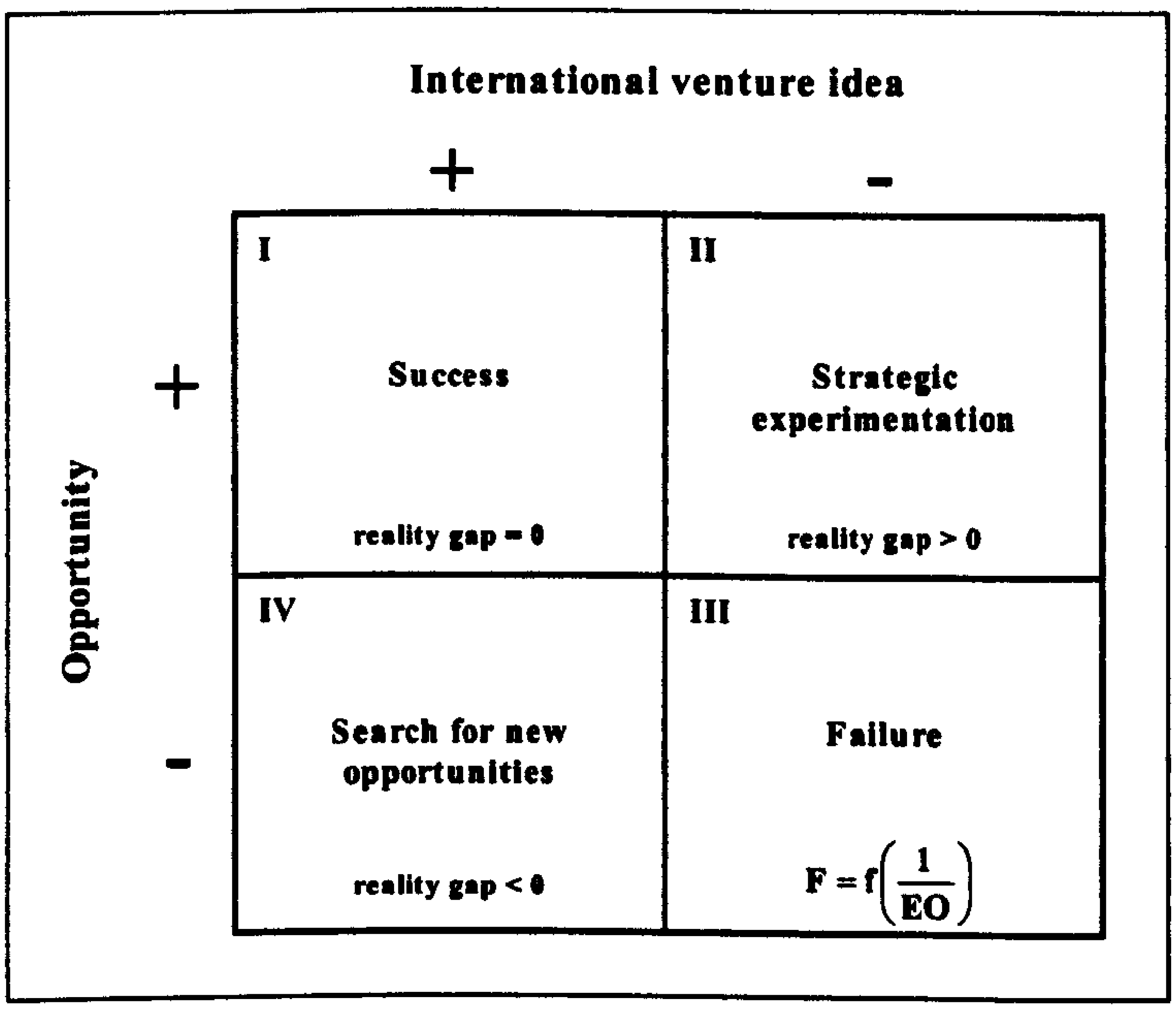
As identified earlier in Chapter 5, the central construct of the proposed research domain of international entrepreneurship, defined as a process of conceiving and pursuing international venture ideas that are intended to create new values in organisations and in the marketplace, is the *international venture idea*. To explore the process of de-internationalisation as entrepreneurial behaviour, it is pivotal therefore to understand how new venture ideas emerge[40] late in the process of a company's international activity, since, according to the axiom of cross-border activity, a firm cannot de-internationalise without having internationalised. The discovery of a new international venture idea is necessary, but not sufficient, as it has to lead to de-internationalisation. It is also important to reiterate here the fact that despite decreasing the level of internationalisation, the overall level of the firm growth might increase.

The data points to a gap between opportunity and business idea – a reality gap – as an antecedent of de-internationalisation. Whether a venture idea reflects an opportunity can only be known in hindsight and only if the outcome is successful (Davidsson, 2003a; 2005b). By cross-tabulating the dimensions of an opportunity and a venture idea, four possible outcomes emerged (Figure 36): (i) success; (ii) strategic experimentation; (iii) search for new opportunities; and (iv) failure. If the pursuit of a venture idea is successful, this would mean that the venture idea reflected the opportunity initially identified (quadrant I, Figure 36). On the

[40] For a discussion of how new venture ideas come into existence, and how they relate to the existence of opportunities as objective reality, see Chapter 6.

other hand, if the pursuit of venture idea leads to a failure (quadrant III, Figure 36) or an organisational change (quadrants II and IV, Figure 36), this would suggest that the venture idea did not echo the opportunity, or the opportunity was not real or both. As argued by Kirzner (1997a), an opportunity may appear as an imprecisely defined market need, or un-or under-employed resources or capabilities.

Figure 36. Reality gap concept



It is expected that the reality gap could be corrected through entrepreneurial behaviour. For example, when the opportunity initially identified turns to be unreal or no longer in existence (reality gap is negative, quadrant IV, Figure 36), entrepreneurs will have to start searching for new opportunities before they reach the real point of no return. Tool-Software and Finance-Software provide good examples of such behaviour.

Tool-Software internationalised instantly via captive industry supplier strategy (see Figure 33, quadrant I), targeting vertical niche markets and supplying their products directly to the customers in these markets. Soon after, they found themselves in the situation when they grew out of that market, and had to look for new opportunities in order to stay in business. Eventually, they found new opportunities to develop a platform, thus adopting the free market leader strategy (see Figure 33, quadrant IV). As the company CEO recalled:

> *'The recession was very, very sharp double-edge sword. It cut us deep in many, many ways, but definitely it sliced the other way as well by creating very significant opportunities for that type of a [horizontal] strategy... well, we [took] a bit of hiding, surviving and came back'* – the CEO of Tool-Software.

While de-internationalising, the co-founders managed to restructure the company, concentrate again on generating revenue from its old tool business (based on 2G technology), maintaining its service capability that was also generating tactical revenue, and attracting venture capital to support the new venture idea. Tool-Software received three rounds of VC funding, and eventually released its platform in 2003. By 2003, 80% of its revenue from the tool business was coming from overseas as most of its approximately 220 customers were located in 33 countries. In fact, they created a new entity that helped them differentiate the new platform business from the old tool business, and re-internationalise. As the CEO of the company explained:

'[This new entity] was a brand front of [the company]. We created it to differentiate the old tools business that still was generating revenue for us from the new entity which was the platform business. We wanted to differentiate these two businesses in the market place' – the CEO of Tool-Software.

Finance-Software also started off by pursuing captive industry supplier strategy (see Figure 33, quadrant I), selling their services directly to their customer's major international branches. The intention was to expand these services to other companies located within the same vertical. However, the co-founders soon found out that these services were not in demand, and started, as co-founders of Tool-Software, searching for new opportunities in order to stay in business. As the CEO of the company explained:

'We thought we would be delivering tailor-made software solutions to other large enterprises like we did to our parent company... What we found out was that our proposition had to be a little bit more targeted than that, and concluded that we do not have any future in the manufacturing systems, so we have to choose another vertical' – the CEO of Finance-Software.

In the search of new opportunities, the co-founders of Finance-Software had to address two fundamental issues, i.e. which vertical market and which particular technology to concentrate on. Eventually, having identified new business opportunities in another vertical, which happened to be located in the domestic market, and having adopted as a result the captive dyadic partner strategy (see Figure 33, quadrant II), the co-founders changed the business model, and focused exclusively on the domestic financial service market that eventually became the firm's core market. As a result, Finance-Software became the leading e-commerce provider in the new market, and grew by approximately 260% in three years.

However, companies may also de-internationalise and/or fail when the opportunity initially identified as objective reality, remains real (quadrant II, Figure 36). Davidsson (2003a) calls these ventures catalysts. That is, although not successful on the micro level – perhaps because they are outsmarted by followers or retaliating incumbents – these ventures do drive the market process precisely because they bring forth such behaviour on the part of other actors. As several entrepreneurs stated:

> *'The market has changed, but the need is still there. I would have focused on a higher value version of the product and competed with [our strategic partner] even if they entered the market. To deal with external factors, I would have pulled out from the US, maybe trying to keep a foot there on a smaller basis, because this is where the lead market is for that technology'* – the CEO of Data-Software.
>
> *'From the timing point of view, we were possibly a year too early. However, the market opportunity that we identified was real, and, in fact, it still exists in slightly different ways. The way it is being solved right now is very expensive. The company that I'm the chairman of is working on the solution to the next generation of this problem. My bet is not on doing the next incremental step, but instead to leapfrog. It is risky: it might work, it might not'* – the CEO of Mobile-Software.

The mismatch then between the opportunity and the venture concept may come from within the company where the iterative decision-making as to what growth path to take, what business model to adopt, and what organisational gestalt to create becomes critical. For example, in the case of Project-Software it was not the unreality of the opportunity that caused the reality gap, and eventually the company's liquidation in 2001. Instead, it was, inter alia, the tacit conflict with investors (dyadic tensions), the pace of internationalisation (strategic tensions), and the escalating commitment to the failing course of action (gestalt tensions at point of no return). However, as the opportunity was still there, and having retained the withstanding gestalt after the liquidation, Project-Software arose as a phoenix from the ashes and re-internationalised: it was born global again. As of today, according to an American software magazine, Project-Software is one of the leaders (top second) in the project software market. As the company CEO explained:

> *'The danger at that stage was that our partner, with whom we entered in a joint-venture [six months before the liquidation], could have come forward and bought the IP. Fortunately, this did not happen. It was our personal relationships with our partner that made it possible to avoid the acquisition of the IP. They even gave us a blessing; they wrote a letter of support to the liquidator, and other interested parties, in which they insured that the joint-venture will remain intact if IP owners acquire back their IP'* – the CEO of Project-Software.

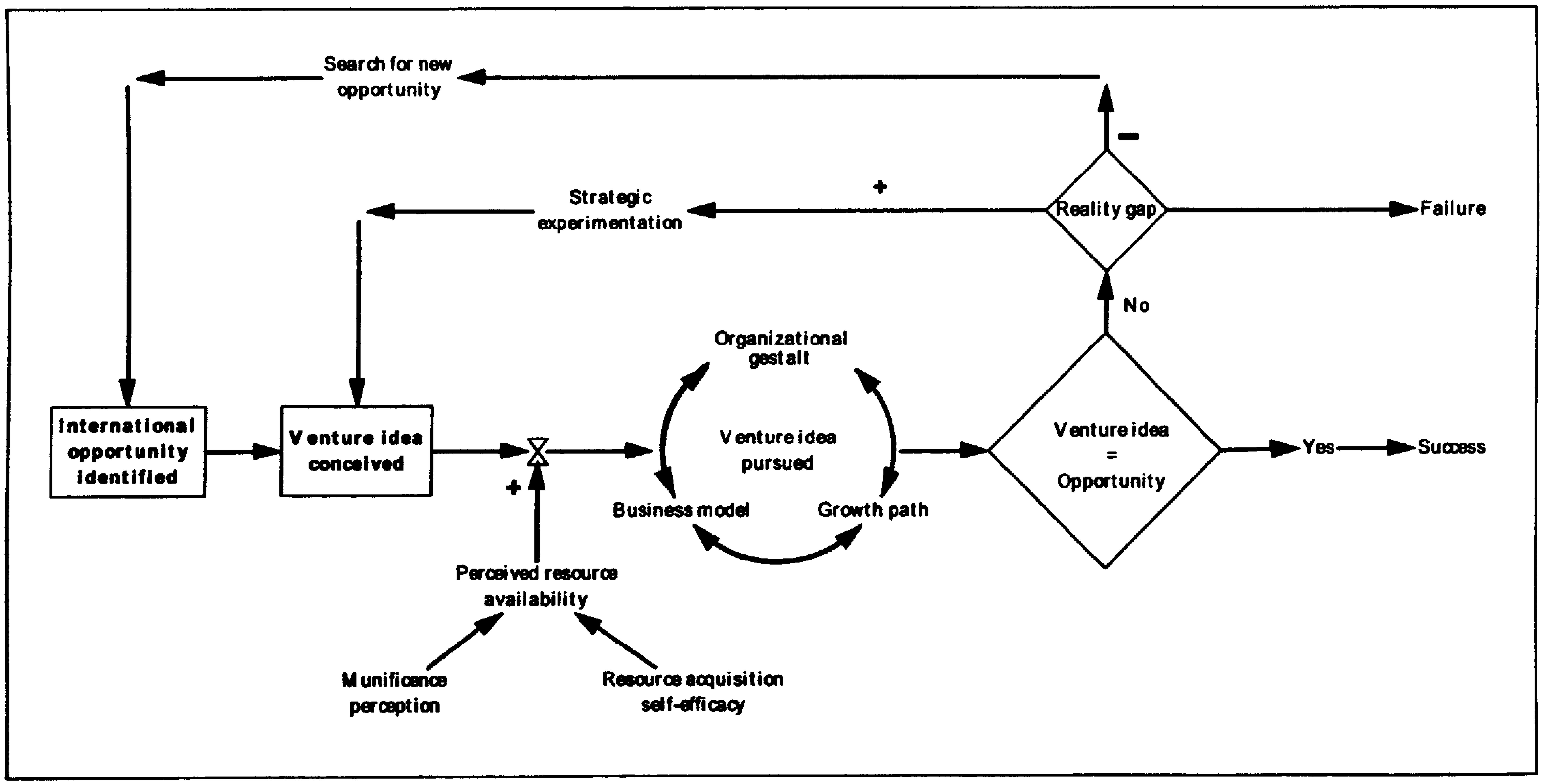
However, if entrepreneurial behaviour is not part of the organisation in either of the situations, e.g. when the reality gap is either negative or positive, then, it might be inferred that failure is inevitable (quadrant III, Figure 36). As the discussion in the previous chapter showed, entrepreneurial alertness can be mediated, inter alia, by illusive alignment and enslavement (dyadic tensions), lack of agility and entrapment to the failing course of action (gestalt tensions), or moderated by delusional optimism (hype).

9.2.2 Reality gap model

Based on the reality gap concept, a reality gap model is proposed (Figure 37). The reality gap model indicates that if entrepreneurs see the environment as "accepting and abundant with resources" (Brown and Kirchhoff, 1997: 42), they are more likely to pursue the new venture idea. An iterative decision-making process comes next. Entrepreneurs will embark in a strategic experimentation that, according to Nicholls-Nixon *et al.* (2000), is about forming and executing a strategy in an effort to reach a steady state for the first time [in relation to the pursuit of new venture idea]. For example, entrepreneurs will have to decide on the growth path, e.g. organic or acquisition, on the business model, e.g. product-led or hybrid; and on the configuration of organisational gestalt. Also, built in the model below is the notion that change per se does not constitute entrepreneurship (Davidsson, 2003a). According to Davidsson (2003a), decision makers may facilitate entrepreneurship through organisational change, but it is the market related activities that may result, and not the organisational change, that constitutes entrepreneurship.

The reality gap model suggests that entrepreneurial behaviour is the key to the process of aligning the organisational strategy (growth path, business model, and organisational gestalt) to the opportunity, therefore to the success of an international venture. Lumpkin and Dess (1996) identified five dimensions to characterise *how* (original emphasis; p. 136) new entries are undertaken: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness.

Figure 37. Reality gap model of new venture idea emergence



Autonomy refers to the freedom to act independently by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion. Innovativeness refers to a willingness to support creativity and experimentation in introducing new products/services, and novelty, technological leadership and R&D in developing new processes. Risk taking means a tendency to take bold actions such as venturing into unknown new markets, committing a large portion of resources to ventures with uncertain outcomes, and/or borrowing heavily (Lumpkin and Dess, 2001). Proactiveness refers to seeking new opportunities which may or may not be related to the present line of operations. Competitive aggressiveness reflects firm's propensity to directly and indirectly challenge its competitors to achieve entry.

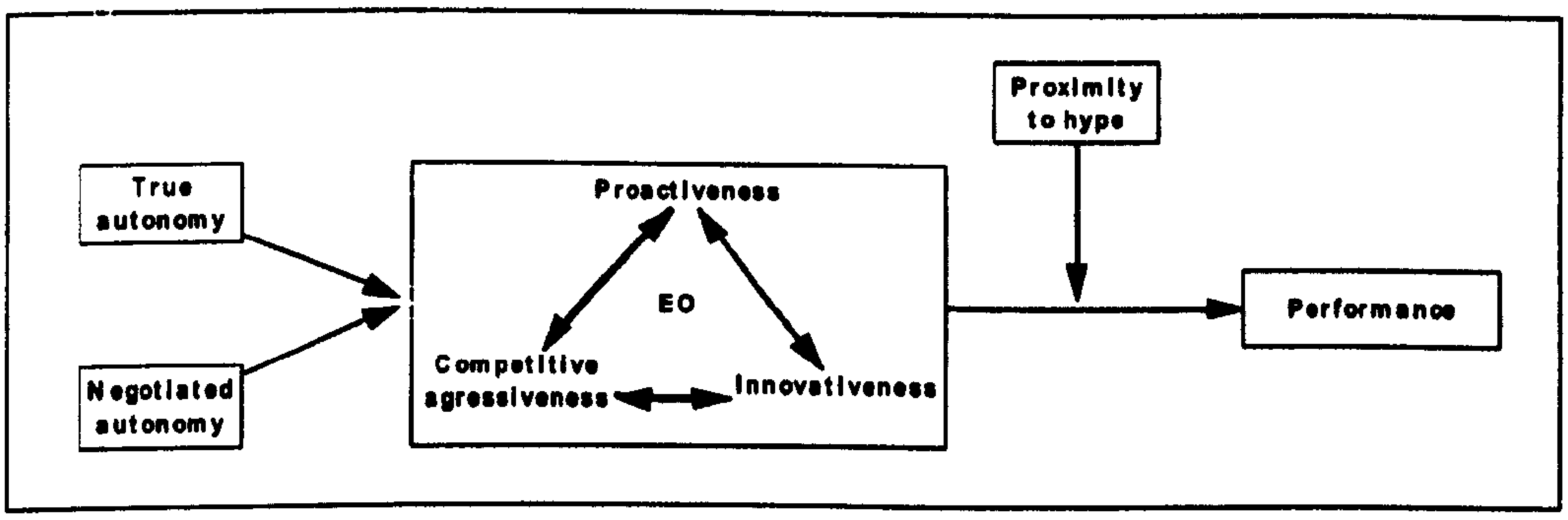
One of the key assumptions behind Lumpkin and Dess' (1996) entrepreneurial orientation framework is that all five dimensions are independent of each other in a given context. The question is whether this assumption holds in small firms, since Covin and Slevin (1989) argue that firms that exhibit all (innovativeness, risk taking, and proactiveness) dimensions[41] should be regarded as entrepreneurial. The other question is what the entrepreneurial orientation construct consists of since there is no clear consensus over the entrepreneurial orientation dimensions (Covin and Slevin, 1989; Lumpkin and Dess, 1996). The next section addresses these questions using data from this study.

[41] Covin and Slevin (1989) used only three dimensions of entrepreneurial orientation – innovativeness, risk taking, and proactiveness – as 'a basic, unidimensional strategic orientation' (p. 79).

9.3 NEW VENTURE IDEA EXPLOITATION

The starting point of the discussion over what an entrepreneurial orientation construct consists of is *autonomy* that refers to the freedom to act independently. Specifically, the issue addressed is whether autonomy is part of an entrepreneurial orientation construct or is a variable independent of an entrepreneurial orientation construct. And if the latter, then what its relationship is with an entrepreneurial orientation construct. The data suggests that autonomy is a variable *independent* of an entrepreneurial orientation construct. The data further points to autonomy as an antecedent of an entrepreneurial orientation construct; since the freedom to act independently is built in the growth path firms adopt to pursue new entry, e.g. organic growth or acquisition growth (Figure 38 below).

Figure 38. Entrepreneurial orientation construct redefined



For example, if entrepreneurs decide to undertake the new entry via organic growth instead of acquisition growth, then they will have a true autonomy – a complete freedom to make key decisions, and implement them (Figure 38).

Finance-Software and Tool-Software are good examples of entrepreneurially oriented companies with true autonomy. For Finance-Software, de-internationalisation was not just a U-turn along organisational strategy, but a U-turn along the dimension of searching for new opportunity (proactiveness, and innovativeness) to undertake a new entry (Figure 37). For Tool-Software, de-internationalisation was along both dimensions of the reality gap model, i.e. searching for new opportunity (proactive, and innovative) and organisational strategy (internal re-organisation). And these entrepreneurial processes, in some instances even being radical departures from existing state of affairs, were possible only when entrepreneurs pursued new entries via organic growth, i.e. having true autonomy over their decision making process.

It might be inferred therefore that firms that adopt an organic growth path will have a higher degree of entrepreneurial orientation, and therefore a higher performance relative to those firms that adopt an acquisition growth path. When entrepreneurs pursue an international venture idea via an acquisition growth path, they might face the dilemma of goal alignment that gives scope to *negotiated autonomy*. It might be inferred that in firms that acquire venture capital the level of autonomy will depend on the degree of alignment of goals between VCs and entrepreneurs.

As the concept of goal alignment is unidirectional, i.e. it is geared towards the VCs' agenda of quick exit, it might be expected that the ultimate bargaining power will reside with the investors. As presented in Chapter 8, a typology of goal alignment emerged (Figure 30): (i) life changing opportunity; (ii) enslavement; (iii) no marriage; and (iv) illusive alignment. When VCs' and entrepreneurs' agendas are aligned (life changing opportunity), it might be inferred that entrepreneurs will have a higher degree of negotiated autonomy, will be more entrepreneurially oriented, and thus achieve higher performance, relative to the situations when the alignment of entrepreneurs' goals to VCs' goals is not explicit (enslavement or illusive alignment).

The next point in the discussion about the entrepreneurial orientation construct is the dimension of risk. In their seminal article, Lumpkin and Dess (1996) did not take a stance on risk taking and concluded instead that 'effectively operationalizing ...risk taking ...remains an area for future development' (p. 145). Their conclusion primarily is derived from the fact that the literature on the effects of risk-taking on entrepreneurial behaviour is inconclusive (for discussion see Chapter 3). Moreover, in their discussion of risk, Lumpkin and Dess failed to distinguish between risk and uncertainty, which remains a fundamental feature of most economic actions and environments in the context of emergence of new venture ideas (Davidsson, 2005b). And this is not surprising, since there is a tendency among scholars to treat these two concepts as if they were synonymous (Alvarez and Barney, 2004).

Knight (1921) was the first to distinguish between decision making under risk and uncertainty. The key difference between risk and uncertainty is that in uncertain situations the mean and variance of the probability distribution of outcomes are not known before a decision is made (Alvarez and Barney, 2004). That is, according to Knight (1921), there is 'no valid basis of any kind for classifying instances to determine probability from past experience or statistical calculation' (p. 225). And this is especially true when entrepreneurs are opening new markets or exploiting new technologies (Schumpeter, 1934). That is, when these kinds of entries are undertaken, the cash flow an entry is expected to generate (the mean of the distribution) and the rate at which the cash flow should be discounted over time (the variance of the distribution) are not known (Alvarez and Barney, 2004). In another words, net present value cannot be calculated under Knightian uncertainty. Therefore, it might be expected that entrepreneurs and their major stakeholders will behave differently under uncertain decision making situations relative to risky decision making situations.

This suggests that both risky and uncertain settings are variables *independent* of an entrepreneurial orientation construct and actually moderate the relationship between an entrepreneurial orientation construct and firm's performance (Figure 38). The data analysis suggests that uncertainty and hype are two sides of the same coin. For example, in the previous chapter, a theory of survivability was proposed, according to which, *the closer the new venture is to the hype, the higher the likelihood of failure.* It might be argued that delusional optimism or overoptimism are present in uncertain situations when entrepreneurs do not have any valid basis to determine the cash flow (the mean) and the net present value (the variance) associated with the new entry, whereas VCs, for the same reasons, can not distinguish hype from reality. In such uncertain decision making situations (Alvarez and Barney, 2004), entrepreneurs will be prone to hype their business plans as there will be virtually no risk of being detected of such behaviour. This opportunistic behaviour may lead to a large gap between the opportunity and the venture idea (Figure 37). In fact, uncertainty-hype relationship may add to the understanding of the formation of the reality gap, especially its magnitude. It might be expected that the reality gap will be significantly larger in uncertain decision making settings than in risky decision making settings.

As companies move away from overoptimism towards risky decision making settings (Alvarez and Barney, 2004) with more realism talk, more accurate information would come from the market that would make it possible to perform much needed statistical calculations, and therefore to make a distinction between hype and reality. That is, as the history of a new market or a new technology is being formed, the entrepreneurial orientation of various stakeholders changes. For example, with valid information in hand, investors may substantially reduce their support to or even withdraw from a new venture. As one VC explained his decision to reduce the level of funding to Project-Software at the second round when investors started receiving valid information form the market:

> *'The big thing that we've been working on quite hard to improve for the last five years is to get the views on the size and trends of the markets. The big issue when you invest is to make sure that the markets the company is going into are going to be big as you intend them to be. When we invested in [Project-Software] we did not have the same level of information that we have now. We spent a lot of time putting all the information together to form the view about their global market. What we found out was that the market was actually much smaller than we thought'* – the VC.

The above contextualization of autonomy as an antecedent and the risk-uncertainty dichotomy as a *moderator* of entrepreneurial behaviour singles out proactiveness, innovativeness, and competitive aggressiveness as three major interrelated dimensions of the entrepreneurial orientation construct (Figure 38). All these dimensions are essential to the process of emergence of a new international venture idea, which consists of two interrelated entrepreneurial processes of discovery and exploitation. That is, proactiveness is about seeking new business opportunities; innovativeness is about translating the identified opportunity into a venture idea; and competitive aggressiveness is about pursuing the venture idea. The interrelated and iterative nature of these dimensions suggests that firms that exhibit <u>all</u> three dimensions: proactiveness, innovativeness, and competitive aggressiveness, should be regarded as entrepreneurial.

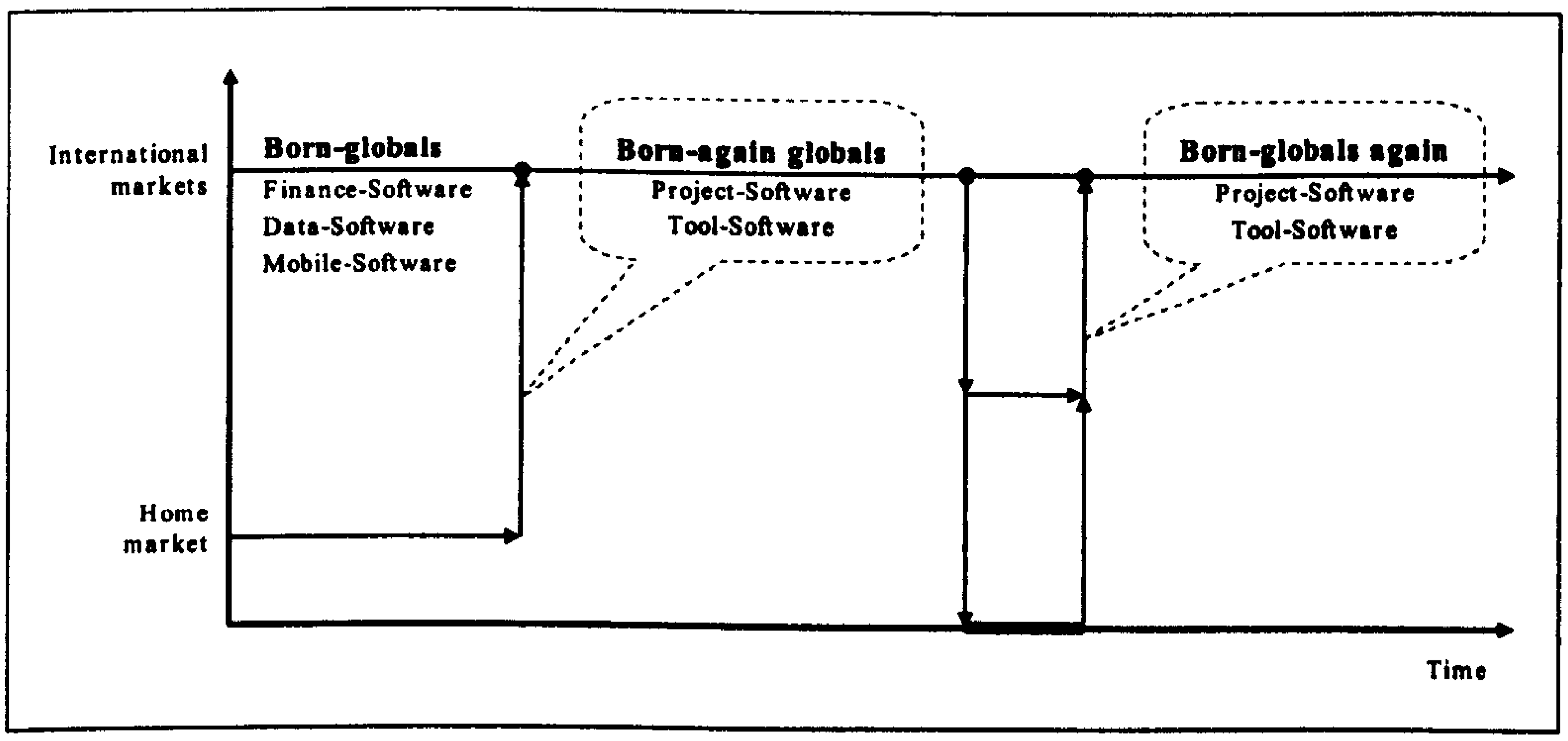
9.4 BORN-GLOBAL REDEFINED

To some extent, this study also addresses one of the earlier critiques of international entrepreneurship research in that the bulk of it has focused primarily on studying the internationalisation of new ventures, thus ignoring the fact that entrepreneurial activities are an ongoing process over time (Zahra and George, 2002). Accepting the *international venture idea* as a central focus of the proposed research domain of international entrepreneurship may put an end to such critiques; precisely because international venture ideas will be conceived *and* pursued regardless of the age of the firm (see Figure 39).[42] And this is in

[42] One of generally accepted characteristics of the born-global firm is that the start of internationalization begins within three or four years of firm's inception (McKinsey and Co, 1993; Autio *et al*, 2000; McNaughton, 2000; Bell *et al*, 2001; Andersson and Wictor, 2003).

contrast to Oviatt and McDougall (1994) who advocate that the focus is on the age of firms *when* (emphasis added) they become international.

Figure 39. Born-global redefined



Oviatt and McDougall (1994:49) defined an international new venture '...as a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries'. And indeed, in the present research, three firms, Finance-Software, Data-Software, and Mobile-Software internationalised instantly, immediately after their inception (termed as born-globals in Figure 39).

However, two firms, Project-Software and Tool-Software, who were well established in their domestic market, internationalised rapidly when they were seven and nine years old respectively. Bell *et al.* (2001) termed these firms as born-again globals (Figure 39). Furthermore, the data revealed the existence of a third type of new international ventures – born-global again (Figure 39). These are firms that having experienced an episode (Kutschker *et al.*, 1997) of de-internationalisation as a result of a critical incident (Bell *et al.*, 2001) and then re-internationalised again. Tool-Software is a case in point. This company grew out of its international market, de-internationalised, found new opportunities, and re-internationalised again. Project-Software is also a *born-global again* with the only difference that co-founders did not have to look for new opportunities, as the business opportunity they originally identified was real at the moment of the rebirth of the company.

Based on the above discourse, a unifying definition of born globals is proposed. Born globals are defined as *firms that internationalise right after either their inception or the inception of a new international venture idea.* The key assumption of the proposed definition is that international entrepreneurship researchers should not be concerned with *when* an international venture idea occurs in the firms' life cycle, but *how long* the emergence, i.e. conception and pursuit, of the international venture idea lasts. That is, the reference point is the inception of new international venture idea. This definition also takes into account the possible time-lag between the conception and the pursuit of the international venture idea. As the CEO of Data-Software noted:

> *'The first round of funding was to help bring the product into a form that we could bring it to market, and to figure out what market niches we need to go into. Once we'd done that we got more money from VCs to really go after the opportunity: to build the big team and build the infrastructure in the US'* – the CEO of Data-Software.

For operationalisation purposes, the question then becomes how long the process of emergence is or should be. It might be argued that at least it has to be long enough to allow researchers to capture not only the inception and the pursuit of international venture idea, but also the outcome of the whole process (the reality gap). There appears to be a consensus in the international entrepreneurship literature on the operationalisation of international new ventures, i.e. less than six years (Zahra and Kirchhoff, 2001; Jones and Coviello, 2002; McDougall *et al.*, 2003). And this is consistent with survivability rate of the cases in the present research (Table 22).

Table 22. Survivability rate

Case	De-internationalised, after the emergence of international venture idea, (years)
Finance-Software	3
Project-Software	2
Tool-Software	5
Mobile-Software	2
Data-Software	3

Drawing on Storey's estimates of small firm survival after three years (Storey, 1994), and the fact that the first six years appear to be a critical period in which firm survival is determined for the majority of companies (The State of Small Business, 1992; cited in McDougall *et al.*, 2003), it is suggested that the same time frame be applied for the process of emergence of an international venture idea regardless of where a firm is located in its life-cycle.

9.5 CONCLUSION

The purpose of this chapter was to explore the process of de-internationalisation from the entrepreneurship perspective. The discussion centred around the process of emergence of an international venture idea as a central construct of the proposed research domain of international entrepreneurship. Specifically the focus was on two interrelated processes of the entrepreneurship research path: discovery and exploitation of a new venture idea. On discovery, the concept of reality gap emerged, which indicates a difference between an opportunity, as an objective reality, and a business idea, as an entrepreneur's mind creation. The key premise of this concept is that one can know whether a venture idea reflected an opportunity only in hindsight and only if the outcome was successful (Davidsson, 2003a). By cross-tabulating the dimensions of an opportunity and a venture idea, four possible outcomes emerged: (i) success; (ii) strategic experimentation; (iii) search for new opportunities; and (iv) failure.

On the basis of the reality gap concept, a reality gap model was developed. The reality gap model indicates that if entrepreneurs see the environment as "accepting and abundant with resources" (Brown and Kirchhoff, 1997: 42), they are more likely to pursue the new venture idea. Entrepreneurs then will embark in a strategic experimentation to form and execute a strategy in an effort to reach a steady state for the first time (Nicholls-Nixon *et al.*, 2000). The reality gap model further suggests that entrepreneurial behaviour is the key to the process of aligning the organisational strategy (growth path, business model, and organisational gestalt) to the opportunity, therefore to the success of an international venture.

On exploitation, the data points to three major dimensions of the entrepreneurial orientation construct: (i) proactiveness; (ii) competitive aggressiveness; and (iii) innovativeness. The data also points to autonomy being an antecedent rather than as part of the entrepreneurial orientation construct. Depending on the growth path an entrepreneur decides to undertake, two types of autonomy emerged: true autonomy and negotiated autonomy. As regards the risk dimension, the data points to a dichotomy between uncertainty and risk that is seen as a moderator of the entrepreneurial orientation construct, rather than as a part of it. Several propositions have been put forward to describe the relationships between all the above units. Based on the above discourse, a unifying definition of born globals is proposed. Born globals are defined as *firms that internationalise right after either their inception or the inception of a new international venture idea*. The key assumption of the proposed definition is that international entrepreneurship researchers should not be concerned with *when* an international venture idea occurs in a firms' life cycle, but *how long* the process of emergence – conception and pursuit – of international venture idea lasts.

The most difficult thing in science, as in other fields, is to shake off accepted views.

George Sarton (1955)

10 CONCLUSION AND FUTURE RESEARCH DIRECTIONS

10.1 INTRODUCTION

The aim of this study was to explore the process of de-internationalisation in small high-technology firms. The review of international entrepreneurship, entrepreneurship, and international business literatures indicates that de-internationalisation appears to be one area of research that is 'important' but not 'convenient' to research (Coviello and Jones, 2004: 493). That is, the research tends to concentrate on growth and development, not de-internationalisation and failure. This study sought to address the sampling bias that occurs when research only explores successful growing companies (see e.g., Coviello and Jones, 2004; Davidsson, 2005a). The study investigated the underlying drivers of *why* and *how* small high-technology firms might reduce or even withdraw from their international engagement. Specifically, the research attempts to explore whether de-internationalisation can be viewed as (i) an entrepreneurial activity; and/or (ii) an integral part of a small high-technology firms' growth process.

Driven by the nature of the research questions, *how* and *why* small high-technology firms de-internationalise, a multiple-case study strategy was adopted for the purpose of theory building. Eisenhardt (1989b: 548) suggests that a strong theory-building study (i) yields *good* theory which emerges at the end, not beginning, of the study, and (ii) should result in new insights (emphasis added).

According to Weick (1989: 517), a good theory is a plausible theory, and a theory is judged to be more plausible and of higher quality if it is interesting rather than obvious, irrelevant or absurd, obvious in novel ways, a source of unexpected connections, high in narrative rationality, aesthetically pleasing, or correspondent with presumed realities.

Five iterative steps were identified to guide the design of the research methodology: (i) theoretical sampling; (ii) developing sampling criteria; (iii) determining data collection methods; (iv) snowball sampling; and (v) triangulation. Five firms were selected on the basis of a mixed purposeful sampling strategy, which made use of theoretical and snow-ball sampling. The following criteria guided the selection process: case companies would have (i) de-internationalised totally or partially; (ii) less than one hundred employees; (iii) operated in one sector (software); (iv) been located in one country (Scotland); and (v) gone through the same critical period (1999-2001).

To explore companies' critical events and episodes, the method of critical incident technique was employed. Data triangulation methodology was used to gather different types of data in order to compare and cross-check the consistency of information. Information about de-internationalisation was collected from three data sources: (i) secondary sources; (ii) in-depth interviews with company directors; and (iii) in-depth interviews with company stakeholders.

In total, 24 semi-structured interviews, including follow-ups, were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data. The stakeholders included: a venture capitalist, a liquidator, a strategy management advisor, a business correspondent, and policy makers. The interview transcripts and secondary data pertinent to each case were coded in an iterative manner, working back and forth between theory, emerging patterns and data. Within- and cross-case analyses were employed to analyse the data. Within-case analysis was the basis for developing early constructs surrounding the process of de-internationalisation. Cross-case analysis focused on the constructs that emerged as a result of the analysis of within-case data.

This thesis was concerned with the development of middle-range theories which can explain how and why small high-technology firms de-internationalise. The method of constructing typologies by reduction and subtraction was employed extensively in order to advance middle-range theories. According to Weick (1989: 521), middle-range theories are solutions to problems that contain a limited number of assumptions and considerable accuracy and detail in the problem specification. In this study, middle-range theorising helped to manage the complexity of the emergent process model of de-internationalisation. Apart from that, middle-range theorising helped to increase the level of generalizability by moving from a middle-range theory of de-internationalisation to a formal theory (Glaser and Strauss, 1967) of new business venture survivability.

In the following sections, contributions to international business, entrepreneurship, and international entrepreneurship streams of research will be discussed, and recommendations for future research will be provided. The limitations of the present research will conclude the chapter.

10.2 CONTRIBUTION TO INTERNATIONAL BUSINESS RESEARCH

10.2.1 The process model of de-internationalisation

The iteration between emerging constructs, theory and data led to the emergence of the model of de-internationalisation. The model offers a holistic view of the firm de-internationalisation process starting from international expansion through to the decision to de-internationalise (see Figure 28, p. 297). Five theoretical building blocks formed the basis of the model. They are (i) gestalt tensions at inception of new business idea; (ii) dyadic tensions; (iii) (internationalisation and international marketing) strategic tensions; (iv) gestalt tensions at the point of no return; and (v) hype.

The model suggests that de-internationalisation is moderated by *hype*. Hype refers to *the overall sentiment of the environmental context, within which the firm is embedded, about the future*. The model also suggests that the proximity to hype reflects the degree of imbeddedness of the firm within its environmental context. The data generated by this study further suggests that hype and uncertainty are two sides of the same coin. According to Alvarez and Barney (2004), the key difference between risk and uncertainty is that in uncertain situations the mean and variance of the probability distribution of outcomes are not known before a decision is made. In uncertain decision making situations (Alvarez and Barney, 2004), entrepreneurs will be prone to hype their business plans because there will be virtually no risk of such behaviour being detected. Under organisational pressures, when forecasts are critical in attracting funding, decision makers will have big incentives to accentuate the positive and downplay the negative in laying out prospective outcomes (Lovallo and Kahneman, 2004). At the level of middle-range theorising about de-internationalisation, it might be therefore inferred that the closer the new venture is to the hype, the harder it is to de-internationalise.

As companies move away from hype towards risky decision making settings with more realism, more accurate information comes from the market. This makes it possible to perform much needed statistical calculations, and therefore to make a distinction between hype and reality.

From the model, the definition of de-internationalisation is derived as *the firm's capacity to reduce tensions in the organisational gestalt before or at the real point of no return*. An organisational gestalt consists of mutually supportive organisational system elements combined with appropriate resources and behavioural patterns (Covin and Slevin, 1997; Slevin and Covin, 1997). The term *real point of no return* (see Figure 34, p. 334) refers to the point in the life of the firm beyond which the existing gestalt will be insufficient to support the transition to a new viable gestalt. To successfully de-internationalise just before or at the real point of no return a firm would be required to have a minimum safety net, referred to as *withstanding gestalt* (Figure 34, p. 334). These and other constructs that emerged in this study to explain the behaviour of firms within each theoretical building block of the process model of de-internationalisation will now be summarised below.

10.2.2 Middle-range theorising: the concept of goal alignment

Entrepreneurs who receive venture capital have to alleviate the dyadic tensions which materialize as the result of differences between VCs' goals and their goals. That is, entrepreneurs want to achieve profitability via long-term growth, whereas VCs' goals are to exit quickly via out-and-out growth. To understand these dyadic tensions between entrepreneurs' and VCs' goals, the concept of goal alignment was introduced. The typology of goal alignment was generated by cross-tabulating an entrepreneurs' agenda and a VCs' agenda. Four types of alignment emerged (see Figure 30, p. 307): (i) life changing opportunity; (ii) enslavement; (iii) no marriage; and (iv) illusive alignment. The concept of goal alignment is unidirectional, i.e. it is geared towards the VCs' agenda of a quick exit.

The ideal situation for VCs and entrepreneurs is when their agendas are aligned, and this creates a *life changing opportunity* attitude so that entrepreneurs share the VCs' desire for a quick exit. As expected, however, some entrepreneurs just do not want to sell their company. And if, as a result, no compromise is reached, then there will be *no marriage* between the two.

The data also points to the fact that entrepreneurs may be kept in the dark with regard to the VCs' true agenda (Figure 30, p. 307): *illusive alignment* and *enslavement*. The difference between these two is that in the former situation, VCs do not have to even insist on their objective of out-and-out growth as entrepreneurs unknowingly and maybe reflexively, for example, driven by *hype*, "share" VCs' desire for out-and-out growth. That is, in this situation of *illusive alignment* of goals, for VCs it is easier to mitigate the effect of getting an investment, which is when entrepreneurs 'lose control' having actually retained the majority of the shares, via *illusive control*, by making entrepreneurs believe they are in control of the situation as long as they unknowingly and reflexively advocate the VCs' agenda.

Entrepreneurs find themselves *enslaved* when they are trying to sell their own vision of growth to the VCs, but VCs disagree and impose their own growth strategy. Entrepreneurs may find themselves in a catch-22 situation. They can not or do not want to say 'no' as they for example i) are desperate to get funding in order to develop and/or market their product, or ii) lack sufficient knowledge and experience to argue their case, or iii) are trying to avoid the situation where they could be blamed for the firm's failure when things go wrong. By saying 'yes' to something they do not agree with, i.e. by *enslavement*, entrepreneurs force themselves into a *tacit conflict* situation, which they then have to live with for the remainder of their marriage to VCs.

These types of goal alignment pose interesting questions for future research. For example, the importance of creating a *life changing opportunity* culture could be assessed by the value of the exit. That is, what would be the effect of the alignment of entrepreneurs' objectives in terms of exit at the initial round of funding on the value of the exit? Or, what would be the value of exit when the entrepreneurs' objectives converge gradually with VCs' objectives during their marriage? One would expect that higher value at exit would be achieved in those firms where the entrepreneurs' objectives were aligned, in terms of exit, from the initial round of funding.

When entrepreneurs and VCs do not arrive at a consensus and as a result there is *no marriage*, researchers may delve into the effects of denial of funds. That is, what happens to the firms that were denied funding to pursue the identified new economic activities? Will they pursue other avenues for funding, give up and grow organically or fail? For example, Tool-Software was unsuccessful in raising capital just two years after a new business opportunity was identified, and continued to pursue the organic growth path. Crucial in this process of pursing other avenues for funding is the stigma associated with failure to secure first round funding. The issue of stigma of failure becomes even more acute in countries like Scotland, in which all the sample firms started their activities, where the VCs' community and the advisors' community are very small, and susceptible to collusion.

10.2.3 Middle-range theorising: the concept of captivity

The data in this study points to market segmentation and sales strategy as factors that spark (international marketing) strategic tensions. With market segmentation, the dilemma is how to position the firms' products: as vertical or horizontal products. With regards to the sales strategy, the issue is whether to sell the product directly or indirectly. By cross-tabulating these two factors, a *concept of captivity* has emerged. Generically, captivity refers to the situation when (i) firms have no practicable alternative but to sell their products via a single enterprise player, or (ii) there is a limited number of customers in the identified niche market.

Three types of captivity emerged by cross-tabulating market segmentation and sales strategy decisions (see Figure 33, p. 319): (i) *captive industry supplier*; (ii) *captive dyadic partner*; and (iii) *captive market leader*. When the above-identified prerequisites of captivity disappear, companies may become (iv) *free market leaders*.

The data in this study suggests that being a *free market leader* or even *captive market leader* are the most desired positions to be in (Figure 33, p. 319). On the other hand, the data also points out that they are the riskiest strategies to pursue right from the inception of the new venture. This is because the development of a horizontal product requires entrepreneurs to acquire specific knowledge and experience from different vertical markets. It also requires a lot of capital to actually develop the product. As argued by Cusumano (2004), right from the inception, the development of a horizontal product rather than the development of a niche vertical solution is a common trap that entrepreneurs fall into and is difficult to get out of.

However, the data further suggests that companies which target vertical niche markets and supply their products directly or indirectly to the customers in these markets, i.e. pursue *captive industry supplier* strategy or *captive dyadic* *partner* strategy respectively (Figure 33, p. 319), may find themselves in the situation where they outgrow their market, or the opportunity originally identified turned to be unreal. As a result, companies may de-internationalise and even cease trading. To stay in business in such situations, entrepreneurs will have to search for new market opportunities and pursue them. In the VC backed firms, the success of this entrepreneurial endeavour will depend, inter alia, on the alignment of the entrepreneurs' and the VCs' goals.

Small high-technology firms which decide to actually pursue either the *captive dyadic partner* strategy or *captive market leader* strategy, soon discover that being dependent exclusively on one strategic partner is a very risky proposition. This is chiefly because large enterprise players demand exclusive partnerships. Moreover, the data point out that the likelihood of being acquired, or being driven out of business, for example as a result of failure or acquisition of the strategic partner, may make entrepreneurs avoid partnering with large players in the future. And again, in VC backed firms, if entrepreneurs want to exit a partnership, their decision will have to be weighed against the VCs' agenda at that point in time.

10.2.4 Middle-range theorising: the concept of point of no return

The questions that most need to be addressed by entrepreneurs during the internationalisation process are: 'to what extent is the chosen [organisational gestalt] continuing to deliver returns and positive performance, and if less than optimal, what change would better effect attainment of projected targets' (Turcan, 2003: 217). The data generated by this study points to *agility* and *escalation of commitment* as two major behavioural factors that discriminate between success and failure while de-internationalising. Grounded in data, agility is about flexible decision making and a flexible cost base structure that allow decision makers (entrepreneurs and VCs) to scale up and more importantly to scale down according to the activity level that the firm is experiencing.

The question however is how autonomous entrepreneurs are in their decision making process. The data analysis suggests that in VC backed firms the scope of agility will lie within the scope of *commitment* made by entrepreneurs before the investors. The data also points to the degree of *goal alignment* that would determine the extent of agility.

If decision makers eventually do recognise that the existing organisational gestalt is less than optimal, and decide to stop committing further organisational resources, the question then becomes at what point *too little is not too late*. For example, as observed by Drummond (2004: 487), small businesses '...not only end up 'drifting idly towards eternity', but they can reach a point of 'no return', where they have become so run down as to be almost financially worthless'.

This study suggests distinguishing between two types of points of no return: real and false (see Figure 34, p. 334). *Real* point of no return refers to the point in the life of the firm beyond which the existing organisational gestalt will be insufficient to support the transition to a new viable gestalt. *False* point of no return refers to an illusionary real point of no return that is the result of the process of illusion and self-deception. The areas on both sides of the real point of no return (Figure 34, p. 334) represent the entrapment situations decision makers find themselves in. According to entrapment theorists (Becker, 1960; Rubin and Brockner, 1975; cited in Drummond, 2004), entrapment refers to situations where people become bound to a suboptimal line of activity through the passage of time itself.

The area on the right side of the real point of no return refers to an *error of omission* (Casson, 1986), i.e. when companies should have de-internationalised earlier but failed to do so. Error of omission is the difference between real and false points of no return. If decision makers aren't flexible enough, and get entrapped in a failing course of action, and as a result assume a false point of no return, then any of their decisions to de-internationalise will not be successful and will lead to failure. The area on the left side of the real point of no return refers to a *safety net*, where companies have a reasonable chance of survival.

The data suggests that when in the area of the real point of no return, the appropriate strategy for small firms would be to *cocoon* (Figure 34, p. 334). The data further suggests that to successfully cocoon before or at the real point of no return a firm would require having a minimum safety net, referred to as a *withstanding gestalt*. The withstanding gestalt will consist at least of the following resources (that are necessary, though not sufficient): co-founder(s)/lead entrepreneur, the IP/product, and customer relationships.

It is interesting to note, that the resource configuration of the withstanding gestalt resembles to a certain extent the resource configuration that is found at the beginning of the process of emergence of a new business idea. It follows that the presence of co-founders, and not only of the IP, is crucial at this late stage in the company's life. In the same vein, Cusumano (2004) argues that it is important to maintain passion and knowledge of founders and provide them with a meaningful role in the company.

10.2.5 Middle-range theorising: the concept of hype

As mentioned earlier, this study suggests that the process of de-internationalisation is moderated by *hype* (see Figure 28, p. 297). Grounded in data, hype is defined as *the overall sentiment of the environmental context, within which the firm is embedded, about the future.* By cross-tabulating the sentiment of the competitive (industry growth) and remote (economic growth) environments about the future, four theoretical concepts of hype were generated (see Figure 35, p. 341): (i) delusional optimism; (ii) overoptimism; (iii) pessimism; and (iv) realism talk. The growth outlook in each environment is labelled as positive signals (+) and negative signals (-).

The emergent concept of hype is based on two key assumptions. One, it is assumed that signals from the competitive environment will have a stronger effect on firms' behaviour/forecasts (represented as wavy lines in each quadrant, Figure 35, p. 341). And two, the overall outcome arises as a result of the interaction between individuals and the changes in behaviour which they induce in one another (Ormerod, 1998). According to Ormerod, positive feedback that generally rules the real world of the economy and society will lead to trends being reinforced rather than reversed. When negative feedback predominates, any differences between firms' behaviours tend to be smoothed away.

When the overall sentiment of the environmental context, within which the firm is embedded, about the future is positive (quadrants I and II, Figure 35, p. 341), entrepreneurs, being influenced by other people's positive behaviour, will tend to hype, and be overoptimistic about the outcomes of their ventures. Entrepreneurs will find it financially advantageous, and often unavoidable, to fall in with the ideas of the market, even though they themselves are better instructed (Keynes, 1936; cited in Ormerod, 1998). This self-reinforcing mechanism that creates hype, also leads to the creation of fashion. The data further suggests that these two variables control each other in a loop. As argued by Keynes (1936), worldly wisdom teaches that it is far better for reputation to fail conventionally than to succeed unconventionally.

In contrast to the above, an overall negative sentiment of the environment about the future (quadrant III, Figure 35, p. 341) would lead to the opposite effect, i.e. to scepticism or pessimism. However, the market may overreact to these negative signals. Therefore, there needs to be a balance between optimism and realism – between goals and forecasts, as the adjustment for optimism will often be substantial, particularly in highly uncertain situations where predictions are unreliable (Lovallo and Kahneman, 2003). One might expect more realism when the sentiments about the future that emanate from competitive or remote environments have opposite signals (quadrant IV, Figure 35, p. 341). For example, a recent OECD report demonstrated that a slowdown in the economy of the United States has instilled a sense of realism into the debate, as well as putting an end to some exuberant economic behaviour (OECD, 2001).

The data also points to external and internal pressures as factors which lead to hyping behaviour in both business and investment communities. Derived from literature, hype is divided into two types: *hyperbole* (Coltman *et al.*, 2001) and *vapourware* (Levy, 1997; Bayus *et al.*, 2001; Haan, 2003; Gerlach, 2004). Hyperbole refers to *a signal emanating from either competitive or remote environments about exaggerated future prospects of a technology, an innovation, a market, or a product*. The futuristic predictions that affected the interviewed companies were driven by prospects of the introduction of 3G mobile phones, adoption of smart cards, internet banking and data mining, to name a few: for instance, bank branches will disappear, and third generation mobile phones will replace home computers.

Vapourware is a *signal emanated by companies to the market and refers to a false announcement of a new product in an attempt to deter entry* (Levy, 1997; Haan, 2003). In the US vapourware even became an antitrust concern (for review see Levy, 1997). The vapourware construct emerged as a recurrent theme throughout the analysis of cross-case data, and it was originated by one and the same company, which happened to be one of the biggest software companies in the world. The entrepreneurs who had experienced the vapourware stemmed from this large organisation described it as just being "*marketing hype*", "*lot of clouds*", "*spooking*" and "*bandits*":

The data in this study suggests that the proximity to the hype reflects the degree of imbeddedness of the firm within its environmental context. At the level of middle-range theorising about de-internationalisation, it might be inferred that *the closer the new venture is to the hype, the harder it is to de-internationalise.* As the future rarely turns out as expected (Christensen and Anthony, 2004), the entrepreneurs of new ventures will be more sensitive than entrepreneurs in more mature firms to give bad news back to their investors, and therefore will not talk the situation down, but will hype it further.

10.2.6 Towards a theory of new business venture survivability

As shown in the previous sections, middle-range theorising helped to manage the complexity of the emergent process model of de-internationalisation. At the same time, middle-range theorising contributed to increasing the level of generalizability by moving from a middle-range theory of de-internationalisation to a formal theory (Glaser and Strauss, 1967) of new business venture survivability. That is, this study advances a *theory of new business venture survivability* that postulates that *the closer the new business venture is to the hype, the higher the likelihood of failure.* The key elements of this theory are discussed below.

A complete theory must contain four essential elements (Dubin, 1978). The first element is *what*: what factors (variables, constructs) logically should be considered as part of the explanation of the social or individual phenomena of interest (Whetten, 1989)? According to Whetten, there are two criteria for judging the extent to which the 'right' factors have been included: *comprehensiveness* (are all relevant factors included?) and *parsimony* (should some factors be deleted because they add little additional value to our understanding?). The key constructs considered by the proposed theory of new business venture survivability are *new business venture* and *hype*. These constructs are trying to explain the evolution of start-up firms or established firms that decide to pursue new market opportunities in uncertain decision making situations where predictions, especially about net present value, are unreliable (Lovallo and Kahneman, 2003; Alvarez and Barney, 2004).

The second element of a theory is *how*: how the identified factors are related? By answering this question the researcher adds order to the conceptualization by explicitly delineating patterns, and typically introduces causality (Whetten, 1989). According to Whetten (1989), together the *what* and *how* elements constitute the domain or subject of the theory. The data in this study suggests that hype moderates the emergence (discovery and exploitation) of new business venture. That is, the proximity to the hype reflects the degree of imbeddedness of the firm within its environmental context. As the concept of hype suggests (Figure 35, p. 341), when new business ventures are pursued or new demands are created in uncertain decision making situations, entrepreneurs will be prone to hype their business plans as there will be virtually no risk of being detected of such behaviour.

The third element of a theory relates to *why*: what the underlying psychological, economic, or social dynamics are that justify the selection of factors and the proposed causal relationships (Whetten, 1989)? From an economic perspective, this study argues that hype and uncertainty are two sides of the same coin. Under uncertainty, according to Knight (1921), there is 'no valid basis of any kind for classifying instances to determine probability from past experience or statistical calculation' (p. 225). This is especially true when entrepreneurs are opening new markets or exploiting new technologies (Schumpeter, 1934). When these kinds of entries are undertaken, the cash flow an entry is expected to generate (the mean of the distribution) and the rate at which the cash flow should be discounted over time (the variance of the distribution) are not known (Alvarez and Barney, 2004). In another words, net present value cannot be calculated under Knightian uncertainty.

From a psychological perspective, decision-makers' overoptimism can be traced both to cognitive biases and to organisational pressures (Lovallo and Kahneman, 2004). According to Lovallo and Kahneman (2004), the most prevalent of cognitive biases is anchoring. This is when, for example, the initial business plan accentuates the positive, and the subsequent analysis will be skewed towards overoptimism. Under organisational pressures, when forecasts are critical in attracting funding, decision makers have big incentives to accentuate the positive and downplay the negative in laying out prospective outcomes. Lovallo and Kahneman (2004) further argue that this raises the odds that the projects chosen for investment will be those with the most overoptimistic forecasts – and hence the highest probability of disappointment.

From a social perspective, it is maintained that the overall behaviour of individuals in a given setting depends on the interaction between individuals and the changes in behaviour which they induce in one another (Ormerod, 1998). According to Ormerod, positive feedback that generally rules the real world of the economy and society will lead to trends being reinforced rather than reversed. As the concept of hype suggests (Figure 35, p. 341), when the overall sentiment of the environmental context, within which the firm is embedded, about the future is positive, entrepreneurs, being influenced by other people's positive behaviour, will tend to hype, and be overoptimistic about the outcomes of their ventures. Furthermore, entrepreneurs will find it financially advantageous, and often unavoidable, to fall in with the ideas of the market, even though they themselves are better instructed (Keynes, 1936; cited in Ormerod, 1998). This self-reinforcing mechanism that creates hype, also leads to the creation of fashion. As Keynes (1936) argues, worldly wisdom teaches that it is far better for reputation to fail conventionally than to succeed unconventionally. That is, there are high emotional and professional costs associated with being the odd one out.

The last, but not least, element of a theory relates to *who, where, when*: these are temporal and contextual factors, which set the boundaries of generalizability, and as such constitute the range of the theory (Whetten, 1989). The context of the *theory of new venture survivability* is the process of emergence of a new business venture in uncertain decision making situations. The process of emergence relates to the processes of discovery and exploitation of a new business venture (Davidsson, 2003a). A new business venture can emerge as a start-up or in an established firm. Uncertainty is the effect of the process of emergence of *new* business ventures, e.g. when entrepreneurs create new markets or exploit new technologies (Schumpeter, 1934).

With regard to temporal boundaries of the theory of new business venture survivability, the theoretical effects of hype vary over time. That is, hype is unstable. As companies move away from hype towards risky decision making settings (Alvarez and Barney, 2004), more accurate information would come from the market that would make it possible to perform much needed statistical calculations, and therefore to make a distinction between hype and reality. That is, as the history of a new market or a new technology is being formed, the behaviour of various stakeholders will change accordingly, e.g. towards realism (Figure 35, p. 341).

10.3 CONTRIBUTION TO ENTREPRENEURSHIP RESEARCH

10.3.1 Middle-range theorising: the reality gap concept

To explore the process of de-internationalisation as a facet of entrepreneurial behaviour, it is pivotal to understand how new venture ideas emerge throughout the process of a company's international activity. Whether an international venture idea truly reflects an opportunity can only be known therefore in hindsight and only if the outcome is successful (Davidsson, 2003a). According to Davidsson (2003a), there are two major problems with the opportunity concept in the entrepreneurship research. The first problem is that the term 'opportunity', which is known to be profitable, is fundamentally opposed to acknowledging uncertainty as an inescapable aspect of the environment of the emerging activity. The second problem of the opportunity concept is the question whether opportunities objectively exist or if the actor creates them; it clashes with the heterogeneity assumption of entrepreneurship research as a scholarly domain.

The data generated in this study introduces the concept of a *reality gap* to differentiate between an opportunity and a venture idea. By cross-tabulating the dimensions of an opportunity and a venture idea, four possible outcomes emerged (see Figure 36, p. 352). One, *success*: if the pursuit of a venture idea is successful, this implies that the venture idea reflected the opportunity initially identified. Two, *strategic experimentation*: when the venture idea does not echo the opportunity (reality gap is positive), and entrepreneurs continue experimenting with the business models to match the opportunity. Three, *search for new opportunities*: when the opportunity initially identified turns out to be unreal (reality gap is negative) and entrepreneurs look for new opportunities in order to stay in business. And four, *failure*: when the reality gap is either negative or positive, *and* entrepreneurial behaviour is not present within the organisation in either of the situations.

Based on the reality gap concept, a reality gap model was proposed (see Figure 37, p. 358). This model indicates that if entrepreneurs see the environment as "accepting and abundant with resources" (Brown and Kirchhoff, 1997: 42), they are more likely to pursue the new venture idea. An iterative decision-making process comes next. Entrepreneurs will embark on a strategic experimentation that, according to Nicholls-Nixon *et al.* (2000), is about forming and executing a strategy in an effort to reach a steady state for the first time [in relation to the pursuit of new venture idea]. For example, entrepreneurs will have to decide on the growth path (organic or acquisition); on the business model (product-led or hybrid); and/or on the configuration of organisational gestalt. Built into the model is the notion that change per se does not constitute entrepreneurship (Davidsson, 2003a). According to Davidsson (2003a), decision makers may facilitate entrepreneurship through organisational change, but it is the market related activities that may result, and not the organisational change, that constitutes entrepreneurship.

The reality gap model further suggests that entrepreneurial behaviour is the key to the process of aligning the organisational strategy (growth path, business model, and organisational gestalt) to the opportunity, therefore to the success of an international venture. As the de-internationalisation model suggests, entrepreneurial alertness is mediated, inter alia, by illusive alignment and enslavement (dyadic tensions), lack of agility and entrapment in the failing course of action (gestalt tensions), or moderated by delusional optimism (hype).

10.3.2 Entrepreneurial orientation redefined

Lumpkin and Dess (1996) identified five dimensions to characterise *how* (original emphasis; p. 136) new ventures are undertaken: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. One of the key assumptions behind Lumpkin and Dess' (1996) entrepreneurial orientation framework is that all five dimensions are independent of each other in any given context. A key question is whether this assumption holds in small firms, since, for example, Covin and Slevin (1989) argue that firms that exhibit all (innovativeness, risk taking, and proactiveness) dimensions should be regarded as entrepreneurial. Another question concerns what the entrepreneurial orientation construct consists of since there is no clear consensus over the entrepreneurial orientation dimensions (Covin and Slevin, 1989; Lumpkin and Dess, 1996). The data generated in this study redefines the entrepreneurial orientation construct and puts forward several propositions for future research. These are discussed below.

The research data points to proactiveness, innovativeness, and competitive aggressiveness as three major interrelated dimensions of the entrepreneurial orientation construct (see Figure 38, p. 360). The interrelated and iterative nature of these dimensions suggests that:

> *P1. To be regarded as entrepreneurial, firms have to exhibit <u>all</u> three entrepreneurial dimensions: proactiveness, innovativeness, and competitive aggressiveness.*

The results of this study also suggest that autonomy is a variable *independent* of an entrepreneurial orientation construct (Figure 38, p. 360). It also points to autonomy as an antecedent of an entrepreneurial orientation construct; since the freedom to act independently is built in the growth path firms adopt to pursue new entry, e.g. organic growth or acquisition growth. For example, in the case companies, entrepreneurial processes (including in some instances being radical departures from an existing state of affairs) were possible only when entrepreneurs pursued new entries via organic growth, thus having true autonomy over their decision making process. From this, it might be inferred therefore that:

P2: Firms that adopt an organic growth path have a higher degree of entrepreneurial orientation, and therefore a higher performance relative to those firms that adopt an acquisition growth path.

When entrepreneurs pursue an international venture idea via an acquisition growth path, they might face the dilemma of goal alignment that gives scope to *negotiated autonomy*. The third proposition generated by this study therefore is as follows:

P3: In firms that acquire venture capital, the level of autonomy depends on the degree of alignment of goals between VCs and entrepreneurs.

As the concept of goal alignment is unidirectional, i.e. it is geared towards the VCs' agenda of rapid exit, it might be expected that the ultimate bargaining power will reside with the investors. For example, when VCs' and entrepreneurs' agendas are aligned (see Figure 30, p. 307), it might be inferred that entrepreneurs will have a higher degree of negotiated autonomy, will be more entrepreneurially oriented, and thus achieve higher performance, relative to the situations when the alignment of entrepreneurs' goals to VCs' goals is not explicit (enslavement or illusive alignment, Figure 30, p. 307). This leads to the following propositions:

P4: Firms in which VCs' and entrepreneurs' agendas are aligned have a higher degree of negotiated autonomy relative to firms in which such alignment is not present or explicitly stated.

P5. Firms with a higher degree of negotiated autonomy will be more entrepreneurially oriented, and therefore will achieve higher performance.

As regards the dimension of risk, in their seminal article, Lumpkin and Dess (1996) did not take a stance on risk taking and concluded instead that 'effectively operationalizing ...risk taking ...remains an area for future development' (p. 145). Building on the work of Alvarez and Barney (2004), it is suggested that the concepts of uncertainty and risk are introduced into the discussion about entrepreneurial orientation. According to Alvarez and Barney (2004), the key difference between risk and uncertainty is that in uncertain situations the mean and variance of the probability distribution of outcomes are not known before a decision is made. That is, when these new entries are undertaken, the cash flow an entry is expected to generate and the rate at which the cash flow should be discounted over time are not known (Alvarez and Barney, 2004). In other words, net present value cannot be calculated under Knightian uncertainty. Thus, the sixth proposition generated by this study is as follows:

P6: Entrepreneurs and their major stakeholders will behave differently under uncertain decision making situations relative to risky decision making situations.

This suggests that both risky and uncertain settings are variables *independent* of an entrepreneurial orientation construct and actually moderate the relationship between an entrepreneurial orientation construct and a firm's performance (see Figure 38, p. 360). The data generated by this study suggests that the uncertainty and hype are two sides of the same coin. For example, according to the proposed theory of survivability, ***the closer the new venture is to the hype, the higher the likelihood of failure.*** Thus, it might be argued that delusional optimism or overoptimism are present in uncertain situations when entrepreneurs do not have any valid basis to determine the cash flow and the net present value associated with the new entry, whereas VCs, for the same reasons, cannot distinguish hype from reality. In such uncertain decision making situations (Alvarez and Barney, 2004), entrepreneurs will be prone to hype their business plans as there will be virtually no risk of such behaviour being detected. This opportunistic behaviour may lead to a large gap between the opportunity and the venture idea. In fact, the uncertainty-hype relationship may add to the understanding of the formation of the reality gap, especially its magnitude. Thus, the following two propositions are put forward:

P7: The reality gap will be significantly larger in uncertain decision making settings than in risky decision making settings.

P8: The larger the reality gap, the higher the probability of failure.

As companies move away from overoptimism towards risky decision making settings with more realism talk, more accurate information comes from the market that makes it possible to perform much needed statistical calculations, and therefore to make a distinction between hype and reality. That is, as the history of a new market or a new technology is being formed, the entrepreneurial orientation of various stakeholders changes.

10.4 CONTRIBUTION TO INTERNATIONAL ENTREPRENEURSHIP RESEARCH

10.4.1 Mitigating the theoretical bias

The review of the international entrepreneurship literature highlighted two central issues which shape the extant empirical international entrepreneurship research, and which, could be seen to hinder the progress of research efforts towards building the unifying paradigm within international entrepreneurship. These are theoretical and sampling biases. The theoretical bias, which emerged from this study, and the ways of mitigating it are addressed next.

The review of international entrepreneurship literature suggests that the conceptualization of international entrepreneurship is overshadowed by the theoretical approaches of the field of international business (Turcan *et al.*, 2004). This tendency might be explained by the following. The first, and probably the most important factor, is that there is little or no co-operation between scholars who have as their primary focus the international business field and those who primarily focus on the entrepreneurship field. For example, the majority of international entrepreneurship papers view international opportunities as being given, and internationalisation per se as an already existing entrepreneurial potential (Jones, 1999; Andersson, 2000, Lu and Beamish, 2001). Secondly, with the exception of Andersson, 2000, none of the published international entrepreneurship research attempts to define entrepreneurship and its domain of research. Consequently, the international entrepreneurship research field has so far failed to conceptualize international entrepreneurship as the *intersection* of cross-border and entrepreneurship research paths.

This results in the domain of international entrepreneurship research being imbalanced in relation to its knowledge contribution (Coviello and Jones, 2004). The stance taken in this study in order to mitigate the theoretical bias was that knowledge about international entrepreneurship is best developed if deep familiarity with the phenomenon is combined with interdisciplinary knowledge and standards: that is, with both entrepreneurship and international business phenomena. It is therefore suggested, that researchers who focus their research more or less exclusively on international entrepreneurship and researchers who occasionally apply their knowledge to international entrepreneurship should learn more about theory bases and methods from both international business and entrepreneurship research streams before going about their field work.

Moreover, to aid researchers in the process of mitigating theoretical bias, it is further suggested that the international entrepreneurship paradigm be viewed as a paradox. Paradoxes, as theory-building strategies, enable researchers to study the dialectic between opposing levels and forces that are captured in different theories (Poole and Van de Ven, 1989). Thus, by accepting international entrepreneurship as a paradox, researchers will be able to learn from juxtaposing contradictory assumptions coming from international business and entrepreneurship research paths. That is, when different levels of analysis are taken into consideration, tensions, oppositions, and contradictions between explanations of entrepreneurship and international business behaviours come to light. This may include, for example, how international strategic decisions are being made: in an entrepreneurial mode, or planning mode, or adaptive mode; where these decisions are being made: at entrepreneur level, or at firm level;

and, what level is more entrepreneurially or internationally oriented, and to what extent.

This study regarded international entrepreneurship paradigm as a paradox. The conceptual synthesis of juxtaposing contradictory assumptions coming from international business and entrepreneurship research paths led to the creation of a maturity scale (see Figure 12, p. 172). This is believed to help researchers develop representative sampling criteria and provide results that allow for generalization. The maturity scale is based on various temporal indicators of relative maturity derived from several streams of literature. These indicators of relative maturity might be considered as ideal types of behaviour. According to Huy (2001), ideal types allow holistic consideration of multiple synergies constructs, as well as the development of falsifiable theories. They also greatly simplify the complex reality. For example, based on the emerged temporal indicators of relative maturity, the start-up process may be defined as *the emergence of a new venture whereby early growth is achieved through strategic experimentation and knowledge augmentation applying entrepreneurial mode to strategic decision-making*. The start-up process ends where strategic experimentation ends.

One can make no claim that the proposed indicators of relative maturity are comprehensive, and further conceptual and empirical research are to be conducted to assess this framework and its underlying ideas. Predictions can be falsified by assessing deviations between real forms and ideal types (Huy, 2001). As researchers of a relatively young academic field, international entrepreneurship scholars must address these kinds of issues in the formative phases of the new field. This will promote the potential for reaching a convergence of efforts in the future of international entrepreneurship studies, and developing a unifying paradigm, which international entrepreneurship currently lacks (McDougall and Oviatt, 2000).

10.4.2 Mitigating the sampling bias

The second issue that researchers of international entrepreneurship are required to add on is sampling bias. With regard to the sampling bias, to date, the international entrepreneurship research literature, to some extent, mirrors that of entrepreneurship (Davidsson and Wiklund, 2001; Davidsson, 2003b) and cross-border research (Buckley and Chapman, 1996; Benito and Welch, 1997) in that it focuses only on positive business growth and does not study companies that have failed or have chosen to withdraw from their international activity (Zahra and George, 2002; Coviello and Jones, 2004). By studying only successful and surviving firms, researchers risk misrepresenting the nature of the research field. For example, researchers risk presenting these firms' behaviour as success factors when in fact they may easily be the factors that increase the risk of failure (Davidsson, 2003b). As Coviello and Jones (2004: 493) conclude, "...international entrepreneurship researchers have focused on collecting 'obtainable' rather than 'important' data".

Addressing this issue, the present research mitigated the sampling bias by exploring the process of de-internationalisation, which appears to be one of those areas that are 'important' but not 'convenient to research' (Coviello and Jones, 2004: 493). Two iterative steps are identified as the key to this process as they account for both research quality and sampling balance. These steps are: (i) theoretical sampling, and (ii) developing sampling criteria. With regard to the former, researchers may search for cases that predict similar results (a literal replication) or predict contrasting results but for predictable reasons (a theoretical replication) (Eisenhardt, 1989b; Yin, 2003). In mitigating sampling bias, theoretical replication should be the focus. That is, as one of the sampling requirements, a research sample should be representative of cases that deviate negatively from what is normal or expected. For example, a typology of de-internationalisation was generated by cross-tabulating the polar dimensions of life continuum (in business vs. out of business) and de-internationalisation continuum (total vs. partial international withdrawal) (see Figure 2, p. 7).

With regard to developing sampling criteria, this study points to the importance of controlling for the effect of the external (competitive and remote) environment on selected cases, e.g., legislation, market size, and market structure. This strategy is termed here as *outer bracketing*. Its primary aim is to reduce 'attribution errors' (Lovallo and Kahneman, 2003: 57). According to Lovallo and Kahneman (2003), the typical pattern of such attribution errors is for people to take credit for positive outcomes and to attribute negative outcomes to external factors, no matter what their true cause. As such, *outer bracketing* is pivotal when collecting important but inconvenient data as people not only are reluctant to talk about perceived "negative growth", e.g. failures, de-internationalisation, but also tend to misattribute the causes of these events. For example, in the present research, in order to minimise the attribution errors, case companies were selected from the same industry (software), and the same country (Scotland).

Another step taken in this study towards reducing the attribution error was the adoption of a temporal bracketing strategy (Langley, 1999). According to Langley (1999), a temporal bracketing strategy allows the researchers to decompose data into successive adjacent periods and thus enables the explicit examination of how actions of one period lead to changes in the context that will affect action in subsequent periods. For example, in the present research, case companies' episodes (Kutschker *et al.*, 1997) and critical incidents (Bell *et al.*, 2001) of de-internationalisation were observed over the same period of time (1999-2001); a period, which happened to be critical in their lives.

Finally, data triangulation (Denzin, 1970) also allows researchers to minimise the attribution errors. For example, in the present research, data provided by companies' directors was corroborated by interviewing their stakeholders. The stakeholders included: a venture capitalist, a liquidator, a strategy management advisor, a business correspondent, and policy makers. As Figure 18 (p. 234) shows, each case company had at least three points of data generation reference.

10.4.3 Delineating the research domain of IE

Last, but not least, this thesis, to some extent, is a response to McDougall and Oviatt's (2000) call for developing a unifying paradigm within international entrepreneurship. According to McDougall and Oviatt (2000), international entrepreneurship is still without a unifying and clear theoretical and methodological direction. The present research responds to this appeal by: (i) delineating the domain of the international entrepreneurship research; (ii) redefining born-globals; and (iii) proposing a definition of international entrepreneurship.

Emerging from the literature and later supported by the research findings is the *international venture idea* as central construct of the research domain of international entrepreneurship. That is, central to exploring and understanding international entrepreneurship is the need to understand how new international venture ideas come into existence, how they relate, if at all, to the existence of international opportunities, and how they are pursued (see Figures 36, p. 352 and 37, p. 358). Accepting the *international venture idea* as a central focus of the proposed research domain of international entrepreneurship may put an end to earlier critiques of international entrepreneurship research, which focuses primarily on studying the internationalisation of new ventures, thus ignoring the fact that entrepreneurial activities are an ongoing process over time (Zahra and George, 2002). Clearly, international venture ideas are conceived *and* pursued regardless of the age of the firm (see Figure 39, p. 366). This is in contrast to Oviatt and McDougall (1994) who advocate that the focus is on the age of firms *when* (emphasis added) they become international.

Based on the above delineation of the research domain of international entrepreneurship, a unifying definition of born globals is now proposed. That is, born globals are defined as *firms that internationalise right after either their inception or the inception of a new international venture idea.* The key assumption of the proposed definition is that international entrepreneurship researchers should not be concerned with *when* an international venture idea occurs in the firms' life cycle, but *how long* the emergence, i.e. conception and pursuit, of the international venture idea lasts. That is, the reference point is the inception of new international venture idea. This definition also takes into account the possible time-lag between the conception and the pursuit of the international venture idea.

For operationalisation purposes, the question then becomes how long the process of emergence is or should be. It might be argued that it has to be at least long enough to allow researchers to capture not only the inception and the pursuit of international venture idea, but also the outcome of the whole process. There appears to be a consensus in the international entrepreneurship literature on the operationalisation of international new ventures: less than six years (Zahra and Kirchhoff, 2001; Jones and Coviello, 2002; McDougall *et al.*, 2003). And this is consistent with the survivability rate of the case companies in the present research (see Table 22, p. 368).

Based on the above discourse, an enhanced definition of international entrepreneurship is proposed as *the emergence of international venture ideas which are intended to create new values in organisations and in the marketplace.* The benefits of applying this definition are manifold.

First, the proposed definition acknowledges that international entrepreneurship is a process, which allows the problem of emergence: conception and pursuit, to be studied. The conception of an international venture idea captures the entrepreneurial process of cognition, thus recognizing heterogeneity as one of the cornerstones of entrepreneurship research. The pursuit of an international venture idea acknowledges the ultimate interest of entrepreneurship researchers in entrepreneurial orientation as an important factor to the performance of the firm (see e.g., Brown and Kirchhoff, 1997; Lyon *et al.*, 2000; Lumpkin and Dess, 2001).

Second, the *international* construct in the proposed definition captures both inward and outward patterns (Korhonen *et al.*, 1996), as well as internationalisation and de-internationalisation processes (Benito and Welch, 1997; Turcan, 2003) of a cross-border phenomenon. Third, the definition acknowledges that international venture ideas initially discovered are often not the ones that are subsequently exploited (e.g., Case A), or that entrepreneurs might be susceptible to the escalation of commitment (Cases D and E) to the failing course of action.

Finally, as the creation of new value is at the heart of entrepreneurship studies (Bruyat and Julien, 2000; Davidsson and Wiklund, 2001), it is argued that the same should be true for international entrepreneurship. For example, entirely new markets or an activity that is new to an existing market, or an independent start-up, or an internal new venture might emerge (Davidsson, 2003a). The *new value* construct defines entrepreneurship as a societal phenomenon which consists of the competitive behaviours that drive the market processes towards more effective and efficient use of resources (Davidsson, 2003a).

10.5 Implications for Practitioners and Policy Makers

In addition to the above research implications, the study also highlights several implications for practitioners and policy makers. Probably the most important implication of the study is that entrepreneurs should recognise the existence of differences between VCs' goals and theirs. VCs' goals are to exit quickly via out-and-out growth, whereas entrepreneurs want to achieve profitability via long-term growth. From a venture capitalist's perspective, the ideal entrepreneur recognizes the need for speed to an exit (Zider, 1998). As Gompers and Lerner (1999) further maintain, exit is an important consideration from the outset and VCs' horizon is essentially short term.

The major effect of the conflict between VCs' and entrepreneurs' agendas is twofold. First, it impacts on firm strategy. As the data suggest, VCs would not invest in entrepreneurs who have different views from theirs. That is, failure to agree on a mutual agenda may result in *no marriage* between entrepreneurs and VCs. Accepting venture capital in situations where no agreement on goals is reached may lead to a *tacit conflict*, which entrepreneurs have to live with for the reminder of their 'marriage' with VCs. Failure to understand the existence of such differences in everyone's agendas may give entrepreneurs an *illusive control* over the company, where in fact they would be unknowingly and reflexively advocate VCs' agenda.

As the process of goal alignment is unidirectional, i.e. it is geared towards the VCs' agenda of a quick exit, entrepreneurs should recognise the importance of aligning their goals to the goals of the investors before selling their shares in the company to the investors. The process of goal alignment will result in *negotiated autonomy*. How much autonomy entrepreneurs can achieve will depend, inter alia, on the bargaining power each party has at the moment of the negotiations. The degree of the negotiated autonomy has far reaching implications when it comes to making key strategic decisions, e.g., what business model and internationalisation strategy to adopt, what new market opportunities to pursue, or what path to take in critical situations.

The alignment of goals may become a *life changing opportunity* for entrepreneurs. This would require an entrepreneur to exit the business in four or five years and maybe become a serial entrepreneur. It is important to mention here that VCs also have become aware of these issues and are striving to align entrepreneurs' objectives in terms of quick exits.

Second, the existence of conflict between VCs' and entrepreneurs' agendas should be also recognised by the policy makers. This is particularly important where there are joint activities between public and private sectors in providing venture capital. For example in Scotland, Scottish Enterprise is set to establish the Scottish Venture Fund to help Scottish firms needing between £2 million and £5 million to help them scale more rapidly and bring products and services to the international marketplace quickly and efficiently (www.scottish-enterprise.com). No doubt, the more VC players in the market, the better is for entrepreneurs. As Carlsson and Mudambi (2003) argue, the presence of multiple actors in the VC market representing a variety of competences and different networks is even more important than the total amount of funding they can provide.

At the same time, nevertheless, the Scottish Venture Fund resembles a classical venture capitalist with some fundamental characteristics. That is, to the above mentioned goal of quick exit, the Scottish Venture Fund would (i) back a portfolio of enterprises so that the risks are diversified, (ii) take equity stakes to ensure that the rate of return distribution is asymmetric, and (iii) undertake an active monitoring and management role (Gompers and Lerner, 1999). The strategy paper of the Scottish Venture Fund (www.scottish-enterprise.com) builds on the classic venture capital skills, defined as the process of adding value to investee companies through company forming, building and harvesting. If the conflict between VCs' and entrepreneurs' agendas is not addressed, and given the fact that on average three out of ten enterprises are absolute stars (from the interview with a VC; some literature even suggests that nine out of ten ventures fail), then more harm could be done.

The process of alignment of entrepreneurs' objectives in terms of quick exits could be supported for example by easing the effects of bankruptcy and failures, trying to emulate the Silicon Valley badge of honour (Carlsson and Mudambi, 2003), by instilling a culture of serial entrepreneurship, and by building local potential on exit opportunities for both investors and entrepreneurs.

Another implication of the present research is that the introduction of new technologies and/or new markets is usually accompanied by hype. This is another issue the Scottish Venture Fund should take into consideration when making investment decisions. In general, all stakeholders involved, especially those from the competitive environment, should be cognisant of such behavioural propensity, and try to minimise its effect. For example, before the history of a new market or a new technology is being formed, entrepreneurs and VCs should try to avoid unnecessary risks and commitments. Moreover, industry experts should provide a more balanced (more realistic) overview of future prospects of a technology, an innovation, a market, or a product. As argued by Zider (1998), before one can understand the industry, s/he must first separate myth from reality. A recent OECD (2001) report even urges to resist hype when talking about new technologies, as there is always a risk of exaggerating their potential.

In addition to the above careful consideration of market opportunities, policy makers should consider ways of intervening in situations where large organizations give false announcements of a new product in an attempt to prevent entry. This study clearly indicates that small firms very easily fall victims of such vapourware. Probably, these incidents could be reflected in the antitrust and unfair competition bill.

10.6 LIMITATIONS OF THE STUDY

As argued by Eisenhardt (1989b), there is no generally accepted set of guidelines for the assessment of a case-study research. However, Eisenhardt (1989b) maintains that the assessment criteria of a case-study research revolve around the major aim of such research that is to develop or at least begin to develop theory. The assessment of theory-building research depends, inter alia, upon empirical issues: the strength of the method and the evidence grounding the theory (Eisenhardt, 1989b: 548). The literature points to four criteria which are used to establish the quality of a case-study research (Eisenhardt, 1989b; Yin, 2003). These are: (i) construct validity; (ii) internal validity; (iii) external validity; and (iv) (reliability). Table 23 below summarises the key tactics which were used in this study to maximise the quality of the research.

Table 23. Case-study quality assessment criteria

Criteria	Suggested case study tactics†	Tactics adopted in the present study
Construct validity	• Use multiple source of evidence	• Each case had at least three points of reference (Figure 18)
	• Establish chain of evidence	• Outer bracketing strategy was used to control for the effect of external environment on selected cases
		• Temporal bracketing strategy (Langley, 1999) was used to decompose data into successive adjacent periods
		• Event list matrix was employed to explore what led to what, when, how and why (Miles and Huberman, 1994)
		• Critical incident technique was used to collect data (Chell, 1998)
	• Have key informants review draft case study report	• All entrepreneurs received detailed case study write-ups, and all their comments were incorporated
Internal validity	• Do pattern-matching	• Technique of constructing typologies by reduction was employed to develop typologies (Glaser, 1978)
		• Middle-range theorising (Merton, 1968) was used to manage the complexity of the emergent process model of de-internationalisation
	• Do explanation-building	• De-internationalisation phenomenon was explained by describing and exploring each case in narrative form (Chapter 7)
	• Enfolding literature	• Emergent constructs and theory were constantly compared with the extant literature

Criteria	Suggested case study tactics†	Tactics adopted in the present study
External validity	• Use replication logic	• Theoretical and snowball sampling strategies were employed to select and locate the cases (Patton, 2002) • De-internationalisation typology was developed to guide the case selection process (Figure 1) • Analytical generalisation: e.g., moving from middle-range theory of de-internationalisation to a theory of new business venture survivability
Reliability	• Use case study protocol	• The following key activities of the case study protocol were adopted in the present study: • Negotiating access to the site (Table 11) • Writing the history of each case and highlighting the event of interest by exhausting all secondary sources prior to the interview • Validating the history of the case at the first interview and probing into the critical event following the interview guide (Table 12) • Negotiating access to company's stakeholders • Negotiating access for follow-up interviews
	• Develop case study database	• For each company a separate database was developed which included, inter alia, company documents, statistics, expert opinions, and interviews with stakeholders and entrepreneurs

† Derived from Eisenhardt (1989b: 533) and Yin (2003: 34)

However, despite the tactics undertaken to ensure the quality of the research, several key limitations of the present study could be singled out. First, to address the subjective biases and interpretations which, as in any qualitative research, cannot be entirely eliminated by the employed tactics, future research must be undertaken to test the middle-range and formal theories developed in this study. Second, as only two firms from the sample were studied longitudinally, future longitudinal research must be undertaken to validate the causal links between the emerged theoretical concepts and propositions. And third, as the research was undertaken in the context of small software firms founded in Scotland, future research in other geographic and competitive environments shall be conducted to raise the theory's level of generality.

REFERENCES

Achtenhagen, L. (2002) '*Entrepreneurial Failure in Germany – Stigma or Enigma?*". *Frontiers of Entrepreneurship Research*, p. 657.

Ackroyd, S. and Fleetwood, S. (2000) 'Realism in Contemporary Organisation and Management Studies', in S. Ackroyd and S. Fleetwood (eds.), *Realist Perspectives on Management and Organisations*, London: Routledge, pp. 3-25.

Adizes, I. (1979) 'Organizational Passages: Diagnosing and Treating Life Cycle Problems in Organizations'. *Organizational Dynamics*, summer, pp. 3-24.

Agarwal, S. and Ramaswami, S. (1992) 'Choice of Foerign Market Entry Mode: Impact of Ownership, Location and Internalization Factors'. *Journal of International Business Studies*, 23:1, pp. 1-27.

Ajzen, I. (1987) 'Attitudes, Traits, and Actions: Dispositional Prediction of Behaviour in Social Psychology'. *Advances in Experiential Social Psychology*, 20, pp. 1-63.

Ajzen, I. (1991) 'The Theory of Planned Behaviour'. *Organizational Behaviour & Human Decisions Processes*, 50:2, pp. 179-211.

Akhter, S. and Choudhry, Y. (1993) 'Forced Withdrawal from a Country Market: Managing Political Risk'. *Business Horizons*, 36:3, pp. 47-54.

Aldrich, D. (1999) '*Mastering the Digital Marketplace: Practical Strategies for Competitiveness in the New Economy*', New York: John Wiley & Sons Inc.

Aldrich, H. and Baker, T. (1997) 'Blinded by the Cites? Has There Been Progress in Entrepreneurship Research?', in D. Sexton and R. Smilor (eds.), *Entrepreneurship 2000*, Chicago: Upstart Publishing Company, pp. 377-400.

Aldrich, H. and Martinez, M. (2001) 'Many are Called, but Few are Chosen: An Evolutionary Perspective for the Study of Entrepreneurship'. *Entrepreneurship Theory and Practice*, 25:4, pp. 41-56.

Alexander, N. and Quinn, B. (2002) 'International Retail Divestment'. *International Journal of Retail & Distribution Management*, 30:2, pp. 112-125.

Alvarez, S. and Barney, J. (2004) 'Organizing a Firm under Knightian Uncertainty: Extending Transactions Cost and Incomplete Contract Theories of the Firm'. *Frontiers of Entrepreneurship Research*, forthcoming.

Alvarez, S. and Busenitz, L. (2001) 'The Entrepreneurship of Resource-Based Theory'. *Journal of Management*, 27:6, pp. 755-775.

Amit, R., Glosten, L. and Muller, E. (1993) 'Challenges to Theory Development in Entrepreneurship Research'. *Journal of Management Studies*, 30:5, pp. 815-834.

Ancona, D. and Chong, C.-L. (1996) 'Entrainment: Pace, Cycle, and Rhythm in Organizational Behavior'. *Research in Organizational Behavior*, 18, pp. 251-284.

Ancona, D., Okhuysen, G. and Perlow, L. (2001) 'Taking Time to Integrate Temporal Research'. *Academy of Management Review*, 26:4, pp. 512-529.

Andersen, O. (1993) 'On the Internationalization Process of Firms: A Critical Analysis'. *Journal of International Business Studies*, 24:2, pp. 209-231.

Andersen, O. (1997) 'Internationalisation and Market Entry Mode: A Review of Theories and Conceptual Frameworks'. *Management International Review*, 37:2, pp. 27-42.

Anderson, E. and Gatignon, H. (1986) 'Modes of Foreign Entry: A Transaction Cost Analysis and Propositions'. *Journal of International Business Studies*, 17:3, pp. 1-26.

Anderson, J., Hakansson, H. and Johanson, J. (1994) 'Dyadic business relationships within a business network context'. *Journal of Marketing*, 58:4, pp. 1-15.

Andersson, B.-E. and Nilsson, S. (1964) 'Studies in the Reliability and Validity of the Critical Incident Technique'. *Journal of Applied Psychology*, 48:6, pp. 398-403.

Andersson, S. (2000) 'The Internationalization of the Firm from an Entrepreneurial Perspective'. *International Studies of Management and Organization*, 30:1, pp. 63-92.

Andersson, S. and Wictor, I. (2003) 'Innovative Internationalisation in New Firms: Born Globals – the Swedish Case'. *Journal of International Entrepreneurship*, 1:3, pp. 249-276.

Ansoff, I. (1958) 'A Model for Diversification'. *Management Science*, 4:4, pp. 392-414.

Ansoff, I. (1965) '*Corporate Strategy*'. New York: McGraw-Hill.

Arbaugh, J. and Camp, M. (2000) 'Managing Growth Transitions: Theoretical Perspectives and Research Directions", in D. Sexton and H. Landstrom (eds.), *The Blackwell Handbook of Entrepreneurship*, Oxford: Blackwell, pp. 308-328.

Arthur, W. B. (1996) 'Increasing Returns and the New World of Business'. *Harvard Business Review*, 74:4, pp. 100-111.

Autio, E., Sapienza, H. and Almeida, J. (2000) 'Effects of Age at Entry, Knowledge Intensity and Imitability on International Growth'. *Academy of Management Journal*, 43:5, pp. 909-924.

Axelsson, B. and Easton, G. (1992) (eds.) '*Industrial Networks: A New View of Reality*'. London: Routledge.

Bandura, A. (1986) '*The Social Foundations of Thought and Action*'. Englewood Cliffs: Prentice Hall.

Bantel, K. (1998) 'Technology-Based, "Adolescent" Firm Configurations: Strategy Identification, Context, and Performance'. *Journal of Business Venturing*, 13:3, pp. 205-230.

Barker III, V. and Duhaime, I. (1997) 'Strategic Change in the Turnaround Process: Theory and Empirical Evidence'. *Strategic Management Journal*, 18:1, pp. 13-38.

Barney, J. (1986) 'Strategic Factor Markets: Expectations, Luck, and Business Strategy'. *Management Science*, 32:10, pp. 1231-1241.

Barney, J. (1991) 'Firm Resources and Sustainable Competitive Advantage'. *Journal of*

Management, 17:1, pp. 99-120.

Barney, J., Wright, M. and Ketchen, D. (2001) 'The Resource-Based View of the Firm: Ten Years after 1991'. *Journal of Management*, 27:6, pp. 625-641.

Baron, R. (1998) 'Cognitive Mechanisms in Entrepreneurship: Why and When Entrepreneurs Think Differently than Other People'. *Journal of Business Venturing*, 13:4, pp. 275-294.

Baron, R. (2000) 'Counterfactual Thinking and Venture Formation: The Potential Effects of Thinking about "What Might Have Been"'. *Journal of Business Venturing*, 5:1, pp. 79-91.

Baroncelli, A. and Manaresi, A. (1997) 'Franchising as a Form of Divestment: An Italian Study'. *Industrial Marketing Management*, 26:3, pp. 223-235.

Barr, P., Stimpert, J. and Huff, A. (1992) 'Cognitive Change, Strategic Action, and Organizational Renewal'. *Strategic Management Journal*, 13:8, pp. 15-36.

Barringer, B. and Greeniing, D. (1998) 'Small Business Growth through Geographic Expansion: A Comparative Case Study'. *Journal of Business Venturing*, 13:6, pp. 467-492.

Bassanini, A. and Scarpetta, S. (2002) 'Growth, Technological Change, and ICT Diffusion: Recent Evidence from OECD Countries'. *Oxford Review of Economic Policy*, 18:3, pp. 324-344.

Bates, T. (1998) 'Survival Patterns among Newcomers to Franchising'. *Journal of Business Venturing*, 13:2, pp. 113-130.

Bayus, B., Jain, S. and Rao, A. (2001) 'Truth or Consequences: An Analysis of Vaporware and New Product Announcements'. *Journal of Marketing Research*, 38:1, pp. 3-13.

Bechhofer, F. and Elliott, B. (1986) 'Persistence and Change: The Petite Bourgeoisie in Industrial Society', in J. Curran, J. Stanworth, and D. Watkins (eds.), *The Survival of the Small Firm. The Economics of Survival and Entrepreneurship*, England: Gower, pp. 120-138.

Becker, G. (1965) 'A Theory of the Allocation of Time'. *Economic Journal*, 75, pp. 493-517.

Becker, H. (1960) 'Notes on the Concept of Commitment'. *American Journal of Sociology*, 66:1, pp. 32-40.

Beckhard, R. and Harris, R. (1977) '*Organizational Institutions: Managing Complex Change*'. Menlo Park, CA: Addison-Wesley.

Begley, T. and Boyd, D. (1987) 'Psychological Characteristics Associated with Performance in Entrepreneurial Firms and Smaller Businesses'. *Journal of Business Venturing*, 2:1, pp. 79-93.

Bell, J. (1995) 'The Internationalization of Small Computer Software Firms – A Further Challenge to "Stage" Theories'. *European Journal of Marketing*, 29:8, pp. 60-75.

Bell, J., McNaughton, R. and Young, S. (2001) "Born-Again Global' Firms: An Extension to the 'Born Global' Phenomenon'. *Journal of International Management*, 7:3, pp. 173-189.

Bell, J., McNaughton, R., Young, S. and Crick, D. (2003) 'Towards an Integrative Model of Small Firm Internationalisation'. *Journal of International Entrepreneurship*, 1:4, pp. 339-362.

Benito, G. (1997) 'Divestment of Foreign Production Operations'. *Applied Economics*, 29:10, pp. 1365-1377.

Benito, G. and Welch, L. (1997) 'De-Internationalization'. *Management International Review*, 37:2, pp. 7-25.

Benton, T. and Craib, I. (2001) '*Philosophy of Social Science: The Philosophical Foundations of Social Thought*'. Hampshire: Palgrave.

Berra, L., Piatti, L. and Vitali, G. (1995) 'The Internationalisation Process in the Small and Medium Sized Firms: A Case Study on the Italian Clothing Industry'. *Small Business Economics*, 7:1, pp. 67-75.

Bhaskar, R. (1975) '*A Realist Theory of Science*'. Leeds: Leeds Books.

Bilkey, W. and Tesar, (1977) 'The Export Behavior of Smaller Sized Wisconsin Manufacturing Firms'. *Journal of International Business Studies*, 8:1, pp. 93-98.

Bird, B. and West III, G. (1997) 'Time and Entrepreneurship. *Entrepreneurship Theory and Practice*, 22:2, pp. 5-9.

Birkinshaw, J. (2000) '*Entrepreneurship in the Global Firm*'. London: Sage.

Bloodgood, J., Sapienza, H. and Almeida, J. (1996) 'The Internationalization of New High-Potential US Ventures: Antecedents and Outcomes'. *Entrepreneurship Theory and Practice*, 20:4, pp. 61-76.

Blount, S. and Janicik, G. (2001) 'When Plans Change: Examining how People Evaluate Timing Changes in Work Organizations'. *Academy of Management Review*, 26:4, pp. 566-585.

Bobocel, D. and Meyer, J. (1994) 'Escalating Commitment to a Failing Course of Action: Separating the Roles of Choice and Justification'. *Journal of Applied Psychology*, 79:3, pp. 360-363.

Boddewyn, J. (1985) 'Theories of Foreign Direct Investment and Divestment: A Classificatory Note'. *Management International Review*, 25:1, pp. 57-65.

Bonoma, T. (1985) 'Case Research in Marketing: Opportunities, Problems, and a Process'. *Journal of Marketing Research*, 22:2, pp. 199-208.

Booz-Allen & Hamilton (1999) '*Competing in the Digital Age: How the Internet will Transform Global Business*', New York: EIU.

Boter, H. and Holmquist, C. (1996) 'Industry Characteristics and Internationalization Processes in Small Firms'. *Journal of Business Venturing*, 11:6, pp. 471-487.

Bowen, M. (1987) 'The Escalation Phenomenon Reconsidered: Design Dilemmas or

Decision Errors?'. *Academy of Management Review*, 12:1, pp. 52-66.

Brazeal, D. and Herbert, T. (1999) 'The Genesis of Entrepreneurship'. *Entrepreneurship Theory and Practice*, 22:3, pp. 29-45.

Brockhaus, R. (1980a) 'The Effect of Job Dissatisfaction on the Decision to Start a Business'. *Journal of Small Business Management*, 18:1, pp. 37-43.

Brockhaus, R. (1980b) 'Risk Taking Propensity of Entrepreneurs'. *Academy of Management Journal*, 23:3, pp. 509-520.

Brockhaus, R. (1982) 'The Psychology of the Entrepreneur', in C. Kent, D. Sexton and K. Vesper (eds.), *Encyclopedia of Entrepreneurship*, Englewood Cliffs, NJ: Prentice-Hall, pp. 39-57.

Brockhaus, R. and Horwitz, P. (1986) 'The Psychology of the Entrepreneur', in D. Sexton and R. Smilor (eds.), *The Art and Science of Entrepreneurship*, Cambridge, Mss: Ballinger, pp. 25-48.

Brockner, J. (1992) 'The Escalation of Commitment to a Failing Course of Action: Toward Theoretical Progress'. *Academy of Management Review*, 17:1, pp. 39-62.

Brouthers, K., Brouthers, L. and Werner, S. (1996) 'Dunning's Eclectic Theory and the Smaller Firm: the Impact of Ownership and Locational Advantages on the Choice of Entry-Modes in the Computer Software Industry'. *International Business Review*, 5:4, pp. 377-394.

Brouthers, L., Brouthers, K. and Werner, S. (1999) 'Is Dunning's Eclectic Framework Descriptive or Normative?'. *Journal of International Business Studies*, 30:4, pp. 831-844.

Brown, T. and Kirchhoff, B. (1997) 'The Effects of Resource Availability and Entrepreneurial Orientation on Firm Growth'. *Frontiers of Entrepreneurship Research*, pp. 32-46.

Brown, T., Davidsson, P. and Wiklund, J. (2001) 'An Operationalization of Stevenson's Conceptualization of Entrepreneurship as Opportunity-Based Firm Behavior'. *Strategic Management Journal*, 22:10, pp. 953-968.

Bruyat, C. and Julien, P.-A. (2001) 'Defining the Field of Research in Entrepreneurship'. *Journal of Business Venturing*, 16:2, pp. 165-180.

Buchanan, D., Boddy, D. and McCalman, J. (1988) 'Getting In, Getting On, Getting Out, and Getting Back', in A. Bryman (ed.), *Doing Research in Organizations*, London: Routledge, pp. 53-67.

Buckley, P. and Casson, M. (1976) '*The Future of the Multinational Enterprise*'. London: Macmillan.

Buckley, P. and Casson, M. (1998) 'Analyzing Foreign Market Entry Strategies: Extending the Internalization Approach'. *Journal of International Business Studies*, 29:3, p. 539-561.

Buckley, P. and Chapman, M. (1996) 'Wise before the Event: The Creation of Corporate Fulfilment'. *Management International Review*, 36:1, pp. 95-110.

Bull, I. and Willard, G. (1993) 'Towards a Theory of Entrepreneurship'. *Journal of Business Venturing*, 8:3, pp. 183-196.

Bureau of Economic Analysis, www.bea.doc.gov, accessed in January, 2006.

Burgel, O. and Murray, G. (2000) 'The International Market Entry Choices of Start-Up Companies in High Technology Industries'. *Journal of International Marketing*, 8:2, pp. 33-62.

Burns, P. (2001) '*Entrepreneurship and Small Business*'. New York: Palgrave.

Burrell, G. and Morgan, G. (1979) '*Sociological Paradigms and Organizational Analysis*'. Portsmouth, NH: Heinemann.

Burrough, B. and Helyar, J. (1990) '*Barbarians at the Gate*'. London: Arrow Books Limited.

Burt, R. (2000) 'The Network Entrepreneur', in R. Swedberg (ed.), *Entrepreneurship: The Social Science View*, Oxford: University Press, pp. 281-307.

Burton, F., Cross, A. and Rhodes, M. (2000) 'Foreign Market Servicing Strategies of UK Franchisors: An Empirical Enquiry from a Transaction Cost Perspective'. *Management International Review*, 40:4, pp. 373-400.

Busenitz, L. and Barney, J. (1997) 'Differences between Entrepreneurs and Managers in Large Organizations: Biases and Heuristics in Strategic Decision-Making'. *Journal of Business Venturing*, 12:1, pp. 9-30.

Butler, J. (1991) 'Toward Understanding and Measuring Conditions of Trust: Evolution of Conditions of Trust Inventory'. *Journal of Management*, 17:3, pp. 643-663.

Butler, R. (1995) 'Time in Organizations: Its Experience, Explanations and Effects'. *Organization Studies*, 16:6, pp. 925-950.

Bygrave, W. (1989a) 'The Entrepreneurship Paradigm (I): A Philosophical Look at Its Research Methodologies'. *Entrepreneurship Theory and Practice*, 14:1, pp. 7-20.

Bygrave, W. (1989b) 'The Entrepreneurship Paradigm (II): Chaos and Catastrophes among Quantum Jumps?'. *Entrepreneurship Theory and Practice*, 14:2, pp. 7-30.

Bygrave, W. (1993) 'Theory Building in the Entrepreneurship Paradigm'. *Journal of Business Venturing*, 8:3, pp. 255-280.

Bygrave, W. and Hofer, C. (1991) 'Theorizing about Entrepreneurship'. *Entrepreneurship Theory and Practice*, 16:2, pp. 13-22.

Bygrave, W. and Minniti, M. (2000) 'The Social Dynamics of Entrepreneurship'. *Entrepreneurship Theory and Practice*, 24:3, pp. 25-36.

Bygrave, W. and Timmons (1986) 'Networking among Venture Capital Firms'. *Frontiers of Entrepreneurship Research*, pp. 437-456.

Cable, D. and Shane, S. (1997) 'A Prisoner's Dilemma Approach to Entrepreneur-Venture Capitalist Relationships'. *Academy of Management Review*, 22:1, pp. 142-176.

Canadian Imperial Bank of Commerce, www.cibcwm.com, accessed in January, 2006.

Cantillon, R. (1755) 'The Circulation and Exchange of Goods and Merchandise', in H. Higgs (ed.), *Essai sur la Nature du Commerce en General,* London: MacMillan, 1931.

Carland, J., Hoy, F. and Carland, J. (1988) 'Who is an Entrepreneur? Is a Question Worth Asking?'. *American Journal of Small Business*, 12:4, pp. 33-39.

Carland, J., Hoy, F., Boulton, W. and Carland, J. (1984) 'Differentiating Entrepreneurs from Small Business Owners: A Conceptualisation'. *Academy of Management Review*, 9:2, pp. 354-359.

Carlsson, B. and Mudambi, R. (2003) 'Globalization, Entrepreneurship, and Public Policy: A Systems View'. *Industry and Innovation*, 10:1, pp. 103-116.

Carney, M. and Gedajlovic, E. (1991) 'Vertical Integration in Franchise Systems: Agency Theory and Resource Explanations'. *Strategic Management Journal*, 12:7, pp. 607-629.

Carter, N., Stearns, T., Reynolds, P. and Miller, B. (1994) 'New Venture Strategies: Theory Development with an Empirical Base'. *Strategic Management Journal*, 51:1, pp. 75-87.

Carter, N., Williams, M. and Reynolds, P. (1997) 'Discontinuance among New Firms in Retail: The Influence of Initial Resources, Strategy, and Gender'. *Journal of Business Venturing*, 12:2, pp. 125-145.

Carter, S. Mason, C. and Tagg, S. (2004) 'Lifting the Barriers to Growth in the UK Small Businesses', www.fsb.org.uk, accessed June, 2005.

Casson, M. (1982) '*The Entrepreneur: An Economic Theory*'. Oxford: Martin Robertson.

Casson, M. (1986) 'International Divestment and Restructuring Decisions: With Special Reference to the Motor Industry'. *International Labour Organization,* working paper No.40.

Casson, M. (1990a) '*Enterprise and Competitiveness: A System View of International Business*'. Oxford: Clarendon.

Casson, M. (1990b) '*Entrepreneurship*'. England: Edward Elgar.

Caves, R. and Porter, M. (1976) 'Barriers to Exit', in R. Masson and P. Qualls (eds.), *Essays in Industrial Organization in Honor of Joe S. Bain,* Cambridge: Ballinger, pp. 36-69.

Cavusgil, S. (1980) 'On the Internationalization Process of Firms'. *European Research,* 8:6, pp. 273-281.

Cavusgil, S. (1984) 'Differences Among Exporting Firms based on their Degree of Internationalization'. *Journal of Business Research,* 12:2, pp. 195-208.

Chandler, A. (1962) '*Strategy and Structure: Chapters in the History of American Industrial Enterprise*'. Cambridge, MA: MIT Press.

Chandler, G. and Hanks, S. (1994) 'Market Attractiveness, Resource-Based Capabilities, Venture Strategies, and Venture Performance'. *Journal of Business Venturing,* 9:4, pp.

331-349.

Chang, S. and Singh, H. (1999) 'The Impact of Modes of Entry and Resource Fit on Modes of Exit by Multibusiness Firms'. *Strategic Management Journal*, 20:11, pp. 1019-1035.

Chapman, T. (1982) '*Time: A Philosophical Analysis*'. Holland: Reidel Publishing.

Charmaz, K. (2000) 'Grounded Theory: Objectivist and Constructivist Methods', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage, pp. 509-535.

Chell, E. (1998) 'Critical Incident Technique', in G. Symon and C. Cassell (eds.), *Qualitative Methods and Analysis in Organizational Research: A Practical Guide*, London: Sage, pp. 51-72.

Chell, E. and Pittaway, L. (1998) 'A Study of Entrepreneurship in the Restaurant and Café Industry: Exploratory Work Using the Critical Incident Technique as a Methodology'. *International Jouirnal of Hospitality Management*, 17:1, pp. 23-32.

Chell, E., Haworth, J. and Brearley, S. (1991) '*The Entrepreneurial Personality: Concepts, Cases and Categories*'. London: Routledge.

Chetty, S. and Blankenburg Holm, D. (2000) 'Internationalisation of Small to Medium-Sized Manufacturing Firms: A Network Approach'. *International Business Review*, 9:1, pp. 77-95.

Chow, Y. and Hamilton, R. (1993) 'Corporate Divestment: An Overview'. *Journal of Managerial Psychology*, 8:5, pp. 9-13.

Christensen, C. and Anthony, S. (2004) 'Are You Reading the Right Signals?'. *Strategy & Innovation*, September-October, pp. 3-6.

Churchill, N. and Lewis, V. (1983) 'The Five Stages of Small Business Growth'. *Harvard Business Review*, 61:3, pp. 30-50.

Clarke, C. and Gall, F. (1987) 'Planned Divestment – A Five Step Approach'. *Long Range Planning*, 20:1, pp. 17-25.

Coase, R. (1937) 'The Nature of the Firm'. *Economica*, 4, pp. 386-405.

Coltman, T., Devinney, T., Latukefu, A. and Midgley, D. (2001) 'E-business: Revolution, Evolution, or Hype'. *California Management Review*, 44:1, pp. 57:86.

Computer Systems Policy Project, www.cspp.org, accessed in January, 2006.

Cooper, A. (1979) 'Strategic Management: New Ventures and Small Business', in D. Schendel and C. Hofer (eds.), *Strategic Management*, Boston: Little, Brown and Company, pp. 316-327.

Cooper, A. (1993) 'Challenges in Predicting New Firm Performance'. *Journal of Business Venturing*, 8:3, pp. 241-253.

Cope, J., Cave, F. and Eccles, S. (2004) 'Attitudes of Venture Capital Investors towards

Entrepreneurs with previous Business Failure'. *Venture Capital*, 6:2/3, pp. 147-172.

Coviello, N. (1996) 'Foreign Market Entry and Internationalization: The Case of Datacom Software Research'. *Entrepreneurship Theory and Practice*, 20:4, pp. 95-109.

Coviello, N. and Jones, M. (2004) 'Methodological Issues in International Entrepreneurship Research', *Journal of Business Venturing*, 19:4, pp. 485-508.

Coviello, N. and Martin, K. (1999) 'Internationalization of Service SMEs: An Integrated Perspective from the Engineering Consulting Sector'. *Journal of International Marketing*, 7:4, pp. 42-66.

Coviello, N. and McAuley, A. (1999) 'Internationalization and the Smaller Firm: A Review of Contemporary Empirical Research'. *Management International Review*, 39:3, pp. 223-256.

Coviello, N. and Munro, H. (1995) 'Growing the Entrepreneurial Firm: Networking for International Market Development'. *European Journal of Marketing*, 29:7, pp. 49-61.

Coviello, N. and Munro, H. (1997) 'Network Relationships and the Internationalization Process of Small Software Firms'. *International Business Review*, 69:4, pp. 1-26.

Covin, J. and Slevin, D. (1989) 'Strategic Management of Small Firms in Hostile and Benign Environments'. *Strategic Management Journal*, 10:1, pp. 75-87.

Covin, J. and Slevin, D. (1990) 'New Venture Strategic Posture, Structure, and Performance: An Industry Life Cycle Analysis'. *Journal of Business Venturing*, 5:2, pp. 123-135.

Covin, J. and Slevin, D. (1991) 'A Conceptual Model of Entrepreneurship as Firm Behaviour'. *Entrepreneurship Theory and Practice*, 16:1, pp. 7-26.

Covin, J. and Slevin, D. (1997) 'High Growth Transitions: Theoretical Perspectives and Suggested Directions', in D. Sexton and R. Smilor (eds.), *Entrepreneurship 2000*, Chicago: Upstart Publishing, pp. 99-126.

Coyne, J. and Wright, M. (1986) 'An Introduction to Divestment: The Conceptual Issues', in J. Coyne and M. Wright (eds.), *Divestment and Strategic Change*, Oxford: Philip Allan Publishers, pp. 1-26.

Creswell, J. (1998) '*Qualitative Inquiry and Research Design: Choosing Among Five Traditions*'. Thousand Oaks, CA: Sage.

Crick, D. (2004) 'U.K. SMEs' Decision to Discontinue Exporting: An Exploratory Investigation into Practices within the Clothing Industry'. *Journal of Business Venturing*, 19:4, pp. 561-587.

Crick, D. and Jones, M. (2000) 'Small High-Technology Firms and International High-Technology Markets'. *Journal of International Marketing*, 8:2, pp. 63-85.

Crick, D., Chaudhry, S. and Batstone, S. (2001) 'An Investigation into the Overseas Expansion of Small Asian-Owned UK Firms'. *Small Business Economics*, 16:2, pp. 75-94.

Cusumano, M. (2004) '*The Business of Software: What Every Manager, Programmer and Entrepreneur Must Know to Succeed in Good Times and Bad*'. London: Simon &

Schuster.

Das, T. and Teng, B.-S. (1997) 'Time and Entrepreneurial Risk Behaviour'. *Entrepreneurship Theory and Practice*, 22:2, pp. 69-88.

Das, T. and Teng, B.-S. (1999) 'Cognitive Biases and Strategic Decision Processes: An Integrative Perspective'. *Journal of Management Studies*, 36:6, pp. 757-778.

Das, T. and Teng, B.-S. (2001) 'Strategic Risk Behaviour and Its Temporalities: Between Risk Propensity and Decision Context'. *Journal of Management Studies*, 38:4, pp. 515-534.

Davidsson, P. (1989) '*Continued Entrepreneurship and Small Firm Growth*'. Stockholm School of Economics: Stockholm, Sweden (published PhD dissertation).

Davidsson, P. (1991) 'Continued Entrepreneurship: Ability, Need, and Opportunity as Determinants of Small Firm Growth'. *Journal of Business Venturing*, 6:6, pp. 405-429.

Davidsson, P. (2003a) 'The Domain of Entrepreneurship Research: Some Suggestions', in J. Katz, and D. Shepherd (eds.), *Advances in Entrepreneurship, Firm Emergence and Growth*, Greenwich, CT: JAI Press, pp. 319-375.

Davidsson, P. (2003b) 'What Entrepreneurship Research can do for Business and Policy Practice'. *International Journal of Entrepreneurship Education*, 1:1, pp. 5-24.

Davidsson, P. (2005a) 'Method Issues in the Study of Venture Start-up Processes', in A. Fayolle, P. Kyro, and J. Ulijn (eds.), *Entrepreneurship Research in Europe: Outcomes and Perspectives*, Cheltenham: Edward Elgar, pp. 35-54.

Davidsson, P. (2005b) '*Researching Entrepreneurship*'. New York: Springer.

Davidsson, P. and Wiklund, J. (2000) 'Conceptual and Empirical Challenges in the Study of Firm Growth', in D. Sexton and H. Landstrom (eds.), *The Blackwell Handbook of Entrepreneurship*, Oxford: Blackwell, pp. 26-44.

Davidsson, P. and Wiklund, J. (2001) 'Levels of Analysis in Entrepreneurship Research: Current Research Practice and Suggestions for the Future'. *Entrepreneurship Theory and Practice*, 25:4, pp. 81-99.

Davidsson, P., Delmar, F. and Wiklund, J. (2001) 'Entrepreneurship as Growth; Growth as Entrepreneurship'. *Working paper*, Jonkoping International Business School, Jonkoping University: www.hj.se/jibs/research/peg/ (accessed January, 2001).

DeDee, J. and Vorhies, D. (1998) 'Retrenchment Activities of Small Firms during Economic Downturn: An Empirical Investigation'. *Journal of Small Business Management*, 36:3, pp. 46-61.

Delmar, F. (2000) 'The Psychology of the Entrepreneur', in S. Carter and D. Jones-Evans (eds.), *Enterprise and Small Business: Principles, Practice and Policy*, Great Britain: Pearson Education, pp. 132-154.

Dennis, C. (2000) 'Networking for Marketing Advantage'. *Management Decision*, 38:4, pp. 41-47.

Denzin, N. (1970) '*The Research Act in Sociology: A Theoretical Introduction to*

Sociological Methods'. London: Butterworths.

Denzin, N. and Lincoln, Y. (1994) 'Introduction: Entering the Field of Qualitative Research', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage, pp. 1-17.

Dery, R. and Toulouse, J.-M. (1996) 'Social Stracturation of the Field of Entrepreneurship: A Case Study'. *Canadian Journal of Administrative Science*, 13:4, pp. 285-305.

Dimitratos, P. and Plakoyiannaki, E. (2003) 'Theoretical Foundations of an International Entrepreneurial Culture'. *Journal of International Entrepreneurship*, 1:2, pp. 187-215.

Dobson, P. (2001) 'Longitudinal Case Research: A Critical Realist Perspective'. *Systematic Practice and Action Research*, 14:3, pp. 283-296.

Dodge, H., Fullerton, F. and Robbins, J. (1994) 'Stage of the Organizational Life Cycle and Competition as Mediators of Problem Perception for Small Business'. *Strategic Management Journal*, 15:2, pp. 121-134.

Douglas, S. and Craig, S. (1996) 'Executive insights: Global portfolio planning and market interconnectedness'. *Journal of International Marketing*, 4:1, pp. 93-110.

Downes, L. and Mui, C. (1999) '*Unleashing the Killer App: Digital Strategies for Market Dominance*', Boston, MA: Harvard Business School Press.

Downs, A. (1967) 'The Life Cycle of Bureaus', in A. Downs (ed.), *Inside Bureaucracy*, San Francisco: Little, Brown and Company, pp. 296-309.

Drucker, P. (1985) '*Innovation and Entrepreneurship: Practice and Principle*'. London: Heinemann.

Drummond, H. (1994) 'Too Little Too Late: A Case Study of Escalation in Decision Making'. *Organization Studies*, 15:4, pp. 591-607.

Drummond, H. (1995) 'De-Escalation in Decision Making: A Case of a Disastrous Partnership'. *Journal of Management Studies*, 32:3, pp. 265-281.

Drummond, H. (1998) 'Is Escalation Always Irrational?'. *Organization Studies*, 19:6, pp. 911-929.

Drummond, H. (2004) 'See You Next Week? A Study of Entrapment in a Small Business'. *International Small Business Journal*, 22:5, pp. 487-502.

Dubin, R. (1969) '*Theory Building*'. New York: The Free Press.

Dun & Bradstreet Inc. (2003) '*Business Indicators Point to Red: Business Failures Rise while Payment Habits Decline*'. D&B Business Report: www.dnb-solutions.com/uk/ft (accessed August, 2003).

Dunning, J. (1980) 'Toward an Eclectic Theory of International Production: Some Empirical Tests', *Journal of International Business Studies*, 11:1, pp. 9-31.

Dunning, J. (1988) 'The Eclectic Paradigm of International Production: A Restatement and some Possible Extensions'. *Journal of International Business Studies*, 19:1, pp. 1-13.

Dunning, J. (1995) 'Reappraising the Eclectic Paradigm in an Age of Alliance Capitalism'. *Journal of International Business Studies*, 26:3, pp. 461-491.

Dunning, J. (2000) 'The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity'. *International Business Review*, 9:1, pp. 163-190.

Dunning, J. (2001) 'The Eclectic (OLI) Paradigm of International Production: Past, Present, and Future'. International Journal of the Economics of Business, 8:2, pp. 173-190.

Easterby-Smith, M., Thorpe, R. and Lowe, A. (2001) *'Management Research: An Introduction'*. London: Sage.

Easterwood, J. (1998) 'Divestments and Financial Distress in Leveraged Buyouts'. *Journal of Banking and Finance*, 22:February, pp. 129-159.

Easterwood, J., Seth, A. and Singer, R. (1989) 'The Impact of LBOs on Strategic Direction'. *California Management Review*, 32:1, pp. 30-43.

Easton, G. (2000) 'Case Research as a Method for Industrial Networks', in S. Ackroyd and S. Fleetwood (eds.), *Realist Perspectives on Management and Organisations*, London: Routledge, pp. 205-219.

Edvardsson, B. (1992) 'Service Breakdowns: A Study of Critical Incidents in an Airline'. *International Journal of Service Industry Management*, 3:4, pp. 17-29.

Eisenhardt, K. (1989a) 'Agency Theory: An Assessment and Review'. *Academy of Management Journal*, 14:1, pp. 57-74.

Eisenhardt, K. (1989b) 'Building Theories from Case Study Research'. *Academy of Management Review*, 14:4, pp. 532-550.

Elango, B. and Fried, V. (1997) 'Franchising Research: A Literature Review and Synthesis'. *Journal of Small Business Management*, 35:3, pp. 68-81.

Elg, U. and Johansson, U. (1996) 'Networking when national boundaries dissolve: the Swedish food sector. (Nordic Perspective on Relationship Marketing)'. *European Journal of Marketing*, 30:2, pp. 61-75.

Elliott, R. and Wattanasuwan, K. (1998) 'Brands as Resources for the Symbolic Construction of Identity'. *International Journal of Advertising*, 17:2, pp. 131-144.

Eriksson, K., Majkgard, A. and Sharma, D. (2000) 'Path Dependence and Knowledge Development in the Internationalisation Process'. *Management International Review*, 40:4, pp. 307-328.

European Commission (2002) '*European Competitiveness Report 2002: Competitiveness and Benchmarking*'. Luxembourg: Office for Official Publications of the European Communities.

Falbe, C. and Welsh, D. (1998) 'NAFTA and Franchising: A Comparison of Franchisor Perceptions of Characteristics Associated with Franchisee Success and Failure in Canada, Mexico, and the United States'. *Journal of Business Venturing*, 13:2, pp. 151-

171.

Farjoun, M. (2002) 'Towards and Organic Perspective on Strategy'. *Strategic Management Journal*, 23:7, pp. 561-594.

Fillis, I., (2002) 'The Internationalization Process of the Craft Microenterprise'. *Journal of Developmental Entrepreneurship*, 7:1, pp. 25–43.

Fladmoe-Lindquist, K. (1996) 'International Franchising: Capabilities and Development'. *Journal of Business Venturing*, 11:5, pp. 419-438.

Flamholtz, E. (1995) *'Managing the Transition from an Entrepreneurship to a Professionally Managed Firm'*. San Francisco: Jossey-Bass.

Flanagan, J. (1954), 'The Critical Incident Technique'. *Psychological Bulletin*, 51:4, pp. 327-358.

Fletcher, R. (2001) 'A Holistic Approach to Internationalization'. *International Business Review*, 10:1, pp. 25-49.

Fontana, A. and Frey, J. (2000) 'The Interview: From Structured Questions to Negotiated Text', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage, pp. 645-672.

Fontes, M. and Coombs, R. (1997) 'The Coincidence of Technology and Market Objectives in the Internationalization of New Technology-Based Firms'. *International Small Business Journal*, 15:4, pp. 14-35.

Ford, J. and Ford, L. (1995) 'The Role of Conversations in Producing Intentional Change in Organizations'. *Academy of Management Review*, 20:3, pp. 541-570.

Foreign Direct Investment Magazine, www.fdimagazine.com, accessed in January, 2006.

Francis, J. and Collins-Dodd, C. (2000) 'The Impact of Firms' Export Orientation on the Export Performance of High-Tech Small and Medium-Sized Enterprises'. *Journal of International Marketing*, 8:3, pp. 84-103.

Fraser, L. (2001a) 'Causes of Disruption to Franchise Operations'. *Journal of Business Research*, 54:3, pp. 227-234.

Fraser, L. (2001b) 'Why Franchisors Discontinue Franchising but Continue Operating'. *International Small Business Journal*, 19.3, pp. 29-38.

Fuller, B. (2004) 'A Third Generation Dilemma for Mobile Operators'. *Financial Times*, Wednesday: November 10.

Gaglio, C. and Katz, J. (2001) 'The Psychological Basis of Opportunity Identification: Entrepreneurial Alertness'. *Small Business Economics*, 16:2, pp. 95-111.

Gankema, H., Snuif, H. and Zwart, P. (2000) 'The Internationalisation Process of Small and Medium-Sized Enterprises: An Evaluation of Stage Theory'. *Journal of Small Business Management*, 38:4, pp. 15-27.

Gartner, W. (1985) 'A Conceptual Framework for Describing the Phenomeonon of New

Venture Creation'. *Academy of Management Review*, 10:4, pp. 696-706.

Gartner, W. (1988) '"Who Is an Entrepreneur?" Is the Wrong Question'. *American Journal of Small Business*, 12:4, pp. 11-32.

Gartner, W. (1990) 'What Are We talking About when We Talk About Entrepreneurship'. *Journal of Business Venturing*, 5:1, pp. 15-29.

Gartner, W. (1993) 'Words Lead to Deeds: Towards an Organizational Emergence Vocabulary'. *Journal of Business Venturing*, 8:3, pp. 231-239.

Gartner, W. (2001) 'Is There an Elephant in Entrepreneurship? Blind Assumptions in Theory Development'. *Entrepreneurship Theory and Practice*, 25:4, pp. 27- 39.

Gartner, W., Bird, B. and Starr, J. (1992) 'Acting As If: Differentiating Entrepreneurial From Organizational Behaviour'. *Entrepreneurship Theory and Practice*, 16:3, pp. 13-31.

Gatewood, E., Shaver, K. and Gartner, W. (1995) 'A Longitudinal Study of Cognitive factors Influencing Start-Up Behaviours and Success at Venture Creation'. *Journal of Business Venturing*, 10:5, pp. 371-391.

Geiger, S., Robertson, C. and Irwin, J. (1998) 'The Impact of Cultural Values on Escalation of Commitment'. *International Journal of Organizational Analysis*, 6:2, pp. 165-176.

George, J. and Jones, G. (2000) 'The Role of Time in Theory and Theory Building'. *Journal of Management*, 26:4, pp. 657-684.

Gerlach, H. (2004) 'Announcements, Entry, and Preemption when Consumers have Switching Costs'. *Rand Journal of Economics*, 35:1, pp. 184-202.

Ghoshal, S. and Moran, P. (1996) 'Bad for Practice: A Critique of the Transaction Cost Theory'. *Academy of Management Review*, 21:1, pp. 13-47.

Gibb, A. and Davies, L. (1990) 'In Pursuit of Frameworks for the Development of Growth Models of the Small Business'. *International Small Business Journal*, 9:1, pp. 15-31.

Gilbert, C. and Bower, J. (2002) 'Disruptive Change: When Trying Harder is Part of the Problem'. *Harvard Business Review*, 80:5, pp. 94-99.

Gioia, D. and Pitre, E. (1990) 'Multiparadigm Perspectives on Theory Building'. *Academy of Management Review*, 15:4, pp. 584-602.

Glas, M., Hisrich, R., Vahcic, A. and Antoncic, B. (1999) 'The Internationalization of SMEs in Transition Economies: Evidence from Slovenia'. *Global Focus*, 11:4, pp. 107–124.

Glaser, B. (1978) '*Theoretical Sensitivity*'. California: Sociology Press.

Glaser, B. and Strauss, A. (1967) '*The Discovery of Grounded Theory: Strategies for Qualitative Research*'. Chicago, IL: Aldine.

Godfrey, P. and Hill, C. (1995) 'The Problem of Unobservable in Strategic Management Research', *Strategic Management Journal*, 16:7, pp. 519-533.

Gompers, P. and Lerner, J. (1999) '*The Venture Capital Cycle*'. Cambridge, MA: MIT Press.

Gordon, R. (2000) 'Does the "New Economy" Measure up to the Great Inventions of the Past?'. *Journal of Economic Perspectives*, 14:4, pp. 49-74.

Granovetter, M. (1982) 'The Strength of Weak Ties: A Network Theory Revisited', in P. Marsden and V. Lin (eds.), *Social Structure and Network Analysis*, London: Sage, pp. 150-130.

Granovetter, M. (1994) 'Business Groups', in N. Smelser and R. Swedberg (eds.) *The Handbook of Economic Sociology*, New York: Russell Sage Foundation, pp. 453-475.

Granovetter, M. (2000) 'The Economic Sociology of Firms and Entrepreneurs', in R. Swedberg (ed.), *Entrepreneurship: The Social Science View*, Oxford: University Press, pp. 244-275.

Grant, P. and Perren, L. (2002) 'Small Business and Entrepreneurial Research: Meta-theories, Paradigms, and Prejudices'. *International Small Business Journal*, 20:2, pp. 185-209.

Greenfield, S. and Strickon, A. (1986) '*Entrepreneurship and Social Changes*'. Los Angeles: University Press of America.

Greer, C. and Stephens, G. (2001) 'Escalation of Commitment: A Comparison of Differences between Mexican and U.S. Decision-Makers'. *Journal of Management*, 27:1, pp. 51-78.

Gregoire, D., Dery, R. and Bechard, J.-P. (2001) 'Evolving Conversations: A Look at the Convergence in Entrepreneurship Research'. *Frontiers of Entrepreneurship Research*, pp. 644-657.

Greiner, L. (1972) 'Evolution and Revolution as Organizations Grow'. *Harvard Business Review*, 76:3, pp. 55-64.

Guba, E. and Lincoln, Y. (1994) 'Competing Paradigms in Qualitative Research', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Newbury Park, CA: Sage, pp. 105-117.

Gulati, R., Nohria, N. and Zaheer, A. (2000) 'Strategic Networks'. *Strategic Management Journal*, 21:3, pp. 203-215.

Haan, M. (2003) 'Vaporware as a Means of Entry Deterrence'. *Journal of Industrial Economics*, 51:3, pp. 345-358.

Hackley, C. (2001) '*Marketing and Social Construction*'. London: Routledge.

Hadjikhani, A. (1997) 'A Note on the Criticisms Against the Internationalization Process Model'. *Management International Review*, 37:2, pp. 43-66.

Halinen, A., Salmi, A. and Havila, V. (1999) 'From Dyadic change to Changing business Networks: An Analytical Framework'. *Journal of Management Studies*, 36:6, pp. 779-794.

Hamilton, R. and Chow, Y. (1993) 'Why Managers Divest – Evidence from New

Zealand's Largest Companies'. *Strategic Management Journal*, 14:6, pp. 479-484.

Hanks, S. (1990) 'The Organization Life Cycle: Integrating Content and Process'. *Journal of Small Business Strategy*, 1:1, pp. 31-45.

Hannan, M. and Freeman, J. (1977) 'The Population Ecology of Organizations'. *American Journal of Sociology*, 82:5, pp. 929-964.

Hariss, S. (2000) 'Reconciling Positive and Interpretative International Management Research: A Native Category Approach'. *International Business Review*, 9:6, pp. 755-770.

Harrigan, K. (1980) '*Strategies for Declining Industries*'. Toronto: Lexington Books.

Harrigan, K. and Porter, M. (1983) 'End-Game Strategies for Declining Industries'. *Harvard Business Review*, 61:4, pp. 111-119.

Harris, L. and Jackson, P. (1999) 'Management and the Spirit of Entrepreneurship'. *Journal of General Management*, 25:2, pp. 31-43.

Harrison, R. and Mason, C. (2004) 'A Critical Incident Technique Approach to Entrepreneurship Research: Developing a Methodology to Analyse the Value Added Contribution of Informal Investors'. *Frontiers of Entrepreneurship Research*, forthcoming.

Harveston, P., Kedia, B. and David, P. (2000) 'Internationalization of Born Global and Gradual Globalizing Firms: The Impact of the Manager'. *Advances in Competitiveness Research*, 8:1, pp. 92-99.

Hayes, R. (1985) 'Strategic Planning – Forward in Reverse?'. *Harvard Business Review*, 63:6, pp. 111-119.

Haynes, M., Thompson, S. and Wright, M. (2000) 'The Determinants of Corporate Divestment in the UK'. *International Journal of Industrial Organization*, 18:8, pp. 1201-1222.

Haynes, M., Thompson, S. and Wright, M. (2003) 'The Determinants of Corporate Divestment: Evidence from a Panel of UK Firms'. *Journal of Economic Behavior and Organization*, 52:1, pp. 147-166.

Healy, M. and Perry, C. (2000) 'Comprehensive Criteria to Judge Validity and Reliability of Qualitative Research within the Realism Paradigm'. *Qualitative Market Research: An International Journal*, 3:2, pp. 118-126.

Heath, C. and Tversky, A. (1991) 'Preference and Belief: Ambiguity and Competence in Choice under Uncertainty'. *Journal of Risk and Uncertainty*, 4, pp. 5-28.

Hebert, R. and Link, A. (1982) '*The Entrepreneur: Mainstream Views and Radical Critiques*'. New York: Praeger.

Hennart, J.-F., Roehl, T. and Zeng, M. (2002) 'Do Exits Proxy a Liability of Foreignness? The Case of Japanese Exits from the US'. *Journal of International Management*, 8:3, pp. 241-264.

Hill, J. and McGowan, P. (1999) 'Small Business and Enterprise Development: Questions about Research Methodology'. *International Journal of Entrepreneurial*

Behaviour & Research, 51:1, pp. 5-18.

Hill, J. and Wright, L. (2001) 'A Qualitative Research Agenda for Small to Medium-Sized Enterprises'. *Marketing Intelligence & Planning*, 19:6, pp. 432-443.

Hindle, K. (2004) 'Choosing Qualitative Methods for Entrepreneurial Cognition Research: A Canonical Development Approach'. *Entrepreneurship Theory and Practice*, 28:6, pp. 575-607.

Hite, J. and Hesterly, W. (2001) 'The Evolution of Firm Networks: From Emergence to Early Growth of the Firm'. *Strategic Management Journal*, 22:3, pp. 275-286.

Hitt, M. and Ireland, R. (2000) 'The Intersection of Entrepreneurship and Strategic management Research', in D. Sexton and H. Landstrom (eds.), *The Blackwell Handbook of Entrepreneurship*, Oxford: Blachwell, pp. 45-63.

Hitt, M., Ireland, R., Camp, S. and Sexton, D. (2001) 'Guest Editors' Introduction to the Special Issue – Strategic Entrepreneurship: Entrepreneurial Strategies for Wealth Creation'. *Strategic Management Journal*, 22:6-7, pp. 479-491.

Honig, B. (1998) 'What Determines Success? Examining the Human, Financial, and Social Capital of Jamaican Microentrepreneurs'. *Journal of Business Venturing*, 13:5, pp. 371-394.

Hoskisson, R., Johnson, R. and Moesel, D. (1994) 'Corporate Divestiture Intensity in Restructuring Firms: Effects of Governance, Strategy, and Performance'. *Academy of Management Journal*, 37:5, pp. 1207-1251.

Hull, D., Bosley, J. and Udell, G. (1980) 'Renewing the Hunt for the Heffalump: Identifying Potential Entrepreneurs by Personality Characteristics'. *Journal of Small Business Management*, 18:1, pp. 11-19.

Hume, D. (1772) *'An Enquiry Concerning Human Understanding'*. Oxford: Oxford University Press, 1999.

Hunt, S. (1991) 'Positivist and Paradigm Dominance in Consumer Research: Toward Critical Pluralism and Rapprochement'. *Journal of Consumer Research*, 18:1, pp. 32-44.

Hurmerinta-Peltomaki, L. (2003) 'Time and Internationalization: Theoretical Challenges Set by Rapid Internationalization', *Journal of International Entrepreneurship*, 1:2, pp. 217-236.

Huy, Q. (2001) 'Time, Temporal Capability, and Planned Change', *Academy of Management Review*, 26:4, pp. 601-623.

Ibeh, K. and Young, S. (2001) 'Exporting as an Entrepreneurial Act: An Empirical Study of Nigerian Firm'. *European Journal of Marketing*, 35:5-6, pp. 566-586.

Ip, G. (2000) 'Market on a High Wire', *Wall Street Journal*, 18 January.

Ireland, R., Hitt, M., Camp, S. and Sexton, D. (2001) 'Integrating Entrepreneurship and Strategic Management Actions to Create Firm Wealth'. *Academy of Management Executive*, 15:1, pp. 49-63.

Itaki, M. (1991) 'A Critical Assesment of the Eclectic Theory of the Multinational

Enterprise'. *Journal of International Business Studies*, 22:3, pp. 445-460.

Jack, S. and Anderson, A. (2002) 'The Effects of Embeddedness on the Entrepreneurial Process'. *Journal of Business Venturing*, 17:5, pp. 467-487.

Jarillo, C. (1988) 'On Strategic Networks'. *Strategic Management Journal*, 9:1, pp. 31-41.

Johannisson, B. (2000) 'Networking and Entrepreneurial Growth', in D. Sexton and H. Landstrom (eds.), *The Blackwell Handbook of Entrepreneurship*, Oxford: Blackwell, pp. 368-386.

Johanson, J. and Mattsson, L. G. (1988) 'Internationalization in Industrial Systems - a Network Approach', in N. Hood and J.-E. Vahlne (eds.), *Strategies in Global Competition*, London: Croom Helm, pp. 287-314.

Johanson, J. and Mattsson, L.-G. (1987) 'Interorganizational Relations in Industrial Systems: A Netwrok Appraoch Compared with the Transaction-Cost Approach'. *International Studies of Management and Organization*, 17:1, pp. 34-48.

Johanson, J. and Mattsson, L-G. (1992) 'Network Positions and Strategic Action - An Analytical Framework', in B. Axelsson and G. Easton (eds.), *Industrial Networks: A New View of Reality*, London: Routledge, pp. 205-217.

Johanson, J. and Vahlne, J-E. (1977) 'The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments'. *Journal of International Business Studies*, 8:1, pp. 23-32.

Johanson, J. and Vahlne, J-E. (1990) 'The Mechanism of Internationalization'. *International Marketing Review*, 7:4, pp. 11-24.

Johanson, J. and Vahlne, J-E. (2003) 'Business Relationship Learning and Commitment in the Internationalization Process'. *Journal of International Entrepreneurship*, 1:1, pp. 83-102.

Johanson, J. and Wiedersheim-Paul, F. (1975) 'The Internationalization of the Firm – Four Swedish Cases'. *Journal of Management Studies*, October, pp. 305-322.

Johnson, B. (1990) 'Toward a Multidimensional Model of Entrepreneurship: The Case of Achievement Motivation and the Entrepreneur'. *Entrepreneurship Theory and Practice*, 14:3, pp. 39-55.

Johnson, R. (1996) 'Antecedents and Outcomes of Corporate Refocusing'. *Journal of Management*, 22:3, pp. 439-483.

Jolly, V., Alahuta, M. and Jeannet, J.-P. (1992) 'Challenging the Incumbents: How High Technology Start-ups Compete Globally'. *Journal of Strategic Change*, 1, pp. 71–82.

Jones, M. (1999) 'The Internationalization of Small High-Technology Firms'. *Journal of International Marketing*, 7:4, pp. 15-41.

Jones, M. (2001) 'First Steps in Internationalization: Concepts and Evidence from a Sample of Small High Technology Firms'. *Journal of International Management*, 7:3, pp. 191-210.

Jones, M. and Coviello, N. (2002) 'A Time-Based Contingency Model of Entrepreneurial

Internationalisation Behaviour'. *Working Paper 2002-12,* Haskayne School of Business, University of Calgary.

Kahneman, D and Tversky, A. (1979) 'Prospect Theory: An Analysis of Decision under Risk'. *Econometrica,* 47:2, pp. 263-291.

Kant, I. (1787) '*Critique of Pure Reason*'. Britain: Prometheus Books, 1990.

Karakaya, F. (2000) 'Market Exit and Barriers to Exit: Theory and Practice'. *Psychology and Marketing,* 17:8, pp. 651-668.

Katz, D. and Kahn, R. '*The Social Psychology of Organizations*', New York: Wiley.

Kaulio, M. (2003) 'Initial Conditions *or* Process of Development? Critical Incidents in the Early Stages of New Ventures'. *R&D Management,* 33:2, pp. 165-175.

Kazanjian, R. (1988) 'Relation of Dominant Problems to Stages of Growth in Technology-Based New Ventures'. *Academy of Management Journal,* 31:2, pp. 257-279.

Keats, B. and Bracker, J. (1988) 'Toward a Theory of Small Firm Performance: A Conceptual Model'. *American Journal of Small Business,* 12:4, pp. 41-58.

Keil, M. (1995) 'Escalation of Commitment in Information Systems Development: A Comparison of Three Theories'. *Academy of Management Journal,* special issue: best paper proceedings, pp. 348-352.

Kelly, D. and Amburgey, T. (1991) 'Organizational Inertia and Momentum: A Dynamic Model of Strategic Change'. *Academy of Management Journal,* 34:3, pp. 591-612.

Kemerling, G. (2002) '*A Dictionary of Philosophical Terms and Names*'. Internet WWW Page: www.philosophypages.com/dy/ (accessed March, 2002).

Keynes, J. (1936) 'The General Theory of Employment, Interest and Money'. London: Macmillan.

Kirby, S. and Davis, M. (1998) 'A Study of Escalating Commitment in Principal – Agent Relationships: Effects of Monitoring and Personal Responsibility'. *Journal of Applied Psychology,* 83:2, pp. 206-217.

Kirchhoff, B. (1991) 'Entrepreneurship's Contribution to Economics'. *Entrepreneurship Theory and Practice,* 16:2, pp. 93-112.

Kirzner, I. (1979) '*Perception, Opportunity, and Profit. Studies in the Theory of Entrepreneurship*'. Chicago: University of Chicago.

Kirzner, I. (1982) 'Uncertainty, Discovery, and Human Action: A Study of the Entrepreneurial Profile in the Misesian System', in I. Kirzner (ed.), *Method, Process and Austrian Economics: Essays in Honour of Ludwig von Mises,* Lexington, Mass: D.C. Heath, pp. 139-159.

Kirzner, I. (1997a) 'Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach'. *Journal of Economic Literature,* 35:1, pp. 60-85.

Kirzner, I. (1997b) '*How Markets Work: Disequilibrium, Entrepreneurship and*

Discovery'. London: Institute of Economic Affairs.

Kisfalvi, V. (2002) 'The Entrepreneur's Character, Life Issues, and Strategy Making: A Field Study'. *Journal of Business Venturing*, 17:5, pp. 489-518.

Knight, F. (1921) '*Risk, Uncertainty, and Profit*'. Boston, Mass: Houghton Mifflin.

Knight, G. (2000) 'Entrepreneurship and Marketing Strategy: The SME under Globalization'. *Journal of International Marketing*, 8:2, pp. 12-32.

Knight, G. (2001) 'Entrepreneurship and Strategy in the International SME'. *Journal of International Management*, 7:3, pp. 155-171.

Knight, G. and Cavusgil, S. (1996) 'The Born Global Firm: A Challenge to Traditional Internationalization Theory'. *Advances of International Marketing*, 8, pp. 11-26.

Koberg, C., Uhlenbruck, N. and Sarason, Y. (1996) 'Facilitators of Organizational Innovation: The Role of Life-Cycle Stage'. *Journal of Business Venturing*, 11:2, pp. 133-149.

Koppl, R. and Minniti, M. (2003) 'Market Processes and Entrepreneurial Studies', in Z. Acs and D. Audretsch (eds.), *Handbook of Entrepreneurship Research: An Interdisciplinary Survey and Introduction*, Boston: Kluwer Academic Publishers, pp. 81-104.

Kor, Y. and Mahoney, J. (2000) 'Penrose's Resource-Based Approach: The Process and Product of Research Creativity'. *Journal of Management Studies*, 31:1, pp. 109-139.

Korhonen, H., Luostarinen, R. and Welch, L. (1996) 'Internationalization of SMEs: Inward – Outward Patterns and Government Policy'. *Management International Review*, 36:4, pp. 315-329.

Krueger, N. (1993) 'The Impact of Prior Entrepreneurial Exposure on Perceptions of New Venture Feasibility and Desirability'. *Entrepreneurship Theory and Practice*, 18:1, pp. 5-21.

Krueger, N. (2000) 'The Cognitive Infrastructure of Opportunity Emergence'. *Entrepreneurship Theory and Practice*, 24:3, pp. 5-23.

Krueger, N. and Brazeal, D. (1994) 'Entrepreneurial Potential and Potential Entrepreneurs'. *Entrepreneurship Theory and Practice*, 18:3, pp. 91-104.

Krueger, N., Reilly, M. and Carsrud, A. (2000) 'Competing Models of Entrepreneurial Intentions'. *Journal of Business Venturing*, 15:5-6, pp. 411-432.

Kuemmerle, W. (2002) 'Home Base and Knowledge Management in International Ventures'. *Journal of Business Venturing*, 17:2, pp. 99–122.

Kuhn, T. (1962) '*The Structure of Scientific Revolutions*'. Chicago: Chicago University Press.

Kutschker, M. and Baurle, I. (1997) 'Three + One: Multidimensional Strategy on Internationalization'. *Management International Review*, 37:2, pp. 103-125.

Kutschker, M., Baurle, I. and Schmid, S. (1997) 'International Evolution, International

Episodes, and International Epochs – Implications for Managing Internationalization'. *Management International Review*, 37:2, pp. 101-124.

Kwan, K.-M. and Tsang, E. (2001) 'Realism and Constructivism in Strategy Research: A Critical Realist Response to Mir and Watson'. *Strategic Management Journal*, 22:12, pp. 1163-1168.

Lafontaine, F. and Shaw, K. (1998) 'Franchising Growth and Franchisor Entry and Exit in the US Market: Myth and Reality'. *Journal of Business Venturing*, 13:2, pp. 95-112.

Lamb, P. and Liesch, P. (2002) 'The Internationalization Process of the Smaller Firm: Re-framing the Relationships between Market Commitment, Knowledge and Involvement'. *Management International Review*, 42:1, pp. 7-26.

Langley, A. (1999) 'Strategies for Theorizing from Process Data'. *Academy of Management Review*, 24:4, pp. 691-710.

Lembke, J. (2003) 'Strategies, Policies, and High Technology in Europe'. *Comparative European Politics*, 1, pp. 253-275.

Leonidou, L. and Katsikeas, C. (1996) 'The Export Development Process: An Integrative Review of Empirical Models'. *Journal of International Business Studies*, 27:3, pp. 517-551.

Levy, S. (1997) 'Should "Vaporware" be an Antitrust Concern?'. *The Antitrust Bulletin*, spring, pp. 33-43.

Lichtenstein, B. and Brush, C. (2001) 'How Do "Resource Bundles" Develop and Change in New Ventures? A Dynamic Model and Longitudinal Exploration". *Entrepreneurship Theory and Practice*, 25:3, 37-58.

Light, I. and Karageorgis, S. (1994) 'The Ethnic Economy', in N. Smelser and R. Swedberg (eds.), *The Handbook of Economic Sociology*, New York: Russell Sage Foundation, pp. 647-671.

Lincoln, Y. and Denzin, N. (2000) 'The Seventh Moment: Out of the Past', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage, pp. 1047-1065.

Lincoln, Y. and Guba, E. (2000) 'Paradigm Controversies, Contradictions, and Emerging Confluences', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage, pp. 163-188.

Lindqvist, M. (1997) 'Infant Multinationals: Internationalisation of Small Technology-Based Firms', in D. Jones-Evans and M. Klofsten (eds.), *Technology, Innovation, and Enterprise: The European Experience*, Hampshire: Macmillan Press, pp. 303-324.

Lippitt, G. and Schmidt, W. (1967) 'Crises in a Developing Organization'. *Harvard Business Review*, 45, pp. 102-112.

Litvak, I. (1990) 'Instant International: Strategic Reality for Small High Technology Firms in Canada'. *Multinational Business*, 2:summer, pp. 1-12.

Lovallo, D. and Kahneman, D. (2003) 'Delusions of Success: How Optimism Undermines

Executives' Decisions'. *Harvard Business Review*, 81:7, pp. 56-73.

Low, M. (2001) 'The Adolescence of Entrepreneurship Research: Specification of Purpose'. *Entrepreneurship Theory and Practice*, 25:4, pp. 17-25.

Low, M. and MacMillan, I. (1988) 'Entrepreneurship: Past Research And Future Challenges'. *Journal Of Management*, 14:1, pp. 139-161.

Lu, J. and Beamish, P. (2001) 'The Internationalization and Performance of SMEs'. *Strategic Management Journal*, 22:6-7, pp. 565-586.

Lumpkin, G. and Dess, G. (1996) 'Clarifying the Entrepreneurial Orientation Construct and Linking It to Performance'. *Academy of Management Review*, 21:1, pp. 135-172.

Lumpkin, G. and Dess, G. (2001) 'Linking Two Dimensions of Entrepreneurial orientation to Firm Performance: The Moderating Role of Environment and Industry Life Cycle'. *Journal of Business Venturing*, 16:5, pp. 429-451.

Lyden, F. (1975) 'Using Parsons' Functional Analysis in the Study of Public Organizations'. *Administrative Science Quarterly*, 20, pp. 59-70.

Lyon, D., Lumpkin, G. and Dess, G. (2000) 'Enhancing Entrepreneurial Orientation Research: Operationalizing and Measuring a Key Strategic Decision Making Process'. *Journal of Management*, 26:5, pp. 1055-1085.

Mach, E. (1959) '*The Analysis of Sensations and the Relation of the Physical to the Psychical*'. New York: Dover Publications.

Macharzina, K. and Engelhard, J. (1991) 'Paradigm Shift in International Business Research: From Partist and Eclectic Approaches to the GAINS Paradigm'. *Management International Review*, 31:special issue, pp. 23-43.

Mackenzie, K. (2000) 'Processes and Their Frameworks'. *Management Science*, 46:1, pp. 110-125.

MacMillan, I. and Katz, J. (1992) 'Idiosyncratic Milieus of Entrepreneurial Research: The Need for Comprihensive Theories'. *Journal of Business Venturing*, 7:1, pp. 1-8.

Madhok, A. (1997) 'Cost, Value, and Foreign Market Entry Mode: The Transaction and the Firm'. *Strategic Management Journal*, 18:1, pp. 39-61.

Madsen, T. and Servais, P. (1997) 'The Internationalization of Born Globals: An Evolutionary Process?'. *International Business Review*, 6:6, pp. 561-583.

Mahoney, J. and Pandian, J. R. (1992) 'The Resource-Based View within the Conversation of Strategic Management'. *Strategic Management Journal*, 13:5, pp. 363-380.

Manolova, T., Brush, C., Edelman, L. and Greene, P. (2002) 'Internationalization of Small Firms: Personal Factors Revisited', *International Small Business Journal*, 20:1, pp. 9-31.

Martinelli, A. (1994) 'Entrepreneurship and Management', in N. Smelser and R. Swedberg (eds.), *The Handbook of Economic Sociology*, New York: Russell Sage

Foundation, pp. 476-503.

Mata, J. and Portugal, P. (2000) 'Closure and Divestiture by Foreign Entrants: The Impact of Entry and Post-Entry Strategies'. *Strategic Management Journal*, 21:5, pp. 549-562.

Maters, R. and Meier, R. (1988) 'Sex Differences and Risk-Taking Propensity of Entrepreneurs'. *Journal of Small Business Management*, 26:1, pp. 31-35.

Matthyssens, P. and Pauwels, P. (2000) 'Uncovering International Market-Exit Processes: A Comparative Case Study'. *Psychology & Marketing*, 17:8, pp. 697-719.

McAuley, A. (1999) 'Entrepreneurial Instant Exporters in the Scottish Arts and Crafts Sector'. *Journal of International Marketing*, 7:4, pp. 67-82.

McClelland, D. (1961) '*The Achieving Society*'. Princeton, NJ: Van Nostrand.

McClelland, D. (1987) 'Characteristics of Successful Entrepreneurs'. *Journal of Creative Behaviour*, 21, pp. 219-233.

McClelland, D. and Burnham, D. (1995) 'Power is the Great Motivator'. *Harvard Business Review*, 73:1, pp. 126-135.

McClelland, D. and Winter, D. (1969) '*Motivating Economic Achievement*'. New York: Free Press.

McDougall, P. (1989) 'International vs. Domestic Entrepreneurship: New Venture Strategic Behavior and Industry Structure'. *Journal of Business Venturing*, 4:6, pp. 387–400.

McDougall, P. and Oviatt, B. (1996) 'New Venture Internationalization, Strategic Change, and Performance: A Follow-Up Study'. *Journal of Business Venturing*, 11:1, pp. 23-40.

McDougall, P. and Oviatt, B. (2000) 'International Entrepreneurship: The Intersection of Two Research Paths'. *Academy of Management Journal*, 43.5, pp. 902-906.

McDougall, P. Shane, S. and Oviatt, B. (1994) 'Explaining the Formation of International New Ventures: The Limits of Theories from International Business Research'. *Journal of Business Venturing*, 9:6, pp. 469-487.

McDougall, P., Oviatt, B. and Shrader, R. (2003) 'A Comparison of International and Domestic New Ventures'. *Journal of International Entrepreneurship*, 1:1, pp. 59-82.

McGrath, J. (1982) 'Dilemmatics: The Study of Research Choices and Dilemmas', in J. McGrath, J. Martin and R. Kulka (eds.), *Judgment Calls in Research*, Newbury Park, CA: Sage, pp. 69-102.

McGuire, J. (1963) '*Factors Affecting the Growth of Manufacturing Firms*'. Seattle: Bureau of Business Research, University of Washington.

McKinsey and Co. (1993) '*Emerging Exporters, Australia's High Value-Added Manufacturing Exporters*'. Melbourne: Australian Manufacturing Council.

McNaughton, R. (2000) 'Determinants of Time-Span to Foreign Market Entry'. *Journal* *of Euromarketing*, 9:2, pp. 99-112.

Melin, L. (1992) 'Internationalisation as a Strategy Process'. *Strategic Management Journal*, 13:special issue, pp. 99:118.

Mellers, B., Schwartz, A. and Cooke, A. (1998) 'Judgement and Decision Making'. *Annual Review of Psychology*, 49, pp. 447-477.

Merton, R. (1968) '*Social Theory and Social Structure*'. New York: The Free Press.

Meyer, A., Brooks, G. and Goes, J. (1990) 'Environmental Jolts and Industry Revolutions: Organizational Responses to Discontinuous Change'. *Strategic Management Journal*, 11:5, pp. 93-110.

Meznar, M., Nigh, D. and Kwok, C. (1998) 'Announcements of Withdrawal from South Africa Revisited: Making Sense of Contradictory Event Study Findings'. *Academy of Management Journal*, 41:6, pp. 715-730.

Michael, S and Robbins, D. (1998) 'Retrenchment among Small Manufacturing Firms During Recession'. *Journal of Small Business Management*, 36:3, pp. 35-45.

Miles, M. and Huberman, A. (1994) '*Qualitative Data Analysis: An Expanded Sourcebook*'. London: Sage.

Miles, R. and Snow, C. (1978) '*Organizational Strategy, Structure, and Process*'. New York: McGraw-Hill.

Miller, D. (1988) 'Relating Porter's Business Strategies to Environment and Structure: Analysis and Performance Implications'. *Academy of Management Journal*, 31:2, pp. 280-308.

Miner, J. (1997) '*A Psychological Typology of Successful Entrepreneurs*'. London: Quorum Books.

Mintzberg, H. (1973) 'Strategy-Making in Three Modes'. *California Management Review*, 16:2, pp. 44-53.

Mintzberg, H. (1990) 'The Design School: Reconsidering the Basic Premises of Strategic Management'. *Strategic Management Journal*, 11:3, pp. 171-195.

Mintzberg, H. and Westley, F. (1992) 'Cycles of Organizational Change'. *Strategic Management Journal*, 13:special issue, pp. 39-59.

Mir, R. and Watson, A. (2000) 'Strategic Management and the Philosophy of Science: The Case for a Constructivist Methodology'. *Strategic Management Journal*, 21:9, pp. 941-953.

Mir, R. and Watson, A. (2001) 'Critical Realism and Constrcutivism in Strategy Research: Toward a Synthesis'. *Strategic Management Journal*, 22:12, pp. 1169-1173.

Mitchell, R., Smith, J., Morse, E. and Seawright, K. (2002) 'Are entrepreneurial cognitions universal? Assessing entrepreneurial cognitions across cultures'. *Entrepreneur Theory and Practice*, 26:4, pp. 9-32.

Mitchell, T. and James, L. (2001) 'Building Better Theory: Time and the Specifications

When Things Happen'. *Academy of Management Review*, 26:4, pp. 530-547.

Moen, Ø. and Servais, P. (2002) 'Born Global or Gradual Global? Examining the Export Behavior of Small and Medium-Sized Enterprises'. *Journal of International Marketing*, 10:3, pp. 49–72.

Montealegre, R. and Keil, M. (2000) 'De-escalation Information Technology Projects: Lessons from the Denver International Airport'. *MIS Quarterly*, 24:3, pp. 417-447.

Moore, G. (1995) '*Crossing the Chasm: Marketing and Selling Technology Products to Mainstream Customers*'. New York: Harper Business.

Moore, T. (1987) 'Old-line Industry Shapes up; Seven Fortune 500 Companies Show how Restructuring Can Make the US Competitive again'. *Fortune*, 115, pp.22-29.

Mosakowski, E. (1998) 'Managerial Perceptions under the Resource-Based View of Strategy: The Example of Motivational Techniques'. *Strategic Management Journal*, 19:12, pp. 1169-1182.

Mosakowski, E. and Earley, P. (2000) 'A Selective Review of Time Assumptions in Strategy Research'. *Academy of Management Review*, 25:4, pp. 796-812.

Mount, J., Zinger, J. and Forsyth, G. (1993) 'Organizing for Development in the Small Business'. *Long Range Planning*, 26:5, pp. 111-120.

Mudambi, R. and Treichel, M. (2005) 'Cash Crisis in Newly Public Internet-Based Firms: An Empirical Analysis'. *Journal of Business Venturing*, 20, pp. 543-571.

Mueller, S. and Thomas, A. (2000) 'Culture and Entrepreneurial Potential: A Nine Country Study of Locus of Control and Innovativeness'. *Journal of Business Venturing*, 16:1, pp. 51-75.

Mullins, J. (1996) 'Early Growth Decisions of Entrepreneurs: The Influence of Competence and Prior Performance under Changing Market Conditions'. *Journal of Business Venturing*, 11:2, pp. 89-105.

Naffziger, D., Hornsby, J. and Kuratko, D. (1994) 'A Proposed Research Model of Entrepreneurial Motivation'. *Entrepreneurship Theory and Practice*, 18:3, pp. 29-42.

Nakos, G. and Brouthers, K. (2002) 'Entry Mode Choice of SMEs in Central and Eastern Europe'. *Entrepreneurship Theory and Practice*, 27:1, pp. 47-63.

Naman, J. and Slevin, D. (1993) 'Entrepreneurship and the Concept of Fit: A Model and Empirical Tests'. *Strategic Management Journal*, 14:2, pp. 137-153.

Nargundkar, S., Karakaya, F. and Stahl, M. (1996) 'Barriers to Market Exit'. *Journal of Managerial Issues*, 8:2, pp. 239-258.

Nicholls-Nixon, C., Cooper, A. and Woo, C. (2000) 'Strategic Experimentation: Understanding Change and Performance in New Ventures'. *Journal of Business Venturing*, 15:5-6, pp. 493-521.

O'Neill, H. (1986) 'Turnaround and recovery: What Strategy do You Need?'. *Long Range Planning*, 19:1, pp. 80-88.

O'Rand, A. and Krecker, M. (1990) 'Concepts of the Life Cycle: Their History, Meanings, and Uses in the Social sciences'. *Annual Review of Sociology*, 16, pp. 241-262.

OECD (1997) '*Globalization and Small and Medium Enterprises*'. Paris: OECD Publishing.

OECD (1998) '*Fostering Entrepreneurship*'. Paris: OECD Publishing.

OECD (2001) '*The New Economy: Beyond the Hype*'. Paris: OECD Publishing.

OECD (2004) '*Highlights of the OECD Information technology Outlook 2004*'. Paris: OECD Publishing.

Oesterle, M.-J. (1997) 'Time-Span until Internationalization: Foreign Market Entry as a Built-In-Mechanism of Innovations'. *Management International Review*, 37:2, pp. 125-149.

Ogbor, J. (2000) 'Mythicizing and Reification in Entrepreneurial Discourse: Ideology-Critique of Entrepreneurial Studies'. *Journal of Management Studies*, 37:5, pp. 605-635.

Ormerod, P. (1998) '*Butterfly Economics: A New General Theory of Social and Economic Behaviour*'. London: Faber and Faber.

Oviatt, B. and McDougall, P. (1994) 'Toward a Theory of International New Ventures'. *Journal of International Business Studies*, 24:1, pp. 45-64.

Oviatt, B. and McDougall, P. (1997) 'Challenges for Internationalisation Process Theory: The Case of International New Venture'. *Management International Review*, 37:2, pp. 85-99.

Palich, L. and Bagby, D. (1995) 'Using Cognitive Theory to explain Entrepreneurial Risk-Taking: Challenging Conventional Wisdom'. *Journal of Business Venturing*, 10:6, pp. 425-438.

Patton, M. (2002) '*Qualitative Research and Evaluation Methods*'. London: Sage.

Patton, M.Q. (2002) '*Qualitative Research and Evaluation Methods*'. London: Sage.

Pauwels, P. and Matthyssens, P. (1999) 'A Strategy Process Perspective on Export Withdrawal'. *Journal of International Marketing*, 7:3, pp. 10-37.

Peacock, P. (1986) 'The Influence of Risk-Taking as a Cognitive Judgemental Behaviour of Small Business Success'. *Frontiers of Entrepreneurship Research*, pp. 110-18.

Pearce II, J. and Michael, S. (1997) 'Marketing Strategies that Make Entrepreneurial Firms Recession-Resistant'. *Journal of Business Venturing*, 12:4, pp. 301-314.

Pearce II, J. and Robbins, D. (1994) 'Entrepreneurial Recovery Strategies of Small Market Share Manufacturers'. *Journal of Business Venturing*, 9:2, pp. 91-108.

Pearce II, J. and Robbins, K. (1993) 'Toward Improved Theory and Research on Business Turnaround'. *Journal of Management*, 19:3, pp. 613-636.

Peel, M. (1995) 'The Impact of Corporate Restructuring: Mergers, Divestments and

MBOs'. *Long Range Planning*, 28:2, pp. 92-101.

Peng, M. (2001) 'The Resource-Based View and International Business'. *Journal of Management*, 27:6, pp. 803-829.

Penrose, E. (1959) *'The Theory of the Growth of the Firm'*. New-York: Wiley.

Perry, C. (1998) 'Processes of a Case Study Methodology for Postgraduate Research in Marketing'. *European Journal of Marketing*, 9:10, pp. 785-802.

Perry, C., Riege, A. and Brown, L. (1999) 'Realism's Role among Scientific Paradigms in Marketing Research'. *Irish Marketing Review*, 12:2, pp. 16-23.

Petersen, B. and Welch, L. (2000) 'International Retailing Operations: Downstream Entry and Expansion via Franchising'. *International Business Review*, 9:4, pp. 479-496.

Pettigrew, A. (1992) 'The Character and Significance of Strategy Process Research'. *Strategic Management Journal*, 13:special issue, pp. 5-16.

Pettigrew, A. 'Longitudinal Field of Research on Change: Theory and Practice', in G. Huber and A. Van de Ven (eds.), *Longitudinal Field Research Methods: Studying Processes of Organizational Change*, Thousand Oaks, CA: Sage, pp. 91-125.

Pettigrew, A., Woodman, R. and Cameron, K. (2001) 'Studying Organizational Change and Development: Challenges for Future Research'. *Academy of Management Journal*, 44:4, pp. 697-713.

Pilat, D. (2003) 'Digital Economy: Going for Growth'. *OECD Observer*, 237, pp. 15-17.

Pinder, C. and Moore, L. (eds.), *'Middle Range Theory and the Study of Organizations'*. Boston: Martinus Nijhoff Publishing.

Poole, M. and Van de Ven, A. (1989) 'Using Paradox to Build Management and Organization Theories'. *Academy of Management Review*, 14:4, pp. 562-678.

Popper, K. (1960) *'The Logic of Scientific Discovery'*. London: Hutchinson.

Porter, M. (1976) 'Please Note Location of Nearest Exit: Exit Barriers and Planning'. *California Management Review*, 19:2, pp. 21-33.

Porter, M. (1987) 'From Competitive Advantage to Corporate Strategy'. *Harvard Business Review*, 65:3, pp. 43-59.

Poutziouris, P., Binks, M. and Bruce, A. (1999) 'A Problem-Based Phenomenological Growth Model of Small Manufacturing Firms'. *Journal of Small Business and Enterprise Development*, 6:2, pp. 139-152.

Powell, T. (2001) 'Competitive Advantage: Logical and Philosophical Considerations'. *Strategic Management Journal*, 22:9, pp. 875-888.

Powell, T. (2003) 'Strategy without Ontology'. *Strategic Management Journal*, 24:3, pp. 285-291.

Powell, W. and Smith-Doerr, L. (1994) 'Networks and Economic Life', in N. Smelser and R. Swedberg (eds.), *The Handbook of Economic Sociology*, New York: Russell Sage

Foundation, pp. 368-402.

Preece, S., Miles, G. and Baetz, M. (1998) 'Explaining the International Intensity and Global Diversity of Early-Stage Technology Based Firms'. *Journal of Business Venturing,* 14:3, pp. 259-281.

Quinn, R. and Cameron, K. (1983) 'Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence'. *Management Science,* 29:1, pp. 33-51.

Rajagopalan, N. and Spreitzer, G. (1997) 'Toward a Theory of Strategic Change: A Multi-Lens Perspective and Integrative Framework'. *Academy of Management Review,* 22:1, pp. 48-79.

Reisner, R. (2002) 'When a Turnaround Stalls'. *Harvard Business Review,* 80:2, pp. 45-52.

Reuber, A. and Fischer, E. (1997) 'The Influence of the Management Team's International Experience on Internationalization Behavior'. *Journal of International Business Studies,* 28:4, pp. 807-825.

Reuber, A. and Fischer, E. (2002) 'Foreign Sales and Small Firm Growth: The Moderating Role of the Management Team'. *Entrepreneurship Theory and Practice,* 27:1, pp. 29–45.

Reynolds, P. (1991) 'Sociology and Entrepreneurship: Concepts and Contributions'. *Entrepreneurship Theory and Practice,* 16:2, pp. 47-70.

Rhee, J. (2002) 'An Exploratory Examination of Propensity and Performance in New Venture Internationalization'. *New England Journal of Entrepreneurship,* 5:1, pp. 51-66.

Richardson, L. (1997) '*Fields of Play: Constructing an Academic Life*'. New Brunswick, NJ: Rutgers University Press.

Robbins, D. and Pearce II, J. (1993) 'Entrepreneurial Retrenchment among Small Manufacturing Firms'. *Journal of Business Venturing,* 8:4, pp. 301-318.

Rogers, E. (1983) '*Diffusion of Innovations*'. New York: Free Press.

Romanelli, E. (1991) 'The Evolution of New Organizational Forms'. *Annual Review of Sociology,* 17, pp. 79-103.

Root, F. (1994) '*Entry Strategies for International Markets*'. New York: Lexington Books.

Ross, J. and Staw, B. (1993) 'Organizational Escalation and Exit: Lessons from the Shoreham Nuclear Power Plant'. *Academy of Management Journal,* 36:4, pp. 701-732.

Rotter, J. (1966) 'Generalized Expectances for Internal Versus External Control of Reinforcement'. *Psychological Monograph,* 80:1, pp. 1-28.

Rubin, J. and Brockner, J. (1975) 'Factors Affecting Entrapment in Waiting Situations: The Rosencrantz and Guildenstern Effect'. *Journal of Personality and Social Psychology,* 31, pp. 1054-1063.

Ruchala, L., Hill, J. and Dalton, D. (1996) 'Escalation and the Diffusion of Responsibility: A Commercial Lending Experiment'. *Journal of Business Research,* 37:1, pp. 15-26.

Rusek, A. (2004) 'Economic Growth in the New Economic Era'. *Atlantic Economic Journal*, 32:1, p. 68.

Rutledge, R. (1995) 'Escalation of Commitment in Groups and the Moderating Effects of Information Framing'. *Journal of Applied Business Research*, 11:2, pp. 17-22.

Salter, S. and Sharp, D. (2001) 'Agency Effects and Escalation of Commitment: Do Small National Culture Differences Matter?'. *International Journal of Accounting*, 36:1, pp. 33-45.

Sandberg, W. (1992) 'Strategic Management's Potential Contributions to a Theory of Entrepreneurship'. *Entrepreneurship Theory and Practice*, 16:3, pp. 73-90.

Sarasvathy, S. (1999) 'Seminar on Research Perspectives in Entrepreneurship'. *Journal of Business Venturing*, 15:1, pp. 1-57.

Sarasvathy, S. (2001) 'Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency'. *Academy of Management Review*, 26:2, pp. 243-263.

Sarton, G. (1955) *'The Appreciation of Ancient and Medieval Science during the Renaissance (1450-1600)'*. Philadelphia: University of Pennsylvania Press.

Scandura, T. and Williams, E. (2000) 'Research Methodology in Management: Current Practices, Trends, and Implications for Future Research'. *Academy of Management Journal*, 43:6, pp. 1248-1264.

Scase, R. and Goffee, R. (1986) 'Class Analysis and the Entrepreneurial Middle Class', in J. Curran, J. Stanworth, and D. Watkins (eds.), *The Survival of the Small Firm. The Economics of Survival and Entrepreneurship*, England: Gower, pp. 139-153.

Scheinberg, S. and MacMillan, I. (1988) 'An Eleven Country Study of the Motivations to Start a Business'. *Frontiers of Entrepreneurship Research*, pp. 669-687.

Schendel, D. and Hofer, C. (1979) *'Strategic Management'*. Boston: Little Brown.

Schumpeter, J. (1934) *'The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle'*. Cambridge, MA: Harvard University Press.

Schumpeter, J. (1942) *'Capitalism, Socialism, and Democracy'*. New York: Harper & Row.

Schumpeter, J. (1947) 'Theoretical Problem in Economic Growth'. *Journal of Economic History*, 7, pp. 1-9.

Schwandt, T. (2000) 'Three Epistemological Stances for Qualitative Inquiry: Interepretivism, Hermeneutics, and Social Constructionism', in N. Denzin and Y. Lincoln (eds.), *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage, pp. 189-213.

Scott, M. and Bruce, R. (1987) 'Five Stages of Growth in Small Business'. *Long Range*

Planning, 20:3, pp. 45-52.

Scottish Development International, www.scottishdevelopmentinternational.com, accessed in January, 2006.

Scottish Enterprise, www.scottish-enterprise.com, accessed in March, 2006.

Seth, A. and Easterwood, J. (1993) 'Strategic Redirection in Large Management Buyouts: The Evidence from Post-Buyout Restructuring Activity'. *Strategic Management Journal*, 14:4, pp. 251-273.

Sexton, D. (1988) 'The Field of Entrepreneurship: Is It Growing or Just Getting Bigger?'. *Journal of Small Business Management*, 26:1, pp. 5–8.

Sexton, D. and Bowman, N. (1983) 'Comparative Entrepreneurships Characteristics of Students'. *Frontiers of Entrepreneurship Research*, pp. 465-478.

Sexton, D. and Bowman-Upton, N. (1991) '*Entrepreneurship: Creativity and Growth*'. New York: Macmillan.

Shane, S. (1996) 'Why Franchise Companies Expand Overseas'. *Journal of Business Venturing*, 11:2, pp. 73-88.

Shane, S. and Venkataraman, S. (2000) 'The Promise of Entrepreneurship as a Field of Research'. *Academy of Management Review*, 25:1, pp. 217-226.

Shapero, A. (1982) 'Social Dimensions of Entrepreneurship', in C. Kent, D. Sexton and K. Vesper (eds.), *The Encyclopedia of Entrepreneurship*, New York: Prentice Hall, pp. 72-90.

Sharp, D. and Salter, S. (1997) 'Project Escalation and Sunk Costs: A Test of the International Generalizability of Agency and Prospect Theories'. *Journal of International Business Studies*, 28:1, pp. 101-121.

Shepherd, D, Douglas, E. and Shanley, M. (2000) 'New Venture Survival: Ignorance, External Shoks, and Risk Reduction Strategies'. *Journal of Business Venturing*, 15:5-6, pp. 393-410.

Shin, S.-H. (2000) 'The Foreign Divestment Factors in South Korea: An Analysis of the Trading Sector'. *Multinational Business Review*, 8:2, pp. 98-103.

Shrader, R. (2001) 'Collaboration and Performance in Foreign Markets: The Case of Young High-Technology Manufacturing Firms'. *Academy of Management Journal*, 44:1, pp. 45–60.

Shrader, R., Oviatt, B. and McDougall, P. (2000) 'How New Ventures Exploit Trade-offs among International Risk Factors: Lessons for the Accelerated Internationalization of the 21st Century'. *Academy of Management Journal*, 43:6, pp. 1227–1247.

Siegfried, J. and Evans, L. (1994) 'Empirical Studies of Entry and Exit Reconsidered'. *Review of Industrial Organization*, 9:2, pp. 121-155.

Simon, M., Houghton, S. and Aquino, K. (2000) 'Cognitive Biases, Risk Perception, and Venture Formation: How Individuals Decide to Start Companies'. *Journal of Business*

Venturing, 15:2, pp. 113-134.

Simonson, I. and Staw, B. (1992) 'De-escalation Strategies: A Comparison of Techniques for Reducing Commitment to Losing Course of Action'. *Journal of Applied Psychology*, 77:4, pp. 419-426.

Sjolander, S. and Magnusson, M. (2002) 'Entrepreneurial Discovery, the Market Process, Resource Transformation, and the Growth of the Firm'. *Frontiers of Entrepreneurship Research*, p. 237.

Slevin, D. and Covin, J. (1997) 'Time, Growth, Complexity, and Transitions: Entrepreneurial Challenges for the Future'. *Entrepreneurship Theory and Practice*, 22:2, pp. 53-68.

Slywotzky, A. and Wise, R. (2002) 'The Growth Crisis – and How to Escape It'. *Harvard Business Review*, 80:7, pp. 72-82.

Solomon, G. and Winslow, E. (1988) 'Toward a Descriptive Profile of the Entrepreneur'. *Journal of Creative Behaviour*, 22, pp. 162-171.

Spender, J. and Grant, R. (1996) 'Knowledge and the Firm: Overview'. *Strategic Management Journal*, 17:1, pp. 5-9.

Stanworth, J., Purdy, D., Price, S. and Zafiris, N. (1998) 'Franchise versus Conventional Small Business Failure Rates in the US and UK: More Similarities than Differences'. *International Small Business Journal*, 16.3, pp. 56-69.

Stanworth, M. and Curran, J. (1976) 'Growth and the Small Firm – An Alternative View'. *Journal of Management Studies*, 13:2, pp. 95-110.

Staw, B. (1981) 'The Escalation of Commitment to a Course of Action'. *Academy of Management Review*, 6:4, pp. 577-587.

Staw, B. and Fox, F. (1977) 'Escalation: Some Determinants of Commitment to a Previously Chosen Course of Action'. *Human Relations*, 30:5, pp. 431-450.

Staw, B. and Ross, J. (1978) 'Commitment to a Policy Decision: A Multi-Theoretical Perspective'. *Administrative Science Quarterly*, 23:1, pp. 40-64.

Staw, B. and Ross, J. (1987) 'Knowing When to Pull the Plug'. *Harvard Business Review*, 65:2, pp. 68-74.

Steinmetz, L. (1969) 'Critical Stages of Small Business Growth: When They Occur and How to Survive Them'. *Business Horizons*, February, pp. 29-36.

Stevenson, H. and Gumpert, D. (1985) 'The Heart of Entrepreneurship'. *Harvard Business Review*, 63:2, pp. 85-95.

Stevenson, H. and Harmeling, S. (1990) 'Entrepreneurial Management's Need for a More "Chaotic" Theory'. *Journal of Business Venturing*, 5:1, pp. 1-14.

Stevenson, H. and Jarillo, J. (1990) 'A Paradigm of Entrepreneurship: Entrepreneurial Management'. *Strategic Management Journal*, 11:5, pp. 17-27.

Stewart, A. (1991) 'A Prospectus on Anthropology of Entrepreneurship'.

Entrepreneurship Theory and Practice, 16:2, pp. 71-91.

Storey, D. (1994) '*Understanding the Small Business Sector*'. London: Routledge.

Storey, D. (2002) '*Ten Percenters: Fast Growing Medium Sized Companies in the United Kingdom*', www.deloitte.co.uk, accessed November, 2002.

Strauss, A. and Corbin, J. (1998) '*Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory*'. Thousand Oaks, CA: Sage.

Sullivan, D. and Bauerschmidt, A. (1990) 'Incremental Internationalization: A Test of Johanson and Vahlne's Thesis'. *Management International Review*, 30:1, pp. 19-30.

Swedberg, R. (2000) 'The Social Science View of Entrepreneurship: Introduction and Practical Applications', in R. Swedberg (ed.), *Entrepreneurship: The Social Science View*, Oxford: University Press, pp. 7-44.

Tegarden, L., Echols, A. and Hatfield, D. (2000) 'The Value of Patience and Start-up Firms: A Re-Examination of Entry Timing for Emerging Markets'. *Entrepreneurship Theory and Practice*, 24:4, pp. 41-58.

Thorngate, W. (1976) '"In General" vs. "It Depends": Some Comments on the Gergen-Schlenker Debate'. *Personality and Social Psychology Bulletin*, 2:4, pp. 404-410.

Thornton, P. (1999) 'The Sociology of Entrepreneurship'. *Annual Review of Sociology*, 25, pp. 19-46.

Tiessen, J. (1997) 'Individualism, Collectivism, and Entrepreneurship: A Framework for International Comparative Research'. *Journal of Business Venturing*, 12:5, pp. 367-384.

Tikkanen, H. (1998) 'The Network Approach in Analyzing International Marketing and Purchasing Operations: A Case Study of a European SME's Focal Net'. *Journal of Business & Industrial Marketing*, 13:2, pp. 109-130.

Trochim, W. (2004) '*Research Methods Knowledge Base*'. 2nd Edition, Internet WWW page: www.socialresearchmethods.net/kb/index.htm (accessed December, 2001).

Tse, D., Pan, Y. and Au, K. (1997) 'How MNCs Choose Entry Modes and Form Alliances: The China Experience'. *Journal of International Business Studies*, 28:4, pp. 779- 806.

Tsetsekos, G. and Gombola, J. (1992) 'Foreign and Domestic Divestments: Evidence on Valuation Effects of Plant Closing'. *Journal of International Business Studies*, 23:2, pp. 203-222.

Tsoukas, H. (1989) 'The Validity of Idiographic Research Explanations'. *Academy of Management Review*, 14:4, pp. 551-561.

Turcan, R. (2000) '*Internationalization of High-Technology SMEs: Network Perspective*'. MSc Dissertation, Glasgow, UK: University of Strathclyde.

Turcan, R. (2003a) 'De-internationalization and the Small Firm', in C. Wheeler, F. McDonald and I. Greaves (eds.), *Internationalization: Firm Strategies and Management*, Great Britain: Palgrave, pp. 208-222.

Turcan, R. (2003b) '*Small Firm De-internationalization: An Entrepreneurship*

Perspective'. Paper presented at the 30th AIB Conference on International Business: Does Location Matter?, De Montfort University, Leicester, April, 11-12.

Turcan, R. and Jones, M. (2002) '*Internationalization Patterns of Small High Technology Firms: Keep On, Step Back, or Withdraw*'. Paper presented at the 29th AIB Conference on International Business in the Global Knowledge Economy, University of Central Lancashire, Preston, April 12-13.

Turcan, R. and Mäkelä, M. (2004) '*Re-discovering International Entrepreneurship from Behind the Facade of the 21st Century*'. Paper presented at the 4th McGill International Entrepreneurship Conference, McGill University, Montreal, September 17-20.

Turcan, R., Gaillard, L. and Mäkelä, M. (2004) 'International Entrepreneurship and the Resource-Based View of the Firm'. *Frontiers of Entrepreneurship Research*, forthcoming.

Turnbull, P. (1987) 'A Challenge to the Stages Theory of the Internationalisation Process', in P. Rosson, and S. Reid (eds.), *Managing Export Entry and Expansion: Concepts and Practice*, New York: Praeger, pp. 21-40.

U.S. Small Business Administration (1992) '*The State of Small Business*'. Washington, DC: U.S. Government Printing Office.

Ucbasaran, D., Westhead, P. and Wright, M. (2001) 'The Focus of Entrepreneurial Research: Contextual and Process Issues'. *Entrepreneurship Theory and Practice*, 25:4, pp. 57-80.

Van de Ven, A. (1992) 'Suggestions for Studying Strategy Process: A Research Note'. *Strategic Management Journal*, 13: special issue, pp. 169-188.

Van de Ven, A. and Poole, M. (1995) 'Explaining Development and Change in Organizations'. *Academy of Management Review*, 20:3, pp. 510-540.

Van Reenen, J. (2001) 'The New Economy: Reality and Policy'. *Fiscal Studies*, 22:3, pp. 307-336.

Vatne, E. (1995) 'Local Resource Mobilization and Internationalization Strategies in Small and Medium-Sized Enterprises'. *Environment and Planning*, 27:1, pp. 63-80.

Vaughan, D. (1999) 'The Dark Side of Organizations: Mistake, Misconduct, and Disaster'. *Annual Review of Sociology*, 25, pp. 271-305.

Venkataraman, S. and Ven de Ven, A. (1998) 'Hostile Environmental Jolts, Transaction Set, and New Business'. *Journal of Business Venturing*, 13:4, pp. 231-255.

Vijselaar, F. and Albers, R. (2004) 'New Technologies and Productivity Growth in the Euro Area'. *Empirical Economics*, 29, pp. 621-646.

Vinnell, R. and Hamilton, R. (1999) 'A Historical Perspective on Small Firm Development'. *Entrepreneurship Theory and Practice*, 23:4, pp. 5-18.

Waldinger, R., Aldrich, H. and Ward, R. (2000) 'Ethnic Entrepreneurs', in R. Swedberg (ed.), *Entrepreneurship: The Social Science View*, Oxford: University Press, pp. 356-388.

Watson, J. and Everett, J. (1993) 'Defining Small Business Failure'. *International Small*

Business Journal, 11:3, pp. 35-48.

Watson, J. and Everett, J. (1999) 'Small Business Failure Rates: Choice of Definition and Industry Effects'. *International Small Business Journal*, 17:2, pp. 31-45.

Watzlawick, P. (1977) '*How Real is Real? Confusion, Disinformation, Communication*', New York: Vintage Books.

Weber, M. (1988) '*The Protestant Ethic and The Spirit of Capitalism*'. Gloucester, Mass: P. Smith.

Weick, K. (1979) '*The Social Psychology of Organizing*'. New York: McGraw-Hill.

Weick, K. (1980), 'Middle Range Themes in Organizational Theorizing', in C. Pinder and L. Moore (eds.), *Middle Range Theory and the Study of Organizations*, Boston: Martinus Nijhoff Publishing, pp. 392-407.

Weick, K. (1989) 'Theory Construction as Disciplined Imagination'. *Academy of Management Review*, 14:4, pp. 516-531.

Weick, K. (1999) 'Theory Construction as Disciplined Reflexivity: Tradeoffs in the 90's'. *Academy of Management Review*, 24:4, pp. 797-806.

Welch, D. and Welch, L. (1996) 'The Internationalization Process and Networks: A Strategic Management Perspective'. *Journal of International Marketing*, 4:3, pp. 11-28.

Welge, M. and Holtbrugge, D. (1999) 'International Management under Postmodern Conditions'. *Management International Review*, 39:4, pp. 305-322.

Welsh, L. and Luostarinen, R. (1988) 'Internationalization: Evolution of a Concept'. *Journal of General Management*, 14:2, pp. 34-55.

Welsh, L. and Luostarinen, R. (1993) 'Inward-Outward Connections in Internationalization'. *Journal of International Marketing*, 1:1, pp. 44-56.

Wernerfelt, B. (1984) 'A Resource-Based View of the Firm'. *Strategic Management Journal*, 5:2, pp. 171-180.

Wernerfelt, B. (1989) 'From Critical Resources to Corporate Strategy'. *Journal of General Management*, 14:3, pp. 4-12.

West III, G. and Meyer, G. (1998) 'To Agree or Not to Agree? Consensus and Performance in New Ventures'. *Journal of Business Venturing*, 13:5, pp. 395-422.

Westhead, P., Wright, M. and Ucbasaran, D. (2001) 'The Internationalization of New and Small Firms: A Resource-Based View'. *Journal of Business Venturing*, 16:4, pp.333-358.

Weston, J. (1989) 'Divestitures: Mistakes or Learning?'. *Journal of Applied Corporate Finance*, 2, pp. 68-76.

Westphal, L. (1999) 'Entrepreneurs in Wireless Industry Realize Exit Strategy'. *Direct Marketing*, 62:8, pp. 56-61.

Wheeler, C., Jones, M. and Young, S. (1996) 'Market Entry Modes and Channels of

Distribution in the UK Machine Tool Industry'. *European Journal of Marketing*, 30:4, pp. 40-58.

Whetten, D. (1989) 'What Constitutes a Theoretical Contribution?'. *Academy of Management Review*, 14:4, pp. 490-495.

Whitney, J. (1987) '*Taking Charge: Management Guide to Troubled Companies and Turnarounds*'. Homewood, IL: Dow-Jones Irwin.

Wiedersheim-Paul, F., Olson, H. and Welch, L. (1978) 'Pre-export Activity: The First Step in Internationalisation'. *Journal of International Business Studies*, 9:1, pp. 47-58.

Willett, J. and Sayer, A. (1994) 'Using Covariance Structure Analysis to Detect Correlates and Predictors of Individual Change over Time'. *Psychological Bulletin*, 116:2, pp. 363-381.

Williamson, O. (1975) '*Markets and Hierarchies: Analysis and Antitrust Implications*'. New York: Free Press.

Williamson, O. (1994) 'Transaction Cost Economics and Organization Theory', in N. Smelser and R. Swedberg (eds.), *The Handbook of Economic Sociology*, Princeton, N.J.: Princeton University Press, pp. 77-107.

Winslow, E. and Solomon, G. (1989) 'Further Development of a Descriptive Profile of Entrepreneurs'. *Journal of Creative Behaviour*, 23, pp. 149-161.

Wittgenstein, L. (1922) '*Tractatus Logico-Philosophicus*'. London: Kegan Paul, Trench, Trubner & Co.

Woo, C., Cooper, A. and Dunkelberg, W. (1991) 'The Development and Interpretation of Entrepreneurial Typologies'. *Journal of Business Venturing*, 6:2, pp. 93-114.

Wright, R. and Ricks, D. (1994) 'Trends in International Business Research: Twenty-Five Years Later'. *Journal of International Business Studies*, 25:4, pp. 687-701.

Wyner, G. (2001) 'Representation, Randomization, and Realism'. *Marketing Research: A Magazine of Management & Applications*, 13:3, pp. 4-5.

Yeoh, P-L. (2000) 'Information Acquisition Activities: A Study of Global Start-Up Exporting Companies'. *Journal of International Marketing*, 8:3, pp. 36-60.

Yin, R. (2003) '*Case study research: Design and methods*'. Thousand Oaks, CA: Sage.

Yip, G., Biscarri, J. and Monti, J. (2000) 'The Role of the Internationalisation Process in the Performance of Newly Internationalising Firms'. *Journal of International Marketing*, 8:3, pp. 10-35.

Yli-Renko, H., Autio, E. and Tontti, V. (2002) 'Social Capital, Knowledge, and the International Growth of Technology-Based New Firms'. *International Business Review*, 11:3, pp. 279-304.

Young, S., Hamill J., Wheeler, C. and Davies, L.R. (1989) '*International Market Entry and Development: Strategies and Management*'. London: Harvester Wheatsheaf.

Zacharakis, A. (1997) 'Entrepreneurial Entry into Foreign Markets: A Transaction Cost

Perspective'. *Entrepreneurship Theory and Practice*, 21:3, pp. 23-40.

Zafarullah, M., Ali, M. and Young, S. (1998) 'The Internationalisation of the Small Firm in Developing Countries: Exploratory Research from Pakistan'. *Journal of Global Marketing*, 11:3, pp. 21-40.

Zahra, S. (1996) 'Technology Strategy and New Venture Performance: A Study of Corporate-Sponsored and Independent Biotechnology Ventures'. *Journal of Business Venturing*, 11:4, pp. 289-321.

Zahra, S. and Covin, J. (1995) 'Contextual Influences on the Corporate Entrepreneurship – Performance Relationship: A Longitudinal Analysis'. *Journal of Business Venturing*, 10:1, pp. 43-58.

Zahra, S. and Garvis, D. (2000) 'International Corpotate Entrepreneurship and Firm Performance: The Moderting Effect of International Environmental Hostility'. *Journal of Business Venturing*, 15:5-6, pp. 469-492.

Zahra, S. and George, G. (2002) 'International Entrepreneurship: The Current Status of the Field and Future Research Agenda', in M. Hitt, D. Ireland, D. Sexton, and M. Camp (eds.), *Strategic Entrepreneurship: Creating an Integrated Mindset*, Malden, MA: Blackwell Publishers, pp. 255–288.

Zahra, S. and Kirchhoff, B. (2001) 'The Impact of Maturity upon Firm Growth among Technology-Based New Ventures'. *Frontiers of Entrepreneurship Research*, pp. 368-377.

Zahra, S., Neubaum, D. and Huse, M. (1997) 'The Effect of the Environment on Export Performance among Telecommunications New Ventures'. *Entrepreneurship Theory and Practice*, 22:1, pp. 25–46.

Zajac, E., Kraatz, M. and Bresser, R. (2000) 'Modelling the Dynamics of Strategic Fit: A Normative Approach to Strategic Change'. *Strategic Management Journal*, 21:4, pp. 429-453.

Zider, B. (1998) 'How Venture Capital Works'. *Harvard Business Review*, 76:6, pp. 131-139.