MULTI-LAYERED FACTORS INFLUENCING THE FIRM'S INTERNATIONALIZATION STRATEGY:

INSTITUTIONS, MICRO ENVIRONMENT, AND FIRM-LEVEL CAPABILITIES

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Merton College, University of Oxford

Doctor of Philosophy in Management Studies

Hilary Term, 2013

ABSTRACT

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This thesis investigates the factors influencing the internationalization of firms through a multi-layered analysis grounded in international business. It addresses the following questions. First, in what ways does the institutional environment facilitate or hinder the growth of start-ups? And in what ways does institutional diversity across countries affect internationalizing firms? Second, in light of the variety of internationalization patterns, what modifications are necessary to the theories of internationalization? Third, how do rapidly internationalizing firms explore and exploit capabilities? And in what ways does capability development differ between firms that realize early, rapid internationalization and those firms that do not?

Answering the first set of questions involves recasting the comparative institutional analysis of national political economies. This thesis demonstrates that: 1) when national institutions are in transition, business entrepreneurs can bring about institutional change, or else act to avoid or adapt specific institutions for their own use; and 2) international institutional diversity seems to be less influential in determining the expansion pattern of rapidly internationalizing firms. Next, to address the second question, this thesis examines the factors influencing the speed of internationalization. The proposed models point to a larger role of entrepreneurs' perception and the relevance of the resources factor, and better accommodate a wider variety of internationalization paths. In order to answer the third set of questions, this thesis investigates the early stage development of firm-level capabilities among internationalizing firms. The result points to: 1) the faster transformation of individual capabilities to firm-level routines; 2) a wider variety of routines for exploring external capabilities; and 3) a higher ability to exploit ordinary routines, among more rapidly internationalizing firms. Finally, this thesis discusses how each of the three levels of analysis relates to the other levels. The overall analysis demonstrates the value of multi-layered approach in investigating the firm's internationalization.

PREFACE

To my wife, Sumiko.

In appreciation of the hundreds of practitioners, scholars, and policy makers.

Accomplished with the warm advice and guidance of Professor Mari Sako.

Written in collaboration with my colleagues from all over the world.

Supported by my parents, family, friends, and the citizens of Japan.

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1 Introduction

1.1 The emergence of Born Global firms

Trade between far-flung tribes began in prehistoric times (Tykot Robert, 2002; Contractor, 2012). The origin of international business dates back to at least 2600-2400 BC when the merchants of Ebla were importing raw materials from Egypt and Anatolia and exporting swards and luxury items to Elam and Sumer (Moore & Lewis, 2009). Foreign direct investment and the resulting multi-national operation is not a new phenomenon; 500 years later, in 2000 BC, Assyrian merchants were already operating a number of foreign branches in other regions to accommodate the increased trading volume (Moore & Lewis, 1999). Nations have recognized the importance of international business for centuries; for example, the Code of Hammurabi specified the roles of sea trade in order to solve disputes and encourage international trade nearly 4000 years ago (Stopford, 2010). Thus, firms' internationalization has a long history, starting from the very earliest traders and merchants.

Today, the geographical extent to which a firm can disperse its component units across different locations has increased. The precise geographical configuration of the global production networks has undergone a significant transformation (Dicken, 1988; Sturgeon, 2002; Palmisano, 2006). As shared business practices and modularized architectures have spread, along with the enhanced communication technologies and decreased logistics costs, a number of suppliers of international outsourcing and offshoring services have developed in the market. These specialized outsourcers provide economies of scale and the necessary skills for firms that were previously outside the international environment. The liberalization of international trade has further enabled the diffusion of the value chain across the globe.

Consequently, there is an increasing demand to be international in the globalized world economy. Firms are often required to disaggregate the value chain, focus on the activities in which they can compete, and find the best partners from all over the world (Fine, 1998; Berger & Center, 2006). The research and development function has been distributed in different countries around the world, in order to utilize skilled engineers and local market insights (Eppinger & Chitkara, 2007). Increasingly active mergers, acquisitions, outsourcing, and spin-offs may accelerate the reconfiguration of the value chain. As a result, these trends lead to the increasing presence of cross-border global value chains,

covering remote locations and different entities (Gereffi & Korzeniewicz, 1994; Gereffi, Humphrey & Sturgeon, 2005). International firms have developed a variety of network forms of governance in the globalized world economy (Gereffi et al., 2005; Bair, 2008; Sturgeon, 2009).

Until recently, international operation was associated only with large, multinational firms. However, it is increasingly evident that smaller, younger firms can also become global from the early stages of their growth (Brokaw, 1990; *The Economist*, 1992, 1993b; Gupta, 1989; Mamis, 1989). A notable example is a form of small organization called "Born Global" or "Global Entrepreneur", which is differentiated in terms of its strong technological competitiveness, niche focus, and widespread use of advanced communication technology (Aspelund & Moen, 2001). They leverage the best in the world from day one, entering those markets that they believe to be the best for maximizing both profit and revenue (Isenberg, 2008). Today, being global is in the scope of every firm that aims to grow its business competitively and continuously (Cavusgil & Knight, 2009).

After early researches (e.g., McDougall, 1989; McKinsey & Co, 1993a) pointed out the increasing presence of younger, smaller firms initiating internationalization, the literature acknowledged the need to refine the existing theoretical explanations of internationalization that assumed that firms become

international long after they have been formed (McDougall, Shane & Oviatt, 1994: 469-470). A stream of research, called international entrepreneurship, has emerged in order to investigate these younger, smaller start-ups that internationalize from their inception (Oviatt & McDougall, 1994; Coviello, McDougall & Oviatt, 2011). Over two decades of research has defined the significance of this new path to being international, and gradually improved our understanding of the relatively smaller, younger participants in international business (Jones, Coviello & Tang, 2011).

However, the literature still requires theoretical integration and consistency (Coombs, Sadrieh & Annavarjula, 2009; Keupp & Gassmann, 2009). The introduction of perspectives from other disciplines will be required to analyse the phenomenon from different angles (Coviello et al., 2011: 627). Under what conditions do small firms choose to leverage more external overseas resources from their inception? How do they differ in terms of making their initial international decision and conducting the following geographic expansion from firms that take more traditional, gradual internationalization steps? To date, researchers have not provided adequate answers to these questions.

1.2 Smaller, younger firms' internationalization

This study aims to contribute towards advancing our understanding of the factors influencing the internationalization of smaller, younger firms. In this research, a firm's internationalization is defined as a series of decisions to create an internalized foreign operation of a business function. This study focuses on analysing the factors influencing these decisions, especially the timing of the initial foreign expansion and the pace of subsequent decisions on geographic expansion. Further, it investigates how the firm's internationalization in turn influences the external environment. It analyses how these firms develop firm-level organizational routines to explore external knowledge and capabilities.

The focus of this research is on smaller, younger internationalizing firms for two reasons.

Firstly, there has been comparatively limited analysis relating to the internationalization decisions of new, small private firms (Wright, Westhead & Ucbasaran, 2007). In fact, in creating global expansion plans, even small firms encounter a wider set of options than in the past regarding their strategic choices about which part of the value chain to engage in and from which locations to seek resources and markets. However, the existing explanations about how these small but rapidly internationalizing firms decide and govern such emergent value chain

configurations remain inadequate. The theories of multi-national corporations have been developed through an analysis of large firms, and do not take into account the unique conditions that apply to born global firms (e.g., the considerable influence of the entrepreneur's personal profile). Consequently, a variety of different theories on how firms internationalize, select locations, and decide the boundaries have not been integrated yet. Thus, research on small firms that engage in multinational operations is an area that requires fresh insights.

Secondly, a focus on small internationalizing firms simplifies the analysis of the influence of internal factors, and clarifies the influence of the external business conditions on the firm's decision and execution. The decision-making process and organizational structure of small firms are relatively simple; the entrepreneur and a limited number of managers have the prerogative to decide which course of action to take, in most cases. Thus, it is feasible to collect data from the majority of the stakeholders involved in the internationalization decision and execution. Consequently, the data from the multiple functions and levels of a small organization help this research to draw a clearer picture of how different external conditions influence the firm's strategy choices, and to crystallize the influence of the internal structures (e.g., the reward and incentive system, the organizational politics of the existing operations).

1.3 An overview of the empirical research

This thesis investigates the multi-layered factors influencing the firm's internationalization. Firstly, Chapter 2 reviews the relevant literature and categorizes it into three perspectives: the institutions, micro environment, and capabilities perspectives. Further, the three empirical chapters (i.e., Chapters 3, 4, and 5) focus on the research questions and contribute to the literature on the respective research area. These chapters were originally written as stand-alone journal articles; therefore, each has a focused literature review section, a data and methods section, and a discussion section. Finally, Chapter 6 discusses the synergies among the different layers of analysis.

Thus, Chapters 3, 4, and 5 consist of the three-layered empirical analysis, while Chapter 6 discusses the synergies among the three empirical studies as shown in Figure 1.

Figure 1 An Overview of the Empirical Research

	Format & data	Research topic
Chapter 3: institutional contexts for rapidly internationalizing firms	• 2 in-depth case studies and 8 supplemental cases • 28 interviews (48.5 hours) and other relevant sources	• Analyzes the influence of national institutions on start-up firms' initial growth and internationalization
Chapter 4: the forces influencing the speed of internationalization	• 4 in-depth case studies • 46 interviews (59 hours) and other relevant sources	• empirically examines the model of forces influencing the speed of internationalization developed by Oviatt and McDougall (2005)
Chapter 5: the influence of the development of organizational routines	• 4 in-depth case studies • 46 interviews (56 hours) and other relevant sources	• investigates the process in which rapidly internationalizing firms explore and exploit the required resources
Chapter 6: integrating the multi-layered analysis	• The findings of the three empirical sections • 40 interviews (43 hours) in US, UK, France, and Japan	• discusses an integrated analytical framework explaining multi-layered factors influencing the firm's internationalization

The first empirical chapter, Chapter 3 investigates the interaction between the micro-level institutional environment and internationalizing firms. It poses three questions: in what ways does the national institutional environment facilitate or hinder the growth and internationalization of entrepreneurial start-ups? In what ways does the developed institutional environment interact with the firm? And in what ways does the international institutional diversity affect the way in which these internationalizing firms expand and develop their international business? The findings of this chapter challenge the general assumption of the literature that the institutional environment guides the behaviour of the firm and that the firm gradually navigates between different home and host market environments. Firstly, the study finds that, in cases where a developed institutional environment

is in transition, business entrepreneurs can take a risk by challenging the given environment by avoiding, adopting, or changing the institutions for their own use. Secondly, the finding suggests that inter-firm labour mobility is significant in causing institutional interactions. Collaboration among senior managers from different backgrounds within the firm may trigger institutional interactions. The influence of such firms is significant not only due to the demonstration effects and inter-company relationships, but also the transfer of capabilities via human resource migration. Finally, this study found that the way in which rapidly internationalizing young firms interact with a variety of institutional environments differs from that of the more established, older firms. These firms may design the global coverage first and, in the process of the growth, the acquired or newly established local operations of such firms can independently and multilaterally collaborate to develop a globally united system.

Further, Chapter 4 analyzes the forces influencing the speed of internationalization, and empirically examines the theoretical model proposed by Oviatt and McDougall (2005a). The chapter asks, in light of the rapid and early modes of internationalization, what modifications, if any, are necessary to the existing theories of internationalization? This study suggests that the model proposed by Oviatt and McDougall requires refinement, in order to accommodate the variety of different modes of internationalization. The two refined models

proposed in Chapter 4 reflect the importance of entrepreneurs' perception in filtering external environmental factors, especially if the firm is small and/or young. The refined models restructure the factors influencing the timing and pace of internationalization, and explain the potential causes of the specific timing and pace of a firm's internationalization. They confirm the relevance of firm-level capabilities and institutional factors in determining the timing and pace of internationalization and the value of longitudinal study that may capture the changing state of the perceptions, capabilities, and environment.

Chapter 5 investigates the development of knowledge and capabilities, and asks two questions: how do firms that realize early and rapid internationalization explore and exploit knowledge and capabilities? And in what ways does the process of firm-level capability development and maintenance differ between firms that realize early, rapid internationalization and those that adopt a later, slower internationalization process? The answers go beyond our general understanding of the International Entrepreneurship literature that emphasizes the role of entrepreneurs in shaping the strategy and resulting pattern of internationalization. The theoretical refinements focused on the importance of managers and engineers who graft external knowledge and capabilities onto their incentives to change the existing routines. The result shows the differences among those firms that took a different internationalization path, in transforming the

individual level capabilities of entrepreneurs to firm-level routines. The distinction between the ordinary and change routines highlights the importance of dynamic capabilities in accelerating the pace of internationalization. It argues that an understanding of the micro-foundation of capabilities improves the analysis of the firm's internationalization.

Finally, Chapter 6 discusses how the three layers of analysis could be connected in order to provide a better insight into the factors influencing the firm's internationalization. It explains the synergies among the analysis conducted in the three empirical chapters. Additional, small case studies illustrate the theoretical implications of the empirical findings of the three empirical researches. The chapter also introduces an integrated analytical framework, incorporating the findings of the three independent research projects.

1.4 Methods and data

The main analyses are empirical in nature, and adopt an inductive, case-based theorising approach (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). The case studies are designed to address the research gaps identified in the literature for each perspective. This research focuses on a series of interviews; however, internal documents, news articles, marketing materials, and other relevant

information sources, supplement the findings where necessary (Marshall & Rossman, 2003). Recognizing potential information bias, supplemental interviews are conducted with industry experts, suppliers, customers, and former employees of the firms (Maylor & Blackmon, 2005). The choice of research design is based on the nature of the research questions, and will be explained further in each empirical chapter.

The majority of the data is obtained from firms whose place of origin is Japan; however, German, British, and US firms are also included in the case examples in order to compare the results. The main fieldwork is conducted in Japan, the UK, Germany, France, Singapore, China, and the USA. The focus on Japan is firstly to control for the various influences of the home market, and secondly to utilize the researcher's professional network that helps this research to obtain rich data inside and outside the firm. This study also focuses on the ICT sector, where the level of entrepreneurial activities is the highest among the industries in a large number of countries, including Japan (SME Agency, 2008: 145). The focus on the ICT sector can control the sector specific factors, at least to an extent. The relatively rapid growth of the start-ups in this sector also enables this research to observe a longer period of their growth and internationalization.

In total, 115 interviews (142.5 hours with 45 companies) and 20 participant observations (30.5 hours with 8 companies) have been carried out. The large

majority of the interviewees are the CEOs or executive directors of the firm. The interviews are designed to be used for multiple elements of research in this project. Chapter 3, institutional contexts for rapidly internationalizing firms, is developed based on 28 interviews (48.5 hours). Chapter 4, the forces influencing the speed of internationalization, is based on 46 interviews (59 hours). Chapter 5, capabilities development and the global value chain, refers to 44 interviews (56 hours). Finally, Chapter 6, integrating the multi-layered analysis, utilizes 40 interviews (43 hours).

1.5 The structure of this thesis

Following this introductory chapter, Chapter 2 provides an overview of the relevant literature, investigating the firm's internationalization from three different layers: institutions, micro environment, and firm-level capabilities. It identifies the research questions for the three empirical chapters, and explains the value of interdisciplinary research, as adopted here. Chapters 3 to 5 provide the three empirical analyses that investigate the research questions developed in Chapter 2. Further, Chapter 6 integrates the finding of the three empirical sections, and discusses how the three-layered analysis can provide an enhanced understanding of the factors influencing a firm's internationalization. Finally,

Chapter 7 recaps the significance of the findings, and details the theoretical, managerial, and policy implications.

2 Theoretical Foundations

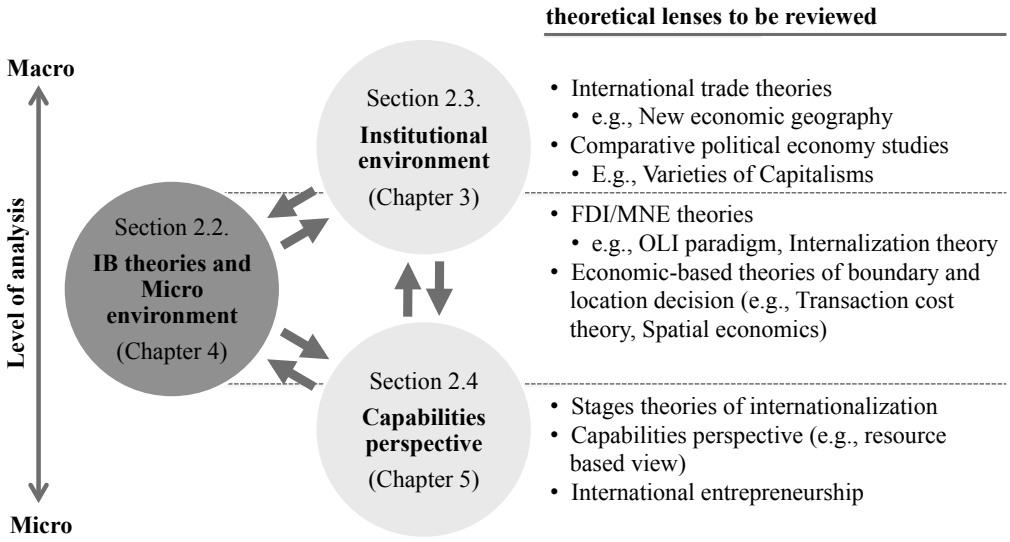
2.1 The three analytical layers

There is a long tradition of international business research that seeks to explain the existence of multinational enterprises and the dynamics of foreign direct investment. However, the complexity of foreign direct investment and internationalization has made it difficult to align the research definitions, focus, and scope. The resulting variety of research designs and focuses makes it complicated to compare the results and discuss how firms interact with their external environment.

Thus, this chapter highlights the representative theories and discusses how each one views the nature of the firm's internationalization. The review is structured in three parts: IB theories and micro environment, institutional environment, and capabilities perspective (see Figure 2). The three sections are directly related to one of the three empirical chapters: Section 2.2., IB theories and micro environment, relates to Chapter 4; Section 2.3., institutional environment, relates

to Chapter 3; and Section 2.4., capabilities perspective, relates to Chapter 5. These perspectives are interrelated and partially overlap; however, they have developed distinct ways of anlysing the internationalization of the firm. The relation and synergies among the three analytical layers will be discussed in Chapter 6.

Figure 2 The Structure of the General Literature Review



In each of the three empirical researches, a dedicated literature section provides a more focused literature review that highlights the recent empirical work and conceptual papers. Therefore, the purpose of this section is to review the literature, identify the research gaps, and provide the readers with a theoretical foundation for understanding the nature of the empirical studies conducted in this research.

The review starts with IB theories and micro environment, which gives us a foundation for discussing the firm's internationalization. The review then expands the scope of the analysis to the macro-level, and discusses the institutional environment. Further, the review goes down to the micro-level foundation of the analysis of the firm's internationalization, capabilities perspective.

2.2 IB theories and micro environment

This section, IB theories and micro environment, is concerned with the behaviour of individual firms with regard to making decisions. At this micro level, an extensive body of literature investigates international expansion as a matter of the choice of entry mode, which consists of combining the location decision with the firm's boundary decision. These studies model the location choice as a function of a range of location-specific attributes, such as local market size and labour costs, behaviour of competitors, and production efficiency. There are several theoretical models of foreign direct investment. However, the most influential are the internalization theory (Buckley & Casson, 1976; Rugman, 1981; Fina & Rugman, 1996) and the Eclectic paradigm (Dunning, 1981, 1988, 2001).

Theories of the firm, especially economic theories (e.g., Coase, 1937; Williamson, 1971; Granovetter, 1985; Grossman & Hart, 1986), form the foundation of the theoretical models of foreign direct investment. This is because the decision to invest in assets overseas instead of exporting from the home country fundamentally involves a decision over which processes should be kept internal to the firm and which can be sourced from the market (Markusen, 2005). Moreover, spatial economics supplements the insights into the optimal location of the firm, the input-output linkages, the transportation structure and spatial behaviour, the spatial labour mobility, spatial patterns of uneven development and the internal structure of agglomerations (Fujita, 1989; McCann & Mudambi, 2004, 2005; Beugelsdijk, 2010: 486).

In this section, the research gap is identified as the causes and implications of early and rapid internationalization. By the mid-1990s, firms that followed an early and rapid internationalization path had generated a stream of research that often poses a direct challenge to the established Process Theory of Internationalization (e.g., Oviatt & McDougall, 1994; Knight & Cavusgil, 2004). They started to establish an alternative framework that focuses more on early internationalization and the type of firm that follows early rapid internationalization (reviewed by e.g., McDougall & Oviatt, 2000; Zahra, 2005; Cavusgil & Knight, 2009; Jones et al., 2011). However, the literature is still in the

process of establishing a solid theoretical foundation because of the larger influence of the unique factors, such as entrepreneurial actor perception, visible among these younger firm's internationalization. The literature lacks an investigation of how exactly these firms differ in terms of deciding the timing of their internationalization and executing the following international expansion.

2.2.1 The theories of multi-national enterprises

At the micro level, an extensive body of literature investigates international expansion as a result of the combination of the location decision and boundary decision of the firm. The two decisions happen sequentially or concurrently. The firms decide the location for acquiring the resources required to produce and sell the products to the customers, and also the entry mode. The studies model the location choice as a function of a range of location-specific attributes, such as local market size and labour costs, behaviour of competitors, and productive efficiency. The boundary decision, often called the entry mode decision, fundamentally involves deciding which processes should be kept internal to the firm (Markusen, 2005). It has been considered the decision to choose from a range of transaction governance options, such as exporting, alliance, joint-venture, and subsidiary.

This research tradition started when several researchers, such as Buckley and Casson (1976), Teece (1981), Rugman (1981), and Hennart (1982), started to develop theories of multinational enterprises based on the concept of transaction cost economics. There are several theoretical models of foreign direct investment, as Agarwal (1980), Buckley and Casson (1985), Rugman (1986), Bernard (2003), Melitz (2003), and Isabel (2008) summarized. However, the two most influential theories are the internalization theory (Buckley & Casson, 1976; Rugman, 1981; Fina & Rugman, 1996) and the Eclectic paradigm (Dunning, 1981, 1988, 2001), which are based on economic theory and employ transaction costs and factor costs as their main explanatory variables, together with the assumption of rational decision-making in firms (Melin, 1992). The majority of the research focuses on established firms that are expanding abroad or re-allocating their overseas resources, for an eclectic set of reasons. These theories explain that the relative economic-based advantages of internalizing their international operations will lead the firm to initiate foreign direct investment, rather than simply exporting from the home market.

2.2.2 The economics-based boundary and location theories

The theories of multi-national enterprises originated from the economic theories of the firm. Because the choice of entry mode (e.g., from exporting to

direct investment) is essentially a choice of the boundary of the firm, the development in the literature contributes towards our understanding of the nature of the firm's foreign expansion.

These economic theories focus on minimizing the governance costs (Santos & Eisenhardt, 2005). The first argument centres on the costs associated with specific assets, and is called Transaction Cost Economics. It dates back to Coase (1937), who focused on the costs of transacting under different organizational forms, particularly the costs of writing and enforcing contracts. The characteristics of assets that make contracting out costly are called asset specificity. Contracting costs are high, e.g., in an environment where a contract does not prevent the opportunistic behaviour of trading partners who attempt to gain the quasi-rents associated with the investments in purpose-built assets (Williamson, 1979; Williamson, 1985). At a certain cost level, players choose not to source from the market, but decide to make or own the required asset by themselves, as firms are more effective than the markets because they control the opportunism associated with the specificity of assets, and have lower costs that result from "haggling" under certain conditions (Williamson, 1975). In the international business context, the risk of haggling is high because controlling the counterpart in a distant place in a foreign environment is costly and difficult. This will raise the need for internalization, and therefore foreign direct investment and internationalization.

This corresponds to the *internalization advantages* of the Eclectic paradigm (Dunning & Lundan, 2008a).

Another argument considers the rights to control assets in a situation where contractual agreements do not give a priority to one party as the determinant of the firm boundary. This theory is generally called Property-rights theory and was developed by Grossman and Hart (1986), Hart (1990), Hart (1995) and others. The theory emphasizes how asset ownership can change investment incentives and demonstrates how the allocation of property rights, which confers the rights to make decisions concerning the use of an asset when contingencies arise that were not foreseen or not specified in a contract, changes ex ante investment incentives (Lafontaine & Slade, 2007: 650). It argues that integration may be a result of the need to increase the incentive alignment through integrated ownership (Hart, 1995). Combined with the firm's monopolistic advantages (Hymer, 1960; Kindleberger, 1969), this is called *ownership advantages* in the internationalization literature. The firm has an incentive to own the rights in the foreign environment because contracting or foresight is naturally difficult in such an environment. Further, the ownership of the rights often gives firms a competitive advantage (e.g., patent, license, unique assets) to compete against their local competitors and overcome the additional costs of managing their international operations.

Further, the firm's location choice is another important factor in the firm's internationalization, which is a combination of the firm's boundary and location decision. The location decision of the firm, mobility of production, and migration of labour and capital have been long debated in an area called spatial economics. Most of the trade theories implicitly assume that the factors are given in a specific region, with some exceptions, such as Mundell (1957). On the other hand, spatial economics mostly deal with regional differences in terms of production capacity and factor proportions. The pioneer in this field was Thunen (1826), who showed that transportation costs were an incentive for farmers to invest in the land up to the point where the rent at a given distance from the market is equal to the gross revenue from the output minus the cost of non-land expenses and transportation costs. Further, Weber (1909) analysed total transportation costs and devised a model that can determine the optimal production location that can minimize the sum of the material transportation costs and output shipment costs. Hotelling (1929) explained the trade-off between minimizing transportation costs and avoiding competition.

The discussion has advanced to industry clusters. Alonso (1964) triggered a large body of literature by introducing the concept of Central Business District, and analysed the migration of labour through a micro economic model. Henderson (1974) demonstrated that industry specific economies of scale, which

are external to a firm's boundary, decrease the marginal cost of a firm to the level of industry output within a given region. Thus, the concentration of production, or the migration of labour and capital, depends on the trade-off between such agglomeration gain and the increasing cost of spatial concentration of activities. Further, Fujita and Ogawa (1982) introduced secondary business districts into the mono-centric models of Alonso (1964) and explained likely co-existence of multiple secondary businesses and their structural changes. This literature has been successful in replicating many of the stylized facts about urban systems, from the tendency of many cities to specialize while others diversify their role in the innovation process (Duranton, 2008). Today, the focus of the literature has been on developing insights into the optimal location of the firm, input-output linkages, transportation structure and spatial behaviour, spatial labour mobility, spatial patterns of uneven development and the internal structure of agglomerations (Fujita, 1989; McCann & Mudambi, 2004, 2005; Beugelsdijk, 2010: 486). There are a number of different theoretical approaches (see Duranton & Puga, 2004) and empirical studies (see Head & Mayer, 2004; Rosenthal & Strange, 2004) that investigate the causes of the externalities, such as knowledge spill-overs, thin markets for specialized inputs, backward and forward linkages in the production chain, local public goods and other factors (Duranton, 2008: 8; KVA, 2008: 12).

Management studies also acknowledge the importance of the heterogeneous geographic distribution of resources, knowledge, and capabilities (e.g., Almeida & Kogut, 1999; Florida, 2002; Sorenson, 2003). In the international business literature, these advantages specific to a location have been called *location-specific advantages*. The fact that the resources exist heterogeneously creates an opportunity for the firm to obtain access to those that are difficult to obtain in the home market. One of the causes of the emergence of the global value chain (Gereffi & Korzeniewicz, 1994; Gereffi et al., 2005), which is a result of the sequence of the firm's foreign direct investment and international collaboration, is the increased levels of specialization and differentiation in industrial production (Gibbon, Bair & Ponte, 2008: 317-318). The interest of the international business literature and spatial economics is converging in order to investigate the micro-economic differences that exist between the home and domestic markets. Consequently, New Economic Geography, explained in section 2.3, is also applicable to this micro-level analysis, at least to a certain extent.

Moreover, the social relationships embedded in the market are another factor that guides the firm's boundary and location decision, and so its resulting internationalization decision. The economic activity is embedded in social relationships (Granovetter, 1973; 1985). The social relationships are often strong, and involve emotion, trust, reliability, and negotiation (Aldrich, 1999). Strong

social capital guides the market participants and enables certain forms of business relationship (Coleman, 1988). Even if the ties are weak, the numerous connections between the nodes create a web of information, trust, and indirect relationships. Weaker ties are often more efficient, and help the managers to be creative and perform better (Granovetter, 1973; Perry-Smith, 2006). The imperfect social relationship structure of inter-firm and inter-personal networks decides the information flow, and often creates structural holes that give certain players advantages or disadvantages (Burt, 1995; Uzzi, 1997).

Scholars consider such human relationships to be an important factor that regulates opportunistic behaviour, and argue for the network form of industrial organization (e.g., Johanson & Mattsson, 1987; Powell, 1990; Edward, 2000; Adler, 2001). The structural, relational, and cognitive embeddedness may influence the intra-firm (Tsai & Ghoshal, 1998; Burt, Hogarth & Michaud, 2000) and inter-firm collaboration (Gulati, Nohria & Zaheer, 2000; Rowley, Behrens & Krackhardt, 2000). Consequently, the existence of such inter-personal and inter-firm networks results in some situations that contradict or at least challenge the predictions of the asset specificity, property rights, and spatial economics models.

2.2.3 Foreign direct investment for smaller, younger firms.

While the theories of multinational enterprises have been focusing on understanding the snap-shot relationship between the influential factors (i.e., advantages) of the larger firms and their foreign direct expansion decision, the internationalization literature has been analysing the longitudinal process of the smaller firm's increasing international commitment, starting from exporting to nearby markets to foreign direct investment in a distant market.

This is because of the assumption that smaller, younger firms will gradually accumulate sufficient competitive advantages to counter-balance their liability of foreignness (Zaheer, 1995), newness (Freeman & John, 1983), smallness (Freeman & John, 1983), and outsider-ship (Johanson & Vahlne, 2009), that would prohibit them from considering their demanding foreign operations at first. Smaller, younger firms do not have an option to execute foreign direct investment, and will be forced to execute exporting first. After gradually accumulating a sufficient competitive advantage, these firms will reach a stage where they can make a rational decision from all of the available options. This understanding has been dominant in explaining the internationalization of smaller, younger firms.

The research tradition dates back to the stages theories, which regard knowledge as lying at the centre of their explanation of the gradual development of the firm's internationalization coverage, commitment, and performance (Carlson, 1966; Johanson & Vahlne, 1977). A gradual increase in the commitment and scope of the firm's international operation is, at least largely, explained by the accumulation of experimental knowledge (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). Younger, smaller firms are incapable of executing foreign direct investment in the initial stage. The focus of the discussion has been on understanding the process by which firms gradually become the equivalent of multinational enterprises over time.

However, there are a number of studies that focus on the newly emerged firms that internationalize from the earliest stage of their development. Such small firms are called International New Ventures (Oviatt & McDougall, 1994), Born Global (McKinsey & Co, 1993a; Kudina, Yip & Barkema, 2008), or Global Entrepreneurs (Isenberg, 2008). This phenomenon is called international entrepreneurship, and a growing number of scholars are researching such firms (McDougall & Oviatt, 2000; Oviatt & McDougall, 2005b; Zahra, 2005; Jones et al., 2011).

The existence of such smaller, younger firms that initiate foreign direct investment from the earliest stage has been considered by many a direct challenge

to the established stages theories (McDougall et al., 1994; Bell, 1995; Oviatt & McDougall, 1997). New factors that were not previously considered, such as entrepreneurial actor's mindset, perception, and previous experience, are investigated as the influential factors behind the internationalization behaviour of these firms (Knight & Cavusgil, 2004; Cavusgil & Knight, 2009). Consequently, the literature is still in the process of establishing a solid theoretical foundation to accommodate the new forms of early stage internationalization. "There are conflicting states of knowledge and predictions from IB theory on the one hand and entrepreneurship theory on the other hand" (Keupp & Gassmann, 2009: 613). For example, the entrepreneurial aspects of internationalization, which contribute to the formation of the firm's definitive sources of advantage, remain unexplored in the IB literature (Mathews & Zander, 2007).

Further, one of the largest differences between the small and large enterprises would be the influence of the organizational structure. Alfred Chandler emphasized the influence of organizational innovation on the emergence of the large enterprise (Chandler, 1969). He argued the organizational innovation would necessitate a fundamental restructuring of the locus and geography of the decision making of the firm. The increasing complexity of intra-firm transactions requires clear boundaries between managerial responsibility and governance, and the lines of communication between the headquarters and the local operations (Chandler,

1977). In some cases, a large firm could be considered as an inter-organizational network, and the network may influence the resource configuration and internal distribution of power (Ghoshal & Bartlett, 1990). As Dunning (2008a: 233-259) summarized, the larger the firm, the greater the influence of the firm structure. The various aspects of firm structure, such as the network structure of the functional decision markers, the sharing of hierarchical values and systems, and the role and autonomy of affiliated organizations would certainly influence the decision-making of the firm.

However, smaller firms are less subject to the firm structure, and in many cases the owners and a small number of management team members have the absolute decision-making power in the organization. As a firm proceeds through various stages of its internationalization, the organizational structure grows and may need to be modified. However, the influence of the structure is relatively small, due to the simplicity of such young, simple organizations. While the firm structure has to be taken into consideration to a certain degree, the general consensus among scholars who investigate the decision-making of small entrepreneurial firms is that the influence of the management team and external factors would be far greater than the firm structure. In fact, an analysis of the research topics in the International Entrepreneurship literature over the past two decades (1989-2009) reveals that the firm structure has not been a major topic (Jones et al., 2011). The

previous research focuses more on the external factors, and the empirical results also suggest that external factors and a small number of management team members have a definite influence on the decision-making of younger, smaller internationalizing firms (Oviatt & McDougall, 2005a).

Nevertheless, researchers need to understand exactly how these firms are different, in terms of deciding the timing of the internationalization and executing the following international expansion, which correspond to the foreign direct investment of established multinational enterprises.

2.3 Institutional environment

This section is concerned with the general economic and social factors that influence the firm as a whole. Moving up to the macro level from the previous section, it covers the quantitative and qualitative macroeconomic theories related to the international distribution of production and consumption. These include international trade theories, such as New Economic Geography (e.g., Krugman, 1991a; Krugman, 1991b; Krugman & Venables, 1995; Fujita, Krugman & Venables, 1999), and comparative political economy studies, such as comparative institutional analysis (Aoki & Okuno, 1996), varieties of capitalism (Hall & Soskice, 2001b), and divergent capitalism (Whitley, 1999). These theories are

designed to explain the macroeconomic trends around trade patterns, comparative economic advantage of specific regions, movement of goods, labour, and production, and resulting geographic spread of production and consumption around the world.

This section provides a review of the historical development of this literature, revealing that: 1) the modern economic, mathematical models successfully explain trade patterns even in a situation where no static economic advantage of a specific region exists. However, the models are often too complex to be handled analytically and estimated by methods; and 2) comparative political economy studies have developed a variety of theories to incorporate political, regulatory, and institutional factors as the determinants of the geographic spread of production and consumption. However, most empirical studies focus on comparing the influences of a subset of two or more institutional arrangements, and few provide a comprehensive picture of how the overall institutional environment influences the firm.

The research gap is identified as a firm-centric analysis that can provide an example of how the macroeconomic institutional environment might influence a firm's strategy. Whilst the macroeconomic institutional environment is said to influence firm-level strategies, this literature stops short of entering the black box of the firm with its entrepreneurial agency. Understanding the entrepreneurial

process, by linking the institutional theories and firm behaviour, may help to produce more dynamic insights (Herrmann, 2010: 745). This thesis takes on the challenge of extending the analysis when firms treat the macro institutions not as external environmental constraints but as resources to be exploited.

2.3.1 International trade theory

A firm's location choice, and the causes and consequences of this, are issues which have engaged the interest of scholars from many disciplines, especially with regard to the field of international trade (Beugelsdijk, 2010: 485).

The first argument in the context of international trade and location selection dates back to *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1776). It explained a country's advantage as its ability to produce products at a lower resource cost, and called it an Absolute Advantage. Based on this concept, David Ricardo (1817) developed the idea of Comparative Advantage, explaining that, even where a country has an absolute advantage over another with regard to all of its products, it can still gain through specialisation and trade in that product for which its absolute advantage is greatest. Further, the Heckscher-Ohlin model (Ohlin, 1933) explained trade patterns based on their relative factor advantages. The model explains that those countries with an abundance of certain types of factor (e.g., labour, capital, natural resources) will

be able, and thus expected, to produce products that embody those abundant factors. In the later stage of development, a number of alternative models and arguments have been proposed to supplement the incomplete explanation of the previous models (e.g., the Leontief paradox, (Leontief, 1954)). Those arguments aimed to explain, for example, the intra-industry trade between countries with similar factor advantages (e.g., automobiles in the US and Japan). Notable examples include gravity (Isard, 1954; Tinbergen, 1962), economies of scale (Grubel & Lloyd, 1975; Krugman, 1979), home market effects (Corden, 1970; Krugman, 1980) and reciprocal dumping (Brander & Krugman, 1983).

New Trade Theory, developed by Krugman (1979, 1981) and Helpman and Krugman (1985), triggered the new wave of research, incorporating many concepts from other theoretical lenses, such as industrial organization theories (as Krugman did from Stiglitz (1977)). As a result, many researchers, such as Lancaster (1980), Dixit and Norman (1980), Helpman (1981), and Helpman and Krugman (1985), proposed different but integrated models of inter-industry trade. The majority of the models are based on technology gaps, Heckscher-Ohlin differences between factor advantages, and increasing returns to scale and/or monopolistic competition. The models provided testable predictions about cross-country differences in trade patterns and a basis for extensive empirical research on bilateral trade flows, such as of components and final products (KVA, 2008:

9). The integrated models in general predict that 1) the trade between any two countries increases with the differences in relative factor advantages and decreases with the differences in market size; 2) the size of intra-industry trade relative to the total trade size between any two countries depends negatively on the difference in capital labour ratios and positively on the size dispersion. The theory also allows researchers to predict the impact of trade policies and the location of output and factor remuneration.

A recent important development with regards to international location selection is the emergence of *New Economic Geography* (Krugman, 1991a; Krugman, 1991b; Krugman & Venables, 1995; Fujita et al., 1999). New economic geography is based on trade theory, and aims to explain the mobility of workers and consumers in trade models (e.g., Krugman(1991a)). This approach puts trade costs (rather than commuting costs in urban systems) at the heart of the agglomeration-dispersion trade-off. Most of the representative model of economic geography exhibit a tension between two kinds of forces: "centripetal" forces that tend to pull economic activity into agglomerations, and "centrifugal" forces that tend to break up such agglomerations or limit their size (Krugman, 1995: 90), as discussed by Henderson (1974) and Fujita (1988). The tension between the two forces can explain in the model that there is a move towards a decentralized equilibrium where production takes place in both larger and smaller markets at the

same time, depending on the specific situation with regard to the labour, trade costs, economics of scale, and preferences. Further, many researchers focus more on the input-output linkages between the firms (e.g., Krugman and Venables (1995), Venables (1996)). The main idea is to use the entry of new firms in a region as an explanatory variable for the increase or decrease of upstream or downstream firms and consider the influence of the upstream/downstream firms to the industry analysed.

These economic, mathematical models successfully explained the trade patterns even in situations where no static economic advantage of a specific region exists. The models show some of the fundamental advantages of international trade, which could be the incentive for the firm's internationalization. However, the models often become too complex to be handled analytically and estimated by methods. They are not designed to discuss the micro-level decision making of individual firms. Further, they still suffer from the fact that the empirical evidence does not always support the prediction of the models (e.g., see Leamer and Levinsohn (1995), Head and Mayer (2004), and Redding (2010)). Part of the reason for this must be their lower emphasis on the differences between the institutional structures of societies, not only their purely economic institutions but also their political, wider social structures. Thus, the next section will explain another research stream that focuses more on the

differences and similarities between non-market factors, which leads to the different needs for value, achievement, power, and affiliation of those in the society and market.

2.3.2 Comparative institutional analysis of the Varieties of Capitalism

A research stream that is rooted in comparative capitalism and social systems of production, however, puts more emphasis on the firm and highlights the role that business associations and other types of relationship among firms play in the political economy.

It argues that entrepreneurs are under the influence of the macro environment in which they operate their business. It offers a range of different views and explanations about exactly how the environment changes the way in which business is conducted. Scholars such as Weber (1935) argue for the indirect but visible influence of social norms on entrepreneurial activities. The market as a whole is embedded in society, which represents moral, politics, religious values, and other non-economic factors (Polanyi, 1944; Block & Fred, 2003). Different environments lead to different needs for achievement, power, and affiliation among those in the society (McClelland, 1961). There are a number of different

perspectives, but most agree that the environment shapes the market and organizations to a certain degree (Aldrich, 1979, 1999; Fligstein, 2001). They stand on the reality that all environments are subject to the complex structure of human society.

The development of this research stream have been incorporated into comparative institutional analysis, which was introduced by Andrew Schonfield (1965) to identify the differences and similarities between the economic and political institutions of different nations, in order to explain variations in economic outcomes across nations. The analysis has gradually accumulated to provide insights into the relationships between politics and economics. While the major focus of the relevant theoretical explanations was on the macro level, researchers have recognized that the firm is a decision-maker that acts based on the observation of the specific micro-situation, with the influence of macro-factors. Thus, the process in which organizations develop homogeneity in terms of their structure, culture, and output has been investigated at the micro level at the same time (DiMaggio & Powell, 1983), and growing interest has been paid to the actors and agency within a specific set of institutions (Mantzavinos, 2001).

A series of firm-centric approaches has further been developed by researchers who have advanced a variety of ways to group and categorize nations that share similar institutional characteristics, such as varieties of capitalism (Hall & Soskice,

2001b). Varieties of capitalism also has its roots in comparative capitalism and social systems of production, but places greater emphasis on the firm and highlights the role that business associations and other types of relationships among firms play in the political economy (Hall & Soskice, 2001a: 4).

This approach takes the view that the distinctive national institutional structures influence the strategies of firms (Hall & Soskice, 2001b). It explains the concept of comparative institutional advantage, which gives the firm competitive advantages with regard to certain types of activities. For example, Liberal Market Economy tends to specialize in radial innovation, whereas Coordinated Market Economy favours incremental innovation. These are several variations of this concept, such as Divergent Capitalisms of Whitley (1999) and the Social System of Production of Hollingsworth and Boyer (1997). However, the key point is that different countries produce different solutions, thereby generating distinctive national economies that lead to different characteristics of firm strategies between nations (Lauder, Brown & Ashton, 2008).

One of the major contributions of Hall and Soskice (2001b) was their explanation of the four subsystems – corporate governance, inter-firm relations, labour markets, and education and training – and illustration of how these factors influence the performance outcome of firms within a specific external environment. Thus, the approach indeed places the firm at the core of the analysis,

treating it as a relational network: the firm, operating in its markets and other aspects of the relevant environment, is institutionally embedded (Hancke, 2009). It treats the firm as an "exploiter" of the cost advantages, core competencies, and capabilities in its environment, and links the competitiveness of the firm with the institutional comparative advantage of national economies (Hancke, Rhodes & Thatcher, 2007).

Further, the increasing presence, power, and role of the firms have attracted the attention of the researchers who investigate the emerging, developing, or changing institutional environment (Morgan, 2010). The research on the causes of environmental homogeneity and diversity has triggered an active stream of research investigating the mechanisms and agents of institutional change (Mantzavinos, 2001). As a result, the literature find that the firm could be a proactive agent that could selectively utilize the resources in the given institutional environment (Crouch, 2005; Garud, Hardy & Maguire, 2007). The relationship between the firm and the environment is not unidirectional from the environment to the firms. Rather, the literature considers the firm to be the agent of change that often independently decides the ways in which it interacts with the environment to realize its business objectives and promotes new ways and rules in the given environment (DiMaggio, 1988; North, 1990; Streeck & Thelen, 2005).

Consequently, the increasing awareness of the resource aspect of institutions and the fact that the firm may selectively utilize the existing, multiple institutional environments has sparked the interest of international business scholars who study businesses that operate in multiple institutional environments.

2.3.3 The varieties of institutional environment and IB literature

The implication of the varieties of institutional environment is gradually becoming a focal topic in the IB literature, which, until recently, devoted little attention to understanding the diversity that exists in the international environment, and therefore a strong potential has been identified for incorporating the comparative capitalism approach into our understanding of how internationalizing firms develop a strategy for institutions (Jackson & Deeg, 2008: 541).

This is at least partially because of the characteristics of the international firm's value chain. The firms in today's globalized environment construct a so called Global Value Chain (Gereffi et al., 2005; Jacobides & Billinger, 2006) and Global Production Network (Henderson, Dicken, Hess, Coe & Yeung, 2002). The strategies for navigating through the multiple geographic and firm boundaries lead to questions about the precise implications of "institutions as resources". Firms

build a web or chain of value creation spanning multiple geographic locations, and often have access to the "resources" in each region.

An in-depth understanding of the non-market factors will enhance the strategy of the firm in a foreign market (Baron, 1995). However, the level of knowledge accumulated in the IB literature about institutions remains insufficient to achieve the goal (Jackson & Deeg, 2008: 541). Utilizing the theories of institutions as a central perspective for analysing the firm's international operations is still a new phenomenon (Peng & Khoury, 2009: 258). The resource aspect of institutions may call for the extended analytical space for the firm's internationalization, in order to analyse how firms strategize the ways in which they exploit institutions as resources, rather than being constrained by them. An analysis of the seemingly interactive, bidirectional relation between the macroeconomic institutional environment and internationalizing firms may result in additional insights into the factors influencing the firm's internationalization.

2.4 Capabilities perspective

The review now goes down to the micro-level, and investigates the factors inside the firm; namely, resources, knowledge, and capabilities. The capabilities and routines in the context of small firm's internationalization are mainly

associated with knowledge accumulation and capability building. This is because these firms gradually build the organization as the internationalization progresses. The firm does not have any existing organization or significant sunk costs at first, but gradually acquires the required knowledge and capabilities from the external environment through resource acquisitions or via inter-personal and inter-firm networks. They develop the organization by gradually improving the premature organizational routines, and develop knowledge and capabilities that are equivalent to a larger counter-part.

In fact, the traditional stages theory is based on an explanation of the changing behaviour of a firm in the course of the development of its international operations. Most of the models argue that the managerial learning of a firm and its networks strongly influence the internationalization process, suggesting that this begins with low-risk indirect exporting, followed by market expansion into higher-risk markets after gaining the necessary knowledge (Johanson & Vahlne, 1977, 1990; Andersen, 1993; Coviello & McAuley, 1999).

This section firstly reviews the capabilities perspective, and secondly the studies that investigate capabilities development among internationalizing firms. The review explains that the entrepreneur's previous background (e.g., mindset, orientation, employment and education record) has been identified as the factor that supplements the insufficiently developed organizational capabilities of

internationalizing firms in the early stage. While a number of empirical studies have found a correlation between the firm's rapid, early internationalization pattern and the entrepreneurial actor's characteristics, the literature still fails to explain the longitudinal process of the gradual firm-level capabilities and knowledge development of the firm that follows a rapid, early internationalization path. The empirical evidence remains especially inadequate in describing how firms that succeed with rapid, early internationalization acquire the required knowledge and capabilities and develop the firm-level organizational routines that are the foundations of their resource, knowledge, and capabilities.

Therefore, the research gap is identified as a longitudinal analysis of the gradual capabilities development of firms that follow a rapid, early internationalization path. By describing the process in which successful firms combine the available resources, especially from the external environment, the literature can clarify the similarities and differences between such firms and those that follow a traditional, gradual internationalization path.

2.4.1 The resource, knowledge, and capabilities theories

The capabilities perspective argues that firms exist because they have a unique, often historically dependent, ability to accumulate specific resources that lead to differential levels of firm performance (Reed & DeFillippi, 1990). While the

economic factors focus more on a comparison between the firm and the market, the capability perspectives deal more with that between firms. A bundle of the resources often generates larger value than a simple sum of the individual resources, due to the unique combinations developed by the firms.

The firm's incentive to build a larger competitive advantage against other players will result in a unique bundle of resources (Wernerfelt, 1984), knowledge (Kogut & Zander, 1992), and capabilities (Teece & Pisano, 1994). Consequently, the variety in the ways in which the firms combine resources leads to performance differentials. Although some consider the economics theories and capabilities theories to conflict, there is an increasing trend towards combining the economics-based theories and the arguments based on resource, knowledge, and capability based logic (Madhok, 2002; Leiblein & Miller, 2003; Jacobides & Hitt, 2005).

In the capabilities perspective, a firm is an entity endowed with a broad set of capabilities and resources, that expands to capture more resources and so reproduce a higher competitive advantage (Penrose, 1959). Its ability to obtain and defend a specific set of physical, financial, human or organizational resources determines the competitiveness of the firm (Wernerfelt, 1984). Historically determined, socially embedded, and tacit capabilities and resources bind the firm in the market (Barney, 1991; Conner, 1991; Peteraf, 1993). Therefore, the firm's

attempts to increase its productive capabilities and leverage its comparative advantage may be a key determinant of its foreign direct investment (Jacobides & Hitt, 2005). Inter-organizational collaboration in the global market seeks to access and develop complementary resources that contribute to competitive advantage (Barney, 1991). The firm's boundary selection, for example offshoring, may be a result of the distinction between its core and non-core activities (Prahalad & Hamel, 1990). The outsourcing decision will be influenced by the ability of an organization to invest in developing a capability and sustaining a superior performance position relative to its competitors (Langlois & Robertson, 1995).

There are a variety of resources in the market; however, the question is what bundles the resources and often creates a larger advantage than a simple sum of individual resources. A group of scholars have focused on knowledge, and argued that it is the most strategically important resource that can be bundled, reproduced, and coordinated (Conner & Prahalad, 1996; Grant, 1996b). In this view, knowledge is considered an active process that is mediated, situated, provisional, pragmatic and contested (Blackler, 1995). A common argument in much of this literature is that the firm exists to protect and generate knowledge, and economize on the exchange of knowledge, rather than to attenuate opportunism (Nickerson & Zenger, 2004). Foreign direct investment decision, or the choice of entry mode, will be one of the applications of this knowledge-based

view. For example, Grant (1997) argued that markets are usually inefficient in transferring knowledge, except where knowledge is embodied within a product and, therefore, the vertical integration decisions of the firm depend upon the need for knowledge transfer. Kogut and Zander (1992) described how the make-or-buy decision will depend upon the current knowledge level, learning capability, expectation of the value of the knowledge, and required speed for obtaining the knowledge. Further, Foss (1996) claimed that firm boundaries can be determined by capability differences, such as the inability to communicate knowledge or higher information costs. Therefore, knowledge could be the determinant of what should be internal and what external.

Another interpretation that binds the resources and forms a firm is called dynamic capabilities, which are the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano & Shuen, 1997). This body of research considers that the factors that can differentiate a firm from others often simply do not exist. They are dynamic in a sense that such resources, knowledge, or skills are not static, but constantly developed, integrated, or reconfigured by the firm’s actions or changes in the external environment. Thus, this theory views the firm’s expansion as not only a resource choice, but also a result of the dynamic capabilities that enable it to develop and renew its competitive advantages in

rapidly changing external environments. However, while researchers in this area have identified the need to explain the constant, dynamic process of proactively shaping the firm's boundary, they are still discussing how to incorporate such conscious, often entrepreneurial efforts, that may determine the boundary of the firm (Jacobides & Winter, 2007: 1216)

2.4.2 Internationalization and knowledge and capabilities

As newly internationalizing firms are relatively young, the general implicit but reasonable assumption is an absence of complicated internal structure and significant sunk costs associated with the existing or preceding operations. As explained in the previous section, it is puzzling why certain small, young firms can start rapid internationalization from the earliest stage of their growth. These firms have not generally developed a strong knowledge or capabilities base yet, but could leap forward to become a global firm in a short period of time. March (1991) explained that the exploration and exploitation of knowledge drives the organizational learning. The exploration of new knowledge and capabilities that exist more in the external environment might be more important than that of an existing knowledge base that exists within a small organization with a limited internal knowledge and capabilities base.

In fact, a large number of research studies conducted in this area investigate the relationship between internationalization and the sources of such competitive advantages from inception; most notably, the entrepreneur's mindset, orientation, and prior experience (Nummela, Saarenketo & Puumalainen, 2004; Ripolles-Meliea, Menguzzato-Boulard & Sanchez-Peinado, 2007). The stronger entrepreneurial orientation of early stage internalizing firms may suggest the strong influence of unique actor perception on internationalization behaviour (Ripolles-Meliea et al., 2007). Higher performance is associated with a higher level of global mindset among the management (Nummela et al., 2004). The literature is currently directed towards the entrepreneur's decision-making process at both the firm and individual levels, and may be shifting its focus towards the "conditions that foster opportunity recognition" (Acedo & Jones, 2007: 238). A large body of empirical studies investigate the external factors that foster opportunity recognition, discovery, and creation among the management team of such small internationalizing firms (e.g., Gregoire, Barr & Shepherd, 2010; Haynie, Shepherd, Mosakowski & Earley, 2010). The focus is on the individual-level knowledge and capabilities that can drive the very early stage growth of the firm.

The key question is the transformation from a collection of individual-level knowledge and capabilities to a bundle of firm-level organizational routines that

form the foundation of the firm's competitive advantage. Knowledge fundamentally resides in the individuals within an organization. However, the firm should develop systems that will distribute and reintegrate the knowledge into the rest of the organization as differentiated organizational knowledge (Grant, 1996a; Grant, 1996b). Organizational knowledge, or the information processing system that is deeply embedded in a firm's informal and formal management process, may be a key reason why the firm can attain a competitive advantage (Barney, 1991: 114). Smaller firms may be in a strong position to acquire external knowledge and exploit the routines in order quickly to develop a strong knowledge base (Autio, Sapienza & Almeida, 2000). The early stage exposure to a variety of international markets may, in turn, benefit the internationalizing firms by accelerating their learning (Zahra, Ireland & Hitt, 2000). The knowledge acquisition and exploitation will be reinforced by the firm's network relationship, especially its weak ties (Presutti, Boari & Fratocchi, 2007). However, the gap between individual knowledge and organizational knowledge has not been explained and solved, especially for the early, rapid internationalization pattern of smaller, younger firms.

Autio, George, and Alexy (2011) argue that the generation of organizational processes and its attendant cognitive maps are associated with the situational uncertainty that early stage internationalizing firms repeatedly encounter.

Nevertheless, they also agree that insufficient evidence is available to reveal the underlying mechanisms of this. This is, at least partially, due to the difficulty of obtaining and analysing longitudinal data, which will be required to understand the gradual evolution of and changes within the organization. The source of the firm-level knowledge and process by which it is accumulated need further exploration (Jones et al., 2011: 643).

2.5 General research questions

The literature review provided a general understanding of the factors influencing the firm's internationalization at three different levels. A variety of different research streams have collectively and independently emerged, and are accumulated in the long history of the literature. These provide the theoretical foundation; however, at the same time, they raise several remaining questions that can be addressed by empirical research.

Section 2.2, IB theories and micro environment, explained the microeconomic forces influencing the firm's boundary and location decisions. The theories of multinational enterprises have been developed and modified through continuous debate about the representative economic theories of the firm, such as transaction costs (Williamson, 1979; Williamson, 1985), property rights (Grossman & Hart,

1986; Hart & Moore, 1990), embeddedness (Granovetter, 1985), and networks (Powell, 1990). The location-specific advantage component of the theories of multinational enterprises has been articulated by the theories from spatial economics, such as those relating to transportation costs (Thunen, 1826; Weber, 1909), competition (Hotelling, 1929), economics of scale (Henderson, 1974), and business districts (Alonso, 1964; Fujita & Ogawa, 1982). The development of these economic theories forms the foundation of the contemporary theories of multinational enterprises, such as the internalization theory (Rugman & Verbeke, 2008) and the Eclectic paradigm (Dunning, 2001; Dunning, 2008). However, there is a gap between the established theories of multinational enterprises and the literature that investigates firms that adopt early, rapid internationalization, which build a small but globally distributed value chain from the early stages of growth. In light of the rapid, early modes of internationalization, what modifications, if any, are necessary to the existing theories of internationalization?

Section 2.3, institutional environment, explained the influence of general macroeconomic forces, such as the economic factor advantages (Ohlin, 1933), distance (Isard, 1954; Tinbergen, 1962), economies of scale (Grubel & Lloyd, 1975; Krugman, 1979), home market effects (Corden, 1970; Krugman, 1980), and reciprocal dumping (Brander & Krugman, 1983). The comparative differences will be, at least partially, explained by the institutional contexts in which the home

and hosts markets are embedded. Comparative institutional advantages may play a role in deciding the characteristics of the firm strategy in a specific location (Hall & Soskice, 2001b). In the case of Japanese ICT start-ups, the so-called Japanese type of formal and informal institution (e.g., explained by Dore, 1973; Sako, 1992; Aoki & Dore, 1994) may determine the general macroeconomic environment in which they operate. In internationalizing their business, international institutional diversity (Jackson & Deeg, 2008) will influence the way in which they conduct their business activities. The firm could be a proactive agent that can selectively interact with the institutional environment as resources (Crouch, 2005; Garud et al., 2007). However, how exactly these factors influence the firms' initial growth and internationalization has not yet been analysed at the firm level in the literature. In what ways does the national institutional environment facilitate or hinder the growth and internationalization of entrepreneurial start-ups? In what ways does the developed institutional environment interact with the firm? And in what ways does international institutional diversity affect the way in which these internationalizing firms expand and develop their international business?

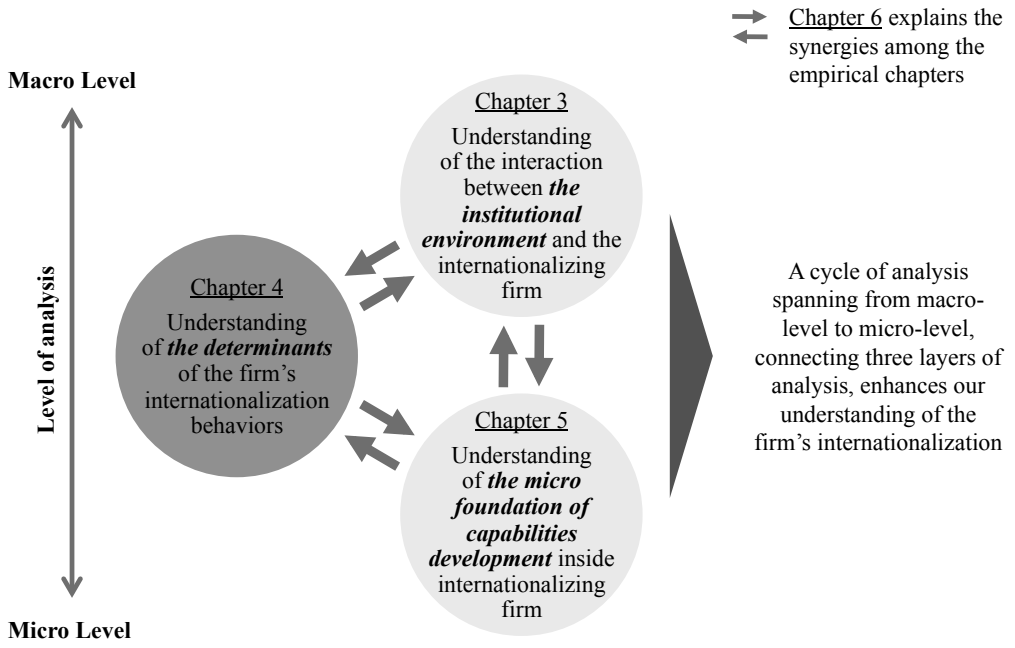
Section 2.4., capabilities perspective, reviewed the development of capabilities literature, and investigated how the factors inside the firm can explain its early, rapid internationalization pattern. This section found that there are several

explanations concerning why rapid, early internationalization is possible for some firms, such as the learning advantages of newness (Autio et al., 2000), entrepreneurial orientation (Ripolles-Meliea et al., 2007), global mindset (Nummela et al., 2004), managerial cognition (Acedo & Jones, 2007), networks (Presutti et al., 2007), and exposure to diverse international markets (Zahra et al., 2000). However, it is also argued that researchers are still collecting longitudinal data to examine the influence of internal factors on the longitudinal process of rapid resource, knowledge, and capabilities accumulation that begins from the very early stages (Coviello & Jones, 2004; Coviello et al., 2011). While several snapshot interrelations between the entrepreneur and the firm's specific profile and rapid, early internationalization are evident, how these relations change over time remains under investigation. How do firms that realize early and rapid internationalization explore and exploit knowledge and capabilities? And in what ways is the process of firm-level capability development and maintenance differ between firms that realize early, and rapid internationalization and the firms that take more late, and slow internationalization?

2.6 Conclusion

In each of the three analytical layers, distinct academic literature has evolved and developed a view of the factors that influence the firm's internationalization. They inform us of a variety of different factors. Because they analyze the same phenomenon from a different angle, focus, and methodology, an understanding of these independent, but closely related perspectives in the three different layers gives us an opportunity to broaden the scope of the analysis. While some of the factors are interrelated and often overlap, the different theoretical traditions and focuses allow each literature to learn from each other. The international entrepreneurship literature has been reiterating the need for multi-disciplinary research for more than a decade (Coviello & McAuley, 1999; McDougall & Oviatt, 2000; Coviello & Jones, 2004; Jones et al., 2011: 642), and the review has confirmed the potential value of understanding the firm's internationalization in a multi-disciplinary way. Thus, this thesis investigates the firm's internationalization from three different layers of analysis, as shown in Figure 3.

Figure 3 An Overview of the Three Empirical Chapters



The empirical research of this study is case-based, and designed to address the general research questions discussed in this chapter in a much more focused way.

The qualitative research method is a powerful tool for investigating a complex phenomenon and building new or refining the existing theories (Shah & Corley, 2006). While non-case study approaches apparently prevail in peer-reviewed publications in the strategy, entrepreneurship, and international business journals, the value of the qualitative research method has been acknowledged, and a variety of top-tier journals publish high-impact qualitative research papers (Gephart, 2004). In fact, a case method is one of the best bridges between rich qualitative evidence and mainstream deductive research (Eisenhardt & Graebner, 2007). The case-based research method allows all three chapters to connect new, rich

qualitative evidence to mainstream deductive research. As the previous studies have contributed to the accumulation of management knowledge and demonstrated the methodological advances (Lee, Mitchell & Sablynski, 1999; Bluhm, Harman, Lee & Mitchell, 2011), the approach should give this study unique insights that would not be captured easily with a quantitative method.

In fact, the selection of the qualitative method is due to the result of the focused literature review in each chapter. The research gaps identified are those that would best be investigated by a qualitative method. Thus, the focused literature review and the research method section in each chapter should provide a more detailed rationale behind the selection of the qualitative method.

Consequently, the three empirical studies outlined in chapters 3, 4, and 5 are conducted in order directly to address the precise research gaps. Further, Chapter 6 discusses how the three layers of analysis could be connected to provide a better insight into the factors influencing the firm's internationalization. Therefore, the next chapter, Chapter 3, starts with the macro level, the institutional environment. Chapter 4 then goes down to the micro environment, and discusses about determinants of the firm's internationalization. Further, Chapter 5 analyzes the factors inside the firm, and investigates the development of the capabilities and routines.

Multi-layered Factors Influencing the Firm's Internationalization Strategy

3 Institutional Context for Rapidly Internationalizing Firms

3.1 Introduction

This chapter analyzes rapidly growing Japanese entrepreneurial firms as they navigate through international institutional arrangements, which may be incompatible with those in Japan. In what ways does the national institutional environment facilitate or hinder the growth and internationalization of entrepreneurial start-ups? In what ways does the developed institutional environment interact with the firm? And In what ways does international institutional diversity affect the way in which these internationalizing firms expand and develop the international business? This chapter addresses these questions by analyzing the influence of the institutional context on the growth and internationalization of ICT (Information, and Communication Technology) start-ups. Focusing on two entrepreneurial start-ups in the ICT sector, Rakuten and GREE, this study highlights the key characteristics of Japanese institutions in

transition, and depicts how these rapidly growing ICT start-ups have overcome specific institutional challenges.

The key contributions of this chapter are as follows. Firstly, this study shows that the Japanese institutions, although in transition, have been generally incompatible with start-ups, especially in the early stage. In the financial and labour markets, the components of the liberal market economy institutions have been incorporated and layered in a sea of the coordinated market economy environment, but they remain nascent and insufficient for facilitating entrepreneurial activities in Japan. In this situation of partial institutional voids, or the absence of the necessary institutional intermediaries, Japanese entrepreneurs have the option of avoiding, adapting, or influencing these incompatible institutions. Having the influence to change incompatible institutions requires power, and this study generally found instances of avoidance and adaptation over time. As the start-ups grow in size and increase their legitimacy in society, the Japanese institutions, which are more suitable for the larger, more established firms, gradually start to accommodate these new members.

Secondly, this chapter theorises about the way in which entrepreneurial firms recombine institutions at multiple levels. The finding suggests the significance of personnel migration for institutional interactions. Start-ups hire managers who are influenced by a variety of existing institutions, and these managers interact with

each other, building their own mix of social systems within the firm in order to achieve growth. Managers play a vital role here. They are not just a catalyst for institutional innovation but also provide a bridge between the different institutional environments. This chapter demonstrates the value of analyzing such institutional innovation at a deeper level of granularity, especially in the newly emerging sectors that are rapidly absorbing a large number of workers from contiguous firms and sectors.

Finally, this chapter theorises about the interactions between the national institutions and rapidly internationalizing firms. The finding suggests that the rapidly internationalizing firms interact with the host market institutions differently compared with firms that adopt a more gradual approach to internationalization. This chapter calls the institutional interaction resulting from the rapid international growth “multilateral”, in contrast to “bilateral”, as is typical within a gradual internationalization path. This study describes how different working cultures and systems are transferred between different locations, and demonstrates empirical evidence of the concurrent development of a globally integrated corporate culture and system within an international firm.

In Sections 3.2 and 3.3, I discuss the research topic together with the research gaps. Section 3.4 explains the research questions, data, and methods for the empirical research. In Section 3.5, this study presents the cases in order to

investigate the detail of how the institutional arrangements actually influence their strategies for growth and internationalization, and describes how these findings help us to answer the research questions. Section 3.5 discusses the implications of the findings. Finally, I conclude by discussing the contributions of this chapter.

3.2 The interactions between the firm and the markets

3.2.1 The institutional environment and the firm

The long tradition of comparative political economy studies acknowledges the interactions between the firm and the institutional environment. Social norms influence entrepreneurial activities (Weber, 1935); the market as a whole is embedded in society, which reflects the morals, politics, religious values, and other non-economic factors (Polanyi, 1944; Granovetter, 1985; Block & Fred, 2003); and different environments lead to the different needs for achievement, power, and affiliation of those in society (McClelland, 1961). Therefore, the environment shapes the market and organizations, at least to a certain degree (Aldrich, 1979; Flisgstein, 1990). Developed institutions often constrain the behaviour of firms because certain ways of structuring and executing activities will be better supported and obtain legitimacy, increasing the chance of prosperity

developing in a given environment (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Granovetter, 1985; Oliver, 1997). The institutional environment influences the performance of both the economy and the firm operating within it (North, 1990; Powell & DiMaggio, 1991; Scott, 2008).

More recently, researchers have focused on the process by which organizations within a specific institutional environment develop homogeneity (or diversity) in terms of their structure, culture, and output (Streeck & Thelen, 2005). This has led to the investigation of the agents and mechanisms that trigger institutional change (Mantzavinos, 2001). Consequently, comparative political economy studies have acknowledged the greater role of the firm, particularly the role of entrepreneurs, in developing, transforming, and changing the national institutions in a variety of ways. The traditional conceptualization of the institutions as being constraints on firms, which describes the firm as a rather passive actor in a given environment, is gradually being eclipsed by an increasing awareness of the resource aspects of the institutions (Garud et al., 2007). The firm could be a proactive agent, interacting with the environment and recombining the existing resources from the multiple institutional layers to which it has access (Maguire, Hardy & Lawrence, 2004; Crouch, 2005). Pioneering entrepreneurs are often institutional entrepreneurs who trigger institutional innovation, by changing the ways in which they and their followers conduct business and interact with the rule-makers to promote new

methods and rules of the game (DiMaggio, 1988; North, 1990; Streeck & Thelen, 2005).

3.2.2 The institutional environment in the international business literature

Following the research strand in the comparative political economy literature, a stream of research in the International Business (IB) literature investigates the significance of country effects on firm behaviour and performance (Dunning & Lundan, 2008a: 126-129; Jackson & Deeg, 2008: 542-545; Peng, Wang & Jiang, 2008: 921-924). The location specific effects have been explored in research on the determinants of firm performance variance (e.g., Christmann, Day & Yip, 1999; Makino, Isobe & Chan, 2004; Brito & Vasconcelos, 2006; Tony, Todd, Jeffrey & Asda, 2008; Goldszmidt, Brito & de Vasconcelos, 2011), or by adopting a more focused approach that investigates the influence of an aspect of the institutional environment, such as the political system (Brouthers & Bamossy, 1997; Delios & Henisz, 2003; Ring, Bigley, D'Aunno & Khanna, 2005), contract enforcing system (Greif, 1993; Djankov, Glaeser, La Porta, Lopez-de-Silanes & Shleifer, 2003), and the actor's country orientation (Hitt, Dacin, Tyler & Park, 1997). The findings suggest that location-specific factors have a significant influence on firm performance. Ghemawat (2001) categorizes such differences

and similarities among the locations as four types of distance: cultural, administrative, geographic, and economic. The potential liability of foreignness may place foreign firms in a disadvantageous position compared to domestic firms (Zaheer, 1995). This understanding consists of the basic foundation of the stage theory of internationalization that assume that the firm internationalizes in stages, expanding into closer countries first before moving to more distant ones (Johanson & Vahlne, 1977, 2009). Most international management scholars would agree that, "the economic, political, and social institutions form the institutional environment, and they formally or informally determine the firm performance, with the specific characteristics of the industry structure and the firm resource and capabilities" (Chan, Isobe & Makino, 2008: 1181-1182). While one might argue that globalization has reduced the importance of location-specific factors (Hawawini, Subramanian & Verdin, 2004), these remain influential on firm behaviour in this globalized business environment (Ghemawat, 2003).

3.2.3 Firm-level analysis of the influences of institutions

However, despite the increasing recognition of the greater role of the firm, most studies in the comparative political economy literature focus on comparing the influences of a subset of two or more institutional arrangements on firm behaviour. The practice of adopting institutions as a central perspective for

analyzing the firm's international operations, as opposed to 'controlling for institutions', is a new phenomenon in the IB literature (Peng & Khoury, 2009: 258). While a number of sectorial-level analyses exist, exactly how the firm contributes to the dynamics of incremental institutional change is not explained in detail. Further, the IB literature tends to treat institutions as uni-dimensional variables, devoting little attention to their typology and diversity (Jackson & Deeg, 2008: 541). Most of the analysis focuses on the influence of the differences and similarities between the home and host markets, and only a few studies investigate how the internationalization path might be influenced by the institutional structure of the home market. The increasing presence of Born Global firms that expand into multiple countries within a short period of time may suggest the need for a different way of treating the relevance of a portfolio of foreign locations. As less is known about exactly how institutions affect the behaviour and performance of firms as they internationalize, the IB literature is in the process of building a formula for integrating this third leg after the traditional industry- and resource-based views (Peng et al., 2008: 921).

As Jackson and Deeg (2008) and Peng (2008) discussed, there are research gaps where these two research streams converge. While the IB literature acknowledges the significance of the institutional environment, the analysis mostly centres around the influence of the similarities and differences between the

home and host countries. The internationalization literature often focuses on entrepreneurial orientation, network, and capabilities and knowledge accumulation to explain the process; however, limited attention is paid to the influence of the institutional environment. Similarly, comparative political economy studies will produce additional insights by adopting a more firm-centric approach. A firm-centric analysis can provide an example of how the sub-systems of the institutions might influence the firm's strategy. Understanding the entrepreneurial process by linking the institutional theories and firm behaviour with qualitative evidence from in-depth interviews should help to produce more dynamic insights (Herrmann, 2010: 745).

Therefore, this chapter aims to investigate how the institutional environment influences the way in which firms emerge, grow, and internationalize and how such growth of the firm in turn influences the environment in which they operate.

3.3 The incompatible institutional arrangements

3.3.1 Varieties of Capitalism: an analytical framework

To understand the interactions between the firm and institutional environment, a series of firm-centric approaches is developed by researchers who investigate a

variety of ways to group and categorize the nations that share similar institutional characteristics such as varieties of capitalism (Hall & Soskice, 2001b). The Varieties of Capitalism concept places greater emphasis on the rule of the firm and highlights the role that business associations and the other types of relationship among firms plays in the political economy (Hall & Soskice, 2001a: 4). The theory predicts that the firm in a given institutional environment will tend to select the investment, commitment, and innovation patterns that best fit that particular environment. This chapter adopts this concept and analyses the interaction between the firm and the institutional environment, i.e. between Japanese ICT start-up firms and the Japanese institutional environment.

The main empirical site of this chapter is Japan. The Varieties of Capitalism framework depicts Japan as an example of Coordinated Market Economy, characterized by the developed coordinating mechanism that is rooted in the strategic interaction among the actors in the market, supported by non-market institutional mechanisms. It contrasts with Liberal Market Economy, which relies on market mechanisms for its coordination. As Casper, Lehrer, and Soskice (1999) discussed with reference to Germany, and Casper and Whitley (2002) to the UK and Sweden, successful firms in a given environment have a general tendency to focus on the type of business that is better supported by that environment. While Japan is categorized as a Coordinated Market Economy, it

certainly has distinctive characteristics that is different to other Coordinated Market Economy such as Germany (Yamamura & Streeck, 2003). If so, what is the Japanese type of institution that the Varieties of Capitalism theory describes?

3.3.2 Japan: a Coordinated Market Economy in transition

The literature generally predicts that Japan will provide a feeding ground for long-term relationships, incremental innovation, and larger corporations and corporate groups. The Japanese system is defined as a stable system in which the sub-systems interact with and complement each other (Aoki & Okuno, 1996). Lifelong employment, consensual decision-making, inter-company networks, long-term investment in training, research, and quality control, and the smaller role of shareholders has characterized the Japanese management systems (Aoki & Dore, 1994). The Japanese type of venture innovation is often attributed to incremental innovation, whereby the collaborative efforts of engineers and designers gradually improve the specifications of the existing product concepts and deliver a higher standard. In contrast, Japan has been hosting challenging, incompatible institutions for new technology venture firms due to, for example, the difficulty of obtaining loans and the inflexible labour markets. These institutions emerged after the Second World War. Nevertheless, the decades of stable economic development have gradually strengthened and cultivated the

newly emerged phenomenon. By the late 1970's and 80's, it had become normal to take the post-war institutions for granted in Japan.

The end of the bubble economy is considered a turning point that highlights the gradual slowdown of success and the beginning of the new reality. A number of scholars and business leaders have discussed the causes of the underperforming economy (e.g., Ito, 2002; Matsumura & Okuno, 2002). In order to stimulate new growth, Japan implemented a variety of policy changes and system refinements in order to catch up with the other high performing economies with regard to new business creation, most notably the US (WERU, 2000; SME Agency, various years). Consequently, many of the initiatives were designed to challenge the institutional underpinnings of the Japanese form of capitalism.

By the late 1990s, diverse patterns of organizing had become evident (Sako, 2005, 2007). A number of new stock exchanges have now been established, and Japanese venture capitals have changed the way in which they finance start-ups. The development of atypical forms of employment was accompanied by the gradual breakdown of the lifetime employment norm. Japan has been a prominent example of an environment that encourages the long-term investment of large corporations; however, it is now in transition, incorporating the concepts that aim to facilitate venture business creation and incubation (Dore, 2000; Sako & Kotosaka, 2011).

3.3.3 The influence of Japanese institutions on start-ups

The general understanding according to the Varieties of Capitalism approach is that the Japanese institutions works against the growth of start-up facilitated innovation. However, that negative influence is often outside the scope of the researches. As Whittaker (2009: 21) criticizes, scholars who apply the Varieties of Capitalism approach have a tendency to "select the kind of innovation or entrepreneurship which result in the closest fit, and to ignore tensions and contradictions that could let to new insights". In fact, research attention has been focused more on large business corporate venturing. While the recent changes in the Japanese environment has created a larger space for the type of innovations that are prevalent in liberal market economies, the relationship between the Japanese institutions and the newly established start-ups has not yet been explained in detail.

Therefore, this section analyses how the current Japanese institutional environment might influence start-ups' initial growth and internationalization, by referring to the subsystems of an institutional environment: the financial institutions, labour institutions, and inter-company relations explained by Hall and Soskice (2001b, 2009). The purpose is to explore the empirical setting. This

section describes the general challenges that Japanese start-ups face when they aim to achieve rapid growth and internationalization.

3.3.3.1 Financial institutions

The Japanese financial institutions are characterized by "patient capital", that prefers a stable return over the long term. The main bank does not usually intervene if the operations are going well (Aoki, 1988). While the popularity of cross-share holding is decreasing, this reduces the influence of the shareholders (Okumura, 1997). The managerial influence of the financial institutions is less significant than that of the employees, business partners, and the market (Kawamura, 2002). The strategic control over the corporate resources lies in the hands of salaried managers. The absence of an active market for corporate control means that corporate growth tends to occur via organic growth, rather than through M&A. This applies to established firms and new start-ups, with regard to both domestic and international growth.

The increasing number of experienced venture capitalists, managers who are capable of growing venture businesses, and executives of established corporations who appreciate the value of start-ups help to promote venture firms more successfully now than in the past (Hata, Ando & Ishii, 2007). However, the well-developed Japanese main bank system is generally beyond the reach of start-ups,

if they do not personally guarantee or collateralize their loan. Large firms in the ICT sector tend to develop new technology internally or support associated spinoffs, and so are hesitant to invest in independent start-ups. The Japanese financial system retains aspects of relational financing even after the impending financial deregulation (Aoki & Dinc, 1997). As it often takes time to build up a track record and legitimacy to secure sufficient external funding, start-ups in the ICT sector tend to rely on internal capital and their own cash flow, especially during their very early stage. While there is a long history of new venture financing systems, the new stock markets and venture financing are generally operated in a way that will not effectively stimulate the early stage growth of technology start-ups (Milhaupt, 1997; Hata et al., 2007; Sako & Kotosaka, 2011). Although the government and financial institutions attempt to implement new systems and regulations, the Japanese financial system tends to invest in more incremental and established business ideas that bring investors smaller but stable profits without any significant risk. Moreover, financing an ambitious overseas expansion has proved a greater challenge. Established Japanese firms firstly establish a profitable domestic business or find promising overseas customers to finance their initial internationalization. This means that the internationalization tends to be gradual, and follows the expansion of the domestic business.

Therefore, the banks' money concentrates on a select group of profitable, expanding firms that typically first establish their presence in the domestic market. The capital markets provide abundant capital only to companies promising success. This means that, once successful, they can enjoy strong bargaining power. The newly established emerging equity markets provide abundant capital for this select group of profitable venture start-ups and an exit strategy for private equity investors such as venture capitalists.

3.3.3.2 Labour institutions

The Japanese labour market is characterized by a stable 'lifetime' employment norm and a seniority-plus-merit reward system. Japanese institutional training consists of schools that provide general skills and foundation and those that provide specialist courses (Dore & Sako, 2002: 42-92). The learning architecture of Japanese firms that originates from high level of mutual teaching-learning with an assumption of "lifetime" employment norm produces tailored workers who understand the company's internal language and unique characteristics in depth (Dore, 1973; Dore & Sako, 2002: 93-133). The increased human resource specificity increases the sense of community and quality of communication within both the firm and the sector, while simultaneously decreasing the chance of employees being poached by other companies.

Further, this labour practice, combined with the long-term employment norms, increases the costs of hiring managers from established organizations for start-ups due to the need for significant "unlearning" that the newly recruited managers must undertake. Therefore, start-ups tend to hire managers from other start-ups in the ICT sector because they tend to share a relatively similar corporate language, skills need, and culture. Moreover, the Japanese education system has been relatively weak, compared with that in the US and UK, in educating international talent that can contribute to rapid internationalization.

The long-term employment norm and wage systems encourage workers to commit for longer to a single company in order to gain higher rewards (Dore, 1973; Koike, 1988; Mincer & Higuchi, 1988). This arrangement typically benefits firms with internally developed education mechanisms and a pool of personnel resources. However, it is also designed to prevent outsiders from accessing the secured labour force, thus increasing the difficulty for start-ups to recruit proven talent from the labour market. Further, while the Japanese management system is characterized by collaborative decision making, with higher authority for middle managers (Dore, 1973; Lincoln & Kalleberg, 1990), start-ups tend to follow a top-down approach. The managers of Japanese firms experience a wider range of job function, whereas their western counterparts specialize more in a specific business function. Two problems arise from these mismatches. Firstly, entrepreneurs often

find it difficult to understand how larger companies make decisions, increasing the cost of collaboration between new firms with innovative technologies and larger firms with customers and resources. Secondly, managers recruited from established companies often find it difficult to understand the different decision-making system, decreasing the performance of these once high-performing managers in the start-ups' new working environment, and increasing the costs of finding skilled resources in the market. ICT start-ups are likely to face difficulty in recruiting managers from established Japanese companies.

Collective bargaining, industry organizations, labour unions, and other systems that represent Japanese industrial relations institutions are less well developed in small and medium-sized enterprises (Sato, 1997). Part-time jobs, contingent work, mid-career recruitment, and recruitment agencies are prevalent in this sector. Stock options and individual, performance-based compensation are more widely applied among venture start-ups. However, the formal institutions that protect workers' rights prevent companies from initiating drastic lay-offs or changes of management. The regulations and culture are still tailored to the long-term commitment of workers. While the relative absence of collective bargaining and unions and the increasing use of part-time and contingent workers appear to reduce the burden on start-ups, they remain subject to the stronger protection of workers' rights and the social norms that appreciate long-term security and a

seniority system than is found in Liberal Market Economy. Further, the absence of strong unions indicates that ICT start-ups encounter less pressure to retain jobs within Japan. However, the strong protection potentially limits the degree of freedom in structuring the organization.

The socio-economic changes starting from the late 1990's resulted in a change in the employment environment, and necessitated the modification of the conventional labour law (Sugeno & Suwa, 1997). The traditional norm of life-time employment in Japan has undergone gradual adjustment due to employment levels, the introduction of merit based pay systems, and changes in the distribution of value added elements (Jackson, 2007). The layering of atypical forms of employment onto the lifetime employment norm and the conversion to a collective bargaining system from a fighting ground for wage hikes into a discussion forum between the management and labour are signs of transition (Sako & Kotosaka, 2012: 145-150). However, those ongoing transitions still do not largely benefit ICT start-ups due to the mismatch between skills and the difference in management structure.

3.3.3.3 Inter-company relations

Active inter-company collaboration has been evident in the Japanese economy for many years. Visible examples of this have been the corporate networks

facilitated by the main banks and cross-share holdings, supplier networks with long-term relational contracts, and the powerful cross-industry economic organizations (Imai, Komiya, Dore & Whittaker, 1994: 103-155). These corporate networks and traditional organizations are often beyond the reach of start-ups, except for the spinoffs from established firms. Interlocking shareholding is uncommon even with direct transaction partners or affiliates. Instead, the founding entrepreneurs often keep the majority of the shares. Firms form several informal and formal entrepreneurs' networks in order to exchange ideas and discuss potential business collaboration. The Bit-valley Association and NASDAQ Japan Club, established in 1999, are well-established examples of such networks. Rakuten and GREE are members of the Japan Association of the New Economy (i.e., Shin Keizai Renmei), established in 2010, that has 1665 start-ups and media companies.

The supplier's network has been a key for small firms' internationalization; research shows more than 25 percent (of the 697 respondents) stated that their international expansion was initiated because they were requested to engage in it by their large customers (Shoko Research Institute, 2009). Further, the industry associations and corporate groups also function as information hubs, facilitating information sharing. In some cases, the lead firms helped with the financing and planning of the subordinate suppliers in the network. However, these relational

networks are irrelevant to or beyond the reach of the recently established ICT start-ups. The entrepreneurs' network is weak in supporting internationalization because most of the entrepreneurs in this sector are inexperienced in international operations.

3.3.4 The implications of the incompatible institutions

As described in the previous section, the newness of the sector and smallness of the operation might isolate Japanese ICT start-ups from the coordinated mechanism that benefits the larger, more established Japanese corporations. The resources designed for the specific type of governance instead pose challenges for small firms that would be better supported by other types of economy (see Table 1).

Table 1 Comparison of the Implications of the Japanese Institutional Environment

		Implications for the (domestic) growth of…	
		Large established firms	**Start-ups**
Financial	**Cross-share holding**	Allow firms to focus on long term and keep earnings within company for reinvestment	Organic growth rather than growth via M&A
	Main Bank lending	Stable and long-term focused capital	Access only after building track record and legitimacy. Venture capital behaves like banks
Labour	**Strong corporate education and training**	Tailor the human resources and prevent poaching	Increase the costs of hiring due to the need for unlearning and the inherent inability of startups to offer employment security
	Long-term employment norm	Encourage the workers to commit longer to a single company	
	Seniority-plus-merit system	Increase the sense of community and collaboration among workers	Conflict to the meritocracy approach of start-ups
	Job rotation system	Reduce the possibility of sectionalism and internal conflict	Workers often don't fulfill the need of expertise that startups require
	Decision-making process and speed	Consensus decision making	Need to make faster top-down decisions
	Collaborative bargaining and labour unions	Protect workers rights and often prevent unneceeary conflicts	Less developed in ICT start-ups, while regulations exist
Inter-compnay relations	**Corporate groups (e.g., Kigyo shudan)**	Informal informaton sharing, collaborative action, access to capital	Difficult to access, but can find alternative social capital in some cases
	Suppliers' networks (e.g., keiretsu)	Trust based relationship, effective transfer of knowledge	
	Business and industry associations	Informal information sharing, knowledge sharing	

The fewer entrepreneurial activities in Japan, relative to other economies (Kelley, Singer & Herrington, 2012), are at least partially explained by the challenges posed by this incompatible institutional environment (Karlin, 2013). The Japanese institutional system is well developed, but may not promote the type of new business creation that is prominent within the ICT sector.

However, a number of start-ups have achieved tangible growth in the Japanese ICT sector, despite the challenges posed by the incompatible institutions. These new firms are under pressure from such a incompatible environment especially when they are new and young. The Varieties of Capitalism approach fails fully to

explain why such growth is possible under such a strong Coordinated Market Economy like Japan. While there are signs of change and transition in the Japanese institutional environment, especially around the systems that support start-up businesses, how they contribute towards facilitating the type of venture incubation that is prevalent in a Liberal Market Economy remains understudied.

One explanation of this phenomenon is the fact that Japanese institutional environment is in transition, from Coordinated Market Economy to Liberal Market Economy, especially around the systems that are directly relevant to the growth of new business. The emergence of ICT start-up companies in Japan can be explained by the new systems that have been implemented in the past 20 years. Another explanation would be that these firms are just exceptions; exceptional cases that have found a way to navigate through the incompatible institutional environment. The lead firms found the way, and a number of followers are gradually changing the landscape. Either way, the literature does not provide a full account of the existence of such firms.

Further, what would be the implication of the miss-match between the type of business organization and the institutional environment in the domestic market on the internationalization of such ICT start-ups? The IB literature generally predicts the firm will face the liability of foreignness (Zaheer, 1995) or the liability of outsider-ship (Johanson & Vahlne, 2009), but if the Japanese ICT start-ups

navigate in an incompatible institutional arrangement but still maintain Liberal Market Economy type of governance, the situation they face will contradict the implicit assumption in the literature. Their culture, management, and governance may will be more compatible with the "foreign" environment, where the systems of Liberal Market Economy dominate. If so, they may be better equipped to handle the foreign market environment, or will at least be interacting with the institutional environment differently to the more established, large firms that are more firmly embedded in the Japanese type of market environment.

In the remainder of this chapter, these research gaps are investigated through an empirical study of Rakuten and GREE, primary examples of Japanese ICT start-ups that have achieved tangible growth both domestically and internationally.

3.4 Research questions, data and methods

3.4.1 Research questions

In order to address the research gaps, this chapter analyzes the possible influence at the firm level by referring to case examples, and investigates the following research questions: 1) In what ways does the national institutional

environment facilitate or hinder the growth and internationalization of entrepreneurial start-ups?; 2) In what ways does the developed institutional environment interact with the firm?; and 3) In what ways does international institutional diversity affect the way in which these internationalizing firms expand and develop the international business?

The analysis focuses on Japan, which is a developed institutional environment in transition, where this research can expect to find a higher degree of institutional interaction between the different institutional frameworks. The first question will be related to the strategy of the case firms for coping with the specific institutional arrangement of the Japanese market. The focus will be on the influence of the specific institutional arrangement and the counter-measures taken by the case firms to reduce the burden of incompatible institutional arrangements. The second question will investigate the effects of the incremental institutional change from Coordinated Market Economy to Liberal Market Economy on the growth and internationalization of start-ups. The focus of the analysis will be on the interactions between the external environment and the case firms in the process of their growth. Finally, this research will investigate how these case firms interact with foreign market environments in the process of their internationalization, with a focus on how they accommodate the influence of different institutional

environments within their management systems. This research describes how the ICT startups develop a system for conducting international systems effectively.

3.4.2 Analytical methods

This research adopts an inductive, case-based theorising approach and analyses retrospective case studies of the two firms (Eisenhardt, 1989; Yin, 2006; Eisenhardt & Graebner, 2007). The main analysis techniques are cross-case synthesis and cross-case comparison (Yin, 2006). The perspectives are developed through the inductive, iterative process of theory development, and are constantly revised until they sufficiently and accurately explain the empirical evidence observed (Miles & Huberman, 1994; Glaser & Strauss, 2006; Yin, 2006: 47).

One might argue that the influence of the institutional context on the management decisions that a firm makes is less significant relative to the competitive landscape of the particular sector in which it operates. However, as both management and comparative political economy studies acknowledge, the general trajectory of firms in the same environment often follows the patterns associated with the macro environment. This research refers to the cases in order to depict the general forces at work in the Japanese institutional environment, and acknowledges that competitive forces, such as competitors' moves, industry

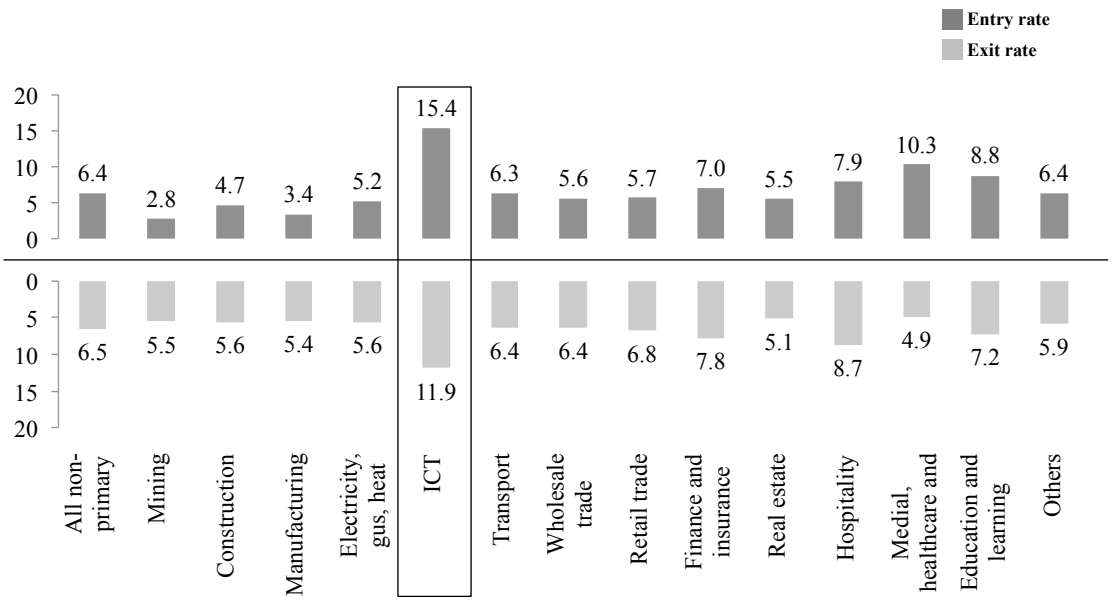
growth, and the supply and demand conditions, have influenced the specific examples in their development process.

The analysis firstly highlights the profile of the two firms, before focusing on analysing the three research questions explained in Section 3.4.1.

3.4.3 Data collection

The ICT sector is selected because the entrepreneurial activities in this sector are the highest among the industries in Japan (see Figure 4).

Figure 4 Entry and Exit Rates by Industry in Japan (2004-2006)



* Compound services are excluded due to unusual factors concerning the statistics. The data for this category is: entry rate of 31.2%, which becomes 3.1% if the sub-category Postal services (20,023 establishments) are excluded.
** Circled industries are those in which entry rates exceeded exit rates

Source: The Small and Medium Enterprise Agency (2008: 145)

This section analyzes two rapidly growing and internationalizing start-ups: Rakuten and GREE. These have been the two highest valued firms in the Japanese ICT sector established in the past 20 years (from 1992 to 2012), judged by market capitalization, as of February 2012, excluding Yahoo! Japan, which is a joint venture between US Yahoo and SoftBank, another highly valued Japanese start-up that was established in the early 1980s (see Table 2). The rapid growth of these two firms enables us to observe the longitudinal process of their growth within a short period. This comparison of two firms, which were established at different points in time, allows this research to discuss the possible transition in the Japanese institutional environment during the past 20 years.

Table 2 The Top 20 Japanese ICT Start-ups Established between 1992 and 2012

Rank	Company Name	Year Founded	Primary Industry	Market Capitalization (JPYmm)
1	Yahoo Japan Corporation (TSE:4689)	1996	Internet Software and Services	1,437,805
2	**Rakuten, Inc. (JASDAQ:4755)**	**1997**	**Internet Retail**	**1,087,344**
3	**Gree, Inc. (TSE:3632)**	**2004**	**Internet Software and Services**	**614,092**
4	Jupiter Telecommunications Co. Ltd. (JASDAQ:4817)	1995	Cable and Satellite	540,145
5	Nexon Co. Ltd. (TSE:3659)	2002	Home Entertainment Software	470,906
6	Dena Co. Ltd. (TSE:2432)	1999	Internet Software and Services	340,999
7	Start Today Co., Ltd. (TSE:3092)	1998	Internet Retail	197,875
8	Kakaku.com., Inc. (TSE:2371)	1997	Internet Software and Services	163,824
9	CyberAgent Inc. (TSE:4751)	1998	Advertising	163,190
10	Elpida Memory Inc. (TSE:6665)	1999	Semiconductors	97,299
11	So-net Entertainment Corporation (TSE:3789)	1995	Internet Software and Services	71,576
12	eAccess Ltd. (TSE:9427)	1999	Internet Software and Services	63,309
13	Digital Garage, Inc. (JASDAQ:4819)	1995	IT Consulting and Other Services	48,548
14	Mixi, Inc. (TSE:2121)	1997	Internet Software and Services	35,674
15	Cookpad Inc. (TSE:2193)	1997	Advertising	27,391
16	Gmo Payment Gateway Inc. (TSE:3769)	1995	Data Processing and Outsourced Services	26,898
17	Dwango Co. Ltd. (TSE:3715)	1997	Application Software	25,731
18	KLab Inc. (TSE:3656)	2000	Application Software	24,643
19	Macromill, Inc. (TSE:3730)	2000	Internet Software and Services	22,734
20	ITC Networks Corp. (TSE:9422)	1997	Technology Distributors	21,780

Source: Capital IQ, as of February 2012

Multi-methods are utilized for the data collection in order to triangulate the findings (Eisenhardt, 1989). This study obtains data from 28 in-depth interviews with the key executives, conducted between 2009 and 2012 (Table 3), nine participant observations at the headquarters and overseas locations of GREE (Table 4), and archival data, such as internal documents, public speech transcripts, industry reports, and media coverage. This study also refers to earlier works that investigated Rakuten and GREE, most notably those by Yamaguchi (2004), Kodama (2005), Kawakami et al (2010), Kotosaka (2011) and Sako and Kotosaka (2012), and triangulates their findings using our primary information sources.

Further, to test the generalizability of the argument developed from the analysis of Rakuten and GREE, this study conducts a series of supplemental interviews (eight in total, also listed in Table 3) with experts/managers who are knowledgeable about at least one of the following six companies, selected from Table 1: DeNA Co. Ltd, CyberAgent, Inc, Digital Garage, Inc, mixi, Inc, Dwango Co Ltd, Cookpad Inc, and Macromill, Inc. In addition, media coverage, IR reports, and industry reports are also utilized to supplement the findings from the supplemental interviews.

Table 3 List of Interviews for Chapter 3

Company name	Format	Title	Date	Length(hours)
GREE	Interviews	manager A (Business planning)	Jun-09	1
GREE	Interviews	manager A (Business planning)	Jul-09	2
GREE	Interviews	VP Product development	Oct-10	1
GREE	Interviews	VP Product development	Jun-11	1.5
GREE	Interviews	VP global alliance	Jun-11	1.5
GREE	Interviews	VP global alliance	Jun-11	3
GREE	Interviews	manager B (Human resource)	Jul-11	1
GREE	Interviews	manager B (human resource) & VP Product development	Jul-11	3
GREE	Interviews	SVP Product development	Sep-11	1
GREE	Interviews	SVP Product development	Sep-11	0.5
GREE	Interviews	VP CEO office	Oct-11	2
GREE	Interviews	manager C (human resource)	Oct-11	1
GREE	Interviews	manager (academic alliance)	Nov-11	0.5
GREE	Interviews	Customer interviews	Sep-11	2
GREE	Interviews	VP CEO office	Feb-12	3
GREE	Interviews	SVP Social game	Mar-12	1
GREE	Interviews	VP CEO office	Mar-12	1
GREE	Interviews	Director, Social game	Apr-12	1.5
GREE	Interviews	SVP Social game and VP CEO office	Aug-12	1
Rakuten	Interviews	Entrepreneur (co-founder)	Jul-10	1
Rakuten	Interviews	ex-manager	Nov-09	0.5
Rakuten	Interviews	ex-manager	Jul-10	1
Rakuten	Interviews	Senior manager, CEO office	May-12	3
Rakuten	Interviews	Senior manager, Business development	May-12	2.5
Rakuten	Interviews	Entrepreneur (co-founder)	May-12	4.5
Rakuten's group compnay	Interviews	CEO	May-12	1.5
Rakuten's group compnay	Interviews	CEO	May-12	1.5
Rakuten's group compnay	Interviews	CEO	Jun-12	2.5
Rakuten's group compnay	Interviews	CEO	Jun-12	3
SunBridge partners	Interviews	Director	May-12	1.5
Macromill	Interviews	Director	Jun-12	1.5
Macromill	Interviews	Founder of a acquired company	Jun-12	1.5
DeNA	Interviews	ex-senior management	Jul-12	1
Cookpad	Interviews	manager	Jun-12	0.5
Cyber Agent	Interviews	manager	Nov-09	1
mixi, Inc	Interviews	VP, Business development	Mar-11	1
Dwango Co. Ltd.	Interviews	Director	May-12	1

Table 4 List of Participant Observations for Chapter 3

Company	Participation in…	Timing	Hours	Description
GREE	Japan Headquarters	Feb-06	3	Participation to a strategy meeting of the compnay
GREE	Japan Headquarters	Jul-08	0.5	New office overview
GREE	Japan Headquarters	Oct-09	0.5	New office overview
GREE	Global Headquarters, SF center	Feb-11	3	office overview w/ observation of product development meeting
GREE	Global Headquarters, SF center	Jul-11	1	1 hour observation of the workers waiting and chatting at the cafeteria
GREE	US Headquarters (Burlingame)	Oct-11	0.5	Overview of the new office, including an nitroduction of departments
GREE	US branch (acquired company) (Burlingame)	Oct-11	0.5	Overview of the office of the acquired company, including an explanation of departments
GREE	Japan Headquarters	Feb-12	2	2 hours observation of mid-career hiring (observe at the waiting area for the job interview)
GREE	Global Headquarters, SF-China	Apr-12	1	New office overview, including an introduction of staffs and departments and an explanation of future expansion plans

3.5 Empirical research findings

3.5.1 The case of Rakuten

3.5.1.1 Profile

Rakuten was established in 1997 by Hiroshi Mikitani, a Harvard MBA graduate with investment banking experience at a prestigious Japanese bank. He first engaged in a cross-border M&A advisory and alliance consulting business but saw the potential for an Internet business by observing the US examples.

Rakuten is a "two-sided platform" on which sellers and buyers interact with each other, but which also acts as a "merchant" in the large business segments, such as travel, insurance, contents (e.g., books) and banking. The two-sided platform model is where the player acts as a marketplace in which buyers sell directly to buyers, and the merchant model is where the player acts as a merchant, buying from sellers and reselling to buyers (Hagiu, 2007). This business model can be explained by following Chesbrough's explanation (Chesbrough, 2006). The value proposition to the buyers is the convenience of a single user ID sign-in to thousands of shops on the Rakuten online shopping mall accompanied by Rakuten's support services, such as product guarantees and secure payments, as well as Rakuten's trusted brand name. The value proposition to the sellers is the

size of the user base, the user information, and the knowhow about operating online shops. It focuses on products and services that can be purchased online. It generates value from the sellers via variable fees related to the amount of revenue, and the consulting and support service fees. It also charges directly the buyers in its merchant businesses.

Rakuten could first build a critical mass of sellers by actively recruiting small shops locally, then gradually increasing its appeal to the sellers. The growing number of buyers further encouraged more sellers to join the Rakuten system. Rakuten promoted Rakuten point, which is a virtual currency that can be used for all Rakuten services, in order to enhance the synergy among its services and shops. With the large user base and purchase data obtained from thousands of shops, Rakuten started to identify its strategy of building "Rakuten eco-system", via which buyers and sellers exchange information, virtual currency (i.e., Rakuten point), and real money. Rakuten was in a strong position to attain the benefits of the network effect by building such an eco-system because it was the largest online shopping portal on the Japanese market.

In 2007, Rakuten announced its future vision of expanding into 27 overseas markets and achieving over 70 percent share of its sales from overseas. The diversification of the business portfolio within a single market has certain limitations. It had to answer the market expectation of future growth, so overseas

expansion was a natural answer. It launched its first overseas operation in Taiwan in 2008, while the Korean and Chinese versions were initiated in 2009. It entered Thailand in 2009, then China, the US, and France in 2010. It also acquired local E-commerce operators in Brazil, Germany, and the UK in 2011.

3.5.1.2 Strategy for overcoming the absence of supporting institutions

At the very beginning, the Japanese institutions did not help Rakuten, but its founder's unique skill set and mindset helped the company to overcome the challenges that it faced. He started to develop a shopping mall website where local shops could build an online shop with a minimum initial investment. The online shopping mall system itself required, however, a significant initial investment and system development knowhow. He managed to meet the initial funding challenge through his personal savings, his income from his M&A advisory business and investment, and contributions by young IT engineers and managers, such as Shinnosuke Honjo and Masatada Kobayashi, who were attracted by his background and passion. The key members were recruited via personal references and connections. They personally financed JPY 20 million without relying on banks or venture finance. The business started to generate a profit from its second year.

The subsequent growth until IPO three years after founding was facilitated by the characteristics of the business. Rakuten promoted the shopping mall with its user-friendly online store management features. Rakuten could learn from the preceding examples how to improve the system and adopt open source programming languages to reduce costs. The business model could generate an abundant cash flow by acquiring new shops because the monthly usage fee was fixed, regardless of the shops' merchandise sales level, while the system required a relatively small incremental investment per new store. Mikitani's decision to ask the shops to pay 6 months' fees in advance further improved the cash flow and the shops' commitment. The store management features enabled each shop to display its originality and uniqueness. Direct communication between the shops and the customers was one of the key differentiating factors (Mikitani, 2007: 110-112). In this stage, the key to growth was to reach as many stores as possible. Rakuten was able to do so by recruiting junior managers and training them as sales representatives. This was possible and effective due to the abundant cash flow, relatively simple and attractive service offered, and absence of competitors' sales reps, especially in rural areas.

After witnessing the healthy growth of the business, the Japanese systems started to help Rakuten, at least to a certain extent. Its rapid expansion and high profitability encouraged the main bank, Sumitomo, to introduce a large number of

new customers. The sales forces, mainly recruited from small and medium-sized companies with relatively higher labour liquidity, found a place to work at Rakuten that inherited the established Japanese companies' highly disciplined working environment. However, a senior manager recalls that support has depended on the individual responsibility of the person who was in charge of Rakuten at Sumitomo. The support was not institutionalized.

A co-founder of Rakuten recalls:

"The generous support of Sumitomo was probably because of the personal relationship between ourselves and the person in charge of us at Sumitomo. The bank was generally reluctant to help a venture company like Rakuten at that time. The situation gradually changed with the growth of Rakuten, but we decided to focus on our business model to continue growth, instead of realigning with the traditional corporate groups".

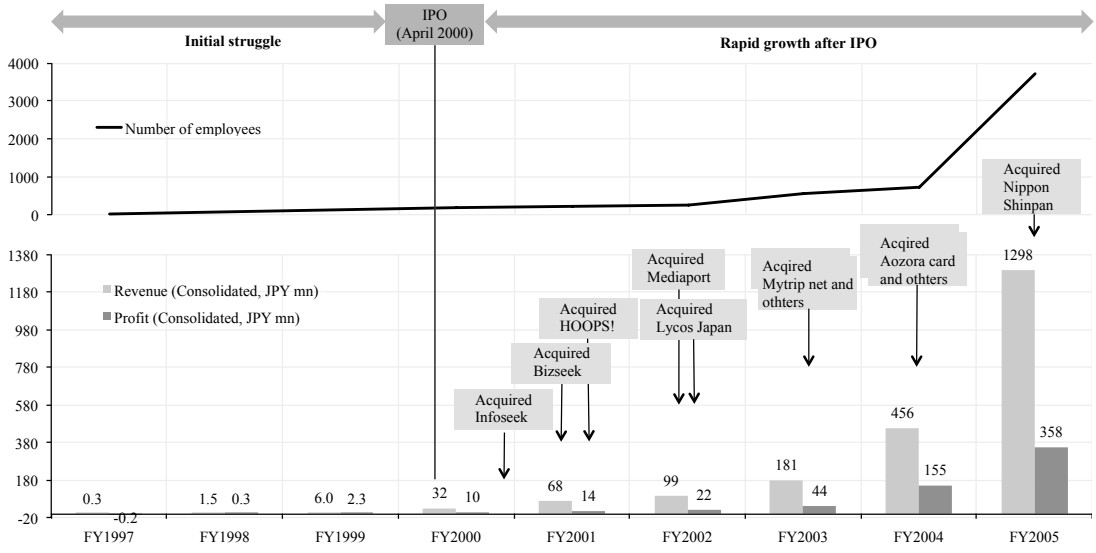
Rakuten still did not rely on bank loans, new graduate hire, long-term supplier relationships, or venture finance at this stage. The recruitment of senior managers relied on personal references. Rakuten in many ways avoided the influence of the Japanese institutional environment which was inimical to the company's needs. The entrepreneur had sufficient funds to overcome the initial funding gap. The technology was available to avoid the need to recruit skilled managers. Rakuten simplified the operation by automatizing most of the key functions and asking the shops to take charge of most of the operations. The sufficient cash flow internally financed the rapid growth.

In the end, the financial and labour institutions became more relevant to the growth of Rakuten when it went public on JASDAC in April 2000, just before the impact of the dot-com bubble bursting struck Japan. Rakuten obtained JPY 49.5 billion from the initial public offering, and drastically expanded the scope of the business through M&A, even during the recession, due to the abundant capital. Rakuten also relied on executive head hunting and mass new-graduate hiring. Further, Rakuten executed public stock offerings in 2003 and 2004, and financed JYP 46.5 billion and JYP 28.4 billion, respectively. It financed JPY 17.5 billion by bank loans in 2003.

In the ten years after the IPO, Rakuten completed more than 20 acquisitions and investments, including a $425 million acquisition of the LinkShare Corporation and paying $109 million for Ctrip.com International. The number of employees leapt from 169 to 3709 in the five years from the end of 2000 to the end of 2005 (see Figure 5).

Rakuten fully utilized the benefits of the newly established capital market for venture business. At the same time, the abundant capital and rapid growth pushed the company to initiate active new-graduate and mid-career recruitment. Stock-based incentives such as stock options were utilized to motivate highly performing members.

Figure 5 Rakuten's growth between FY1997 and FY 2005



Source: Rakuten IR document, Capital IQ

By the end of 2006, Rakuten had become part of the mainline Japanese economy as a result of its constant, rapid growth. By then, Rakuten had not only avoided the incompatible portion of the Japanese institutions, but had also adapted to the social expectations in order to gain the benefits of the developed institutions. It became a member of the Japanese Business Federation in 2004, recruited a high ranking executive, Kazunori Takeda from Toyota, had more than 4000 full-time employees, and owned a baseball team, an indication of social acceptance in Japan.

An executive at Toyota recalls:

"Mr Okuda (Chair of the Toyota Motor Corporation between 1999 and 2006) believed in the importance of cultivating the next generation of entrepreneurs in

Japan, and personally helped Mr Mikitani by giving advice and introducing people in the business community. Mr Okuda invited Mr Takeda to join Rakuten because he thought that Rakuten demonstrated high potential and could be an icon of the next generation of Japanese companies".

By combining the systems and culture of start-ups and established companies, Rakuten gradually adapted to the Japanese economy. More recently, in 2010, Mikitani decided to withdraw from the Japanese Business Federation and took the lead in establishing a new corporate circle (i.e., Japan Association of New Economy) whose members are mostly from the ICT sector in order to speak up for Rakuten and other ICT start-ups to both the government and the public (Mikitani, 2010). While these attempts to change the systems produced no tangible results, Rakuten proactively sought also to change the systems that did not fit their business objectives.

In summary, Rakuten did not rely initially on the traditional Japanese systems. It financed itself and recruited via personal references. Its subsequent growth until IPO was possible largely due to its business model, which provides an abundant cash flow and does not demand high-skilled labour. The situation gradually changed; the IPO enabled Rakuten to obtain access to larger capital, and Rakuten actively utilized the benefit of this newly introduced financial system and the emerging mid-career recruiting market. It also started new graduate hiring, hired executives from established corporations, and established relationships with

traditional corporate groups. By 2010, Rakuten had established sufficient legitimacy to obtain access to most of the systems of Coordinated Market Economy.

3.5.1.3 The interaction between the firm and the institutions in transition

While Rakuten as a company was relatively isolated in the networks of Japanese companies, the founder's personal networks would have brought ideas and styles from the Liberal Market Economy type of governance. Mikitani often acknowledges the influence of Masayoshi Son, who was educated in the US and is the founder of Softbank, who utilized M&A quite effectively in the earlier period. Further, the Rakuten M&A team is directed by skilled M&A experts who often have a postgraduate degree from a prestigious US university, experience with international investment banks, and a personal connection with Mikitani. The management team, given the performance driven culture, attracted mid-career managers who share "western management culture" and are from the start-ups acquired by Rakuten, consulting firms, investment banks and foreign-affiliated consumer products companies. Concurrently, Rakuten's core business required sales representatives to recruit, support, and train the online shops. To supplement this need, managers recruited from companies such as Recruit, who share the management style, which are prevalent in the coordinated market economy,

played a large part. These managers worked long hours and proactively and continuously improved the daily operations of Rakuten's business. In contrast to the aggressive M&A expansion to diversify the business and supplement the services in the shopping mall, continuous improvement and on-the-ground execution have been other growth drivers of Rakuten. The current list of corporate officers shows the range of different backgrounds (see Table 5).

Table 5 Education and Career Background of the Corporate Officers of Rakuten

Foreign Affiriates / US Schools
Venture firms
Underlined are founding members

Name	Position at Rakuten	Previous employment	Highest education
Hiroshi Mikitani	Founder/CEO	The Industrial Bank of Japan, Ltd.	MBA, Harvard Business School
Atsushi Kunishige	Vice President Executive Officer	DLJdirect SFG Securities*2	MBA, Sloan School of Management (MIT)
Akio Sugihara	SEO*1 (System Development)	RCA Co., Ltd.	MSc, Keio University
Hiroki Yasutake	SEO (System Development)	NTT Corporation	MSc, Waseda University
Hisashi Suzuki	SEO (Content and Community Business)	Square CO., Ltd.	B.A., Keio University
Kazunori Takeda	SEO (Business Directorate)	Toyota Motor Corp.	MBA, Harvard Business School
Ken Takayama	SEO (CFO)	The Industrial Bank of Japan, Ltd.	MBA, University of Texas at Austin
Masatada Kobayashi	SEO (E-Commerce)	RCA Co., Ltd.*3	B.A., Keio University
Takao Toshishige	SEO (Content Business)	The Industrial Bank of Japan, Ltd.	MBA, Columbia Business School
Toru Shimada	SEO (Group Marketing)	Intelligence, Ltd*4	B.A., Tokai University

*1 Senior Executive Officer
*2 also worked long years at Sumitomo Securities and Sumitomo Bank (an established Japanese firm)
*3 also worked at Dai Nippon Printing Co., Ltd. (an established Japanese firm)
*4 also worked at Recruit Co., Ltd. (a venture firm)
Source: Rakuten IR Document, Literature review; as of Feb 2012

Source: Rakuten IR documents, Literature review, as of Feb 2012

The human resources accumulated in Rakuten further accelerated the execution of an external growth strategy and called for additional capital. Some former Rakuten employees mention a sort of "glass ceiling" between the highly performance-oriented business planning and due diligence group and the domestic sales and engineering teams, due to the large difference between the sorts of

capabilities that are difficult to acquire along the internal promotion path. However, the senior managers agree that Rakuten's corporate culture and corporate systems are rooted in a mixture of Silicon Valley and Wall Street type performance-oriented working style and the traditional Japanese family feeling and collaborative working style.

An ex-senior manager of Rakuten stated:

"The unique Rakuten culture is a mix of the western management style and the traditional Japanese Salaryman (a word that represents the unique working style of Japanese white-collar workers). The inventor of this should be Mr Mikitani, who decided whom to hire and how to build the organization. In a sense, Rakuten culture is Mikitani culture. It is fundamentally rooted in its founder".

Rakuten recombined the resources surrounding it. The founder's personal background influenced the way in which Rakuten developed its management team through referrals. Some members of the management were recruited from the Industrial Bank of Japan where Mikitani worked or had graduated from Harvard Business School where he obtained his MBA degree. Rakuten also benefited in part from access to the traditional institutions in the Japanese labour market. Hiring from companies under the influence of the dominant institutions of Japan gave Rakuten the benefit of the so-called Japanese working culture, which includes aspects like dedication to the company, a strong motivation to make on-the-ground, continuous improvements, and a high degree of intangible knowledge sharing via informal networks. Active new graduate hire and the development of

an internal training and education system were derived from the insufficient supply of labour, yet contributed towards building the company's own unique culture and style. Concurrently, the managers came from foreign affiliated global companies, such as P&G and the Boston Consulting Group, while preceding start-up firms, such as Recruit, brought a strong meritocracy, direct communication culture, and corporate systems that support aggressive external growth to Rakuten. The resulting corporate structure reflects the mixture of the different systems.

Further, Rakuten seems to have influenced other firms through its eco-system. Rakuten provides a management education programme called Rakuten University to over 20,000 shops that participate in the Rakuten online shopping mall. The methodology and culture developed by Rakuten is constantly transferred to the online shops, and distributed among the community of Internet related firms in Japan. Moreover, some of the managers and engineers educated in the Rakuten environment have subsequently "graduated" from Rakuten and are starting new businesses under the influence of the systems and culture developed by Rakuten. The media promote the way in which Rakuten conducts its business because of the rapid growth, and the followers are learning from this process of growth. The influence of the "Rakuten way" is also evident in the case of GREE, as will be explained in the next section. The new ways of organizing business that have been

developed by Rakuten seem to be gradually spreading towards the rest of the population and the new generation of startups.

In summary, Rakuten has developed a unique system that accommodates the systems of both Coordinated Market Economy and Liberal Market Economy within the firm. Rakuten rapidly absorbed the relevant skills, systems, and culture through personnel migration from firms in a variety of institutional frameworks, and successfully expanded its business. Rakuten was not only subject to the market environment in which it operates, but could also mix the ways of conducting business to maximize its competitive advantage. Further, the ways in which Rakuten accommodated the challenges of the incompatible institutional arrangements seem to be spreading to the rest of the firm and the new generation of startups.

3.5.1.4 The interaction between the firm and multiple institutions

Rakuten decided to expand into 27 major markets first, then shaped a strategy to make this happen. As it relies on M&A or joint venture for its expansion, the selection of the priority locations was often opportunistic because of the availability of willing partners. Therefore, the actual institutional distance seems to be less influential on Rakuten's location decisions. An ex-manager of Rakuten's business development department confirms this. Multiple projects were

on-going to find acquisition targets in the major markets. The important business objective was to expand into the 27 major markets as quickly as possible. While both the market and non-market factors are examined, this only worked to identify the cut-off point in the selection of the priority markets. In the three years between September 2009 and September 2012, Rakuten acquired eight e-commerce companies: Tarad.com (Thailand, 2009), Buy.com (USA, 2009), PriceMinister (France, 2010), Ikeda Internet Software (Brazil, 2011), Tradoria (Germany, 2011), Play Holdings (UK, 2011), Kobo (Canada, 2011), and Wuaki.tv (Spain, 2012). Rakuten first decided the countries to be covered, and then the pace of the following execution of the teams in charge of each region determined the resulting order of the expansion into the selected regions.

Rakuten does understand the distance between the domestic and foreign markets, but believes in the business model developed in the home market. Its strategy is to minimize the changes required to implement the methodology in the local markets. With a vision of creating "Rakuten eco-system", the implementation of the domestically cultivated corporate systems is uniform across the regions. The Rakuten eco-system is the strategy that Rakuten employs to increase its share in each consumer's purchase through cross-selling and the points programme. For example, Rakuten Points allow customers to benefit from frequently using the Rakuten service, and was one of the key aspects enabling the

synergy among the divergent service portfolios of Rakuten. Thus, the basic principle is to implement Rakuten's ways in the acquired companies, especially the two-sided platform model.

For example, Play.com (UK) states that it changed its focus from the merchant model to the two-sided platform model by learning the knowhow of Rakuten, while over 70 percent of its revenue is currently from the merchant model that it believes matches the UK market better.

An ex-manager of Rakuten's business development states that:

"The decision to focus more on the market place (i.e., two-sided) model was based on the competition from Amazon, whose business model is predominantly the merchant model. The selection of its focus comes from the global strategy of Rakuten, and probably not from the local consumer preferences. The competitive advantage in the world for Rakuten as a whole is the top priority".

Another example is the site design of Play.com. Rakuten decided to retain the basic design of Play.com because design is not the centre of the Rakuten eco-system and the design of Play.com has been attracting users thanks to the efforts of a number of designers since the establishment of the service. This adaptation was possible because this would not influence the system of other locations.

The actual convergence or interaction between the different institutions seems to be dependent on the multilateral relationship between the host locations that are connected via the various layers of human resource interaction. An alignment of

the systems happens to accommodate the different needs of multiple locations concurrently. The bilateral relationships between the home and the host seem to be less influential on the actual convergence of the way in which the managers conduct the business. Instead, the multilateral relationship between Rakuten's own set of systems and cultures and those of the host markets is gradually converging via the multiple points of contact between the locations.

A senior manager from the business development department explains that:

"The goal is to exchange the knowhow between the acquired companies (and other global locations), while retaining Rakuten's global strategy focus. For example, Play.com refers to Buy.com (US), which was acquired a year earlier than Play.com and gradually changed its business model from the merchant model to the market place (i.e., two-sided platform) model".

The process of and knowhow about changing the business model developed by the staff at Buy.com are extensively referred to by Play.com, which is also changing the model. The preceding locations that joined Rakuten earlier are the points of reference for the following locations.

The SVP of Marketing at Play.com stated, in an interview conducted by Nikkei Business in March 2012 (Nikkei, 2012):

"There are a number of points we can learn from other Rakuten associates. The preceding examples, especially Buy.com, can help us to consider questions such as: 1) how should we promote the two-sided model without disturbing the users?; 2) How should we add the new shops' pages to the website structure?; and 3) how can we implement Rakuten's virtual currency?"

Further, the interactions happen at multiple points of contact within the organization. Engineers and managers from Rakuten's headquarters visit and discuss how to implement the systems that have been developed in the local market. These managers are typically specialized in at least one function (e.g., direct mailing systems, Rakuten's virtual currency) and visit multiple locations one at a time to implement the knowhow of Rakuten. A large proportion of these managers were inexperienced in international business management before Rakuten started expanding. They gradually accumulated the experience and knowhow to implement the systems in foreign locations. Therefore, the way in which they develop or refine the system has also been refined along the journey. The learning from the first location is combined with that from the second and subsequent locations. The network that these managers develop in the process of integration contributes to the multilateral interaction between the locations.

The rapid and concurrent interactions at multiple points of contact are possible at least partially due to the strategy of Rakuten of radically changing its domestic-focused corporate systems in order to counter the disadvantages of its home base, Japan. The most radical plan was to switch the official corporate language from Japanese to English in 2012. Rakuten acknowledges the difficulty of recruiting international talent from the labour market both domestically and internationally, especially due to the language barrier. The corporate management systems

designed around Japanese culture and language prohibit collaboration between the home and host countries. The fact that most of the Internet innovation happens in English-speaking countries, especially the US, also contributes to this decision. Rakuten's answer is to copy the way in which its international peers operate, apart from the systems that it believes are central to its competitive advantages.

To encourage effective migration and integration, Rakuten started to hire new graduates from foreign countries to work at its headquarters. It hired 100 foreign-born new graduates out of the total 500 in the year 2010-2011, compared with only 17 out of 400 in the previous year. The share of foreign-born new graduates increased to 30% (124 of 416) for the year 2011-2012. Rakuten also publicly stated its aim of increasing its share of non-Japanese board members to a third in a short period of time. It has started to conduct its earnings announcement presentations in English. The board meetings and all of the major business meetings are now held only in English. The language is incorporated into the promotion criteria, and the senior members are required to archive a certain level of fluency in order to retain their position.

Rakuten aims to narrow the gap between the international working culture shared among the representative global companies and its own, while de-emphasizing that between the target countries and its own. For example, Rakuten decided to ask its employees to 1) call their co-workers by their first name, 2)

abolish the dress code (e.g., workers can wear shorts, sandals, yukata, Salwar Kameez, and other national dress), and 3) translate all names into English. Further, the change in the corporate language enhanced the transformation of Rakuten's business in two ways. Firstly, it enhanced the collaboration between the overseas operations and the headquarters via human resource and knowledge exchange. Secondly, it enabled Rakuten to recruit international talent who do not speak Japanese.

An executive director in charge of human resource management explained:

"The language ability even at the staff level helped Rakuten to integrate the different systems and cultures effectively. Local managers with long years of experience in the domestic market can teach their knowhow to other markets. The newly acquired overseas companies can introduce the service to the large Japanese market in a shorter period of time".

Rakuten can expect that all of its employees will have the ability to collaborate and exchange information at multiple levels. In contrast to the traditional setup, that involves having a dedicated international business department, which only provides a limited route for information exchange between the home and host locations, Rakuten can expect interaction to happen at multiple points concurrently.

Senior managers from a variety of backgrounds can directly implement the knowhow from the foreign environments, not only at the headquarters but also in the host locations. A senior engineer from the US became one of the directors of

the system development of Rakuten in 2011. A Canadian manager was appointed manager of Rakuten's domestic shopping mall business in 2011. Several managers who were recruited from overseas or transferred from the overseas subsidiaries are located at the headquarters. On the other hand, a number of managers have been dispatched from the headquarters to the host locations. For example, Rakuten dispatches experienced managers to its overseas operations, and introduces a number of Rakuten ways, such as KPI monitoring, morning meetings ("Cho-kai"), a name tag worn on the left-hand side of the chest ("Nafuda"), and the weekly cleaning day. These managers act as bridges for the culture, system and knowhow between the various locations of Rakuten, creating multiple points of contact at various levels.

While the process is still in its preliminary stage and the result is unknown at this point, Rakuten appears to be developing a globally functional system in the process of its global expansion by collaborating with the multiple locations that have become part of its business group.

In summary, Rakuten initially tried to add value to the acquired companies' business by incorporating most of these proven strategies that it has been developing in the home market. However, the greatest influence was the unique mix of different cultures that Rakuten proactively selected in the process of its growth. The home institutions matter, but how they matter was largely influenced

by the way in which Rakuten exploited the surrounding resources. At least partially because Rakuten is attempting to expand rapidly, it has been forced to rely on the available resources and the feasible options. It was dependent on the multilateral relationships between the host locations that are connected via the various layers of human resource interaction.

3.5.2 The case of GREE

3.5.2.1 Profile

GREE was launched in February 2004 as a private project by the founder, Yoshihiro Tanaka, who was at the time working for Rakuten, one of the most successful IT venture companies in Japan. The prototype was very similar to the US social networking services at that time (e.g., Friendster). It enabled users to connect with friends and share messages and photos, as well as write introductions to friends and develop a profile.

GREE was the first service of its kind in Japan, and the largest social networking site for several months. During this period, it continued to experience moderate growth in terms of the number of registered users. However, mixi, a follower with more resources and an aggressive marketing strategy, soon overtook

GREE. By the end of 2005, mixi was 20 times bigger than GREE in terms of the number of registered users.

An ex-investment banker, Naoki Aoyagi, joined GREE, and his connections and deal-making knowledge brought two high-profile alliance partners, Recruit and KDDI, in July 2006. The launch of EZ GREE, a mobile version of GREE, has contributed to the rapid growth in its number of users. However, GREE continued to struggle to monetize its user base until the first half of 2007. When the blockbuster social game, Tsuri-Sta, was released in May 2007, GREE had already spent more than half of its funding (Aoyagi, 2010). In the end, the success of Tsuri-Sta generated JPY 500 million within a year, and the strategy of spending JPY 300 million on TV commercials proved both highly effective and cost efficient. The combination of profitable social games and aggressive advertising became a recipe for growth.

Tsuri-Sta was followed by other blockbuster games and GREE started to show impressive growth. All of the games are free-to-play; however users can purchase virtual goods and functions if they wish to compete with special, strong enemies in the game or differentiate themselves from other players. Console game or paid games can only charge one-off fees when users purchase them. In contrast, free-to-pay games with an in-app purchase of virtual goods can potentially increase the life time value of users significantly, if the game encourages them to play for

extended periods. These virtual items include but are not limited to: special weapons that allow users easily to defeat strong enemies in the game; collectors' items that users can show off to other users; and special functions that give users special abilities to bypass the basic rules of the games (e.g., shortening the time required to construct a building in a city construction game).

After the rapid domestic growth and IPO, in November 2010, GREE announced its first international alliance with Project Goth. The company operates a mobile social networking service, with over 47 million registered users in Southeast Asia, India, and South Africa (GREE, 2010). In January 2011, GREE announced another alliance with Tencent, the largest Internet service operator in China (GREE, 2011b), and established the first overseas branch in San Francisco (GREE, 2011a). Further, in April 2011, OpenFeint, one of the largest social game platforms, was acquired by GREE (GREE, 2011c). After this acquisition, GREE entered into more than four international alliances and had established seven overseas subsidiaries within ten months by the end of February 2012.

3.5.2.2 Strategy for overcoming the absence of supporting institutions

At the beginning, the traditional Japanese institutions did not support the initial growth of GREE. However, the increasing presence of venture finance and managers from the sectors that accommodate performance-driven meritocracy

favourably influenced its growth. GREE had managers who could deal with the difficult environment for financing and recruiting. It took time for GREE to transform its business model. However, the new business model that it found and the following effort to improve its business further accelerated its growth. The continuous growth was at least partially due to the abundant cash flow and successful recruitment of skilled engineers and managers. The abundant cash flow (i.e., gross margin of approximately 90 percent) allowed GREE to avoid a reliance on the under developed equity financing and the difficult recruitment environment. It relied on personal referrals, that have proved to be efficient for recruiting highly skilled managers. GREE only recruited highly skilled talent through referrals, which was sufficient because of the stagnant revenue growth. It was possible to hire highly skilled engineers without offering competitive compensation because of the personal networks (e.g., university alumni networks) of the founding members and the possibility of obtaining stock options. GREE could not utilize bank loans because the business was quickly losing capital. The traditional "keiretsu" type of relationship did not exist for GREE and its suppliers.

While GREE does not rely on equity finance, the IPO on TSE Mothers helped GREE to gain more legitimacy and public awareness. In June 2009, six months after the IPO, GREE had 102 full-time employees. At this point, hiring became a more organized, comparatively less important issue for GREE. It only required a

limited number of experienced engineers, and could provide competitive compensation and an established brand name as one of the fastest growing companies. The sizable pool of engineers and managers in the Internet related industry was the supply base, although the competition with other social game providers was evident. Its personal connections, high profitability, and keen public attention strongly helped GREE to acquire the required resources continuously. The financial market was less important at this stage as well because the business model generated a much larger cash flow than GREE required, even given its rapid growth.

A ex-manager of human resource stated:

"The quality of job applicants apparently changed, and the process of recruiting people has changed. While several key executives were hired via personal reference, GREE no longer had to recruit general managers and engineers, due to IPO, the media coverage, and the increasing recognition of the company".

However, the remarkable growth and high profitability lead to a public backlash against GREE's business. The increasing popularity of mobile social games and the impressive profitability of GREE attracted the attention of the market and indeed the media. Some industry analysts and consumer advocates considered the existence of ultra heavy users who spend millions on games to be a huge social problem. They reported that some of the social games have a strong potential to cause addiction. Their sophisticated game design, operation, and

continuous improvement resulted in these mobile social games having a very strong appeal. This enabled the rapid growth of revenue and profit in the domestic market; however, due to the competitive strength, some people even considered the need for regulatory and administrative frameworks to protect consumers. In May 2012, GREE and other mobile social game developers decided to terminate the use of "conpugacha", which is a type of in-game event format that encourage users to spend more time and money on a game, after several media reported that a government agency has started to investigate whether the in-game format violated the related regulation.

Despite this temporary setback, GREE's rapid growth and massive advertising spending allowed it to join the traditional network of Japanese companies. According to Video Research Comhouse, GREE was ranked the sixth, eight, and sixth largest TV advertiser in the three largest regions of Japan: Kanto, Kansai, and Nagoya, respectively, in May 2012 (Hagiu & Kotosaka, 2012: 4). It broadcast 177,390 seconds of TV advertisements between April 2012 and June 2012. GREE is now competing for the prime time slots with the other large advertisers, such as Toyota, Kao, P&G, and Coca Cola Japan.

An executive from a TV station believes that:

"GREE could made up for the decreased advertising spending of the consumer financing firms, that have had to scale down their expenditure due to the change

in government policy on consumer lending. GREE actually helped their business significantly".

The telecom operators, NTT Docomo, KDDI, and Softbank, also started to rely on the rapid growth of social games, that accounted for 32 percent of total mobile contents revenue in 2011. These stockholders of GREE became the supporter of its business, at least to a certain degree, advising GREE about how it should act and helping it to gain legitimacy in society.

GREE also leveraged celebrity endorsements and alliances with other major companies in different industries to increase its customer base (Hagiu & Kotosaka, 2012: 5). The popular Japanese talent groups, including AKB 48, TOKIO, and EXILE, are employed as characters in mobile social games. GREE organized several tie-up promotional events. For instance, it teamed up with the film 'Harry Potter and the Deathly Hallows' and allowed game users to obtain virtual goods associated with Harry Potter in 2010. It also teamed up with Maybelline New York, a cosmetic brand owned by L'Oreal, to promote the brand in Hakoniwa, a blockbuster game belonging to GREE, in 2009. GREE collaborates with a number of other contents holders, such as Tomy company over Transformers and Konami over Star Wars products. GREE successfully expanded its market from a niche market for mobile game lovers into one of the largest mobile content segments, accommodating a large group of light users who had

previously not played games at all, and inviting established firms to join its newly developed eco-system.

In summary, GREE also avoided the under developed equity financing and difficult recruitment environment in the early stage. Instead, the innovative business model, mobile social games, gave GREE high growth revenue and profit. However, unlike Rakuten, that started its business in the early phase of the Internet industry, the sizable pool of engineers and managers in the Internet related industry helped GREE to gain access to the required human resources. Further, the rapid growth of GREE's business lead to a public backlash against GREE's business for a short time. Nevertheless, the profitable eco-system that GREE created attracted the attention of the established firms, and GREE is now becoming an integral part of these traditional firms' business. These established firms helped GREE to accommodate the needs of the incompatible institutional arrangements and also to establish the required legitimacy as an influential and profitable firm. The business connections gave GREE a way to overcome the negative reaction and paved a way for it to adapt to the Japanese institutional environment.

3.5.2.3 The interaction between the firm and the institutions in transition

In GREE, there was a mixture of a performance-driven culture and a co-operative, collaborative working style. On the one hand, GREE was characterized by a hard working culture and highly competitive environment, together with a result-driven evaluation scheme. On the other hand, it still had a sense of the Japanese working culture. In the process of developing its internal systems, the influence of the systems of other companies was evident.

The head of the CEO office acknowledges that:

"GREE has cultivated its unique value and unified its corporate culture and systems, while of course each department has its own styles that are highly likely to reflect the background of the department head".

For example, there are a number of managers from private equity funds (e.g., The Carlyle Group), consulting firms (e.g., McKinsey & Company), and investment banks (e.g., Goldman Sachs) in the business development department. These organizations are considered by the GREE managers to share similar characteristics, such as meritocracy, strict performance evaluation, and direct communication (e.g., upward feedback), and are capable of undertaking the rigorous analysis and quick turn-over of difficult assignments. The marketing and advertising department has recruited people from advertising agencies, such as Hakuho-do and Dentsu. A manager from the HR department agrees that the

managers from these advertising agencies also typically inherit the sort of working style and lifestyle that are characterized as hard-working, socializing, networking, and capable of building strong relationships with customers.

These managers and engineers also gave GREE competitive advantages. For example, GREE quickly established an internal calculation model that can determine the profitability of advertisements, and continued its aggressive advertisements via various media with confidence. The first nationwide TV commercial, for example, led to a 50% increase in the number of new users per month, from 300,000 users in April 2008 to 470,000 in May 2008. After engaging in initial test marketing in a selected region, GREE was able to develop a system for analysing its marketing efficiency due to the marketing and advertising experts recruited from representative ad agencies.

An external industry expert explains:

"GREE has one of the most sophisticated marketing planning methodologies. The development of such a system is possible because the product, social games, is provided via a mobile handset, a device that is connected to the Internet and the users usually carry around with them. Interested users often access it via their mobile handset immediately after the TV commercial, and download the game in seconds because downloading is free. GREE can analyse the aggregated user profile data, such as the region, gender, and access time, and associate each user's acquisition with the relevant advertising programme. These data allow GREE to develop a precise marketing ROI model, and modify the TV commercials' contents, timing, and amount accordingly. This can further improve the cost effectiveness and reduce the cost per acquisition".

The systems and culture were brought into the company indirectly at the individual level, especially by the high profile managers who have mastered the approach of the best practice companies (see Table 6). These managers implicitly or explicitly preferred job applicants who were most likely to share the common value and style. They utilized their personal references (e.g., university networks, corporate alumni networks) to recruit talent. They developed a team and implemented the best practices in each function of GREE. Concurrently, the teams in the different departments actively collaborated, interacted, and exchanged ideas within the firm. As a result, while each functional team retains the distinctiveness that probably originates from the key managers, the active interactions in the firm are gradually mixing and recombining a variety of different systems and cultures.

In contrast to the larger, more established firms that had developed systems and therefore a lower need for new staff, GREE had a strong need to systematize the rapidly growing business and had aggressively to hire staff in order to catch up with the growth of the revenue, profit, and organization.

A senior vice president stated that:

"I has been given complete responsibility to decide whom to hire and how to run this department. I can implement the ways that I think are best for GREE".

Another manager at the CEO office points out that:

"It would be impossible for the CEO to oversee all of the rapid growth of GREE. He is extremely capable, but at the same time has numerous important issues so has to rely on the senior staff whom he trusts".

It was necessary to rely on the capabilities and networks brought by the senior managers from firms with systems that can manage the increasing size, or to hope that the existing senior managers could develop their capabilities faster than the firm grew. Some managers could catch up the growth by demonstrating the results; but, of course, others were replaced by newly recruited staff who were better equipped to handle the growth.

Table 6 Education and Career Background of the Corporate Officers and SVPs of GREE

Foreign Affiliates / US Schools
Venture firms
Underlined are founding members

Name	Position at GREE	Previous employment	Highest education
Yoshikazu Tanaka	Founder/CEO	Rakuten*	B.A., Nihon University
Kotaro Yamagishi	Director/Corporate officer (EVP)	C-NET Japan*2	B.A., Keio University
Masaki Fujimoto	Director/Corporate officer (CTO)	TUNEBiZ Co., Ltd.	B.A., Sophia University
Naoki Aoyagi	Director/Corporate officer (CFO/International)	Deutsche Bank	B.A., Keio University
Kazushige Kobayashi	Corporate officer (Media Development)	Yahoo! Japan	MSc., JAIST
Sanku Shino	Corporate officer (Marketing)	Hakuho-do	MSc., Keio University
Shintaro Aikawa	Corporate officer (Business Promotion)	Rakuten*3	B.A., Waseda University
Yusuke Amano	Corporate officer (Business Development)	Unitas Capital Pte., Ltd*4	B.A., Sophia University
Taisei Yoshida	Corporate officer (Social Application)	Yahoo! Japan	MSc., NITech
Ryotaro Shima	SVP (Corporate)	The Carlyle Group*5	MBA, Stanford Graduate School of Business
Kazunori Nakanishi	SVP (Human Resource)	P&G	B.A., Kyoto University
Tatsuhei Asanuma	SVP (Advertising)	Rakuten	B.A., Sophia University

*1 also worked at Sony Corp. (So-net Entertainment Corp)
*2 also worked at Nikkei BP
*3 also worked at Accenture
*4 also worked at Lehman Brothers and Deutsche Bank
*5 also worked at Merrill Lynch & Co., Inc.
Source: GREE IR Document, Literature review; as of Feb 2012

Source: GREE IR documents, Literature review, as of February 2012

Similar to the Rakuten example, these new ways of organizing business were gradually diffused via active inter-firm interactions that are also visible within the games sector. Due to competition from DeNA, GREE had to capture suppliers, at

least to some extent. Both DeNA and GREE considered game developers to be precious resources, and competed to source the best ones. As a result, the relationship between the suppliers and the platform became more relationship- than transaction-based. GREE regularly communicated with the representative developers and, in some cases, initiated joint product development projects. The rapid growth of the market required the players quickly to introduce as many games as possible to maintain their position. GREE, DeNA, and other game vendors inspired each other regarding game ideas and systems. At first, GREE was isolated from the traditional network of firms in Japan. However, the industry it created attracted a large number of new entrants who were game developers providing games for GREE's user base. GREE gradually built the power to influence such participants by, for example, teaching them the knowhow to develop profitable games and investing an abundant cash flow in smaller but promising developers.

In summary, GREE was active in exploiting the available resources from different sets of institutions. Internally, "immigrant" managers who brought ideas and systems played a pivotal role in deciding how GREE operates. The managers recruited from the firms in other institutional frameworks implemented their learning from their previous career and education in the rapidly growing firm. Further, the active inter-firm interactions facilitated the co-development of the

industry and encouraged knowledge sharing in a variety of ways. GREE recombined the different cultures and systems within it, some of which might be re-transferred to the firms that develop and provide social games with GREE.

3.5.2.4 The interaction between the firm and multiple institutions

By the beginning of 2010, the high expectations of the market were sending out a challenging message: how long will this growth continue? GREE hesitated to disclose their plan for expansion outside Japan, which led to its stock price decreasing by 10-20% in the four months from mid-2010. While the user base was still growing rapidly, the management of GREE foresaw future stagnation and was seriously considering how GREE could secure continued growth. The shift from feature phones to smart phones indicated that the traditionally isolated Japanese market might face global competition. Facebook and Zynga established their Japanese operations in February 2010 and July 2010 respectively. Social games started to cross borders. The global expansion of DeNA almost certainly influenced GREE. GREE had to accelerate the internationalization.

Because of the scarcity of alliance or M&A opportunities and the importance of speed, GREE adopted multiple strategies (i.e., partnership, joint ventures, investment, and acquisition) concurrently to achieve their specific goals, such as securing game developer resources.

The head of the international alliance explains that:

"We tries to cover global locations as early as possible. So the exact execution plan such as the entry mode or the choice of business partner has been largely influenced by uncertain factors, especially the availability of alliance, investment, or acquisition opportunities".

When developing the initial plan to cover the global market, GREE took into account economic factors, as well as institutional distance and other social factors. GREE not only considered the factors relevant to the output market, but also those related to the input market. GREE researched the factors that influence the costs of coordinating game development (e.g., language, time-zone difference, availability of high quality developers) and those associated with providing the service in the region (e.g., the power of the telecom operators, existence of a dominant internet user portal, user demographics). It developed a list of priority countries to enter based on a logical assessment of the potential and feasibility of expansion. Its strong vision to become a global company resulted in its simultaneous expansion into multiple locations.

However, the final outcome was largely influenced by unanticipated factors, such as the contacts of the newly recruited managers or the availability of alliance partners or acquisition targets. While GREE's strategic moves are fundamentally based on the rational calculation of the potential, costs, feasibility and risks, the resulting final decisions have been influenced, often significantly, by the rather

unexpected matching derived from situation specific factors such as the availability of potential partners and willing, skilled managers, and the moves of the influential players. For example, the managers and engineers recruited in San Francisco gave GREE the knowledge about the best talent, high-performing companies, and potential alliance partners. The informal network of these managers and engineers gave GREE access to people in Silicon Valley. The subsequent acquisition of software houses and the establishment of a game development studio in Canada were mostly initiated by the new members of GREE.

GREE appreciates the local systems and culture in a sense that it does not completely ignore the local ways of conducting business. GREE adapted to the local recruitment and compensation systems, tailoring its products and services to suit the local taste. However, it believes in the way in which it achieved success in Japan (Tanaka, 2011), and believes that this will give GREE competitive advantages even in the overseas markets. GREE implemented in its overseas operations its know-how that it had developed in Japan, such as KPI monitoring, the monetizing technique, the game balance design, etc. For example, after the acquisition of OpenFeint in April 2011, GREE spent the first few months incorporating KPI monitoring and number-based performance evaluation. GREE also tried to implement the Japanese ways of cultivating informal internal

networks, such as “Nomi-kai” (drinking parties). These appeared new to the local staff in most of the regions but seem to have been effective in developing the team.

A senior manager of GREE International stated:

“The local staff enjoyed the way in which GREE operates both formally and informally, while the drastic shift in the way in which OpenFeint operates the business led to the departure of several managers. There was some confusion and a difficult period, but the change appeared to pay off in the first few games that GREE developed in San Francisco and launched onto the international market”.

Further, a senior manager from the human resources department and a SVP at GREE International agree that the establishment of the first office in San Francisco and OpenFeint, the only major foreign acquisition, significantly influenced the following expansion. The issues discussed at the first foreign operation are distributed to the senior managers via the weekly report that combines status reports from each department. New systems and guidelines that satisfy the requirements of the foreign locations were jointly developed by the US operations and the respective departments in Japan, and were extensively referred to by the offices established in the following period.

However, following the rapid expansion into multiple markets, the influence of the San Francisco office is gradually decreasing. GREE also started to deemphasize the Japanese ways of management. As GREE established nine overseas operations within a year with a minimum number of staff, all of the

regions share the status-reporting regularly and often collectively resolve issues. Due to the relatively small amount of knowledge, capabilities, and experience accumulated at the headquarters, the information sharing is less unidirectional than bidirectional. While the US operation remains relatively independent due to its size and strategic importance, the key managers at the regional offices started collaboratively to develop their cultures and systems in conjunction with the headquarters. While the headquarters and the local offices are still adjusting the degree to which they integrate their cultures and systems, GREE respects the divergent working styles in each region but, at the same time, seeks to develop an integrated system that can scale its global business operations. Active personnel exchanges between the foreign offices and the headquarters and the increasing amount of foreign-born graduate hire are other sources of integration. In this regard, GREE's approach is more multilateral than bilateral in nature.

In the first phase, the largest, first operation in San Francisco seems to have influenced the subsequent expansion; however, the activities of the increasing number of foreign operations has gradually become more influential in building an international culture within GREE because they are becoming independently managed in order to catch up with the rapidly changing market environment. The influence of the home institutions is minor, because GREE's business is not tightly embedded in the Japanese institutions and the control of its headquarters

has been relaxed, except for the budget targets. Another reason is that GREE has been developing the systems and capabilities to manage its global operation in the process of its global expansion. It had to learn by doing; and therefore could not transplant the systems from the home market, but had concurrently to develop the system with the host locations and their staff, who have participated in the process of growth.

In summary, similar to Rakuten, the actual overseas expansion destinations and interactions between the various institutional arrangements differ. The influence of the home institutions was relatively minor. The systems are aligned in order to accommodate the different needs of multiple locations. The bilateral relationship between the home and the host country seems to be less influential on the actual convergence. The multilateral relationship between the home and host market is gradually transforming the culture and system.

3.6 Discussion

3.6.1 Navigating the incompatible institutional arrangement

A comparison of Rakuten and GREE illustrates the development of the transformations in the Japanese institutional environment for start-ups. Rakuten

opened in May 1997 and GREE in February 2004. Both companies suffered from a lack of initial funding, and overcame the challenge largely due to their business model and connections. However, once they overcame the initial gap and found their position in the sector, the developed capital markets could provide the required funding for them. The same situation occurred in the labour market. The two cases relied on their personal networks in the early days; however, they were gradually able to leverage the mid-career market after they became better known in society. Although developed institutions do exist, these have been out of the reach of the entrepreneurs. Japanese entrepreneurs have faced the absence of intermediaries, such as angel investors, venture capitalists, banks and supporting new stock exchanges. The situation was similar to that often described as an institutional void in an emerging economy (Khanna & Palepu, 2010). Their strategies for overcoming the challenge are, in many respects, similar to the ways in which firms in the emerging markets are responding to the institutional voids. They avoided relying on early stage funding and finance their business via an internal cash flow instead. They also adapted to the difficult mid-career recruitment market by leveraging personal referrals and informal networks. They also tried to change or at least influence the environment by forming an alliance of associated businesses or joining a well-established industry organization. The

rapidly growing firms will be those that can proactively exploit the available resources and avoid the incompatible institutional environment.

This research also confirms that signs of change are emerging. In contrast to SoftBank, that relied on relational financing and established new stock exchanges in collaboration with Nasdaq US (Sako, 2003: 316-323), the small but growing number of US style venture capitals and the increasing awareness of the significance of venture business among the traditional Japanese corporations, in fact, helped GREE. Although the speed of change appears to be slow, one can argue that the changing Japanese new business incubation system certainly exists. The Japanese institutional environment remains incompatible with entrepreneurial firms, while gradually a layered environment rooted in a Liberal Market Economy that incubates venture business creation seems to have developed. This is in line with the improving Japanese entrepreneurial activities since 2004 (Bosma, Wennekers & Amoros, 2012: 139). Through an analysis of Rakuten and GREE, which were established at different times, this study empirically demonstrates the gradually changing interactions between the Japanese institutions and start-ups.

3.6.2 Personnel migration in institutional recombination

The findings suggest that personnel migration is significant in causing institutional interactions, especially within the newly emerging sectors and firms.

Start-ups hire managers who are influenced by a variety of existing institutions at the international, national, and sectorial levels, and the managers interact with each other and build their own mix of social systems within the firm. The influence of pioneering firms might be significant not only due to the demonstration effects, political influences, and inter-company relationships, but also the transfer of knowledge, capabilities, and norms via human resource migration.

Saxenian (1994) mentions the important role played by immigrants in innovation in Silicon Valley; however, she does not point to the institutional interactions that occurred because of the presence of workers who had migrated from different institutional frameworks. In both cases, the role of managers who had migrated from other firms is similar to that of overseas Chinese and Indians in their native country's development after their return (Khanna, 2007: 295-312). The acquired companies or newly recruited staff of GREE and Rakuten brought the knowledge and networks that are required for developing an international operation. Their knowledge and networks largely influenced the way in which GREE and Rakuten expanded in the foreign markets. Further, a large share of executives were educated under the US systems or worked for foreign affiliated companies or venture companies that operate under the influence of the working culture, as is typical in globalized companies (e.g., up-or-out, meritocracy).

Rakuten's strategy and structure have inherited the culture and styles of the Industrial Bank of Japan and other companies from which the key managers were recruited. GREE was also influenced by Rakuten, Yahoo! Japan, Deutsche Bank, and other foreign affiliated companies and start-ups, from which the key managers migrated. An earlier example, SoftBank, has also relied on the managers from respective firms, such as Nomura securities. As the high labour liquidity enhances knowledge sharing in Silicon Valley (Hyde, 1998; Gilson, 1999), the managers bring with them their capabilities and knowledge. In the process of rapid growth, start-ups recruit managers from other companies who share their vision to a certain extent, yet also inherit unique styles and systems that are rooted in the different institutional frameworks. These managers bring the knowledge, capabilities and norms to their new workplace, and shape the way in which the firm operates by collaborating with the other managers regarding other ways of doing business. As a result, the entrepreneurial firms become capable of designing unique systems and capturing the opportunity for institutional arbitrage at different levels, both national and international. Pioneering entrepreneurs of rapidly growing business in an incompatible institutional environment are those who can recombine the technology and methodology from the different institutional layers in a unique but effective manner. Personnel migration provides

a key to understanding how the institutional entrepreneurs invent a new system that best suits the surrounding institutional environment.

The variety of Capitalism literature would lead one to expect that a manager who is transplanted to a new institutional context will be constrained by the incentives of that new context. This is because of the comparative institutional advantages, which give certain incentives for the agents within the environment. For example, Hall and Soskice (Hall & Soskice, 2001a) argue that Japan, a Coordinated Market Economy, is better at operating with the strategy and the organization that best fit the production of incremental innovation, which contribute to a series of minor improvements that can gradually enhance the quality of the existing product lines. The finding of this chapter does not contradict the prediction. Rather, it is in line with the recent discussion concerning the emergence of organizational variety in the period of incremental institutional change.

The Japanese institutional environment is in a period of transition (Sako & Kotosaka, 2011). It accommodates a diverse range of different organizations because the ideas and systems from different types of economy co-exist in such an environment. They constitute a mixed environment in which the agents can potentially select and adapt the type of institutions (or behaviour) that best fits their profile. The two cases demonstrate that, in an institutional environment that

is in transition, inter-firm labour mobility can trigger institutional innovations. At the same time, the complementarity among institutions certainly influences and constrains the application of the ideas and systems that are brought by the new managers from a different environment. In other words, the Japanese institutional context, or at least the organization of Rakuten and GREE, allowed the co-existence of different incentives schemes within a firm. As a result, the managers with "western management style" were incentivized to introduce the system of Liberal Market Economy, while such systems were gradually adjusted by the process of coordination that involved different departments and managers who operate under the influence of the Coordinated Market Economy. The newly introduced systems and practices were only gradually diffused across the organization, with modification required by the agents who might support the conflicting ideas and systems that exist within the same organization.

Japan, the empirical ground, has been an institutional environment in transition. Therefore, in an institutional environment in which the complementarity and interdependence of the sub-systems provide far more monocultural comparative institutional advantages, we requires further evidence of the application of the argument: inter-firm labour mobility would be a key driver of institutional innovation. However, this finding suggests the potential value of analyzing a deeper level of granularity, especially when the literature

analyzes newly emerging firms or sectors that rapidly absorb a large number of workers from the surrounding firms and sectors. The migration may be mutations that might transform a type of governance model into a stable equilibrium, as analysed by Kandori et al. (1993) and Young (1993). This inter-company movement of labour might be another source of institutional isomorphism in the same organizational field (DiMaggio & Powell, 1983). The migration of key personnel is likely to be a key to understanding the process in which a hybrid type of governance emerges in unstable environments. The degree of organizational diversity may increase because a variety of institutional arrangements will be combined due to the combination of personnel from a variety of firms; the managers recombine and tailor the institutional arrangement that each represents with regard to the specific situation they face in the newly emerged firms.

3.6.3 Recombining the institutions through multilateral interactions

The way in which the institutional environment matters to the rapidly internationalizing firms might differ from our traditional understanding of this phenomenon (e.g., Dunning & Lundan, 2008a: 123-144). The process whereby the home and host country institutions have influenced Rakuten and GREE was not typical of those found to have engaged in a more gradual expansion, probably

because the two firms adopted the Born Global (McKinsey & Co, 1993b; Cavusgil & Knight, 2009) or Born-again Global (Bell, McNaughton & Young, 2001; Bell, McNaughton, Young & Crick, 2003) approach to internationalization (i.e., targeting multiple international markets concurrently). The bilateral institutional differences between the home and host are unlikely to be the most influential factor on their internationalization behaviour, such as their location choice, subsidiary governance, resource allocations and investment priority choice. The interaction seems to be independent of the actual internationalization path. The two cases took into account the costs, capabilities, and institutional factors; however, the actual expansion path was largely influenced by the corporate vision, strategy and several uncertain factors, such as the availability of willing partners and managers.

Instead, multilateral collaborations and frameworks might develop the systems and culture of rapidly internationalizing firms. The institutional interaction happens, but between the international institutions and the mixture of systems that the firm develops in the process of growth. The process is an accelerated example of the explanation of Nachum and Song; MNEs may progresses in a series of interconnected moves, based on the internal fit of individual locations to their existing portfolios (2011: 382). The rapidly internationalizing firms interact with a multiple environment in the fast process of building its own system by

concurrently hiring new managers and acquiring new firms in a variety of locations worldwide. The home and hosts interact, but the resulting systems and culture in the firm are those that can be shared among the members in a variety of institutional frameworks and are believed to be beneficial to the competitive advantages of the firm. Their vision of building a global firm decides the geographical configuration. Both firms make extra efforts to develop their own style, which is a result of the mixture of workers from a variety of different sectorial or national institutions. The rapidly internationalizing firms seem to design their global coverage first (e.g., deciding to operate in 27 countries), then implement the corporate systems and culture that they believe to be the source of competitive advantage, and finally extract learning and new insights from the acquired or invested locations concurrently in multiple destinations.

They learn by doing in the process of growth. Therefore the way in which the firm rapidly internationalizes determines the way in which the institutions matter, at least to a certain degree. The path or longitudinal process of internationalization may change the way in which the institutional interaction happens because the rapidly internationalizing firms build their own arrangements in the course of their development. They are not subject to the assets accumulated in the domestic market but are subject to the learning advantage of newness (Autio et al., 2000). Djelic and Quack argue that internationalization and globalization are considered

"a double process of institutional change and institutional building" (Djelic & Quack, 2003: 6). Because these rapidly internationalizing firms must often quickly source the required knowledge, capabilities, and resources in the target locations, they continuously change the way in which they find, evaluate, and operate the surrounding resources. For example, Rakuten learnt how to implement the system developed locally in the foreign market first through Buy.com (USA, 2009), and implemented the learning with adjustment in its following expansions, such as Play Holdings (UK, 2011). For GREE, the engineers and managers recruited in Silicon Valley gave it new capabilities and networks for navigating through the global expansion; for example, by finding an alliance partner in Canada (i.e., IUGO).

The rapidly internationalizing firms such as Rakuten and GREE and the firms that adopt a more gradual approach towards internationalization differ in nature. The latter often take their time in accumulating sufficient resources in their home market before gradually expanding into the foreign markets, as the Stages model suggests (Johanson & Vahlne, 1977, 2009). While rapid expansion forces firms concurrently to expand into multiple markets and develop systems to accommodate the local environment in a short period of time, the gradual approach allows firms to solve problems one-by-one in each market. Therefore, the models assume that the home institutions exert a considerable influence,

whereby the firms generally accumulate a sufficient knowledge or resource base to counterbalance the liabilities of foreignness or outsidership (Zaheer, 1995; Johanson & Vahlne, 2009). However, in the case of Rakuten and GREE, it appears that they are building their culture and systems during the process of internationalization by interacting with the institutional environments concurrently in a multilateral way.

The resulting corporate culture and systems are gradually becoming Rakuten- or GREE-specific, and are not typical of the norms in the large Japanese firms. One of the implications of this is that the home market institutions matter but probably only to an extent, especially if the firm is young and rapidly expanding into the overseas markets. Firms may not only be subject to the institutional differences between the home and target markets, but also the exploiters of the best combinations of the available institutional arrangements. Firms can design the ideal global configuration first, then apply the plans individually in the local host markets. Multilateral interactions between the home and the host countries shape the corporate cultures and systems within the rapidly internationalizing firms. The home institutions matter, but how they matter is largely influenced by the way in which entrepreneurial firms exploit their surrounding resources.

3.7 Conclusion

This chapter analysed how the Japanese institutions, arguably an incompatible arrangement for the Liberal Market Economy type of venture business incubation, might have influenced the two highest valued venture start-ups of the past two decades: Rakuten and GREE. The firm-level analysis focused on how the changing financial, labour, and inter-company institutional environment influenced the start-ups' strategy to overcome the initial funding challenges and initiate their internationalization.

This chapter firstly explained the ways in which the firms in an incompatible institutional arrangement realize growth. The cases provide examples of firms that have navigated through the hostile environment in the early stage of their growth by avoiding, adopting, or influencing these incompatible institutional arrangements.

Secondly, this chapter contributed to the theorizing about the individual-level mechanism that leads to institutional interactions that trigger and foster incremental institutional change. The study identifies inter-firm labour mobility, and the collaboration of senior managers with different backgrounds within the influential and rapidly growing firms can be the dynamics behind the increased

organizational diversity and emergence of hybrid forms of governance in the period of transition.

Finally, the study also enhances our understanding of the way in which the home and host national institutions influence the rapidly internationalizing firms. Rapidly internationalizing firms design and implement systems and strategies for global operation by interacting with multiple locations concurrently, because these firms expand into a large number of foreign locations in a very short period of time. Therefore, in contrast to firms that take a more gradual approach, these firms may design systems and strategies that can accommodate international institutions before they venture into foreign locations. The actual implementations and modifications are subject to multilateral, rather than bilateral, processes of interactions between the home and the multiple hosts.

This study suffers from the following limitations. Firstly, while the eight supplemental interviews validated the central arguments of this chapter, explained in the discussion section, the generalizability should be validated by a larger number of pioneering, rapidly expanding start-ups in a variety of sectors and countries. Secondly, the literature related to personnel migration will enhance our understanding of the theoretical foundation of the influences observed by this study. Finally, the process in which the rapidly internationalizing firms develop

their own culture should be analysed in detail, in order to understand exactly how "institutions matter" with regard to their internationalization behaviour.

In conclusion, the findings of this chapter suggest the high value of firm-level analysis, especially in situations where a new sector emerges and firms grow rapidly by recruiting talent from various organisations that might have different institutional arrangements. Further, the results also suggest that the assessment of the impact of institutions on a firm's growth and internationalization can provide additional insights. This chapter argues that the Japanese institutional environment is in transition, and is gradually incorporating the systems of Liberal Market Economy that benefit venture business incubation. The key managers in the rapidly growing firms in a new sector are likely to be a source of institutional interaction. Rapidly internationalizing firms can design their global operations first, then configure their cultures and systems by interacting with multiple locations concurrently.

Multi-layered Factors Influencing the Firm's Internationalization Strategy

4 Factors Influencing the Timing and Pace of Internationalization

4.1 Introduction

In the modern global business environment, being international lies within the scope of every firm that aims to grow its business competitively and continuously (Gary A, 2001). While smaller, younger firms were previously considered incapable of conducting international operations, the increasing presence of small and medium sized enterprises is now evident across the regions and sectors (NFIB, 2004; SME Agency, 2008; European Commission, 2010).

The type of firm that internationalizes from an early stage of development at a fast pace is what Oviatt and Mcdougall (1994) call International New Ventures. A similar observation is made by McKinsey and Company (1993b), and such firms are called Born Global firms. The original discussion around INVs focuses on firms that start their internationalization at an early stage of their growth, emphasizing that the pace of the internationalization of these firms is typically

fast. Born Global firms are defined as firms that, almost from their inception, source from multiple input markets and sell their products or services in foreign output markets. While these two terms – INVs and Born Global firms – were originally considered different, they are increasingly being used interchangeably (Jones et al., 2011). These firms are generally considered competitive in the final market where they compete to sell their products or services. They are often differentiated in terms of their strong technological competitiveness, niche focus, and widespread use of advanced communication technology (Aspelund & Moen, 2001). They internationalize to access the input markets in multiple countries and seek to derive a significant competitive advantage in the final output market (Oviatt & McDougall, 1994).

A major research focus in this area has been the reasons why these firms can internationalize into multiple final output markets in an early stage and at a fast pace. Their access to the best production and management resources in the world is often associated with such competitive advantage (Isenberg, 2008). The "best of breed" input value chain has been considered the advantage of this form of firm, that enables them to internationalize at a fast pace (Oviatt & McDougall, 2005b), because small, young firms have traditionally been regarded as unable to take advantage of international sourcing (Arnold, 1989; Hokey & Galle, 1991). However, recent research indicates that early, fast internationalization is also

relevant for firms without a high degree of differentiating factors. For example, the observation of Born Again global firms (Bell et al., 2001) challenges the connection between these firms' capabilities to leverage the "best of breed" input markets and their early internationalization at a fast pace. Born Again global firm is one that first establishes its domestic presence with limited motivation to internationalize, but can then suddenly expand into the overseas output markets at a fast pace. The fast pace of the internationalization of such firms is not associated with their international sourcing from multiple input markets. The literature currently faces new challenge to accommodate a variety of internationalization paths. If the previously discussed reasons for fast expansion are inapplicable to all types of firm, what actually are the factors influencing the speed of international expansion into the final output markets?

In this chapter, I conduct matched case studies of four companies and discuss which factors influence their internationalization speed related to their output value chain. This study contributes to our understanding of the two distinguishing factors of firms that take an early, fast internationalization path: the timing of the initial foreign market entry and the pace of the following geographic expansion. This study proposes a two-by-two matrix consisting of the timing axis and the pace axis in order to compare the different modes of internationalization, and analyses how the timing and pace are determined.

More specifically, this chapter builds on the model of internationalization speed proposed by Oviatt and McDougall (2005a) to develop an improved framework based on empirical findings.

This chapter argues that the timing of the initial entry and pace of the subsequent expansion should be treated differently, so a different model is required for each. The initial internationalization timing is a decision variable that the firm can control. Therefore, the model should reflect the fact that the decision makers can significantly influence the outcome, and better capture the factors that determine the timing and pace of internationalization. Further, it argues that knowledge and networks do not directly influence the pace of internationalization, as Oviatt and McDougall demonstrate. However, the firm's competitive advantage, a result of its access to knowledge, networks, and resources, appears to do so, together with the opportunity, enabling, motivating, and mitigating factors, as explained by Oviatt and McDougall's model.

This chapter is structured as follows. I review the literature in Section 4.2, explain the methodology in Section 4.3, and outline the four cases in Section 4.4. In Section 4.5, I discuss the forces influencing the speed and timing of the internationalisation process. Finally, I conclude this chapter by summarising the findings and key contributions.

4.2 Theoretical background

4.2.1 The typology of the process of internationalization

The research on small firms' internationalization dates back to the stages theories. They built an explanation of the changing behaviour of a firm in the course of the development of its international operations. Most of the models argue that resource, knowledge, and capability accumulation and networks strongly influence the internationalization process. They suggest: 1) that the commitment to the international market increases from pure exporting, licensing, joint ventures, to fully-owned subsidiaries; and 2) that the operation starts from a low-risk market with stable governance, predictable market conditions, and similar market characteristics to the home market, and then gradually moves towards more high-risk locations (Johanson & Vahlne, 1977, 1990; Andersen, 1993; Coviello & McAuley, 1999).

By the mid-1990s, scholars had begun to pay attention to a new type of firm, International New Ventures (INVs) or Born Global firm, generating a stream of research that posed a direct challenge to the established process theory of internationalization (Oviatt & McDougall, 1994; Bell, 1995; Knight & Cavusgil, 2004; Autio, 2005: 10; Cavusgil & Knight, 2009). Some argued that, because of a

number of environmental changes that originated around the mid-1970s, the original assumptions of the stages theories had altered. They started to establish an alternative framework that focuses more on early internationalization and the type of firm that follows early, fast internationalization (McDougall & Oviatt, 2000; Rialp, Rialp & Knight, 2005; Zahra, 2005; Cavusgil & Knight, 2009; Jones et al., 2011). The literature is still in the process of establishing a solid theoretical foundation, and "there are conflicting states of knowledge and predictions from IB theory on one hand and entrepreneurship theory on the other hand" (Keupp & Gassmann, 2009: 613). In particular, IB theory is based on economic theories and deemphasizes the role of entrepreneurs, assuming rather rational behaviour by the firm. By contrast, the international entrepreneurship theory generally places greater emphasis on the entrepreneur's orientation, global mindset, and network relationship.

Moreover, recent research suggests that there is considerable middle ground between the INVs and firms that pursue more gradual, slower internationalization. The literature review confirms the need to discuss the established companies within this scope (Zahra & George, 2002b; Dess, Ireland, Zahra, Floyd, Janney & Lane, 2003; Dimitratos & Jones, 2005; Ripolles-Meliea et al., 2007). An increasing number of Traditional SMEs are achieving fast internationalization, and exhibit a mix of the features of the gradualist models and the Born-global

models (Kalinic & Forza, 2011). They also exhibit "much greater strategic approach by managers than typically portrayed in the literature" (Perks & Hughes, 2008: 310). Further, some of the well-established, small domestic firms, without any indication of their involvement in international activities, are reported to have suddenly embraced fast, dedicated internationalization, and are called Born Again global firms (Bell et al., 2001; Bell et al., 2003). Moreover, there are reports of smaller global firms (i.e., International SMEs) that internationalize from the earliest stage, but are distinguished from INVs. These firms share the same entrepreneurial orientation towards an international market presence; however, their pace of geographic expansion is not necessarily fast (Dimitratos, Plakoyiannaki, Pitsoulaki & Taselmann, 2010).

The addition of such firms will again provoke debate about the source of the uniqueness of INVs. Are they simply variations of what we have observed previously? It may be possible to explain these "hybrid" types (i.e., Born Again global firms and International SMEs) by referring to the existing theories. However, the question is: what modifications, if any, are necessary to the existing theories of internationalization?

4.2.2 The factors related to the pace and timing of internationalization

The study of the factors that decide the speed and trigger the process of internationalization has emerged as an active stream of research (Oviatt & McDougall, 2005a; Acedo & Jones, 2007). What decides the speed of internationalization has been researched from a variety of angles. The most common type of research conducted in this area focuses on the relationship between the fast speed and the entrepreneur's mindset and orientation (Nummela et al., 2004; Ripolles-Meliea et al., 2007). The literature focuses on the entrepreneur's decision-making process at both the firm and individual levels, and is gradually changing its focus towards the "conditions that foster opportunity recognition" (Acedo & Jones, 2007: 238). These studies analyze empirical data on the relation between these factors and the fast speed of internationalization of small firms. However, the analyses mainly focus on the snapshot interrelations between one of the factors and the fast speed of internationalization by a select group of firms.

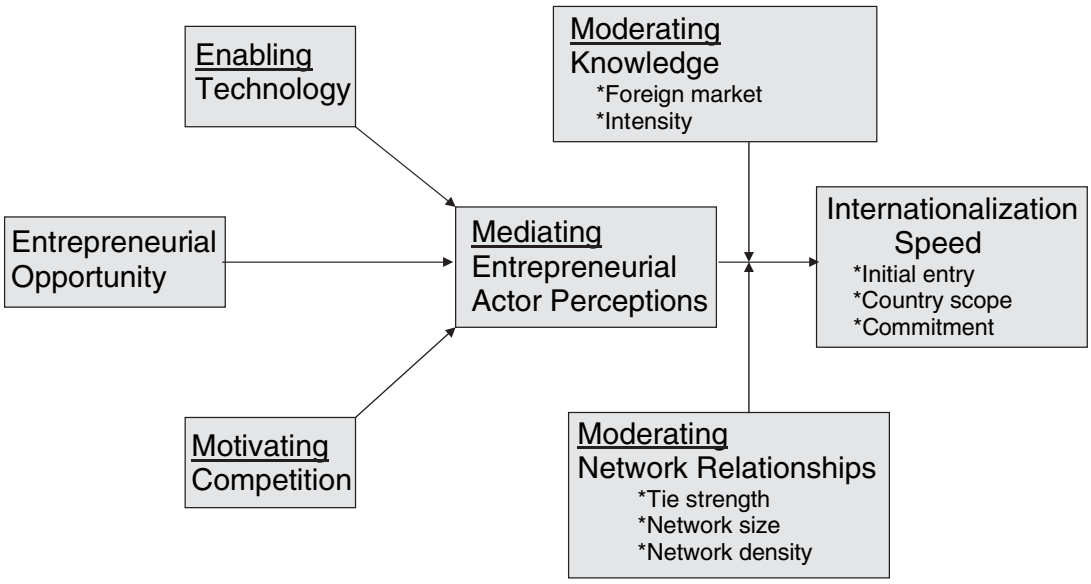
The longitudinal aspect of internationalization should be taken into consideration, in order better to understand the changing state of the factors according to the dimension of time. Smaller firms are not smaller versions of big

firms (Shuman & Seeger, 1986). New firms are affected by the liabilities of newness (Aldrich & Fiol, 1994) and smallness (Freeman & John, 1983). They lack the necessary capabilities and must learn how to handle the complexity of engaging in international operations. However, their newness and smallness are nevertheless advantageous because they face less difficulty in unlearning embedded routines and coordinating internal conflicts (Autio et al., 2000; Knight & Cavusgil, 2004). The older, more established firms often accumulate knowledge and resources for international expansion. However, these accumulated resources, knowledge, and capabilities, in some cases, lead the managers to avoid taking risks, decrease the speed of reaction, increase the costs of change, and limit their ability to innovate (Grant, 1996a; Eriksson & Chetty, 2003). The timing and pace of internationalization depend on the balance sheet of "liabilities" and "assets". Time is indicative and an abstract relational concept (Hurmerinta-Peltomaki, 2003; Sharma & Blomstermo, 2003), but it should certainly reflect the change in the state of the firm since its inception to the point of measurement. Thus, the research of the timing and pace should constitute an important area of international business research.

To address the need to investigate the longitudinal aspect of internationalization, the seminal work by Oviatt and McDougall (2005a) modeled the determinants of the speed (i.e., timing, country scope, and commitment) of

internationalization by summarizing the preceding studies (Figure 6). This is a theoretical model that was developed with reference to studies that discussed one of the potential factors that influences the speed of internationalization. According to Google Scholar, as of August 2012, 412 research articles cite this article in their theoretical or empirical research; however, to the best of my knowledge, no paper has empirically investigated the overall model construction (i.e., validity of the model), probably due to the unavailability of an appropriate dataset.

Figure 6 A Model of the Forces Influencing Internationalization Speed



Source: Oviatt and McDougall (2005a: 541)

The model is constructed as follows. They argue that the speed (i.e. initial entry, country scope, and commitment) is determined by an entrepreneurial

opportunity and four types of force: enabling (technology), motivating (competition), mediating (entrepreneurial actor perceptions), and moderating (knowledge and networks). The entrepreneur's perception, especially the international entrepreneurial orientation, is placed at the core of the model.

Technology makes a faster speed feasible. Technology includes the airlines, container ships, network technologies, and other factors that reduce the cost of foreign trade, investment, and management. Competition motivates, or in some cases forces, the firm to internationalize. In the home market, entrepreneurs expect its competitors to, for example, take advantage of the economies of scale by expanding their business overseas. The firm also fear that its competitors can potentially imitate its strategy in foreign markets, thus preventing future internationalization unless the entrepreneur quickly establishes the product or service as a standard in the foreign markets. Thus, "technology makes accelerated internationalization feasible, while the presence of competitors or potential competitors motivates or strongly encourage it" (Oviatt & McDougall, 2005a: 542). The entrepreneurial actor interprets the attractiveness of the entrepreneurial opportunity overseas, the degree to which the technology enables the internationalization, and the need for internationalization due to competition. The interpretation would be dependent on their personal characteristics and

psychological traits (Oviatt, Shrader & McDougall, 2004). The actor perceptions, in this way, mediates the implications of the external environment.

Knowledge and network relationships moderate the speed of internationalization. Knowledge refers to both market knowledge and the intensity of the knowledge in the product and service offering. Knowledge here influences the speed of internationalization because: 1) firms with superior knowledge about designing a product or service, an improved production method, or a more efficient service delivery model can attain a competitive advantage that can be exploited in multiple countries; and 2) such firms will face fewer difficulties in the foreign final markets, and therefore are likely to be able to accelerate the speed of internationalization. Networks also act as moderators. Networks in the international entrepreneurship literature refer to both the personal networks of the management team and the supplier's network in which the firm participates. As the literature focuses on investigating small, young firms, the analysis typically focuses on the entrepreneur's personal and professional networks. In fact, these individual-level networks significantly overlap the firm-level networks in the early stage of the firm's development. Researchers find that these networks help them to understand how firms that follow a fast, early internationalization path identify the international business opportunities, establish credibility, and find

business partners or managers who can comprehend the required skills and resources (Bell, 1995; Coviello & Munro, 1997).

In essence, what Oviatt and McDougall argue is:

"After an entrepreneurial actor discovers or enacts an opportunity and interprets the enabling and the motivating forces, then the knowledge-intensity of the opportunity combined with the know-how already available to the entrepreneurial actor, plus the characteristics of the entrepreneur's international network largely determine the internationalization speed" (Oviatt & McDougall, 2005a: 543).

Other researchers, such as Jones and Coviello (2005), produced a more general model of the entrepreneurial internationalization process over time. Weerawardena (2007) combined the dynamic capabilities view with organizational learning theory to build a model for Born Global firms' internationalization, which also places entrepreneurial owner-managers at the centre. The suggested models provide us with a sound basis for understanding the factors that influence the speed of internationalization; however, as the authors note, they are not intended to guide the model construction of future studies. The explanation is too complex to be validated by an empirical study.

Thus, Oviat and McDougall's model is the only major existing model that can structurally discuss the potential factors that influence the speed of internationalization. However, I argue that one of the major challenges of this model is the way in which it treats the two closely related but distinct parameters:

the timing of the first entry into a foreign market and the pace of the ensuing geographical expansion. The timing refers to the time that elapses between the establishment of a firm and its first foreign direct investment. The pace refers to the pace of the following geographical expansion as measured by the number of operating countries. The weakness of this model is the fact that it treats the timing and pace under the same concept: speed.

For example, the timing of the internationalization may be related to different factors compared to those related to its pace. While the first internationalization is an important event, as it marks the definitive boundary between the two states (i.e., international and domestic) (Hurmerinta-Peltomaki, 2003; Pedersen & Shaver, 2011), the timing of the initial entry into a foreign market has attracted less attention than the pace and other aspects of internationalization due to the limited availability of second hand data (Autio, 2005; Rialp et al., 2005; Zahra, 2005; Jones et al., 2011). The research approaches have been based on knowledge accumulation, that is mostly relevant to the "mode increase" over time and does not fully explain the strategic decisions, such as the "mode reduction" (Swoboda, Olejnik & Morschett, 2011). Perhaps because early timing (i.e., early stage internationalization) has been closely associated with the definition of the research area, until very recently, the timing tended to be treated as a given condition. Researchers instead investigated why early internationalization is

possible and how, in some cases, it leads to an increasing competitive advantage for some firms. The internationalization literature is still in the process of establishing clear criteria for handling firm age and collecting longitudinal data to accommodate the dimension of time (Coviello & Jones, 2004).

The timing might be influenced by uncertain factors that are accidental, haphazard, chaotic or exploratory in nature (Knudsen & Madsen, 2002; Mockaitis, Vaiginienfo & Giedraitis, 2006). Further, the timing of the internationalization may be influenced by a particular event, such as new opportunities arising in the international markets, a change in exchange rate, or the development of adverse market conditions (Oesterle, 1997; Bell et al., 2001). Moreover, the decision on when to enter a foreign market has been investigated for long time under the theory of FDI/MNEs. Thus, the established theories of MNEs, such as the internalization theory (Buckley & Casson, 1976; Rugman, 1981; Fina & Rugman, 1996; Rugman & Verbeke, 2003; 2008) and eclectic paradigm (Dunning, 1981, 1988, 2001; 2010), should also shed further light on the nature of such decisions. The reporting of Born Again Global firms (Bell et al., 2001; Bell et al., 2003) and those that start their internationalization at an early timing but slowly expand into the overseas market (Perks & Hughes, 2008; Kalinic & Forza, 2011) also confirms the need to treat the timing differently, as the existence of such firms indicates that the knowledge accumulation and the

entrepreneur's orientation or mindset alone are not always the determining factors of the timing of the firm's internationalization.

In fact, to the best of our knowledge, few studies explicitly focus on the timing of internationalization. Autio et al (2000) argue that early internationalization is, in some cases, advantageous due to the learning advantages of newness, despite the knowledge accumulated in the organization. Ripolles-Meliea et al (2007) suggest that the time lapse between the firm's foundation and its first entry into a foreign markets can have a direct effect on the development of entrepreneurial behaviour and found that early-internationalization is associated with higher levels of entrepreneurial orientation. Perks and Hughes (2008) found that, rather than the industry environment and resource constraints, the entrepreneur's knowledge, customer connections and characteristics of the products and services strongly influence the internationalization decision. Zahra et al (2000) found that the exposure to diverse international markets from an early stage can increase the firm's technological learning and improve its performance. However, these models are not designed to discuss the forces influencing the speed of the internationalization. Consequently, the literature has not yet produced a comprehensive model that is supported by empirical evidence.

In the following, this chapter will firstly explain the research method, then investigate and compare the factors influencing the timing and pace of

internationalization, in order to test the application of Oviatt and McDougall's model and refine its construction.

4.3 Research method

4.3.1 General strategy

This research adopts an exploratory, case-based theorising approach and conducts matched retrospective case studies (Eisenhardt, 1989; Yin, 2006; Eisenhardt & Graebner, 2007) of four firms that followed different internationalization paths. It applies a holistic multiple-case design (Yin, 2006), which offers a more robust means of building theory compared to a single case study. We aimed to obtain in-depth longitudinal data, and therefore continuously conducted conversations with well-informed personnel for at least a year.

The case-study method allows investigators to retain the holistic and meaningful characteristics of real-life events (i.e., "thick description"), and is especially effective for understanding complex social phenomena (Lincoln & Guba, 1985; Yin, 2006). Because this study investigates an inadequately researched phenomenon and aims to expand the existing theories, the case-based research method is particularly applicable here. The limited availability of data on

the reasons behind the timing of the initial foreign market entry provides further justification for the use of the case study method.

This research draws particular attention to the causes of the timing as well as the pace when analyzing the cases. We apply the model as shown in Figure 6, proposed by Oviatt and McDougall (2005a), as our starting point, and evaluate the explanatory power of the framework. Our focus is on the factors that influence the two dimensions of internationalization: the timing of the initial foreign market entry and the pace of the geographic expansion. Further, another focus of this study is on the factors that influence the internationalization of the output value chain (e.g., the sales function of the firm), while this study also analyzes the internationalization of the input value chain (e.g., research, marketing, sourcing and manufacturing function of the firm).

By understanding the determinants of the timing and pace, this study aims to develop a better understanding of the factors that lead to different patterns of internationalization.

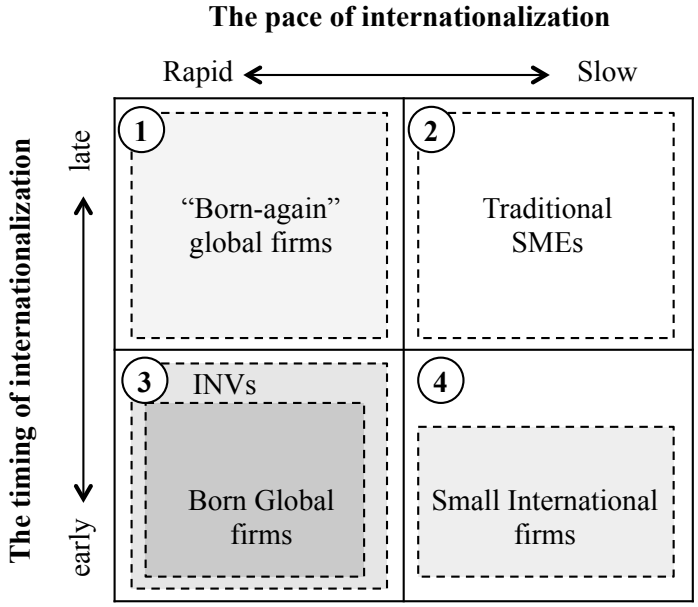
4.3.2 A typology of the timing and pace of internationalization

In order to accommodate the type of firm that suddenly embarks upon a fast internationalization process and that that adopts an early but slow one, this study

empirically validates the theoretically developed model proposed by Oviatt and McDougall (2005a) by investigating four different internationalization types, each of which represents a different internationalization mode.

Using a set of two axes (the timing of the initiation of international expansion and the pace of international growth), we can map four types of firms' internationalization process and crystalize the differences caused by the dimensions of time (see Figure 7).

Figure 7 A Typology of the Internationalization Mode



As Jones and Coviello (2005: 250) point out, the time taken to commence international activity and the pace or rate at which the internationalization develops distinguish INVs from SMEs. Further, the addition of the timing axes

can map out the existing variety of internationalization in a box. The original definition of the International New Venture (Oviatt & McDougall, 1994) will match box 3 (several other definitions are discussed by Keupp and Gassmann (2009)). The Born-Global phenomenon (McKinsey & Co, 1993b) is also situated in box 3. The most recent addition, 'Born Again' Global firms (Bell et al., 2001), lie in box 1. Further, it is likely that the type of firm that holds strong capabilities but takes a traditional approach, as reported by McDougall et al (2003), will fall into box 4.

Coviello, McDougall, and Oviatt (2011) explain the diverse range of definitions of International Entrepreneurship. The history begins with McDougall (1989)'s definition that focused on "*new ventures that engaged in international business*". However, the literature has gradually broadened the scope, and started to include corporate entrepreneurship (i.e., the internationalization of established firms). As a result, McDougall and Oviatt (2000: 903) redefined International Entrepreneurship as "*a combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value in organization*". Further, the internationalization path has emerged as a focal topic of International Entrepreneurship, and then Zahra and George (2002b) defined it as "*the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage*". Later,

incorporating the concept of opportunity, the most up-to-date definition comes from Oviatt and McDougall (2005b), who argue that "*International Entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services*". The definition includes both entrepreneurial internationalization and comparative studies of entrepreneurship across borders.

In this research, I focus on the internationalization aspect of International Entrepreneurship, which investigates both the internationalization of start-ups and that of small, but older firms. While other definitions would include a wide range of internationalization modes, such as exporting, licensing, joint venture, and subsidiary, I apply Foreign Direct Investment (FDI) as the unit or measure of the firm's internationalization. This is because FDI is clearly a definite step that distinguishes an international firm from a domestic one and because the definition has been adopted widely by scholars who investigate the theory of multinational enterprises. Moreover, I apply the number of operating countries as a measure of the pace of internationalization, instead of the "commitment' or the share of overseas sales. This is because commitment cannot capture input value chain internationalization, which is the firm's geographic expansion of the product or service production (i.e., "input") processes, in contrast to the geographic expansion of the "output" processes, such as sales offices. Further, this is also

because the commitment would certainly be influenced by various uncertain factors that would distort the correlation between the determinants and the pace.

Consequently, I focus on the firm boundary, which would be distinguished by the ownership of the resources, and consider physical presence in the target market to be the cut-off condition of an international expansion. An alternative approach would be to analyze the degree to which the firm can control the local operations, and consider the power, influence, or non-equity cooperative agreements as the measure (Dunning & Lundan, 2008b). This method might provide a better insight; however, the measurement of the power, influence, or control would be a difficult issue. Physical presence (FDI) is easily observable and measurable. The simplification of the "dependent variables" could help this study to focus more on the structured influence of the "independent variables".

Further, regarding the definition of "fast" and "early", although the literature points towards a certain agreement about how fast is fast and how early is early, the precise cut-off point should depend on a number of factors, such as the type of business, the economic environment, and the structure of the industry. These are subjective and relative concepts. Therefore, they will be powerful indicators if one utilizes them to compare the relative differences between the subjects. Thus, this study utilizes a relative measure of the timing and pace to distinguish between the cases.

4.3.3 Case selection

The case study firms were selected purposively in order to fill the four cells in the two-by-two matrix with two axes: the pace (fast/slow) and the timing of the internationalization (early/late). Thus, cases were selected with characteristics that were as similar as possible, apart from the timing and pace of their internationalization.

For the data collection, the sector is controlled as far as possible to minimize the sectorial factors. The sector of choice is broadly defined as the Internet service sector that accommodates firms whose main products or services are provided online. This paper focuses on this segment because the firms in this sector, on average, initiate their internationalization at an early stage and follow a relatively fast process of geographic expansion. This enabled this research to follow a larger proportion of the internationalization process during a short period of time. Further, it is easier to find start-up companies in this sector because the level of entrepreneurial activities in the ICT (information communication technology) sector, which is a larger definition of the internet service sector, is the highest across all industries (SME Agency, 2008: 145). Moreover, the researcher could also utilize his professional experience and personal networks in this sector to attract a higher degree of commitment from the case study partners, which would

be difficult to obtain for other sectors. The industry focus also allows this research to control "entrepreneurial opportunity" and "technology" to a certain extent because the same technological infrastructure, the Internet, enables the firms in this sector to operate in the global market.

This study first utilized the interview notes developed for the author's master's thesis (Kotosaka, 2009) to understand the general characteristics of small firms' internationalization process. A series of interviews were conducted in 2010 to request personal referrals and introductions to "matched" case partners. As a result, this study identified four small international firms in the Internet service sector, each representing a different internationalization path (Table 7).

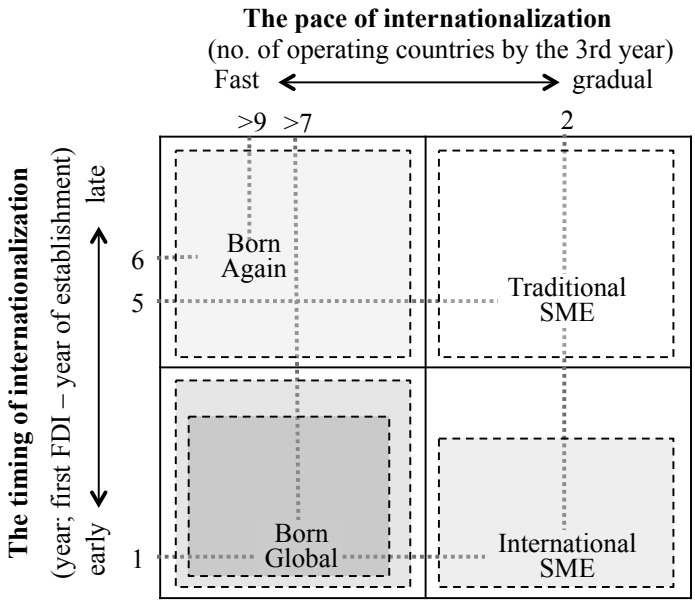
Table 7 Basic Profile of the Four Cases

Name	**product & service**	**Year of establishment**	**Year of first FDI**	**First distination**	**Revenue** mn yen; 2010	**No. of employees** 2010	**Internationalization destination(s)**	**The timing** (first FDI - year of establishment)	**The speed** (No. of operating countries by the end of 3rd yr)
Traditinal SME	Web & telecom services	1997	2003	Taiwan	2000	100	7 countries in Asia	5	2
Born Global	Internet boutique	2010	2011	UK	n.a.	10	Europe & US	1	> 7*
Born Again	Social games	2004	2010	USA	35200	170	Worldwide	6	> 9*
International SME	Education & Recruiting	2008	2009	China	n.a.	15	Greater China	1	2

The four firms correspond to the matrix (see Figure 8) to enable the matching and comparison of the factors that are specific to each box and those that are shared by multiple boxes. This enables the researcher to crystalize the factors that influence the timing (year of first FDI minus year of establishment) and the pace (number of operating countries by the end of the third year of the international

expansion). The influential factors that determined the timing and pace respectively are compared via a cross-case synthesis.

Figure 8 A Comparison of the Four Cases in the Matrix



4.3.4 Data collection

For the purpose of triangulation (Eisenhardt, 1989), a multi-method design is adopted for collecting and analysing the data, using: in-depth interviews, archival data, and participant observation (see Table 8). The in-depth interviews lasted for 1 to 2 hours and the primary interviewees are the entrepreneurs or senior managers who are familiar with the internationalization process. In recognition of the potential information bias, supplementary interviews were conducted with industry experts, suppliers, customers, and other members of the firm (Maylor &

Blackmon, 2005). Further, a series of interviews has been carried out during the past few years with the two older firms (i.e., Traditional SME and Born Again). While the earlier interviews are not specifically designed to capture the focus of this study, the interview notes are utilized to validate the arguments found in more recent interviews and assist our understanding of the longitudinal aspect of this phenomenon.

Table 8 Sources of Data for Chapter 4

Traditional SME	Interviews	Interviewee	time span	times	total hours
		Entreprenuer	April-06 to Nov-11	5	8.5
		Senior manager (in charge of China)	Nov-11	1	1
		Management advisor	Nov-11	1	1
	Office visit	Place	time span	times	total hours
		Headquaters (Japan)	Oct-11 to Nov-11	2	4
	Archival data	Type			
		Book written by the entreprenuer, IR documents (e.g., business plan, B/S & P/L), Corporate website, News articles			
Born Global	Interviews	Interviewee	time span	times	total hours
		Entreprenuer	May-11 to Dec-11	3	6
		Advisor	May-11	1	0.5
		Entreprenuer (of a Japanease startup)	Nov-11	1	1
	Archival data	Type			
		Corporate website, News articles, Company product, Social media record			
Born Again	Interviews	Interviewee	time span	times	total hours
		manager A (BP, HR, CEO office)	Jun-09 to Nov-11	5	9
		VP product/overseas business	Oct-10 to Nov-11	5	5
		VP global alliance	May-11 to Jun-11	2	4.5
		manager B (HR)	Oct-11	1	0.5
		manager C (academic alliance)	May-11	1	0.5
	Office visit	Place	time span	times	total hours
		Headquaters (Japan)	Feb-06 to Jul-11	5	4
		Global Headquaters (US)	Feb011 to Nov-11	3	2
	Archival data	Type			
		Business plan and discussion materials, News articles, IR documents (e.g., business plan, B/S & P/L), Company products, Social media record			
International SME	Interviews	Interviewee	time span	times	total hours
		Entreprenuer	Apr-10 to Jul-11	3	6
		manager	Jul-11	2	1.5
	Office visit	Place	time span	times	total hours
		Headquaters (Japan)	July-11 to Nov-11	2	2
	Archival data	Type			
		News articles, Corporate websites, Social media record			

A semi-structured interview guide is used to maintain consistency and capture the potentially influential conditions for the formal interviews. We referred to the factors explained by Oviatt and McDougall (2005a), as shown in Figure 6, and also asked how and why a specific timing and pace are determined from a variety of different angles.

Further, the archival data and information gained from the office visits and publically available information sources validate the interview findings (Marshall & Rossman, 2003). In some cases, the interviewees disclosed internal documents, such as meeting materials, strategy planning documents, internal announcements, and cash-flow analyses. Publically available documents, such as news articles, industry reports, product marketing materials, and corporate websites are also collected and analysed.

For the data collection, the necessary steps for ensuring validity and objectivity were taken, including respondent conformation of the data's factual accuracy by email exchanges, peer feedback on the emergent prepositions and arguments (Miles & Huberman, 1994), and the development of case study notes (Yin, 2006).

4.3.5 Analytical method

4.3.5.1 Data screening

The events and processes of interest (Miles & Huberman, 1994) pertained to the timing of the first expansion into the foreign market (i.e., foreign direct investment) and the pace of the following international expansion, as measured by the number of operating countries.

The information is analysed by referring to the model developed by Oviatt and McDougall (2005a). Firstly, the information obtained from the data collection will be classified based on the six factors explained in the model: entrepreneurial opportunity, competition, entrepreneurial actor perceptions, knowledge, and network relationship. This research follows Oviatt and McDougall's definition of the variables that are explained in the literature review, and focuses on the three most important factors: entrepreneurial actor perceptions, knowledge, and network relationship. The information about entrepreneurial opportunity, competition, and technology will also be analysed, but is treated as supplemental information for explaining the observed entrepreneurial actor perceptions. As explained in the case selection section, these three factors are controlled, at least to a certain extent, by focusing on a specific industry: the Internet service sector.

4.3.5.2 Entrepreneurial actor perceptions

The entrepreneurial actor perceptions is measured by the decision makers' interview comments collected at various points in time, supplemented by interviews with the managers and other information sources. If there were multiple key decision makers, data on all of the decision makers were obtained. The key decision makers are identified by the interviews with the management and managers of the firm. This study asked open questions related to, e.g., their

international experience, tolerance to ambiguity, proactivity, innovation preference, and risk perception, which are adopted by preceding quantitative studies to operationalize the entrepreneurial orientation and mind set (e.g., Knight & Cavusgil, 2004; Nummela et al., 2004; Ripolles-Meliea et al., 2007). The research also explores questions about how the entrepreneurs interpreted the potential of the entrepreneurial opportunity, the potential of communication, transportation, and computer technology to enable internationalization, together with the degree of threat from competitors, and compared the answers with those of third party respondents and information, such as industry experts and industry reports. This enabled this research to assess the degree to which the significance of these factors are positively or negatively mediated by the entrepreneur's perceptions (Oviatt et al., 2004).

4.3.5.3 Knowledge

Knowledge refers to both market knowledge and the intensity of the knowledge in the product or service offering. Similar to the method explained for entrepreneurial actor perceptions, knowledge intensity is measured through open questions related to the decision makers' perceptions of the reputation for technological excellence, their assessment of the knowledge intensity, and the

product characteristics, as preceding quantitative studies (e.g., Autio et al., 2000) have operationalized.

For market knowledge, this study focuses on the organizational learning process. The discussion of the influence of the level of foreign market knowledge has been associated with the organizational learning process. Following the operationalization of learning for young firms' internationalization by Bruneel, Yli-Renko, and Clarysse (2010) in their quantitative study, this research asked open questions related to their experimental learning and congenital learning (Bruneel et al., 2010: 166-167). Experimental learning is essentially "learning by doing". The questions are related to how the firms learnt to operate in a foreign market and overcame the challenges they faced during the process of internationalization. Congenital learning is the pre-learning that is required before they actually operate in a foreign environment, and is often associated with the entrepreneur's international experience, including his/her personal background and education history. Further, this research also asks open questions related to the learning from other types of learning, namely vicarious, searching, and grafting (Huber, 1991). Vicarious learning refers to learning from network partners (e.g., suppliers) or other organizations that do not have any direct relationship with them. Searching refers to learning from the publically available materials and information that they referred to before encountering a specific

challenge related to their overseas expansion. Further, grafting refers to learning through adding on components or resources that possess the required knowledge, especially from human resources and acquired companies.

To categorize the data about the result of the learning, this study adopts the conceptualization of Eriksson et al., (1997), which breaks down new ventures' learning for internationalization into three components: internationalization, market, and institutional. They show the firm's ability to accommodate different institutional environments and to cover various activities related to its international operations. Firstly, internationalization knowledge refers to the knowledge of specialized business operations required for international business (e.g., international financing). Secondly market knowledge refers to local market information, such as information about supply chain, customers, and competitors. Finally, institutional knowledge refers to non-market factors such as cultural, historical, and normative factors (e.g., business conduct, customer preferences).

4.3.5.4 Network relationships

Network relationships are analysed at both the individual and firm level. The individual level corresponds to the personal network of the management team, and the firm level network refers to the networks in which the firm participates. As in Oviatt and McDougall's model, this research applies the notion of strong

and weak ties that is discussed by scholars such as Granovetter (1973) and Aldrich (1999) in the analysis of network relationships. A strong tie here refers to the most important friends, mentors, or family members at the individual level and to the alliance partners, affiliated companies, investors and other stakeholders at the firm level. A weak tie refers to former colleagues, alumni from the same institution, and other non-business personal relationships at the individual level. The relationship with customers, suppliers, and support services such as consultants, and government or non-profit agencies will constitute the weak ties at the firm level. The analysis here focuses on the ties that help the entrepreneurial actors or internationalizing firms to conduct their business in a foreign country. The information about the size and density of the network in which the firm or entrepreneur participates are also explored thorough an open question. The size is simply the size of the network into which the individual or internationalizing firms are tied. The density is the degree to which the participants in the network are connected to each other. The larger networks are associated with faster venture internationalization, while the higher the density of the network, the higher the efficiency of the support of the cross border network because a dense network can better support reliable interaction among the participants of the network who are connected by weak ties (Oviatt & McDougall, 2005a: 545-546).

4.3.5.5 Analysis

The data obtained on entrepreneurial actor perceptions, knowledge, and network relationships, together with those on technology, entrepreneurial opportunity, and competition, are converted into a narrative story, and qualitatively evaluated by the researcher as either positive, negative, or neutral entrepreneurial actor perceptions of the earlier timing or faster pace of internationalization.

The main analysis techniques employed in this research are cross-case synthesis and cross-case comparison (Yin, 2006). The research develops the perspectives through the inductive, iterative process of theory development, constantly revising them until they sufficiently and accurately explain the empirical evidence observed (Miles & Huberman, 1994; Glaser & Strauss, 2006; Yin, 2006: 47). In other words, the tentative propositions are revisited and refined through replication logic (Eisenhardt, 1989) and a structured, focused comparison (George & Bennett, 2005: 67).

4.4 Findings: the determinant of the speed of internationalization

This section explains the stories of the four case companies in the following order, Traditional SME, Born Global, Born Again, and International SME. The

description starts with a brief explanation of the profile of each company, followed by a discussion of the factors influencing the timing and then the pace of its internationalization.

4.4.1 Traditional SME (late timing and slow pace)

4.4.1.1 Timing

Traditional SME undertook a late, slow internationalization process, as is typical for this type of firm. It provides web server management solutions. The first overseas connection dates back to 2001 when it started to source software programs from advanced countries, such as France (e.g., Linux programs) and Russia (e.g., Security programs). The company happened to recruit a native French speaker who provided the basis for the initial engagement that enabled it to provide advanced products earlier than the other players, who had to await the localized version.

The CEO had almost no idea of starting an international operation when he established the business in 1997. None of the financing or investment business plans prior to 2003 mentioned international operations. However, the large presence of international workers in Traditional SME, a result of the difficult recruitment environment for small firms, combined with the increasingly

international operations of its small manufacturing customers, indeed influenced the CEO to gradually turn his thoughts towards international operations.

The CEO states that the timing of the initial internationalization, five years after the establishment of the firm, was not his desired timing. He had a passion for it, but it took time to go through the formal process of the firm. The CEO states that their priority was the domestic market, and the formalized decision making system did not allow Traditional SME to embark on early international expansion:

"As our company at the time was contemplating going public, we had to systematically assess the business decision really carefully. Also, I think, year-by-year, our company developed a formal decision making system that requires the board members to agree on all important business decisions. Newly recruited managers are usually surprised by the corporate management system we have. This is good for our business, that requires reliability and trust as well, but it took a long time to make our international expansion decision and delayed the start".

The first foreign operation was established in Taiwan in 2003. Traditional SME's first international operation in Taiwan did not start without the careful consideration of the CEO and several key members of the management. It took them the whole of 2003 to decide where and how to expand overseas. They considered Asian countries, as the European and American markets were "too far away" and the competition there too intense. The team referred to several economic factors, such as the number of Internet users and the growth of GDP. As the business also belongs to the telecoms sector, a considerable block was the

regulations. For example, it was, at that time, expected to take too long to enter mainland China, and only a few countries in Asia allow a foreign business to operate the type of business that Traditional SME provides.

One of the most significant reasons for the expansion was the request by customers in the local manufacturing sector, who gradually started to build international operations in Taiwan. Combined with the fact that it had recently recruited a Taiwanese manager who was believed to have high potential, Traditional SME finally decided to establish operations first in Taiwan, in the hope that this would lead to a better presence in mainland China in the future. The initial investment was minimal, with one dedicated person in Taiwan who originated from there, and the focus was different from the business area in which Traditional SME usually engaged.

4.4.1.2 Pace

While Traditional SME has a vision of becoming Number 1 in Asia, its international expansion so far has been rather passive and gradual. Only very recently has its Taiwan operation started to flourish. The following expansion into Mainland China in 2006 was suspended in 2008, and the re-entry into Beijing in 2009 and Singapore in 2010 resumed in 2011.

The company had been cautious about taking too much risk because its knowledge and resources were insufficient. In fact, its partner companies often initiated the expansion. The Beijing operation originated from the request of a large business that wished to become a partner of Traditional SME. A personal connection with the CEO initiated a deal to acquire a small but established business operation in Singapore. Traditional SME is also under a network influence, as a large share of its corporate customers is manufacturing SMBs operating in Asia. In this sense, its network relationship indeed helped its expansion, albeit gradually.

The CEO recalls:

"Our customers were waiting for us at their overseas locations, but it took a while for us to understand the basic common sense for international business and build a relationship with the locals, such as government officials. We had to be cautious, as our business requires a large investment in data centre equipment. Now, we finally have a sufficient number of staff who understand the dynamics. We believe we can speed up".

The CEO thinks that the speed of internationalization has been slow. He admits that the international expansion was a tough learning process for Traditional SME. Each time Traditional SME solved a problem, it gained a new insight into the operation. Traditional SME lacked the required knowledge and resources to enable it to expand quickly. It had several chances to IPO but, for several reasons, could not execute the listing, despite the fact that its financial performance met

the criteria. The CEO admits that Traditional SME could have achieved this level of presence in the international market three years earlier if it had gained a listing opportunity. Further, the management agrees that Traditional SME was not ready to put the right person at the helm by, for example, replacing underperforming managers with outside talent at the expense of premium compensation packages. Most of the expansion had to be accompanied by an almost immediate contribution to the bottom line, or started with minimum costs. The management recently reached a point where they agree that this must change. In fact, the company is in the process of recruiting experienced managers and financing abundant external capital, seeking to obtain the ability to utilize external knowledge, network and resources. Traditional SME had a passion quickly to become Number 1 in Asia and had a network of people and firms that could support this expansion, but suffered from a lack of knowledge and resources, that hindered the possibility of fast expansion.

4.4.2 Born Global (early timing and fast pace)

4.4.2.1 Timing

Born Global is a fashion boutique headquartered in Berlin, Germany. It decided to be international from the start because this was beneficial in terms of both building its capabilities and reducing its costs. The establishment of the

company corresponds with the start of its international expansion. The expansion happened concurrently and the basic design of the value chain appeared just six months after its inception. It sources the design of the product from the Cloud on the Internet; people submit their designs and users vote for the one they prefer. It outsources its manufacturing to two Chinese vendors, and ships worldwide. Because of the mix of the international background of the founding members of the Born Global and the small additional cost involved in operating in other countries, it currently has a German, British, American, French, Portugese, and Polish edition of the web shop. Further, Born Global also plans to provide its offering in boutiques in the major cities, and the first launch is scheduled to be in Germany, the UK and the USA by mid-2013.

Born Global shows the considerable influence of entrepreneurial perception. The CEO has a Ph.D from Cambridge University and worked previously for a prestigious strategic consulting firm. He had a vision to provide his service regardless of national borders and believed that international operations were manageable and could provide additional growth. Although he admits that the incubation process was a steep learning curve and that there were many things that he could not have foreseen when he started, he believes that operating across borders from the start of the business was a rational decision.

The CEO recalls:

"A lot of things were unknown, but I was confident that I could quickly develop into a competitive brand. I knew that there were a number of outsourcing services that we could adopt. I knew that there were potential competitors in the market. We had to speed up our expansion".

In the process of designing the business architecture, the CEO decided to launch an international business from the start due to his passion to be the number one global online fashion business. The technology, such as global payments, logistics, and communication platforms, was within reach. The multinational operation did not cost much; rather, the CEO assumed that its presence could help to establish Born Global's brand. He thought that it was possible to operate in multiple countries, as several small players in the same business area provide the same kind of service in multiple countries.

The decision making process was essentially logical, although some unexpected factors influenced it and the timing of the internationalization. For example, the profiles of the newly recruited members significantly influenced the selection of the launch countries. The capability and accountability of the specific account manager at the Chinese manufacturer was one of the most important reasons for taking an overseas partner.

4.4.2.2 Pace

The pace of internationalization of Born Global has been fast. It took only a few months to launch the service and, within a month, it had operations in six countries. In the same period, Born Global started to offer a new product line and decided also to offer products in offline boutiques. It plans to open its own boutiques in major cities and supply the products, at least in the USA and UK, in 2013. While it currently needs to obtain additional capital in order to boost its growth, so far, the company has established its business bases in multiple countries at a very fast pace.

The CEO thinks that the pace remains slow. His plan is to establish a presence in the major markets before the other players become big. However, establishing the business meant that numerous problems had to be solved. The business plan is gradually shifting its focus from pure online creation and online sales to a combination of online design sourcing and offline merchandising. Attracting both designers and customers is a tough multitask. The initial business building process took longer than he expected due to a lack of finance and business experience in this area. It took a large share of the management resources to find a responsive, reliable, quality supplier, particularly due to the communication costs. In addition, because the management first tried to increase the value of the company prior to any external investment, it suffered from limited financial resources. It had access

to the knowledge and networks, but could not further accelerate its growth. Because he considers the speed of the process to be too slow, the CEO wishes to speed it up, e.g., by hiring capable managers and obtaining external capital.

The CEO states:

"The rapid expansion was possible largely due to the interns and part-time staff who are from other European countries. They know the local market and often have a network of people who can assist us with developing the brand. While finding a manufacturing partner took time, we could simplify the business development by outsourcing most of the back office and logistics to outsourcers".

Several factors influenced the fast pace of internationalization. First of all, the entrepreneur found the business opportunity significant and thought that a fast business expansion was possible. Further, Born Global did not have abundant resources, but could easily recruit workers with an international background and networks due to the international nature of its home region: Berlin. This access to knowledge and networks contributed to its competitive advantage. Born Global could easily hire talent from a variety of countries, and that enabled it rapidly to localize its service for each market without incurring significant costs. It could overcome its liability of foreignness and outsidership (Johanson & Vahlne, 2009) by internalizing people from the foreign networks. The founder had a vision of fast expansion, and therefore gave priority to job applicants who possessed the required knowledge. Further, using international outsourcers, such as PayPal as

the payment platform and DHL for the logistics, enabled the speedy launch of the business and gave Born Global the same quality standard as the larger players.

4.4.3 Born Again (late timing and fast pace)

4.4.3.1 Timing

Born Again is a social networking and gaming service. It undertook its first international expansion six years after it was incorporated. The first two years proved a challenge for the company. It struggled to catch up with the pace of growth in the market and lagged behind its major competitors. However, by the end of 2006, it had discovered how to monetize the abundant user time spent on its service, by shifting its focus from social networking to social games and a mobile gaming platform.

The CEO, who is also the founder, publicly states that the original business of Born Again was inspired by the US social networking services. His main priority at the time of the service launch was to localize the service and establish a successful Japanese social networking site. Several key members of Born Again agree that, at the time, international expansion was almost inconceivable. While Born Again was listed in 2008, it did not state any serious plan regarding the fast international expansion that happened later. It has been learning from the products

and services in other countries and gained a profit from the local market. However, it focused on the domestic market, and realized a rapid domestic growth.

The situation changed when the new global platforms, such as Apple's App Store and Google's Android Store, opened the door to foreign players to provide products across the border. Further, the growth of the domestic market was so fast that Born Again could foresee saturation within a short time frame, so realized that facing the global competition was unavoidable. By the time it had finished a major modification of its service in October 2010, Born Again had started seriously to debate how to begin its international expansion and, in January 2011, it established its first foreign operations in San Francisco.

A senior executive of Born Again recalls:

"I was suddenly invited to the desk of the CEO, and he said that he would like me to move to San Francisco and open an office the following month. I never imagined that this would happen to me so quickly. Most of the initial people in the US office did not have much experience or knowledge about the local market. We had to develop the network from scratch".

The timing of the expansion was clearly associated with the relative attractiveness of the markets, the internal resource allocation, and the external market competition. The technology has been there from the start of the business. International expansion would have differentiated Born Again in the local market as well. However, rational consideration did not lead Born Again to prioritize international expansion. At least partially because the management believed that

the domestic market had significant growth potential, it concentrated on expanding its domestic market until recently. The fact that none of the managers had an international background and the domestic market was one of the largest in the world probably also influenced the timing. In fact, Born Again did not have much knowledge about nor networks in the foreign markets, but the competition pushed the management to change their perception to decide to enter these markets. They had an abundant cash flow to support this risky move of leaping into the foreign markets.

4.4.3.2 Pace

Within the first two years after the end of 2010, Born Again had established branches in the US, Singapore, Beijing, London, Paris, the Netherlands, and Sao Paulo. It formed at least three strategic partnerships with major players in China and Southeast Asia. It also acquired the largest platform in the US and built a foundation for future global growth. Multiple teams are working on the international expansion concurrently. There are four M&A teams, a global alliance team, and at least two large product development teams in the US and China. Born Again doubled the number of its employees, recruiting more than 500 engineers and marketers outside its home market. Most of the key persons in the international operations were recruited or came from acquired companies in

the last year. It is quickly establishing its global operations and the pace of its expansion remains fast.

The management themselves are excited by the speed of the expansion. However, they also admit that the pace is insufficient by referring to their competitors and the speed of change in the sector. The management agrees that several dominant players will take control of the industry within the next 2-3 years. Considering the aim of Born Again to be the global number one platform, it is dissatisfied with the current status. In addition, the very high evaluation of Born Again, which is a result of this fast expansion, also further pushes it to engage in fast international expansion.

In essence, one of the reasons why Born Again could realize its fast growth was its ability to access knowledge and networks. Born Again, instead, had access to resources that enabled it to obtain knowledge and networks. It has been willing to pay a premium for the required skills and assets. It spent a large sum on recruiting people with the required skills and on acquiring firms or partnerships with firms that had competitive advantages in the target markets. It first formed a vision to expand at a very fast pace, and then utilized its resources accumulated through its domestic business in order quickly to expand overseas. Although the top management of Born Again has no international background or experience, they successfully recruited people with a capability for managing complex

international transactions. An example is the head of the global alliance, who has an MBA degree from a prestigious US university. Born Again rapidly recruited a number of skilled investment bankers and ex-private equity managers to its investment team. Further, by leveraging its financial resources, it could acquire one of the major players in Silicon Valley and so obtained access to the local networks. These skilled people were assigned clear objectives and received competitive compensation.

A Senior Vice President from Born Again's US office explains:

"The locally hired senior managers and executives of the acquired companies are the gateways to the local knowledge and networks. We did not have any of these, but these people joined us because they are attracted by our knowhow and track record that we had accumulated in the home market. The new members provide us with the skills and network to develop a best-in-class international operation".

The very high evaluation of Born Again, the capital financed by the IPO, and the abundant cash flow from its domestic business made possible the recruitment of high skilled managers and the fast launch of its foreign operations. Born Again did not have knowledge or networks; however, it could quickly obtain these by leveraging the resources gained through its domestic success. It overcame the need to unlearn its established routines (Barkema & Vermeulen, 1998; Knight & Cavusgil, 2004) because it acquired completely new resources for its international expansion by using the abundant financial resources gained from its IPO. By

acquiring external existing knowledge, Born Again minimized the number of its durable and repetitive interactions abroad (Eriksson et al., 1997).

4.4.4 International SME (early timing and slow pace)

4.4.4.1 Timing

International SME provides education related services, both online and offline. It is a typical International SME that started its international operations at an early stage and at a slow pace. It started its international operations from its inception in 2008. Its main business is to connect students in developing countries with schools and employers in developed ones, and vice versa. Thus, its business model naturally leads to the nature of an international SME. For example, some of its customers are prospective students who live in developing countries and do not have sufficient funds to study abroad, but who wish to study abroad and gain a better education. The first overseas expansion actually occurred prior to the establishment of the firm. It was based on the founder's personal effort to give advice on job hunting to exchange students who were studying in Japan.

The CEO recalls:

"I seriously considered whether to expand overseas from the start or not. My mentors and friends did not strongly recommend that I take this approach, especially because I have limited experience in the international environment, but I thought that the challenge should bring rewards, as almost no other players are

doing what we are doing now. So many unknown factors, but I learnt from the process of growth. I am glad I decided to go international from the start".

His entrepreneurial orientation would have influenced the decision to engage in very early international expansion. The CEO thinks that the timing was right. He admits that the operation was quite challenging, especially because he had very limited international experience. He had a very limited idea about the market and the prospects for the business, while on paper the business had very high potential. However, he was satisfied that, as there were virtually no other players in this large potential business area, he could build a good network and presence. He acknowledges that it would have been a sound decision to establish a domestic business first. However, he now finds that the potential rewards compensate for the risks of early internationalization.

International SME's decision was influenced by the founder's entrepreneurial orientation to take such risks; however, the firm also conducted a rational assessment of the different business models to reach its final timing decision. The CEO considered a variety of business models, including the purely domestic one, which involves designing a business that targets the local market; for example, running a job training school for local people. The international business model here is a business that connects the supply and demand that exist in different markets. Considering the shrinking size and complicated, competitive landscape

of the domestic market, the CEO states that it was a rational decision for him to take a risk and implement the international business model.

He had control over deciding to expand internationally, although the exact arrangement for this depended on the network and other external factors. For example, the final decision was made because International SME found a willing partner. Further, the CEO's mentors and friends influenced him by giving him advice and information.

4.4.4.2 Pace

International SME has been keen to establish its operations in multiple countries; however, the strategy has been to form a thinly spread presence across the region. Currently, it has an office in Shanghai, and the other regions are run from either Japan or Shanghai. Further, it is considering moving its corporate headquarters to Hong Kong in the future for tax and branding reasons. It manages projects in Mainland China, Taiwan, Vietnam, India, Korea, and Singapore. However, the business flow is insufficient to justify the operation of dedicated local offices.

The CEO thinks that the speed has been slow. He sees very high potential in the industry and would like to capture this as soon as possible. The technology he thinks is not the barrier and the competition is not intense, as few other players

provide this sort of service. He was motivated and able to expand overseas, but again suffered from a lack of knowledge and support networks.

He did not have access to the resources to change the situation either:

"It is difficult to enter the network of people in the education sector. Even if you get in, they are domestic and don't think about the international market. This is a huge challenge because this also means there are few managers who understand how to run the type of business we operate. We had to develop the business model from scratch and this took time. The demand is there, but developing the business took time".

The entrepreneur tried hard to increase the pace of the expansion; however, several mitigating factors prohibited a fast deployment. Building trust and the brand took time, as the education sector often requires its providers to have a history with and trust in their business partners. Therefore, the network has been closed to new entrants like International SME. The absence of experienced managers in the job market was another challenge. Educational professionals in the home market usually enjoy stable employment, and job changes are infrequent. The CEO faced a huge challenge in recruiting capable staff, and had to search for talent in the host markets, such as mainland China and Taiwan. Moreover, the difficulty of acquiring additional funding, due to the immature stage of start-up finance in Japan, negatively influenced the pace of growth.

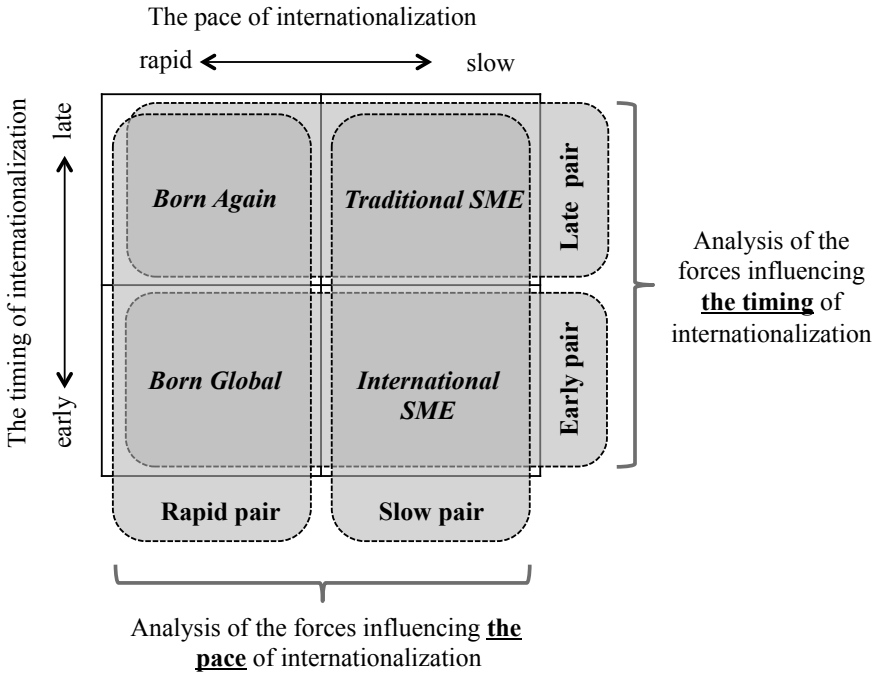
He was always keen to expand the business and actively sought growth opportunities, but admits that International SME did not have sufficient

knowledge, resources, or networks to increase the pace of its expansion further. Because he thinks that his reluctance to obtain external finance and capability contributed to the slow pace of growth, he now seeks to obtain more external capital and recruit new staff.

4.5 Discussion

In this section, the findings described in the previous section will be discussed to: 1) evaluate the explanatory power of Oviatt and McDougall's model and 2) propose a model refinement by reflecting the empirical findings of this research. In order to do so, this study categorizes the four cases into an early pair (Born Global & International SME) and a late pair (Traditional SME & Born Again) for the discussion of the timing, and a fast pair (Born Global & Born Again) and a slow pair (Traditional SME & International SME) for the discussion of the pace (Figure 9). This section firstly discusses the factors influencing the timing of internationalization, and then moves on to those influencing the pace of internationalization.

Figure 9 An Illustration of the Pairs for the Analysis



4.5.1 The determinant of the timing: a comparison between early and late

4.5.1.1 Evaluation of Oviatt and McDougall's Model

It was difficult for Oviatt and McDougall's model to predict the initial entry timing. Neither of the early pair (Born Global & International SME) had sufficient knowledge or networks; however they decided to engage in early internationalization. Born Again (late/fast) did not have sufficient knowledge or networks either, even when it started its internationalization; however, the competition forced the management to change their mind and let them start their

internationalization. After starting the internationalization, it quickly acquired the required knowledge and networks. It is possible to explain the timing decision of Traditional SME (late/slow) with the model. However, while knowledge and networks seem to influence the timing, the entrepreneurial actors who are under the influence of Traditional SME's internal systems might have uniquely mediated the implication of the particular knowledge or network status.

In other words, a common observation across the four cases is that the timing was a decision variable that the firm could control. The firm made the judgment based on the decision makers' perceptions of the state of the environment and its own competitive advantage. In fact, the entrepreneurial actor perceptions corresponded to the timing of the internationalization. When the actor perceptions becomes sufficiently positive to initiate the internationalization, the firm appears to start the process. This supports the finding of Perks and Hughes (2008) that entrepreneurial managers' orientation has a strong moderating effect on the internationalization decision-making process. The firm or entrepreneur interprets the significance of the inputs from the external environment and mediates their implications. In contrast to Oviatt and McDougall's model, the finding of this study indicates that the perception not only distorts the opportunity, enabling, and motivating factors, but can also distort the implications of the knowledge and

network. The findings support the view that entrepreneurial actor perceptions should be considered a moderating factor.

Table 9 A Comparison Between the Early and Late Pairs

	Early internationalization		Late internationalization	
	Born global (early, fast)	**International SME (early, slow)**	**Traditional SME (late, slow)**	**Born Again (late, fast)**
Mediating Force	Positive: quite keen to provide an international service	Positive: quite keen to provide an international service	Neutral to Positive: had no intent first, but very active recently	Neutral to Positive: had no intent first, but very active recently
Description	The CEO had a vision to provide his service regardless of the national borders and believed that international operation is manageable and can provide additional growth. Although he admits that the incubation process was full of learning and there were a lot of things he could not foresee when he started, he believes that starting the business across borders from its launch was a rational decision	The CEO thinks that the timing was right. He admits that the operation was quite challenging because he had limited foreign knowledge and networks. At the start of International SME, he had very limited ideas about the prospects of the business, while on paper it had high potential. He acknowledges that it would have been a sound decision first to establish a domestic business. However, he thought that the potential reward would compensate for the risks	The CEO had almost no idea about launching international operations when he established the business in 1997. However, the large presence of international workers in Traditional SME, combined with the increasing number of potential customers overseas, influenced the CEO gradually to open up his mind to the possibility of engaging in international operations	In the early years, international expansion was almost outside its scope. The game changed when Born Again shifted its focus to social games. The growth was so fast that Born Again could soon foresee saturation in its domestic market. Further, the emergence of new platforms for smart phones is expected to form a global, unified market. At this stage, Born Again's priority finally moved to international expansion

Further, the comparison between the early (Born global & International SME) and late internationalization firms (Traditional SME & Born Again) shows that there exists a clear difference between the less established and more established firms.

While the decision-making of Born Global (early/fast) and International SME (early/slow) was more dependent on the entrepreneur's individual personality, the firms that internationalized later were subject to a more organized or formal decision-making process. The decision of the late pair was made by the management team or dedicated senior managers. Thus, the entrepreneur's personality seems to be less important for larger firms that adopted a later timing.

Young, small firms are strongly influenced by the entrepreneur, who often challenges the rationality assumption of e.g., internalisation theory, because the entrepreneur often mediates the external conditions in a unique way. This indicates that young, small firms are subject to an individual level entrepreneurial orientation, whereas old, large firms are subject to a firm level one (Miller, 1983) and are possibly more bureaucratic. Thus, as Oviatt and McDougall's model implies, the entrepreneurial actor perceptions might be a significant influential force in determining the timing, especially if the firm is young and small. On the other hand, the late timing pair confirms the rationality assumption. The decision-making of Traditional SME and Born Again involved a logically structured assessment of the risk and return of the international operations by a number of stakeholders, including the shareholders.

This observation indicates that the timing would be better explained by a combination of the theories of multinational enterprises that focus on the firm's advantages in foreign locations and the international entrepreneurship literature that focuses more on the entrepreneurial actors. These two streams of research could be combined to provide a model that can accommodate both large established firms and small, young ones.

If we assume that the firm is a rational actor that can logically and precisely assess the implications of the external environment, a firm's advantages in a

foreign environment naturally lead to an internationalization decision. The rationality assumption seems to provide a sound foundation for firms whose decision-making is collaborative or exposed to multiple stakeholders. The economic theories of multinational enterprises rest on this assumption.

On the other hand, the studies about firms that undertake early, fast internationalization have been dominated by researchers who focus more on the entrepreneur. This group of researchers explain how the entrepreneurial mindset, orientation, and background uniquely interpret the state of the external environment and push firms to adopt an "earlier than usual" timing of internationalization. This is precisely because smaller firms are more influenced but the entrepreneurial actor's unique perception due to the fact that the decision-making of start-up is less collaborative or exposed to multiple stakeholders, compared with their larger counterparts.

Therefore, this research argues that the entrepreneurial actors' perception is the moderating factor that influences the interpretation of a firm's advantages in foreign locations. We can develop a model in which the entrepreneurial actor perceptions can moderate the implication of a firm's competitive advantage, especially if it is small and young. In this way, we can narrow the gap between the international entrepreneurship literature and the traditional international business literature with regard to internationalization.

4.5.1.2 A model refinement

The finding here at least indicates that the timing and pace of internationalization require a different theoretical treatment. This study supports the view that the early stage internationalization decision is subject to the entrepreneurial orientation and mind-set, especially if the firm is young and small. However, this study found that the entrepreneurial actors of all four firms under study, especially the young ones (i.e., Born Global & International SME), interpreted the external business conditions and mediated them, in some cases, in a unique way based purely on the entrepreneurial orientation or mind-set of the entrepreneurial actor. Thus, the entrepreneurial actor perceptions should be defined as the moderating factor that can distort the information about the potential gains from international expansion. The entrepreneurial actor perceptions may limit the firm from objectively interpreting its competitive advantage relative to its competitors, and it has the potential to hasten or delay the timing of the internationalization.

Further, the empirical evidence of this study suggests that the knowledge and network, explained by Oviatt and McDougall, alone cannot clearly distinguish the timing decisions of Born Globals, Born Agains, and International SMEs. If the model were only to accommodate the Born Global type of firm, the knowledge and networks might explain why some of these firms can execute an early timing.

However, if the model were to accommodate the other internationalization paths, I argue that knowledge and networks alone cannot explain all of the factors. As demonstrated by the cases, the resources for obtaining the required knowledge and networks should also be taken into consideration because some firms (e.g., Born Agains) can leverage the resources to supplement their insufficient knowledge and networks. This point will be articulated further in the next section in the discussion of the model of the factors influencing the pace of internationalization, together with the industry factors that also moderate the influence of the firm's competitive advantage on the timing and pace of internationalization.

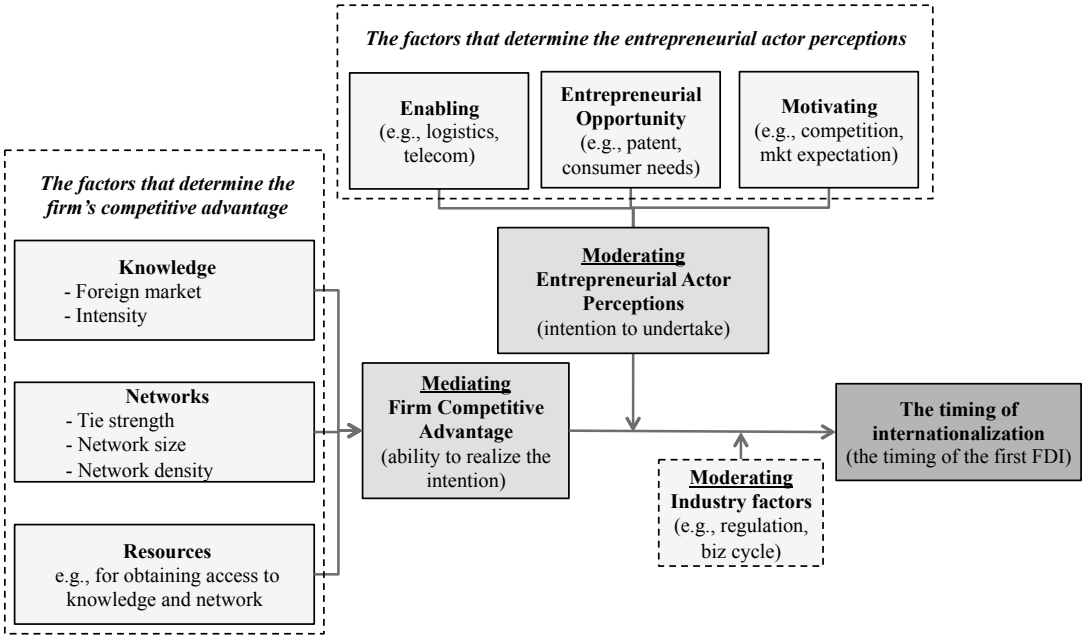
As a result, I propose a model that can better capture the factors influencing the timing decision of internationalization (see Figure 10). The model incorporates the knowledge and network aspect of Oviat and McDougall's model, and adds resources as an additional factor. The mediating factor, the firm's competitive advantage, is then interpreted by the entrepreneurial actors' perception, which would be influenced by the technology, competition, and opportunity. The entrepreneurial actor perceptions is essentially the decision-marker's entrepreneurial orientation and global mind-set. The degree to which the entrepreneurial actors' perception uniquely interprets the mediating factor will

also depend on the size and age of the firm, which are the proxies for the degree to which the decision making is systematized within the organization.

In other words, the higher the knowledge, network, and resources parameters, the higher the firm's competitive advantage. Further, the higher the firm's competitive advantage, the earlier the "appropriate" timing when this advantage could overcome the additional costs of operating in an overseas market. This is in line with the stages theory, that assumes gradual capabilities accumulation in the process of internationalization. However, the entrepreneurial actor perceptions can moderate the causal relation between the firm's competitive advantage and the timing of internationalization in this model. For example, even if the "appropriate" timing is the third year after inception, the unique entrepreneurial actor perceptions of the decision makers of the firm significantly change the implication of the fact that the "appropriate" timing is the third year. In some cases, they will decide to postpone the timing in order to avoid the unforeseen risk but, in another case, they will decide to frontload the timing due to their passion to be global. Nevertheless, because the larger and older the firm, the more systematized the decision-making and the larger the number of stakeholders involved, the influence of entrepreneurial actor perceptions will decrease with the larger size and older age of a firm. Thus, entrepreneurial actor perceptions can override the implication

of how much the firm can potentially gain from the internationalization decision, especially if the firm is younger and smaller.

Figure 10 A Refined Model of the Forces Influencing the Internationalization Timing



4.5.2 The determinant of the pace: a comparison between fast and slow

4.5.2.1 Evaluation of Oviatt and McDougall's Model

The contrast between firms that engaged in fast internationalization (Born Global & Born Again) and those that adopted a gradual approach (Traditional SME & International SME) is shown in Table 10. This comparison suggests that the entrepreneurial opportunity, enabling factor, and motivating factor are likely

to be influential on the mediating force, the entrepreneurial actor perceptions. Further, the mediating force indeed had a positive effect on the pace of internationalization across four firms. However, it seems that the knowledge and networks alone cannot clearly distinguish between the fast and slow internationalization pairs.

Table 10 A Comparison of the Fast and Slow Pairs

	Fast internationalization		Slow internationalization	
Forces	**Born Globa (early, fast)**	**Born Again (late, fast)**	**Traditional SME (late, slow)**	**International SME (early, slow)**
Entrepreneurial Opportunity	Positive: high quality but inexpensive cloud sourced designs	Positive: increasing usage of social games on the mobile platforms	Positive: increasing number of SMBs operating in multiple countries in Asia	Positive: expanding international job market for new graduates in Asia
Enabling	Positive: the internet, logistics and manufacturing outsourcing	Positive: global smartphone platforms and the same programing language	Neutral: similar customer needs, global telecom networks and deregulation	Neutral: similar customer needs, inexpensive travel, the internet
Motivating	Neutral: good effects on brand value and some presence of competitors in other countries	Neutral to Positive: was a dominant player in a closed market, but now faces the possible entry of global players	Neutral to Positive: gradually faced decreasing prices and the emergence of cloud technologies	Positive: shrinking domestic market with high entry barriers
Mediating	Positive: quite keen to provide an international service	Neutral to Positive: had no intent first, but very active recently	Neutral to Positive: had no intent first, but very active recently	Positive: quite keen to provide an international service
Knowledge (foreign market)	Neutral: while the founder was new to the fashion business and had only 2-3 years of work experience, he has obtained a PhD degree from a foreign country	Neutral: the management had no prior international experience. The overseas markets were still under development, involving a number of uncertain factors. The same programming language and a shared culture	Positive: at the time, a third of the employees were foreign born, coming from the target countries in Asia. The customer trend is more or less the same across the world	Neutral: the founder had no prior international experience; however, he had worked for an international investment bank and had sufficient experience in the same business
Knowledge (Intensity)	Positive: Provide bags and scarfs with cloud sourced designs both online and offline. Requires brand building techniques and cloud sourcing technology	Positive: developing social games and platforms requires new ideas and techniques, while the programming technique is the same	Positive: offers server management solutions and hosting services; has a track record for providing industry-first products and services	Positive: offers consulting services and project-based recruitment support solutions; the founder was a high performing advisor for the largest player in Japan
Network relationship	Neutral: the management had limited connections with the industry; however, it was in close proximity to the cluster of international workers and fashion businesses	Negative: almost no Japanese players had an international presence in the sector. When CoC started to operate in the US, almost no one had heard of it	Neutral: the customers are mainly manufacturing SMBs and are mostly internationalized; however, it had limited connections in the same industry	Negative: no other players provide the same service, and most Japanese education players are domestic; the founder tried to build a network in Asia and gradually succeeded
Other significant factors	Positive: relatively easy to expand overseas because of its reliance on the internet, as well as international shipping, payment, and advertising providers	Positive: had substantial financial resources, gained from the IPO and the high valuation; the relatively fluid labour market of the internet service sector	Negative: limited financial and human resources; government approval process; recruitment difficulties	Negative: limited financial and human resources; annual business cycle

Contrary to Bell et al. (2003) and Oviatt and McDougall (2005a), who argue that the given knowledge intensity, the know-how already available to the

entrepreneurial actor, and the characteristics of the entrepreneur's international network largely determine the pace of internationalization, neither Born Global (early/fast) or Born Again (late/fast) possessed the required supporting knowledge and networks in the initial stage. Instead, they had the ability or position to gain access to the knowledge and networks. They were first motivated to internationalize, then started to obtain the necessary skills to achieve this. Born Again's products were not particularly competitive in the foreign market, as they are tailored to the taste of Japanese customers. Born Again's management had almost no international experience or networks. Similarly, while the founder of Born Global had personal international experience, the product is not particularly differentiated and the founder was new to the fashion business. In terms of knowledge, networks, and actor perceptions, there were few differences that might explain the gap between the fast and slow pair.

In addition to the positive entrepreneurial actor perceptions of an accelerated internationalization path, developed by the opportunity, enabling, and motivating factors, what matters most, according to our results, appears to be the competitive advantage resulting from access to knowledge, networks, and resources. The fast pair did not necessarily possess the knowledge and networks, but did have a relatively strong capability or resource to gain access to them. This capability arose for various reasons. Born Again effectively developed a culture, system, and

capability to hire managers with the required skills during a period of domestic growth, combined with the abundant cash flow from the domestic business and the capital from the IPO. The newly hired managers provided the local knowledge and capabilities for managing the international teams and gave Born Again access to the networks in foreign markets. Similarly, Born Global benefits from the business environment in which start-ups can easily hire international talent. Together with the international background of the entrepreneur, the newly recruited staff from a variety of European countries helped Born Global to gain access to the networks and knowledge in the target markets. Thus, their ability to gain access to the knowledge, networks, and resources, together with their entrepreneurial actor perceptions, significantly increased their pace.

In fact, the resource parameter is likely to be important, especially when we analyze Born Again Global firms that tend to have accumulated resources but a limited willingness to expand until a certain point is reached (i.e., the Born Again). They do not have access to the knowledge or networks that Born Globals often have, but are in a position to gain these quickly, once they decide to do so. It is also true of firms that started early internationalization but suffered from a lack of internal resources and capabilities, which resulted in gradual internationalization (i.e., the International SME). The addition of the resource factor to the existing knowledge and network factors will explain why some

relatively old firms, without the relevant knowledge or networks, can quickly expand overseas (i.e., the Born Again) and why some young firms with a strong desire to accelerate the pace of internationalization cannot (i.e., the International SME). Contrary to Ripolles-Meliea et al. (2007), who argue for a positive relation between a high level of entrepreneurial orientation and a fast pace of internationalization, the cases demonstrate that a high level of entrepreneurial orientation does not necessary lead to fast internationalization if the firm lacks knowledge, networks and/or resources. This indicates the strong moderating influence of the firm's competitive advantage.

Another interesting observation is related to the slow pair: Traditional SME and International SME. There was a kind of regulating factor that limits their pace of growth; their international expansion was, to some degree, regulated by 1) the government regulation and 2) the business cycle, respectively. Traditional SME's business is in a regulated sector and a foreign company needs approval (or proper legislation) in order to start a new business. In some cases, it took several years to build a relationship with the local government officials. On the other hand, International SME's business is dependent on the annual new graduate hire cycle, and the firm has to wait a year to find out the results of the new business. Thus, most of the changes occur only annually. This is not the case for Born Global and Born Again. The former operates in the fashion business and thus is influenced by

seasonality; however, no government regulation applies and the speed of change is fast. The latter's business is also in the relatively dynamic online gaming sector, and is subject to neither substantial government regulation nor a long business cycle.

4.5.2.2 A model refinement

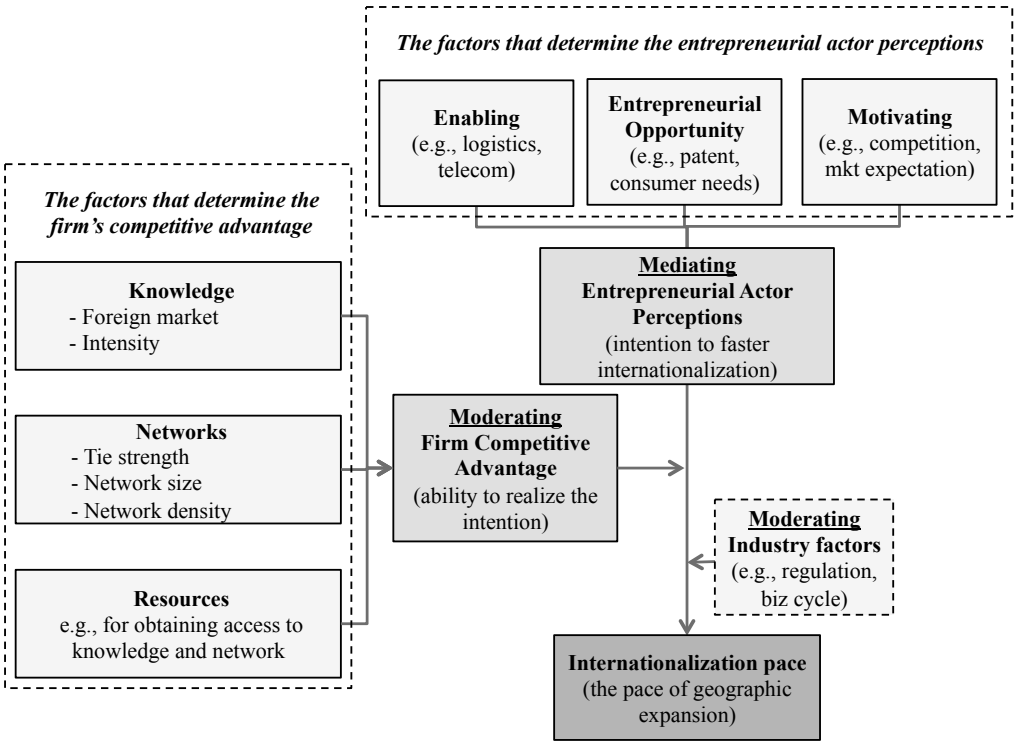
These findings suggest that Oviatt and McDougall's model requires several refinements. Firstly, the knowledge and network relationships may not directly moderate the pace of internationalization; however, the competitive advantage resulting from access to knowledge and networks will do so. Secondly, access to resources (e.g., financial resources) might also influence the pace. Finally, this study found a possible regulatory factor that limits the overall pace of expansion in some sectors. We might agree that Oviatt and McDougall's model provides a sufficient explanation for INVs and Born Global firms. However, following the argument of Kalinic and Forza (2011), Oviatt and McDougall's model appears to be less applicable to other modes of internationalization, especially with regard to its moderating aspect. While the model can sufficiently explain why Traditional SMEs adopt late, slow internationalization while Born Globals take early, fast internationalization, the model fails to explain why Born Again global firms can suddenly embark on fast internationalization at a late timing and why

International SMEs start their internationalization early but at a slow pace. This may be because Oviatt and McDougall's model focuses on explaining why some firms can take the early, fast internationalization path. The model implicitly assumes that an earlier timing will be accompanied by a faster geographic expansion and also a higher percentage of foreign revenue. The observation of the middle ground (i.e., Born Again Globals and International SMEs) challenges this assumption. Therefore, the model's construction must be refined to extend the scope of its coverage. Based on the proceeding studies and our empirical findings, Figure 11 is developed to structure the factors that determine the pace of internationalization.

The factors are the same for the model for the timing. However, the causal mechanism for the entrepreneurial actor perceptions, firm's competitive advantages and internationalization pace is different. The higher the entrepreneurial actor perceptions, the faster the pace of internationalization. However, the firm's competitive advantage moderates the influence of the entrepreneurial actor perceptions. In other words, the "intention" to undertake fast internationalization is moderated by the "actual ability" to realize the intended pace. For example, all four cases had an intention to realize a fast pace of internationalization when they started the process. However, the difference in the level of the firm's competitive advantage among the four cases led to the different

outcomes. Thus, the model structure reflects a simple principle: the higher a firm's competitive advantage, the higher its ability to materialize the intended plan. The plan has to be accompanied by the ability to realize it. The firm's competitive advantage strongly moderates the influence of the entrepreneurial actor perceptions on the pace of internationalization. Nevertheless, it does not override the "intention". The firm's competitive advantage can influence the degree to which the "intention" will be materialized. The causal relation between the firm's competitive advantage and the pace of internationalization is indirect, and is via the entrepreneurial actor perceptions.

Figure 11 A Refined Model of the Forces Influencing the Pace of Internationalization



Another option that we might consider is utilizing the OLI paradigm to replace the competitive advantage aspect of this model. Dunning notes that, "Unlike internalization theory, OLI paradigm does not purport to be a theory of the MNE per se, but rather a paradigm which encompasses various explanations of the activities of enterprises engaging in cross-border value-adding activities" (Dunning, 2001; Dunning & Lundan, 2008a: 95). His argument here is that the OLI paradigm can accommodate a variety of different activities by multinational firms, including internationalization. It would be possible to replace the competitive advantage portion of this model with the OLI advantages. However, the finding of this study suggests that the pace depends more on the competitive advantage of the firm, relative to other firms in the same markets. Following the literature that investigates the firm's internationalization, I argue that it would be more beneficial to apply the theories that directly address the firm's competitive advantages.

The pace of internationalization refers to the period of growth of the firm. Therefore, the factors that determine the pace should also be dynamic, reflecting the changing state of the firm's competitive advantages. In this sense, the international entrepreneurship literature that investigates the first pace of internationalization of this new type of firm would be better acquainted with this phenomenon. The cases here support the argument that it is beneficial to focus

more on the competitive advantage of firms, rather than the potential advantages of their expansion into foreign markets.

The role of knowledge and networks in the process of a firm's internationalization has been discussed for several decades (Johanson & Vahlne, 1977, 2009). While retaining knowledge and networks as part of this model, it now incorporates a new factor: the resources to obtain access to them. In this way, the model discusses more directly the competitive advantage of the firm relative to its competitors, and researchers can benefit from referring to studies that have applied the internationalization theories that are based on the knowledge and networks' state and change.

4.6 Conclusion

This study carried out an in-depth, matched case study of four firms, each representing one of the four types of internationalization mode. By treating the timing and pace differently, we discussed how to build models of internationalization that can accommodate these different modes.

This chapter examined the application of Oviatt and McDougall's model (2005a) and discussed potential refinements to it, especially if it is to accommodate early/slow and late/fast internationalization. Most notably, it argued

that the model is less applicable to the timing decision, that might be best described as a decision variable. It discussed the moderating influence of the entrepreneurial actor perception, and found that the early timing decision is especially influenced by this, compared to the late timing decision by the more established firms, with their systematised process and experienced managers.

Further, the chapter argued that the pace of internationalization is subject to the entrepreneurial actor perceptions, developed through the opportunity, enabling technology, and motivating competition, and the firm's competitive advantages, assisted by its access to knowledge, networks, and resources. By closely examining the internationalization process, we found that networks and knowledge are not preconditions. Firms can develop networks and knowledge in the process of their internationalization by utilizing their resources to obtain access to the required knowledge and resources. We also found that, in some cases, there might be regulatory factors that limit the speed of expansion.

Thus, this chapter developed two refined models, one for the timing and another for the pace. These two models employ the same list of factors, but each has a different causal mechanism. The timing is a decision variable; therefore, a decision could be made to override the implication of the level of a firm's competitive advantage on the timing, especially if the firm is younger and smaller. The entrepreneurs may lead their firm to adopt a much earlier or later timing of

internationalization than the appropriate timing when the firm would have developed a sufficient competitive advantage to gain from the overseas expansion even after the additional costs of managing an international operation have been deducted. On the other hand, the pace is a result of the on-going business operation. Even if the entrepreneurs desire a specific pace of internationalization, a firm must demonstrate a sufficient competitive advantage in order to materialize the intention. Many entrepreneurs would wish to internationalize as fast as possible; however, the actual pace of internationalization will be strongly influenced by the firm's ability to realize the intended pace and its competitive advantage.

While the analysis is based on a limited number of cases, this study invested a substantial amount of time in closely investigating the dynamics, which are often outside the scope of a qualitative study. However, we admit that there are a number of limitations associated with this type of study. The conceptual models developed in this chapter should stimulate discussion; however, they should be examined together with solid evidence in order to validate them. A quantitative study with a larger number of samples in a more standardized format could test the robustness of the current findings, and an examination of the findings in different countries or industries regarding unsuccessful cases would improve the generalizability of this research.

The combination of the presented findings here will stimulate debate about what we are researching and how we can define and categorize the types of early internationalization. I believe that this study has demonstrated the value of comparing the different types. The literature may wish to "clearly define the nature of the firms under investigation and label them accordingly" (Coviello et al., 2011: 628) for future studies. Mapping firms that adopt a slow internationalization approach and an earlier, faster one, respectively, in one figure should help to fill the gap between the existing IB frameworks and the phenomenon of accelerated internationalization (e.g., as explained by Mathews and Zander, (2007).

Multi-layered Factors Influencing the Firm's Internationalization Strategy

5 The Development of Routines for Internationalization

5.1 Introduction

Organizational routines and dynamic capabilities are central to the firm's competitive advantage. Much of the existing theoretical and empirical work in this field has in mind an established firm that is already equipped with a set of routines and capabilities. The same assumption has been dominant in the IB field when scholars discuss firm capabilities for international expansion, but how might we modify these theories concerning the acquisition and maintenance of routines and capabilities when we apply them to younger, smaller firms, such as Born Globals? This chapter addresses this question by conducting a retrospective case study of four internationalizing firms, each representing a different mode of internationalization. The research investigates how each firm develops firm-level organizational routines in the process of internationalization. In this chapter, I

focus on the nature of the routines and capabilities that influence the timing and pace of the internationalization process.

A competitive firm has the resources to generate a sustainable competitive advantage (Barney, 1991; Barney & Clark, 2007), together with a superior knowledge base, which is a combination of the specialized knowledge of its individual members and certain mechanisms via which knowledge is integrated to create firm-level capabilities (Grant, 1996a; Grant, 1996b; West Iii & Noel, 2009). It demonstrates high efficiency and effectiveness in transferring knowledge, and also builds broader social relationships within the firm, sharing individual knowledge within the organization to develop firm-level skills and capabilities in a short period of time (Kogut & Zander, 1992, 1993; Hedlund, 1994). Deliberate problem-solving and numerous events both inside and outside the firm enable it to develop strong capabilities (Nelson & Winter, 1982; Zahra & George, 2002a). It relies on a set of dynamic capabilities to enable it to conduct a variety of business routine activities, with predictable outcomes (Teece et al., 1997; Eisenhardt & Martin, 2000). Its absorptive capacity evaluates the external information and resources, integrating them into its internal business activities (Cohen & Levinthal, 1990; Lane, Koka & Pathak, 2006).

These internal factors that give internationalizing firms the sources of sustainable competitive advantage, namely, knowledge, and capabilities, have

been studied for decades in an attempt to understand the process of internationalization (Autio et al., 2011). This research tradition dates back to the stages theories, which regard these factors as lying at the centre of their explanation of the gradual development of the firm's internationalization coverage, commitment, and performance (Carlson, 1966; Johanson & Vahlne, 1977, 2009). The implicit assumption is that small firms lack sufficient knowledge and capabilities to overcome the liability of foreignness (Zaheer, 1995), newness (Freeman & John, 1983), smallness (Freeman & John, 1983), and outsider-ship (Johanson & Vahlne, 2009) that would enable them to conduct their demanding foreign operation at first. This theory identifies that the gradual accumulation and acquisition of knowledge and capabilities in the process of internationalization influence the firm's internationalization behaviour (Johanson & Vahlne, 1990; Forsgren, 2002; Johanson & Vahlne, 2009). A gradual increase in the commitment and scope of the firm's international operation is, at least to a large extent, explained by the accumulation of experimental knowledge (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). Internationalizing firms have been described as having a constant need for sufficient knowledge to enable them to move forwards to a higher level of commitment and broader coverage of the foreign market (Johanson & Vahlne, 1990; Eriksson et al., 1997). Therefore, firms gradually learn in the process of building their organizational routines for

international operations, reduce both the perceived and actual costs of operating in foreign environments, and expand step-by-step into distant places to increase their involvement in each market (Eriksson et al., 1997).

In contrast, firms that internationalize rapidly from an early stage of growth shed new light on the development of organizational routines that facilitate a faster pace and/or earlier timing of internationalization (Oviatt & McDougall, 1994; Bell, 1995; Knight & Cavusgil, 2004; Autio, 2005: 10; Cavusgil & Knight, 2009). These firms often derive a strong competitive advantage from their use of resources and outlets in multiple countries from an early stage of their development (McKinsey & Co, 1993b; Aspelund & Moen, 2001). This process predates the establishment of the firm (Helfat & Lieberman, 2002). The already-accumulated knowledge and experience of the founding members help firms to identify promising entrepreneurial opportunities (Shane, 2000; Wiklund & Shepherd, 2003). The entrepreneurs in these firms often attain limited, but strong, specialized knowledge and experience in their specific business area (Sapienza, Autio, George & Zahra, 2006). The research has identified that a higher degree of knowledge and capabilities accumulation from an early stage is one of the factors behind swift development (Oviatt & McDougall, 1994; Oviatt & McDougall, 2005b; Coviello et al., 2011).

Further, the research on 1) firms that start rapid internationalization at an later stage; and 2) firms that adopt a slow pace of internationalization from an early stage, has also provoked debate about the implications of the shortage of knowledge and capabilities with which to conduct international operations. The international entrepreneurship literature has focused on investigating young, small ventures' early stage internationalization (Jones et al., 2011). However, the literature finds that small, well-established domestic firms, without any indication of becoming involved in international activities, may suddenly embrace a rapid, dedicated process of internationalization (Bell et al., 2001; Bell et al., 2003). Some small firms may initiate their international operation from the earliest stage, but at a far slower pace than International New Ventures (Dimitratos et al., 2010). Today, internationalization lies within the scope of every firm due to the increasingly unified world market and competition (Zahra & George, 2002b; Dess et al., 2003; Dimitratos & Jones, 2005; Ripolles-Meliea et al., 2007).

Consequently, considering the increasingly large variety of internationalization modes, how internationalizing firms actually learn and often accelerate the pace and timing of their internationalization has not yet been explained in detail (Forsgren, 2002; Fletcher & Harris, 2012). While over a decade of research has established an understanding of the factors that influence the behaviour of rapidly internationalizing firms, how these firms learn remains inadequately researched

(Zahra, 2005). How rapidly internationalizing firms develop the required organizational routines and resulting capabilities at an early stage by overcoming their resource constraint and insufficient experience has not yet been fully articulated (Sapienza et al., 2006). Most of the empirical studies focus on only a part of the knowledge and capabilities required for internationalization, and lack an understanding of the overall knowledge and capabilities development involved in the longitudinal internationalization process (Bingham & Davis, 2012; De Clercq, Sapienza, Yavuz & Zhou, 2012).

Therefore, I conducted a retrospective case study of four firms, each of which adopted a different timing (i.e., early or late) and pace (i.e., fast or slow) for their internationalization. It examines the following two research questions: 1) what are the differences and similarities among the internationalizing firms regarding the exploration of the knowledge and capabilities that exist outside the firm?; and 2) to what extent can the change (i.e., exploitation) aspect explain the accelerated internationalization of certain firms that adopt faster, earlier internationalization?

As a result, this research finds that the level of the development of the firm-level organizational routines for exploring external knowledge and capabilities is low, regardless of the timing and pace, at the time of internationalization. Moreover, by analyzing the complete list of knowledge sources and types, this study identifies that firms that adopt a faster pace of internationalization develop a

wider variety of firm-level organizational routines for exploring external knowledge and capabilities. Finally, the distinction between ordinary and change routines has enabled this study to investigate the exploitation aspect of capabilities, and argue that firms that adopt a faster pace of internationalization are better able to exploit their existing organizational routines.

These findings advance our understanding of the influence of the development of organizational routines on the timing and pace of internationalization. The following sections identify the research gap, explain the research method, and develop the propositions from the cases.

5.2 Literature review

5.2.1 Routines development and the theory of the firm

Parmigiani and Howard-Grenville (2011) explain that organizational routines – repetitive patterns of interdependent organizational actions – have been investigated as "capabilities" and "practice" by organizational economics and organization theory respectively. They argue that organizational economists treat routines as a black box, and are interested in what, why, and the impact on firm performance, while those trained in organization theory are interested in how:

how routines operate, are reproduced or changed as people enact them internally (2011: 414-418). While both perspectives share several common themes and the potential value of collaboration has been recognized, to date, the researchers in each group seem to be having a parallel conversation (Parmigiani & Howard-Grenville, 2011: 414).

The capabilities perspective lies at the centre of this research, as it focuses on: 1) whole "entities rather than "parts"; 2) how routines influence organizational performance rather than how they work internally; and 3) the firm rather than the people. The purpose of this study is to identify the impact or influence of organizational routine development on the timing of the initial internationalization decision and the pace of the ensuing international geographic expansion. Thus, the focus is on understanding the firm-level capabilities and their performance implications, in this case, with regard to the timing and pace of internationalization. Consequently, the following reviews the "capabilities" literature, and develops the research questions. Nevertheless, this research also acknowledges the need to pay attention to individuals in order to understand how people actually operate, and analyze how the routines are reproduced and changed. Therefore, the empirical research also sheds light on individual level knowledge and capabilities, in order better to understand the firm-level organizational routines' development.

The capabilities literature has emerged as a counter argument to the economic theories of the firm that date back to Coase (1937) and Williamson (1979; 1985). These economics-based arguments have been utilized to investigate the logic of foreign direct investment, and expanded to form the two influential theories of multinational corporation: internalization theory (Buckley & Casson, 1976; Rugman, 1981) and the Eclectic paradigm (Dunning, 1981, 1988), which has transaction costs and factor costs as its main explanatory variables, together with the assumption of rational decision-making in firms (Melin, 1992). For decades, the economic-based theories dominated the explanation of the foreign direct investment decision and the existence of multi-national corporations.

However, the management literature has, more recently, incorporated competing arguments based on resource-, knowledge-, and capabilities-based logic into economics-based logic (Madhok, 2002; Leiblein & Miller, 2003; Jacobides & Hitt, 2005). The capabilities perspective considers that the firm is an entity endowed with a broad set of capabilities and resources (Penrose, 1959). Its ability to obtain and defend a specific set of physical, financial, human or organizational resources determines the competitiveness of the firm (Wernerfelt, 1984). Historically determined, socially embedded, and tacit capabilities and resources bind the firm in the market (Barney, 1991; Conner, 1991; Peteraf, 1993). In this view, organizational routines are defined as “the building blocks of

capabilities, with a repetitive and context-dependent nature" (Dosi, Faillo & Marengo, 2008: 1167), and can foster both the stability (the ordinary) that is associated with typical operations, and change (the dynamic) that involves creation and change (Winter, 2003; Helfat, 2007; Parmigiani & Howard-Grenville, 2011: 418-419).

The conflict between the stability and the change aspects of routines has been long-debated because of the routines' complementarity, stickiness, and inertial tendencies. Achieving a good balance between the exploration of new possibilities and old certainties involves trade-offs, but is essential in order to accommodate the constantly changing environment (March, 1991). Successful business growth requires the transferal of the routines between and within the firm boundaries or locations (Szulanski, 1996; Winter & Szulanski, 2001).

The notion of routines is articulated further as repositories of organizational memory, knowledge, and learning (Parmigiani & Howard-Grenville, 2011: 420) by scholars such as Kogut and Zander (1992, 1993) and Grant (1996b). Knowledge, combined with resources, refer to the routines or patterns of actions systematized in the firm. While there is no unified definition of knowledge, the internationalization literature tends to define it as the repetitive but static routines embedded in the various functions of the firm, which can include developed but static routines for constantly acquiring new knowledge from the knowledge

source. It involves the ability to "apprehend and use relationships among critical factors in such a way as to achieve intended ends" (Autio et al., 2000: 911; De Clercq et al., 2012: 145).

More recently, organizational learning and the underlying changes to ordinary routines have been framed as dynamic capabilities (Parmigiani & Howard-Grenville, 2011: 420). Although the exact definition varies, the literature acknowledges dynamic capabilities to be a set of processes or routines (Barreto, 2010). While capabilities may accommodate a broad scope of the firm's activities to realize a sustainable competitive advantage (e.g., Helfat & Peteraf, 2003; Teece, 2007), a more narrow definition of it is widely recognized: capabilities is "the firm's ability to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by the firm's principal decision-makers" (Zahra, Sapienza & Davidsson, 2006: 924). This is in line with the explanation of Winter (2003: 991): "one can define dynamic capabilities as those that operate to extend, modify, or create ordinary capabilities".

I consider dynamic capabilities to be a bundle of higher-level change routines that are independent of any ordinary routines. As Autio et al. (2011) found, applications of dynamic capabilities could migrate to other entries, products or processes, and are not embedded or applied solely to the root or context from which they come. "The firm develops dynamic capabilities to generate new

routines or modify existing routines and resource configurations to create a *potential* to achieve particular outputs that are congruent with organizational goals." (George, 2005: 119) If knowledge is repetitive but static routines that are embedded in the various functions of the firm, dynamic capabilities can be the ability to reconfigure these static ordinal routines.

This dynamic capabilities aspect might also accommodate an absorptive capacity, that is the firm's ability to integrate, comprehend and assimilate the knowledge obtained from external sources (Cohen & Levinthal, 1990; Zahra & George, 2002a). The absorptive capacity is the routines that identify, acquire and assimilate new knowledge (Lewin, Massini & Peeters, 2011). This corresponds to the firm's ability to perceive valuable goals and the appropriate means of achieving them in uncertain environments, of which it or its management team have insufficient prior experience or knowledge. The increasing recognition of the absorptive capacity aspect of capabilities reflects the importance of exploring external knowledge sources. The shifting boundaries of the firm (Sako, 2006b) and emergence of hybrid forms (i.e., modular, relational, and captive) of global value chain governance (Gereffi et al., 2005) might support the need for the concurrent investigation of the internal and external, as well as exploration and exploitation.

In fact, several studies of internationalization consider that external knowledge exploration forms part of the dynamic capabilities and name, e.g., "aspects that foster cognitive learning" (Autio et al., 2011: 32). A growing number of studies investigate the influence of external factors that foster opportunity recognition, discovery, and creation, especially in uncertain environments (e.g., Gregoire et al., 2010; Haynie et al., 2010). They suggest the need to assess this "absorptive capacity" or "cognitive capacity" aspect differently to the internal mechanism that exists within the firm. As Haynie et al. (2010) argue, a set of cognitive resources are valuable, rare, and inimitable, and may constitute independent value regarding the competitive advantage of the firm. In order for firms to cope with the foreign environment and volatile global competition, they constantly recognize, evaluate, and integrate foreign ideas.

Thus, this research recognizes three types of organizational routine for developing firm-level capabilities: 1) the ordinary routines that explore (i.e., discover and experiment) the new knowledge and capabilities that exist outside the firm; 2) the ordinary routines that explore the existing knowledge and capabilities inside the firm; and 3) the change routines that exploit (i.e., generate and change) the ordinary routines. The existing studies in the capabilities literature have explored the existing knowledge and capabilities inside the firm. However, the studies on internationalization have explored new knowledge and

capabilities outside the firm, because of the assumption that younger, smaller internationalizing firms lack internal knowledge and capabilities and so supplement these from their external environment. Further, both the capabilities and international entrepreneurship literature increasingly recognize the importance of the change routines that bring about generations of new ordinal routines and modifications to the existing routines.

5.2.2 Knowledge, capabilities and the firm's internationalization

The thories of internationalization, such as the stages theories (Johanson & Vahlne, 1977) and International New Ventures/Born Global firms (Oviatt & McDougall, 1994; Knight & Cavusgil, 2004), have placed organizational routines development at the core of the firm's gradual international operation development (Johanson & Vahlne, 1977; Oviatt & McDougall, 1994; Johanson & Vahlne, 2009; Coviello et al., 2011). They investigate the process whereby smaller, younger firms start their internationalization and expand into the international markets, gradually developing what they often call "knowledge".

While the stages theories place equivalent emphasis on both internal and external capabilities development, the studies of International New Ventures often focus more on the individual-level capabilities of the founding members and external exploration of knowledge and capabilities via networks, because of the

implicit assumption that firms without tangible domestic operations do not have the necessary internal organizational routines at the firm-level but rather utilize the capabilities of individuals within or outside the firm to accelerate the speed of their internationalization. The knowledge and capabilities of other firms would be within the scope of this exploration, as establishing a new relationship with other firms could be considered to form part of it (Lavie & Rosenkopf, 2006). Firms start their operations with a very limited existing knowledge and capabilities base to exploit. The research, therefore, emphasizes how these firms explore "knowledge" from the external environment in their process of internationalization.

The differences between firms in terms of their "knowledge" exploration routines and the way in which they exploit these have been considered as one of the most significant factors in the timing of the internationalization and the pace of the ensuing international expansion (Coviello et al., 2011; Jones et al., 2011). How do rapidly internationalizing firms source the required knowledge? What kind of knowledge does they require in order to undertake fast, early internationalization? These are the kinds of question that the literature investigates in order to understand the factors that enable faster, earlier internationalization, which challenges the view that firms gradually develop their organizational routines mainly through experimental or trial-and-error learning.

In fact, because "knowledge" has been considered by internationalization researchers to be a distinctive resource through which firms utilize other types of resource, several studies have categorized the types and sources of knowledge specific to internationalization. For example, Fletcher and Harris (2012: 632-633), building on Bengtsson (2004) and Huber (1991), discussed three types of knowledge: technological knowledge, market knowledge, and internationalization knowledge, as the contents of knowledge that are the most influential on the internationalization behaviour of the firm. In other research, De Prijcker, Manigart, and Wright (2012) distinguished experimental knowledge, inherited knowledge, and external knowledge as the major types of knowledge source.

A review by De Clercq, Sapienza, Yavuz, and Zhou (2012: 153) found that the majority of internationalization research refers to Eriksson et al. (1997) in order to categorize the knowledge required to conduct business overseas. Eriksson et al. (1997) distinguish business market knowledge, institutional knowledge, and internationalization knowledge as the types of knowledge required by internationalizing firms. The accumulation of these three types of knowledge contributes to the firm's ability to achieve its intended ends with regard to each distinction. De Clercq et al. (2012) also discuss five knowledge sources, which represent the origin of the knowledge that constantly, repetitively, and statically supplies knowledge for the firm. These are: experiential learning, vicarious

learning, searching, grafting, and congenital learning, originally developed by Huber (1991). These five distinctions are also static routines that constantly deliver the ideas from each source. For instance, an aspect of grafting will be the advantages of recruiters, the recruitment department, and associated recruitment system and procedures that constantly recruit experienced managers.

Figure 12 The Structure of Knowledge Sources and Type for Internationalization

			Knowledge type		
			Internationalization	**Market**	**Institutional**
			Knowledge of specialized business knowledge e.g., international financing	Knowledge of local competitive landscape, e.g., customers, competitors, distributors	Knowledge of local non-market factors, e.g., business conduct, culture, stakeholders
Knowledge Sources	**Experimental**	Learning that emerges from direct experience through international activities			
	Vicarious	Learning from network partners or observing other organizations			
	Searching	Learing from informaiton about the organization's environment			
	Grafting	Learning through adding on components or resources that possess knowledge needed			
	Cogenital	Learning before the inception of the firm (i.e., knowledge or expereince of founders)			

Source: developed by the author with reference to De Clercq et al., (2012), Eriksson et al., (1997), and Huber (1991).

Figure 12 above shows the types and sources of knowledge that the firm may utilize in the process of its internationalization. De Clercq et al. (2012) found that

most studies focus solely on foreign market knowledge, and experiential learning is directly or implicitly identified by the studies as the most important means of learning (e.g., Delios & Henisz, 2003; Bingham, Eisenhardt & Furr, 2007), followed by congenital learning (e.g., Reuber & Fischer, 1997) and searching (e.g., Chandra, Styles & Wilkinson, 2009). A few researchers consider that internationalization knowledge is an outcome of direct, vicarious experience (i.e., experimental learning), but fail to evaluate clearly (or even mention) other sources of knowledge (De Clercq et al., 2012: 154). It is also surprisingly rare to find any discussion of institutional knowledge (De Clercq et al., 2012: 153).

The variety of routines may explain the internationalization patterns. For example, Shameen and Floyd (2012) investigated the micro-processes by which internationalizing firms develop their capabilities, and explained the individual-level mechanism by which situation uncertainty leads to capability learning. They theorize that a large number of variants in the routines (high ostensive variation) help to improve the existing capabilities because internationalizing firms can try to solve problems in a variety of "proven" ways (Prashantham & Floyd, 2012: 551-552). By contrast, a few variants in the routines (low ostensive variation) contributes towards new capability development (Prashantham & Floyd, 2012: 550-551). Moreover, Bingham and Davis (2012) argue that the learning sequence, whish is the way in which the firm utilizes a variety of learning processes, may

explain both the short- and long-term performance differential among the internationalizing firms. These theories also indicate the importance of understanding the variety of routines by which internationalizing firms explore their external capabilities.

Nevertheless, with this variety of knowledge sources and types, the present literature has developed only a limited understanding of the overall picture of the relative importance of different combinations (Bingham & Davis, 2012: 611-612). The majority of research relies on an incompatible focus and, therefore, a precise cross-comparison requires careful alignment efforts.

This situation is at least partially due to the fact that the precise interpretation and definition of "knowledge" varies by research. There are no concrete frameworks available for capturing the external exploration of "knowledge". The internationalization literature has been investigating "knowledge" for decades, and is now reaching a point where we need to develop a common definition and understanding of the firm-level organizational routines that accommodate the concepts of resource, knowledge, and capabilities.

In fact, the definition of knowledge is a long-standing debate. While the internationalization literature often prefers to employ the keywords "knowledge" or "learning", the exact definition of the concept often emphasizes the

organization's ability to apprehend and utilize critical factors to achieve the strategic goal (e.g., Autio et al., 2000: 911; De Clercq et al., 2012: 145). Many researchers consider that capabilities are often a part of knowledge that can create an advantage regarding internationalization (e.g., Zhang, Tansuhaj & McCullough, 2009; Schweizer, Vahlne & Johanson, 2010). The link between the internationalizing firm's absorptive capacity and its revenue and profit growth has also been observed and discussed (Zahra & Hayton, 2008).

The exploration of knowledge and capabilities and the exploitation of such exploration routines do not happen naturally or statically. They involve an active, complex, and longitudinal process that constantly changes over time. Internationalization is the result of the firm's ability constantly and effectively to integrate the required knowledge into the organization, especially from the outside environment. In high velocity markets, the static nature of the resource/knowledge-based perspective has its limitations due to the changing requirements regarding competitive advantages and the resulting shift in the values of the resources and knowledge existing in and around the firm (Teece et al., 1997). Consequently, an increasing number of International Business researchers acknowledge the need to incorporate the discussion around the dynamic capabilities that have developed as a theory for explaining the change routines that enable firms systematically to exploit the routines that are most

relevant and beneficial to their competitive advantage (e.g.,Sapienza et al., 2006; Zettinig & Benson-Rea, 2008; Schweizer et al., 2010). The focus of the literature is shifting towards the dynamic aspect of capabilities.

I agree with Zettinig and Benson-Rea (2008: 362): "It is not the resources as such that are critical advantage generators but rather the ability to combine and recombine these resources effectively in order to adapt to different institutional environments and to fast-paced changes". Start-ups that are exposed to the challenges of international operation from the earliest stage will gain a learning advantage and so acquire capabilities that will help them to increase the probability of growth (Autio et al., 2000). However, early stage exposure to the challenge of international business, in turn, also reduces the survival rate due to the low fungibility of the capabilities that develop during the process of internationalization (Sapienza et al., 2006). Firms that undertake early, rapid internationalization focus on exploring and exploiting the routines that are tailored to suit the requirements of the international operation in order to be successful (Zettinig & Benson-Rea, 2008). Internationalizing firms must constantly invest in developing an absorptive capacity in order effectively to explore new knowledge and capabilities in the process of growth (Zahra & Hayton, 2008: 197). They must adapt and improvise when executing their strategy in a foreign market environment (Bingham, 2009). The change aspect may explain why some firms

can constantly grow while others cannot. Internationalization involves making certain changes to the firm's existing routines, as well as adding new ones.

Smaller, younger firms are in a different situation to larger, older ones. Smaller, younger firms are inevitably affected by the liabilities of newness (Aldrich & Fiol, 1994) and smallness (Freeman & John, 1983). However, newness and smallness are, on the other hand, advantageous because of the lower difficulty of coordinating the new and existing routines (Autio et al., 2000; Knight & Cavusgil, 2004). By contrast, the opposite challenge arises for larger, older firms when they attempt to change. Researchers have found that the long-term experience of domestic operation might hinder the effective knowledge accumulation required to operate in a foreign environment (Anders, Kent & Sharma, 2004; Sapienza, De Clercq & Sandberg, 2005). There may be a linkage between slower internationalization and the lower international entrepreneurial capabilities of older, traditional firms (Zhang et al., 2009) or smaller acquisition of related knowledge as a result of the domestic operation history (Blomstermo, Eriksson & Sharma, 2004).

Therefore, the capabilities development of smaller, younger internationalizing firms may provide us with new insights into the firm's exploration and exploitation of capabilities. The development of organizational routines, which represent the knowledge and capabilities development of the firm, determines the

timing and pace of internationalization, at least to a degree. The evolution of firm-level capabilities has been researched from a variety of different disciplines (Helfat, 2000). However, exactly what distinguishes firms that undertake earlier, faster internationalization and those that undertake later, slower internationalization remain inadequately investigated.

5.2.3 Research gaps

The firm is a bundle of valuable resources and knowledge, which has a developed, repetitive, but static set of routines that enables it to conduct tasks by utilizing the other types of resource in and around the firm. In order to enter any uncertain environment, the firm has to catch up with the challenging environment by changing its static routines and seeking the best ways in which to accommodate the new conditions. The ability of the firm to integrate, comprehend, and assimilate external knowledge may significantly influence the timing and pace of internationalization.

However, the literature still requires an understanding of how organizational routines development will influence the timing and pace of internationalization. While the international business literature has been exploring external capabilities for decades, we have not yet found a comprehensive view of the influence of organizational routines development on the internationalization behaviour of the

firm. As recent studies only focus on one or two of a variety of different knowledge types and knowledge sources, we still do not have a clear understanding of the differences (and similarities) between firms that take a different internationalization path.

Further, micro-level studies investigating knowledge and capabilities emergence in entrepreneurial firms are also required (Autio et al., 2011), because of the prediction that the ability to exploit the existing routines (i.e., dynamic capabilities) might explain why some firms can accelerate their internationalization process. The divergent definitions of knowledge and capabilities in the internationalization literature are another reason why a refined view of the influence of organizational routines development on the timing and pace of internationalization needs to be developed.

Zahra's question (2005: 25) has not been answered adequately yet: "If knowledge integration (i.e., sharing and combining the knowledge obtained from external sources) is an important factor in harvesting the learning gains that International New Ventures achieve in their foreign markets, do different International New Venture types use different approaches in this process?"

Thus, focusing on the ordinary routines that explore external knowledge and capabilities (i.e., knowledge sourcing routines) and on the change routines that

exploit these ordinary routines (i.e., dynamic capabilities), this study investigates the following two research questions: 1) what are the differences and similarities regarding utilizing the external exploration of capabilities among internationalizing firms?; and 2) to what extent can the "capabilities" aspect explain the accelerated internationalization of some firms that adopt faster, earlier internationalization?

5.3 Research method

5.3.1 General strategy

I conducted a retrospective case study of four case firms to investigate how different International New Venture types use different approaches regarding capabilities development and deployment for internationalization. The firms utilize a variety of entry mode options, but I focused on direct investment, including subsidiary, acquisition, and foreign branches.

Firstly, this research obtained information about the exploration of knowledge and capabilities for internationalization that exist in the external environment, and investigated their changes overtime. To ensure structured data collection, I adopted De Clercq et al. (2012) for their reference to knowledge types in Eriksson

et al. (1997) and knowledge sources in Huber (1991), as illustrated in Figure 12, for obtaining information. Secondly, the analysis compared the four cases, highlighting the differences and similarities among the samples. Finally, this study developed propositions about how the organizational routines development is similar or different among the four different International New Venture types.

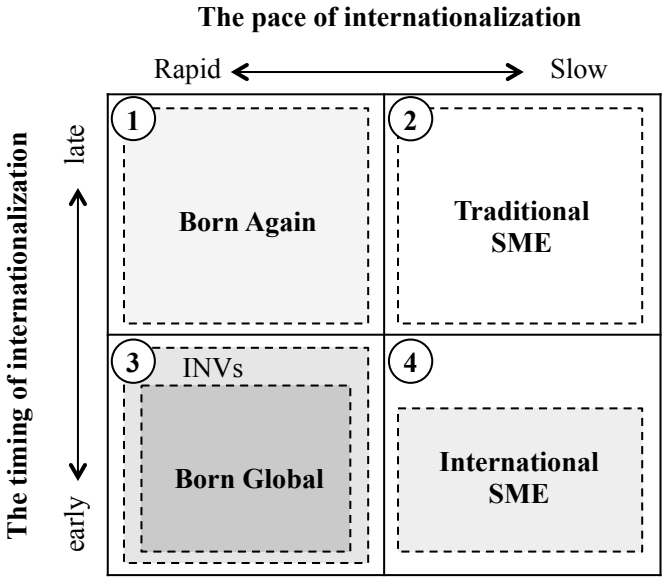
5.3.2 Case selection: the typology of the mode of internationalization

I utilized the two-by-two matrix outlined in Chapter 4 to map the four different modes of internationalization. Using a set of two axes, the timing of the initiation of international expansion in the years after the establishment and the pace of international growth in a number of operating countries, we can map four types of firms' internationalization process and crystalize the differences caused by the dimensions of time (see Figure 13).

International New Ventures (Oviatt & McDougall, 1994) and Born Globals (McKinsey & Co, 1993b) are situated in box 1 (early & fast). Established firms that suddenly embark on rapid internationalization (Bell et al., 2001) will match box 2 (late & fast), firms that adopt a staged approach (Johanson & Vahlne, 1977) lie in box 3 (late & slow), and firms that start internationalization at the earliest

stage but adopt a slow pace (e.g., Dimitratos et al., 2010) fall into box 4 (early & slow).

Figure 13 A Typology of the Internationalization Mode



Thus, the four case study firms were selected purposively, each representing one of the four internationalization paths, which correspond to one of the four boxes in the two-by-two matrix. This sampling enabled the researcher to compare the organizational routines development between; 1) firms whose internationalization pace is fast and slow; and 2) firms whose internationalization timing is early and late.

The case firms allowed this research to gain access to most of the relevant information and people involved in the internationalization process. All of the companies are chosen from the ICT sector in order to minimize the influence of

the differences between technology or customer profile. The focus on this sector also enables this research to follow a larger proportion of the internationalization process in a short period of time.

The Born Again, Traditional SME, and International SME are the same firms as described in Chapter 4, whereas the Born Global is a different firm to that described in Chapter 4. This is because the Born Global allowed the researcher to investigate all parts of the business, providing a much richer picture of how the firm developed its internal organization. Table 11 shows a refined list of cases, replacing the Born Global with the new sample.

Table 11 A Refined List of the Case Study firms

Name	**product & service**	**Year of establishment**	**Year of first FDI**	**First distination**	**Revenue** mn yen; 2010	**No. of employees** 2010	**Internationalization destination(s)**	**The timing** (first FDI - year of establishment)	**The speed** (No. of operating countries by the end of 3rd yr)
Traditinal SME (CoA)	Web & telecom services	1997	2003	Taiwan	2000	100	7 countries in Asia	5	2
Born Global (CoB)	**Education software**	**2010**	**2010**	**USA**	**n.a.**	**5**	**US & Asia**	**0**	**> 7***
Born Again (CoC)	Social games	2004	2010	USA	35200	170	Worldwide	6	> 9*
International SME (CoD)	Education & Recruiting	2008	2009	China	n.a.	15	Greater China	1	2

* by the end of second year

5.3.3 Data collection

The management interviews were the primary source of information. They were semi-structured, with the aim of understanding the overall external factors influencing the timing and pace of internationalization. Further, the interviews were carried out using a semi-structured interview guide that was developed to

maintain consistency and capture information about all of the components in Figure 12. The semi-structured format enabled the interviewees to express their ideas and opinions in their own words, and also allowed a comparison of these across subsequent interviews and across firms. Each interview lasted 1- 2 hours, and the primary interviewees were the entrepreneurs or senior managers in charge of the internationalization planning and execution. The interviews were carried out on multiple occasions over the past three years, and some were in conjunction with the interviews conducted for Chapter 4.

For the purpose of triangulation (Eisenhardt, 1989), other forms of data, such as press coverage, corporate archival data, and participant observation, are adopted. To avoid potential information bias, at least three persons were interviewed from each case firm, and supplemental interviews were conducted with venture capitalists and other industry experts (Maylor & Blackmon, 2005). The necessary steps for ensuring validity and objectivity were taken, including respondent conformation of factual accuracy, peer feedback on the emergent prepositions and arguments (Miles & Huberman, 1994), and the development of case study notes (Yin, 2006).

Overall, I collected data from 44 interviews that lasted approximately 56 hours in total (see Table 12). The majority of the interviews were semi-structured in nature, held between July 2011 and October 2012. In addition to the formal

interviews conducted in the office or over the phone, I participated in informal drinks and dinners with key personnel from the case companies and openly discussed their strategies and views. Fourteen participant observations, including an office overview, internal meeting, and company party, also assisted my understanding of the informal corporate structure, underlying processes and developing propositions.

Table 12 List of Interviews for Chapter 5

ID	Type of business	Hours	Position/description of the interviewee	Date
1	Traditional SME	1	Entreprenuer	Aug-06
2	Traditional SME	1.5	Entrepreneur	Jul-09
3	Traditional SME	1.5	Entrepreneur	Jul-09
4	Traditional SME	3	Entrepreneur	Jul-11
5	Traditional SME	1	Costomer interview	Oct-11
6	Traditional SME	1	manager (in charge of China expansion)	Nov-11
7	Traditional SME	1	Management advisor (future CxO)	Nov-11
8	Traditional SME	1.5	Entrepreneur	Nov-11
9	Born Global	1	manager	Jun-12
10	Born Global	1	CEO	Jul-12
11	Born Global	1	CEO	Jul-12
12	Born Global	1	CEO	Aug-12
13	Born Global	1	Senior manager	Aug-12
14	Born Global	1	managers	Aug-12
15	Born Global	1	CEO	Aug-12
16	Born Global	1	CEO	Sep-12
17	Born Global	1	Team (asking questions during the meeting)*	Sep-12
18	Born Global	1	Team (asking questions during the meeting)*	Sep-12
19	Born Global	1	Team (asking questions during the meeting)*	Oct-12
20	Born Global	1	Team (asking questions during the meeting)*	Oct-12
21	Born Global	1	manager	Jan-13
22	Born Again	2	manager A (Business planning)	Jul-09
23	Born Again	1	VP Product development	Oct-10
24	Born Again	1.5	VP Product development	Jun-11
25	Born Again	1.5	VP global alliance	Jun-11
26	Born Again	1	manager B (Human resource)	Jul-11
27	Born Again	1	SVP Product development	Sep-11
28	Born Again	0.5	SVP Product development	Sep-11
29	Born Again	2	Customer interviews	Sep-11
30	Born Again	1	manager C (human resource)	Oct-11
31	Born Again	1	SVP Social game	Mar-12
32	Born Again	1	VP CEO office	Mar-12
33	Born Again	1	SVP social studio	Apr-12
34	Born Again	1.5	SVP social studio	Apr-12
35	Born Again	1.5	Senior manager, Business planning	Apr-12
36	Born Again	1.5	Director, Social game	Apr-12
37	Born Again	1.5	Product manager	Apr-12
38	Born Again	2.5	manager, Business development	May-12
39	International SME	2	Entrepreneur	Apr-10
40	International SME	0.5	manager	Jul-11
41	International SME	1	Entrepreneur	Jul-11
42	International SME	1	Entrepreneur & manager	Jul-11
43	International SME	3	Entrepreneur	Oct-11
44	International SME	1	Entrepreneur	May-12

* Asked interview questions during participant observations, the hours discounted to 1/3 of the meeting time

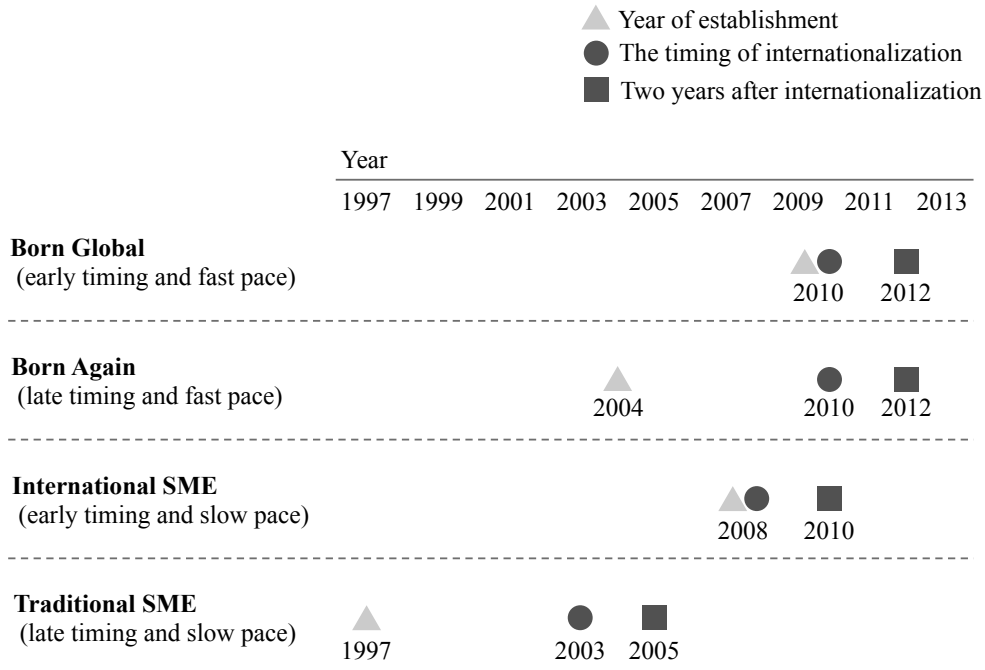
5.3.4 Analytical method

The analyses focused on the firm-level organizational routines development in the process of their internationalization. The interviews were the primary source of information, and were utilized to understand the nature of the organization's development. The analyses highlighted the places where the contrast between the different modes of internationalization are most evident.

The main analysis techniques employed in this research were cross-case synthesis and cross-case comparison (Yin, 2006). The collected data are converted into a narrative story, and qualitatively evaluated by the researcher. This research adopts the widely-recognized definition of firm-level organizational routines: "repetitive, recognizable patterns of interdependent actions, carried out by multiple actors" (Feldman & Pentland, 2003: 95). The research developed perspectives through the inductive, iterative process of theory development, and constantly revised them until they sufficiently and accurately explained the empirical evidence observed (Miles & Huberman, 1994; Glaser & Strauss, 2006; Yin, 2006: 47). In other words, the tentative propositions are revisited and refined through replication logic (Eisenhardt, 1989) and a structured, focused comparison (George & Bennett, 2005: 67).

In order to understand the longitudinal process of the development of organizational routines during the internationalization process, this study compares the routines at the time of the initial internationalization (i.e., the circles in Figure 14) with those two years after this (i.e., the squares in Figure 14). Two years are selected because this is the maximum length that this study captures; it is only two years since the Born Global and Born Again's first international expansion. It is possible to describe other points in time; however, according to the data obtained for these points in time, and I am confident that the same general observations could be made.

Figure 14 The Points of Analysis



The following section (5.4) illustrates the firm-level organizational routines for internationalization in the four firms at the time of their initial internationalization, then two years later. Section 5.5 discusses the findings and develops propositions with regard to the relationship between the routines and the timing and pace of internationalization.

5.4 Findings

5.4.1 The routines when firms begin their internationalization

When the four firms embarked on internationalization, they had not yet developed any significant organizational routines for this process. They relied on individual-level knowledge and capabilities and experimental learning in the initial period. The entrepreneurial actors' personal network, knowledge, and experience drove the growth. The differences between the levels of the development of the organizational routines for internationalization were minimal among the four firms, while those that adopted a later timing have already developed a number of organizational routines for their domestic business.

5.4.1.1 Born Global (early timing and fast pace)

Born Global expanded into 7 countries within the first two years of its inception. It provided educational applications whereby learners can enjoy using interactive and adaptive study materials, and their teachers and parents monitor their learning progress. It had around four full-time employees at the timing of its internationalization. Two years later, it had 30 full-time employees and a network of about 25 contract workers for creating and maintaining the contents.

The CEO of Born Global was the co-founder of a successful startup and experienced IPO before establishing the company with CTO with a technology background and COO with a technology consulting background. They spent six months simply considering business ideas and building a network of business people.

The CEO of Born Global recalls:

"Exactly the same table at the McDonalds overseeing Richmond had been the headquarters before we established the firm. We already had plans and ideas to launch the product and service overseas before we finally set up the legal entity".

Before they established the legal entity, they tried out a number of business ideas, which proved unsuccessful. An extreme example was a curry house chain. The CEO worked part-time in an Indian curry house and, in fact, developed recipes for the curry house chain. However, he decided to abandon this idea due

to the competition. In another case, they tried to establish an educational institute, but the plan turned out to be less attractive than initially imagined. The founders learnt from the process of building and scrapping business ideas before the inception of the legal entity. They finally devised a plan to introduce educational applications in the U.S. first, and then in Asia when they found a skilled engineer who was keen to build an educational application platform.

After its inception, the founder's already accumulated capabilities and past experience as the head of business development of the company that he co-founded helped him to form and execute his business plan. He quickly recruited engineers and started to find venture capital. He also started to negotiate with potential alliance partners. He let the members try things first, but constantly monitored their progress and suggested better ways of executing their tasks, partially due to the need to develop the capabilities of the members and also partially due to the fact that it was impossible for him to monitor all of the business activities. The small startup could not hire experienced managers in the sphere of international business, and therefore all of the members had to work out how to manage the unknown, new business. At the timing of internationalization, as nobody knew to what extent the business might grow, it was difficult for them design any firm-level systems.

At this stage, Born Global was determined to build a global business, but was still searching for the appropriate ingredients for its internationalization plan. Therefore, Born Global constantly changed the way in which it operates in order to build its international operation. Experimental or "trial and error" learning were the only established organizational routines shared among the members of the firm. Born Global constantly implemented new plans for every function of the firm, and reported the outcomes on a daily basis to evaluate whether to adopt or modify the plan again. It had a firm-level organizational routine for testing new plans, evaluating the outcomes, and deciding on the next step for all types of activity related to internationalization. However, each activity relied on individual capabilities and was not institutionalized yet.

The preparation before the firm existed inevitably influenced the timing of the internationalization. Born Global started to develop individual-level routines before the inception of the firm. However, at the timing of internationalization, there were no firm-level organizational routines, except for experimental learning.

5.4.1.2 International SME (early timing and slow pace)

International SME started its operation in 2008 and established offices in two countries in the first two years. It provided education services that connect students and schools in developed and developing countries. For example, it

dispatched highly skilled hairstylists from a developed county to vocational schools in a developing country. It had two full-time employees at the timing of the internationalization. Two years later, it had 15 full-time employees and had developed a network of teachers and students across Asia.

The CEO had determined to make the firm international before its inception. The first overseas expansion was the CEO's personal effort to offer advice on job searching to exchange students studying in Japan. He worked for four years at a well-established recruitment and corporate training service provider as a high-performing account manager. He also worked for Goldman Sachs and developed an understanding of how global firm operate before launching International SME. He considered first establishing a domestic operation before entering the international markets. However, he thought that the challenge of connecting Asia and Japan would prove rewarding, so decided to be international from the start.

At the time when the firm went international in 2008, International SME could not hire experienced managers to manage its international operation. The CEO had to develop the business plan himself, and asked other staff members to try to execute it. The plans, such as assisting Japanese universities in Asia with their student recruitment activities and helping Asian students to find out information about universities in Japan, were developed largely due to the CEO's previous business experience with the recruitment and corporate training service provider.

In the first phase, the other members were interns or junior staff; therefore, International SME had to rely on its CEO.

Further, the CEO also tried to let the staff learn from him and develop their business skills. He utilized the knowledge gained from the domestic market to develop standard procedures for organizing the business, such as how to negotiate with clients and advertise events. The CEO directed the staff gradually to refine the procedures to accommodate the differences between the home and host markets. For example, the staff had to find local media through which to advertise events. They also had to learn the needs of the local customers, and gradually changed the format of the events. After their execution, they reported the results at meetings, and the CEO and the staff discussed how to refine the procedures further.

The CEO explained:

"It would have been far more effective if I had decided and implemented it by myself, but I decided to let the staff do the work and monitor their progress regularly. This is a process of educating our staff and also developing the organization. We learnt from our experience and gradually developed standard procedures for international business".

International SME was able to develop firm-level organizational routines quickly for all functions by leveraging the CEO's experience and capabilities. However, these are not tailored to the needs of international operations because the CEO had very limited experience and capabilities with regard to international

business. At this stage, the international SME started gradually to learn the differences between the home and the host country through experimental learning. While the CEO consciously approached a variety of people and organizations to source the required knowledge and capabilities, these individual-level activities had not yet been institutionalized as firm-level activities. Experimental learning was the only institutionalized firm-level routine for internationalization.

5.4.1.3 Born Again (late timing and fast pace)

Born Again was established in 2004 as a social networking service. It then started its internationalization in 2010, and opened offices in more than ten countries within two years. Its major products were social games, through which users interact with each other to enjoy the social functions related to mobile games on smart phones. It had 170 full-time employees at the timing of the internationalization and, two years later, approximately 1000 full-time employees.

The timing of its internationalization was two years after Born Global went public. It had already established a variety of firm-level organizational routines to source the knowledge and capabilities required for its domestic business. It constantly hired more than 100 engineers and managers. It had several teams dedicated to evaluating any alliance and acquisition opportunities. The product development teams developed key performance indicators that can monitor all of

the activities of the customers via their social games, and could evaluate the performance result of the product modification or marketing campaigns. However, these routines were designed and tailored for its home market. For example, the recruitment teams had no experience of hiring non-Japanese speakers. The market intelligence team did not cover articles in English and software houses outside Japan in their market reports. The marketing team did not have any idea about the customers in the foreign markets. When it started its first foreign operation in a shared office in San Francisco, none of the members dispatched from Tokyo had any experience of conducting business in a foreign environment.

At this stage, Born Again had to modify its existing corporate systems, that had been designed for the home market, in order to accommodate the different needs of the host markets. For example, Born Again's travel expense calculation procedures did not allow employees to travel by car, which is the most common commuting method in California. While it was difficult for Born Again to issue stock options to its employees, it had to follow the standard pay scale, which is commonly used by startups of a similar size in Silicon Valley to recruit the best talent. It also had to understand the widely used corporate contract standards (often following the corporate law of Delaware). While Born Again was one of the best-recognized firms in Japan, it had to develop its credibility and networks

overseas from scratch. It was unaware of these differences when it started the operation, and often faced challenges. It had to change its domestically developed systems one-by-one, especially in the first three to four months of operation.

A Senior Vice President of Born Again recalls:

"At that time, we really didn't know anything. We had confidence in our capability to produce the best social games, but none of us had experience of conducting business overseas. It was like fire-fighting. We constantly had to solve the problems arising from the mismatch between our understanding and the reality".

At the timing of the internationalization, all of these changes were carried out between the headquarters in Tokyo and the office in San Francisco, which were the first and only foreign operation. However, there were no systematic routines for sourcing the required knowledge or capabilities to accommodate these differences. It relied on individual-level knowledge and trial-and-error learning. Therefore, the pace of change was slow in the first three to four months after the initial foreign direct investment. The situation did not change until it acquired a well-known local company, which had around 100 experienced managers and engineers, four months after Born Again established its first foreign office.

5.4.1.4 Traditional SME (late timing and slow pace)

Traditional SME was established in 1997, and first started importing activities, followed by exporting. The first foreign direct investment occurred in 2003 when

it opened an office in Taiwan. It provided server management solutions and related solutions mainly to business customers. It had around 30 full-time employees at the timing of the internationalization, increasing to around 35 after two years. However, this was not due to the expansion of the international business.

Traditional SME considered several Asian countries as candidates, investigated the market information and developed the expansion plan. The staff could utilize the templates (e.g., the documents from previous business plans) systematically to process the expansion plan to obtain approval. The staff could also utilize their local knowledge because some of them had been born in Taiwan. However, most of the staff had no previous experience or knowledge of actually building a business in Taiwan. These procedures were designed for the domestic operation and were not tailored to international operations.

The CEO explains:

"We followed the procedures, which we have developed for the plan to go public, to develop the international business plan, and it was effective for that purpose. It was also fortunate that we had a variety of different nationalities in the firm. These staff gave us an idea of what kind of local environment we should expect".

Its understanding of the local market environment helped Traditional SME to narrow the capabilities gap. It could find a high-potential Taiwanese manager who was willing to take on the challenge of executing the plan from its existing pool of

talent. The manager has personal networks, understands the local culture, and speaks the local language. However, this was not a result of a strategy to assist the international expansion, but rather of one to recruit exchange students to cope with the difficult recruitment environment for small startups in the home market.

Soon after the timing of its internationalization, Traditional SME struggled to expand its business in its first market, Taiwan. It had to cope with the differences in regulations (e.g., server management software must comply with the local telecommunication law) and business protocols (e.g., different ways of negotiating contract terms). As the type of services that the local customers prefer differed from that that Traditional SME had been operating in its domestic market, the Taiwan operation could not leverage its in-house experience and knowledge. Because the local branch struggled to find experienced managers due to its limited budget and under-established credibility, the expatriate managers had to find solutions step-by-step.

At the timing of the internationalization, Traditional SME relied on its managers' individual knowledge and capabilities to understand the local market conditions. It did not have any firm-level routines designed for international business. The capabilities of the headquarters could not help because of the differences between the products, regulations, and business protocols. Thus, the local staff relied on experiential learning.

5.4.2 The routines two years post-internationalization

Within the first two years after the initial internationalization, the firms that adopted a faster pace had quickly developed a variety of organizational routines for exploring their external knowledge and capabilities. These firms relied on grafting to accelerate the development of the organizational routines, and could constantly exploit the developed routines in order to catch up with the pace of expansion. In contrast, the firms that adopted a slower pace suffered from insufficient resources and did not utilize grafting. They relied on experimental learning and could not develop any firm-level routines to source internationalization knowledge and capabilities.

5.4.2.1 Born Global (early timing and fast pace)

Within the first two years, Born Global had developed a variety of organizational routines to explore its external knowledge and capabilities and was operating in over five countries. Figure 15 shows some of the examples of the firm-level organizational routines designed to acquire additional information, knowledge, and capabilities.

Its increasing number of employees, a USD 3 million venture capital investment, and its expanding business base required Born Global to systemize its learning mechanism. It developed systems, meetings, criteria, and procedures in

order to learn from the operation result. It learnt from how other global startups were building their business by interviewing the companies on a weekly basis as a routine. The monthly meeting with its partner companies, which were much larger than Born Global, equipped Born Global with ideas and methods for internationalization. The market intelligence has also been systematized; Born Global developed an industry news database, which is maintained by the most capable director and shared among the core-members of the firm. Utilizing these firm-level mechanisms, Born Global constantly changed its systems, discussing better ways of organizing in order to catch up with the changing strategy and market environment.

Further, Born Global emphasized the benefits of grafting. It was utilizing cloud sourcing services that enabled it to identify independent professionals quickly who can work part-time across the world (e,g, oDesk and Elance). Born Global used these services to form a team of around 50 people distributed across 20 countries for the purpose of investigating the market potential and building a business plan for high potential markets. All of the staff were based in the local market and speak the local language, usually being a native of the country that they investigated.

A manager in charge of this effort explains:

"It is easy for them to identify e.g., interviewees, potential alliance partners, and famous brands. They have a knowledge of the market, culture, historical background, and all of the other necessary 'common sense' that foreigners like us cannot understand in a short period of time".

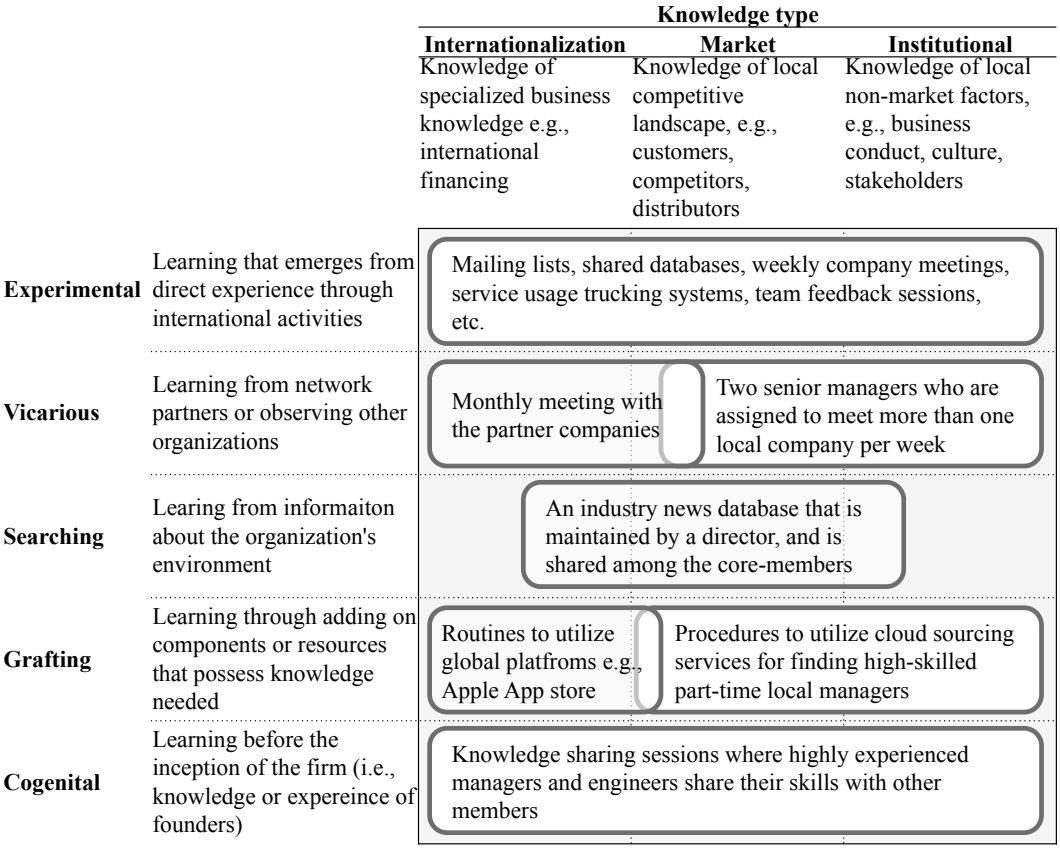
The staff agreed that grafting has cost advantages. Because of the cloud sourcing services and recruitment companies, the cost of finding the best personnel with the required skills and knowledge seems to be decreasing. Born Global has developed organizational routines to ensure good quality and high reliability, and also to control the risks associated with the use of external staff (e.g., intellectual property and confidentiality issues). With the codified routines, they constantly sourced knowledge via grafting.

The finding also suggests that congenital learning does not stop at the point of establishment. Born Global conducted knowledge sharing sessions every Saturday, and the experienced managers and engineers shared the expertise gained from their previous employment or educational background with the other members. This contributed to the sharing of the knowledge embedded in individuals with the rest of the organization.

In addition to individual-level capabilities development, Born Global quickly developed a variety of firm-level organizational routines for exploring external knowledge, and the routines developed for this purpose are being constantly modified and exploited due to the expansion of the business, the addition of new

members, and the learning from operating these routines. Born Global constantly adapted to the changing market environment and business scope. These routines sourced all three types of knowledge: internationalization, market, and institutional.

Figure 15 The Routines of Born Global for Exploring External Knowledge



5.4.2.2 International SME (early timing and slow pace)

After the first two years, International SME expanded the size of its business in the two countries in which it operated. However, it seems that the external

exploration and exploitation have not yet been systematized fully within the organization, except for experimental learning.

Figure 16 shows examples of the organizational routines that have developed within International SME. In contrast to Born Global, most of the knowledge sourcing activities were not systematized at the firm level. This does not mean that each individual did not undertake these activities. Highly skilled members, such as the CEO, for example, constantly gathered information about the market and also met with external advisors and industry experts. Some of the managers constantly monitored the customer satisfaction rates. However, none of these procedures were systematized or shared among the members. Each manager developed his/her own approaches based on his/her experience.

International SME established several formal meetings at which to share the outcome of the events, weekly feedback sessions, and several mailing lists containing relevant information (e.g., news articles). It identified several business partners both locally and domestically, and frequently and regularly held meetings to discuss the business. It initiated annual new graduate hire in the host market. However, these routines existed only in the host markets (i.e., China and Taiwan) and did not assist their internationalization initiatives. The CEO personally considered expanding into other Asian countries, such as Singapore, but none of the other managers were involved in the decision.

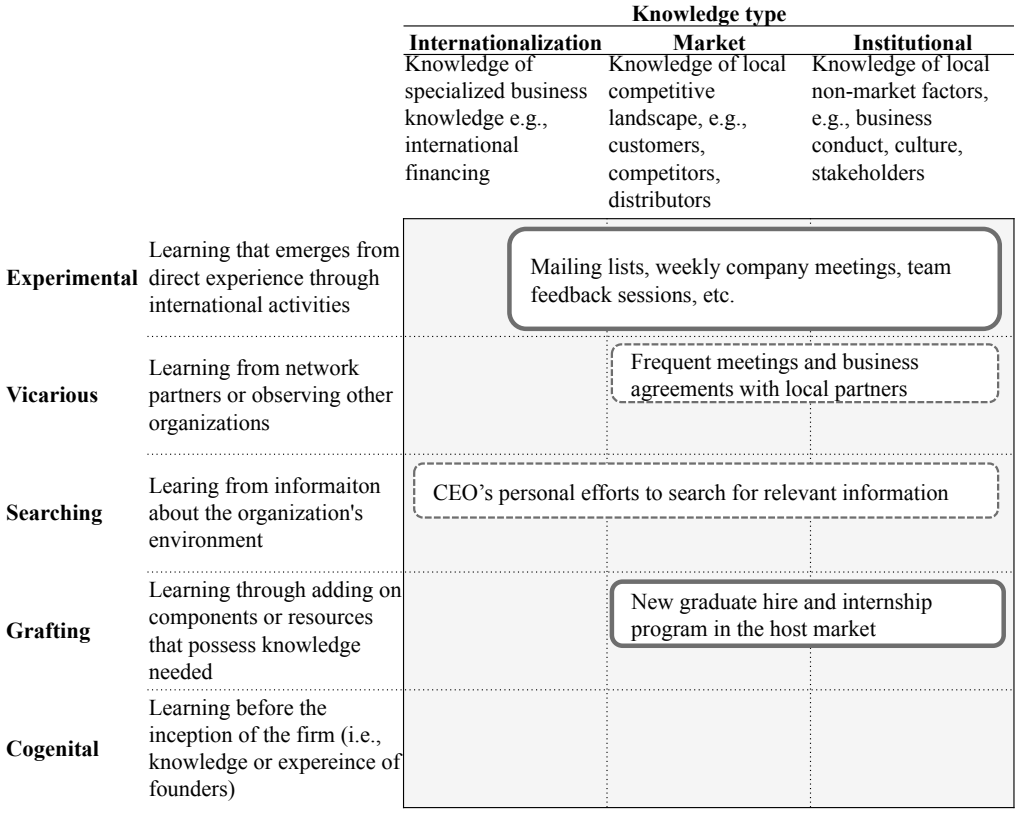
International SME faced difficulty over hiring experienced managers, while it was actively and systematically recruiting new graduates from the local markets. This is, at least partially, because it had insufficient funding to offer sufficient compensation to the candidates. It decided to minimize the external investment of its equity investors because its profitability and the size of its revenue could not justify the high valuation. Another reason was the fact that the type of business it conducted was relatively new, and the firm belonged to an industry in which labour liquidity was particularly low.

The CEO of International SME explains:

"We wanted to hire capable managers, but the people in our business are generally conservative and reluctant to relocate. It took time for us to expand because we also had to develop trust and credibility in this sector by spending time and accumulating experience".

In the first two years, the international SME had to rely on relatively inexperienced managers who do not necessary have the capability to develop firm-level routines that source external ideas and capabilities. Consequently, it was largely dependent on experimental learning. It focused on the first foreign operation in mainland China, and could not effectively boost the development of organizational routines for internationalization.

Figure 16 The Routines of International SMEs for Exploring External Knowledge



5.4.2.3 Born Again (late timing and fast pace)

The first two years after the establishment of the first foreign subsidiary by Born Again were a rapid period of expansion. It acquired a leading company in the first target host market for around USD 100 million, and also established business partnerships with the largest players in the following two other host markets. It opened offices in more than nine countries across the world.

Born Again quickly developed a variety of organizational routines that systematized the expansion and operation of its international business. In

establishing its first overseas subsidiary, the first thing that Born Again did was to set up a dedicated recruitment team, and start a systematized hiring process. The acquisition of a well-known local company that had 100 engineers and managers also helped to establish the corporate systems.

The CFO of Born Again in charge of international business explains:

"From the beginning, we formed a strong, dedicated hiring team on the assumption that we would become a large global firm. We also intensively discussed how we should design the global but localized corporate systems From the start, we tried to develop well-designed systems that can manage a global organization".

In the second year after the establishment of the first local office, Born Again constantly and systematically hired more than 30 new members per month in the foreign locations. The members were mostly recruited from well-known local or global companies. For example, in Silicon Valley, it recruited individuals from global companies, such as Electronic Arts, Zynga, Google, Apple, Yahoo!, and Facebook. The size of the office has grown to approximately 400 staff members. They invested in recruitment promotion programmes and repeatedly held recruitment events.

In order to accelerate growth, a variety of business divisions was established within Born Again. It first established a dedicated global due diligence team of ex-investment bankers and ex-private equity associates who searched for and evaluated potential investment, alliance, or acquisition opportunities at the

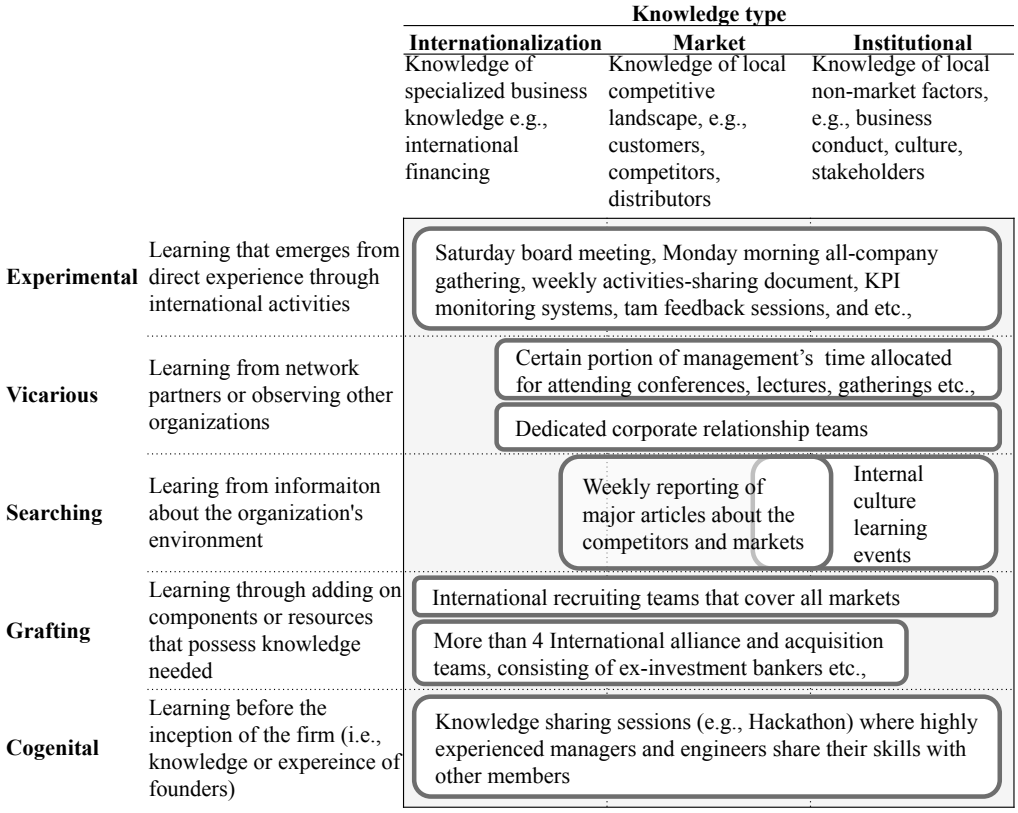
headquarters. Another team with the same function was later established in San Francisco, that was at the centre of its internationalization efforts. Within two years, Born Again had four dedicated teams for the same purpose of catching up the pace of global growth. Further, it also established global public relations, global mid-career recruitment, and global developers' relationship teams. All of the country managers participated in the weekly teleconference and shared the figures and plans. The managing director of each region traveled regularly to attend the management meetings held at the headquarters.

Leveraging the financial resources gained from the domestic business, Born Again hired managers who already had knowledge of the market, institutions, and internationalization, and accelerated the pace of the internationalization. These "grafted" managers determined whom to hire and how to operate the function of the business of which they were in charge. They developed and implemented the firm-level routines (e.g., see Figure 17) by referring to their previous working experience, which they had obtained while working for one of the most globally successful companies.

Further, the knowledge and capabilities were repeatedly exploited inside the firm. Each new manager brought plans and experience to the management meetings, and discussed what would be the best, often new, approach. During the management meetings, the key performance indicators were constantly monitored

by all of the high-level executives. The executive directors shared a change orientated culture that allowed Born Again constantly to challenge how it operated. Born Again constantly changed the developed routines in its process of rapid growth.

Figure 17 The Routines of Born Again for Exploring External Knowledge



5.4.2.4 Traditional SME (late timing and slow pace)

The first two years were a struggle for Traditional SME. The first foreign operation in Taiwan did not grow during this period, and its following expansion into mainland China was also suspended after two years. It was careful about

deciding its investment and therefore did not increase the size of this during the initial period.

Traditional SME relied on the country manager and his team, who first tried to establish a business network in the host market because he believed that it is essential first to build trust in the business community. However, the strategy was not in line with the headquarters' requirement to contribute to the bottom line. The team had to spend a large amount of funding on building relationships with the local business leaders; however, the headquarters could not fully understand the necessity for this expense. It took time for Traditional SME to learn how to organize its international expansion.

The local operation could develop a systematic process for operating its daily business. As it was doing in the domestic market, it developed reporting and knowledge sharing mechanisms, such as weekly meetings, sales reporting procedures, and the CEO's frequent visits to important customers. However, it did not hire experienced managers because it was less confident about the future profitability of its local operation. The local office reduced the investment and adopted a lean operation due to the profitability pressure.

The country manager explains:

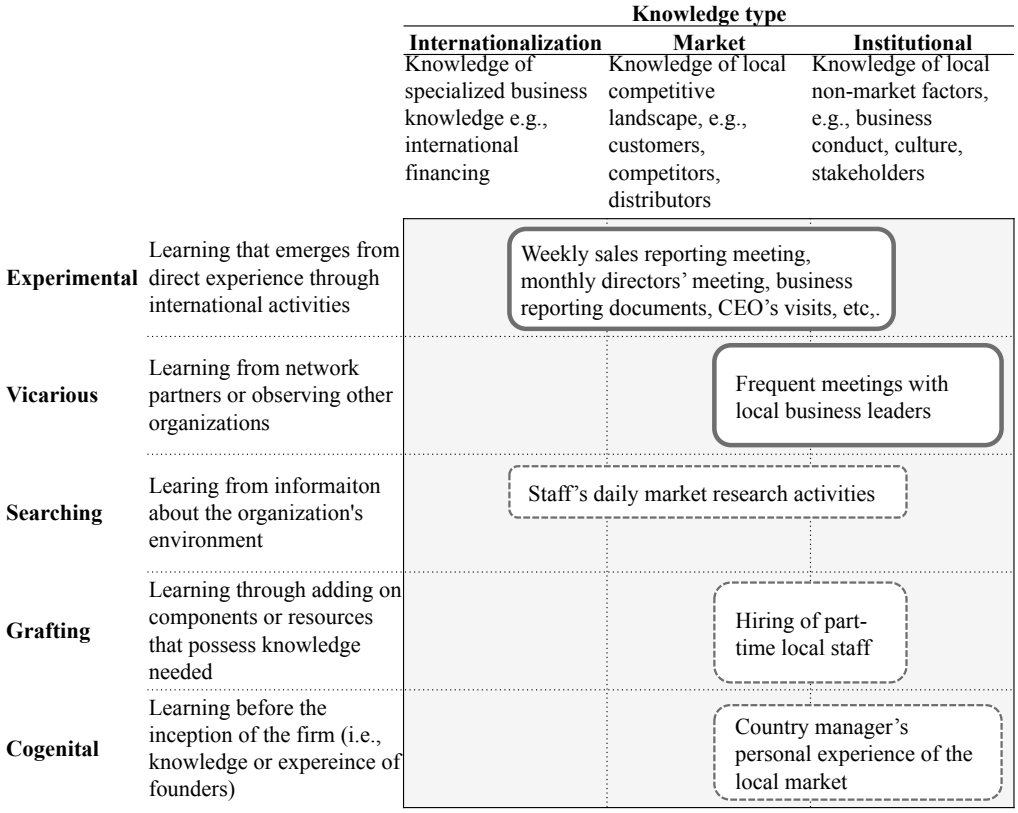
"While we did our best, we did not have sufficient budget or people quickly to establish our business presence. I also had to spend time building the network and

monitoring the overall business operation, and could not spend time and money on building the organization".

At the time, Traditional SME aimed for an initial public offering and profitability was one of the important factors. The investors preferred it to focus more on the domestic market, which was growing fast. The local office struggled to find an appropriate strategy for increasing the size of the business because of the small investment and insufficient knowledge of the local staff with regard to the type of business on which they focused.

The "trial-and-error" learning of the country manager and his team was the major source of the new and refined routines. The focus had been only on the first foreign operation in Taiwan, and none of the members were investigating the opportunities in other countries due to the limited time and resources.

Figure 18 The Routines of the Traditional SME for Exploring External Knowledge



5.5 Discussion

5.5.1 Routines and the timing of internationalization

Proposition 1: At the timing of the initial internationalization, the level of development of the firm-level organizational routines for internationalization is low, regardless of the timing and pace of the internationalization

All four firms did not have clear, firm-level organizational routines that enable them to explore the external knowledge and capabilities for internationalization at the timing of when the process was initialized.

There were certain differences between the early and late timing. As discussed with regard to proposition one, firms that adopted a late timing had already developed internal organizational routines for their domestic business prior to their internationalization. On the other hand, firms that adopted an early timing had not yet developed concrete organizational routines even for their domestic business.

However, the internal organizational routines that had been developed for the domestic business did not help in the four cases. For example, while Traditional SME had a dedicated team for importing and exporting the server management software, the existence of these developed routines was not identified as a contributory factor to the timing of the internationalization, at least partially because of the low fungibility of resources, as explained by Autio et al. (2011).

The timing can be considered the starting point for the development of firm-level knowledge and capabilities. The differences between the levels of development of the organizational routines for exploring external knowledge and capabilities for internationalization were insignificant among the four cases at the

timing of the internationalization. All four firms started to develop their routines after the initial internationalization. In the initial period, they relied on individual-level knowledge and capabilities. The differences between fast and slow emerged after the initial period. Rapidly internationalizing firms develop a set of firm-level organizational routines by utilizing the capabilities of individuals. The literature discusses the micro-foundation of the mergence and development of firm-level capabilities, and is aware of the need to understand the complex dynamics of individual and organizational learning (Foss, Heimeriks, Winter & Zollo, 2012). This finding confirms the importance of understanding the distinction between individual-level capabilities and firm-level organizational routines.

This observation is in line with the literature about the importance of entrepreneurial actors, rather than the firm-level capabilities. The higher the actor's international mindset or orientation, the higher the performance of the international activities (Wiklund & Shepherd, 2003). The individual-level knowledge and capabilities of the founding members help firms to identify promising entrepreneurial opportunities (Shane, 2000). The entrepreneurs in these firms often attain limited but strong, specialized knowledge and experience in the area in which they conduct their business (Sapienza et al., 2006). In the initial stage after the timing of the internationalization, the firm relies on the individual actors' knowledge and capabilities. The degree to which it has developed firm-

level organizational routines to assist the process at the timing of the internationalization is low, regardless of the speed of the internationalization. However, the degree to which internationalizing firms can transform the collection of individual-level capabilities into a bundle of firm-level organizational routines may influence the following pace of the internationalization.

The difference between older (i.e., those that adopt a late timing) and younger internationalizing firms (i.e., those that adopt an early timing) is the existence of developed ordinal routines for their domestic business. The larger, more established firms have a set of developed ordinal routines that are designed to accommodate the needs of their domestic market. As the analysis of this chapter focused on the routines for exploring the external knowledge and capabilities for internationalization, the influence of such established ordinal routines for domestic business on the international expansion lay outside of the scope of the analysis. However, the finding suggests that the low fungibility (Sapienza et al., 2006; Autio et al., 2011) of the routines for the domestic business might prohibit the two older firms from utilizing the routines that have been developed for their domestic business for their international expansion. This also suggests that, if the fungibility is high, older firms could utilize their domestic routines to develop the

firm-level organizational routines immediately at the timing of their internationalization.

5.5.2 Exploration: a wider variety of routines and a faster pace

Proposition 2: Firms that adopt a faster pace of internationalization develop a wider variety of firm-level organizational routines for exploring external knowledge and capabilities

Two years after the timing of the internationalization, one of the clearest differences between firms that adopt a faster, slower pace of internationalization was the variety of organizational routines that they have developed with which to explore external knowledge and capabilities.

The most influential source for the development of a wider variety of organizational routines was grafting, especially of human resources. Knowledge resides in each member of personnel, and start-up firms recruit managers in their process of growth. The recruited managers become an integral part of the firm, and subsequently develop new corporate routines, train the junior staff, and recruit newer members who were often from a similar background and follow the same management styles. Some managers will be recruited because of their experience of internationalization efforts under their previous employer, while others will be recruited to connect the firm to the local market and people. The recruited managers have also contributed towards developing other forms of firm-level

organizational routines to explore external knowledge by utilizing the individual-level capabilities gained elsewhere. The pattern of grafting consequently influences the way in which the firm develops the organization and conducts its business.

Further, the firm-level grafting of capabilities has been extensively utilized by firms that adopt a faster pace of internationalization. This is in line with the findings of previous studies. Start-ups' network relationships with service intermediaries (e.g., financial service, law, and talent search firms) enable start-ups to access a wider variety of external innovation and reduce their search costs, thereby contributing to their product innovation (Yan & Li, 2010). Outsourcing services. such as DHL, UPS, Paypal, WorldPay, etc., helped the firms to develop the firm-level organizational routines to handle the complexity of international operations by providing documentation, people, services, and coordination, as well as access to inter-firm networks.

Learning theory suggests that learning is most likely to occur in domains similar to the venture's current knowledge base (Cohen & Levinthal, 1990), yet it may also be more efficacious when the venture does not need to unlearn any preexisting routines (Barkema & Vermeulen, 1998). Grafting may provide something superior that is related to the current knowledge base without the need

for significant unlearning, and can foster the development of a variety of organizational routines for exploring external knowledge.

In contrast, the slowly internationalizing firms relied more on experimental or "trial and error learning" (Argote, 1999). The difference may be due to the barriers that hinder the use of grafting. Traditional SME and International SME were both reluctant to hire experienced managers from outside to manage their foreign operation due to their insufficient funds and the difficult recruiting environment. They focus on the sourcing of market and institutional knowledge, and do not invest in internationalization knowledge. They tried internally to grow the knowledge to run their international business; however, as a result, their pace of internationalization has been slow.

The contrast between Born Global and Born Again might be due to the timing difference: early or late. As earlier studies suggest, Born Global relied more on the prehistory, entrepreneurial actors, and networks in order to develop a variety of routines for internationalization quickly. By contrast, the Born Again utilized its financial resources and internalized human resources to accelerate the development of its firm-level organizational routines. Nevertheless, the result is the same; a wider variety of firm-level organizational routines for exploring external knowledge will be utilized by firms that adopt a faster pace of internationalization.

This is in line with the earlier explanation about the increasingly large presence of the firms that leverage external knowledge sources to speed up the pace and timing of their internationalization (Johanson & Vahlne, 2009). Firms that take a rapid internationalization path demonstrate higher social capital both within the firm and in their external relationships (Yli-Renko, Autio & Tontti, 2002). These firms leverage their external knowledge to overcome their liabilities of newness and foreignness in the process of their rapid overseas expansion (Fernhaber, McDougall-Covin & Shepherd, 2009). Alliances with their partners will help them to complement their lack of resources and capabilities (Lu & Beamish, 2001).

However, in contrast to Prashantham and Floyd (2012), this study explains the positive influence of the variants in the routine on the new capability development. Prashantham and Floyd theorize that the variety of routines reduces the risk of encountering problems and therefore contributes towards improving the existing routines (2012: 551-552). However, the finding of this study argues that the variety of routines allows firms to explore a range of external capabilities and therefore contributes towards developing new routines. This is probably because this study focuses on the routines designed for the external exploration of capabilities, while Prashantham and Floyd seek to explain the general tendency of all routines. Further, in contrast to Bingham and Davis (2012), who focused on

the sequences of usage of a variety of learning processes, this study explains the concurrent usage of a variety of learning processes among rapidly internationalizing firms. The firm that concurrently utilizes multiple learning processes may internationalize faster than one that does not.

The firms that adopts faster internationalization does not follow a risk-averse or incremental process, and may consider knowledge as more of an enabler than a regulator (Oviatt & McDougall, 1997; Autio et al., 2000). Certain knowledge sources seem well-suited for deep learning (e.g., experiential and vicarious), whereas others, such as grafting and searching, appear best suited for rapid learning (De Clercq et al., 2012); therefore, the faster pace may require internationalizing firms to leverage a wider variety of sources of knowledge. While the timing of the internationalization may influence the learning pattern and performance (Autio et al., 2000), the former might also relate to its pace. Previous studies failed to identify this proposition, the significance of the variety, probably because they focused on one or two knowledge sourcing activities (Bingham & Davis, 2012). However, future studies should incorporate the spectrum of the firm's external exploration activities in order precisely to understand the variety of factors influencing the pace of internationalization.

5.5.3 Exploitation: dynamic capabilities and faster pace

Proposition 3: Firms that adopt a faster pace of internationalization have a higher ability to exploit the developed organizational routines

The pace of changing the developed organizational routines was faster for firms that rapidly internationalized than for those that adopted a slower pace of internationalization. This indicates that firms that adopt a faster pace of internationalization demonstrate a much higher ability to change than those that adopt a slower one. The former will constantly change their organizational routines that have been developed for exploring external knowledge, in order to explore new ways of organizing that matter in demanding foreign environments effectively.

In the first two years after its initial internationalization, Born Again fostered change especially by grafting new managers who had the incentive and motivation to change. It had the resources for grafting, and also established teams whose business objective was to bring about change (e.g., due diligence teams). New members of the firms were especially active in fostering the change because these members, especially the senior managers, had ideas about better routines due to their knowledge and experience gained with other global firms. Similarly, Born Global utilized cloud-sourcing services in order effectively to collect evidence to identify the required changes. It also adapted cost-effective ways to

test-market the products, such as Apple's App store. It could provide sufficient funding to hire experienced engineers and managers, as Born Again did.

The culture and management philosophy of these firms that appreciate change were another factor behind the exploitation of the developed organizational routines. They also proactively and constantly changed their social capital to accelerate the internationalization, as discussed by Prashantham and Dhanaraj (2010). This continuous morphing may play a key role in the speed at which new processes are generated or modified (Rindova & Kotha, 2001; Autio et al., 2011). These firms have "a learning architecture" that enables them constantly to acquire, process, and disseminate the organizational knowledge about markets, products, technologies, and business processes (Slater & Narver, 1995).

In contrast, International SME and Traditional SME failed to demonstrate a strong organizational ability to change, especially due to the insufficient budget for grafting their knowledge as well as their reliance on experimental learning. Two years after their initial internationalization, they were still developing the first set of firm-level organizational routines (i.e., ordinal routines). The routines for internationalization are thus less developed, especially for exploring internationalization knowledge. They have not reached the stage of changing and exploiting yet.

Compared with International SME and Traditional SME, Born Global and Born Again demonstrated much higher degrees of change capabilities and orientation. While International SME and Traditional SME have also developed firm-level ordinary routines to a certain once developed, these were less subject to the change routines, in comparison with the ordinary routines of Born Global and Born Again. Rapidly internationalizing firms constantly challenged the existing organizational routines and tried new ways of exploring external knowledge. The ability constantly to change and adapt the existing static routines to new environments (i.e., new host locations) was found to be a strong enabler of the rapid pace of internationalization.

The change routines, the higher ability to change or exploit the developed firm-level organizational routines, will be one of the most important sources of rapid internationalization. The increasingly effective ordinal routines for exploring external knowledge in turn contributed towards developing stronger change routines that further change the ordinal routines in order to adapt to the fast-moving international business environment. The previous researches could not articulate the significance of this change aspect due to the divergent definitions of knowledge, as explained in the literature review section. Future studies will benefit by clearly distinguishing the high level routines that trigger the changes to

the existing ordinal routines because they are the enablers of a faster pace of internationalization.

5.6 Conclusion

This study investigated whether different International New Venture types use different approaches in the knowledge integration process, which is a bundle of processes for developing and constantly changing the organizational routines for sharing and combining the knowledge obtained from external sources.

I adopted a framework with reference to the three types of knowledge from Eriksson et al. (1997) and the five sources of knowledge from Huber (1991) in order systematically to compare the firm-level organizational routines for external knowledge exploration at the timing of internationalization and two years after the initial internationalization, respectively. This study analyzed the differences and similarities between the process among the firms, each of which took one of the four different internationalization paths.

As a result, this chapter discussed the ways in which internationalizing firms explore external knowledge and capabilities for internationalization and constantly exploit these routines. In particular, this research showed that the level of development of the firm-level organizational routines for internationalization is

low, regardless of the timing and pace of the internationalization. Moreover, by analyzing the complete list of knowledge sources and knowledge types, this study identified that firms that adopt a faster pace of internationalization develop a wider variety of firm-level organizational routines for exploring external knowledge and capabilities. Finally, the distinction between ordinal routines and change routines enabled this study to investigate the exploitation aspect of capabilities, and argue that firms that adopt a faster pace of internationalization have a higher ability to exploit their developed organizational routines.

This type of qualitative case study faces a number of limitations that have to be examined with a larger number of samples and a more standardized empirical format. However, it is unique in trying to capture the overall picture of the knowledge sources, types, and the ability to change. The structured approach to investigating knowledge and capabilities and the results presented here should help future studies to analyse the dynamic process of knowledge and capabilities development and deployment, especially among firms that adopt earlier, faster internationalization.

6 Integrating the Multi-layered Analysis

6.1 Introduction

The aim of this thesis is to advance our understanding of the multi-layered factors influencing the firm's internationalization. Thus, the three empirical chapters (3 – 5) reviewed the literature, identified the research gaps, and advanced our understanding of the factors influencing the firm's internationalization. The results refined and recast the existing theories in order better to explain the existence of contemporary international entrepreneurs who start their internationalization process from an early stage at a rapid pace.

This chapter discusses how we could utilize this improved understanding of internationalization, by articulating and detailing the theoretical refinements and contributions of the three empirical sections. Further, this chapter also discusses the synergy between the three layers of analysis, and argues for the advantages of this analytical framework, consisting as it does of three layers of analysis. The focus is on the theoretical implications. This chapter highlights the arguments by

providing additional case examples to demonstrate the ways in which the refinement of the theories could be observed. It investigates the value of integrating the closely associated, but independently developed, theoretical traditions.

This chapter is structured as follows. Section 6.2 argues for the necessity of understanding the three layers for investigating the firm's internationalization, and explains the relations between these three layers of analysis. Section 6.3 articulates the theoretical refinements and contributions of the three empirical chapters by providing additional cases. Finally, section 6.4 concludes this chapter by explaining future research directions and the limitations of the current research.

6.2 Integrating the institutions and capabilities into IB research

As explained in the preceding chapters, the research of early stage internationalization inadequately incorporated the idea of institutions, and is still investigating ways to explain the longitudinal process of capabilities development during the process of internationalization. Consequently, the practice of adopting institutions as a central perspective for analyzing the firm's international operations, as opposed to 'controlling for institutions with one or two variables in

quantitative models', is a new phenomenon in the international business literature (Peng & Khoury, 2009: 258). Further, the International Entrepreneurship literature has become increasingly aware of the need to incorporate the advancements found in the organizational and entrepreneurial literature into the investigation of capabilities development (Autio et al., 2011). Thus, by extending the scope of the analysis to the direction of macro level foundation and then to the direction of micro level foundation, this thesis demonstrates the significance of the previously inadequately researched factors as the determinant of the firm's internationalization strategy.

While a complete integration of the three levels of analysis is difficult, the results of the three research projects highlight the connections between the three different levels of analysis. A combination of the analyses in Chapters 3, 4 and 5 produces a broader picture of the potential factors influencing the firm's internationalization. The three different levels of analysis complement each other, and collectively provide an enhanced understanding of the factors that influence the firm's internationalization.

More specifically, the addition of the analysis of the institutional environment and the micro-level foundation of firm-level capabilities has advanced our understanding of the factors influencing the firm's internationalization in two ways:

Firstly, the two models described in Chapter 4, and most other empirical research investigating internationalization, treat the institutional environment like background radiation, with the factors behind the direct forces determining the pattern of internationalization. However, one of the most significant findings of Chapter 3 is the fact that entrepreneurs can challenge the given environment and design the ways in which institutional differences matter to them in the process of internationalization. Thus, the kind of analysis demonstrated in Chapter 3 informs scholars that even younger, smaller firms can potentially coordinate with the environment to accelerate their growth and internationalization. Such a relationship between the macro environment and the firms would then have to be taken into consideration when structuring the model of the forces that influence the speed of internationalization in future studies.

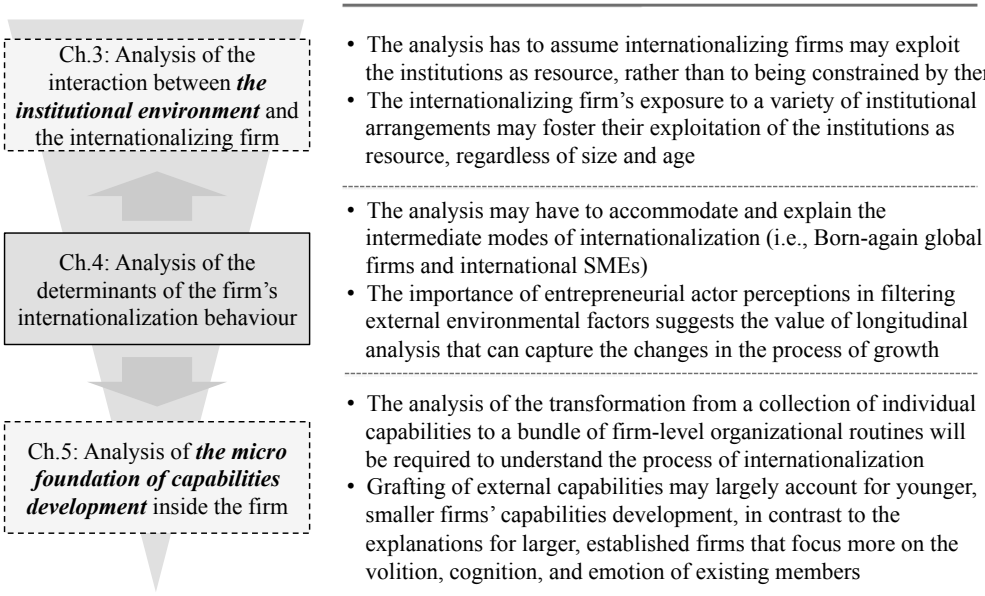
Secondly, the knowledge factor incorporated into the models in Chapter 4, as well as most other empirical research, only represents the development of firm-level capabilities during the process of internationalization. However, Chapter 5 reveals the importance of constantly and actively grafted (or recruited) managers' knowledge and capabilities and the on-going process of transforming individual-level knowledge and capabilities into firm-level organizational routines. The finding of Chapter 5 highlights the fact that the knowledge factor in the models explained in Chapter 4 will constantly change during the longitudinal process of

internationalization. Without understanding the mechanism behind the dynamics that will result in a pattern of capabilities development, it would be impossible completely to capture the changing causal influence of the knowledge factor on the firm's internationalization.

Figure 19 provides a summary of the argument. The combination of the three empirical studies expands the scope of the analysis of the firm's internationalization, and provides new insights that would not be captured by the traditional scope of analysis. The analysis of the interaction between the institutional environment and the internationalizing firm reveals that the internationalizing firm may exploit institutions as resources, rather than being constrained by them. Their potential access and use of a variety of different institutional environments should help us to understand the nature of the multilateral interaction between the institutions and the internationalizing firms in the modern globalized market. Further, the analysis of the micro-level foundation of knowledge and capabilities development inside the internationalizing firms, as demonstrated in Chapter 5, shows the importance of understanding the micro-level transformation from individual level capabilities to firm-level organizational routines. The analysis at the micro-level foundation determined grafting to be a factor that is especially important for capturing the development of capabilities among younger, smaller internationalizing firms. Thus, the value of the extended

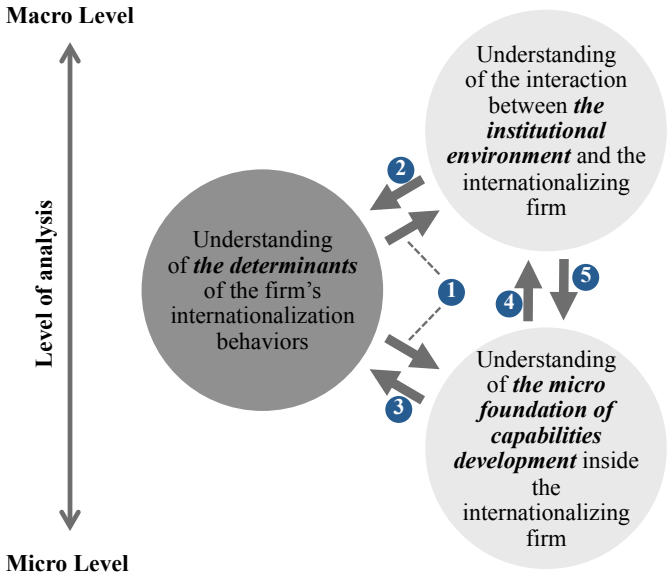
analytical space for examining the firm's internationalization is claimed from the findings of the three empirical chapters.

Figure 19 Integrating the Institutions and Capabilities



The three analytical layers consist of a cycle of analysis, spanning the macro-level to the micro-level and enhancing our understanding of the firm's internationalization. Each analytical layer is independent, but closely related to and complements each other one, as shown in Figure 20.

Figure 20 A Cycle of Analysis for Investigating the Firm's Internationalization



As explained, the structured model of the determinants of the firm's internationalization helps the two analytical layers to position the result in the frame of the overall factors influencing the firm's internationalization behaviour (Allow 1 in Figure 20). On the other hand, the analysis of institutions and capabilities development informs the analysis of the determinants of the firm's internationalization behaviour because they provide much richer detail about one of the determinants and the dynamics that exist behind the factors exist in the analytical layer (Allow 2 and 3 in Figure 20).

Further, the seemingly distant relationship between the analysis of the institutional environment and that of capabilities development may in fact be quite a strong one. The existence of institutional entrepreneurs and their potential

influence on institutional change, as well as the significance of individual-level capabilities and perceptions, indicates the potential value of connecting the two different levels of analysis.

For example, the analysis in Chapter 3 highlighted the importance of immigrant managers who bring about new ideas and systems with different arrangements. The movement of individual-level capabilities formed the unique mix of systems that exist inside influential startups whose ways of conduct are certainly transmitted to the firms that belong to the value chain and those that emerged from the graduates of the influential startups. The interaction of individual managers and development of firm-level organizational routines inside firms that could be considered institutional entrepreneurs may navigate the ways in which the internationalizing firms and the institutional environment influence each other. This is especially evident if the focal firm is successful, and thus powerful in the environment. These firms, as an organization, may challenge the institutional arrangement, in order to achieve their business goals, with ways developed during the process of expansion and continuous recruitment of new workers. The analysis of the micro foundation of capabilities development may help us to understand the process in which institutional entrepreneurs develop their strategy towards incompatible institutional arrangements (Allow 4 in Figure 20).

On the other hand, the analysis in Chapter 5 revealed the considerable role played by individual-level knowledge and capabilities, especially in the early stage of internationalization, regardless of the timing and pace of internationalization. The individual entrepreneurs' volition, cognition, and emotion may certainly be influenced by the institutional environment in which these people have developed their characteristics, at least to some extent. Current research on entrepreneurial actors focuses on the characteristics and behaviour of the actors and does not discuss in detail the causes of these characteristics, such as informal institutions, or the causes of specific behaviour of the actors, such as formal institutions. Connecting the understanding of the background environmental factors to the micro-level individual behaviour is a difficult task; however, the result may enrich our understanding of the general patterns shared among a group of entrepreneurs and managers. Chapter 3 outlined the evidence of the connections between personal background, such as work and education history, and the preferences regarding management style and decision-making. An understanding of the institutional environment, in which the individuals inside the internationalizing firms were influenced, helps to explain the potential cause of the patterns of behaviour among people who share the same background (Allow 5 in Figure 20).

What this thesis demonstrates is the potential value of connecting the three layers of analysis. The relationships depicted in Figure 20 are conceptual. However, the empirical evidence described in each chapter confirms the potential value and need to integrate the three layers into a single framework. The theoretical refinements and contribution point to the dynamics behind the firm's internationalization behaviour, and are the reasons behind the suggested need for future integration.

Thus, the following sections of this chapter will further articulate and detail the theoretical refinements and contribution of this thesis, by referring to several case examples obtained from 40 interviews over a total of 43 hours (see Table 13). This further interview evidence from different contexts is used to illustrate the findings of the empirical chapters. I provide an overview of the factors influencing the firm's internationalization, and build a foundation for structurally and comprehensively analysing the firm's approach towards internationalization.

Table 13 List of Interviews for Chapter 6

ID	Type of business	Location	Hours	Position/description of the interviewee	Date
1	Government institute	Tokyo, Japan	1	Senior manager, promoting internationalization	27-Dec-09
2	Manufacturing firm	Tokyo, Japan	1	Executive director, furniture production	02-Nov-10
3	Venture capital	Silicon Valley, US	1.5	CEO, originally from Japan	20-Sep-11
4	University	Silicon Valley, US	1.5	Professor in charge of collaboration with Japanese companies	21-Sep-11
5	Consulting firm	Silicon Valley, US	1.5	Partner, in change of Japanese clients	29-Sep-11
6	Private Equity	Tokyo, Japan	1	Senior manager	24-Oct-11
7	Startup firm	Tokyo, Japan	1.5	Funder/CEO, travel matching site	24-Nov-11
8	Venture capital	Silicon Valley, US	1	General Partner, ex-CEO of several startups	29-Nov-11
9	Venture capital	Silicon Valley, US	2	Managing Principal and co-founder	01-Dec-11
10	Government institute	London, UK	1	Senior manager, in charge of overseas business promotion	03-Apr-12
11	Trading firm	London, UK	1	Senior executive vice president (head of EMEA)	18-Apr-12
12	Startup firm	London, UK	1	Founder/CEO, brand management consulting	18-Apr-12
13	Commercial bank	London, UK	1	Head of European operation of a Japanese bank	18-Apr-12
14	Shipping agency	London, UK	1	President (European headquarters of a Japanese firm)	19-Apr-12
15	Shipping agency	London, UK	1	Director (European headquarters of a Japanese firm)	19-Apr-12
16	Startup firm	Silicon Valley, US	1	Founder/CEO, Noodle restaurant	22-Apr-12
17	University	Silicon Valley, US	0.5	Researcher, focusing comparative studies of Japan and US	23-Apr-12
18	Consulting firm	Tokyo, Japan	0.5	CEO	10-May-12
19	Startup firm	Tokyo, Japan	1	Entrepreneur, cloud matching service	11-May-12
20	Startup firm	Tokyo, Japan	1	Founder/ex-CEO	15-May-12
21	Leasing company	Tokyo, Japan	2.5	Founder/CEO	16-May-12
22	Consulting firm	Tokyo, Japan	0.5	Partner, in charge of internationalization strategy	16-May-12
23	Startup firm	Tokyo, Japan	1	Founder/director, video sharing service	25-May-12
24	Design office	Tokyo, Japan	0.5	Creative director, ex-director of a international fashion brand	25-May-12
25	Startup firm	Tokyo, Japan	0.5	Director, design products	25-May-12
26	Startup firm	Tokyo, Japan	1	Executive vice president of Japan office	28-May-12
27	Venture capital	Tokyo, Japan	1.5	Founder/CEO	29-May-12
28	Startup firm	Tokyo, Japan	1.5	Founder/CEO, online research firm	30-May-12
29	Accounting firm	London, UK	0.5	Partner	06-Jun-12
30	Startup firm	London, UK	2.5	Founder/CEO, online education service	16-Jun-12
31	Startup firm	London, UK	1.5	Founder/CEO, online research firm	18-Jun-12
32	Commercial bank	Paris, France	1	Manager, Paris office of a Japanese bank	24-Jun-12
33	Startup firm	Tokyo, Japan	0.25	CEO, online analytics tool provider	06-Nov-12
34	Startup firm	Tokyo, Japan	1	CEO, cloud matching education service	06-Nov-12
35	Manufacturing firm	Tokyo, Japan	1.5	CEO, furniture production	14-Nov-12
36	Startup firm	Tokyo, Japan	1	Founder, video sharing service	22-Nov-12
37	Startup firm	Tokyo, Japan	0.5	CEO, video sharing service	22-Nov-12
38	Startup firm	Tokyo, Japan	0.5	Manager at PR department of a video sharing service	22-Nov-12
39	Trading firm	London, UK	0.25	Manager, in charge of IT sector	16-Nov-12
40	Startup firm	Tokyo, Japan	1	CEO, designed fashion boutique	17-Dec-12

6.3 Understanding the institutions

The internationalizing firm starts its operation firstly in the home market environment where the firm will be established, and then expands into multiple host market environments. Some firms take the time domestically to grow in the home market environment before becoming international, while others are exposed to multiple market environments almost from the start. In both cases, the

firms face constraints, but can potentially avoid, adapt, or change the macro environment.

The Varieties of Capitalism framework puts the firm at the centre of the analysis, and explains three subcomponents of a national institutional environment: financial institutions, labour institutions, and inter-company relations. (Hall & Soskice, 2001b, 2009). Financial institutions include the factors that influence the firm's financing and governance, and consequently the performance measures and incentives for internationalization. Labour institutions accommodate the factors that influence the firm's recruitment, training, and rewards, and consequently the internal structure of the firm and the organization for internationalization. Further, inter-company relations influence the boundaries, and often uniform the internationalization pattern.

The empirical evidence in Chapter 3 suggests that internationalizing firms can selectively combine their preferred institutional settings. It indicates that internationalizing firms in today's business environment have far more strategic options for coordinating with the macro environment. This section revisits the institutional factors that will be influential on the firm's internationalization, and discuss the options for small internationalizing firms who wish to benefit from the existence of multiple institutional arrangements. The analyses of this section

rearticulate the discussion in Chapter 3, and explain with examples how entrepreneurial firms might challenge the institutional environment.

6.3.1 Financial institutions

Internationalization requires funding. The firm has to fund the costs of the initial investment, evaluate the business return, and achieve certain financial objectives. While a small group of startups are reported to have started seeking overseas funding from their inception, the majority of the firms rely on the financial institutions of the home market environment. The characteristics of the local financial regulations, availability, market practices, and other factors inevitably influence the internationalization of the firm that emerges from the environment in which they born.

The comparison between Coordinated Market Economy and Liberal Market Economy provides examples of the differences between the markets. In a Coordinated Market Economy such as Japan, creditors and investors are “patient”, prefer a stable return over a long period of time, and do not frequently intervene in the daily operations if these are going well (Aoki, 1988). In contrast, creditors and investors in a Liberal Market Economy tend to be more active in influencing the daily operations, and demand a return also in the short term. The globalizing

financial market is gradually causing the characteristics of the markets in different locations to converge; however, these differences still exist.

Internationalizing firms have the option to seek alternative arrangements, instead of trying to find an appropriate financial method in the environment in which they operate. Their access to multiple institutional arrangements enables them to select from a variety of different financial instruments. Further, in some cases, business entrepreneurs can act as institutional entrepreneurs, and can change the given environment.

For example, a small ramen noodle restaurant chain[1] that has four restaurants in Japan, two in France, and one in the UK found bank lending from a Coordinated Market Economy (i.e., Japan) the best way to finance their internationalization. It preferred to avoid risks and gradually expand overseas by taking the time to find the best marketing strategy. It rejected an offer from a venture capital and a local bank in Paris and took funding from a Japanese bank, because its strategy did not match the characteristics of the financing methods offered by the venture capital and the local bank in Paris.

[1] Information from interview ID 32.

Another example is an application platform developer that was established in London.[2] It could not find an appropriate venture capital nor any other form of investor in the UK because it wanted to take a high risk and grow fast. However it continued its search around the world, and secured investment from a venture capital in Silicon Valley, with investors who know the potential of the business and can take the risk.

Further, a well-known example is the Softbank Corporation in Japan. The company did not consider relational banking in Japan attractive, so formed an alliance with US Nasdaq, and demanded that the government approved the establishment of new stock exchanges (Sako, 2006a: 19). In other cases, as discussed in Chapter 3, Rakuten and GREE did not rely on start-up finance due to the nature of the business model. Rakuten improved the cash flow by charging the customer six months' fees in advance. GREE utilized the payment platform of the telecom operators and built a highly profitable gaming platform.

The traditional understanding of the developed institutions describes the institutions as "constraints" because certain ways of structuring the business are more legitimate and often effective (DiMaggio & Powell, 1983; Granovetter, 1985). Increasingly, the literature identified that the firms are active actors who

[2] Information from interview ID 30.

can proactively interact with multiple environments and recombine the existing resources in order to be more competitive (Crouch, 2005).

The relation between the financial institutions and the firm is especially relevant to the discussion of resources in Chapter 4. The internationalizing firms obtain their funding from the financial systems. The fact that these firms may have access to multiple, different financial institutional arrangements may inform the analysis of resource factors in the models in Chapter 4.

The internationalizing firms in today's environment have a much larger solution space. They can proactively seek the best option that matches their financial objectives. Financial institutions are not constraints, but resources that the firm can selectively utilize according to their business objectives. Entrepreneurial firms even have an option to trigger institutional innovation and change the available options to materialize the financial objectives. They can avoid the financial institutions in the given environment by designing a business model that is capable of accommodating for the absence of financial institutions.

6.3.2 Labour institutions

Expanding firms are in constant need of human resources. In the process of growth, internationalizing firms recruit staff. The new staff gives the firms the

required knowledge and capabilities for international business. They are important as they often shape the structure and strategy of the firm. However, the availability of the best talent often relies on the specific conditions of the local labour market. The labour supply, costs, liquidity and quality are often an issue. As the Varieties of Capitalism framework explains, non-market factors also have to be considered to understand the characteristics of the labour institutions. The contrast between the Coordinated Market Economy and Liberal Market Economy can provide several examples of the differences between the labour institutions in different markets.

To attract talent, firms in a Coordinated Market Economy have been emphasizing a stable employment norm and a seniority-plus-merit reward system, whereas those in a Liberal Market Economy have been focusing more on providing career progress opportunities and a performance-based reward system. The focus of employee retention has also been different. Firms in a Coordinated Market Economy invest in internal training programmes, apprenticeships, community building, collaborative decision-making, and job rotation. The long-term employment norm, strong monoculture, and wage system encourage workers to commit for longer to a single company They are incentivized to contribute to the firm as a member of the "family". Individual accomplishments will often be accompanied by the collective success of the organization. In contrast, firms in a

Liberal Market Economy focus more on public education, job specialization, individualism, and a top down approach. The systems are designed to accommodate a relatively high turnover rate. A relatively short-term performance will decide issues related to compensation and position. The employees, in turn, expect firms to appreciate their accomplishment in a visible way, such as a pay increase or promotion. They are incentivized for individual success. Individual career progress is emphasized more than contribution to an organization.

Some might argue that this kind of typological explanation of the characteristics of labour institutions is gradually losing explanatory power. An increasing number of strong global firms are considered the feeding ground for a unique corporate culture. A large number of workers move between different locations and firms, and are acting as bridges for different working styles. However, there are certain institutional factors that still strongly influence employment conditions, such as regulations and collective bargaining in some countries. In a Coordinated Market Economy, the formal institutions protect workers' rights and prevent firms from initiating drastic lay-offs or change of positions without consent. In a Liberal Market Economy, asking employees to participate in informal gatherings and other non-job activities might be considered a violation of workers' rights.

In light of such a gradual mixture of multiple environments and the possibility of access to different labour arrangements in a specific location, younger, smaller firms have much greater freedom regarding the selection of new workers. While it is often difficult to hire the best talent who fits the strategic needs, the decreasing costs of managing multiple global locations may allow even younger, smaller firms to leverage the variety of different labour institutional arrangements. In many cases, smaller, younger internationalizing firms decide not to adapt to the local employment conditions, and seek alternative arrangements in other parts of the world. Even older, established firms can modify the business model to avoid the challenges of labour institutions, if this is necessary to realize their business objectives.

For example, a UK-based online fashion boutique,[3] which specializes in Indian high-end fashion designers brands, utilizes the benefits of locating itself in two different cities: London and Mumbai. As the founder had sufficient business experience but no industry experience, it decided to hire experienced merchandisers, buyers, marketers, analysts, photographers, and administration staff to boost growth. The firm sources products in India and sales globally with a focus on the UK. Therefore, it focuses on its sourcing activities in India in order

[3] Information from interview ID 40

to recruit managers with local networks and an understanding of the institutional context. On the other hand, it recruits all of its marketing related staff in London, where the majority of its customers exist, and these marketers have experience of understanding and appealing to these customers. It was an option to open an office only in London, but the firm acknowledges the benefit of having access to two labour markets in two different locations.

Another example is an online English language school based in Hong Kong that operates in Japan and the Philippines (Kotosaka, 2010: 38-41). It is difficult to find high quality English speakers in Japan, and the employment regulations do not favour flexible employment arrangements (e.g., long-term operating agreements between the firm and individuals), whereas there is a large English speaking population in the Philippines. The Philippines' unemployment rate has constantly been higher than 8 percent in the past few years, which is twice the rate in Japan. It is much easier for the firm to find good English teachers in the Philippines. Further, it has an operation in Japan whose main purpose is marketing and customer support. It frequently hires interns from the local universities in Tokyo, and lets the young staff develop online marketing plans because they understand the needs of its main customers. It also has part-time contracts with housewives in Japan to offer customer support because they are often highly educated and can speak Japanese but cannot find a better job locally.

It has its headquarters in Hong Kong because it is easier to find support staff and services (e.g., lawyers and accountants) there who understand international operations.

Moreover, a well-established Japanese furniture manufacturer is an example of filling the gap between the internal systems and the requirements of international operations.[4] The firm was established more than a hundred years ago and employs around 600 staff. The systems and culture are typical Japanese-style management, including a seniority-plus-merit reward, internal training, and a family oriented strong sense of community. It has already established several overseas branches and manufacturing facilities, but the existing management systems did not meet the strategic goal to expand further. Therefore, the CEO decided to avoid the systems by: 1) adopting a different pay scale and evaluation scheme for a select group of managers, 2) establishing an independent team that directly reports to the CEO by promoting three young managers with high potential, and 3) approaching people who are (friends of the) friends of the CEO. Through this strategy, the firm could hire experienced managers who have overseas work experience and understand the business conduct in a Liberal Market Economy, avoiding the

[4] Information from interview ID 2 and ID 35

difficulty of the local recruiting environment and obtaining the required human resources.

All of these firms have just started their international strategy, but are capable of choosing between different employment environments or avoiding the influence of the local labour institutions. Similar to the discussion about financial institutions, the firm can consider institutions as resources rather than constraints. It is not a bilateral relationship between the home institutions and the internationalizing firm, but a multilateral relationship between a variety of different institutional arrangements and the internationalizing firm. The internationalizing firms have an option to investigate the characteristics of the labour markets in the locations in which they operate successfully, and proactively search for the human resources in one of the suitable environments for recruiting them, in some cases by avoiding the challenges of the internal structure and external environment. Understanding such a strategic move will enhance our understanding of the factors influencing the firm's internationalization.

Understanding institutional differences also helps us to consider the general pattern of behaviour among groups of workers in a specific organization. A firm may have a strategy to hire people with a specific background in a specific location due to the heterogeneous distribution of the types of labour that it requires. These factors may influence the micro-foundation of the firm-level

organizational routines development discussed in Chapter 5. The value of connecting Chapters 3 and 5 certainly exists here to deepen our understanding of the ways in which individual-level capabilities contribute to the process of the development of firm-level capabilities.

6.3.3 Inter-firm relations

The Varieties of Capitalism framework explains inter-firm relations as one of the distinguishing factors between Coordinated Market Economy and Liberal Market Economy. In a Coordinated Market Economy such as Japan, banks and large firms facilitate corporate networks, which are organized by cross-share holdings, supplier networks, long-term relational contracts, and cross-industry economic organizations (Imai et al., 1994: 103-155). These networks govern the transactions at least to a certain degree, and participation in one of them is often crucial for the survival of smaller firms. In contrast, Liberal Market Economy such as the US are described as markets in which firms trade in a relatively free market environment with transactional relationships. Firms tend constantly to search for better suppliers to meet their immediate needs, while those in a Coordinated Market Economy such as Germany and Japan are said to prefer longer-term relationships to immediate costs or marketing benefits. Therefore, for example, written contracts in such an environment tend to be detailed and

comprehensive, whereas those in the Coordinated Market Economy tend to be minimal, informal, and also rely on mutual understanding.

The internationalizing firms benefit from participating in the networks. In a Coordinated Market Economy, Japan, a survey found that more than 25 percent of the international SMEs started their internationalization at the request of their large customers (Shoko Research Institute, 2009). An expert who was working for a Japanese government-funded institution that promotes trade and FDI, explained that this "relationship-based expansion" can reduce the initial risks of foreign expansion because a large customer can often guarantee purchase of the products at least for several years and provide the knowledge and people required for internationalization.[5] Even in a Liberal Market Economy, two venture capitalists based in Silicon Valley mentioned that inter-firm relations often significantly help firms to accelerate their internationalization.[6] They explained that it is not common practice for a large customer to ask its suppliers to expand overseas together, except for several industries such as electronics and automobiles in the US. However, support services such as venture capitals, accounting firms, consulting firms, and recruitment agencies can provide the kind of services that internationalizing firms require, especially as some of them accumulate

[5] Information from interview ID 1
[6] Information from interview ID 8 and ID 9.

experience of serving on internationalization projects. In Liberal Market Economy environment like Silicon Valley, a key to successful internationalization will be to find the best partners who can immediately provide the required services.

Like financial and labour institutions, these typological characteristics are converging to create a far more mixed environment in each geographical location. A coordinated type of relationship can be found in a more "liberal" environment, and vice versa. An increasingly large number of global firms are building the overlay networks that are spanning geographic differences. Collaboration between firms from Coordinated Market Economy and Liberal Market Economy is not uncommon in today's globalized business environment. However, certain differences still exist. While firms try to adapt in order to accommodate the differences between the inherited networks and those which the firms want to be part of, these efforts are still difficult to accomplish.

Nevertheless, there are indications of change. Younger, smaller firms can change the given conditions by proactively engaging with the environment. Internationalizing firms can take action to fill the gap. An option will be to gain additional support from an existing network by adapting to the nature of that network. It may construct the required inter-firm relations from scratch. In some cases, avoiding the local inter-firm network is possible for internationalizing firms because of the small size and flexibility of their organizational structure.

For example, an online fashion bag manufacturer that focuses on designing PC cases and bags decided to join the network of Japanese craftworkers, in order to produce high quality products and also gain knowledge and capabilities about handling the design and manufacture of PC cases and bags (Kotosaka, 2010: 41-43). It planned to outsource most of the production to Chinese contract manufacturing services. However, it realized that it cannot manage the overseas contract manufactures without a knowledge of supply chain management. The founders tried to join the cluster of Japanese craftworkers who are well-known for their high quality work, in order to learn how to design, produce, and market high quality products. At first, it was difficult for them to be part of the group because the craftworkers in the region generally do not appreciate outsiders joining the network. However, the founders' passion for making high quality products and the idea to focus on young women working in an office by providing well-designed, high quality PC cases and bags gradually changed the situation. The founders took time to understand the ways of doing business and participate in informal gatherings. The firm finally obtained the support of the group of highly skilled craftworkers, who understood the need to have a low-cost product range, and helped to build the foundation for international sourcing from China.

Another example is an online site that matches travel guides and foreign travellers that operates in nine countries in Asia.[7] The key to expanding in the host market has been to obtain access to the local media and individual travel guides. However, the firm did not have any inter-firm relations in the host markets at first. The strategy was to leverage the inter-personal networks that the founder has developed in the process of building the business. The founder first asked friends and friends of friends to introduce the service to the local businesses and people, and secondly launched a beta version in order to promote the service in the local media in the local language. Rather than let the local partner companies (e.g., travel agencies) provide their own networks, the firm spent time and effort on building its own inter-firm networks. The CEO explained that he thought that building its own networks in a variety of regions would differentiate the platform and also increase the entry barrier. At first, it was difficult to be part of the local business community. However, the CEO mentioned that the increasing international presence of the firm is gradually reducing the difficulty because the counterparts can feel the benefit of collaborating with the firm. The technology enabled the firm to operate its network platform without significant management costs. The presence in the local media and participation of local people built trust

[7] Information from interview ID 7

in the service. It started to advertise also on major online media such as Facebook, as it has successfully built up a certain level of trust and credibility.

Further, it is possible to avoid the local inter-firm network for some types of business. A marketing research company based in Tokyo and San Francisco decided to be part of the Silicon Valley community, instead of collaborating with Japanese marketing research firms.[8] Their service involves analyzing and visualizing social media information streams in order to help to develop an effective marketing plan, and the company's vision was to provide the service worldwide. Therefore, the CEO considered that it would be beneficial if the firm moved the centre of operations from Tokyo to Silicon Valley a year after he established the firm. The CEO explains that this is because the eco-system (i.e., inter-firm and inter-personal networks) in Silicon Valley can help the firm to expand into the global market. Being a part of the Silicon Valley community, he thought, provides the firm with knowledge of the latest trends in technology and the required funding for international expansion. Therefore, after a month of customer development and careful consideration, the CEO moved into a shared office in Silicon Valley, and started to build a network. It changed the product portfolio to suit the needs of the Silicon Valley community, and changed the

[8] Information from interview ID 33, follow-up email exchanges, and his blog articles.

corporate system in order to follow the Delaware Corporation Law, which is widely used in the area. It is possible for the firm to participate to the local community at least partially because it can potentially cultivate a large pool of customers in Tokyo. While the business result is still unknown, it seems that the strategy to start from a foreign location gave the firm an edge in the competitive social media marketing research market.

The common ground between these small but international startups is their unique strategies for leveraging the benefit of being part of the networks. They have also leveraged the fact that they are flexible due to the small size of their operations. All of these firms are tiny international startups with fewer than 10 full-time employees. Traditionally, small firms are considered as subject to the environment in which they operate. However, these newly internationalizing firms can potentially take advantage of the availability of the variety of networks across the regions.

These findings also have implications for the influence of the network factor in the models described in Chapter 4. If entrepreneurs wish to challenge the given network status, they can act to change the parameter in the process of their growth and internationalization. The influence of networks will change according to the stage of growth and strategy of the internationalizing firm to leverage most benefits from it.

These firms were interacting with multiple inter-firm networks, and deciding which one to participate in and what kind of things to obtain from them. Internationalizing firms have options to adapt to the network to gain additional benefits, avoid the use of existing networks, or change network.

6.3.4 Constraints to resources, bilateral to multilateral

As the examples demonstrate, internationalizing firms in today's business environment are not simply subject to the macro environment. Firms can take advantage of their access to multiple institutional arrangements, and selectively decide which ones to utilize. They are exposed to regional, sectorial, and global institutions. Within the same geographic location, a mix of different institutional boundaries co-exist because of the increasingly complex collaboration (.e.g., alliance, joint venture, acquisition) among firms from different environments and the active movement of people (e.g., studying an abroad for MBA, moving to a better working environment). The internationalizing firm no longer has to be constrained by the institutional environment. Rather, they have an option to consider them as resources, arbitrage between multiple regimes or institutional environments, and utilize them to maximize the competitive advantage.

The fact that the firm can potentially utilize multiple institutional arrangements is one of the key reasons why the internationalization literature may have to

accommodate the analysis of institutions, and understand the interactions between the institutional environments and internationalizing firms. This need is especially evident for Born Global firms that design a globally distributed value chain from their inception and build its operations in multiple institutional environments. These firms design the global coverage first, then gradually accommodate the differences among the regions in which they operate. This is different to the purely domestic small firms which often do not have access to a different geographic location. The implicit assumption of the literature was that small and young internationalizing firms only gradually expand overseas, at least partially due to the constraints arising from the institutional arrangements. However, the multilateral relationship between the internationalizing firm and the home and host market environments challenges this traditional understanding.

The increasing exposure to a variety of institutional arrangements would change the ways in which firms internationalize. Future studies, covering the determinants of internationalization and the micro foundation of capabilities development, will be required to theorize how internationalizing firms may develop a strategy in order to exploit the environment as resources, rather than to be constrained by the environment, to accelerate internationalization.

6.4 Constructing the perception and advantages

Chapter 3 revealed the factors that influence the speed of internationalization by refining the model proposed by Oviatt and McDougall (2005a: 541). Building on Oviatt and McDougall's summary of the findings of preceding studies, the chapter analysed four case studies, each representing different internationalization paths, arguing for the need also to take into consider the resource factor as a force, and proposed two similar but independent frameworks, each designed to show the forces influencing the timing or pace of internationalization.

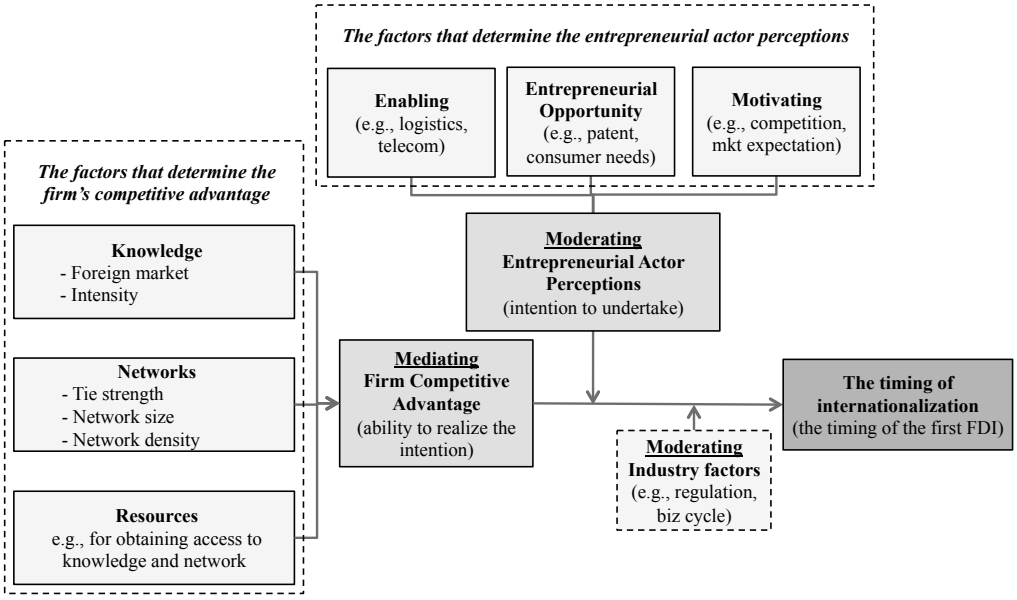
The refined models allow researchers structurally to analyse the factors influencing the firm's internationalization, and explain a variety of different internationalization paths (i.e., early/fast, early/slow, late/fast, and late/slow). The analyses in this section discuss some of the implications of the refined models, and argue for the potential theoretical refinements implied by the models.

6.4.1 Timing

Chapter 3 revealed that timing is a decision variable that the firm can control. The chapter presented a refined model that shows the structured influence of the factors influencing the timing of internationalization (see Figure 21). The firm's competitive advantage does not automatically lead to earlier internationalization.

Because the higher the competitive advantages of the firm, the higher the chance of overcoming the liabilities of foreignness to be profitable in the host markets, a correlation should certainly exist, as demonstrated by the preceding studies. However, entrepreneurial actor perceptions will strongly moderate the relationship, especially if the firm is younger and/or smaller.

Figure 21 A Refined Model of the Forces Influencing Internationalization Timing



The timing decision is based on a combination of the firm's relative competitive advantages in the international environment and the entrepreneurial actor's perception of the necessity or opportunity of internationalization. Therefore, even without sufficient information to validate the competitive advantage, internationalizing firms often initiate internationalization due to the passion or belief of the entrepreneurial actors. On the other hand, the firm has an option to

avoid internationalization and focus on the domestic market even if it can prove that it has sufficient competitive advantage to initiate successful internationalization. Therefore, the first, most important question would be why the firm prefers a specific timing of internationalization. An internationalization decision is a strategic decision. The firm can decide when to enter the foreign environment. The refined model here describes some of the reasons and mechanisms why the firm prefers a specific timing of internationalization, namely enabling, entrepreneurial opportunity, and motivating.

Firstly, the enabling factors in general reduce the costs of operating an international business, and enable a globally distributed value chain. As described in the previous chapters, the increasing availability of shared services providers place the required functions of the business within the reach of small firms. Entrepreneurs recognize the existence of these services and are often experienced in managing these suppliers and servicers. They understand that these services enable even a tiny start-up to operate in foreign locations. However, the exact implications of the increasing availability of technology have to be investigated carefully because the enabling factors do not give sufficient support in some cases. For example, a domestic frozen food producer, which focuses on delivering frozen food whose recipes are made by famous restaurants, had a passion to

expand overseas.[9] However, it did not realize that the costs of shipment and customs clearance for frozen food are too high, until the last minute. The founder decided to stop considering the international opportunity, and concentrated his efforts on cultivating the domestic market first. In fact, understanding the enabling factors requires a precise understanding of the available technologies, resources, and partners. The existence of the enabling factor does not automatically encourage an earlier timing and faster pace of internationalization. The analysis here requires a precise understanding of the "enablers" for operating profitable international operations. Researchers must evaluate if the type of international business they investigate is, or will be, sufficiently "enabled".

Secondly, entrepreneurial opportunities often give the firm the confidence to decide on an earlier timing of internationalization. A strong patent, differentiated product, untapped needs, and other encouraging information about the potential of the entrepreneurial opportunity often drive entrepreneurs to adopt an earlier timing of internationalization. Opportunity-driven entrepreneurs believe in the high potential of their business (Kelley et al., 2012). Some business models rely on an international presence to gain a competitive advantage (e.g., foreign trading business). Successful startups often quickly expand in the global markets. Rapidly

[9] Information from interview ID 39 and a follow-up email exchange

internationalizing firms display a global mindset and orientation (Nummela et al., 2004). On the other hand, some businesses do not require a strong competitive advantage nor a global mindset and orientation. Opportunity recognition is subjective and cognitive (Gregoire et al., 2010). Therefore, it depends on the founder's judgment at least to a certain degree. The founder has an option to believe that the entrepreneurial opportunity is large enough to consider international expansion. The timing decision largely depends on this fragile, changing, and often emotional factor. A snapshot analysis may not provide the overall picture. A longitudinal account of the shifting perceptions, mindset, and orientation would be required.

Finally, the motivating factor drives the entrepreneur towards internationalization. The original model by Oviatt and McDougall explains competition as the primary source of motivation (Oviatt & McDougall, 2005a: 542). They argue that the existence of competitors drives, or even forces, the firm to internationalize because it fears that its competitors would move faster than itself and prevent it from tapping into foreign market opportunities. Chapter 3 suggests that the motivating factors also include stakeholder interests and the relative attractiveness of the domestic and foreign market environment. For example, the head of the CEO's office of the Born Again mentioned in Chapter 3 repeatedly mentioned the pressure from institutional investors to find growth

potential in the overseas market. The increasingly large presence of foreign-born firms has intensified the competition in the domestic market, and increased the relative attractiveness of the foreign markets. In some cases, the entrepreneur will be motivated spontaneously, by observing the industry or being influenced by the stakeholders. However, what actually motivates the internationalization should carefully be investigated by the firm. A detailed investigation might call for a different strategy for internationalization, for example to focus more on the domestic market before entering foreign environments. Entrepreneurs who have not even imagined the possibility of internationalization might be able to find reasons and so be motivated to initiate internationalization. Suspending internationalization may, in some cases, be the best internationalization strategy.

The higher the firm's competitive advantage, the greater its potential presence in the international markets. However, the timing of the internationalization is a decision variable that the firm can control. Understanding the factors that form the entrepreneurial actor perception will enhance our understanding of the determinant of the timing of internationalization.

The institutional factors explained in Chapter 4 provide the background to the three factors that determine the entrepreneurial actor perception. The enabling factors, entrepreneurial opportunity, and motivating factor will certainly be influenced by the formal and informal institutions of the given competitive

environment. These institutional factors may navigate the general direction of these direct forces determining the firm's internationalization. While the exact causal relationship would inevitably be difficult to capture, the analysis of institutions here will help to understand the dynamics behind the influence of the identified factors.

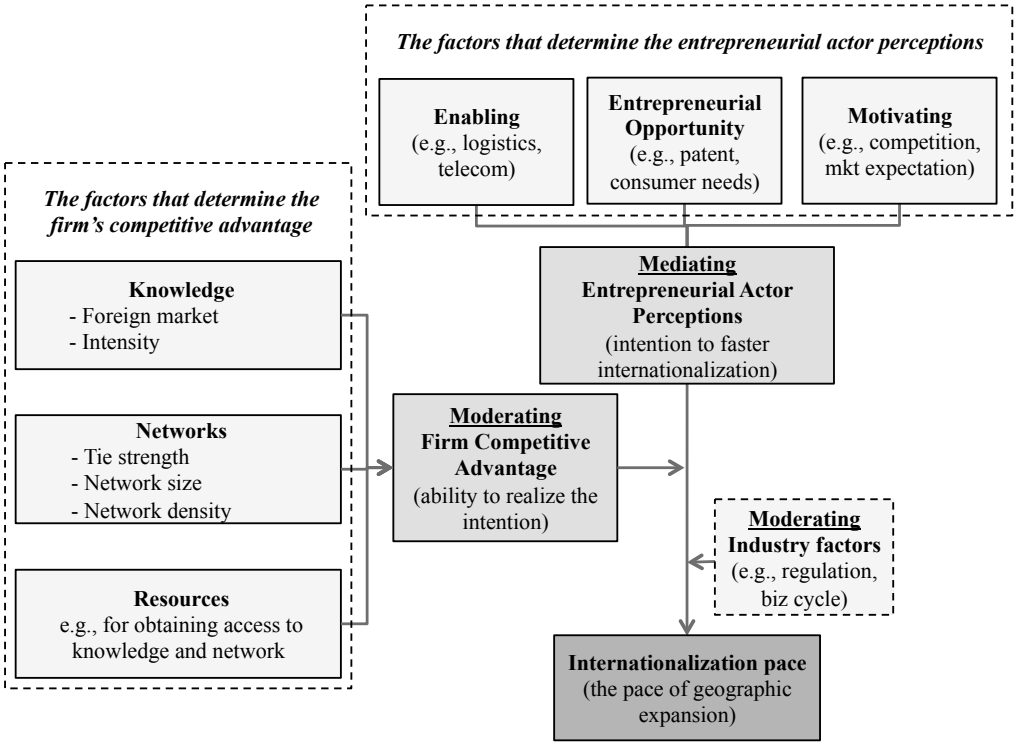
Similarly, understanding the dynamics inside the firm that form the capabilities described in Chapter 5 certainly enhances our understanding of the factors behind the specific perception. While the founding members account for the majority of the firm-level decision-making in the initial stage, this will gradually decrease with the increasing presence of newly recruited members to the firm. Understanding the longitudinal, constant change within the firm may give the analysis here information about the root causes of a specific perception of the entrepreneurial actors.

6.4.2 Pace

In contrast to the timing decision, the pace is largely moderated by the firm's competitive advantage. Firms that initiate their internationalization aim to expand in a certain pace, and in most cases of internationalizing start-ups, the aimed pace will be as fast as possible. However, the intended pace will be moderated by the firm's ability to achieve the intended end, which this study calls the firm's

competitive advantage, which determines the realistic, feasible pace of internationalization, and navigates the firm towards this (see Figure 22).

Figure 22 A Refined Model of the Forces Influencing the Internationalization Pace



Oviatt and McDougall reviewed the preceding studies and identified that knowledge and networks are the most influential moderating factors regarding the speed of internationalization (2005a: 544-548). Further, Chapter 4 investigated the application of this model for a variety of internationalization modes, and found that resource can be another factor that can supplement the often insufficient contribution of knowledge and networks to the firm's internationalization. This implies that internationalizing firms have a given portfolio of knowledge and

networks. However, they can build a strategy for gradually enhancing or changing them by utilizing the resources, and so improve the firm's competitive advantage with regard to internationalization.

Knowledge in this model stands for the knowledge of international operations and the market, and the characteristics of products and services, especially knowledge intensity. The latter refers to the extent to which the firm relies on the knowledge embedded in the products and processes. The higher the knowledge intensity, the faster the pace of internationalization (McNaughton, 2001, 2003). This implies that firms that focus on technology oriented products can internationalize faster than those who do not. Further, firms in an industry with a higher technology concentration internationalize faster.

The industry that the firm belongs to and the products the firm produces may influence its relative competitive advantage within the sector and in the foreign markets to a certain extent. A key for internationalizing firms will be to understand the nature of the industry and the product, to prepare for the expected pace of internationalization, and to foster the development of a knowledge base. In fact, the discussion in Chapter 5 will help us to understand the dynamics behind the development of a knowledge base. While the model can only capture a snap shot parameter of the level of knowledge intensity relative to the industry and competitors, the analysis of the development of capabilities within the firm may

reveal the on-going change in the process of internationalization. This is one of the important contributors of the firm's competitive advantage, and is the point where Chapters 4 and 5 overlap.

Secondly, networks, both at the individual and firm level, contribute to the firm's competitive advantage. Networks help internationalizing firms to identify business opportunities (McDougall et al., 1994), and their activities are often linked to a network of firm- and individual-level relationships (Bell, 1995; Coviello & Munro, 1997). Some links exist between the discussion here and the inter-firm relations discussed for the analysis of institutions.

As explained in Chapter 4, the notion of strong and weak ties (Granovetter, 1973; Aldrich, 1999) will help us to understand the nature of networks. Strong ties here refer to the mentors, family members, or equivalent at the individual level and to the affiliated companies, investors, business partners, or equivalent at the firm level. Weak ties refer to the people whom you know and are under non-business personal relationships at the individual level, and to customers, suppliers, support services, and other organizations such as the government at the firm level. Thus, the networks here refer to the group of people and firms that have a direct relationship with the internationalizing firms. The size (number of individuals or firms tied into) and the density (the degree to which the participants are connected to each other) are also important considerations. Larger, denser networks with

more weak ties can reduce the transaction costs, help to identify international opportunities, and often lead to alliances and other types of cooperation (Oviatt & McDougall, 2005a: 544-546).

This factor is related to those discussed in Chapter 3. The broad definition of networks utilized in this model prohibits the models from fully articulating the dynamism that comes from the network. The operationalization of networks varies by research but mostly depends on the simplification of the complex nature of the network structure and its evolution. In the process of constructing variables that represent the complex influence of these networks, many studies may lose the true causality between networks and the firm's internationalization. Linking the analysis of the determinants of the firm's internationalization (chapter 4) to that of the institutional environment (Chapter 3) helps to give a much broader picture and richer insights. For example, as explained in the previous section on inter-firm relations, internationalizing firms can challenge the given environment to maximize their growth potential. Their exposure to a variety of different institutional arrangements makes the analysis inevitably complex and difficult.

Further, Chapter 4 revealed the importance of resource as another factor that has to be incorporated into the model. The internationalization literature implicitly assumes that early stage internationalizing firms are in constant need of resources. The discussion has been around the role of knowledge and networks that

supplement the absence of resources for internationalization. However, the empirical analysis of Born Again's internationalization revealed that resources can play a significant role in accelerating the pace of internationalization.

Resources here are those needed to acquire the required knowledge or networks to help the internationalization efforts of the firm. These may include but are not limited to financial resources and human resources. For example, the Born Again described in Chapter 4 had an abundant cash flow that enabled it to invest in knowledge and networks, especially by acquiring experienced workers and well-established firms in the host markets. When it started internationalization, it had no experience of handling international operations. However, the resources enabled it quickly to gain access to the local and international networks at both the firm-level (e.g., the acquired companies has established contracts and relationship with large local customers) and individual-level (e.g., the head-hunted senior executives typically had rich networks of experts and other business leaders). The knowledge obtained through the acquisition of people and firms significantly accelerated the pace of internationalization.

The resource factor plays a large role even among Born Global firms. The companies in the internet sector with large capital often choose to accelerate their growth by utilizing abundant resources. For example, Groupon was established in

November 2008. It acquired more than 10 foreign companies in the first three years (Chatterjee, Streiff & O'Keeffe, 2012), and expanded its operations in over 500 cities in 48 countries (Gupta, Weaver & Rood, 2011). To fund its acquisitions, Groupon raised over US 1 billion, and an additional USD 800 million through its IPO in July 2011. In another case, a UK-based healthcare service firm specializing in an optical retail and refractive surgery business effectively utilized mergers and acquisitions with local players in their internationalization strategy[10]. After starting internationalization in 2004, it quickly established a presence in 8 countries throughout Europe and Asia. The high profitability and short payback period enabled the firm constantly to acquire other businesses. The strategy enabled the firm to bypass the normal length of time required to understand the local healthcare regulations and obtain an operating license. The price premium for the target valuation was justified at least partially due to the stronger burgeoning power against the laser eye surgery equipment vendors (by having multiple price point information and a large volume for procurement). The lower high initial investment costs of laser eye surgery equipment reduced the operating costs, and further improved the profitability of the business. In this case, the financial resource directly

[10] Information from interview ID 26 and follow-up email exchanges.

contributed to obtaining access to the networks and knowledge in the local markets.

Knowledge and networks are influential factors on the firm's competitive advantage with regard to internationalization; however, these are the kind of things that the firm can acquire by utilizing resources. The key is to identify the best ways in which the firm can utilize resource in order to acquire the required knowledge and networks for faster internationalization. One way would be to utilize the knowledge and networks for its domestic operations, in order to acquire the necessary resources for internationalization. Even if the firm does not have the knowledge, networks and/or resources, it can still try to obtain resources that can change the portfolio of the factors influencing the competitive advantage that moderates the pace of internationalization. This dynamic and longitudinal aspect of knowledge leads to the need to understand the micro-foundation of firm-level capabilities development. Even if the firm does not have any relevant knowledge for internationalization, it can gradually supplement the required knowledge during the process of internationalization. The state of knowledge and capabilities constantly change, as demonstrated in Chapter 5. The analysis of the dynamics behind the firm-level organizational routines development helps us to articulate and comprehend the list of determinants of the firm's internationalization behaviour.

6.4.3 Understanding the influential factors

The two models are to understand the determinants of the timing and pace of internationalization.

The models imply that the firm may be required to develop an appropriate perception, based on an objective judgement of the reality of the environment in which they initiate internationalization, and build a portfolio of knowledge, networks and resource that will consist of a sufficient firm competitive advantage to enables them to achieve the intended pace of internationalization.

The timing will significantly be moderated by the entrepreneurial actor perception, which is often personal and unique in articulating the implications of the observed enabling factors, entrepreneurial opportunity, and motivating factors. Further, the best timing for internationalization varies even among firms whose product and service offerings are similar. Therefore, a precise understanding of the factors determining the moderating factor of the timing, the entrepreneurial actor perception, will help the firm to judge the timing of the internationalization objectively. This will enable the firm to make the best use of the limited resources and maximize the return on business.

The following pace of internationalization will be moderated by the firm's competitive advantage that determines the firm's ability to execute the passion,

objectives, plans, and therefore the desired pace of internationalization. The firm's competitive advantage is subject to the knowledge, networks, and resources that are given at a certain point of time, but can drastically be changed as a result of the strategy. The firm will be required carefully and realistically to evaluate its competitive advantage, in order to plan a better, attainable pace of internationalization.

The two influential variables, entrepreneurial actor perception and firm competitive advantage, are given factors at least to a certain degree. However, the parameters change according to the dimension of time. The addition of resources is due to the fact that firms can gradually build the required capabilities even if they do not have them at first. The large influence of entrepreneurial actor perception suggests the need to understand the continuously changing state of perceptions, mind-set, and orientation.

This longitudinal aspect will lead to the value of incorporating the analysis of institutions in Chapter 3 and that of micro-level capabilities foundation in Chapter 5 to the discussion of the determinants of the firm's internationalization behaviour in Chapter 4. On the other hand, the two models that structure the factors that influence the timing and pace of internationalization in Chapter 4 inform the analysis of institutions in Chapter 3 and the analysis of the micro-level foundation in Chapter 5. The two analytical layers (i.e., Chapters 3 and 5) will assist our

understanding of the other relevant factors identified in Chapter 4 in order better to control the factors that lie outside this focus.

6.5 Developing routines

As explained in Chapter 4, knowledge and capabilities for internationalization are particularly relevant to and influential on the pace of internationalization. While the entrepreneurial actor perception largely determines the timing of internationalization, the firm's competitive advantage significantly moderates the following internationalization pace. As knowledge and capabilities form the majority of the firm's competitive advantage for internationalization, the constant development of knowledge and capabilities will be crucial for catching up with the growing size of international business and the resulting challenge of handling a larger international operation.

The finding of Chapter 5 reveals several implications for knowledge and capabilities development. Internationalizing firms face difficulty with regard to developing knowledge and capabilities, which is a bundle of firm-level organizational routines. The ordinary routines that explore external knowledge and capabilities and the change routines that exploit the ordinary routines constitute a large part of knowledge and capabilities formation among these

smaller, younger firms because the internal resources and organization of these firms are limited compared to the potential availability of knowledge and capabilities in the external environment. The ability to change may contribute to a faster pace of internationalization, and help the firm to accommodate the changing needs of internationalization according to the particular stage.

6.5.1 Initial stage

In the initial stage after the timing of the internationalization, firms that internationalize early tend to suffer due to insufficient resources, whereas those that internationalize late tend to suffer problems of misalignment between the domestic-focused routines and the new routines designed for international operations. In both cases, a key would be to implement the individual-level knowledge and capabilities of the founding members into the firm-level organizational routines.

At the time of internationalization, the level of development of the firm-level organizational routines for internationalization is low (as discussed in Chapter 5). However, the firm inherits the skills and experiences of their key members that substitute for the lack of organizational experience and capabilities for internationalization (Sapienza et al., 2006: 916). The founding members' prior knowledge largely contributes to the identification of: 1) the market; 2) how to

serve the market; and 3) a solution to the customers' problem (Shane, 2000). However, at certain points, the firm has to depart from a reliance on their founding members, and systematizes the operations to be scalable for rapid internationalization.

In some cases, the firm can deliberately emphasize experimental learning and focus on developing firm-level organizational routines for experimental learning. For example, Born Global and International SMEs, as outlined in Chapter 5, utilize this approach to let their staff learn, and build a core team of staff who can act independently, on behalf of the firm and the founding members. In another example, a small software house focusing on artificial intelligence software decided to adopt an agile software development technique (Beck et al., 2001) because this approach can enhance the knowledge transfer from experienced programmers to less experienced ones, as it focuses on face-to-face conversations and paired programming.[11]

New knowledge always begins with individuals, and an individual's personal knowledge will be transformed into organizational knowledge that is valuable to the company as a whole (Nonaka, 1991). The firm should build a spiral of organizational knowledge creation in order to transfer knowledge from

[11] Information from interview ID 3 and publically available sources

individuals to the group and the organization (Nonaka, 1994). Even if the firm has already developed routines for its domestic business, it has to develop the routines for international business in the initial period, especially if the gap between the required international routines and the domestic routines is significant. Institutionalization of the knowledge and capabilities will be key in the initial stage.

The state of firm-level capabilities will constantly change. A constant pace of internationalization indicates that expanding the firm-level knowledge and capabilities base that make up the increasing demand comes from the expanding scope of international business. This observation is particularly valuable for understanding the influence of the knowledge factor described in chapter 4, which is part of the two models of the forces influencing the speed of internationalization.

6.5.2 Grafting the resources to a variety of firm-level routines

As discussed in Chapter 4, resources can play a role in grafting knowledge and capabilities. If the entrepreneurial opportunity is sufficient for the firm to convince its investors to provide additional capital, an option for accelerating the pace of internationalization will be to acquire the people or the firm that already

have the required set of internationalization, market, and institutional knowledge and capabilities.

Eriksson et al. (1997) define three types of knowledge: 1) market (or business) knowledge that is about competitors, clients, and markets abroad; 2) institutional knowledge that is about the institutional conditions of foreign markets; and 3) internationalization knowledge that represents the accumulated internationalization experience. While learning tends to occur around the domain similar to the firm's current knowledge base (Cohen & Levinthal, 1990), the required types of knowledge are often at a distance from the domain of a recently internationalized firm. Grafting works to fill the gap by inserting the points, which are closer to the required pool of knowledge, into an internationalizing firm. Relatively small, limited internal organizations and knowledge and capabilities bases will further justify the focus on external growth rather than organic growth. New managers can often bring better access to the networks and knowledge of the local market, and advanced technical expertise that can increase the speed of foreign market expansion (Loane, Bell & McNaughton, 2007; Gabrielsson, Kirpalani, Dimitratos, Solberg & Zucchella, 2008).

For example, Born Again discussed in Chapter 5 acquired a leading firm in the same business in Silicon Valley for around USD 100 million. Firstly, it had around 100 full-time employees who are experienced in serving the local

customers and are well-connected to the local business communities. The staff contributed to: 1) building the credibility of the firm in the foreign environment by explaining about Born Again to the people around them; 2) introducing potential employees to Born Again from the local business communities; and 3) significantly improving Born Again's level of knowledge about the local market and institutional conditions. Further, the existing inter-firm relations helped Born Again quickly to gain access to the key customers and suppliers. The acquired company already had an existing contract with one of the largest telecom operators. Further, some of the firms that supplied products to the acquired companies were later acquired by Born Again.

In another case, Traditional SME discussed in Chapter 5 appointed a foreign-born executive who had been the CEO of the Japanese operation of several international firms before joining Traditional SME as COO in charge of foreign operation. It was in 2012, 15 years after its establishment, and 8 years after Traditional SME has initiated its foreign expansion.[12] The COO had over 20 years' experience in the industry and was in charge of foreign market expansion. He has developed a strategy for focusing on small Japanese firms with a foreign operation initially to build a stable income base in the foreign markets, and

[12] Therefore, this is after the slow growth period that is analysed in the micro and internal section

formed a team of 10 engineers and managers for the internationalization efforts. He was confident about the plan and stated that Traditional SME could start rapid expansion within a year. An executive of Traditional SME explained that it had insufficient funds to hire a person like the COO who understood how to initiate internationalization and could coordinate between the different functions of the business in the past. In FY 2011, the operating profit of Traditional SME reached around USD 10-15 million. The resources and grafted talent might change the pace of internationalization.

The grafted people and organizations will help the firm to develop a variety of organizational routines for international business, especially if it successfully develops a spiral of organizational knowledge creation. As demonstrated by the firms that adopted a faster pace of internationalization, a variety of organizational routines for exploring external knowledge and capabilities will accelerate the expansion. The knowledge sources such as experiential and vicarious learning suit deep learning, whereas knowledge sources such as congenital and searching learning appear well-suited to understanding an overview (De Clercq et al., 2012). The routines create multiple points of contact with the external environment, firms, and people, creating the flows of knowledge and capabilities into the firm's internal organization.

This process of capabilities development via grafting is in fact a process of institutional interaction within the firm, explained in Chapter 3. Chapter 3 describes the role of "immigrant workers" who bring new ideas and systems. The managers who are brought from outside are both institutional intermediaries and contributors to the evolution of a new set of organizational routines. The source of the value of new ideas and systema may come from the differences that emerge from the institutional environment. Understanding institutional differences may in turn contribute to the understanding of the role of each new member of the firm in expanding the existing knowledge and capabilities base of the internationalizing firms. The micro level analysis in Chapter 5 and the macro level analysis in Chapter 3 appear complementary.

6.5.3 Focus on flexibility and change

A higher ability to change, known as dynamic capability, is a prerequisite for a constantly fast pace of internationalization. In the longitudinal process of internationalization, the internationalizing firms should constantly change and exploit the already-developed organizational routines, in order to accommodate the rapidly expanding geographical and functional coverage of the business. However, even the shared experience of founding members prior to the establishment of the start-up will reduce the firm's ability to change (Autio et al.,

2011). Internationalizing firms often have to unlearn first, in order to start searching for a new knowledge base (Casillas, Acedo & Barbero, 2010). As in the high velocity sector, rapid internationalization requires the firm constantly to challenge the developed business model. Those who can constantly change their organizational routines can regenerate their competitive advantage in a rapidly changing, competitive market environment (Rindova & Kotha, 2001).

In a high velocity environment, a certain level of turnover might be beneficial for the firm to sustain its change orientation (March, 1991: 79-81). For example, Born Again analyzed in Chapters 4 and 5 frequently hired high level executives, and changed its organizational structure, in order to give the new members sufficient control of the teams of which they were in charge.[13] A senior manager who started to work at Born Again soon after its inception explained that the bigger the firm, the better the quality of the people Born Again could hire. This is probably because of the better compensation and social recognition. The constant growth of Born Again enabled it constantly to hire better human resources. As Born Again could adjust its organization accordingly, the grafted managers could implement new systems and exploit the existing ones.

[13] Born Again avoids firing staff as much as possible because this is often difficult in its home country, and the CEO prefers to avoid any negative impact on the good working atmosphere

Similarly, Born Global analyzed in Chapter 5 utilized cloud sourcing services to hire independent professionals for various purposes. It often developed a long term relationship with the high-performing independent professionals. However, the flexible employment arrangement enabled Born Global quickly to shift its strategic focus. For example, at first it tried to focus in India, hired part-time staff and interns, and devoted considerable efforts to understanding the market. However, it could quickly change its focus from India to other Asian countries after finding the competition intense, although the market potential is large. The flexible arrangement for human resource allocation may contribute to a higher ability to change.

In other cases, a London-based marketing strategy consulting firm built a network of experienced independent consultants and initial contact supporting advisors who support project negotiation in Europe, the US, China and Japan.[14] It had full-time employees, around 15-30 of whom were project managers, modeling analysts, and support staff. However, it has a number of contracts with: 1) experienced industry experts who can introduce potential clients in each country; and 2) experienced local consultants who understand the local business culture and can help the execution of consulting projects. The flexible arrangement

[14] Information from interview ID 12 and several informal conversations

enabled it to adapt to the changing marketing consulting needs by gradually switching the pool of experts who introduce potential clients, and to shift the focused geography, for example, from Europe to Asia. It could quickly expand the geographical coverage of its consulting services, and has conducted projects in over 50 countries in the past 10 years.

Nevertheless, exactly how the firm could achieve the ability to change is still an on-going debate. Internationalizing firms should develop a learning architecture that can constantly respond to the changing market environment and the expanding international operation (Slater & Narver, 1995). A co-evolutionally approach may provide us with additional insights as internationalization is a longitudinal process of constant selection, adaptation, and change (Zettinig & Benson-Rea, 2008). While opportunity selection should be carefully considered, executing the plans may have to be extemporaneous and frequent (Bingham, 2009). Entrepreneurial activities within the firm may explain the constantly changing organizational structure and strategy for internationalization (Schweizer et al., 2010). While the literature generally agrees with the importance of flexibility and change as aspects, exactly how the firm should develop the capabilities to change and exploit has not yet been revealed.

The common argument about the different ways to investigate the same phenomenon is the need to build high-level change routines that are designed to

trigger the required change or refinement. These routines might include dedicated teams for initiating change (e.g., an internal consulting division), the frequent change of reporting structure (e.g., as Born Again did), the hands-on, frequent involvement of the top-level management (e.g., like the CEO of Rakuten discussed in Chapter 3), and the headhunting of key executives (e.g., like International SME). What kind of high-level routines should an internationalizing firm develop will depend on the specific circumstances and organizational structure of the firm. However, the importance of having such routines designed to foster change and exploitation has been widely recognized and is also confirmed in Chapter 5.

This observation again supports the value of analyzing the constantly changing internal structure in the process of internationalization. The ability to change will not be captured by the static model of the forces determining the timing and pace, as described in Chapter 4. A combination of the analysis of the micro level foundation (Chapter 5) and the determinants of the speed (Chapter 4) may complement each other.

6.5.4 Development of the routines for internationalization

Chapter 5 aimed to understand the nature of knowledge and capabilities for internationalization, and the conditions that foster the development of firm-level

organizational routines that effectively assist internationalization initiatives. A constantly changing but well-established set of organizational routines contributes to stronger firm competitive advantage, and therefore to a resulting faster pace of internationalization.

In the initial stage, a key will be transferring individual-level knowledge and capabilities into firm-level knowledge and capabilities. As the preceding international entrepreneurship literature finds, the entrepreneurial actor's mindset, orientation, and knowledge significantly influence the performance of the firm, whereas Chapter 5 confirmed that the level of development of the firm-level organizational routines is low, regardless of the pattern of internationalization. Internationalizing firms' reliance on their founding members may be unavoidable; however, a successful transition from a reliance on a collection of individual-level knowledge and capabilities to the contribution of well-developed firm-level organization routines will help the firm to accelerate the pace of internationalization, especially in the later stage after the initial period.

Further, Chapter 5 found that grafting may foster the development of a variety of organizational routines as it significantly helps the external exploration and exploitation of knowledge and capabilities. A common observation across firms that follow a faster pace of internationalization was their extensive use of grafting at both the individual- and firm-level. Grafting would be a tool for filling the gap

between the required level of internationalization, market, and institutional knowledge and the knowledge level of a internationalizing firm. The grafted managers or firms often have a strong incentive to bring new ideas and systems that lead to the development of a variety of new routines and the exploitation of the existing ones.

Another factor that contributes to the faster pace of internationalization would be the ability to exploit the already-developed routines. While exactly how the firm can develop a higher ability to change is still debated, the empirical evidence reveals that the rapidly internationalizing firms develop high-level organizational routines that foster the exploitation of the existing knowledge and capabilities. The importance of the ability to change in turn suggests the value of analyzing the micro-level foundation that causes a longitudinal change in firm-level capabilities. An improved understanding of the micro level mechanism will help our understanding of the influence of the knowledge factor that is incorporated in the models explained in Chapter 4.

6.6 The synergies between the three analytical layers

There are a number of frameworks and approaches designed to assist international business strategy development. As internationalization is related to

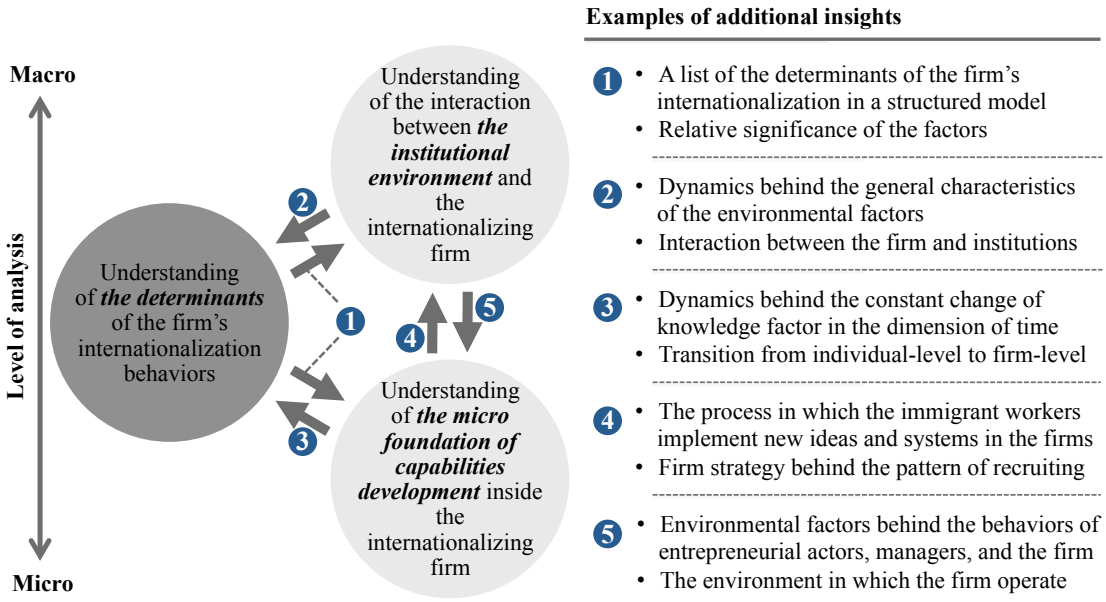
all aspects of the strategy process of most business firms (Melin, 1992), internationalization has been one of the central topics of the international entrepreneurship literature (Jones et al., 2011). However, while a number of empirical researches found a variety of factors that are influential on a firm's internationalization, i.e., the pattern of internationalization especially the timing and pace, the international entrepreneurship literature has not yet developed an integrated framework that provides an overview of the factors influencing a firm's internationalization.

There are several conceptual frameworks for academic researchers that are designed to capture the multi-layered factors influencing the internationalization strategy (e.g.,Ghoshal, 1987; Thomas, Pollock & Gorman, 1999; Lessard, 2003). However, as these frameworks are designed to accommodate a range of international firms, starting from billion-dollar global firms to tiny start-up firms that have just started operating, most of these frameworks are unable to take into consideration the specific problems facing these younger, smaller firms, such as the liability of foreignness (Zaheer, 1995), newness (Freeman & John, 1983), smallness (Freeman & John, 1983), and outsider-ship (Johanson & Vahlne, 2009).

The three empirical chapters of this research are interrelated and closely associated. This chapter summarised the implications of the findings of the three empirical chapters, and explaind some of the synergies between the three layers of

research. The three researches influence each other, and can collectively enhance our understanding of the factors influencing the firm's internationalization. Future integration of the three different layers of analysis would benefit researchers. The synergies among the three layers of analysis provide a broader picture of the potential factors because each analytical layer can benefit from the other two, as discussed above, and shown in Figure 23.

Figure 23 Potential Synergies Among the Three Layers of Analysis



The research on the firm's internationalization can be a cycle of the three layers of analysis. Such research can consist of understanding: 1) the nature of the macro environment; 2) the determinants of the timing and pace of internationalization; and 3) the trajectory of the internationalizing firm's

organizational routines development. It can repeat, or concurrently execute, the analysis from different angles in order better to capture the constantly changing and complex factors influencing the firm's internationalization, which span the dimension of time. As a result, the literature will be able to obtain a much broader perspective of the firm's internationalization.

While the effort to integrate the interrelated analytical layers to provide a integrative framework is still in a preliminary stage, this chapter explained the potential synergies and value of collaboration among the different levels of analysis. This research investigated the possibility of developing a multi-layered internalization strategy framework for entrepreneurial firms, which is designed explicitly for firms that are about to consider internationalization or are in the early stages of it. The goal has been to inform the smaller and often younger firms about the factors influencing their internationalization, particularly the timing and pace.

This chapter discussed the value of the possible integration of the three analytical layers, which are linked to the corresponding academic literature on the nature of internationalization. This chapter argues that a combination of the analysis of institutions, determinants of internationalization, and a micro-foundation of capabilities development may provide a much broader picture of the factors influencing firms' internationalization.

7 Conclusion

7.1 Introduction

As a conclusion, this chapter recaps the contributions and implications of this research as well as the limitations and prospect for future studies. Firstly, Section 7.2 outlines the theoretical contribution by explaining the existing theoretical explanations and summarizing the theoretical modifications and new insights. Secondly, Sections 7.3 and 7.4 explain the implications for policy and practice, respectively. Thirdly, Section 7.5 discusses the methodological, empirical, and theoretical limitations. Finally, Section 7.6 states the prospects for future research.

7.2 Theoretical contributions

This section outlines the theoretical contributions. For each of the three empirical chapters, this section firstly outlines the existing theory, secondly points to the theoretical refinements, and thirdly highlights the new insights generated by

the refined explanations. Further, this section also recapitulates the synergies among the three layers of analysis, before listing the benefits of the multi-layered approach, which forms the structure of this thesis and is explained in Chapter 6.

7.2.1 Chapter 3: Institutions

Chapter 4 asked three questions: In what ways does the national institutional environment facilitate or hinder the growth and internationalization of entrepreneurial start-ups? In what ways does the developed institutional environment interact with the firm? And In what ways does international institutional diversity affect the way in which these internationalizing firms expand and develop the international business? This chapter contributes to the literature by answering these three questions together with theoretical refinements and new insights.

Firstly, this chapter demonstrates that, in an incompatible institutional environment, some entrepreneurial start-ups can grow by acting to avoid or adapt to specific institutions for their own use.

The existing theory, Varieties of Capitalism approach (Hall & Soskice, 2001b), suggests that the firm in a given institutional environment selects the investment, commitment, and innovation patterns that best fit that particular environment.

However, a major criticism of the Varieties of Capitalism framework is that it focuses on the kind of innovation or entrepreneurship that best fit the specific institutional field, and cannot accommodate empirical cases in which the institutions and innovative activity types do not match (Whittaker, 2009: 21). Thus, the existing theory fails to provide a full account of the rapidly expanding firms in an incompatible institutional environment.

In contrast, this chapter analyses how the firm in an incompatible, often hostile institutional environment can achieve rapid growth. The finding refines Varieties of Capitalism that assumes that comparative advantage guides the firm to select the form of business that best fit the characteristics of the institutional environment. This chapter argues that high performing business entrepreneurs are not necessarily constrained by a specific institutional environment. They could be proactive agents who take a risk by challenging the given environment by avoiding, adapting or changing the institutions for their own use.

Secondly, this chapter theorized the significance of inter-firm labour mobility in causing institutional interactions, by analysing the interactions among the managers from different backgrounds inside the firm.

Comparative institutional analysis of political economies considers that the firm could be an institutional entrepreneur that triggers institutional innovation, by

changing the ways in which it and its followers conduct business (DiMaggio, 1988; North, 1990; Streeck & Thelen, 2005). However, the existing theory explains the mechanism by which institutional entrepreneurs contribute to institutional recombination and innovation only at the firm- or sectorial-level (Garud et al., 2007). The mechanism inside the firm has not yet been investigated adequately.

By contrast, this chapter analyzed the internal process whereby the firm develops new systems. As a result, this chapter refines the existing theory by clarifying the intra-firm mechanism that may trigger institutional innovation. Within the firm, managers, recruited from a variety of backgrounds, are incentivized and empowered to implement external ideas, and interact with each other in order collectively to develop their own mix of social systems. Especially if the firm is expanding rapidly, the innovations may diffuse to others not only due to the demonstration effects and inter-firm relationship, but also the transfer of capabilities via further human resource migration.

Thirdly, this chapter theorized the way in which the home and host national institutions influence rapidly internationalizing firms.

The existing IB theory predicts that the bilateral distance between the institutional characteristics of the firm, which reflects the countries in which it

operates, and the host markets influence the pattern of its foreign direct investment (Dunning & Lundan, 2008a: 123-144). However, the analysis of institutions has been focusing on established multi-national corporations. Further, the IB literature is still investigating how we can articulate the influence of institutions on the firm's international business strategy (Jackson & Deeg, 2008; Peng et al., 2008).

This chapter modifies the existing theory by positing a unique way in which rapidly internationalizing firms may be influenced by, and act upon, the international institutional diversity. The chapter argues that the bilateral distance between the firm's home institutional characteristics and the host location institutions is unlikely to be an influential factor for rapidly internationalizing firms. They may design their global coverage first with minor influence from the institutional distances. Rapidly internationalizing firms may shape their corporate cultures and systems through multilateral interactions among their local operations in their process of rapid growth. This suggests that The firm may not only be subject to the international institutional diversity, but also the exploiters of the best combinations of the institutions. The firm may be subject to multilateral, rather than bilateral, processes of concurrent interactions among multiple host locations.

7.2.2 Chapter 4: Micro environment

Chapter 4 asked: in light of the rapid and early modes of internationalization, what modifications, if any, are necessary to the existing theories of internationalization?

The existing theory, developed by Oviatt and McDougall (2005a), considers that the speed of internationalization is determined by an entrepreneurial opportunity and four types of force: enabling (technology), motivating (competition), mediating (entrepreneurial actor's perceptions), and moderating (knowledge and networks). However, while the international entrepreneurship literature frequently (i.e., more than 400 times) refers to this theoretically developed model, no empirical study has ever examined its validity.

This chapter empirically examined the model, and developed two refined models: one for the timing of internationalization and the other for its pace. They are inductively derived from the empirical findings, and identify the factors that determine the timing and pace of internationalization, especially that of firms that pursue early, slow and rapid, late internationalization, respectively.

There are two key refinements to these models. Firstly, while the original model theorizes that the same factors and causal mechanism influence both the timing and pace of internationalization, the refined models adopt different causal

mechanisms for the timing and pace. In essence, the chapter theorizes that both timing and pace are influenced by the firm's competitive advantage and the entrepreneurial actor's perceptions. However, the entrepreneurial actor's perceptions can override the influence of the firm's competitive advantage with regard to the timing of internationalization. On the other hand, the firm's competitive advantage strongly moderates the influence of the entrepreneurial actor perceptions on the pace of internationalization.

Secondly, the refined models incorporate resources as an additional factor that determines the firm's competitive advantage. The resource factor has been neglected in the international entrepreneurship literature because of the assumption that 1) newly established or newly internationalizing firms generally suffer from a lack of resources; and 2) these firms supplement this lack of resources by other factors, such as knowledge and networks. However, the finding suggests that the firm can supplement the required knowledge and networks by utilizing resources that enable it to obtain access to the knowledge and networks. The chapter argues that, in order to accommodate both firms that establish a domestic presence before initiating internationalization and those that embark on early stage internationalization but take gradual steps, it is necessary to consider this resource factor in the models.

The two refined models provide new insights to the discussion of the timing and pace of internationalization. In particular, the chapter argues that the timing is a decision variable, and is therefore strongly influenced by the entrepreneurial actor perceptions. However, the influence of these on the timing may decrease as the firm grows, because the larger and older the firm, the more systematized will be its decision-making process. Further, the chapter argues that the pace of internationalization is influenced strongly by the changing dynamic state of the firm's competitive advantage. As the pace is a result of the firm's continuous geographic expansion that spans the dimension of time, any snapshot parameters of knowledge and network do not necessary determine the pace.

Over the past few decades, international entrepreneurship research has been expanding from a narrower definition of entrepreneurship to a wider research area that covers the internationalization of established firms (McDougall & Oviatt, 2000; Coviello et al., 2011). However, the empirical research has been focusing only on firms that adopt an earlier, faster pace of internationalization (Jones et al., 2011).

The refined models allow the international entrepreneurship literature to accommodate not only early, rapid internationalization, but also the emerging evidence about late, rapid (i.e. Born-again Global firms) and early, slow

internationalization (i.e., International SMEs), providing a more general, stronger explanation of what influences the firm's early stage internationalization.

7.2.3 Chapter 5: Firm-level capabilities

Chapter 5 asked two questions: how do firms that realize early and rapid internationalization explore and exploit knowledge and capabilities? And in what ways is the process of firm-level capability development and maintenance differ between firms that realize early and rapid internationalization and the firms that take more late and slow internationalization?

The theory of internationalization assumes that smaller, younger firms suffer due to their insufficient internal capability to conduct international operations, especially in the early stage (Johanson & Vahlne, 1977). Therefore, the existing theory explains that rapidly internationalizing firms utilize their networks and knowledge to supplement the required capabilities (Oviatt & McDougall, 2005a; Johanson & Vahlne, 2009). However, how exactly rapidly expanding firms accelerate their pace of internationalization by harvesting their gains from learning remains inadequately researched (Zahra, 2005). Researchers examine the process of rapid capability accumulation that starts from the very early stages, by focusing on the entrepreneurial actors, prehistory, and networks (Coviello & Jones, 2004; Coviello et al., 2011).

This chapter modifies the existing theory in three ways. Firstly, in contrast to the existing theory that focuses more on organizational-level capabilities and fails to discuss individual-level capabilities in detail, this chapter argues that, at the time of internationalization, the level of development of the firm-level routines for internationalization is low, regardless of the timing and pace. Thus, the firm relies on individual level capabilities at this stage. This suggests that the transformation of a collection of individual-level capabilities into a bundle of firm-level routines may be critical for rapidly internationalizing firms, in order to sustain the pace of their internationalization beyond the initial phase when they rely on individuals more than routines.

Secondly, in contrast to the existing empirical studies that focus on one or two types of knowledge sourcing activity, this chapter analyzed a range of knowledge sourcing activities undertaken by internationalizing firms. As a result, this chapter theorizes that rapidly internationalizing firms develop a wider range of firm-level organizational routines for exploring external knowledge and capabilities than ones that adopt a slower pace. Further, in contrast to the existing theory that focuses on the founding members of the firm, this chapter also theorizes that managers who are brought in from outside the firm understand the systems of external best practice and are incentivized to change the existing systems. This

factor may significantly contribute to the wider spectrum of routines that exist in rapidly internationalizing firms.

Thirdly, in contrast to the existing international entrepreneurship literature, that fails to distinguish clearly between the ordinary routine and change routine, this chapter discusses the significance of the firm's ability to exploit its developed ordinary routines to accelerate its pace of internationalization. The chapter theorizes that rapidly internationalizing firms constantly change their organizational routines that have been developed to explore external knowledge, in order effectively to explore new ways of organizing this in the demanding foreign environments. This, on the other hand, indicates that the existing firm-level organizational routines may not contribute to a faster pace of internationalization unless they change constantly, because the demand arising due to the international expansion constantly changes.

This chapter as a whole refines our understanding of the influence of capabilities development on the firm's internationalization. The international entrepreneurship literature has just began to incorporate the concept of absorptive capacity (e.g., Zahra & Hayton, 2008) and the dynamic aspects of organizational routines development (e.g., Zettinig & Benson-Rea, 2008; Bingham, 2009). However, the misalignment of the definition of capabilities in the literature makes it difficult to compare the results and discuss the distinction between the ordinal

routines and change routines and between individual level capabilities and firm-level organizational routines.

The result of this study emphasises that the transformation of individual level capabilities into firm-level organizational routines and the grafted managers and higher level routines that trigger the exploitation of ordinary routines may all be critically important in accelerating the pace of internationalization. Continuous morphing may play a key role in the speed at which new processes are generated or modified (Rindova & Kotha, 2001; Autio et al., 2011). Internationalization is a dynamic process that spans the dimension of time; therefore, this chapter argues that analysing the continuous changes would be beneficial and often essential.

7.2.4 Chapter 6: Implications of the multi-layered analysis

This chapter argued that the extension of the scope of the analysis of internationalization towards the direction of the micro level to accommodate the institutional environment and towards the direction of the internal level to discuss the micro-foundation of firm-level capabilities provides new insights that would not be captured in the previous studies of IB literature alone.

The synergies among the three different layers of analysis exist in a variety of ways. In particular, the structured model of the determinants of the firm's

internationalization help the other two analytical layers to position the result in the frame of the overall factors influencing the firm's internationalization behaviour (From Chapter 3 to 5). Further, the analysis of institutions and capabilities development gives the determinants of the firm's internationalization behaviour (From Chapter 3 to 5) far richer detail of the dynamics that exist behind the factors. Moreover, the analysis of the micro-foundation of capabilities development may help us to understand the process whereby institutional entrepreneurs develop their strategy regarding the incompatible institutional arrangement (From Chapter 3 to 5). Finally, understanding the institutional environment helps to explain the potential cause of the patterns of behaviour among people who share the same background (From Chapter 3 to 5).

The multi-layered approach articulated in this thesis demonstrated a possibility of developing a unified explanation of the forces influencing the timing and pace of internationalization by referring to the theories from multiple analytical layers. The multi-layered approach is a cycle of analysis, spanning the macro-level to the micro-level and enhancing our understanding of the firm's internationalization. The analyses from different angles could be repeated or concurrently executed in order to gain from the synergies. This chapter argues that this approach provides a much broader perspective of the firm's internationalization, and better captures the constantly changing, complex factors influencing this.

7.3 Implications for policy

This study is of use to policy makers in a variety of ways. In particular, the following two implications, drawn from the empirical findings, will be significant for future policy formation and execution.

Firstly, a key observation across the three empirical chapters is the active role of migrating human resources from established firms to entrepreneurial start-ups. They are the vehicles for ideas and skills between different institutional environments and the catalysts of the active interactions within the firm for developing new cultures and systems that drive growth.

This suggests that the policy that encourages the migration of labour with developed ideas and skills from mature sectors to emerging sectors may facilitate innovation and growth. While tension between the protection of workers and the promotion of industry will certainly exist, this research reveals the significance of the incoming labour for accelerating the growth and internationalization of entrepreneurial start-ups.

Current entrepreneurship policy focuses on either the sectorial or the firm level. However, as this study analysed the individual-level mechanism and obtained new insights, the level of granularity of the entrepreneurship policy can go down to the individual level. In order to promote entrepreneurial activities,

governments may devise a policy of supporting entrepreneurial individuals who migrate from larger, established firms to more fragile but promising entrepreneurial start-ups. By analysing the managers who have moved into start-up firms and contributed to their growth, the policy makers may obtain new insights about the factors that facilitate or hinder the transfer of ideas and skills into emerging sectors.

Secondly, another key observation of this study is the fact that rapidly growing and internationalizing entrepreneurial start-ups are proactive agents who consider the environment as resources. They can avoid, adapt, or change the institutional environment (Chapter 3), recombine it to build its own mix of knowledge, network and resources (Chapter 4), and adopt ideas and systems from a variety of institutional environments to develop a bundle of firm-level organizational routines (Chapter 5).

The existing discussion on entrepreneurship policy argues primarily about the unidirectional influence of policies on people to engage in entrepreneurial activities and on systems that support firms to undertake entrepreneurial activities (e.g., Zahra & Wright, 2011: 78-81). However, the traditional conceptualization of the institutions as constraints on firms is gradually being eclipsed by the increasing awareness of the fact that some entrepreneurs can proactively interact with the institutions (Garud et al., 2007). This suggests that the policy

development and execution in collaboration with the entrepreneurial actors may further improve the policy's effects.

The current entrepreneurship policy invites entrepreneurs for discussion and policy development. However, the involvement of the entrepreneurs in the design and implementation of the policy is rather limited. The fact that some high performing entrepreneurs can proactively interact with the environment may suggest the possibility of engaging with these active agents, in order to encourage people and effectively foster their entrepreneurial activities. While the engagement of a limited number of entrepreneurs may pose a question related to the objectivity of the policy, there would certainly be a new frontier for the interactive, not unidirectional, policy development and execution.

7.4 Implications for practice

The research presented in this thesis is of use to business leaders who are considering expanding their business overseas.

Entrepreneurial internationalizing firms have been forced to rely on the proven frameworks of international strategy that were originally designed to help larger, more established multinational corporations. This is because the international entrepreneurship literature have not yet developed a framework to explain the

factors that smaller, younger firms should consider when they plan and execute internationalization.

The interviews revealed that a large majority of entrepreneurs do not refer to any theories or methodology in order structurally to assess their internationalization efforts. The way they develop their exposition plan seems to be largely dependent on their personal background, such as their education or working experience, and on the managers hired from already-internationalized firms.

This thesis provides the managers of the smaller, younger firms with an opportunity systematically to review their initiatives by analyzing the multi-layered factors influencing the firm's internationalization strategy. In particular, this research provides a tool for considering how entrepreneurial startups can: 1) interact with the environment; 2) decide on the appropriate timing of internationalization; 3) accelerate the pace of internationalization; and 4) develop the knowledge and capabilities required for the internationalization.

The variety of new insights developed by this thesis also informs practitioners about their strategy development and implementation. To mention a few: the firm can consider avoiding, adapting, or changing the environment, and selectively utilizing the institutions as resources. The timing of the internationalization will

be influenced significantly by the entrepreneurial actor perceptions; however, it is a decision variable that the firm can control. The pace of internationalization will be determined by a combination of knowledge, network, and resources; therefore, the firm can remix these three factors to accelerate the pace of internationalization. The transformation of individual-level capabilities into firm-level organizational routines is key, especially in the early stage of internationalization. Grafted mangers can contribute to a higher ability to change, which contributes towards accelerating the pace of internationalization. The firm has constantly to exploit the existing ordinal routines, in order to maintain the pace of internationalization.

Thus, while a precise prescription depends on the specific circumstances of each firm, the research provides practitioners with a tool for systematically reviewing the internationalization initiatives and a variety of new insights that stimulate their strategy formation and execution for their growth and internationalization.

7.5 Limitations

Like any research, this research encounters methodological, empirical, and theoretical limitations; therefore, these limitations have to be addressed by a portfolio of future research initiatives.

These limitations are due to the design of this research, which focused on several aspects of the focal phenomenon: the firm's internationalization. This focus enabled this research to generate new insights that may constitute the answers to the research questions identified by the literature review. However, the focus also leads to the existence of methodological, empirical, and theoretical limitations, which may be summarized as follows.

Firstly, there are limitations raised by the choice of methodology. This research adopted a case method throughout the three empirical studies, and mostly relies on an inductive, case-based theorising approach and analyses of retrospective case studies (Eisenhardt, 1989; Yin, 2006; Eisenhardt & Graebner, 2007). The case method provides holistic and meaningful characteristics of real-life events, and is effective for generating insights into complex social phenomena. This method is adopted because this thesis investigated an inadequately researched phenomenon and aimed to expand the existing theories by providing a thick description of the causal links.

However, the case study method requires the researcher to spend a significant amount of time per firm to identify the cases, obtain permission to gather the data, and travel to interview the key managers. Consequently, the analysis focused on a limited number of firms. This research focused on generating unique insights that could only be generated by a case method approach, at the expense of failing to test the quantitative significance and the generalizability of the findings.

Secondly, limitations exist in the empirical evidence due to its focus: ICT and Japan. The majority of the data is from ICT start-ups whose headquarters are located in Japan, while additional interviews have been carried out in other sectors and geographies. The focus enabled this research to control industry specific factors and home market effects to a certain extent. The relatively fast growth and internationalization of ICT firms enabled this research to observe a longer period of the process. The focus on Japan allows the researcher to utilize his professional network. A structured, focused comparison (George & Bennett, 2005: 67) helped this research to generate new insights, while omitting the influence of the variation in the controlled factors.

However, this also means that some of the observations of this research would be unique to the ICT sector or Japanese firms. Although the analysis paid extra attention to building a theory that would be applicable to any industry and nationality, a certain influence of the choice of empirical data may still exist. In

particular, the firms in the ICT sector are likely to be less influenced by national institutions because of the existence of globally shared industry characteristics. A relatively high knowledge concentration and use of technology may reduce the difficulty related to conducting international business. Therefore, the developed perspectives may overestimate a startup firm's ability to cross borders, because the firms in other sectors may face larger, and potentially different, challenges related to internationalization. Further, the influence of the Japanese institutional environment will certainly exist in Japanese firms, even those in foreign locations. While the discussion in Chapter 3 helped this research to try to eliminate the bias arising from nationality in the analysis, conducting additional analysis in other geographic locations will certainly help to validate the potential issues.

Finally, there is a fundamental debate about research in social science. I take the view that a researcher can utilize a scientific method in order objectively to assess a natural phenomenon that exists in human society. However, others may argue that human society constantly changes in every aspect, and any human's interpretation of the environment might also fluctuate and change. Thus, an objective assessment of human society is impossible. Further, even if a positivist approach is possible, this research admits the possibility of subjective judgments that may distort the discovery of the order of nature. A way to counter this limitation will be to continue the iterative process of theory development over

time, and to replicate empirical studies in different settings. Consequently, future studies will be necessary to demonstrate the existence of stably and repeatedly observable patterns.

7.6 Future research directions

Future projects derived from this doctoral research will follow, and will continuously update the arguments. In particular, there are two concrete future study opportunities:

Firstly, a future study might further analyze the significance of the individual-level mechanism of institutional innovation by comparing the movement of senior-level executives and the diffusion of an example of institutional innovation in a relatively small sub-sector of the ICT sector. As discussed in Chapter 3, the movement of influential individuals may contribute to the emergence of new industry practice. Choosing a relatively independent, small sub-sector, future research might capture all of the movement of influential individuals, and analyze the sector-wide diffusion of a certain practice. This method could theorise the micro-foundation of the institutional entrepreneurship in bringing the innovation to society.

Secondly, the two models developed in Chapter 4 and the propositions developed in Chapter 5 could be investigated further in a single survey-based quantitative research, because the sampling frame could be the same. The operationalization of each factor in the two models from Chapter 4 has been carried out by a number of survey-based studies, while the two proposed model structures are new insights. The propositions from Chapter 5 are simple and testable, and the on-going research about the micro-foundation of organization and strategy could help to solve the methodological issues, such as the operationalization of individual-level capabilities and firm-level organizational routines. Thus, a quantitative validation of the findings of Chapters 4 and 5 is both feasible and promising.

In addition, future studies might discuss the practical implications further to provide managers with an effective integrated tool to assist them to make the internationalization decision. To develop a management tool for entrepreneurial startups to assess their options regarding investing in a foreign location is a complex decision that this research tried to unpack. However, such a diagnostic tool in the future would be able to give a sound practical recommendation regarding the optimal timing and pace of internationalization.

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