

# The Co-evolution of Learning and Internationalization Strategy in International New Ventures

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**Abstract** In this paper, we examine the co-evolution of learning and internationalization strategy in international new ventures (INVs). Many researchers have suggested that in contrast to the reliance on experiential learning by firms that internationalize incrementally, firms that internationalize rapidly use alternatives such as congenital and vicarious learning. However, few empirical studies explicitly examine how the use of learning processes in INVs evolves. We used retrospective longitudinal analysis to explore the learning processes of four New Zealand-based INVs, and found that their dominant learning mode and foci of learning changed as internationalization increased. Around the time of founding, congenital learning dominated, but as the firms began to internationalize, they relied more on experiential, vicarious, searching and noticing learning processes. The focus of their learning also shifted from product knowledge to knowledge about foreign markets and the internationalization process. In the later stages of their internationalization, experiential learning increased in importance, as did other resource-intensive learning processes such as grafting by hiring locals or acquiring foreign companies. We conclude that the learning processes used by INVs co-evolve with their internationalization, and are more rapid and less systematic than is implied by traditional models of the internationalization process, with substitutes for experiential learning dominating early in the process.

**Keywords** International new ventures · Internationalization process · Knowledge · Learning · Process research

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## 1 Introduction

Knowledge and learning are essential when new ventures internationalize (e.g., Casillas et al. 2009; De Clercq et al. 2012; Oviatt and McDougall 1994, 2005). Oviatt and McDougall (1994) argued that the unique knowledge of founders facilitates early and rapid entry by international new ventures (INVs) into multiple countries. Subsequent research has focused on founders' and top managers' congenital learning (i.e., prior knowledge, abilities, and experience) (Yeoh 2004). Because congenital learning may have only compensatory (Fernhaber et al. 2009) and temporary effects on internationalization (Bruneel et al. 2010), researchers have studied other knowledge acquisition processes that early and rapidly internationalizing firms may use, such as vicarious learning (Casillas et al. 2009; Schwens and Kabst 2009b; Freeman et al. 2010) and grafting (Gabrielsson et al. 2008; Loane et al. 2007).

This perspective contrasts with traditional theories like the Uppsala model, which emphasize experiential learning in incremental internationalization. Such learning occurs gradually through direct experience in international markets. It is a slower and more resource intense, but possibly richer, learning process that may supplement congenital learning when INVs internationalize. Studies of INVs are equivocal, however, with evidence of both positive (Michailova and Wilson 2008) and negative effects (Schwens and Kabst 2009b).

De Clercq et al. (2012) concluded that there is a need to align research about learning by INVs with literature about organizational learning. They argue that the "...snapshot nature of cross-sectional studies limits their ability to examine how processes and performance unfold" (p. 162), and recommend longitudinal research that examines how learning and internationalization processes are intertwined. The research reported in this paper begins to address this gap by using a process method to examine the co-evolution of learning and internationalization in four New Zealand based INVs.

In constructing retrospective histories of how these firms internationalized, we focused on specific events and strategy components, along with learning processes, sources, and foci. Strategy components are constructs, such as pace, market scope and mode of entry, that characterize the pattern of an SME's internationalization. Similarly, learning processes, sources and foci describe how a firm learns, from whom it learns, and the content of their learning. We generalized the experience of these firms by examining how their learning, together with their strategy components, co-evolved during three analytically derived phases—pre-internationalization, early-internationalization, and later internationalization—which involved changes in both internationalization and learning processes, sources and foci. Our findings suggest that congenital learning, supported by learning from networks and market research, significantly influences an INV's competitive advantage, its initial product and market scopes, and the pace of its entry into offshore markets. However, experiential, vicarious, searching, and noticing become more important during the early-internationalization phase, when the focus of learning shifts from product knowledge to knowledge about foreign markets and internationalization processes. Finally, experiential learning and other resource-intensive learning processes such as grafting increase in importance later in internationalization.

Practitioners and policy-makers can benefit from our research, which offers an integrated, intuitive explanation of the ways INVs can learn about foreign markets, and the implications of these processes. Our work suggests that vicarious learning and searching can complement congenital learning, and that knowledge relevant to the early stages of internationalization develops through means other than experiential learning. Greater recognition of the usefulness of different learning modes, and of how learning and strategy components interact, might result in founders paying more attention to non-experiential forms of learning. It could also inform the design of export development programmes, resulting in innovative, economical approaches that increase the speed and effectiveness of internationalization.

The remainder of the paper proceeds as follows: first, we review extant research on knowledge acquisition by INVs and apply Huber's framework (1991) to categorize knowledge acquisition processes, sources of knowledge, and learning foci. We then describe the development of the cases and our findings about internationalization strategy and learning (processes, sources and foci) that characterize each phase. Finally, we discuss the implications of these findings and present our practical contributions.

## 2 Literature Review

The "discovery" of early-internationalizing firms by Rennie (1993) and later theories of INVs by Oviatt and McDougall (1994) sparked interest in how these firms internationalize. For instance, firms may follow the traditional/incremental path, in which they internationalize in stages after developing their domestic markets (e.g., Bell et al. 2001), or be born global/INVs that internationalize early and rapidly (e.g., Oviatt and McDougall 1994; Rennie 1993; Knight and Cavusgil 1996), or be born-again globals that internationalize quickly after focusing on their domestic market for a long period (e.g., Bell et al. 2001; Bell et al. 2003). These firms have various distinctive characteristics. Bell et al. (2003) distinguished among these three types of firms based on their pace of internationalization, method of market entry, and international strategy. Similarly, Chetty and Campbell-Hunt (2004) characterized SMEs in terms of their international markets, products, modes of market entry, competitive strategy, pace, and manufacturing location. However, this literature is largely descriptive, and does not explore links between learning and the characteristics of internationalization pathways. Similarly, while there is considerable literature on how MNEs learn (e.g., with respect to R&D and innovation, and learning by subsidiaries), few studies have investigated the role of organizational learning during internationalization (Hsu and Pereira 2008).

The Uppsala model posited that experiential learning is the primary way to acquire knowledge about both international markets and the internationalization process, and that it results in incremental internationalization (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977). It is likely that INVs learn differently. Studies that explore this possibility focus on the earliest stages of internationalization; how INVs compensate for their lack of industry and

international experience; and the extent to which they depend on the prior knowledge, abilities, and experience of the founder and management team. However, few of these studies specifically examine the individuals and organizations from which INVs acquire knowledge, and the relative importance of internal and external sources of knowledge. Also, most of this research is cross-sectional, so little is known about how learning processes and the focus and source of learning evolve (De Clercq et al. 2012) as a firm enters foreign markets and then rapidly internationalizes.

Although some recent work examines the evolution of learning and knowledge during internationalization (Fletcher and Harris 2012; Fletcher and Prashantham 2011), it does not examine all learning processes, how their use evolves from the earliest stages of firm formation through advanced stages of internationalization, or the foci and sources of learning. Thus, we use findings from extant cross-sectional studies to infer how learning and internationalization may be intertwined in INVs. Table 1 organizes this literature using Huber's (1991) categorization of learning processes into congenital learning, experiential learning, vicarious learning, grafting, and searching/noticing.

This literature focuses on how firms learn, but it is important to understand the sources of knowledge (i.e., from whom firms learn), and the foci of learning (i.e., what they learn about). The studies that examine sources of knowledge usually begin by distinguishing between internal and external sources. For example, Fernhaber et al. (2009) identified three external sources of international knowledge (alliance partners, venture capital firms, and proximal firms) and one internal source of international knowledge (the top management team's prior experience). This categorization contrasts with that of Casillas et al. (2009), who defined internal sources as those relating to experiential knowledge gained while conducting business overseas, and external sources as knowledge gained from industry organizations, external consultants, and the congenital knowledge of the top management team. Similarly, Fletcher and Harris (2012) defined internal sources of knowledge as arising from the direct experience of a firm and its managers, while external sources include partners, suppliers, customers, consultants, industry and government organizations, and new managers. The literature identifies three important foci: product/technology, foreign market, and the internationalization process (Table 2).

Figure 1 depicts the key findings we identified from this literature. The antecedents (represented by ovals) are connected to learning processes (arrows), which point toward the components of internationalization strategy that they influence (early internationalization, speed, international market entry mode, breadth, and depth). The extant literature suggests that all learning processes may influence the internationalization of INVs, but vary in importance at different times and for different topics. For example, although congenital learning seems particularly important during firm formation, vicarious and experiential learning may become more important as INVs internationalize into more markets. There is also evidence that INVs use searching, especially to learn about a market before entry, and use grafting when they enter a market or as a result of their increased commitment to it. In the next section, we discuss how we investigate these processes.

**Table 1** Influence of learning processes on INVs' internationalization

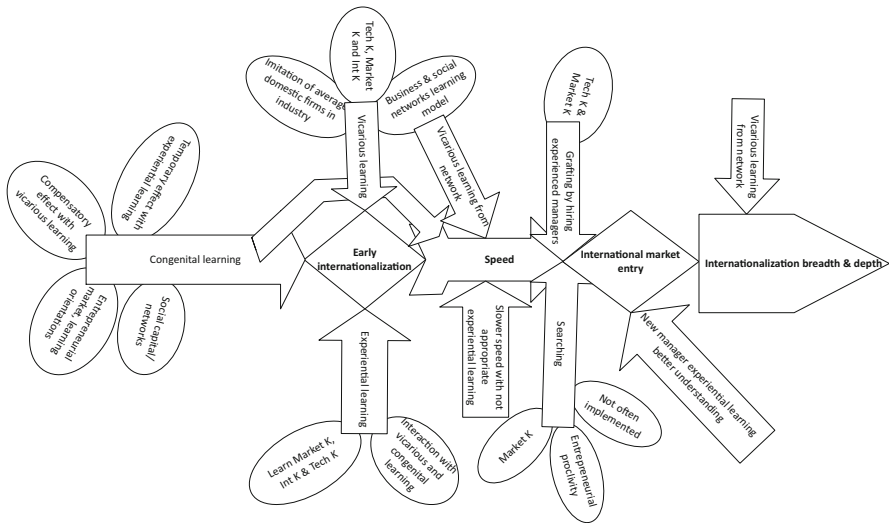
Learning process	Influence on INVs' internationalization
Congenital learning	<p>Determines early internationalization and speeds up international market entry (Reuber and Fischer 1997)</p> <p>Increases likelihood of early internationalization (Kuemmerle 2002)</p> <p>Together with social capital/networks, entrepreneurial orientation, market orientation, and diversity of learning have a combined effect on internationalization (Chandra et al. 2009; Kocak and Abimbola 2009; Prashantham and Dhanaraj 2010; Schwens and Kabst 2009a; Yeoh 2004)</p> <p>Reduces influence of vicarious learning from partners on internationalization, so has a compensatory effect (Fernhaber et al. 2009)</p> <p>Influence decreases as internationalization experience increases, so has a temporary effect (Bruneel et al. 2010)</p>
Experiential learning	<p>Firms internationalize more slowly when they perceive they do not have adequate international experience (Casillas et al. 2009)</p> <p>Critical for success as managers achieve deeper understanding than from learning through searching (Michailova and Wilson 2008)</p> <p>Negative effect on early internationalization when firms have more domestic experience (Schwens and Kabst 2009b)</p> <p>When firms have lower levels of experience, congenital learning and vicarious learning have a greater effect on internationalization (Bruneel et al. 2010)</p> <p>Used to acquire internationalization, foreign market and technology/product knowledge, but overall not as important as vicarious learning (Fletcher and Harris 2012)</p>
Vicarious learning	<p>INVs are likely to imitate average internationalization by all firms (Fernhaber and Li 2010)</p> <p>Participation in social and business networks has a positive effect on internationalization performance and speed (Casillas et al. 2009)</p> <p>Positive effect on early internationalization by building network trust and inter-firm tacit knowledge (Schwens and Kabst 2009b)</p> <p>Increases absorptive capacity and develops knowledge of international supply chain (Freeman et al. 2010)</p> <p>Used to acquire technology/product knowledge and foreign business knowledge (Fletcher and Harris 2012)</p>
Grafting	<p>Used to fill gaps in product/technology knowledge, foreign business knowledge, business network knowledge and to access financial resources (Loane et al. 2007)</p> <p>Hiring local managers increases foreign business knowledge and commitment to operations in international markets (Gabrielsson et al. 2008)</p> <p>More likely a source of product knowledge than market knowledge or internationalization knowledge (Fletcher and Harris 2012)</p>
Searching and noticing	<p>SMEs use searching, through market research, before entering a market (Li et al. 2004)</p> <p>When a firm identifies market opportunity, they search for knowledge about customers, competitors, market size, and local institutions because they perceive they may not have sufficient knowledge to enter this market (Casillas et al. 2009)</p> <p>Sometimes used to acquire product/technology knowledge, market, and internationalization knowledge (Fletcher and Harris 2012)</p> <p>Firms that have high 'entrepreneurial proclivity' use searching to acquire market knowledge and this may accelerate early internationalization (Zhou 2007)</p>

**Table 2** Foci of learning

Focus	Internationalization literature
Product/technology knowledge	<p>Unique product/technology knowledge is an important antecedent of early and rapid internationalization (Oviatt and McDougall 1994)</p> <p>Acquisition of product knowledge has a positive effect on INV's performance (Zahra et al. 2000)</p> <p>Technology knowledge, together with market and social knowledge, underpins INV internationalization (Yeoh 2004)</p> <p>Further development of product knowledge in knowledge-intensive firms is critical for internationalization (Autio et al. 2000; Knight and Cavusgil 2005)</p> <p>Most frequently acquired through vicarious learning (Fletcher and Harris 2012; Freeman et al. 2012) and grafting (Fletcher and Harris 2012)</p>
Foreign business/market knowledge	<p>Market knowledge, together with technology and social knowledge, underpins INV internationalization (Yeoh 2004)</p> <p>Acquired from both internal and external sources; most likely through vicarious learning in networks and/or grafting (Fletcher and Harris 2012)</p> <p>Acquisition is positively influenced by external social capital (Yli-Renko et al. 2002)</p> <p>Acquired by innovatively and proactively pursuing international opportunities; leads to early and rapid internationalization (Zhou 2007)</p>
Internationalization knowledge	<p>Develops from market and/or technology knowledge; useful for within market expansion and expanding market scope; most likely acquired through vicarious learning from governments and consultants (Fletcher and Harris 2012)</p> <p>Acquired through a firm's network; influences selection of culturally proximate markets (Freeman et al. 2012)</p> <p>Levels of internationalization knowledge of founders used to categorise born globals into born-industrials (high) and born-academics (low) (Rovira Nordman and Melén 2008)</p>

### 3 Method

Investigating the co-evolution of the processes of internationalization and learning requires process-based research (Van De Ven and Huber 1990). To study these processes, we selected four New Zealand-based INVs based on purposeful/theoretical sampling (Eisenhardt 1989; Patton 1990; Glaser and Strauss 1968; Locke 2000). The logic of theoretical sampling is to select cases that predict similar results (literal replication) or contrasting results, but for predictable reasons (theoretical replication) (Yin 2003, p. 47). Table 3 describes these four firms. To provide literal replication, we selected New Zealand firms that met Oviatt and McDougall's (1994) definition of international new ventures. From inception, they sought to "...derive significant competitive advantage from the use of resources and sale of outputs from multiple countries" (Oviatt and McDougall 1994, p. 49). The firms met Knight and Cavusgil's (2005) criteria that greater than 50 % of their total sales are in international markets, and they began to



**Fig. 1** Summary of findings in the extant research on learning and internationalization of INVs. *Tech K* technology knowledge, *Market K* market knowledge, *Int K* internationalization knowledge

internationalize within 3 years of incorporation. We introduced variation by selecting INVs from different industries, different sizes, and different ages. Following Pettigrew’s (1990) recommendation to include a “polar case”, Firm 4 was selected, as it is larger than the other three, has more resources, and is an important player in its industry. The nature of this firm’s product required it to be close to its customers. This case involved different learning processes and mode of foreign entry. It was the only one to learn through grafting by acquiring offshore companies. The similarities on most criteria strengthen an emergent theory, while the characteristics of the polar case makes the theory more robust (Eisenhardt 1989; Pauwels and Matthyssens 2004).

The firms were founded between 21 and 42 years ago, enabling us to develop rich retrospective histories (Hewerdine and Welch 2013). Although the idea is to select cases until theoretical saturation occurs (Eisenhardt 1989), there must be a balance when conducting process-based research as to the number of cases analysed. The complexity of process data can make the analysis overwhelming, leading the researcher to overlook detail or context (Pettigrew 1990). Analysis of just four cases balances these concerns.

Data were collected using two methods: document analysis and in-depth interviews. By comparing these sources of data, we triangulated our findings and strengthened construct validity (Eisenhardt 1989; Yin 2003). Documents were obtained from the firms’ websites, the Kompass Directory (<http://www.kompass.co.nz/>), newspaper clippings and articles from industry publications, white papers, and marketing brochures and other documents provided by the firms. For example, the documents collected for Firm 1 included a document presented for an export award, a journal article about the company and its marketing strategy, an article about the firm in a quality standards magazine, the firm’s annual reports for three consecutive

**Table 3** Description of case firms

	Firm 1	Firm 2	Firm 3	Firm 4
Industry	Winery, wine industry	Sport protective gear	Pharmaceutical ingredients and natural health product ingredients	Developer and manufacturer of technological devices for people with disabilities
Role of person interviewed	Managing Director and one of the founders	Managing Director and founder	Commercial manager since 1985	International sales and marketing manager since 2001
Year founded	1989	1992	1971	1988
Time to internationalization	1 year	2 years	Months	Already internationalized when re-created
Number of staff	14	16	95	220
Products (at time of data collection)	6 types of wines under 2 brands	7 products –protective gear	4 products derived from by-product A (synthetic) and plant extract products	3 product lines with several products in each line
Exports as a % of total sales	60 %	95 %	99 %	96 %
Key international markets	24 countries: Australia, Brazil, Bermuda, Canada, Denmark, France, Fiji, Germany, Hong Kong, Italy, Indonesia, Ireland, Japan, Korea, Malaysia, The Netherlands, Cook Islands, Russia, Singapore, Switzerland, United Kingdom, United States of America, and Vietnam	61 countries including: UK and many EU countries, North America, South America, Australia, South Africa, South Korea, China, Singapore and Malaysia	Japan, South Korea, the US, the UK, Australia, rest of Europe	Australia, US, UK, Canada, Europe, Dubai, Middle East and Asia
Entry modes	Independent distributors and retailers	Independent distributors	Mostly independent distributors (e.g., Japan, US, Korea), in couple of markets sales direct to customers (e.g., UK)	Fully owned sales operations in Australia, US, Canada and UK; distributors in Middle East (Dubai) and Asia



years prior to the interview, and a newspaper article on a specific operational area of this company. We used these data to corroborate evidence from the interviews.

One key informant from the senior management team of each firm was interviewed using a semi-structured but open-ended interview protocol. The informants were asked to tell the story of the companies from their founding, through the years before internationalizing, their first offshore market entry, and key events in their international expansion. We interviewed the individual most knowledgeable about the internationalization of the firm, promised anonymity and confidentiality, digitally recorded the interview, and included multiple probes in our protocol (Huber and Power 1985). Further, we contacted some interviewees a second time to fill in gaps in their account. This effort let us derive an internationalization chronology for each firm, spanning the period from founding until the interview.

The data were analysed using process-based strategies (Langley 1999; Van de Ven 2007). First, we wrote a retrospective history of each firm, which the key informant checked for accuracy. The revised case histories were coded with three time-related codes derived inductively using temporal bracketing, which involves the decomposition of data formed by events, actions, and decisions into successive periods used to structure a sequence of events (Langley 1999). Thus, unstructured process data were transformed into a series of more “discrete but connected blocks” (Langley 1999, p. 703). These periods are not phases of a predictable sequential process, analogous to stages in the Uppsala model; they are used to separate the data into “successive adjacent periods”, allowing us to analyse “how actions of one period lead to changes in the context that will affect action in the subsequent periods” (Langley 1999, p. 703). Within each period, activity was relatively continuous, while discontinuities became more evident at the beginning and end of the periods. By decomposing a chronological story in this way, temporal bracketing allows the formation of “comparative units of analysis for the exploration and replication of theoretical ideas” (Langley 1999, p. 703).

In our study, the time-related codes referred to three periods: pre-internationalization, early internationalization, and later internationalization. The first phase started with, or just before, the creation of each firm and ended just before that firm started doing business in its first international market(s). The second phase started when a firm entered its first foreign market(s) and ended when there was evidence that it first modified its internationalization behaviour due to previous learning. We identified and selected these turning points from each firm’s retrospective history because they indicated that learning had occurred during the previous period. For Firm 1, this event occurred when the Managing Director realized that the process he had developed to enter the UK market was successful, and replicated the approach in subsequent foreign markets. In Firm 2, the event was the firm’s second-time entry into the UK market, which it had initially exited. For Firm 3, the event was the closing of its two offshore processing operations and importing the by-product processed in those plants. For Firm 4, the event was shifting its US sales office to a more central city, as the original one was too distant from the market demand. The last phase started after this learning milestone, and continued until the time of data collection.

**Table 4** Coding scheme for cases

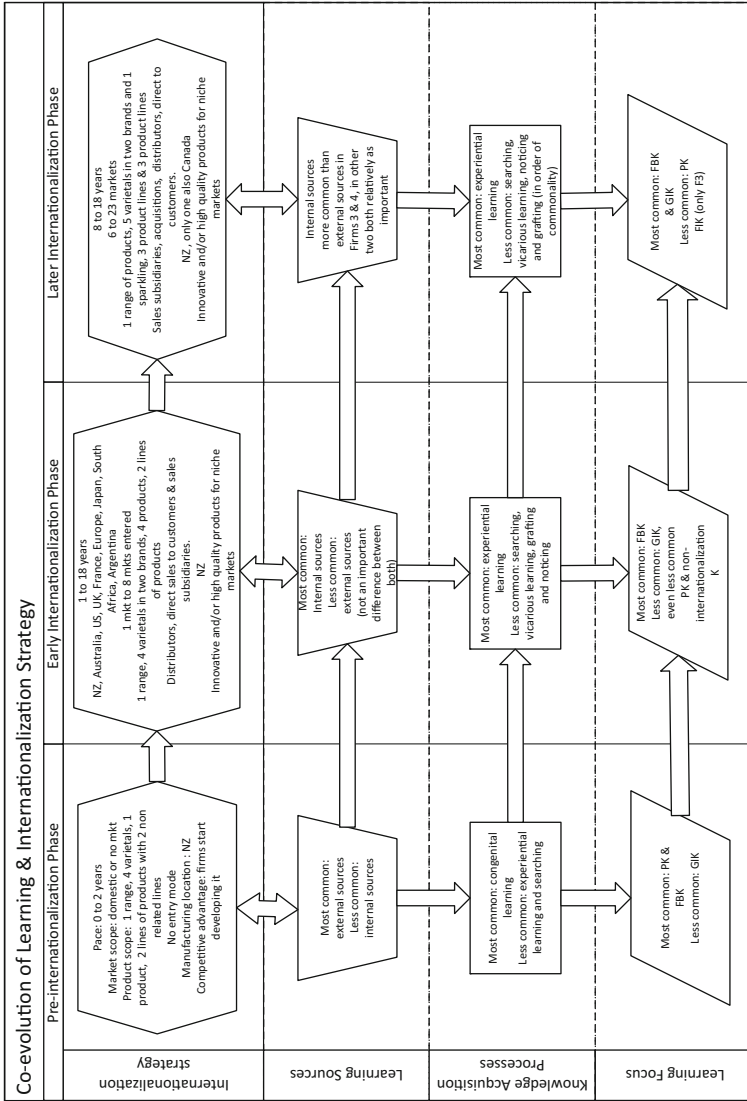
	Internationalization	Learning process	Learning focus	Learning source
Codes	Pace, market scope, product scope, market entry mode, manufacturing location and competitive advantage	Congenital learning, experiential learning, vicarious learning, grafting, and searching and noticing	Foreign business knowledge (FBK), general internationalization knowledge (GIK), foreign institutional knowledge (FIK), and product knowledge (PK)	Examples: founder (Ex) <sup>a</sup> , partner company (Ex), customers (Ex), distributors (Ex), newly hired managers (Ex), other firms (Ex), New Zealand Trade and Enterprise (Ex), firm's experience (Int), market research conducted by firm (Int)
Literature from which codes were derived	Bell et al. (2003, 2004), Chetty and Campbell-Hunt (2004)	Huber (1991)	Eriksson et al. (1997, 2000), Blomstermo et al. (2004)	Fernhaber et al. (2009), Fletcher and Harris (2012), Freeman et al. (2010), Casillas et al. (2009)

<sup>a</sup> *Ex* external, *Int* internal. A founder is considered an 'external' source because the knowledge he/she brings into the case firm was acquired outside the firm before it was created

The three phases identified were analysed using the alternate templates strategy (Langley 1999; Van de Ven 2007). Categories and processes were deduced from the literature on internationalization and organizational learning (see Table 4). The firm's history within each phase was coded and presented in tables and visual maps. "Appendix" provides an example of the coded data presented in a tabular display for Firm 2. Space limitations prevent us from showing the tabular data and visual maps for all four cases. The final step involved comparative analyses (within each phase across firms and through phases across firms) to identify common sequences of events, activities, and actions and to derive an emergent process theory of learning when INVs internationalize. The following section reports the observations of these analyses.

## 4 Findings

We first discuss how the firms' internationalization strategies and their learning processes, sources, and foci evolved across phases. Figure 2 summarizes the findings. In it, the phases of internationalization are displayed on the vertical axis, and the evolution of the components of internationalization strategy, learning sources, processes, and foci are presented horizontally. The double-headed arrows linking strategy and learning indicate the interaction between them.



**Fig. 2** Summary of co-evolution of internationalization and learning processes. *FBK* foreign business knowledge, *GIK* general internationalization knowledge, *FIK* foreign institutional knowledge

#### 4.1 Internationalization Strategy

The pre-internationalization phase was short, ranging from Firm 4, which was international when it was incorporated, to 2 years for Firm 2. In contrast, the initial internationalization phase lasted from two to 18 years, indicating that the firms varied significantly in the time it took for learning to affect their internationalization behaviour. Firms 1, 2, and 3 completed the development of their products and then internationalized. The precursor of Firm 4 was already selling its products in NZ and Australia when it was bought by its management and re-launched. The firms internationalized early because they had to; their founders recognized that their products targeted niches that were too small in their home markets to make them viable.

When the firms internationalized, they first entered several psychically close markets that they had learned about through their founders or social network. In one case, the first offshore market was psychically more distant; the founder's friend learned about this market and encouraged the entry. The markets these firms entered most frequently were Australia, the United Kingdom, and the United States. Later in this phase, they entered less familiar markets such as Japan (Firms 2 and 3), Europe, South Africa, and Argentina (Firm 2), and Switzerland (Firm 1). Their initial experience in these markets demonstrated the international appeal of their products and facilitated their entry into more culturally distant markets.

Firm 4 invested more resources to enter foreign markets by creating sales subsidiaries, and thus expanded relatively more slowly. After entering Australia in 1988, it waited 4 years before entering its next international market by appointing a local sales manager and opening a sales office. In contrast, Firm 2 first entered continental Europe and then in the same year appointed distributors in Australia, South Africa, and Argentina.

As the firms continued to internationalize, the number of markets they entered increased and spread geographically. Two groups of firms can be distinguished by the number of markets they entered in the later phase. Firms 1 and 2, the smallest firms, entered many markets by appointing independent distributors or selling directly to customers. Firms 3 and 4 entered fewer markets: the former because its products were demanded in only a few markets, and the latter because it could not afford to enter too many markets at once because it required larger investment.

The firms offered more products in their international markets as they expanded. For the smaller firms, product scope expansion was not always easy, possible, and/or successful. Firm 2 failed when it tried to diversify because it spread its resources too thinly. In contrast, Firm 3 grew by developing and offering more products, as it provided intermediate inputs for pharmaceutical products, and there were relatively few, but large, customers for its outputs. Firm 4 was also limited in the breadth of markets it could enter, so it grew by offering more products.

These firms' entry modes changed relatively little. Firms 1, 2, and 3 usually appointed distributors. Firm 4's use of sales offices or subsidiaries or acquisition of local distributors was attributable to its initial circumstances with respect to market characteristics and resource availability. Firm 1, 2, and 3's manufacturing location

remained in New Zealand. Firm 4 began manufacturing other products in Canada after it acquired a Canadian manufacturer, although it continued to manufacture its original products in New Zealand.

The sources of competitive advantage changed little between phases. Firms 2, 3, and 4 sold innovative products in niche markets, while Firm 1 focused on quality. The firms enhanced their initial advantages by differentiating their products further (Firms 2 and 3), developing close relationships with key customers and distributors (Firms 1, 2 and 3), and/or integrating sales and marketing into the value chain in main markets (Firm 4). These advantages arose from the founders' initial strategy, and developed further as the firms learned during internationalization. For example, Firm 2 learned it needed to develop close relationships with its distributors. Figure 3 details the causes for the evolution of the internationalization strategy components. In this figure, the boxes describe the characteristics of each component during each phase, while the arrows identify the reasons that explain those characteristics.

#### 4.2 Learning Processes, Sources, and Foci

The firms' learning evolved as they internationalized. Congenital learning was the most important process prior to internationalization. The founder(s) brought their knowledge about products and/or international markets, developed the initial idea to create the business, and used their networks to learn vicariously about potential foreign markets. Congenital learning was eventually replaced by experiential learning. The firms also learned through searching, although less frequently, and specifically before entering a particular overseas market. Vicarious learning and noticing occurred in the early phase, and became more important during the later phase. Firm 4 was alone in implementing grafting, likely because such learning is resource intense.

All the firms implemented relatively structured processes to learn about potential markets and/or distributors. In the pre-internationalization phase, for instance, Firm 2's founder asked a friend who was based in Europe to research potential distributors and then ask one of these distributors for feedback on this firm's products. He then visited the European distributor and potential customers. Similarly, Firm 1's Managing Director collected information about markets and potential distributors from the winegrowers association in NZ and then visited markets to meet potential distributors and/or customers and retailers before deciding to enter the market and which distributor to appoint. In contrast, Firm 4 searched for information about potential markets through its subsidiaries and then sent staff to gather more information locally.

As the firms internationalized, the importance of internal sources of learning increased. In the pre-internationalization phase, all firms accessed external sources to learn about their products and markets. As they began internationalizing, the number of internal sources they used increased markedly. This pattern continued in the later phase for Firms 3 and 4. However, external sources remained as important as internal ones were for Firms 1 and 2. This shift occurred because the firms were active internationally, and because they had more staff and other resources to learn from their direct experience as they grew.

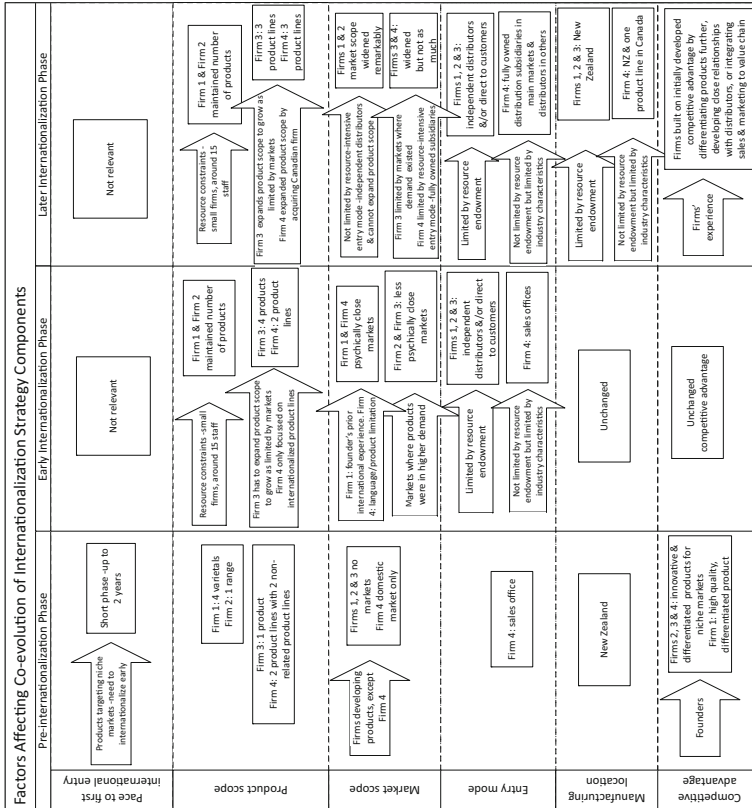


Fig. 3 Factors influencing co-evolution of internationalization strategy components

The firms' learning focus also changed. In the pre-internationalization phase, the firms focused on learning product knowledge, foreign business knowledge, and general internationalization knowledge. They needed such knowledge as they developed their products and began to identify possible offshore markets. In the early internationalization phase, their focus shifted from acquiring product knowledge to foreign business knowledge and general internationalization knowledge. At this point, their products were developed, and the primary risk they faced involved entering markets. During the later internationalization phase, general internationalization knowledge became more important. For firm 3, however, product knowledge was most critical because there was demand from so few markets. It was also the only firm to acquire foreign institutional knowledge throughout the internationalization process. It needed to register its products with the food and drug agency in each market, so it had to learn about these requirements in each country. Figure 4 presents the evolution of learning processes, sources, and foci and their explanations.

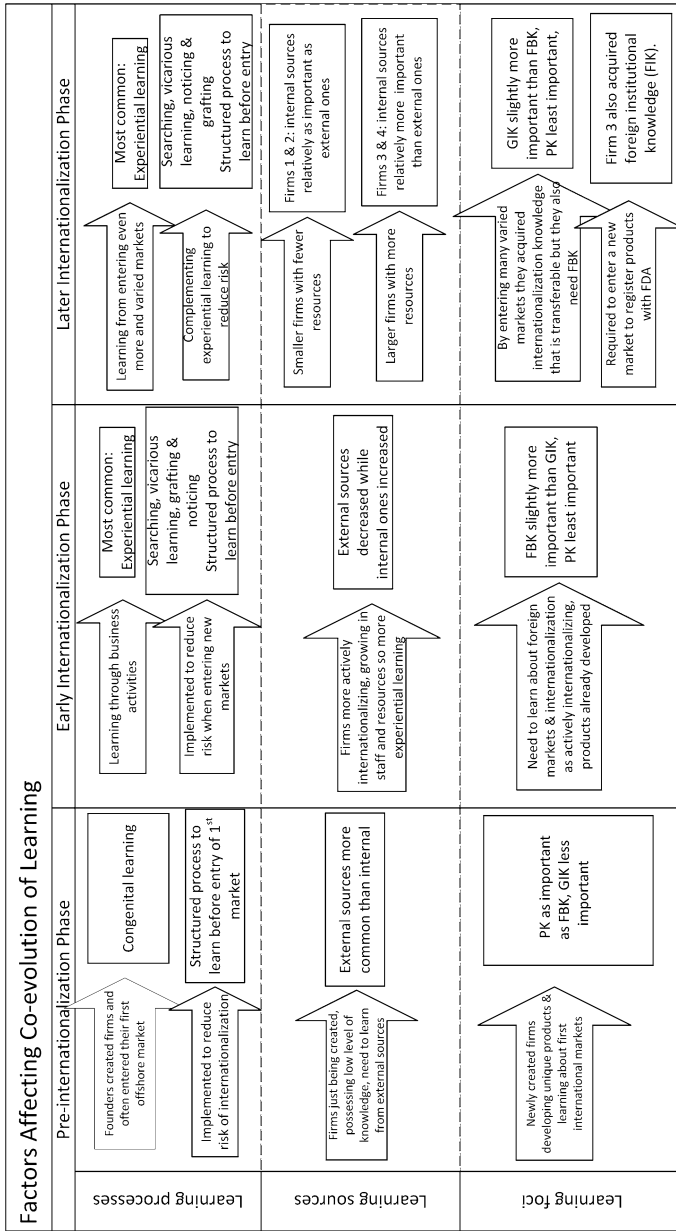
## 5 Discussion

Our research examined the co-evolution of learning and internationalization processes in four New Zealand INVs. As the firms learned, their market scope expanded. At first, they typically entered markets that were psychically close, and later expanded to more culturally distant markets. The firms that had more resources also widened their product scope as they grew internationally. The favoured entry mode changed little as they internationalized. Similarly, most of the firms' manufacturing remained in New Zealand. Resource limitations may affect both entry mode and the ability to shift manufacturing to offshore locations.

The firms' competitive advantage was based on offering innovative or high-quality products into niche markets, a pattern observed in other studies of born globals and INVs (Chetty and Campbell-Hunt 2004; Knight and Cavusgil 1996; Knight and Pye 2004; Madsen and Servais 1997; Rennie 1993). These advantages were determined early on, when the founders decided a strategy for their firms. Similarly, the firms began to develop their internationalization strategy around the time of founding by deciding that they would offer innovative/differentiated products that targeted niche markets, and that they had to internationalize rapidly.

The main sources of learning evolved as the firms internationalized, and were influenced by the increase in resources and expansion of international activity. Prior to internationalization, most learning occurred from external sources. By the latter phase, the firms used internal and external sources equally. As the firms' resources increased, they used them to learn about and drive further internationalization.

Our results support the theory that early internationalization is influenced by congenital learning (Kuemmerle 2002; Reuber and Fischer 1997), but our findings suggest that its effect may be supported by vicarious learning and searching. Other work has found an interaction between congenital learning and vicarious learning (Fernhaber et al. 2009), but we found that vicarious learning had a complementary rather than a compensatory effect. In the early and later internationalization phases, experiential



**Fig. 4** Factors affecting the co-evolution of learning. PK product knowledge, FBK foreign business knowledge, GIK general internationalization knowledge, FIK foreign institutional knowledge



learning became the main learning process, followed by searching, vicarious learning, noticing and grafting. This finding is consistent with Bruneel et al. (2010) finding that the relevance of congenital learning is temporary. Resource availability and internationalization phase affected learning. Soon after founding, the firms learned through their founders and other external sources. Once internationalized, they substituted learning by founders with their direct experiences and other processes more attuned to learning about international markets before and after entering them. By the later phase, they learned through experience about the importance of integrating their product scope with their customers' needs in new markets. They then developed structured processes to evaluate the potential of their products in new markets and potential new distributors through searching and/or vicarious learning. A similar pre-entry process is described by Li et al. (2004) and by Casillas et al. (2009).

The learning processes implemented in the latter two phases were not distinctive, but there were differences in the firms' experiential learning. The largest firm learned by establishing sales offices/subsidiaries. The smaller firms that appointed distributors in their offshore markets learned both from short-term activities in those markets and from building relationships with their distributors. This difference appears to reflect the forms of experiential learning they implemented, and ultimately their resource constraints.

The firms' learning focus evolved depending on the phase of internationalization. When they developed their products during pre-internationalization, they focused on product knowledge. When they started internationalizing, they began to learn about foreign business knowledge and general internationalization knowledge. When they were rapidly expanding into many different markets, learning about general internationalization knowledge became more important.

These processes shaped, and were shaped, by the firms' international growth. These firms implemented ex-ante learning processes such as market research (searching), using consultants (vicarious learning), and visiting markets (experiential learning) to assess market viability and distributors. Once they entered offshore markets, they had ex-post experiential learning about these markets and the internationalization process. Consequently, ex-ante and ex-post processes were required for internationalization and resulted from internationalization. Our observations are consistent with the extant literature (Bengtsson 2004; Saarenketo et al. 2004; Fernhaber et al. 2009), but explain when and how they become important during internationalization.

## 6 Implications for Theory

Our findings extend internationalization theory by identifying how the components of internationalization strategy (pace, market scope, product scope, entry mode, manufacturing location and competitive advantage) evolve as INVs internationalize. We also explain the co-evolution and importance of their learning focus, sources, and processes through three phases of internationalization. By examining the retrospective histories of four firms, we gained insight into how resource constraints,

learning and knowledge, and the internationalization phase they were at influenced their internationalization and how this effect evolved.

Our findings suggest that contrary to what the literature maintains (Forsgren 2002; Johanson and Vahlne 1977, 1990; Bengtsson 2004; Saarenketo et al. 2004), learning during internationalization is not just about international markets. It also results from the interactions among learning, the knowledge learned, internationalization strategy and its components, resource constraints, and the characteristics of the firm's industry and products/services. Furthermore, this interaction evolves throughout the internationalization process.

Our primary contribution is a conceptual model of how these processes and their components co-evolve. Figure 5 depicts the interactions that we uncovered. Congenital learning is needed to create INVs, their initial development of competitive advantage, their product scope, and their pace of entry into international markets. The knowledge that let them enter these markets quickly was also often gained through vicarious learning and searching. Entry mode is also linked closely to how a firm learns, as is its resource endowment. A firm's level of resources may influence the entry mode selected, the ability to expand product scope, and the learning approach that is used. The internationalization phase influences how firms learn, the foci of their learning, and what sources they learn from. Finally, we found interactions among entry mode, market scope, speed of internationalization, and product scope. Entry mode influenced speed of internationalization and market scope, while product scope affected the markets that were entered.

## 7 Implications for Practice

Several implications for entrepreneurs and founders and managers of INVs can be derived from the experience of the firms we studied:

1. Founders' congenital knowledge is critical for early internationalization and the development of competitive advantage. However, this knowledge can be complemented and supplemented by learning vicariously or through searching.
2. Initial competitive advantage may be based on a unique, innovative product that targets a niche market. However, as firms learn through experience, they may have to build upon the initial advantage to sustain competitiveness.
3. Implementing a structured learning process before entering an international market may reduce the risk. A firm may learn vicariously, through searching or short-term visits to acquire as much knowledge about the market as possible to reduce the risk of failure.
4. Learning from distributors is important, as the knowledge gained may be useful in both a particular market and the internationalization process in general. Learning is facilitated by developing close relationships with distributors.
5. Resource constraints significantly affect how firms learn, the entry modes they can implement, product growth, and their options for manufacturing location. Some of these constraints can be overcome by the use of independent distributors.

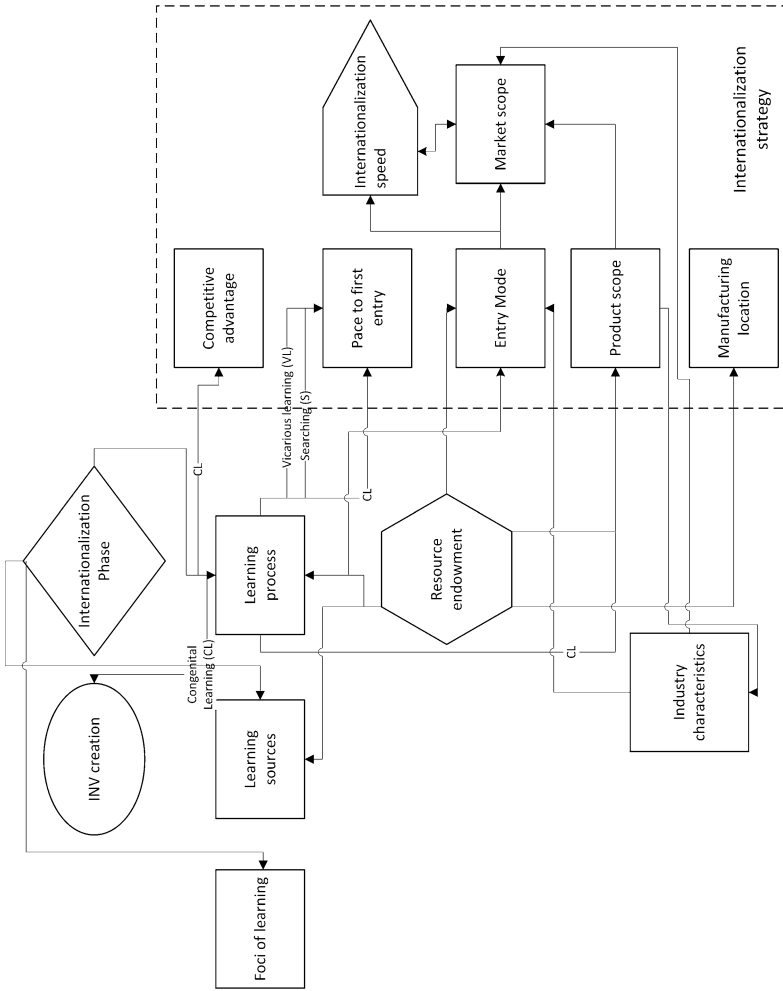


Fig. 5 Conceptual model of INVs' internationalization strategy and learning

## 8 Future Research

A further study using the method developed here should include cases from several countries to corroborate our results in additional contexts, and possibly continue to extend our model. Similarly, new research could focus on groups of SMEs from specific industries. Sector-specific research may uncover differences and similarities between these groups. It may also help to identify the effects, and their evolution, that industries and products/services may have on internationalization.

Research should also combine observation in real time with retrospective accounts, instead of just the latter, as our research did. This effort would allow a deeper examination and understanding of the processes and concepts under study. A longitudinal study that combines observations and retrospective accounts could use a research design where the cases under study include one or more firms in the creation stage, other firms that are in the middle of internationalizing, and other that have already internationalized.

Finally, we foresee research focused on how learning occurs at the interface between the internationalizing firm and other entities. This research could use theory on inter-organizational learning to examine these processes. Then, it could investigate how this inter-firm knowledge is shared and used within the case company to expand internationally.

## Appendix

See Table 5.

**Table 5** Example of tabular display and coding for Firm 2

Firm 2		Pre-internationalization (1992–1994)	
Strategy			
Pace	Phase of around 2 years		
Market scope	None		
Product scope	Complete goal-keeping gear		
Entry mode	None		
Manufacturing location	NZ		
Competitive advantage	Innovative design and manufacturing of niche product		
Learning focus	Learning sources	Learning processes	Learning processes
1. Idea of creating the business to block competitor. Need to sell these products in offshore niche markets. Industry and the products (GJK and PK—product scope, competitive advantage and market scope)	Founder (Ex)	Congenital learning	Congenital learning
2. They learned about innovative product development and manufacturing (PK—product scope)	Team formed by the founder and the first group of people who were manufacturing product (Ex) Friend in Europe (Ex)	Congenital learning	Congenital learning
3. Company that would sell and market their products and their feedback about the product (FBK and PK—market scope and product scope)	The Managing Director (Int), the manufacturing company (Ex), the professional designer (Ex) and the group of goal-keepers (Ex)	Experiential learning	Experiential learning
4. Innovative product development, design and manufacturing (PK—product scope)	MD who visited German company that suggested to manufacture whole set and asked to share risk (Int)	Searching	Searching
5. Market preferences and potential, decision to create own brand and sell products under it (GJK and FBK—market scope and entry mode).			
Strategy	Early internationalization phase (1994–1998)		
Pace	Around 5 years		
Market scope	NZ, continental Europe, Australia, South Africa, Argentina, Japan, the US, and the UK		
Product scope	One product range, including all products for goal-keeping gear		
Entry mode	Independent distributors and one JV partner distributor in The Netherlands for continental Europe		

Table 5 continued

Early internationalization phase (1994–1998)		
Strategy		
Manufacturing location	New Zealand	
Competitive advantage	Innovative, differentiated, products for niche market	
Learning focus	Learning sources	
	Learning processes	
1. Potential customer's preferences (FBK—market scope)	Potential customers' feedback when launching product range during World Cup (Ex)	Searching
2. Market entry and distribution process (GIK—entry mode), European customers and their preferences (FBK—market scope)	Firm's experience in co-setting up of distribution firm in Holland and distributing its products into Europe (Int)	Experiential learning
3. The Netherlands and continental Europe market (FBK—market scope)	Distribution JV firm in The Netherlands (Ex)	Vicarious learning
4. Manufacturing process and partners (non-Int K—product scope)	Firm's experience (Int) with partners for manufacturing plant (Ex)	Experiential learning and vicarious learning
5. Australian, South African and Argentinian markets' characteristics (FBK—market scope and entry mode)	Australian, South African and Argentinian distributors (Ex) and firm's experience (Int)	Searching and experiential learning
6. Competitors' products, prices, important potential retailers, some knowledge about market size but not a lot (FBK—market scope)	Firm contracts market research (Ex)	Searching
7. Customers' preferences and ideas (FBK—market scope) and materials and design (PK—product scope)	Firm (Int) and partner's (Ex) research for product development process	Vicarious learning and experiential learning
8. UK market's characteristics (FBK—market scope), Market entry and internationalization process (GIK—entry mode)	Firm's experience in failed entry into UK (Int)	Experiential learning
Later internationalization phase (1999–2006)		
Strategy		
Pace	Around 8 years	
Market scope	NZ, Europe, UK, US, Canada, South America, Australia, South Africa, South Korea, China, Singapore and Malaysia	
Product scope	All products within goal-keeping gear	
Entry mode	Independent distributors in all markets	
Manufacturing location	NZ and one product outsourced from Czech Republic	
Competitive advantage	Innovative, differentiated, products for niche market	

**Table 5** continued

Learning focus	Learning sources	Learning processes
1. Entry process into UK market and distributor's characteristics (FBK—market scope)	Firm's experience entering UK market again by appointing UK distributor and UK distributor (Int and Ex)	Experiential learning and vicarious learning
2. Market characteristics and selection process (FBK—market scope and GIK—entry mode)	Firm's experience selecting distributors (Int)	Experiential learning
3. International markets' characteristics and distributors themselves (FBK—market scope and entry mode)	Distributors—firm appointed independent distributors in all its markets (Ex)	Vicarious learning and searching
4. Internationalization, exporting and market entry processes, importance of differentiation strategy (GIK—competitive advantage and distribution arrangement)	Firm's experience after entering the European market and other international markets (Int)	Experiential learning
5. Customers preferred Firm 2's products and thought it was the leader (FBK—product scope and competitive advantage)	Customers—interaction w/customers during World Cup (Ex)	Noticing
6. Customers' needs and preferences (same for all customers) used to modify and improve products (PK—product scope), better positioned to focus on user groups (goal keepers) rather than product groups (GIK—competitive advantage)	Customers—interaction w/players through forum in their Internet website (Ex)	Searching, noticing and experiential learning
7. Another industry and product, and problems with partnership (PK—product scope)	Friend and firm's experience—opportunity of designing, manufacturing and selling cricket gear (Ex & Int) External audit (Ex)	Experiential learning and vicarious learning
8. Need to strengthen vision, improve branding strategy and product design process (GIK—competitive advantage)	Firm's experience reviewing vision, branding, products, and strategy (Int)	Vicarious learning and searching
9. Reinforcement of idea of being a niche company in protection industry (GIK—competitive advantage)	Consultants—developing brand book w/strategy consultant, graphic and brand specialist and writer (Ex)	Experiential learning
10. Brand vision and marketing and customers' preferences (GIK—entry mode and FBK—market scope)	Firm's experience building own manufacturing plant (Int)	Vicarious learning and searching
11. Production and manufacturing technology (PK—product scope)	Firm's experience building own manufacturing plant (Int)	Experiential learning

Table 5 continued

Learning focus	Learning sources	Learning processes
12. Building and managing relationships w/UK distributor and retailers (GIK—entry mode)	MD's experience, UK distributor and major retailers—visit to distributor UK and meetings w/2 retailers and distributor (Int and Ex)	Experiential learning and vicarious learning
13. UK university looking for equipment to conduct testing on (FBK—product scope)	MD's friend (Ex)	Noticing
14. Evaluation of firm's products (PK—product scope)	University researchers in UK—test of equipment (Ex)	Vicarious learning and searching
15. Importance of having people skills to the firm's business (GIK—entry mode and competitive advantage)	MD's experience dealing w/distributors and other people in the industry (Int)	Experiential learning
16. Distributors ideas and thoughts, and building relationships w/them (FBK and GIK—entry mode)	MD's experience and distributors—meeting w/distributors from around the world, during World Cup (Int and Ex)	Vicarious learning, searching and experiential learning
17. Importance of meeting distributors and customers face to face so that both parties learn from each other which benefits the business (GIK—entry mode and competitive advantage)	MD's overall experience of trip to UK and World Cup (Int)	Experiential learning

See Table 4 for an explanation of abbreviations



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