# Strategic Entrepreneurial Internationalization: A Normative Framework

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Strategic Entrepreneurial Internationalization:
A Normative Framework

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Abstract

Much of the literature on international new ventures (INVs) tends to focus on early internationalization and view it as the expression of firm-specific advantages that existed prior to internationalization. This paper presents a normative framework that articulates how INVs can leverage internationalization to drive de novo competitive advantage. Drawing on organizational capability and business model literatures, the framework of Strategic Entrepreneurial Internationalization (SEI) argues that INVs that adopt an active learning orientation (LO); a niche orientation (NO); encapsulate cross-border asymmetries in their activity system (AE); and adopt a business model experimentation approach (BME) are more likely to succeed in building sustainable competitive advantage.

Managerial implications: Internationalization can be used strategically to build competitive advantage in the firm and its business model. This is because internationalization exposes the firm to different markets and different competitive environments, therefore providing a potentially rich source of learning and capability development. However, competitive advantage does not automatically follow internationalization: managers of internationalizing new ventures must actively experiment with different business models in different markets to discover ones that work best. The firm also has to make an effort to distil the lessons learned from foreign markets and adjust its business model accordingly. Learning is more effective in narrow niches. Long-term advantage can be ensured by cementing cross-border advantages into the cross-border operation.

Keywords: New venture internationalization; strategic internationalization; competitive advantage; business model innovation
Introduction

Strategic entrepreneurship is the simultaneous pursuit of opportunity and competitive advantage (Hitt, 2011; Hitt et al., 2011). Entrepreneurs behave strategically when they, for example, create valuable and difficult-to-replicate resource combinations through opportunity pursuit, or when the act of opportunity pursuit also drives the erection of barriers against competitive entry (Ozcan and Eisenhardt, 2009). But what becomes of strategic entrepreneurship when that opportunity pursuit crosses national borders? Would it make sense to talk about strategic internationalization? It seems that international entrepreneurship can meet the criterion of being strategic when internationalization leads to the creation of unique, valuable, and difficult-to-imitate resource combinations across national borders, or perhaps when a cross-border operation drives the creation of organizational capabilities that are more effective and dynamic than what would normally be possible through a domestic operation (Kuemmerle, 2002; Sapienza et al., 2006). Indeed, given how internationalization challenges capability development in new ventures and how the new venture’s exposure to more than one market increases its exposure to opportunities, it is surprising that studies in the domain of international entrepreneurship have largely sidestepped the study of internationalization as a driver, rather than an expression, of competitive advantage (Autio, 2005). For example, in their extensive thematic ontology of international entrepreneurship research, Jones, Coviello, and Tang (2011) identified a cluster of studies exploring the effect of performance on internationalization but no distinct category of studies exploring the effect of internationalization on long-term performance. In this paper I explore how early and proactive internationalization can be harnessed to build sustainable competitive advantage in new ventures.

Research exploring the internationalization of new and or small firms has a long history. The first frameworks explicitly describing the internationalization process of small and medium-sized companies data back to 1970’s (Johanson and Vahlne, 1977; Johanson and
Wiedersheim-Paul, 1975), and the phenomenon of early and proactive internationalization was recognized by the entrepreneurship research community in mid-1990s (McDougall, Shane and Oviatt, 1994; Oviatt and McDougall, 1994; Rennie, 1993). However, while rich and varied, the research tradition focusing on new and small firm internationalization has seldom sought to elicit normative insights to inform managers of new and small firms on how they should leverage internationalization for the creation (rather than exploitation) of competitive advantage. This could be due to the extensive focus in IE research on exploring the internationalization process itself. For example, the above cited thematic ontology contained no category referring to the organization and governance of international operations, implying that little insight has been produced on how to build a sustainable transnational operation after the early phases of the internationalization processes have been completed. The extensive focus on describing unfolding processes of early internationalization, while understandable given the focus on new firms, may have contributed to the dearth of research on longer-term performance outcomes of internationalization (Cavusgil and Knight, 2015).

In contrast with the international entrepreneurship literature, research on multinational enterprises has placed significant emphasis on the configuration and governance of cross-border operations and the longer-term performance outcomes of internationalization. In this literature, the concept of ‘MNE advantage’ has been at the core of the knowledge creation agenda for decades. For example, the ‘OLI framework’ explicitly seeks to define the advantage that arises due to the multinational operation (Cantwell and Narula, 2007; Dunning, 1977, 2000). Because the bulk of effort in IE research has been invested into explaining how and why the process of new venture internationalization unfolds the way it does, and what factors predict early and proactive internationalization, much of the normative insight developed

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1 There are also good practical reasons for this gap. Longitudinal archival data on firm-level internationalization remains rare. There is also a non-trivial problem with endogeneity and unobserved heterogeneity, as the link between internationalization and organizational performance is subject to multiple selections: firms self-select to internationalization, and not all internationalizing ventures survive.
oped by international entrepreneurship researchers remains inferential and implicit rather than causal and explicit. This reduces the ability of international entrepreneurship research to inform entrepreneurs on how to harness internationalization for the build-up of competitive advantage that enables the internationalizing venture to earn sustainable superior returns among its peers.

This gap is important, because internationalization can leave an important imprint on the venture’s subsequent development (Autio, George and Alexy, 2011; Sapienza et al., 2006; Zahra, Ireland and Hitt, 2000). For example, internationalization typically entails non-trivial learning and capability development challenges, as the internationalizing new venture needs to accommodate different country-specific preferences, overcome barriers imposed by physical and psychic distance, and cope with increased organizational complexities introduced through cross-border operation. Such learning challenges can be proactively harnessed for capability development (Autio et al., 2011; De Clercq et al., 2012; Sapienza, De Clercq and Sandberg, 2005). Internationalization is also likely to expose the new venture to unanticipated market and resource access opportunities, which can again be harnessed for superior growth if incorporated into the venture’s transnational activity system (Bingham, Eisenhardt and Furr, 2007; Di Gregorio, Musteen and Thomas, 2008a). Given that different choices are associated with different types of potential benefits internationalization may confer to the new venture, it seems important to progress international entrepreneurship research beyond exploring the internationalization process itself towards exploring the longer-term strategic consequences of it.

In order to advance this objective, I propose a normative model of Strategic Entrepreneurial Internationalization (SEI). The model articulates how internationalizing new ventures can proactively harness internationalization for the build-up of sustainable competitive advantage. The model draws on organizational capability and business model innovation
frameworks to portray internationalization as a learning- and experimentation-driven process, during which the INV builds a transnational business model with built-in sources of sustainable competitive advantage (Sosna et al., 2010). The model highlights the importance of a learning orientation, niche orientation, cross-border asymmetry exploitation, and business model experimentation as drivers of such advantage.

Below, I first review received frameworks that address the internationalization of new and or small firms, focusing particularly on their ontological content, theoretical logics, and implications for the build-up of competitive advantage. I then present the normative framework of strategic entrepreneurial internationalization. I conclude by discussing the framework and suggesting avenues for further research in international entrepreneurship.

**Internationalization Theories and Competitive Advantage**

Research on the internationalization of new and or small firms goes back decades, yet the theoretical frameworks used to frame and ground this research remain few. In addition to the traditional, process and network theories of internationalization, the IE literature builds on the ‘International New Ventures’ (INV) framework, as well as various frameworks borrowed from entrepreneurship research (notably, knowledge-based and dynamic capabilities frameworks). Because the underlying theoretical frameworks shape what questions are asked and how observations are interpreted, an examination of these frameworks provides a reasonably comprehensive overview of the epistemological content of the IE domain.

The process theory of internationalization underpins, directly or indirectly, much of research on internationalizing new and or small firms. Ontologically, this theory portrays internationalization as a learning and resource allocation process, where resource allocations to foreign markets inspire learning about those markets (i.e., ‘foreign market knowledge’), which reciprocally instil the internationalizing firm with confidence and commitment to making further resource allocations to foreign market activities (Eriksson et al., 2000; Johanson
and Vahlne, 1977, 1990; Johanson and Vahlne, 2009; Johanson and Wiedersheim-Paul, 1975; Sullivan and Bauerschmidt, 1990). Internationalization, thus, is portrayed as a self-reinforcing feedback process, where the rate of internationalization is regulated by the speed with which the firm accumulates experiential learning from foreign markets and grows confident in making further investments in those markets. Because experience accumulates incrementally, also the unfolding process is necessarily incremental.

In the classic, ‘Uppsala’ portrayal, a new and small firm enjoys few natural advantages in the early stages of the internationalization process (Johanson and Vahlne, 1977, 1990). This is because firms initially start with a zero stock of foreign market knowledge (Autio, 2005). The process ontology portrays foreign market knowledge as the critical regulator of foreign market penetration. Relevant knowledge regarding, e.g., culture, institutions, and power relationships among market players is considered to be inherently country-specific and not easily spilled over across national borders. It is also considered to be mostly tacit, and therefore, primarily accessible through physical presence in the market. Because firms can only pick up foreign market knowledge through their operations abroad, there are few ways they can gain an initial advantage (relative to other internationalizing businesses) by exploiting pre-existing knowledge about foreign markets. In this ontology, the primary source of advantage is domestic, manifested in products and services that are superior to those already found in the foreign market. Because foreign market knowledge is country-specific, presence in adjacent country markets does not confer an advantage in penetrating a given country market beyond endowing the firm with knowledge on how to manage a cross-border operation in general. Although accumulated foreign market knowledge gives the internationalizing firm an edge over other firms trying to enter the same market, the internationalizing firm is always at a disadvantage relative to domestic players in this regard. Ontologically, thus, the process
framework provides relatively little basis for generating insight on how to harness internationalization for the creation of a sustainable competitive advantage.

The network perspective to internationalization originally built upon the Uppsala portrayal and shares many ontological features and elements of theoretical logic. Instead of considering ‘foreign market knowledge’ as the critical regulator of the internationalization process, the network perspective emphasizes the need to access and mobilize downstream assets in foreign markets, associated resource dependencies, and consequent liabilities of outsidership (Chetty and Holm, 2000; Johanson and Mattsson, 1988; Johanson and Vahlne, 2009). Rather than portraying internationalization as a process of accumulating ‘foreign market knowledge’, the process becomes one of expanding network relationships abroad. As the owners of downstream assets in foreign markets are typically controlled by locals, internationalizing new ventures are likely to face imbalanced power relationships when entering into foreign markets. This ‘liability of foreignness’ then becomes a critical obstacle hindering rapid internationalization (Zaheer, 1995). To overcome this obstacle, internationalizing firms need to build relationship-specific social capital to overcome their ‘liability of outsidership’ (Johanson and Vahlne, 2009). Because trust builds slowly, especially with non-domestic entities who might have little reputation within the target market, the process of international expansion is inevitably slow and gradual.

In the network ontology, similar to the process ontology, there appear to be few shortcuts to overcome the liabilities of foreignness and outsidership. This is because the critical asset regulating network expansion abroad – the relationship-specific social capital – is specific to a given relationship with a given foreign partner. The relationship building always begins from scratch, and early internationalizers seldom possess reputational assets or established track records that might speed up the process of reputation building. Over time, as relationships are built, they can become a source of advantage relative to late entrants into the
same market. However, relationship-specific social capital does not travel, and its utility outside a given country market is likely to be low.

In summary, both the process and network theories seem to offer few prescriptive insights for firm-level advantage building. The same also applies to the new venture internationalization framework. This is because also this framework seeks to explain a phenomenon (i.e., early and proactive internationalization), rather than provide prescriptive insight (McDougall and Oviatt, 2000; Oviatt and McDougall, 1994). Indeed, the original impetus for the INV research was to explain why some new ventures seemed able to deviate from the patterns predicted by the process and network perspectives, by going international soon after their inception. Because of this heritage, also the INV perspective tends to focus on internationalization process (e.g., timing and speed) and associated outcomes (e.g., post-internationalization sales growth).

The original objective of the INV perspective also explains its similarity to the process and network perspectives, in that it assumes essentially a similar process and constraints of internationalization. The major difference between the INV perspective and the process and network perspectives is that the INV perspective does not assume the accumulation of critical resources to be exclusively a firm-specific experiential process. Instead of having to accumulate foreign market knowledge and relational assets through the firm’s operations, new ventures can leverage entrepreneurs’ pre-firm social capital and international experience to kick-start their internationalization processes. The experience, reputation, capabilities, and risk-taking abilities of dynamic and opportunity-seeking entrepreneurs help their ventures seek internationalization sooner after founding and expand their international operations more rapidly once internationalized (Cavusgil and Knight, 2015; Knight and Cavusgil, 2004). These internationalization outcomes are also facilitated by structural advantages enjoyed by new firms, such as the absence of age-induced rigidities that may enable the firm to more quickly
adapt to international markets – effectively, picking up and adjusting to foreign market knowledge more quickly than late internationalizers would (Autio, Sapienza and Almeida, 2000).

In the INV perspective, thus, early internationalizing new ventures leverage pre-firm capabilities to speed up their internationalization. Although this perspective recognizes that internationalization itself can drive the development of firm-specific advantages, notably, innovation, this aspect has not been systematically developed (Jones and Coviello, 2005; Weerawardena et al., 2007). Indeed, some of the intriguing early empirical observations – that international diversity appeared to drive technological learning and product innovation (Zahra et al., 2000) and an early internationalization appeared to lead to faster sales growth both internationally and domestically (Autio et al., 2000) have not been followed up by systematic research exploring such performance-enhancing effects of internationalization.

In contrast with the above frameworks, theoretical frameworks developed for the study of multinational enterprises (MNEs) usually place firm-specific advantages at the centre of their ontologies. For example, the OLI framework specifically articulates the importance of ownership advantages, location advantages, and internalization advantages in determining the extent and form of cross-border operations in an MNE (Dunning, 1988, 1998). Much research in multinational enterprises has consequently sought to assess firm-specific advantages arising due to a multinational operation, and the OLI framework is also attributed with prescriptive qualities (Brouthers, Brouthers and Werner, 1999). In the OLI ontology, the balance of ownership, location, and internalization advantages determines the choice of an appropriate operational mode in a given country market, which should be associated with greater productivity in a given market.

Summarizing, the three ontologies (i.e., the process, network, and INV ontologies) share many ontological commonalities and assume largely the same constraints of the inter-
nationalization process. They also assume that internationalization occurs on the back of a
firm-specific advantage that exists *before* the internationalization process begins. In the case
of process and network ontologies, this advantage usually takes the form of a product or ser-
vice advantage that the firm seeks to capitalize through an international operation. In the case
of the INV ontology, the product or service advantage is complemented by the firm’s entre-
preneurial advantages – i.e., the pre-firm experience, social capital, and entrepreneurial ori-
tentation embedded in its entrepreneurial team. Schematically, the three ontologies can be repre-
sented as shown in Figure 1. Note that Figure 1 presents a simplifying summary only.

In Figure 1, CA\(_{(t0)}\) represents the firm-specific pre-internationalization competitive
advantage that the firm seeks to leverage through internationalization. Typically, CA\(_{(t0)}\) takes
the form of product or service advantage that the internationalizing firm has developed do-
mestically. The term: FMK\(_{(t1)}\) represents the gradual accumulation of foreign market
knowledge through international operations, which feeds subsequent internationalization out-
comes – i.e., I\(_{(t2)}\). These can be characterized as, for example, internationalization extent,
scope, and speed. Combined, CA\(_{(t0)}\), FMK\(_{(t1)}\), and I\(_{(t2)}\) capture the core elements of the inter-
nationalization process ontology.

In Figure 1, NWR\(_{(t1)}\) represents the accumulation of network relationships and rela-
tionship-specific social capital in foreign markets. Combined, CA\(_{(t0)}\), NWR\(_{(t1)}\), and I\(_{(t2)}\) cap-
ture the core elements of the network ontology. Finally, E\(_{(t0)}\) represents the entrepreneur-
specific advantages that may be present at the time of founding the new venture. In the INV
ontology, the entrepreneur’s experience from foreign markets may contribute an initial stock
of foreign market knowledge and network relationships that the new venture can leverage to
kick-start internationalization early on and harness it to speed up internationalization subse-
quent to international entry.

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Figure 1 here
In the combined ontology in Figure 1, the new firm starts out with an initial advantage developed during the domestic operation. This advantage triggers an initial internationalization process. The gradual accumulation of foreign market knowledge and network relationships enable the firm to make further resource commitments to internationalization, thus helping boost the effect of initial competitive advantage on internationalization outcomes. The entrepreneur-specific advantages may speed up this process.

This schematic representation illustrates the common shortcoming of the three ontologies: none of them consider firm development beyond I(t2). It is this shortcoming that limits the ability of the three ontologies to support normative insight and inform how internationalization could be leveraged for the build-up of a sustainable competitive advantage. Even the ontology of the eclectic theory of internationalization (i.e., the OLI framework) does not provide much support for entrepreneurial internationalization, since that ontology presents the multinational advantage as contemporaneous to the international operation: CA(t0) = I(t0). The OLI framework is useful in explaining advantages associated with an existing international operation but is less informative when it comes to building such an operation. In their recent review of the ‘Born Global’ literature, Cavusgil and Knight (2015) recognized this shortcoming and the gap it had left in the IE literature, calling for more research to address the question of what happens to Born Globals after they grow up, and where these firms end up five or ten years after the initiation of the internationalization process. Because of the shortcomings of the existing ontologies, we still know little about how new ventures can leverage internationalization to drive competitive advantage. This is the question I address next.

**Normative Framework of Strategic Entrepreneurial Internationalization**

Normative frameworks describe how things should be and how agents should behave in order to achieve a given valued outcome. In the context of international entrepreneurship, a norma-
tive framework contrasts with descriptive frameworks that seek to make positivistic claims about phenomena without normative intent (e.g., ‘how do internationalization processes unfold?’). Going beyond description, a normative framework in international entrepreneurship would support insights on how entrepreneurs should behave in order to achieve some strategic purpose – in our case, a post-internationalization competitive advantage.

For the purposes of my model development, I define strategic entrepreneurial internationalization (SEI for short) as purposeful entrepreneurial action that seeks to derive and sustain a competitive advantage through the use of resources and the sale of outputs in multiple countries. The conceptually tricky notion of ‘competitive advantage’ is defined here simply as superior performance relative to comparable new ventures that do not adopt similar behavioural postures. The definition of strategic entrepreneurial internationalization is intentionally close to Oviatt & McDougall’s (1994) original definition of international new ventures as: ‘business organization[s] that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries’. The key difference between their model and the model to be constructed below is that, although the Oviatt and McDougall definition evoked the notion of competitive advantage, their framework remained focused on describing how international new ventures behave and what conditions enable their existence, rather than describing what international entrepreneurs should do to purposefully leverage internationalization for the creation of competitive advantage.

The SEI framework builds on the observation that internationalization presents both significant challenges and opens up new opportunities for new ventures. Internationalization entails an element of entry into the unknown, as the firm expands its sphere of operation beyond the familiar domestic context. An extension of operations into non-local contexts is likely to increase the complexity of the firm’s business operations and introduce the new venture to the challenge of interacting with non-local partners, suppliers, and customers. This
entry into an unknown environment creates well-known learning and capability challenges for new ventures (De Clercq et al., 2012). In the model I suggest that the internationalizing firm can turn such challenges into sources of sustainable competitive advantage by adopting a learning orientation and a niche orientation.

In addition to challenges, internationalization also opens up opportunities, not only in the form of new markets to exploit and new customers to gain, but more importantly, cross-border resource, knowledge, and price asymmetries that can be leveraged for sustainable, difficult-to-copy advantages in the international new venture’s business model. Again, such potential advantages are well recognized, both in the new venture internationalization literature and in the OLI model (Di Gregorio et al, 2008a; 2008b; Kuemmerle, 2002; Dunning, 1977). In the SEI model, I elaborate how such opportunities can be converted into sustainable competitive advantages by encapsulating them into the international new venture’s business model and by systematically conducting low-cost experiments with alternative business model configurations.

The SEI model combines two theoretical lenses – the learning and capability development lens and the business model innovation lens – to articulate how internationalizing new ventures can leverage internationalization for competitive advantage. Regarding the first, I adopt a cognitive (rather than a routines-based) view of learning and capability development in internationalization (Autio et al., 2011; De Clercq et al., 2012). In this view, cognitive representations of action-outcome relationships underpin internationalizing new venture’s organizational capability to ‘do’ things (Winter, 2003) in foreign markets – e.g., close sales, access desired distribution channels, conduct advertising campaigns, and so on. Internationalizing ventures usually have some preconceived notion regarding how to accomplish a desired outcome (i.e., ‘when I want to accomplish X, I should do A’) (Autio et al., 2011). Because foreign markets usually differ from the domestic one, the internationalizing firm will occasional-
ly find such cognitive representations challenged (i.e., ‘I did A but got Y instead’). Such challenges open up the opportunity for experiential learning, and potentially, for the internationalizing firm to update and expand its cognitive representations regarding action-outcome relationships. However, this outcome is not automatic: the internationalizing venture may simply ignore the incongruity and persist in its preconceptions, or it may adjust its routines ‘on the fly’, without giving much thought to the failure of the action to prompt the desired outcome. Explicating action-outcome relationships requires cognitive effort, and failure to invest such effort may result either in a failure to learn or in a routines-based adjustment of actions without corresponding update in cognitive representations of action-outcome relationships. Summarizing, although internationalization opens the possibility for the internationalizing new venture to expand its repository of cognitive representation regarding action-outcome relationships in different contexts (i.e., ‘what to do when’ in order to accomplish X’), this outcome is not automatic. In the SEI model I highlight strategic postures that the internationalizing new firm may adopt to leverage internationalization for capability development.

As the second theoretical angle, I adopt the business model innovation lens to highlight how the potential learning and capability development outcomes of internationalization can be combined with the exploitation of resource, knowledge, and price asymmetries opened up through internationalization. A business model is a: ‘system of interconnected and interdependent activities that determine the way the company does business’ (Amit and Zott, 2012:42). A business model combines the configuration of the firm’s internal activities with the firm’s upstream and downstream activities and interactions with suppliers, collaborators, and customers, as well as its revenue model (Zott, Amit and Massa, 2011). In the logic of the SEI model, the internationalizing new venture leverages the learning and capability development challenges of internationalization to ‘populate’ its internal activity system such that it is able to support attractive value propositions. By configuring its relationships and interactions
with suppliers, collaborators, and customers, the international new venture sets up a transna-
tional activity and governance system that exploits cross-border asymmetries for sustainable
competitive advantage. In the SEI model I highlight strategic postures that the internationaliz-
ing new venture may adopt to leverage internationalization for the development of robust and
internationally scalable business models.

Summarizing, the SEI model views strategic entrepreneurial internationalization as a
proactive capability development and associated business model innovation process, one that
encapsulates the learning and capability development advantages of internationalization with-
in an enduring activity and governance system that exploits cross-border asymmetries. The
model is shown in Figure 2.

Figure 2 here

In the SEI model, advantage creation begins concurrent with international expansion
and is moderated by the firm’s behavioral and strategic dispositions. The elements in the
model are: Learning Orientation (LO); Niche Orientation (NO); Asymmetry Exploitation
(AE); and Business Model Experimentation (BME). I next discuss each element in turn.

**Learning orientation and internationalization competitive advantage**

Learning orientation is the intensity of effort a given firm invests in articulating cognitive in-
sights and explicating effective organizational practices from cross-border experience (Autio
et al., 2011; De Clercq et al., 2005). As reviewed above, internationalization opens up the po-
tential for the new venture to update and expand its cognitive representations regarding ac-
tion-outcome relationships in foreign markets. However, experimentation with alternative
actions and the articulation of cognitive insights from such experiments are cognitively in-
tense and resource-consuming processes. The likelihood of developing articulated cognitive
understandings regarding ‘what works’ in a given situation is therefore likely to depend on
the amount of learning effort invested into both experimenting with different processes and
distilling insights from such experimentations (De Clercq et al., 2012; Sapienza et al., 2005).
The propensity of the internationalizing venture to engage in such an effort is determined by
its learning orientation (Sinkula, Baker and Noordewier, 1997). Consistent with this, several
studies have reported a positive association between a learning orientation and organizational
performance in entrepreneurial ventures (Calantone, Cavusgil and Zhao, 2002; Hsu and
Pereira, 2008; Jantunen et al., 2008; Styles et al., 2006; Wang, 2008). Supporting the salience
of cognitive (rather than routines-based) learning, Bingham et al (2007) found that the adoption
of explicit learning heuristics enhanced organizational performance in international en-
tries. I therefore propose that the degree to which an internationalizing new venture’s intensi-
ity of cross-border operations drives the development of dynamic capabilities is regulated by
its learning orientation. Dynamic capabilities enhance the new venture’s ability to successful-
ly pursue opportunities in both domestic and foreign markets.

Proposition 1 There is a positive association between a new venture’s intensity of cross-
border operations and subsequent competitive advantage. This association
will be stronger in those ventures that adopt an active learning orientation.

Niche orientation and internationalization competitive advantage

In a niche strategy, the firm competes with others by relying on distinctive products and pro-
cesses that appeal to a highly specific group of customers (Echols and Tsai, 2005). By offer-
ing differentiated products and processes that appeal to a specific group of users, niche play-
ers create more value for that group. Because niche markets tend to be small, they are often
overlooked by large, established players who need greater volume to drive economies of
scale (Noy, 2010). A niche strategy, therefore, is often selected by new ventures, as it is easi-
er to execute with limited resources (Carter et al., 1994; Noy, 2010).
The advantages of a niche strategy have not been examined extensively in the context of new venture internationalization (Bloodgood, Sapienza and Almeida, 1996; Knight and Cavusgil, 2004; Moen, 2002). However, the merits of a specialized niche strategy versus a broad strategy (a.k.a. ‘flexibility strategy’) have been debated in the general context of entrepreneurial ventures (Amburgey and Rao, 1996; Carroll, 1985; Casciaro and Piskorski, 2005; Pfeffer and Salancik, 1978; Romanelli, 1989). The flexibility argument emphasizes the need of new ventures to adapt to unpredictable environments (Brown and Eisenhardt, 1997; Davis, Eisenhardt and Bingham, 2009; Ebben and Johnson, 2005; Eisenhardt, Furr and Bingham, 2010). To enhance adaptability in uncertain environments, some have argued that new ventures need to adopt a broad scope so as to be able to take advantage of unforeseen opportunities and adjust to rapid environmental changes (Ebben and Johnson, 2005; Katila and Ahuja, 2002; Klingebiel and Rammer, 2013). However, a broad portfolio of capabilities is costly to build and maintain, and the new venture may not be able to effectively address a broad range of customer requirements to their satisfaction (George, 2005; Zahra, Sapienza and Davidsson, 2006). On the other hand, by specializing, a new venture is able to develop select capabilities more fully. Specialization also enables the new venture to gain recognition for distinctive strengths that are valued in its niche, and it helps shelter the venture against competition by large incumbents (Agarwal and Audretsch, 2001; Carroll, 1985). On the downside, specialization may make the venture vulnerable to environmental jolts that undermine the venture’s niche (Bradley et al., 2011; Burns and Stalker, 1961; Freeman and Hannan, 1983).

I suggest that in the context of internationalization, a niche strategy should be more beneficial than a flexibility strategy. First, a niche strategy enables the new venture to focus its capability development efforts and achieve a good level of effectiveness more quickly than if the new venture attempted to develop a broad range of capabilities. This is likely to be particularly important in the context of internationalization, where the threshold of achieving...
credibility is higher and the ability to effectively address customer needs therefore more valuable. Second, the internationalizing new venture will be able to ‘grow’ its niche by combining market demand from several countries and thus build scale efficiencies (Weerawardena et al., 2007). Cross-border niche integration has become more viable with digitalization, as the Internet makes it easier for like-minded consumers to discover one another and also because the Internet makes it easier for consumers to discover specialized offerings (Brynjolfsson, Hu and Smith, 2006). Third, a niche strategy enables the internationalizing new venture to build a more coherent system of interactions with suppliers, partners, and customers than a broad-based strategy would. There is anecdotal evidence that a niche strategy is associated with stronger export performance and that niche-oriented INVs tend to be more successful than INVs that do not adopt a niche orientation (Gabrielsson et al., 2008; Zucchella, Palamara and Denicolai, 2007). Therefore I propose:

**Proposition 2** The positive association between a new venture’s intensity of cross-border operations and subsequent competitive advantage will be stronger in those ventures that adopt a niche orientation.

**Asymmetry exploitation and internationalization competitive advantage**

A major potential benefit of internationalization is that it exposes the internationalizing firm to asymmetries that exist between country-specific markets for goods, services, and factors of production, as well as in their cultural, institutional, and social outlook (Di Gregorio, Musteen and Thomas, 2008b). Such asymmetries can act as a source of opportunity: the OLI model recognizes that asymmetries in strategic factor markets open up opportunities to create advantages in the cost and quality of production (Belderbos, Lykogianni and Veugelers, 2008; Chung and Yeaple, 2008; Mottner and Johnson, 2000; Sirmon et al., 2011). In his work, Kuemmerle (2002) found some new ventures to employ a ‘home base augmenting’ mode of internationalization, seeking to create advantageous resource combinations by com-

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bining resources across national borders. On the demand side, asymmetries across product and service markets open up opportunities to extend product life cycles by timing product introductions differently in different markets (Sirmon et al., 2011; Vernon, 1966).

Cross-border asymmetries can also enable the new venture to establish advantageous positions in international value chains and establish a coordination and intermediation role, enhancing its ability to appropriate value (Etemad, Wright and Dana, 2001; Yeniyurt, Tamer Cavusgil and Hult, 2005; Wincent et al., 2009). Value chain positions increase in value if the firm controls or coordinates inputs that are scarce and important for the rest of the value chain or the broader innovation ecosystem. If the valuable positions are scarce, the very act of occupying them can drive up barriers to entry for prospective competitors (Ozcan and Eisenhardt, 2009).

While internationalization opens opportunities to exploit positional advantages such as the above, they only become a source of sustainable competitive advantage if built into the international new venture’s cross-border activity system with its suppliers, partners, and customers. In order to act as sources of sustainable competitive advantage, the venture needs to create cross-border linkages, interactions, and resource and knowledge combinations that are more valuable than those available from domestic sources alone, and they also need to preempt similar combinations for potential competitors (Di Gregorio et al., 2008b). Incorporating cross-border linkages as an integral element of the international new venture’s business model may offer cost advantages, flexibility advantages, and also specialization advantages, as an active use of cross-border outsourcing arrangements enables the international new venture to focus on its core competencies. Consistent with this argument, Di Gregorio et al (2008b) found experience in off-shore outsourcing to be positively related to the extent of internationalization of sales in SMEs. However, given that beneficial resource combinations are not be easy to recognize, the venture needs to be alert to the possibility of such combina-
tions and actively look out for them. Also, it may be that the best combinations can only be discovered through experiments – see Proposition 4. Summarizing, I propose:

**Proposition 3** The positive association between a new venture’s intensity of cross-border operations and subsequent competitive advantage will be stronger in those ventures that exploit cross-border resource and knowledge asymmetries in their activity system

### Business model experimentation and internationalization competitive advantage

A company’s business model captures how it creates, delivers, and captures value (Amit and Zott, 2012). The business model comprises the activity system (internal and external) for value creation and delivery, the revenue models for value capture, and the company’s value proposition(s) to its different stakeholders. When experimenting with its business model, the company tests alternative configurations of its activity system and its governance (Wareham et al., 2014), as well as different value propositions. In contrast with learning and capability development, which focus primarily on the firm’s internal capabilities, the emphasis of the discussion below is on the configuration and governance of the external activity system and the venture’s value proposition(s).

I suggest that internationalization, if approached strategically, constitutes a potent enabler of business model innovation, or the discovery of robust and internationally scalable business models, especially when combined with ‘lean entrepreneurship’ practices (Blank, 2013; Reis, 2011; Onetti et al., 2012). Characteristic of ‘lean entrepreneurship practices’ are an explicit focus on experimentation-driven, practice-oriented learning, constant testing and validation of assumptions concerning different aspects of the business model, and frequent, iterative pivoting, as assumptions are rejected and new ones tested (Autio and Zander, 2016). New ventures practicing lean entrepreneurship seek to explicate key assumptions of their intended business model and develop ways to test those assumptions through practical experi-
ments without taking excessive risks in the process. As a heuristic, lean entrepreneurship represents an action-oriented approach to business model discovery that is guided by simple heuristics and decision rules. If experiments do not support key assumptions, they are revised and tested anew. As a learning heuristic, lean entrepreneurship practices systematically introduce variation in different elements of the new venture’s business model, with a testing and retention heuristic to select successful variants.

Evidence suggests that systematic application of learning and experimentation heuristics can effectively support new venture internationalization. Studying successive foreign market entries, Bingham (2009) found that improvisation with entry heuristics (including the configuration of external relationships) was positively associated with performance in international new ventures. Bingham speculated that not using scripted routines to execute each entry enabled the internationalizing venture to experiment with alternative activity system configurations and discover the most effective ones. This conjecture echoed the assertion of Zahra (2005: 24, cf Bingham (2009: 322)): ‘Experimentation is essential for international new ventures to discover the winning business model and recipe. Openness to this sort of experimentation is a must.’ Lean entrepreneurship practices support exactly such experimentation to hone in on a robust business model.

As a downside, active business model experimentation could be costly, particularly when executed in distant markets. Geographical distance may also slow down the communication and absorption of lessons from business model experiments, particularly if the lessons conflict with the internationalizing new venture’s established experience and ‘justified true beliefs’ shaped by domestic experience (Autio et al., 2000; Nonaka, 1994). I suggest that while such arguments may have been more valid in the past, their salience is likely undermined by digitalization, or the implementation of digital technologies in business processes (Autio and Zander, 2016; Berman et al., 2012). Digital infrastructures are inherently flexible.
and support flexible bundling of service offerings (Yoo et al., 2012; Yoo, Henfridsson and Lyttinen, 2010). This enables new ventures to flexibly reconfigure and test alternative value propositions and alternative ways to interact with customers, suppliers, and partners. Thanks to the ubiquity of the Internet, digital services can be offered over a distance while still allowing the new venture to control the features of those services. Disintermediation makes it possible to directly engage end users in different country markets, which enables rich learning from end users, and also, immediate feedback to alternative product, service, and delivery configurations (Katz, 1988; Jean, Sinkovics and Cavusgil, 2010). Finally, the increasing sophistication and availability of business process outsourcing services makes these increasingly accessible to INVs, enabling them to experiment also with physical aspects of their business models (Glavas and Mathews, 2014; Lahiri and Kedia, 2011; Lewin and Volberda, 2011). I propose:

Proposition 4  The positive association between a new venture’s intensity of cross-border operations and subsequent competitive advantage will be stronger in those ventures that actively engage in low-cost experiments with alternative business models in different country markets.
Discussion

Although the phenomenon of international new ventures was first discovered by researchers 20-odd years ago (McDougall et al., 1994; Oviatt and McDougall, 1994; Rennie, 1993), the associated research tradition has remained largely focused on the phenomenon of internationalization itself, attempting to describe and explain its drivers and patterns (Cavusgil and Knight, 2015; Coviello, 2015; Jones et al., 2011). While this research stream has yielded substantial insight into the drivers and constraints into early and proactive international entry and post-entry international growth, there has been less research into the performance consequences of it (Autio et al., 2000; Mudambi and Zahra, 2007; Sapienza et al., 2006). There has been surprisingly little research exploring organizational performance outcomes in the context of internationalization, and normative frameworks have been missing. In short, thus far, a strategic perspective to new venture internationalization has been conspicuously absent. The model put forward in this paper seeks to address this gap.

In the early days of INV research, international new ventures and ‘born globals’ were treated as an exception, and much effort consequently focused on explaining why this phenomenon might be occurring. During the past 20 years, important global trends such as globalization and the emergence of the Internet first as a communication medium and subsequently as an engagement platform have fundamentally transformed the environment in which new ventures emerge and do business, altering the role of internationalization in new venture development. In this paper I have argued that the ontologies of received internationalization frameworks applied to new and or small firms are insufficiently equipped to handle this new reality, mostly because they consider internationalization as an expression of pre-existing (and hence, domestically developed) competitive advantage, rather than a driver of one. This is an important shortcoming in the digital age, where the Internet makes the transacting environment of most new ventures inherently global. To inform new ventures how to operate in a
globalized context, theoretical frameworks are required that facilitate normative insight on how to harness internationalization for the development of firm-specific advantages that can act as a source of long-term superior performance.

The normative framework of strategic entrepreneurial internationalization suggested in this paper articulates four firm-level strategic postures that the internationalizing new venture can adopt in order to successfully leverage internationalization for competitive advantage. Of these postures, two address how the firm can leverage internationalization to build distinctive capabilities, and the other two address how the internationalizing new firm can incorporate advantage-yielding cross-border asymmetries into its business model. The model suggests that by adopting an active learning orientation, the internationalizing new venture will be better able to harness internationalization for the development of firm-level dynamic capabilities and cognitive maps that enable it to select the appropriate organizing processes to address opportunities opened up by internationalization, as well as those emerging in its domestic context. A niche orientation can reinforce this capability development effect by providing focus for learning efforts. The model also suggests that by adopting lean entrepreneurship principles and experimenting with different business model configurations during internationalization, the internationalizing new venture will be able to evolve a robust business model with cross-border advantages built into its activity system.

Each of the four postures articulated in the normative SEI framework can be proactively harnessed by the internationalizing new venture, and they can guide the venture’s decision heuristics, as it faces new situations and adapts its behaviors to changing conditions (Blank, 2013; Reis, 2011). A notable feature in the framework is that it explicitly integrates ‘Lean Entrepreneurship’ practices through the business model experimentation construct. Although the ‘Lean Entrepreneurship’ movement has transformed entrepreneurship practice and teaching in recent years, the movement has remained practitioner-driven, and the practic-
es themselves have thus far received only scant attention by the entrepreneurship research community. There is a need for more conceptual research on ‘Lean Entrepreneurship’ practices, such that they can be operationalized empirically and their effectiveness tested in different situations.

Although the SEI framework has been informed by received empirical and conceptual research on INVs, the paucity of INV research explicitly addressing strategic implications of early and proactive internationalization is striking. As Coviello (2015) and Cavusgil and Knight (2015) noted in their recent reviews of the field, we still know alarmingly little about the medium- to long-term performance consequences of early and proactive internationalization, and normative insights are almost absent. One big reason for this paucity is the continued scarcity of large-scale, longitudinal datasets that track new venture internationalization activities over time (Coviello and Jones 2004). Teasing out the performance implications of internationalization is further complicated because of potential bias caused by multiple selections (Mudambi and Zahra, 2007; Sui and Baum, 2014). First, there is the self-selection to internationalization, which is likely to bias any observations between performance predictors and performance outcomes. Then there are the survival biases, both in terms of continued presence in export markets and in terms of organizational survival in general. These problems are aggravated by the multiple faces of internationalization (Coviello, 2015), as some research has looked at export activities only, and others have tracked cross-border engagements more broadly. The broader the engagement, the trickier it becomes to dissect different influences, and the more scarce the data becomes.

These challenges acknowledged, they should not deter researchers of international entrepreneurship from focusing more on explicating the performance outcomes of early and proactive internationalization. After all, MNE researchers have been exploring such outcomes
for decades. Furthermore, these challenges also hold promise, as the performance drivers of SEI are unexplored. I see a number of promising opportunities for SEI research.

First, SEI research needs novel methodological designs to overcome or mitigate the endogeneity problem. To the extent that longitudinal data becomes available that contains sufficient data on pre-internationalization histories of INVs, appropriate statistical techniques (e.g., propensity score matching) can be employed to mitigate endogeneity concerns (Sui and Baum, 2014). In addition to longitudinal datasets, also longitudinal qualitative designs can be effective in highlighting strategic performance drivers in INVs (Bingham, 2009; Bingham et al., 2007). In addition to these conventional methods, also new sources of data should be explored. Notably, big data methods that scrape data from the web and analyse rich text data to operationalize complex constructs such as business model innovation seem to offer much promise for dissecting the performance drivers of INVs (Munzert et al., 2014).

Second, INV research could do more to better understand the context of early and proactive internationalization and how the context of INVs both challenges established constraints and creates new ones. A key contextual trend that is currently affecting patterns of new venture internationalization is that of digitalization. Yet, there has not been much research seeking to truly understand how digitalization challenges received internationalization frameworks, and how it transforms how INVs initiate and manage international expansion (Fischer and Reuber, 2014; Reuber, Fischer and Morgan-Thomas, 2014). In their recent, as yet unpublished work, Autio and Zander (2016) proposed that digitalization attenuates vertical and horizontal asset specificity, thereby horizontalizing traditional, vertical value chains. They also argued that digitalization attenuates site specificity, thereby enabling INVs to manage cross-border operations from distance. As noted earlier in this paper, the digital affordance of disintermediation enables INVs to directly engage end users regardless of their geographical location, thereby cutting off the local middleman who features centrally in re-
ceived internationalization frameworks. This could potentially transform the dynamic and sometimes the very meaning of foreign market learning. Such trends directly undermine several of the core assumptions that underpin received theoretical frameworks of new and small venture internationalization, yet there has been very little attempt to understand what the implications of these trends are for international entrepreneurship. Conceptual and empirical work directly addressing digitalization is therefore needed.

Third, INV frameworks need to address a related phenomenon head-on: that of platform-centric innovation ecosystems. By enabling open innovation and innovation ecosystems, digitalization is undermining the centrality of the concept of an ‘industry’ as the defining context of internationalization. As digitalization reduces traditional, country- and industry-specific barriers to entry and exit, it likely increases the importance of platform-centric innovation ecosystems as the context within which new ventures internationalize their operations. It is therefore important to explore what internationalization means for new ventures that contribute specialized offerings in specific platform ecosystems, how such ecosystems may facilitate and constrain international expansion, and what the implications are for the creation of competitive advantage.

Fourth, the SEI model itself should be tested empirically. The model articulates several strategic postures through which INVs can harness internationalization for competitive advantage. The salience of these postures should be tested empirically, as should associated boundary conditions: under which conditions are each of the postures effective in facilitating internationalization competitive advantage, and under which conditions might they be less effective? Another limitation of the SEI model is that it is derived from a verbal argument, rather than formal econometric modelling. I suggest this as another potential avenue for further research.
Finally, as an important limitation of the SEI model, the model is likely to be better applicable to new ventures that will tangibly coordinate resources and interactions across national borders. The learning and capability development arguments have focused on physical operations abroad. Similarly, the asymmetry exploitation argument is best applicable when meaningful interactions and connections are established between resources and activities across national borders. The same also applies to the business model experimentation argument. This suggests that the model may be less salient to international new ventures that do not meaningfully mobilize resources or interact with others across national borders. This category would include, for example, application developers that develop mobile applications for smartphones. If the applications are distributed through Android or iPhone marketplaces, consequential cross-border interactions will be limited and the SEI arguments thus less applicable. The same would apply to any new venture that simply exploits valuable resources in their home base for the development of products and services for the export market, without much cross-border interaction. Many of Kuemmerle’s (2002) ‘home-base exploiters’ would fall into this category.

In conclusion, I have argued that international entrepreneurship needs to become more strategic in its orientation and do more to facilitate normative insight on how INVs should harness internationalization for competitive advantage. I hope that the SEI model introduced in this paper will provide useful in informing future theoretical and empirical research in this important domain.
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Figure 1 Competitive Advantage and Internationalization Outcomes in Popular Internationalization Ontologies

Figure 2 Normative Framework of Strategic Entrepreneurial Internationalization (SEI)